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Macroeconomics | FIRST CUT

Exports surprise, for now

December 2022

India's merchandise exports reversed a 12.1% contraction in October (revised up from -16.7%), growing 0.6% on-year in November 2022 to $31.9 billion.

Core (non-oil, non-gold) exports ticked up 0.8% on-year, reversing the contractionary trend of the previous three months. This could partly be a result of last year's low base for the corresponding month. But there was also a sequential improvement on-month. This suggests some resilience in demand for exports from advanced economies, perhaps because of the festive season there. Oil exports, however, fell, in sync with a decline in crude oil prices.

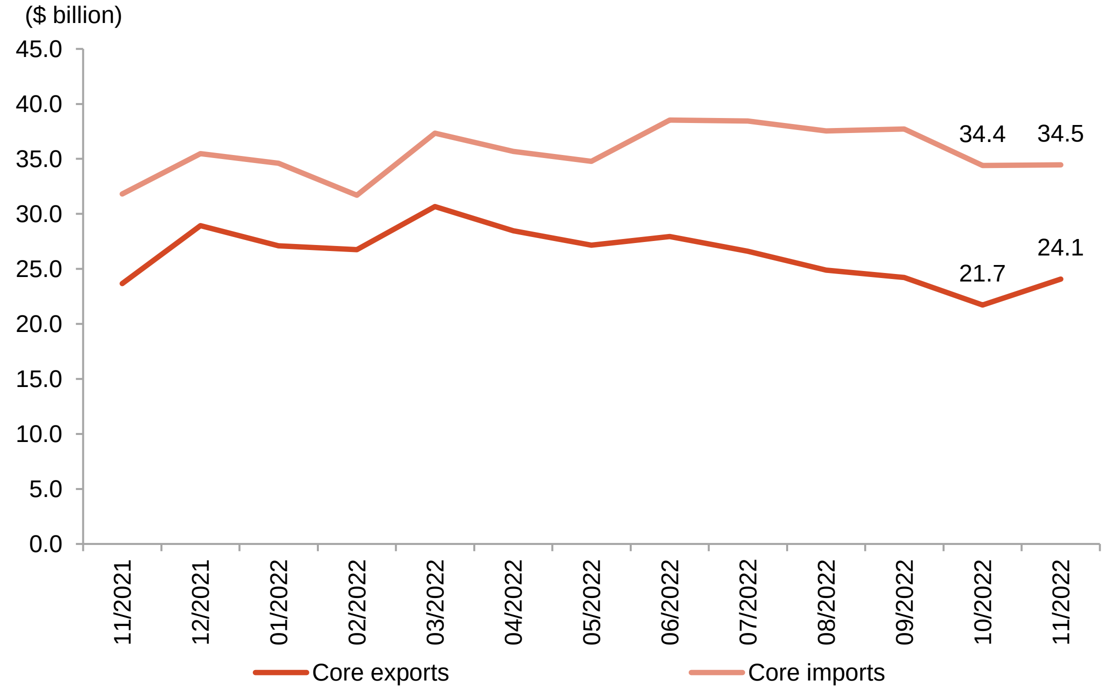
That said, sustaining export growth will remain a challenge, as global growth is expected to sharply slow next year.

Merchandise imports grew at a faster pace than exports. At $55.9 billion, they were up 5.4% on-year in November (vs. an upwardly revised 10.0% in October), led by higher core imports growth, indicating robustness of domestic economic activity. Oil import growth, on the other hand, slowed, helped by softening international crude prices.

Higher growth in imports than exports led to a wider trade deficit of $23.9 billion, compared with $21.2 billion a year ago. Sequentially, however, the trade deficit was narrower (vs $26.7 billion in October 2022), due to lower imports.

Year-to-date (April to November), merchandise exports were up 11.1% on-year to $295.3 billion, while imports rose 29.5% to $493.6 billion. As a result, the cumulative trade deficit was $198.3 billion, up from $115.4 billion in the year-ago period.

