

Press Release

Diminishing base support eases core sector output

Higher domestic demand expected to drive output in H2 despite global headwinds

03-Oct-2022

Growth in India's core sector eased to 3.3% YoY in Aug-22 from 4.5% in Jul-22. While a dilution of the favourable statistical base in Aug-22 led the headline growth print to ease, the seasonal sequential decline is in line with the pre-pandemic historical average decline of ~1.2% seen in the month of August. Encouragingly, on a cumulative basis the core sector output in Apr-Aug'22 has expanded by 8.4% as compared to that in the corresponding pre-pandemic period of FY20 led by steady growth in the production of coal, fertilizers, cement, and electricity. On the other hand, production of crude oil registered a double-digit contraction of 10.0% in Apr-Aug'22 as compared to that in the corresponding period of FY20.

While the high power demand amidst significant heatwave drove the output for electricity higher in the months of Apr-Jun'22, the onset of monsoon eased the demand causing the output to ease in the months of Jul-Aug'22. The adverse impact of monsoon seasonality has also reflected in the mining activities which led the coal output to ease to a 5-month low of 7.7% YoY in Aug-22 from 11.3% in Jul-22. In similar vein, the slowdown of construction activities during monsoon has also led the steel and cement output to ease. While the cement output on an FYTD basis (Apr-Aug'22) has recorded a healthy expansion of 13.3% YoY, steel output has remained relatively muted expanding by a meagre 6.4% during the same period. Going forward, domestic steel demand is likely to gain a higher 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 constraining the overall 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.

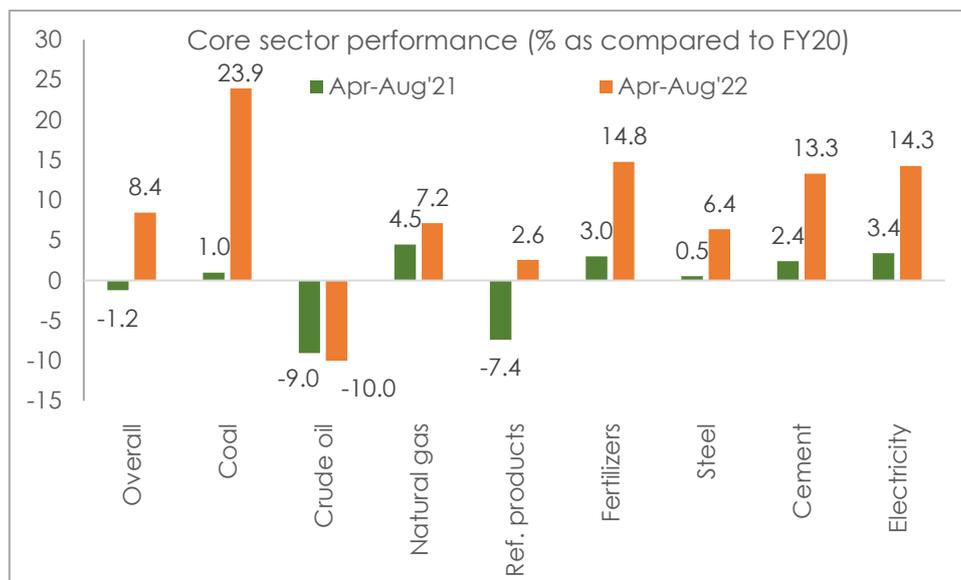
Despite unrelenting global headwinds, India's economic activities have remained fairly resilient with incremental uptick remaining stable in FY23 so far. Most of the lead indicators have been able to better their performance despite elevated domestic inflation and some slowdown in external demand coming to fore. Going forward, we remain hopeful of production activities gaining some sequential traction on the back of:

- Strong improvement in manufacturing capacity utilization to 74.3% in Q1 FY23 (above its long-term average of 73.2%) juxtaposed with the 62.5% YoY growth in central government capex during Apr-Jul FY23 bodes well for future activity.
- The onset of festive heavy season along with lingering pent-up demand is likely to buoy industrial activity in H2 FY23.
- Moderation in international commodity prices (the Reuters CRB Commodity Index is lower by 9-10% since its peak in Jun-22) would help in abating the input price pressures to some extent.

From growth perspective, we maintain our FY23 GDP growth estimate of 7.20% as of now. However, emergence of downside risks particularly on account of the anticipated global growth slowdown, need to be under close watch.

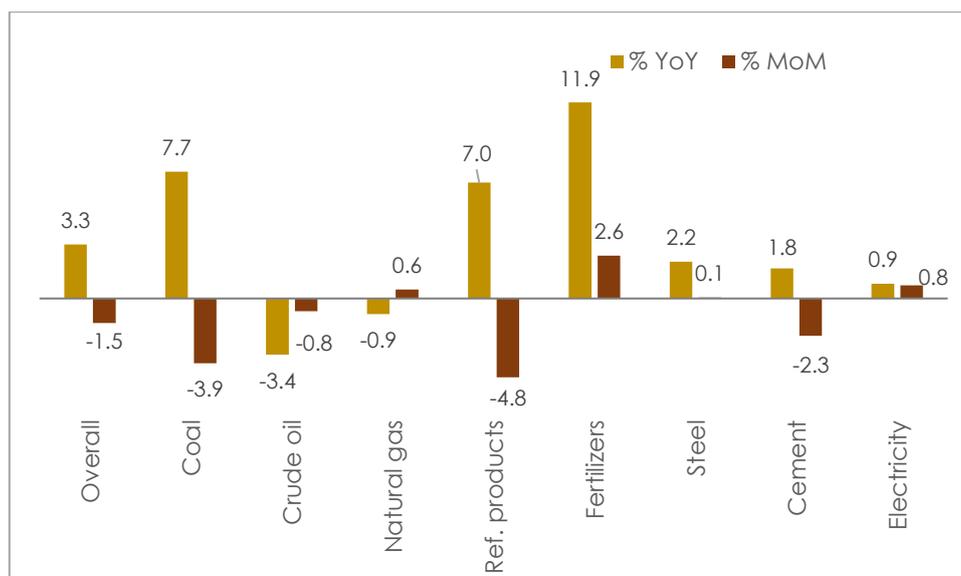
Annexure

Chart 1: Core sector growth remains strong as compared to pre-pandemic level



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

Chart 2: Annualized and sequential performance of core sector growth in Aug-22



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