

Press Release

Core sector output rebounds in Oct-21

Index in the first seven months of FY22 is tracking 0.7% higher than its pre-Covid level

1 December 2021

The output of eight core sectors rose by 7.5% YoY in Oct-21 from a seven-month low of 4.5% in Sep-21. Notwithstanding the favorable base of last year, the sequential print, after contracting for two successive months, expanded by 7.3% MoM in response to pick-up in demand amid festive season. Barring electricity, all other sectors have registered an expansion with massive recovery recorded in coal production followed by refinery products, and cement.

Coal production showed significant improvement and was up by 23.2% MoM due to gradual pick-up in mining activities. While demand for coal from the power sector has been increasing with revival in business and industrial activities, supply from coal mines had been interrupted in Sep-21 due to extended monsoons. However, electricity generation is yet to witness a similar revival possibly due to the seasonal factor although the coal stocks with the thermal power plants have gradually improved; overall electricity production contracted for the second consecutive month by 0.8% MoM in Oct-21. The surge in international coal prices and higher freight rates along with logistical challenges have also been a factor in lower generation for some power plants.

Within infrastructure space, while pick-up in construction activities has kept cement production buoyed (14.6% YoY), decline in auto production (auto production has registered a contraction of 22% YoY in Oct-21 from a contraction of 19% in Sep-21) due to semiconductor chip shortages has possibly impacted steel output (steel contributes ~40% to auto industry) to increase at a slower pace (0.9% YoY).

While the sequential pick up across the core sector is not yet steady, the gross output has decisively exceeded the pre-pandemic levels with the weighted average index in Apr-Oct'21 higher by 0.7% as compared to Apr-Oct'19. Except for crude oil and refined petroleum products other six segments of the core sector have shown healthy growth over this seven-month period vis-à-vis that in FY20.

Overall, we continue to expect festive season, robust vaccination progress, government's thrust on infrastructure sector, higher capital expenditure, progress in vaccinations along with strong export demand to bolster overall industrial activity, therefore driving core sector output in the near to medium term. However, raw material shortages, higher commodity prices and logistical challenges aggravated by any fresh pandemic wave may result in downside risks to that expectation.

Annexure

Chart 1: Annual and sequential growth in core sector rebounds in Oct-21

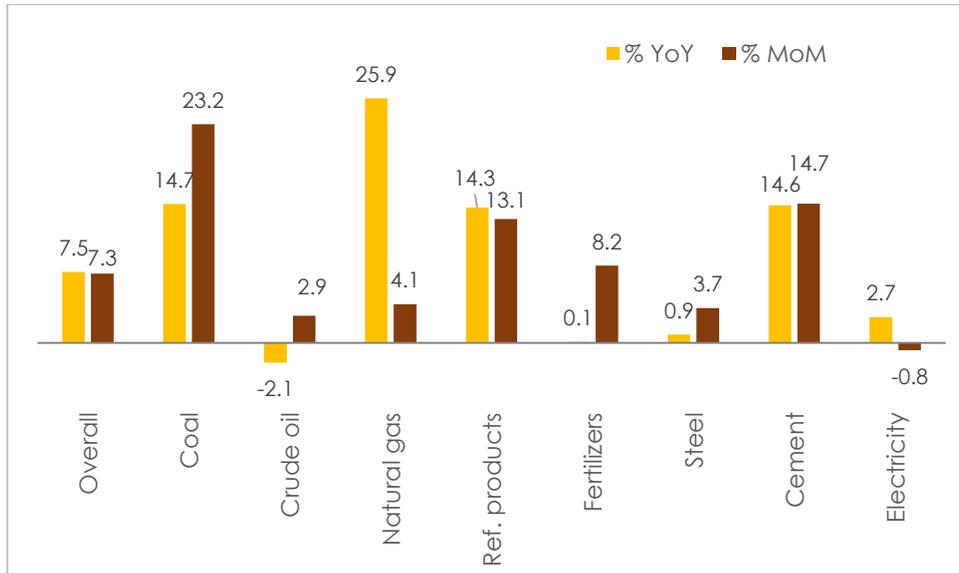
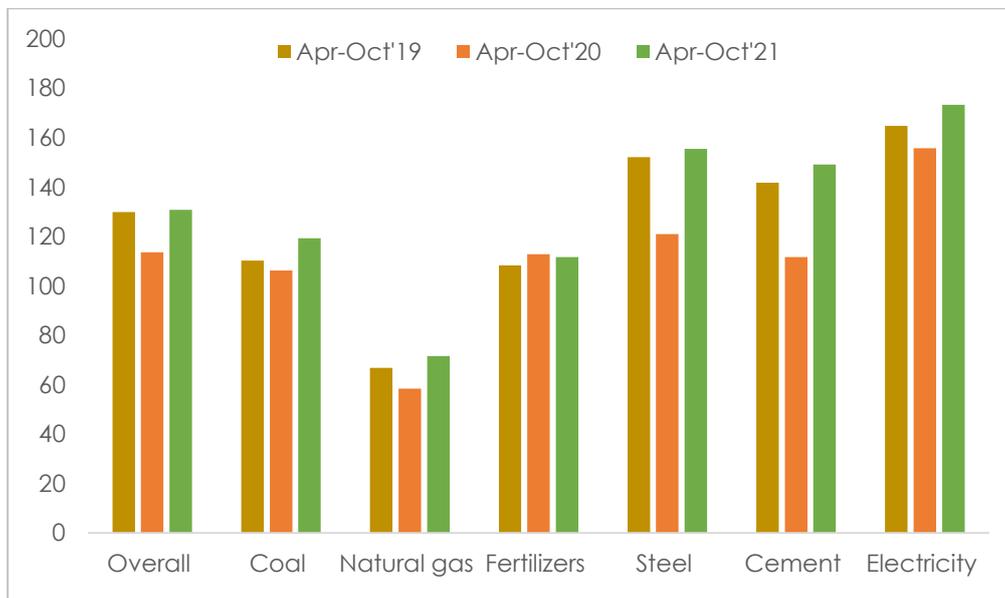


Chart 2: Core Index in the first seven months of FY22 is back at its pre-Covid levels



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