

Macroeconomics | **FIRST CUT**

Exports spiral southward

November 2022

India's merchandise exports saw broad-based deceleration in October as global demand continued to slow. At \$29.8 billion, exports were down 16.7% (on-year), and touched a 20-month low.

Both oil and non-oil exports fell, with the latter seeing a bigger decline. High inflation and rising interest rates are landing a double whammy on consumption and investment demand, especially in the advanced economies.

To be sure, a part of the sequential decline in the dollar value of exports can also be attributed to softer international commodity (both energy and non-energy) prices in October.

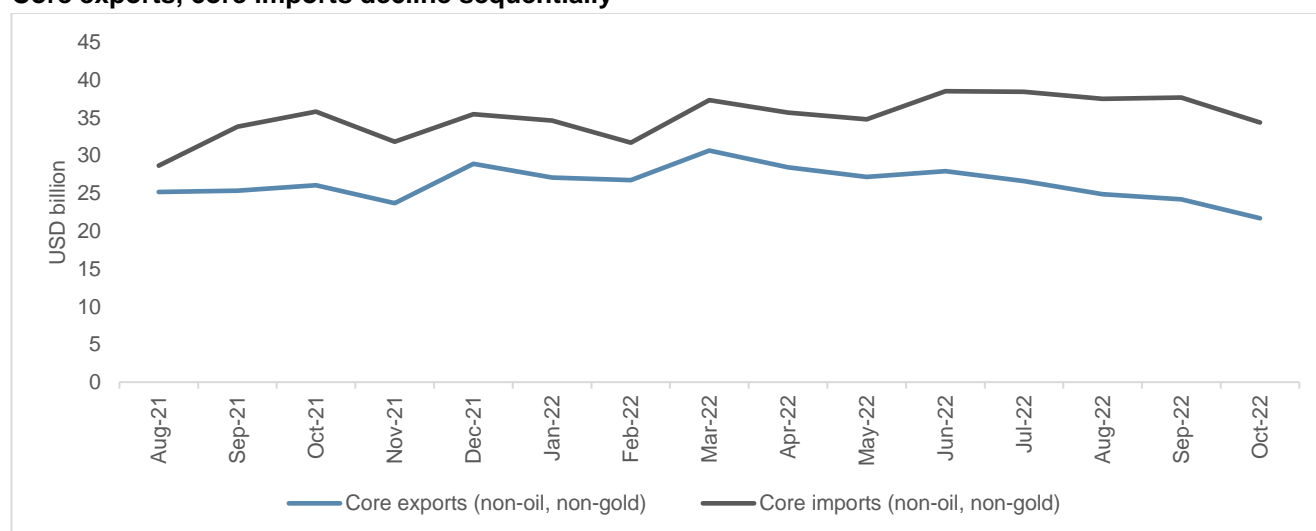
Merchandise imports, however, continued to grow on-year, albeit at a slower pace. At \$56.7 billion, imports were up 5.7% on-year in October (vs. 8.7% in September), primarily because of higher oil imports (reflecting an uptick in crude oil prices in October after OPEC+ announcement on reducing oil supplies).

While core imports saw on-year growth, they declined sharply sequentially, in part due to fall in global commodity prices. It may still be early to say if pressure is building on domestic demand.

Declining exports and rising imports led to a wider trade deficit of \$26.9 billion in October 2022, compared with \$17.9 billion in October 2021. Sequentially, too, trade deficit widened from \$25.7 billion in September 2022.

On a cumulative basis from April to October 2022, merchandise exports were up 11.8% on-year to \$261.6 billion, while imports rose 33.2% to \$437.0 billion. As a result, cumulative trade deficit was \$175.4 billion, up from \$94.1 billion in the year-ago period.

Core exports, core imports decline sequentially



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- After showing signs of a slowdown in the past three months, exports entered the contractionary zone in October for the first time in 20 months, declining 16.7% on-year owing to the intensifying global slowdown. The decline was broad-based, led by core exports, which contracted 16.9%, with all of India's top export items such as engineering goods, gems and jewellery, and pharmaceutical products contracting
 - While imports grew positively by 5.7% on-year in October, they continue to see sequential moderation, especially core (non-oil, non-gold) imports, which grew a mere 4.6% on-year in October, down from 20.6% in the previous month. Sequentially, in seasonally adjusted terms, core imports have declined for the fourth straight month, with October witnessing a 3.2% on-month fall, up from a 0.9% fall in the previous month
 - A sharp decline in exports meant merchandise trade deficit rose to \$26.9 billion in October 2022 from \$25.7 billion in September 2022 and \$17.9 billion in October 2021
 - Services trade surplus, however, continues to improve on the back of healthy growth in services exports and provides some cushion to the overall trade balance. In September – the latest month for which final data is available – services trade surplus rose to \$11.9 billion, from \$10.3 in August and \$8.7 billion in September last year
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Exports decline across categories; electronic goods still holding up

