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EDITORIAL ANALYSIS

Core Concerns: On the Indian Economy and the Road Ahead

THE HINDU

24 August 2026 · ECONOMY · GS3

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Core Concerns: On the Indian Economy and the Road Ahead

The Hindu 24 August 2026 GS3

INTERVIEW ANGLE

"A sector grows 7.6 per cent because it contracted 12.3 per cent a year earlier. Is that a recovery, and what would you need to see before calling it one?"

Source: Original editorial ↗ The Hindu

Every fact web-verified against primary sources

THE LIFT LINE

Coal output grew at an eleven-month high in July. It did so against a base that had contracted by 12.3 per cent. Both sentences describe the same data, and only one of them is a recovery.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Base effects are among the most examinable ideas in economic data interpretation and among the most commonly missed. This editorial is a worked example with named sectors and exact figures, which makes it usable directly in an answer.

GS Paper 3: Indian economy, growth and development, indicators of industrial performance, and inflation and demand measurement.

BACKGROUND AND CONTEXT

The **Index of Core Industries (ICI)** tracks eight sectors: **coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity**. Together they carry a weight of about **40 per cent in the Index of Industrial Production**, which is why the ICI is treated as a leading indicator of industrial momentum.

The **Purchasing Managers' Index (PMI)** is a survey-based diffusion index. A reading above 50 indicates expansion over the previous month, below 50 contraction. It is a sentiment measure, published earlier than official data, and is used to corroborate or question official series.

THE ANALYSIS

The headline and what sits under it

INDICATOR	READING
ICI growth, July	**5.4 per cent**, down from **6 per cent** in June
Rank	Still the **second-highest** in the last seven months
Manufacturing PMI, July	**Lowest since August 2021**, on weak domestic demand
Coal	**7.6 per cent**, an eleven-month high — against a **12.3 per cent contraction** a year earlier
Refinery products	**2.7 per cent**, snapping a three-month contraction — again against a prior-year contraction
Iron ore	**29.5 per cent**

Why the base effect matters

A growth rate is a comparison with a point twelve months earlier. When that earlier point was unusually low, the current rate is flattered without any improvement in the underlying level of activity. Coal at 7.6 per cent against a base that fell 12.3 per cent means output has **not recovered to where it was two years ago** — it has partially retraced a decline.

This is why the editorial treats a reading that looks respectable on its face as a source of concern. The number is not weak. Its composition is.

The corroboration is the strongest part of the argument

If the ICI slowdown stood alone, it could be noise. It does not. The manufacturing PMI fell in the same month to its lowest level since August 2021, and the stated reason was **weak domestic demand**. Two independently constructed indicators — one official and output-based, one survey-based and forward-looking — pointing the same way is much harder to dismiss than either alone.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

ICI growth in July: 5.4 per cent, down from 6 per cent in June; still the second-highest in seven months.

Manufacturing PMI in July: lowest since August 2021, attributed to weak domestic demand.

Coal: 7.6 per cent, an eleven-month high, against a 12.3 per cent contraction in July of the previous year.

Refinery products: 2.7 per cent, ending a three-month contraction, also against a prior-year contraction.

Iron ore: 29.5 per cent.

The Index of Core Industries covers eight sectors: coal, crude oil, natural gas, refinery products, fertilisers, steel, cement, electricity.

The eight core industries carry a weight of about 40 per cent in the Index of Industrial Production.

The ICI is released by the Office of the Economic Adviser, DPIIT, Ministry of Commerce and Industry.

The IIP is released by the National Statistical Office under MoSPI. Do not confuse the two publishers.

PMI above 50 = expansion; below 50 = contraction. It measures direction against the previous month, not level.

a **base effect** *is not a data error and not manipulation. It is an arithmetic property of year-on-year comparison. The correct response is to look at the* **level** *of output, or at a two-year compound rate, rather than to dismiss the series. Candidates often use "base effect" as a way of waving a number away; the analytical move is to say what the level shows instead.*

THE DEBATE

The optimistic reading: 5.4 per cent is still the second-highest print in seven months, iron ore grew nearly 30 per cent, and refinery products returned to growth. Momentum has slowed, not reversed.

The cautious reading: growth built on prior-year contractions is retracement rather than expansion, and the PMI signals that the demand conditions producing it are weakening rather than firming.

What would settle it: two-year compound growth rates by sector, capacity utilisation from the RBI's OBICUS survey, and private capital expenditure announcements. Any one indicator can mislead; the divergence between them is the information.

HOW TO THINK ABOUT THIS

The transferable habit is simple and rarely applied: **whenever you are given a growth rate, ask what it grew from.** A high rate off a collapsed base and a modest rate off a strong base can describe identical levels of activity, and only the level tells you about the economy.

The same discipline applies to export growth after a disrupted year, tax collections after a filing-deadline shift, and tourism numbers after a travel restriction. In each case the year-on-year figure is technically correct and analytically misleading.

WAY FORWARD

1. **Publish two-year compound growth alongside year-on-year rates** for the core sectors, which would make base effects visible without requiring the reader to reconstruct them.
2. **Read the ICI with the PMI**, since a survey-based leading indicator and an output-based lagging one disagreeing is itself information.
3. **Address demand rather than supply if the PMI reading holds.** Weak domestic demand is not fixed by capacity support.
4. **Watch capacity utilisation and private capex** as the confirming indicators, since a genuine industrial recovery shows up there before it shows up in a monthly index.

PYQ LINKAGE AND PRACTICE

Connects to standing themes on **industrial growth measurement**, **the reliability of Indian statistics**, and **demand versus supply constraints**. Practice question: *"Year-on-year growth rates can be technically accurate and analytically misleading. Discuss with reference to recent Indian industrial data."*

Source: Core Concerns: On the Indian Economy and the Road Ahead — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

The Hindu argues that the slowdown in India's core industrial sectors in July, with the index of core industries growing 5.4 per cent against 6 per cent in June, was not surprising given that other indicators pointed the same way, and that the more concerning feature is that a large part of even this slower growth rests on a statistical low base effect rather than on genuine expansion in demand.

✓ SUPPORTING

- The manufacturing Purchasing Managers Index eased in July to its lowest level since August 2021, attributed to weak domestic demand conditions, which corroborates the core-sector reading rather than contradicting it.
- The base effect is visible sector by sector: coal grew at an eleven-month high of 7.6 per cent, but against a contraction of 12.3 per cent in July of the previous year, and refinery products snapped a three-month contraction to grow 2.7 per cent, again against a prior-year contraction.
- July's figure was still the second-highest core-sector growth rate in seven months, which is why the reading requires care: the number is not weak on its face, and the weakness only becomes visible when the base is examined.

✍ MAINS ANSWER FRAMEWORK

QUESTION

Headline growth rates can conceal underlying weakness when they rest on a low statistical base. Examine this with reference to India's recent core sector and manufacturing data, and discuss what indicators a policymaker should triangulate. (250 words)

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