

CORE CONSTRAINTS: THE HINDU EDITORIAL ON ECONOMIC RECOVERY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The [eight core sectors of the Indian economy](#) not only account for over four-tenth of its measured industrial output but also serve as an indicator of the momentum in investment activity through demand for items such as cement and steel. Electricity generation is a good proxy for overall demand in the economy while fertilizer production numbers help gauge agricultural activity. So, it is heartening that the official index to measure these sectors' output has registered two successive months of double-digit growth. Factoring in the 9.3% uptick for these sectors in April — it was 19.3% and 12.7% in May and June — the first quarter of 2022-23 has seen output growth of 13.7%, despite the high base of 26% growth in Q1 last year. Total industrial output grew 6.7% in April and 19.6% in May. Based on June's core sectors' data, economists reckon industrial production to rise anywhere between 9% and 13% in June. These high numbers are a tad misleading because the first quarter of 2020-21 was marred by national lockdowns, and though output did not suffer as much during the second COVID-wave in Q1 of 2021-22, economic conditions were not ideal either. In any case, these base effects will start fading from July. For better context to assess where the economic recovery stands, industrial output in May was 1.7% over pre-pandemic levels and core sectors' output in June is 8% over 2019.

What should cause concern is that the recovery is still fragmented and dissonant. Moreover, the rebound momentum seems to be flagging as core output declined 4.08% in June over May 2022. Just four infra sectors drove most of the growth in June, led by coal output jumping 31.1% and cement rising 19.4% from 2021 levels. Crude oil output tanked again in June after a positive blip in May, while natural gas grew a mere 1.2% and steel 3.3%. Refinery products grew 15.1%, driven by higher global oil prices making exports attractive, and electricity rose 15.5%, signalling domestic demand. The monsoon would dampen coal production, pressuring generators to import more coal if electricity demand sustains. The only two sectors to record a month-on-month growth in June — cement and fertilizers — also face headwinds. Cement production is expected to taper off on the same meteorological account as coal, even as an uneven monsoon could hurt fertilizer demand. The good news is that the Centre's capital spending, critical to sustain the recovery, bounced remarkably in June to 68,000 crore from an underwhelming 28,000 crore in May — ensuring that a quarter of the year's target has been met in Q1. With private capital still shy, global turmoil and local inflation playing spoilsport with the recovery, it is vital that the Centre keep the pedal pressed on this front and cajoles more States into availing the 1 lakh crore capex loan window soon.

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