

Press Release

Omicron causes a temporary glitch in core sector growth Fertilizer and natural gas record a sequential contraction

1 March 2022

The output of eight core sectors moderated to 3.7% In Jan-22 from an upwardly revised print of 4.0% in Dec-21 reflecting the marginal impact of the spread of Omicron variant which not only led many states to re-impose lockdown like restrictions but also created uncertainty on near term demand. On sequential basis, the output grew at a slower pace of 2.0% MoM in Jan-22 from 7.3% in Dec-21 with sequential contraction recorded in fertilizer and natural gas production.

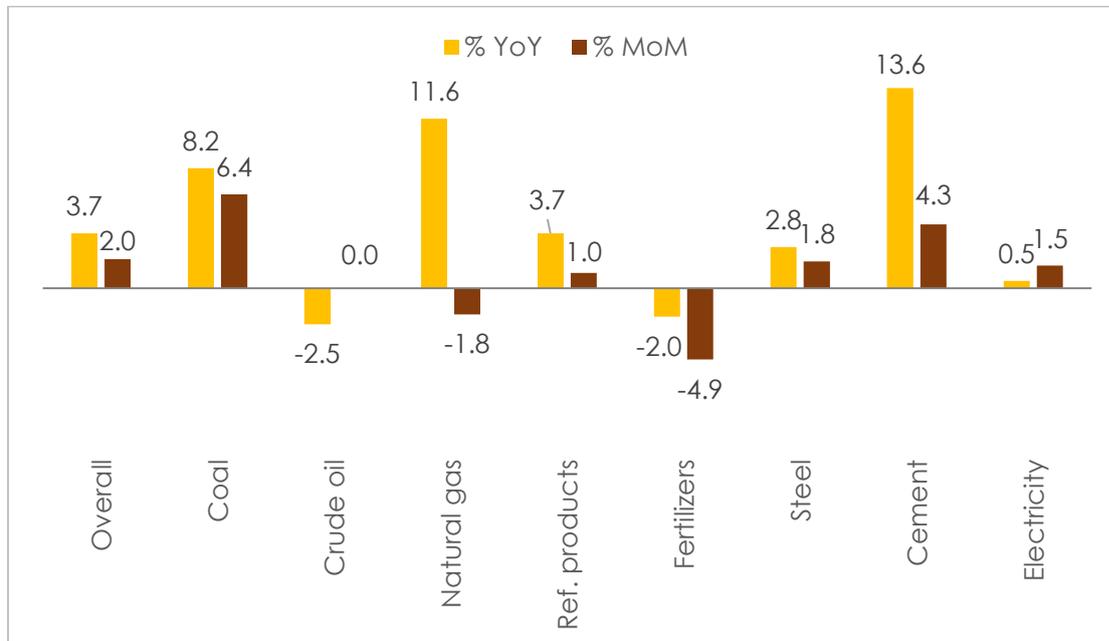
Nevertheless, the improving trajectory in cement and steel output reflects the heightened activity in the infrastructure and construction space post the disruption caused by unseasonal rains in Q3 FY22. The cement sector has continued with the momentum seen in Dec-21 with another sharp output growth in Jan-22, translating to a YoY print of 13.7% which is a monthly record in domestic production. Going forward, government's initiatives in the form of PLI scheme and its focus on infrastructure segment is likely to play a pivotal role in sustaining the output growth for steel and cement. Within energy space coal production has seen a production growth of 8.2% YoY and 6.4% MoM in Jan-22, reflecting the efforts made by Coal India to catch up with the production targets of FY22.

While the sequential pick up across the core sector is still uneven, the gross output remained above the pre-pandemic levels with the weighted average index in Apr-Jan FY22 higher by around 2% as compared to Apr-Jan FY20. Except for crude oil and refined petroleum products, all the other six segments of the core sector have shown healthy growth over the ten-month period of FY22 vis-à-vis that in FY20.

The core sector performance has been fairly in line with our **proprietary AMEP (Acuite Macroeconomic Performance) index which eased to 112.2 in Jan-22 from 115.0 in Dec-21** primarily due to the third Covid wave. Although not very significant, the Omicron wave dented the pace of growth recovery that posted a good run post the second Covid wave amidst a mix of pent-up, festive and some organic demand. However, the relatively lower severity of the Omicron wave with cases having peaked rather quickly amidst robust vaccination coverage, prevailing level of seroprevalence, improvement in medical and healthcare facilities and better management of supply chain logistics have led the states to unwind all the mobility restrictions which could support a pickup in industrial activities in the coming months. There has already been a healthy and rapid turnaround in most of the high frequency weekly indicators such as power consumption, rail freight traffic, passenger traffic, e-way bills and petrol and diesel consumption in Feb-22. Additionally, government's increased thrust on infrastructure segment highlighted in the Union Budget will strengthen core sector activity over the next few quarters. However, the increasing commodity prices especially crude oil prices and fresh supply chain bottlenecks in the context of the emerging Russia-Ukraine conflict will remain a point of concern.

Annexure

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



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