Core exports rise, core imports stay flat



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- Merchandise exports showed mild positive growth of 0.6% on-year in November after contracting 12.1% previous month, suggesting that the October contraction was likely an abberation due to holidays in India impacting domestic production and shipments out of India. Core exports too returned to mild positive territory in November (0.8% on-year) after contracting in previous three months, with almost all key categories such as engineering goods, pharmaceuticals, and electronics seeing improvement. Textile and agri exports also picked up.
- While overall merchandise imports grew 5.4% on-year in November, core imports grew a higher 6.6% (up from 4.6% in October), suggesting domestic demand is still resilent. There are other factors also at play, for instance, categories such as iron and steel are seeing higher imports (dumping) as demand for steel in key advanced economies and China has slowed.
- Services trade surplus remained healthy and continued to provide a cushion to overall trade deficit as services exports exceeded imports. In October — the latest month for which final data is available — the services trade surplus rose to $11.9 billion from $8.7 billion a year ago. It was stable on-month.

Oil exports decline, other major categories witness uptick

- Even as overall merchandise exports increased to $31.9 billion in November from $31.4 billion previous month, oil exports declined to $5.4 billion from $6.3 billion (-1.7% on-year). This is in sync with a fall in Brent crude price on average to $91.1/barrel in November, from $93.1/barrel in October.
- Exports did better in sectors such as engineering goods, India's biggest export item, where it was almost flat on-year (vs -21.3% in October). Gems and jewellery exports grew 4.6% (vs -21.6%). Drugs and pharmaceuticals exports rose 8.7% (vs -9.2%). Electronics goods exports were up a massive 54.5% (vs 37.6%), reflecting a mixed impact of the Production-Linked Incentive scheme and some shift in production from China.
- Some of the labour intensive sectors too, registered healthy positive growth. Textile (RMG) exports were up 11.7% on-year and leather 8.7%. Agri exports of other cereals and rice were up 53.8% and 19.2%, respectively. That said, exports of textile raw material declined 34.5% on-year, suggesting that this segment continues to be impacted by higher domestic cotton prices (vis-à-vis in the international market) eroding its competitiveness.

Correction in gold and fertiliser imports

- While merchandise imports grew on-year, they displayed some moderation sequentially ($55.9 billion in November vs $59.0 billion in October). This was largely the result of lower oil imports ($15.7 billion vs $18.1 billion) while non-oil imports were stable ($40.1 billion vs $40.8 billion)
- Gold imports declined to $3.2 billion in November from $3.7 billion in October, despite international gold prices rising to $1,725.1/troy oz from $1,664.45/troy oz, indicating correction in domestic gold demand
- Fertiliser imports too declined to $1.7 billion in November from $2.1 billion in October, following softening in natural gas prices ($35.7/mmBtu vs $39.0/mmBtu). That said, fertiliser imports were higher on-year
- On the other hand, some of the key categories that witnessed a rise in imports (seasonally adjusted on-month and on-year basis) in November were coal ($3.8 billion vs $3.2 billion in October), iron and steel ($2.2 billion vs $1.9 billion), electrical and non-electrical machinery ($3.8 billion vs $3.6 billion) and chemicals ($2.6 billion vs $2.4 billion)

Services trade surplus stable

- Services trade data showed that services exports grew 24.6% on-year to $25.4 billion in October, the latest month for which data is available. Services imports, on the other hand, grew at a smaller pace of 15.9%, to $13.5 billion
- Services trade surplus, as a result, improved to $11.9 billion in October 2022, from $8.7 billion a year ago. Sequentially, services trade surplus was stable

Outlook

The outlook for India's trade deficit and current account deficit (CAD) remain weak because of multiple headwinds to global growth that are likely to pull down exports. S&P Global recently slashed its 2023 world growth outlook by 20 bps to 2.2%, with the slowdown coming primarily from advanced economies such as Europe and the US — both key markets for India. The World Trade Organisation expects merchandise trade growth in 2023 to slow down to 1% from 3.5% this year.

Recent measures by the government such as rolling back export duty on iron and steel, reduction in windfall tax on petroleum exports, and expanding the ambit of the Remission of Duties and Taxes on Exported Products scheme could provide support, albeit limited, as demand itself slows.

Likewise, the rupee depreciation may not be very helpful as India's exports are more driven 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 figures, as prices still remain elevated from the year-ago period.

Net-net, we see the import bill rising 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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