

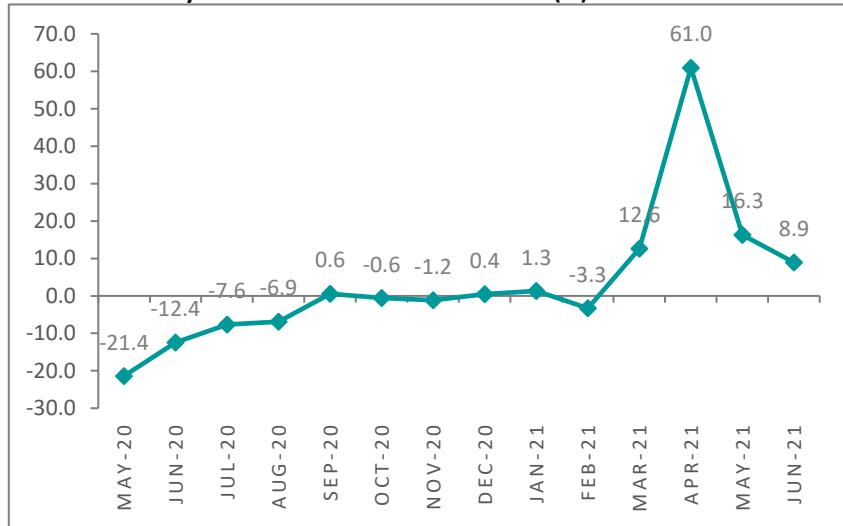
## Core Sector June 2021: Base effect hides the monthly decline

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India's core sector output grew by 8.9% in June 2021 against a contraction of 12.4% in June 2020, mainly on account of eased restriction and improved mobility coupled with low-base effect. On a sequential basis, core sector output registered a marginal growth of 1.1% in June compared with May, which shows that economy is probably showing some initial signs of recovery. E-way bill generation and exports gained momentum in June. Automobile production also ramped up and power and fuel demand picked up owing to increased mobility.

Of the eight sectors, all except crude oil registered positive growth in June on yearly basis. Steel and Natural gas output grew at 25% and 20.6% respectively, while Crude oil output contracted 1.8%. On the other hand, the production of crude oil, natural gas, fertilizers, steel, cement, and electricity rose in June on a sequential basis. However, refinery products and coal sector registered a decline on month-on-month basis. So far in FY22, the core sector output has witnessed a growth of 25.3% compared with a de-growth of 23.8% in the corresponding period last year. The favourable base effect is still at play; however, the impact is expected to diminish in coming months.

**Chart 1: Monthly movement in core sector index (%)**



Source: Office of Economic Advisor

**Table 1: Component-wise core sector growth (%)**

	Jun-20	May-21	Jun-21	Q1-FY21	Q1-FY22
Coal	-15.6	7	7.4	-15	8
Crude oil	-6.0	-6.3	-1.8	-6.5	-3.4
Natural gas	-12.0	20.1	20.6	-16.2	21.8
Refinery products	-8.9	15.4	2.4	-18.2	15.4
Fertilizers	4.2	-9.6	2	2.8	-1.7
Steel	-23.2	55.3	25	-48.6	86
Cement	-6.8	8	4.3	-38.3	52.9
Electricity	-10.0	7.3	7.2	-15.8	16.4
Core Sector	-12.4	16.3	8.9	-23.8	25.3

Source: Office of Economic Advisor

## Key highlights:

**Coal production** was higher by 7.4% in June 2021 against a decline of 15.6% in June 2020. On a sequential basis, coal sector output has declined by 4.3% during the month. This shows that the impact of covid on commercial and industrial power demand persists. Our view is that since the number of daily COVID-19 positive cases have declined across the country and states have eased the lockdown restrictions, the commercial and industrial demand of power is bound to see an uptick July onwards.

**Crude oil production** fell by 1.8% in June 2021, registering the 43<sup>rd</sup> consecutive monthly decline. The decline in production can be ascribed to adverse climatic conditions created by cyclone coupled with less than planned contribution from workover wells, drilling wells and old wells. The overall production has also been lower owing to lower consumer demand, infectivity issues in few wells, workovers and water knockouts.

**Natural gas production** rose by 20.6% in June 2021 compared with contraction of 12% in June 2020 mainly due to higher output from the PSC fields. On a sequential basis, the natural gas production was higher by 2%.

**Refinery production** rose by 15.4% in June'21 as against a de-growth of 8.9% in June'2020. There has however been a month-on-month decline of 3.8% reflective of lower consumer demand amidst the localised lockdowns during the 2<sup>nd</sup> wave of the COVID-19 pandemic. **Production of Petroleum Products** during June 2021 was 19172.25 TMT, which is 2.39% higher than production of June 2020 but 5.18% lower when compared with target for the month.

**Fertiliser** production registered a growth of 2% in June against a degrowth of 9.6% in May 2021. This growth is on account of higher demand by fertilizer manufacturing companies in anticipation of good demand ahead of the kharif sowing season.

**Steel and cement** registered growth of 25% and 4.3% (YoY) respectively which does reflect the capex push provided by the governments at both Centre and state level along with a low base effect. On a sequential basis, both the sectors have registered a positive growth. The steel sector is on an uptrend and major integrated producers have lined up major expansion plans. The steel sector has got a major boost on account of the recently announced central government incentive scheme for specialty steel. The construction sector is also finally picking up pace, and hence, the cement sector will see a rising trend going forward.

**Electricity generation** rose by 7.2% in June 2021 against a decline of 10% in June 2020. On a month-on-month basis the electricity production has risen by 3% showing an increase in power demand on account of economic recovery.

We can expect IIP growth to be in the double-digit region this month based on the core sector growth numbers and ceteris paribus conditions. Core sector growth rate would however witness lower growth numbers as the base effect wears off and will be driven more by real sector activity rather than statistical effects.

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