Core sector output in May expands at 4.3%

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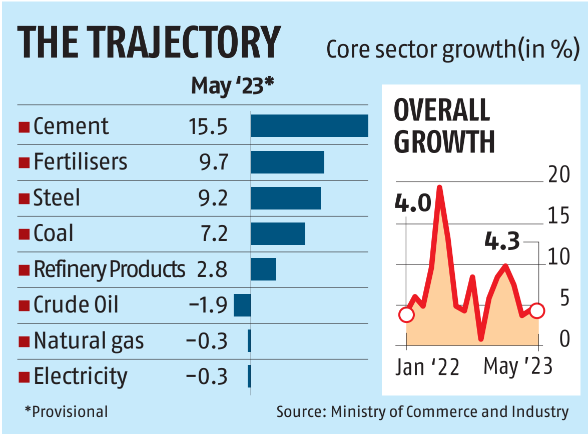
The output of eight key infrastructure industries — known as the core sector — expanded at 4.3 per cent in May, amid a high base effect and positive growth in five of the eight sectors.

In May last year, the core sector had grown by 19.3 per cent. The print for April 2023 has undergone significant revision to 4.3 per cent from 3.5 per cent estimated earlier.

Data released by the commerce and industry ministry on Friday showed that while growth in the output of fertilisers (9.7 per cent), steel (9.2 per cent), and coal (7.2 per cent) slowed from the previous month, the output in refinery products (2.8 per cent) and cement (15.5 per cent) accelerated.

Meanwhile, the contraction continued in electricity generation (-0.3 per cent), crude oil (-1.9 per cent), and natural gas production (-0.3 per cent) in May, thus exerting a drag on the aggregate output.

Aditi Nayar, chief economist at ICRA Ratings, said the double digit growth in cement output for the second consecutive month and strong growth in steel points to a robust performance of the construction sector.



Madan Sabnavis, chief economist at Bank of Baroda, said the continued traction in cement and steel could be attributed to government spending. "In June, the Centre had given an additional instalment to states as part of state transfers to enable higher capex. Further, a loan was also extended to expedite the same," he said.

The contraction in electricity generation for the third consecutive month in May was mainly due to the high base of 23.5 per cent growth during the same month a year ago, even though power demand picked up sequentially in May this year as energy demand for cooling increased.

"Though the fertilisers production slowed down from last month, it is expected to continue to remain robust for the next two months to keep pace with the kharif sowing requirements.

Meanwhile, the oil basket, however, continued to disappoint with negative growth for crude and natural gas and refinery products did relatively better with exports contributing to the same," Sabnavis said.

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

"Although the growth in core output remained steady, the performance of a majority of the available high frequency indicators improved in May 2023 relative to April 2023, which are expected to keep the IIP growth in the range of 4-6 per cent in May 2023," said Nayar.

Earlier last week, Fitch Ratings revised upwards its economic growth estimate for India by 30 basis points (bps) to 6.3 per cent for 2023-24 (FY24), citing stronger outturn in the March quarter of FY23 and near-term momentum, though it had cautioned that the slowdown in global trade still posed downward risk.