Core Sector Contraction - May 2020

Why in news?

Data released by the Commerce and Industry Ministry shows that the output of eight core infrastructure industries shrank by 23.4% in May 2020, due to the coronavirus-induced lockdown.

What are the current growth figures?

- The Index of Eight Core Industries captures the output of coal, crude oil, natural gas, steel, cement, fertilisers, electricity, and refinery products.
- These eight industries account for 40.27% in the Index of Industrial Production (IIP).
- The pandemic-induced lockdown kept large parts of the economy shuttered.
- As a result, barring fertiliser, all other core industries had recorded negative growth in May 2020.
- Of these, six sectors witnessed double-digit drops.
- Steel and cement were the worst hit, slumping 48.4% and 22.2%, respectively.
- This is due to the construction activity and infrastructure projects, which remained mostly stalled.
- Refinery products, with the largest weight in the index contributing 28%, contracted 21.3%.
- Apparently, the curbs on vehicular movement suppressed the demand for automobile fuels.
- Crude oil and natural gas continued their slide adding to the problems in India's hydrocarbon exploration and production industry.
- Coal production also fell for a second straight month, declining 14%.
- The lack of demand for electricity from the nation's factories depressed power production as well as the need for coal.
- The output of electricity fell 15.6%, which is a slight improvement from April's 23% slump.
- This was aided by the partial easing of restrictions and peak summer consumption by households.
- The only encouraging development came from the fertilizer industry.
- Fertilizer production rose 7.5% reversing the slump seen in the preceding two months.

- It thus signals robust activity in the agricultural sector at the start of the kharif season.

How does the future look?

- **Agriculture** - There is a promising and early start to this year's monsoon.
- This hopefully bodes well for the crucial farm income-dependent rural economy.
- There was above average quantity and improved spatial distribution of rainfall in June 2020.
- This has spurred a sharp jump in kharif sowing.
- Notably, the area sown as on 26 June 2020 has more than doubled, compared with a year earlier to 315.6 lakh hectares.
- The pandemic and the lockdown have sent lakhs of people back to their rural homes from jobs in the cities.
- Given this, there are firm hopes for increase in economic activity across the hinterland.
- However, much will depend on the monsoon staying its course.
- Also, there is a danger to the farm sector, especially in western, central and northern India this year (2020) from locust swarms.
- The Food and Agriculture Organization had also warned that India would need to remain on high alert through July 2020 for the possible arrival of swarms from northern Africa.
- **Manufacturing** - The latest PMI (Purchasing Manager's Index) data suggests a less than promising outlook for manufacturing, which contracted again in June 2020.
- The June 2020 survey showed sharp reductions in output, new orders and employment.
- Given all, alongside the measures at containing the spread of COVID-19, government must also keep economic momentum from sliding further.

Source: The Hindu

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