Core sector growth at 5-month low

Output of 8 infrastructure industries registers 3.6% growth in March

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Growth in production of eight infrastructure industries — also known as the core sector — decelerated to a five-month low of 3.6 per cent in March, with activity slowing down in six industries.

Data released by the industry department on Friday showed that growth in natural gas (2.8 per cent), refinery products (1.5 per cent), fertilisers (9.7 per cent), steel (8.8 per cent), cement (-0.8 per cent) and electricity (-1.8 per cent) decelerated from the previous month. However, growth in coal output (12.2 per cent) accelerated. Despite improvement in crude oil output (-2.8 per cent), it remained in contraction territory.

In FY23, core sector growth decelerated to 7.6 per cent from 10.4 per cent in FY22. While crude oil output (-1.7 per cent) contracted for the past 11 years, growth in coal (14.8 per cent) and fertiliser output (11.3 per cent) was at an 11-year high. Growth in electricity output (8.9 per cent) also touched an eight-year high in FY23.

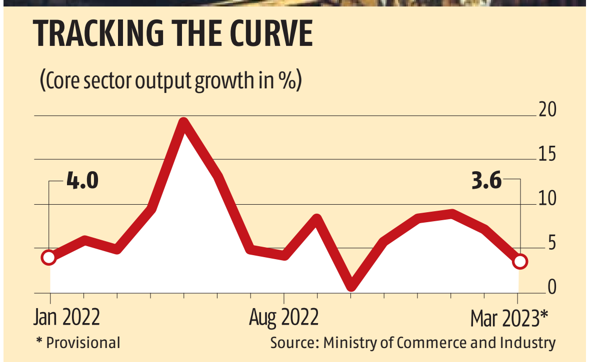
Aditi Nayar, chief economist, ICRA Ratings, said the halving of core sector output in March compared to February (7.2 per cent) was fairly broad-based with only coal and crude oil displaying a sequential improvement.

"Output of some sectors is likely to have been dampened by the unseasonal rainfall, such as electricity and cement, which displayed a year-on-year (YoY) contraction in March, along with crude oil. At the same time, the expansion in coal, fertilisers and steel is encouraging," she added.

Sunil Sinha, principal economist at India Ratings and Research, said growth in the steel sector was held up. This was due to a sustained capex push by both the Centre and states, and a pick-up in Chinese economic activity.

"The core sector output has grown at a compound annual growth rate (CAGR) of 3.6 per cent since FY20, underlying that a sustained recovery is still some distance away. With weakening global and domestic demand, the growth in infrastructure industries would be under pressure in the ongoing fiscal year. As a result, the agency expects core sector annual growth in FY24 at around 5 per cent," he added.

The eight core industries account for 40.27 per cent of the weighting of items included in the Index of Industrial Production (IIP). They have a significant impact on the index.



"With these figures, IIP growth for the month (March) can be expected to dip to 3-4 per cent (from 5.6 per cent in February)," added Nayar.

Last week, the National Council for Applied Economic Economic Research (NCAER), in its latest Business Expectation Survey, said that after weakening for three consecutive quarters, business sentiment turned buoyant in the fourth quarter (Q4) of FY23. This came as the Business Confidence Index (BCI) rose to 149.7 in Q4 from 126.6 in Q3.

Earlier, Finance Minister Nirmala Sitharaman, while speaking during the Spring meeting of the International Monetary Fund (IMF) and World Bank, also said that India's growth momentum — which gathered pace in the December quarter of FY23 — is likely to have sustained in the March quarter.

"Overall, demand conditions have remained conducive to sustaining growth momentum as deduced from robust tractor and auto sales, high UPI transactions and double-digit credit growth," Sitharaman had said.