Power outages take down both PMI and core sector

Thanks to coal output contracting at its sharpest pace in the last 16 months and, as a result, electricity contracting for the first time in 7 years, the index of 8 core industries fell 2.5% in February—the last time it contracted was in July 2005, and that was by a much lower 0.2%. Since the core sector comprises 38% of IIP, February IIP is likely to be weaker after January's 2.4% rise yoy—the fact that February 2012 growth was higher than that of January 2012, in any case, made it likely that February 2013 was going to be weaker than January 2013. Other data out Monday—automobile sales for market leaders and the HSBC manufacturing PMI for March—also reflect the same weakness. While FY13 M&HCV sales for market leader Tata Motors were down 31% as compared to FY12, March PMI was down to its lowest level in the last 16 months—new orders and new export orders continue to fall. As a result, lead times for the manufacturing sector continue to rise and delayed payments are also on the increase.

This puts the ball back with the Cabinet Committee on Investments as a lot depends on its ability to clear coal blocks that are stuck due to environment clearances. A lot also depends on how soon the government comes out with its policy to allow private sector players into coal mining through the PPP route—this was announced in the budget—as well as a final clearance to the coal price pooling policy. The SEB financial restructuring programme appears to have run in to some last minute roadblocks, but once that takes off, there will be more money in the system and power production should improve. A CERC judgment on Tata Power's UMPP, expected soon, will also help depending on whether it approves a tariff hike due to the hike in prices of Indonesian coal. Failing which, core sector growth will continue to look subdued.