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The pace of contraction in the economy slowed in the September quarter to 7.5% from a historic 23.9% contraction in the June quarter due to the shock caused by the pandemic-induced nationwide lockdown. BLOOMBERG

Core sector sees sharper contraction in November

2 min read . Updated: 01 Jan 2021, 06:00 AM IST

Asit Ranjan Mishra

Data released by the industry department for November showed five industries—coal (2.9%), fertilizers (1.6%), steel (-4.4%), cement (-7.1%) and cement electricity (2.2%)—that had registered strong growth in October faltered in November

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The eight industries that make up the core sector contracted at a steeper pace of 2.6% in November than in the previous month, signalling that the economic recovery from the pandemic in Asia's third-largest economy may not yet be on a strong footing.

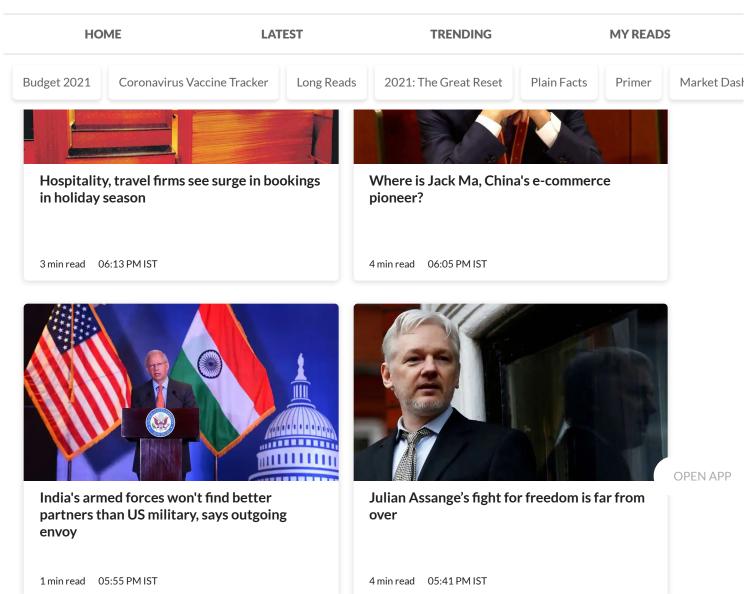
The core sector, which constitutes 40% of the Index of Industrial Production (IIP), showed signs of recovery in September with only a 0.1% contraction after shrinking 6.9% in the preceding month. However, it contracted at a faster pace in October (-0.9%) and November. To be sure, IIP bounced back to register positive growth in September October on the back of a recovery in demand for consumer goods and a lower back effect.

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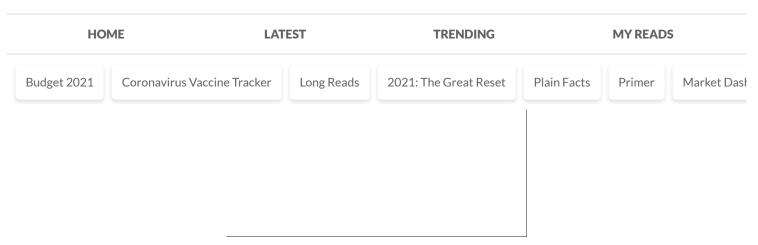
Data released by the industry department for November showed five industries—coal (2.9%), fertilizers (1.6%), steel (-4.4%), cement (-7.1%) and electricity (2.2%)—that had registered strong growth in October faltered in November. Natural gas (-9.3%) contracted at a faster pace.

Only crude oil contracted at a slower pace of 4.9% in November against a 6.2% decline in the preceding month. The absence of a lower base, so far available between August and October, also contributed to the poor show in November. A higher base effect til¹ February means the core sector may continue to underperform other macro indices of the poor show in November.

Madan Sabnavis, chief economist at Care Ratings, said the contraction in growth of steel and cement blunts hopes of a revival in manufacturing and infrastructure. "Quite clearly, the growth rates of 4% and 3.2% seen in October were helped by some element of carry-over demand from the past. The declines of -4.4% and -7.1%, respectively, in November are, hence, quite disappointing. IIP growth can be in 0-1% range as consumer goods may remain upbeat for the month given the festival season," he added.

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Data separately released by the Controller General of Accounts showed fiscal deficit in the eight months to 30 November stood at 135.1% of the full-year target of ₹10.8 trillion. November saw a sharp and encouraging ramping up of government spending, with revenue expenditure rising 32% while capital expenditure rose nearly 250% on a small base.

"A sustenance of this trend will bolster economic activity, and help the Indian economy exit the recession in the coming quarter," said Aditi Nayar, principal economist 2. OPEN APPELTAGE.

The pace of contraction in the economy slowed in the September quarter to 7.5% from a historic 23.9% contraction in the June quarter due to the shock caused by the pandemic-induced nationwide lockdown.

Since then, many economic agencies have raised their growth forecasts. The Reserve Bank of India (RBI) earlier this month projected the economy to shrink 7.5% in FY21, shallower than the 9.5% contraction it had projected just two months ago.

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