

## Press Release

### Sequential weakness in most core sectors in Jun-22 Overall quarterly performance in Q1FY23 nevertheless, encouraging

31-July-2022

The taper of favorable statistical base of last year led the core sector output to ease to 12.7% YoY from a thirteen-month high of 19.2% in May-22. It has continued to expand in double-digits for two consecutive months leading to an optically comforting growth rate. However, sequentially, the index contracted by 4.1% MoM in Jun-22 from an expansion of 3.5% in May-22, with all sectors, barring cement and fertilizer, recording a sequential decline. Amid the kharif sowing season, fertilizers production has remained buoyant in the past two consecutive months after remaining on a declining trend for nearly ten months.

Encouragingly, on a cumulative basis the core sector for Q1 FY23 has expanded by 9.2% as compared to the pre pandemic Q1FY20 led by steady growth in the production of coal, fertilizers, cement, and electricity over the last two years.

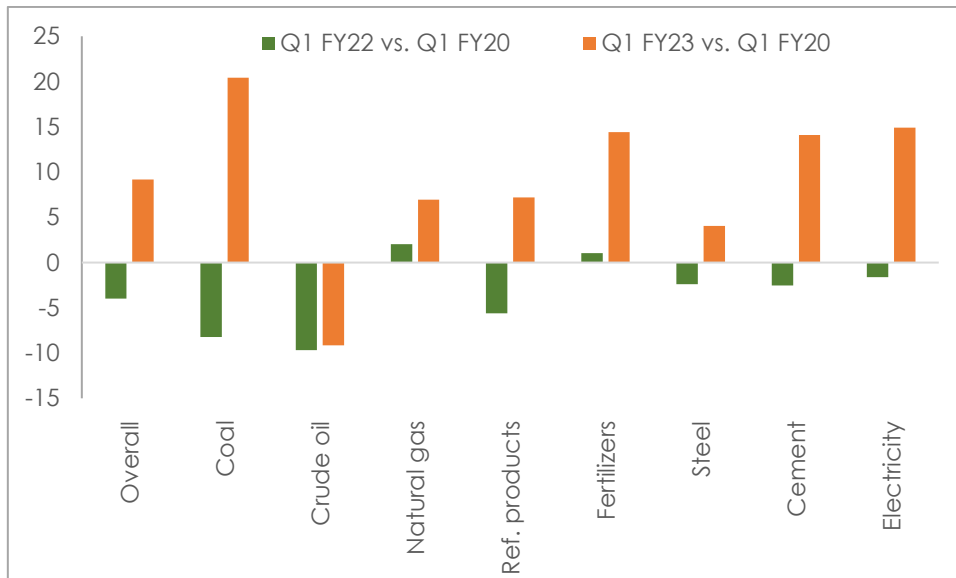
While the high power demand amidst significant heatwave drove the output for electricity higher in the months of Apr-May'22, the onset of monsoon eased the power demand causing the output to decline sequentially in Jun-22. This also led the coal output to decline by 6.1% MoM in Jun-22 from 7.0% MoM growth in May-22. Overall, while the coal inventory has improved marginally, the monsoon seasonality will dampen and also hamper transportation of coal from mines to power stations that could weigh on the electricity output. However, with cumulative rainfall between Jun 1st and Jul 21st clocking an 11% surplus vis-à-vis the long period average, the hydro power could help contribute towards electricity generation.

Notwithstanding the decline in steel output in Jun-22, the heightened activity in the infrastructure space led steel and cement production to remain healthy in FY23 so far, with the sectors recording an expansion of 4.0% and 14.1% YoY respectively in Q1 FY23 as compared to the pre-pandemic levels i.e. Q1 FY20. The output of steel and cement in Q2 FY23 could ease because of monsoon season impacting the construction activities. That said, over the longer term of 1-3 yrs, we expect government's initiatives in the form of PLI scheme for the steel sector and its focus on infrastructure segment to play a pivotal role in driving steel and cement output.

Despite persistent global headwinds, India's economic activities have remained fairly resilient with incremental uptick remaining intact in Q1 FY23. Most of the lead indicators have notched up a better performance (also owing to a favorable base at play due to last year's Delta wave), despite elevated domestic inflation and some slowdown in external demand coming to fore. The recent correction in global commodity prices definitely comes as support for overall industrial and core sector outlook. The moderation in commodity inflation is likely to provide producers some respite in the face of a sharp rise in input costs experienced in the last one year. In addition, the industrial activities carry tailwinds in the form of a revival in south-west monsoon activity and the strong likelihood of a revival in rural demand, capex focused Union Budget, and high vaccination coverage that facilitates a pickup in urban consumption demand.

## Annexure

**Chart 1: Performance of core sector is healthy as compared to pre-pandemic levels**



Note: The growth rates for FY22 and FY23 are compared with the pre-pandemic period of Q1 FY20

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