

Eight core industry growth

Eight core industry growth rose to 6.1% in Jul'24 from 5.1% in Jun'24. This was driven by rebound in output of refinery, steel, fertilizer and cement. Revival in government spending, particularly capex has supported steel and cement sector growth. Fertilizer output has been helped by continuous improvement in Kharif sowing. Refinery production is also up, as prospects of global demand have improved (US and China). On the other hand, electricity output moderated, as progress of monsoon cooled climatic conditions and reduced demand. Other sectors which noted a decline in Jul'24 were crude oil and natural gas. Coal output also eased. On FYTD basis (Apr-Jul), core sector output registered marginal slowdown (6.1% versus 6.6% last year), largely driven by moderation in output of crude oil, fertilizer, steel and cement. Given the latest trend in core sector growth, we expect ~6% IIP growth in Jul'24.

Core sector growth slows: Core sector growth accelerated to 6.1% in Jul'24 from upwardly revised 5.1% in Jun'24 (3.9% reported earlier). On FYTD basis (Apr-Jul) core sector output has eased marginally, as it rose by 6.1%, compared with 6.6% growth registered last year during the same period.

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 rebounded as it rose by 6.6% in Jul'24, following (-) 1.5% decline in Jun'24. This could be in anticipation of recovery in export demand, as US economy is expected to avoid recession and China may also see reversal in downturn. Output of steel industry also inched up in Jul'24 (7.2% versus 6.7%). This could be attributed to revival in government spending and pick up in auto sales. FADA data noted double digit increase in 2W and PV sales in Jul'24. In contrast, electricity output moderated further, to 7% from 8.6% in Jun'24. Normal/heavy rains in Jul'24 cooled climatic conditions, thus reducing the peak demand for electricity.

Other sectors: The other major sectors include: coal, crude oil, natural gas, fertilizers and cement. Amongst these, the industries which noted an increase in Jul'24 were fertilizers (5.3% versus 2.4%), and cement (5.5% versus 1.9%). Fertilizer sector growth continued to gain momentum from improvement seen in Kharif sowing. Rise in cement sector output is also a reflection of pickup in pace of government's capex spending. On the other hand, the sectors which noted dip in output were crude oil (-2.9% versus -2.6%) and natural gas (-1.3% versus 3.3%). Coal sector output also recorded some slowdown in Jul'24 (6.8% versus 14.8%). This is in line with reduced electricity demand.

Way forward: Given the revival in the eight core industries in Jul'24, we expect IIP growth at ~6% in Jul'24, following 4.2% in Jun'24. In the coming months, output is expected to get support from improved prospects of global demand and onset of festive season in the country.

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

Sectoral (%)	Weight	May-24	Jun-24	Jul-24	Apr-Jul'23	Apr-Jul'24
Core Index	100.0	6.4	5.1	6.1	6.6	6.1
Coal	10.3	10.2	14.8	6.8	10.1	9.9
Crude Oil	9.0	(1.1)	(2.6)	(2.9)	(1.0)	(1.3)
Natural Gas	6.9	7.5	3.3	(1.3)	2.3	4.3
Petroleum refinery products	28.0	0.5	(1.5)	6.6	2.3	2.3
Fertilizers	2.6	(1.7)	2.4	5.3	9.1	1.3
Steel	17.9	6.8	6.7	7.2	16.1	7.6
Cement	5.4	(0.6)	1.9	5.5	11.3	1.6
Electricity	19.9	13.7	8.6	7.0	2.9	9.9

Source: PIB, Bank of Baroda Research

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