- India's petroleum exports plunged to \$4.8 billion in October from \$7.4 billion in September (reflecting 11.4% on-year decline) despite Brent crude prices rising to an average \$93.1/barrel in October from \$90.2/barrel in September. This suggests weaker demand in importing countries and lower outbound shipments from India, partly due to the rise in windfall tax on some petroleum exports, and partly due to the rise in domestic oil demand in October amid the festive season
- Reflecting overall softer international commodity prices at a time when global demand is weakening, core exports too plummeted in October. Exports of engineering goods – India's biggest export item – declined 21.3% on-year, and other large categories such as gems and jewellery declined 21.6%, followed by organic and inorganic chemicals (16.4% decline) and drugs and pharmaceuticals (9.2% decline). At the same time, the pace of decline in textile exports accelerated in October. Readymade garment exports fell 21.2% on-year, and raw material (cotton yarn, fabrics, made-ups, handloom products, etc) exports witnessed a massive 46.2% fall. Most of these sectors are labour-intensive, so will have implications on private consumption
- The decline in gems and jewellery exports, which were rising earlier — including because of support from the India-UAE CEPA that came into force in May — suggests demand slowdown in other large markets such as the US and the European Union has started having a significant impact on their exports
- Exports of electronic goods, however, continued to grow. It was up 37.6% on-year to \$1.9 billion in October. But sequentially, exports slowed down a bit, underscoring the impact of the global slowdown on India's overall exports

Lower gold and core imports keep overall import bill in check

- Imports continued to moderate in October and grew a mere 5.7% on-year to \$56.7 billion, down from 8.7% in September and high-double-digits in the earlier months. This was because gold and core (non-

oil, non-gold) imports fell even as oil imports were steady. At \$15.8 billion, oil imports in October remained the same as in September, which translates into 29.1% on-year growth. This partly reflects the rise in crude oil prices in October

- Gold imports fell 27.5% on-year to \$3.7 billion in October as gold prices continued to decline, especially with the US dollar strengthening. In October, global gold prices averaged \$1,664.45/troy oz, down from \$1,680.78/troy oz in September
- Among the core categories, electronic goods imports shrank 9.2% on-year in October (vs 3.8% growth in the previous month), and growth in machinery imports fell sharply to 2.7% from 16.5%

Services trade surplus rises

- Services trade data showed that services exports stood at \$28.0 billion in September (latest available data), rising 29.7% on-year, up from 24.3% in August. Services imports grew 28.1% on-year in September to \$16.1 billion
- More services exports relative to imports led to an improvement in the services trade balance to \$11.9 billion in September 2022 from \$10.3 billion in August 2022 and \$8.7 billion in September 2021

Outlook

The outlook for India's trade deficit and current account deficit (CAD) remains weak because multiple headwinds to global growth are likely to pull down exports. The International Monetary Fund recently slashed its 2023 world growth outlook to 2.7% from previously estimated 3.2%, with the slowdown coming primarily from the advanced economies such as Europe and the US — both key markets for India. The World Trade Organisation also had recently cut its 2023 global trade growth forecast sharply to 1% from 3.4% earlier.

The depreciation in the rupee may also not be very supportive because India's exports are more impacted by trends in global growth. A decline in commodity prices from their record highs will cushion the sequential momentum in the import bill but is unlikely to have a significant impact on the overall deficit figure as prices still remain elevated from the year-ago period. Oil prices are once again firming up after the OPEC+ announced oil-supply cuts recently.

Net-net, we see the import bill ballooning even as exports slow down, leading to a wider CAD. Some support is expected from the rebalancing of trade from merchandise to services, which will boost services exports. Lower gold prices and Russia's growing share in India's crude oil imports could also limit the downside to CAD.

We foresee India's CAD at 3.2% of GDP this fiscal, compared with 1.2% last fiscal.

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