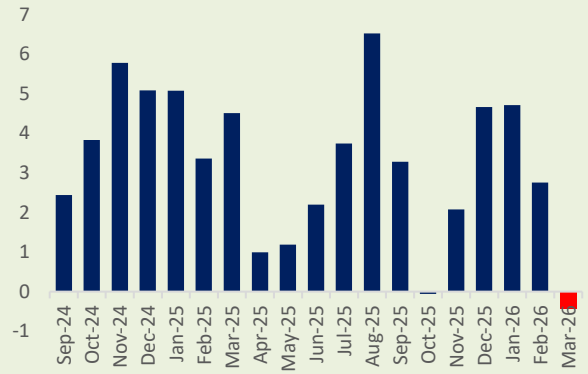
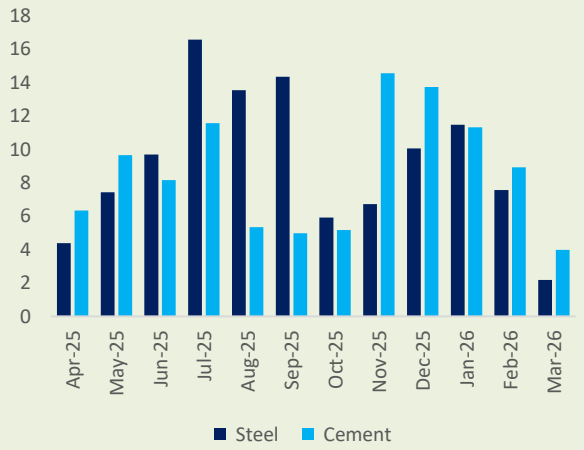
Core sector contracts amid emerging supply-side stress

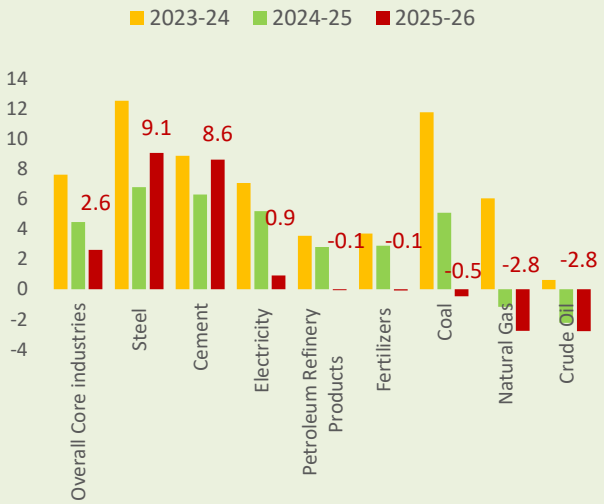
Core sector growth lowest in 19 months (%)



Construction-linked sectors remained positive throughout 2025-26



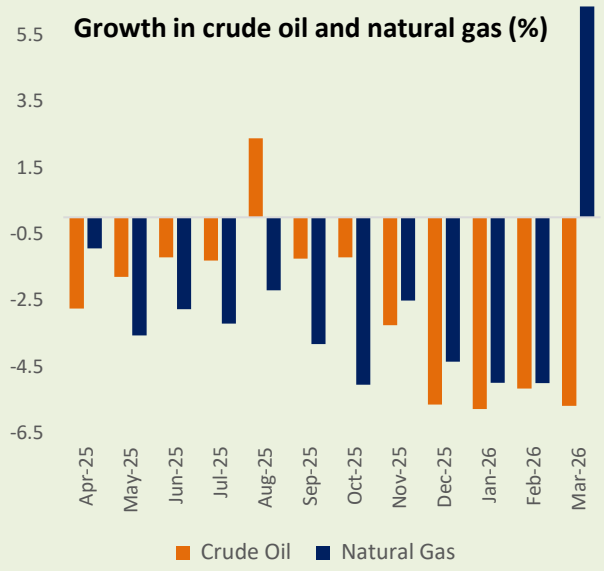
Annual growth in 8 core sectors (%)

