Press Release

Core sector output hits a 4 month low after May-21

However, cumulatively higher in H1FY22 vs H1FY20 for almost all segments except oil

29 October 2021

The output of eight core sectors eased significantly to a 4 -month low after the peak of the second wave in May-21. The YoY growth in output also slid to a 7-month low of 4.4% YoY in Sep-21 vs. 11.4% in Aug-21 primarily led by a tapering of the favorable statistical base, a slowdown in the momentum of the industrial recovery along with some impact of backloaded monsoon linked disruption on sectors such as coal and electricity production. Sequentially, the overall core sector index witnessed a second consecutive contraction at 5.0% in Sep-21 as compared to 1.0% in Aug-21 with all segments, without exception registering a decline in output month on month with major drag coming from an unexpected drop in electricity generation. In line with the weak print of the core sector, we expect a significant drop in IIP YoY growth for Sep-21.

While the coal sector output slipped 3.6%MoM, it clearly had an impact on electricity generation which contracted on an annualized and sequential basis by 0.3% and 11.6% respectively. The shortage of coal in the thermal power stations may have not only led to a reduction in plant load factor but the consequent increase in merchant power prices may have also prompted state utilities to curtail their power purchases. This apart, better rainfall in the agricultural regions may have also contributed to a drop in power demand from the farm sector.

While the sequential trajectory in the core sector output is a matter of concern, it is encouraging to note that the aggregate core sector output for the first six months of current fiscal is almost at the pre-pandemic level i.e. stands marginally 0.41% lower as against the output in H1 FY20. On a sectoral basis, the output for six segments - coal, natural gas, fertilizers, steel, cement, and electricity have exceeded their pre-pandemic levels in the first half with only crude oil and refinery products lagging behind.

Overall, we continue to expect festive season, robust vaccination progress, government's thrust on infrastructure sector 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 and a potential slowdown in power generation triggered by lower coal supplies can have an adverse impact on industrial activity in Q3 FY22.

Annexure

Chart 1: Broad-based sequential contraction recorded in all core sector segments

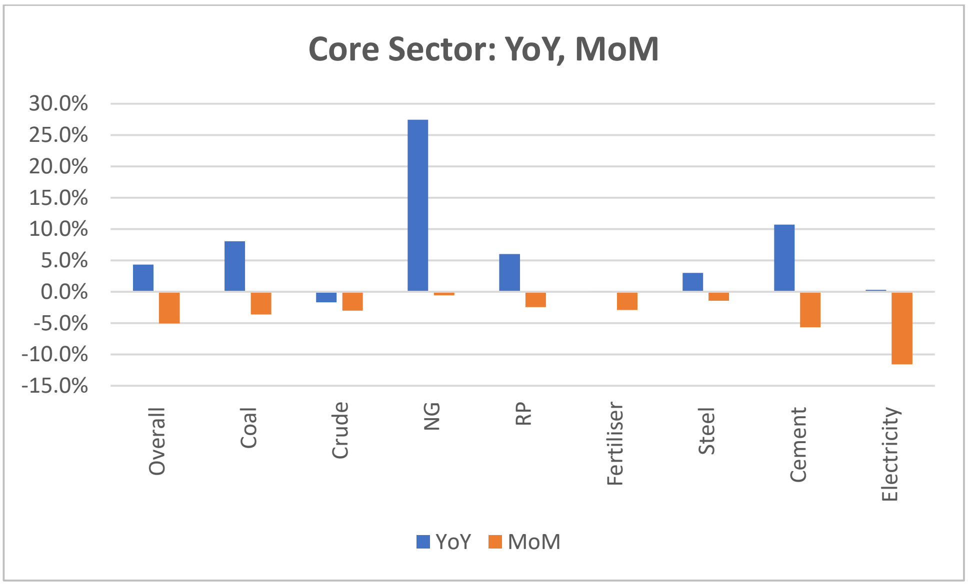
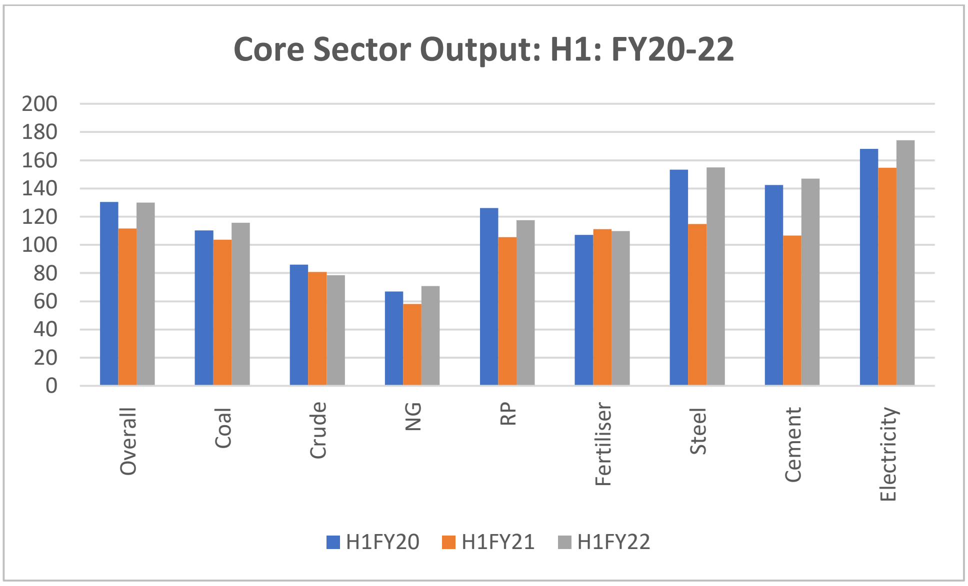


Chart 2: Except oil products, all other segments are above their pre-Covid levels in H1



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