

Press Release

Core Sector growth spurts to a 14 month high Higher power generation due to deficient monsoon a key factor

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The output growth of eight core industries (ECI) has witnessed a strong performance in August by rising to 12.1% YoY as compared to 8.4% YoY in July 2023. This is the highest growth print in the core sector of India in 14 months since June 2022 albeit partly supported by a weaker base in the previous fiscal year. On sequential basis, ECI index also had a healthy rise of 2.5% MoM which had actually dropped in July and June 2023 by 1.8% MoM by 1.0% MoM respectively. The core sector or infrastructure output, which comprises eight sectors including coal and electricity, accounts for nearly 40 per cent of industrial output.

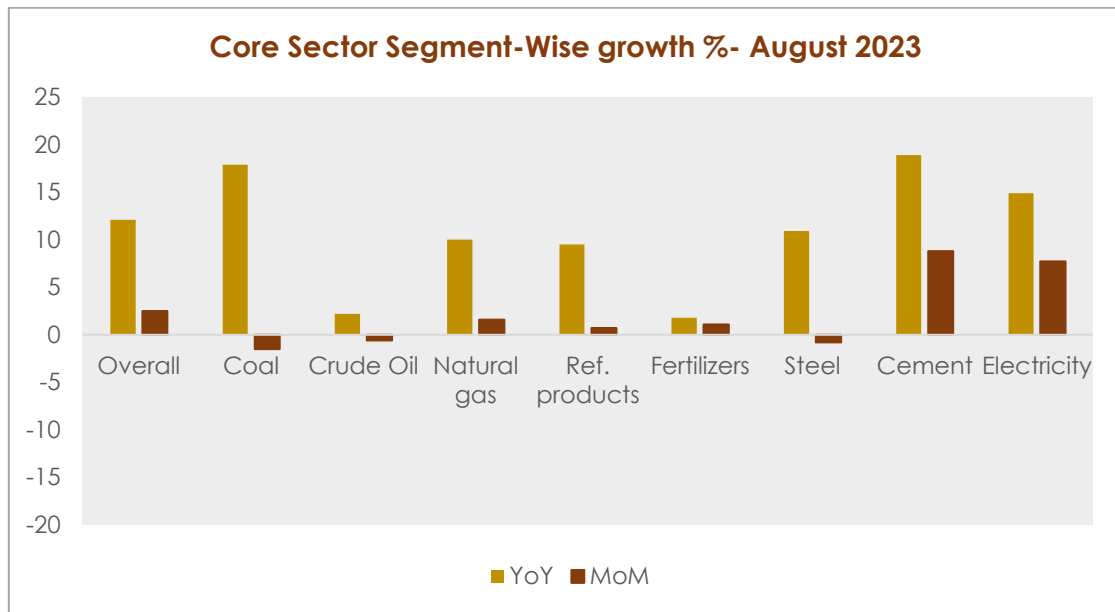
The spurt in core sector growth has been driven by the double-digit increases in the output of five of the eight industries annually: cement (18.9%), coal (17.9%), electricity (14.9%), steel (10.9%), and natural gas (10.0%). However, the major growth engines for the month have been the cement and the electricity sector. The output in these industries has also risen strongly on a sequential basis by 8.8% and 7.7% respectively. The positive impact of sustained high investments in the infrastructure by the government is clearly reflected in the output growth of the cement sector. Further, steel had a reasonably good month with annualized growth of 10.9% albeit there was a slight sequential decline of 0.8%.

One of the unusual phenomenon in a monsoon month is a sudden rise in power generation. Power output has seen a massive growth in August due to a severe rainfall deficiency in large parts of the country and the consequent higher demand for electricity from both the residential and the agricultural segments. The demand for power also led to higher coal demand in thermal power plants. While the growth in the coal sector's output dropped sequentially by 1.5% MoM, it grew by 17.9 per cent YoY and was the second best among the eight industries. The fertilizer industry reported an annual growth of 1.8% YoY and 1.1% MoM which has been relatively muted and possibly indicates the effect of an irregular monsoon and further risks of El Nino going forward.

As in the earlier months, the relatively weak output in the oil and gas sector continues to pull down the overall core index.

Cumulatively, in the five-month period of the current fiscal, core sector output has grown by a strong 7.6% YoY albeit lower when compared to 10.0% in the first five months of 2022-23, the latter on a more favourable base factor. The healthy print in the core sector, partly supported by a weaker base, is likely to translate into a steady IIP growth print for Aug-23 at high double digits and reflects improved industrial activity so far in the current fiscal.

Chart 1: Annual and sequential growth in core sector in August 2023



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