



Contraction in Core Sector Industries

Why in News

The **output of eight core industries** contracted for the **fourth consecutive month** - shrinking by **15%** in June 2020.

- The eight core sector industries are **coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity**.
- These eight industries account for **40.27% in the Index of Industrial Production (IIP)**.

Key Points

- **Contraction in Total Output:**
 - During **April-June 2020**, the sector's output **dipped by 24.6%** as compared to a positive growth of 3.4% in the same period previous year.
 - However, 15% contraction in June 2020 **implies some economic recovery** as in May 2020, the industries' output contracted by 22%.
 - Economists expect the **negative trend to continue for at least two more months**.
- **Industry-wise Performance:**
 - The **fertiliser industry is the only one which saw actual growth** in June, with output rising 4.2% in comparison to June 2019.
 - This, however, is lower than the May 2020 growth of 7.5%, but reflects the positive outlook in the agriculture sector where a normal monsoon is leading to expectations of a good kharif crop.
 - Rest seven sectors - coal (-15.5%), crude oil (-6.0), natural gas (-12%), refinery products (-9%), steel (-33.8%), cement (-6.9%), and electricity (-11%) - recorded negative growth in June.
 - The **steel sector continues to remain the worst performer**, with a 33% drop in production in comparison to the previous year.

Index of Industrial Production

- The Index of Industrial Production (IIP) is an index that **shows the growth rates in different industry groups** of the economy in a fixed period of time.
- It is compiled and published monthly by the **National Statistical Office (NSO), Ministry of Statistics and Programme Implementation**.
- IIP is a **composite indicator** that measures the growth rate of industry groups classified under:
 - **Broad sectors**, namely, Mining, Manufacturing, and Electricity.
 - **Use-based sectors**, namely Basic Goods, Capital Goods, and Intermediate Goods.
- The **eight core sector industries represent about 40% of the weight** of items that are included in the IIP.

- The eight core industries in **decreasing order** of their weightage: Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers.
- **Base Year** for IIP calculation is **2011-2012**.
- **Significance of IIP :**
 - IIP is the **measure on the physical volume of production**.
 - It is **used by government agencies** including the Ministry of Finance, the Reserve Bank of India, etc, for policy-making purposes.
 - IIP remains extremely relevant for the calculation of the quarterly and advance **Gross Domestic Product (GDP) estimates**.

Way Forward

- The positive impact from unlock is not as strong as the negative impact of the lockdown. The government needs to contain the spread of the coronavirus pandemic on a priority to make economic recovery sustainable.

Source:TH

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