

## Press Release

### Core sector growth slows to a 9-month low Cement, steel and electricity output play spoilsport

1 January 2022

The output of eight core sectors grew at a slowest pace since Mar-21 by 3.1% YoY in Nov-21 from 8.4% recorded in Oct-21 led by an unexpected contraction in cement output which fell to a 10-month low followed by the steady decline in crude oil and a lacklustre performance by the steel sector. On sequential basis, the core output declined by 4.1% after recording an expansion of 8.3% in Oct-21 with 6 out of 8 sectors posting a contraction. The moderation in the print was on expected lines as overall demand tends to lose momentum post festive season. However, the intensity of contraction was higher than the average of -0.9% MoM observed in the last three years.

The weak trajectory in cement and steel output has been a bit baffling given the heightened activity in the infrastructure space. While unseasonal rains in Southern India could have led the sequential cement output to decline by double-digits (-21.1% MoM) continued moderation in auto production due to semiconductor chip shortages has possibly led steel output (steel contributes ~40% to auto industry) to decline (-5.0% MoM and 0.8% YoY).

Nevertheless, coal production has been showing an improvement expanding by 6.3% MoM in Nov-21 albeit at a slower pace than 23.2% in Oct-21 led by a recovery in mining activities. While demand for coal from the power sector has been increasing with the revival in business and industrial activities, supply from coal mines was interrupted in Sep-Oct'21 due to extended monsoons. This was reflected in electricity output which contracted by -12.1% MoM in Nov-21 from -0.4% in the previous month.

The core sector performance has been fairly in line with our **proprietary AMEP (Acuite Macroeconomic Performance) index**. We had observed that after the expansion in two consecutive months, the index fell to 111.0 in Nov-21 from a post-Covid peak of 124.9 (revised lower from 125.2) in Oct-21 (Chart 2). The contraction of the index sequentially by 11.2% MoM in Nov-21 is partly driven by seasonality. However, the magnitude of deceleration is higher than the average of around 6.5% recorded in the last two years in the month of November.

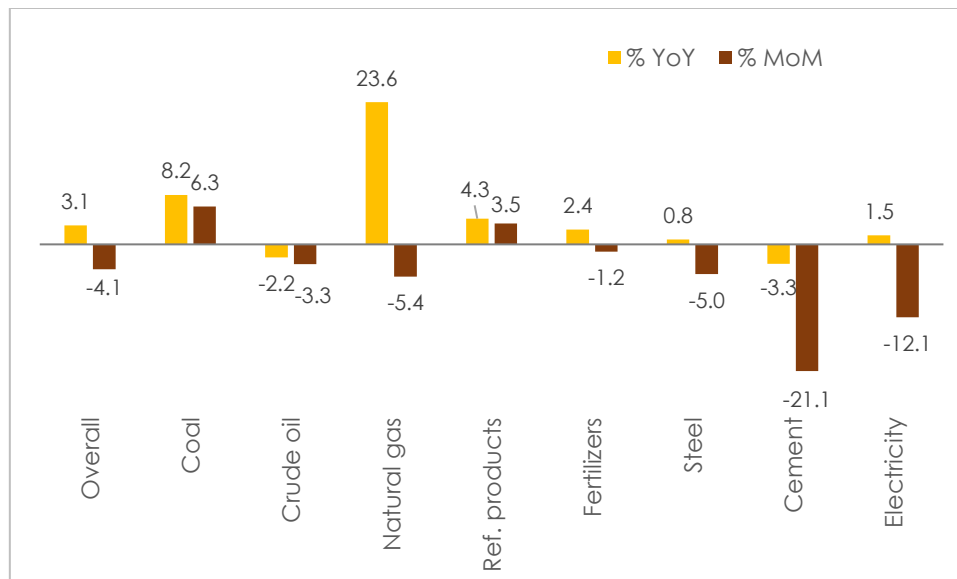
While the sequential pick up across the core sector is not yet steady, the gross output remained about the pre-pandemic levels with the weighted average index in Apr-Nov'21 higher by 1.02% as compared to Apr-Nov'19. Except for crude oil and refined petroleum products other six segments of the core sector have shown healthy growth over this eight-month period vis-à-vis that in FY20.

Overall, domestic momentum has remained broadly intact in Q3 FY22 despite headwinds from global growth mounting in the wake of new Omicron strain, supply chain disruptions and elevated inflation. As such, most high frequency indicators have continued to incrementally record a pick-up in Dec-21, shrugging off the post festive seasonal dip in Nov-21. Having said that, some states are again witnessing resurgence in Covid infections. The overall domestic tally of cases is showing a sharp pickup from the end of Dec-21 due to the increasing spread of the new variant, pushing the

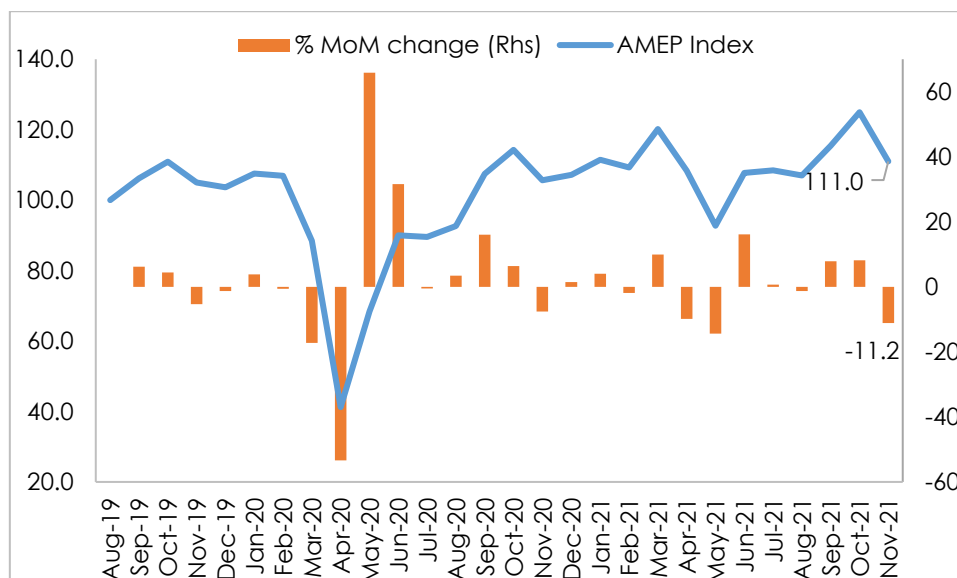
likelihood of a third wave. This could possibly lead states to reimpose lockdown like restrictions. However, we believe that the economic costs of these restrictions could be much lower on account of vaccine penetration and more targeted lockdowns than those earlier. Overall, we expect Indian economy to show a sustained revival amidst continued progress in the pace of vaccination, government’s thrust on infrastructure sector along with higher capital expenditure, which will bolster overall industrial activity, therefore driving core sector output in the near to medium term.

### Annexure

**Chart 1: Annual and sequential growth in core sector moderates in Nov-21**



**Chart 2: Momentum in economic activity eases post festive boost**



Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment

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