Core Sector Output Contraction - March 2020

Why in news?

Data released recently by the commerce department showed that India's core sector output contracted by 6.5% in March 2020.

How is the growth scenario?

- The Index of Eight Core Industries captures the output of coal, crude oil, natural gas, steel, cement, fertilisers, electricity, and refinery products.
- Crude oil production contracted 5.5%, natural gas 15.2%, refinery products 0.5%, fertilisers 11.9%, steel 13%, cement 24.7% and electricity 7.2% during the month.
- Coal was the only sector that grew 4%.
- The nationwide lockdown to combat the spread of Covid-19 has nearly stalled the economy.
- The core sector contraction is a sharp reversal from 5.5% growth in February 2020, which was an 11-month high.
- This is the sharpest contraction in the index since the new series began in April 2012.
- For the full year, infrastructure industries grew 0.6% against 4.4% last year.

What does the sector-wise trend reveal?

- The output has contracted by as much as 6.5% in a month.
- But the most economic activities came to a halt only in the last 7 days of the month.
- The drop in electricity and steel production sectors reflects the underlying stress in the economy, most crucially on the demand side.
- Demand for electricity declined by more than 9% in March 2020.
- The power sector has been exempt from the lockdown because of its essential nature.
- But the slump in demand from commercial customers is bound to have a significant sector-wide cascading impact.
- The existing cash flow problem at the already stressed power distribution companies is set to worsen the impact.
- Coal is the only sector to post a positive figure in March as output expanded 4%.

- But, even this presents a far from reassuring picture as growth slowed sharply from February's 11.2%.
- It is also less than half the 9.1% pace seen in March 2019.
- The demand for coal from user sectors like thermal generators and the key process industries of steel and cement is unlikely to revive any time soon.
- So the production of coal is very likely to shrink in April 2020.
- The construction sector is hit hard and is likely to face serious labour supply issues even after the economy gradually reopens.
- So, cement production may shrink in April by an even greater extent than the 25% drop seen in March 2020.
- The uncertainty in the oil market with global crude prices falling is also certain to undermine the industries in the energy sector.

What are the wider implications?

- The latest data on core sector output is signalling that considerable economic pain lies ahead in the wake of the COVID-19 pandemic.
- Undoubtedly, April 2020's overall core output appears headed for an even sharper contraction given the extension of lockdown.
- The eight major industries (core sector) has 40.27% weight in the Index of Industrial Production (IIP).
- Thus, core sector contraction is certain to drag industrial output as a whole into negative territory for March 2020.
- The Centre may be left with little option but to massively lift public spending on infrastructure once the lockdown eases to revive the economy.

Source: Economic Times, The Hindu

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