March core sector output slumps 6.5%

Part of: GS-III- Economic data (PT-MAINS-PERSONALITY TEST)

Output at India’s core sector contracted by 6.5% in March, Commerce Ministry data show, reflecting the early impact of the COVID-19 pandemic and the subsequent nationwide lockdown.

Important Points

1. The index of eight core sector industries, which form 40% of the weight of items included in the broader Index of Industrial Production (IIP), reflected a contraction in key parts of the economy in March, according to the data released.
2. Its cumulative growth during the last fiscal year was 0.6%.
3. Analysts warned that the core sector data signalled a much sharper contraction in the wider IIP, especially in April, as several core sector industries were actually exempted from the lockdown.
4. Leading the contraction at the core industries were a 13% decline in steel output.
5. A 7% fall in electricity generation.
6. The two sectors account for almost 40% of the index.
7. Cement production crashed 25%, while natural gas production slid 15%, the data showed.
8. Fertiliser production also fell 12%, while crude oil production slipped 5.5%.

Notes PT: Coal was the only core sector which saw some growth, with output up 4%. The largest component of the index — refinery production — also dipped by only 0.5%.

Gov. Efforts

“Several of the core sector industries were given exemptions under the lockdown. Electricity and steel are continuous processes and have not been stopped. But movement of goods faced major restrictions, so it could be that they reduced production as much as possible to deal with reduced demand,” said eminent economist Pronab Sen, a former chief statistician of India.

Future predictions

Going forward to April, he expected these trends to worsen slightly but within the same magnitude, noting that demand has fallen drastically in the power sector due to the full lockdown this month, and gas powered plants were likely to have been shut down. Coal may also dip for April, while cement production will fall sharply as all construction activity came to a halt.

“The wider IIP will see a much bigger hit, as non-essential industries were completely closed in April. The core sectors account for about 40% of the IIP, but I’d say about 45% of all industries will show zero production,” “I would project a 30-40% drop in the IIP in April.”

Fellow economist D.K. Srivastava, policy advisor with Ernst and Young, added that the March core sector data also reflected the cut in capital expenditure by both state and central governments in order to make up for falling tax revenues. “This trend is bound to continue
because both government and private demand for infrastructure investment has collapsed,” he said, adding that a revival in the core sector is unlikely until the government starts spending on infrastructure.

About ICI (Index of CORE INDUSTRY)

The ICI is a production volume index prepared and released by the Office of the Economic Adviser (OEA), Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry, GOI.

- It is released 12 days before the IIP is released.
- The objective of the Index of Eight Core Industries is to give an advance indication on the production of the industries which are of ‘core’ nature before the release of the IIP.
- The ICI measures the individual and collective performances of the production in these eight core sectors.
- The ICI is used by policymakers including the Ministry of Finance, other Ministries and Departments.
- It is also used by banks for financing infrastructure projects and the Reserve Bank of India (RBI).
- For the purpose of calculating the ICI, the components covered under the eight core sectors are:
  - **Coal** – Coal Production excluding Coking coal.
  - **Electricity** – Actual Electricity Generation of Thermal, Nuclear, Hydro, imports from Bhutan.
  - **Crude Oil** – Total Crude Oil Production.
  - **Cement** – Production of Large Plants and Mini Plants.
  - **Natural Gas** – Total Natural Gas Production.
  - **Steel** – Production of Alloy and Non-Alloy Steel only.
  - **Refinery Products** – Total Refinery Production (in terms of Crude Throughput).
  - **Fertilizer** – Urea, Ammonium Sulphate (A/S), Calcium Ammonium Nitrate (CAN), Ammonium Diammonium Phosphate (DAP), Complex Grade Fertilizer and Single superphosphate (SSP).
- The ICI is released every month. The index is calculated by using the Laspeyres formula of weighted mean of quantity relatives.

Weight of Core Industries in IIP

The weight of the different core sectors in the Index of Industrial Production are given in the table below.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Coal</td>
<td>10.33</td>
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<tr>
<td>Electricity</td>
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<tr>
<td>Crude oil</td>
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<td>Cement</td>
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<td>Natural gas</td>
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<td>Steel</td>
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<td>Refinery products</td>
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<td>Fertilisers</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
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</tbody>
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