

# Core sector growth moderates to 4.5%

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## Base effects fade out after two months of double-digit growth



India's eight core sectors' output growth dropped to a six-month low of 4.5% in July from **13.2% in June**, with crude oil and natural gas output declining from a year ago and growth in sectors like cement and electricity dropping to around 2%.

Overall output levels in these sectors, which constitute 40% of the Index of Industrial Production (IIP) were 2.3% lower than June 2022, and the Index of eight core industries slipped to 140.7, the lowest level since this March. However, compared with the pre-pandemic level of July 2019, core sectors' output was up 6.1% during July.

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The Commerce and Industry Ministry also revised its estimates for core sectors' growth in April to 9.5% from the provisional figure of 8.4%.

“The normalisation of the base effect has resulted in softening of core sector growth to 4.5% in July from the double-digit growth of 19.3% and 13.2% recorded in the previous two months of May and June,” said CARE Ratings chief economist Rajani Sinha.

Coal production growth moderated to a four-month low of 11.4% in July from 32.1% in June, but actual output in July was 10.34% lower than the previous month, ostensibly driven by monsoon's progression affecting mining operations. Crude oil and natural gas production declined 3.8% and 0.3% year on year, but were marginally higher than June levels.

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December 2021. Overall cement production was 11.3% lower than June 2022.

On a year-on-year basis, Steel production grew 5.7% in July, compared to 3.6% in June. Steel output had contracted from May 2022 levels by a sharp 7.35% in June, but has rebounded in July.

Electricity generation growth also slipped to a six-month low of 2.2% in July after three successive months of double-digit growth, with output 4.16% lower than June.

“The overall growth in the last few months has been steered by the cement and electricity sectors. A sequential 3.4% improvement in steel output from June to July is encouraging after the previous month’s contraction from May levels,” Ms. Sinha noted. A correction in coking coal and steel prices will help spur demand even as higher capital expenditure from the Centre and new investment projects will boost core sectors’ performance in coming months, she reckoned.

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