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Press Release

Core sector growth records a four month high

Sequential decline in Feb-22 largely seasonal

1 April 2022

The output of eight core sectors rose to a four month high 5.8% YoY in Feb-22 from an upwardly revised print of 4.0% YoY in Jan-22. While there has been a sequential contraction of output in Feb of 5.3%, it has to be seen in the context of the lower number of working days during the month and some residual impact of the Omicron wave. On a cumulative basis, the core sector output has grown by 11.0% in the first eleven months of the current fiscal (Apr-Feb) as compared to the corresponding period of the previous year. Importantly, the cumulative output is a modest 2.0% higher than the comparable pre-pandemic period in FY20. Except for crude oil and refined petroleum products, the other six segments of the core sector have shown moderate to healthy growth over the Apr-Feb period vis-à-vis that in FY20, reflecting the fact that the core sector has largely been able to attain normalization in its output despite multiple bouts of the Covid pandemic.

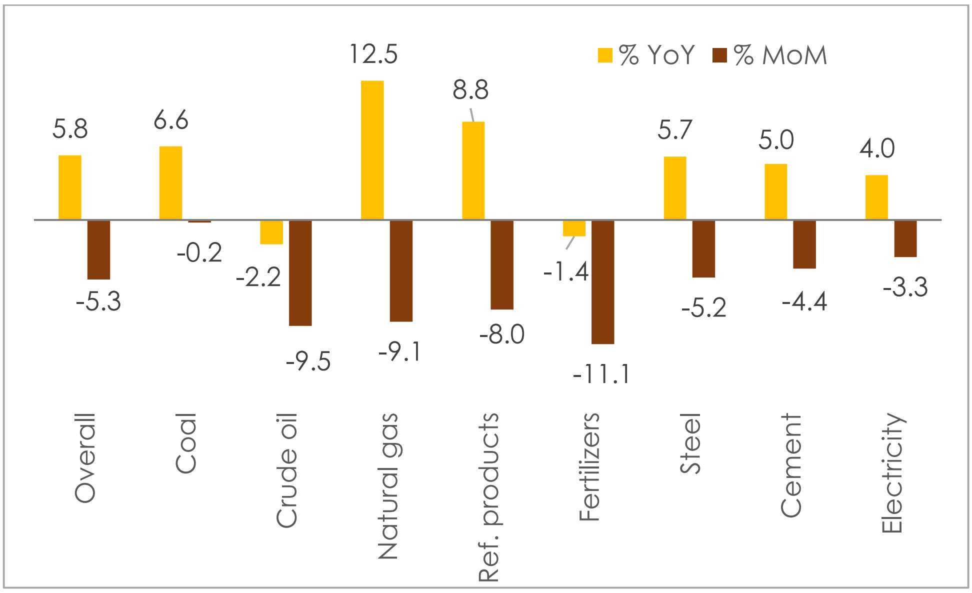
On a YoY basis, only two segments of the core sector witnessed a contraction albeit to a modest extent – crude oil and fertilisers. Domestic crude oil output has been on a steady decline since FY18 which can be attributed to lack of adequate reserves and the consequent production constraints. The fertilizer production dropped by 1.4% YoY in Feb-22 on the back of a 2.0% drop in Jan-22. The production on FYTD basis (Apr-Feb FY22) is also not very encouraging with fertilizer output recording a contraction of 0.4% compared that in FY21. Despite government unveiling a host of initiatives for India to become self-reliant in fertilizer production, the country remains heavily dependent on imports for meeting its fertilizer requirements. Going forward, the fertilizer production may continue to be sluggish given the significant spurt in natural gas prices (a key input for fertilizer production) amidst the raging geopolitical tensions between Russia and Ukraine.

The heightened activity in the infrastructure sector has led steel and cement production to remain strong in FY22 (Apr-Feb FY22) so far, with the sectors recording an expansion of 4.71% and 4.15% respectively as compared to their pre-pandemic levels. However, the significant increase in commodity and raw material prices amid Russia-Ukraine standoff may put pressure on steel output in FY23. Nevertheless, government's initiatives in the form of PLI scheme for the steel sector and its focus on infrastructure segment is expected to play a pivotal role in enhancing steel and cement output. The coal sector has seen a good recovery in output over the last few months after the supply bottlenecks in Sep-Oct'21 due to late monsoon with growth of 9.8% YoY and 7.4% as against the pre-pandemic comparable period.

Looking ahead, the increased commodity prices especially that of crude oil, the fresh supply chain bottlenecks, and the weakening global growth outlook in the context of the Russia-Ukraine crisis may impact industrial and core sector output in the near term. Nevertheless, we expect GDP growth for FY23 at 7.5% amidst government's strong thrust on infrastructure segment, solid coverage on vaccination, moderate recovery in rural consumption and the full play out of pent-up demand although it is likely to be partly offset by high crude oil prices and higher than expected inflationary pressures.

Annexure

Chart 1: Annual and sequential growth in core sector in Feb-22



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