Core sector growth rises to 3-month high of 6.7%

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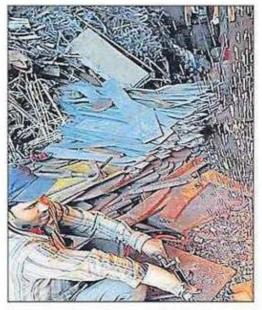
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NEW DELHI: Core industrial activity in the country is beginning to reflect trends seen in healthy GST collections, GDP data, and purchase manager indices, with the index of eight core industries expanding by 6.7% in February compared to the year before, according to data released by the Ministry of Commerce and Industry on March 28.

This has reversed the trend of the three months before February. The core sector index had a year-on-year growth rate of 12.7% in October, but this number decreased in each of the next three months. The index's growth rate in November, December, and January was 7.9%, 4.9%, and 4.1% respectively.

The 6.7% growth rate in February has reversed this trend. To be sure, sequentially, the index contracted by 4.9% in February compared to 7% and 2.7% sequential growth in December and January.

Almost three-fourth of the growth in the index in February was on account of three sub-sectors that have a combined weight of 48% in the index. These three sub-sectors are the steel, electricity, and coal. They



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have a weight of 17.9% and 19.9%, and 10.3% in the index, respectively; and expanded by 8.5%, 6.3%, and 11.6% compared to February 2023.

To be sure, while the contribution of other sub-sectors is lower, most of them expanded at a better rate than in January. Only the fertilizers sub-sector contracted in February. It contracted by 9.5% in February compared to a 0.6% contraction in January. However, this did not affect the overall index much because the sub-sector has the lowest weight (2.6%) among all eight sub-sectors in the index.

The trends described above, however, need to be read with some caution. The latest three months of data on the index is provisional and undergoes revision in subsequent months. For example, Thursday's data release has increased the January growth rate from 3.6% to 4.1%

Rajani Sinha, chief economist at CareEdge said, "India's core sector growth accelerated to a three-month high of 6.7% (y-o-y) in February aided by a slightly favourable base effect. While coal, natural gas and cement sectors logged double-digit growth, contraction in fertilizers output widened sharply to 9.5%. With the uptick seen in the core sector, we expect the IIP growth to improve to around 5.5% in February (from 3.8% in the previous month).

In the fiscal year so far, we have seen healthy growth recorded by coal, steel and cement sector. The robustness in the core sector has been supported by upbeat government capex. We could see the core sector growth improve further as private capex picks up in the coming quarters."

The core sector index also does not cover the entire spectrum of industries in India. The eight sectors covered by it have only around 40% weight in the broader Index of Industrial Production (IIP).

IIP data for February will be published on April 12.