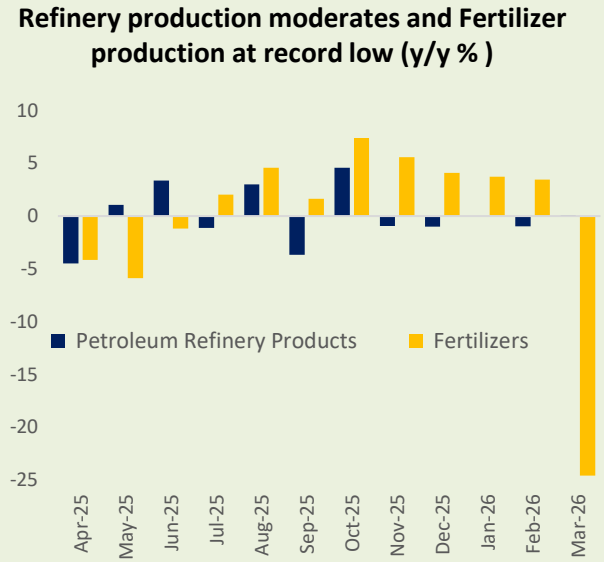


Source: MOSPI and EAI

- The Index of Eight Core Industries declined by **0.4% y/y in March 2026**, marking a **19-month low (since August 2024)** and the **first contraction in five months**, indicating a clear loss of momentum in industrial activity.
- **Data reveals broad-based weakness led by energy and inputs.** Four of the eight sectors registered contraction—coal (-4.0%), crude oil (-5.7%), fertilisers (-24.6%) and electricity (-0.5%)—highlighting stress concentrated in energy-linked and upstream sectors, which have high spillovers to overall industrial production.
- While energy and primary sectors weakened, **construction-linked sectors remained supportive**, with **steel (+2.2%) and cement (+4.0%)** continuing to expand, reflecting ongoing infrastructure push and capex momentum cushioning the broader slowdown.
- The sharp **24.6% decline in fertiliser production is record low** and can be attributed to disruptions emanating from the West Asia conflict, which has:
  - ❑ **Tightened global supply of key fertiliser inputs** such as natural gas (a primary feedstock for urea) and intermediates like ammonia and phosphates
  - ❑ **Raised input and transportation costs** due to elevated energy prices and shipping route uncertainties
- **Underlying annual trend shows widening stress:** In **2025-26**, **five sectors contracted**—coal (-0.5%), crude oil (-2.8%), natural gas (-2.8%), refinery products (-0.1%) and fertilisers (-0.1%) compared to only **two sectors** i.e. crude oil (-2.2%) and natural gas (-1.2%) **in FY25**, pointing to a broadening slowdown in core industrial sectors, particularly in hydrocarbons.

Contraction in five sectors



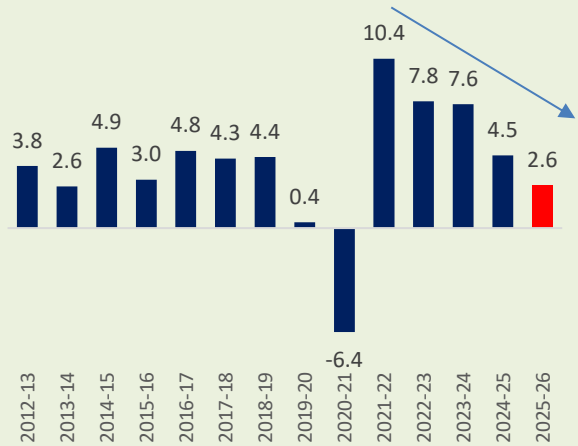


Source: MOSPI and EAI

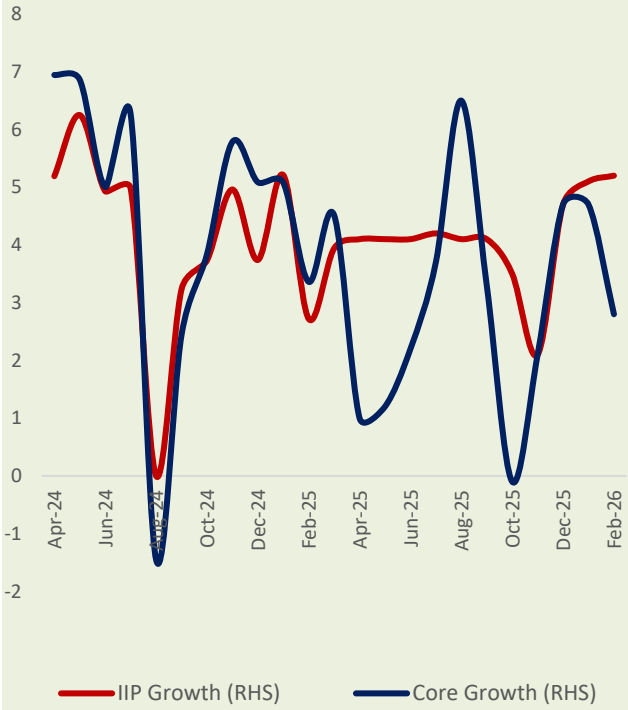
- **Coal growth stagnates amid demand and weather disruptions**: India's coal production growth nearly stalled in 2025-26, reaching 1,042.9 MT (0.23% growth), reflecting subdued demand conditions and operational disruptions due to heavy rainfall, which constrained output expansion.
- **Hydrocarbon output continues structural decline:** Production of crude oil and natural gas remained on a declining trajectory, primarily due to maturing fields, limited new discoveries, and delays in project execution, underscoring persistent structural constraints in domestic energy supply.
- **Refinery output faces intermittent pressures:** Petroleum refinery production recorded sporadic contractions during 2025, driven by maintenance shutdowns, lower crude throughput and logistical constraints.
- **Fertiliser sector hit by external supply shocks:** Domestic production met ~73% of total fertiliser demand in 2025. The sharp contraction in fertiliser output in March 2025 reflects supply disruptions linked to the Gulf region, which accounts for ~50% of India's LNG imports—a critical input for urea production. Additionally, key intermediates such as ammonia, sulphur, and sulphuric acid (essential for P&K fertilisers) also faced supply constraints
- **Electricity demand softens amid weather effects:** A milder summer in 2025 and heavy monsoon rainfall dampened electricity consumption growth, which slowed to its lowest level in six years in FY26—the weakest since FY21, when pandemic-related restrictions had led to a rare contraction in power demand. This points to both cyclical demand softness and weather-driven distortions in electricity output.

Spillover to IIP

Lowest annual growth (%) in core sectors since the pandemic



Core sector and IIP growth (%)



Source: MOSPI and EAI

- **Spillover to IIP:** The cumulative core sector growth stood at 2.6% in FY26, the slowest in five years (since the pandemic). Given that core industries account for 40.27% of the IIP basket, this deceleration is likely to drag overall IIP growth assuming all else remain unchanged.
- **Geopolitical risks could amplify the slowdown:** With West Asia tensions expected to tighten crude and gas supply chains, the weakness in energy-linked core sectors could intensify further. This would:
  - ❑ Raise input costs for manufacturing, potentially moderating its current resilience, and
  - ❑ Feed into higher inflation, constraining demand-side recovery.
- With increase in volatility and slowdown in the core sector—particularly in energy, FY26 reflects a clear shift toward non-core-led industrial growth. With core sectors (especially energy) weakening, non-core growth may face cost pressures, raising risks of future slowdown in manufacturing momentum.