

# Core sector: October 2020

November 27, 2020 | Economics

**Contact:**  
**Madan Sabnavis**  
 Chief Economist  
 madan.sabnavis@careratings.com  
 +91-22- 6837 4433

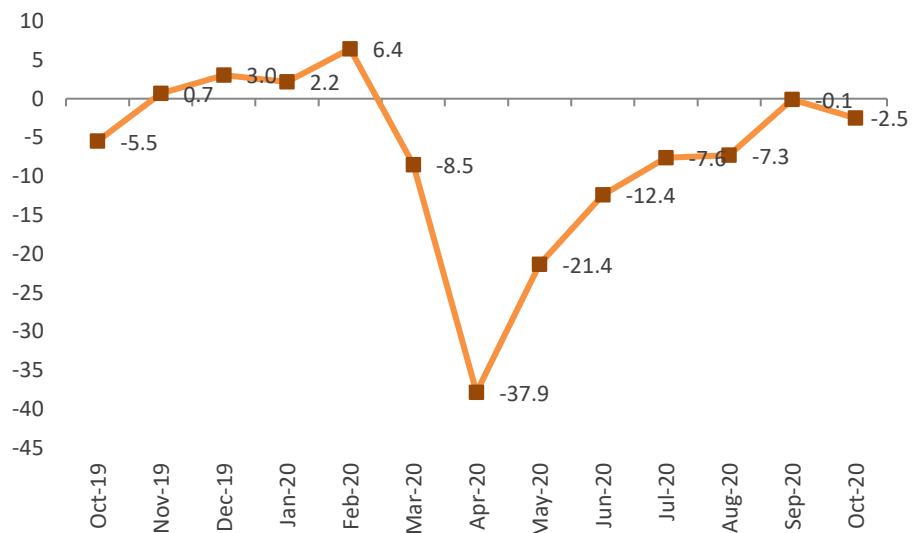
**Author**  
**Sushant Hede**  
 Associate Economist  
 sushant.hede@careratings.com  
 +91-22-6837 43406

**Mradul Mishra (Media Contact)**  
 mradul.mishra@careratings.com  
 +91-22-6754 3573

The 8- core sector output, which had seen a sharp improvement in recent months, has contracted by 2.5% in October 2020, registering 8 consecutive months of decline in output. The core sector output has contracted by 5.5% in the corresponding month last year. Despite the sharp improvement and double-digit growth seen in case of coal production and electricity owing to resumption of business activities, the decline has been on account of decline in output seen in case of refinery products (having the highest weight in the core index) and decline in steel output during the month. The decline in output in core sector in October to some extent adds uncertainty to sustainability of the recovery process in the economy. Low base effect, to some extent has limited the downside in the overall growth. The growth in the core sector index has been revised for September 2020 to (-)0.1% and (-)7.3% for August 2020.

During April- October 2020, the core sector output has contracted by 13% as against a positive growth of 0.3% during the same period of FY20, which can be ascribed to the coronavirus pandemic induced nation-wide lockdown that brought production activities to a near standstill. All sectors barring fertilizers registered de-growth in industrial output during the first half of FY21. 50% of the sectors in the index have recorded double-digit negative growth during these seven months.

**Chart 1: Monthly movement in core sector index (YoY%)**



Source: Ministry of Commerce & Industry

**Disclaimer:** This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Table 1: Growth in 8 core industries (y-o-y%)

	Oct-19	Sep-20	Oct-20	Apr-Oct'19	Apr-Oct'20
Coal	-17.5	21.2	11.6	-5.8	-3.6
Crude oil	-5.1	-6.0	-6.2	-5.8	-6.1
Natural gas	-5.7	-10.6	-8.6	-2.6	-12.5
Refinery products	0.3	-9.5	-17.0	-1.7	-16.4
Fertilizers	11.8	-0.3	6.3	2.6	4.1
Steel	-0.5	2.8	-2.7	6.7	-22.8
Cement	-7.7	-3.5	2.8	-0.6	-21.3
Electricity	-12.2	4.8	10.5	1.5	-5.6
Core sector	-5.5	-0.1	-2.5	0.3	-13.0

Source: Ministry of Commerce and Industry

**Key highlights:**

- Coal production grew by 11.6% in October 2020, its second consecutive month of double digit growth compared with a sharp decline of (-)17.5% registered in the corresponding month last year. The notable growth in October is an indication of revival in demand for coal amidst resumption of industrial activities and higher thermal power demand. A negative base also supported the growth in coal production.
- Crude oil production contracted by 6.2% in October 2020 compared with a negative growth of (-)6% in September 2020 and (-) 6.3% in the corresponding month last year. This is the 35<sup>th</sup> consecutive month in which crude oil production has recorded a contraction. This fall in production can be ascribed to technical mishaps and closure of wells due to COVID-19.
- Natural gas production declined by (-)8.6% in October 2020 compared with (-)10.6% in the previous month and (-)5.7% in October 2019. This is the 17<sup>th</sup> consecutive month of decline in natural gas production. This fall in production can be ascribed to restricted/no gas offtake by consumers and shutdown at consumers' end. E&P players are also not aggressively producing gas as the gas produced from local fields is at an all-time low.
- Refinery production, having high weightage in eight core, contracted sharply by 17% in October and is the 8<sup>th</sup> consecutive month of decline in production. The capacity utilisation of refiners in October 2020 was 88% compared with 105% during October 2019.
- Output of steel sector fell to 3-month low of (-)2.7% as against a positive growth of 2.8% in the last month. On the other hand cement production recorded its first positive growth of 2.8% in October 2020 after declining for 7 consecutive months. This improvement can be ascribed to resumption of institutional projects and housing construction activities.
- Output of fertilizers improved sharply by 6.3% in October 2020 as against a flattish fall of (-)0.3% in September 2020. This improvement is on account of robust restocking of fertilisers ahead of the rabi season.
- Electricity production rose further to 8-month high of 10.5% in October 2020 compared with a low base of (-)12.1% in October 2019. This improvement reflects higher industrial and business activity and a similar pattern is witnessed in coal as well.

### CARE Ratings' View

Despite a low base and improvement in business activities amidst unlocking of the economy, the fall in core sector output in October does show some volatility on the production side. Further unlocking of the economy could push this growth into positive territory in the next month. However, certain localised curfews imposed in a few states could weigh on production activity to some extent. ***IIP growth for this month may be expected to be between -1 to 0%.***

#### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457  
E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

Follow us on  /company/CARE Ratings  
 /company/CARE Ratings