

Eight core industry growth

Eight core industry growth eased to 4% in Jun'24 from 6.4% in May'24. This was driven by moderation in output of petroleum and refinery products, crude oil, natural gas, steel and electricity. Output of only coal, fertilizers, and cement inched up. Drag in refinery output is reflected in drop in petroleum exports in Jun'24. Steel output noted slowdown on account of softer government spending and muted auto demand. Early onset of monsoon also helped cool temperatures and reduced electricity demand. On the positive side, start of Kharif sowing season has helped fertilizer output and government's push to increase coal production has also shown positive results in that sector. Increase in cement sector output indicates revival in construction activity. In Q1FY25, core sector output eased to 5.7% from 6% in Q1FY24. Given the latest trends in core sector growth, we expect 4-5% IIP growth in Jun'24.

Core sector growth slows: Core sector growth eased to 4% in Jun'24 from 6.4% in May'24. On FYTD basis, in Q1FY25, core sector output moderated, as it rose by 5.7%, compared with 6% growth registered last year (Q1FY24).

Performance of heavy-weights: Out of the 8 sectors for which the data is made available, 3 sectors alone contribute to ~66% of the total weight. These are: petroleum and refinery products, steel and electricity. The largest weight is assigned to refinery products, output of which declined by (-) 1.5% in Jun'24 following 0.5% increase in May'24. This trend mimics the trend in petroleum exports, which fell by (-) 18.3% in Jun'24 versus 15.7% rise in May'24, as majority of the refining is done for export purposes. Output of other major industries also eased in Jun'24. Electricity output moderated to 7.7% from 10.2% in May'24, while that of steel registered 2.7% growth versus 6.8% in May'24. Onset of monsoon in Jun'24, cooled climatic conditions, thus reducing the peak demand for electricity. Dip in steel output can be attributed to slow start to government spending (due to general elections) and muted demand in the auto sector (FADA data shows, total vehicle sales slowing in Jun'24 versus May'24).

On FYTD basis, output of petroleum and refinery products (0.9% versus 1.9%) and steel (6.1% versus 16.5%) has noted a moderation in Q1FY25 compared with Q1FY24. Electricity output on the other hand registered an increase (10.5% versus 1.3%).

Other sectors: The other major sectors include: coal, crude oil, natural gas, fertilizers and cement. Amongst these, the industries which noted an increase in Jun'24 were coal (14.8% versus 10.2% in May'24), fertilizers (2.4% versus -1.7%), and cement (1.9% versus 0.6%). Given government's push to become more self-sufficient in coal production, the sector continues to benefit from government measures (introducing new technologies and expanding infrastructure). Fertilizer sector growth was supported by the start of Kharif sowing season. Apart from the heavy weights, other sectors which noted dip in output were crude oil (-2.6% versus -1.1%) and natural gas (3.3% versus 7.5%). This is in line with softening of output noted in petroleum and refinery products.

On FYTD basis, in Q1FY25, output of coal (10.8% versus 8.7% in Q1FY24), natural gas (6.4% versus 0.1%), registered an increase, while that of crude oil fell less sharply (-0.7% versus -2%). On the other hand, apart from heavy weights, other sectors which witnessed moderation in production in Q1FY25 were fertilizers (0% versus 11.2%) and cement (0.3% versus 12.7%).

Way forward: Given the moderation noted in the eight core industries in Jun'24, we expect IIP growth at 4-5% in Jun'24, following 5.9% in May'24.

Table 1: Eight core industries index growth (%YoY)

Sectoral (%)	Weight	Apr-24	May-24	Jun-24	Apr-Jun'23	Apr-Jun'24
Core Index	100.0	6.7	6.4	4.0	6.0	5.7
Coal	10.3	7.5	10.2	14.8	8.7	10.8
Crude Oil	9.0	1.6	(1.1)	(2.6)	(2.0)	(0.7)
Natural Gas	6.9	8.6	7.5	3.3	0.1	6.4
Petroleum refinery products	28.0	3.9	0.5	(1.5)	1.9	0.9
Fertilizers	2.6	(0.8)	(1.7)	2.4	11.2	0.0
Steel	17.9	8.8	6.8	2.7	16.5	6.1
Cement	5.4	(0.5)	(0.6)	1.9	12.7	0.3
Electricity	19.9	10.2	13.7	7.7	1.3	10.5

Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com