Press Release

Supportive base leads to a healthy growth print in core sector

Coal, electricity, cement and fertilizers better performers over a 3 Yr period

31-Oct-2022

India's core sector output surged to a three-month high of 7.9% YoY in Sep-22 from an upwardly revised print of 4.1% YoY in Aug-22 (previously 3.3%). The rise in the growth number appears to be largely optical on account of a lower base of the previous year which was hit by a backloaded monsoon. As such, the monthly momentum continued to contract for the fourth consecutive month by -1.1% MoM from -0.7% in Aug-22. On quarterly basis, the average core sector output eased to 5.5% YoY in Q2 FY23 from 14.0% YoY in Q1 FY23. Notwithstanding, the slowdown in quarterly growth momentum, core sector output for H1 FY23 stands expanded by 9.5% as compared to the pre-pandemic period of FY20 led by robust growth in the production of coal, fertilizers, cement and electricity. On the other hand, crude oil production continue to remain weak, recording a double-digit contraction of 10.0% in H1 FY23 vs H1FY20.

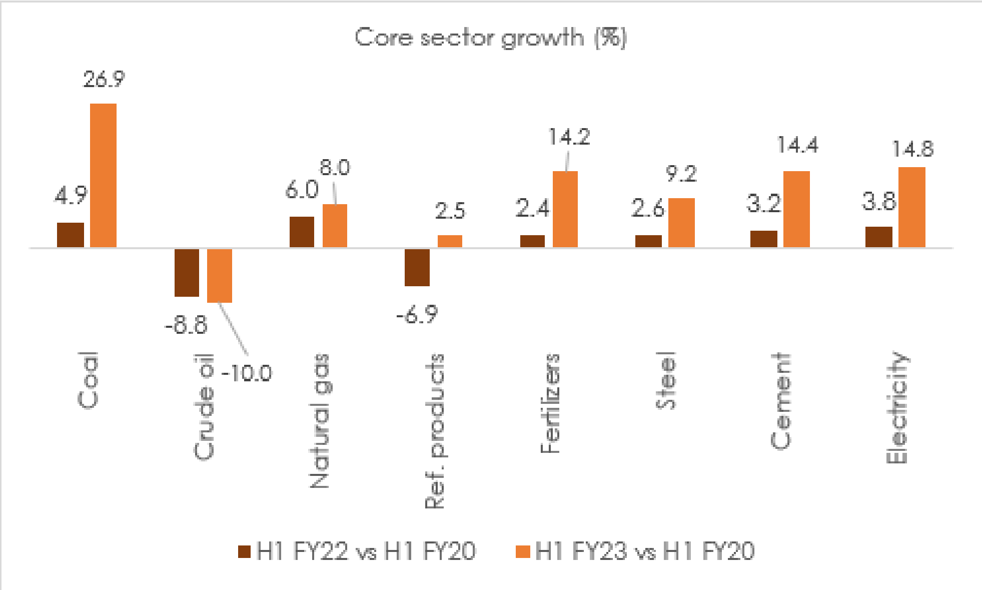
On sequential basis, disruption on account of backloaded monsoon continued to impinge the power and mining segment which recorded a decline in output. Nevertheless, within the energy segment, coal production recorded a robust growth of ~27% in H1 FY23 as compared to its pre-pandemic level (H1FY20). The total coal production in H1 FY23 stood at 382 million tonnes as compared to 315 million tonnes in the same period last year. The growth was primarily supported by various government initiatives aimed to meet the coal demand-supply mismatch along with contribution from new commercial mines that became operational in Q1 FY23. While the cement output in H1 FY23 has recorded a healthy expansion of 14.4% compared to the pre-pandemic period of FY20, steel output has remained relatively moderate expanding by 9.2% during the same period. Going forward, domestic steel demand is likely to regain further momentum after the end of monsoon with the festive season driving sales of cars and consumer durables. However, slowing global economies and rising interest rates could add concerns over demand for steel from the global markets thereby weighing on production. Nevertheless, 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 unrelenting global headwinds, India's economic activities have remained fairly resilient with incremental uptick remaining stable in FY23 so far. Most of the lead indicators have been able to better their performance despite elevated domestic inflation and some slowdown in external demand coming to fore. While the spurt in demand in the festive season may keep the growth print resilient in Q3 FY23, it may not necessarily sustain thereafter amidst the domino effect caused by the increasing weakness in global growth. The external support from exports may deteriorate as global demand conditions wane. Domestic exports in Sep-22 slipped further to USD 35.5 bn i.e., 16% lower compared to the recent peak of USD 42.2 bn in Jun-22. In its latest update to the World Economic Outlook report, the IMF slashed its growth forecast for 2023 World GDP and World Trade by 20 bps and 70 bps to 2.7% and 2.5% - this marks a sharp loss of momentum vis-à-vis IMF's 2022 growth estimates of 3.2% and 4.3% earlier.

From growth perspective, as the favourable statistical effect tapers, the GDP growth is expected decelerate over Q3 and Q4 of FY23. Factoring in external risks and their impact on domestic growth, with some support from factors such as festive season demand, delayed catch-up in Kharif sowing, expectation of a late withdrawal of monsoon, capex-oriented government spending, recent softening in global commodity prices, we continue to peg our GDP growth forecast at 7.2% albeit with downside risks.

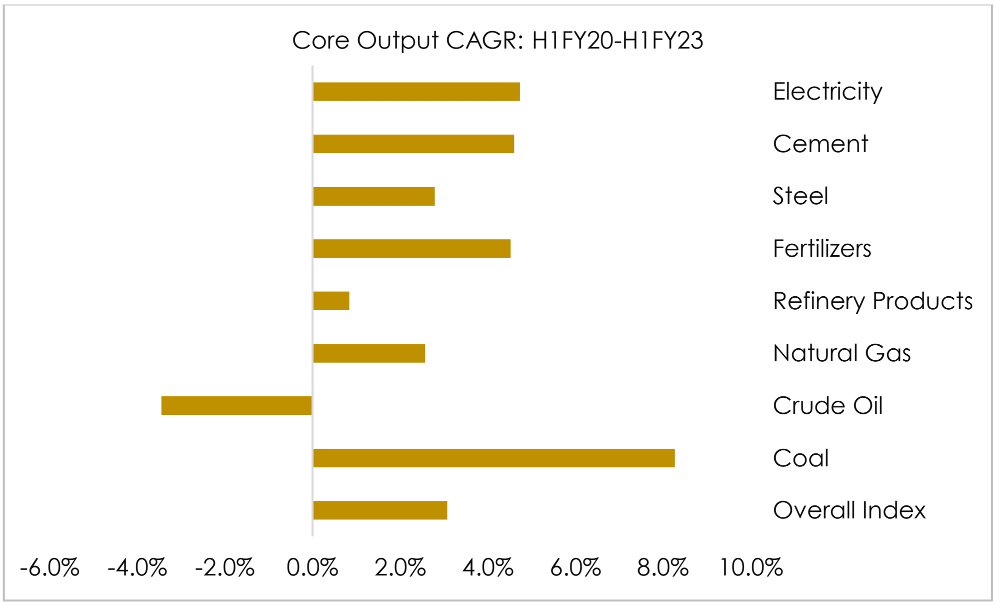
Annexure

Chart 1: Performance of core sector growth expands by 9.5% as compared to FY20



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

Chart 2: Over a 3 yr period, most of the core sectors saw moderate annualized growth



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