

Core data points to strong recovery in infra & economy, say experts

Synopsis

"On the whole, the core sector growth rate is encouraging as it points to further acceleration during the course of the year as the government gets down to spending more as indicated to all ministries," said Madan Sabnavis, chief economist at CARE Ratings.



Experts said the data pointed to a strong recovery in the infrastructure sector and the economy after the second wave of the pandemic.

India's core sector growth accelerated to 11.6% in August, lifting the overall output 3.9% higher over the pre-pandemic levels of August 2019, data released on Thursday showed.

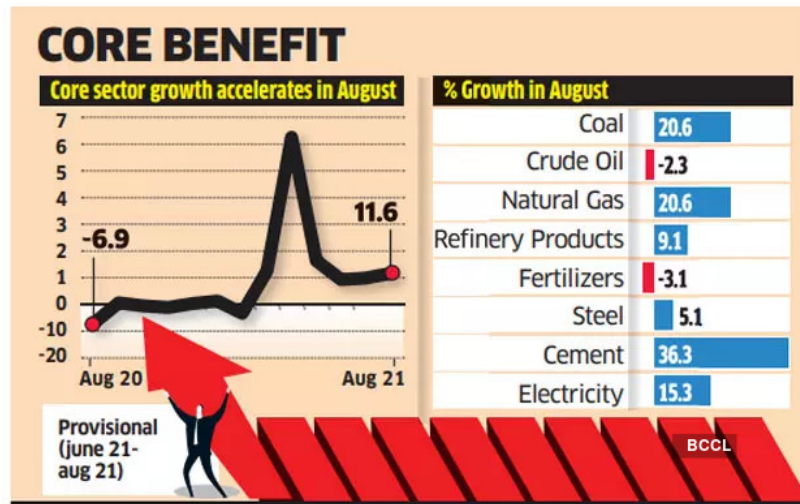
Experts said the data pointed to a strong recovery in the **infrastructure** sector and the economy after the second wave of the pandemic.

A 6.9% contraction in August last year has provided a favourable base effect to the growth this year. Core sector output had expanded 9.9% in July.

"On the whole, the core sector growth rate is encouraging as it points to further acceleration during the course of the year as the government gets down to spending more as indicated to all ministries," said Madan Sabnavis, chief economist at CARE Ratings. "Also, private sector investment in some pockets would increase, leading to maintenance of the tempo."

The Index of Core Industries (ICI) measures the output of eight infrastructure sectors: coal, steel, cement, fertiliser, electricity, natural gas, refinery products and crude oil. The index is up 19.3% for the April-August period from a year earlier.

Six of these sectors — coal (20.6%), natural gas (20.6%), refinery products (9.1%), steel (5.1%), cement (36.3%) and electricity (15.3%) — posted growth in August, while output in crude oil (-2.3%) and fertiliser (-3.1%) shrank from a year earlier.



A weaker monsoon in the month may have helped, allowing infrastructure activity to continue uninterrupted, but heavy rains and waning base effect could dampen growth in September.

“We caution that the August gains to sectors such as mining, construction and electricity are likely to be washed out by the September rains, exacerbating the impact of the normalising base,” said Aditi Nayar, chief economist, ICRA.

Industrial outlook

The core sector index makes up around two-fifths the Index of Industrial Production (IIP), making it a lead indicator of industrial activity.

“Although core sector growth has improved, the weaker trends in auto production are likely to weigh upon the manufacturing output in August 2021, resulting in IIP growth of around 11-12%, similar to the July 2021 print,” said Nayar, pencilling in a 4-6% growth in core sector next month.

Industrial production had grown 11.5% in July. The number for August will be released on October 12.

“Higher power production of 15.3% in August is reflective of general buoyant activity in the economy, which is a positive sign,” said Sabnavis of CARE Ratings.

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