Macroeconomics | FIRST CUT

Trade deficit narrows

October 2023

India's merchandise exports contracted 2.6% on-year to $34.5 billion in September, following 3.9% growth[1] the previous month. The September quarter appears to indicate lesser decline in exports despite the challenging trade environment. Exports contracted 2.9% on-year in the September quarter compared with 13.9% decline in the June quarter.

Exports are expected to remain under pressure as global headwinds continue to blow. Notably, the World Trade Organization has cut its world merchandise trade growth projection for 2023 to 0.8% from 1.7% projected in April.

Cumulatively, India's merchandise exports have declined 8.8% on-year to $211.4 billion during April-September from $231.7 billion in the year-ago period.

Decline in merchandise exports in September was largely because of 10.6% on-year fall in oil exports. The fact that oil exports fell in September, despite the rise in crude oil prices, both sequentially and on-year[2], points toward a) subdued global demand and b) the impact of increase in export tax on diesel and aviation turbine fuel domestically.

While core (non-oil, non-gold[3]) exports rose 1.2% on-year in September — registering positive growth for the second consecutive month — it was on a low base. Sequentially, core exports declined in September. That said, exports of some of the key core categories such as engineering goods and pharmaceuticals recorded uptick for the second consecutive month. Other smaller categories such as ceramics, some textile categories and iron ore, too, registered healthy export growth. However, electronic exports, which hitherto had recorded healthy double-digit growth, came under pressure, contracting for the first time in 31 months, albeit on a high base.

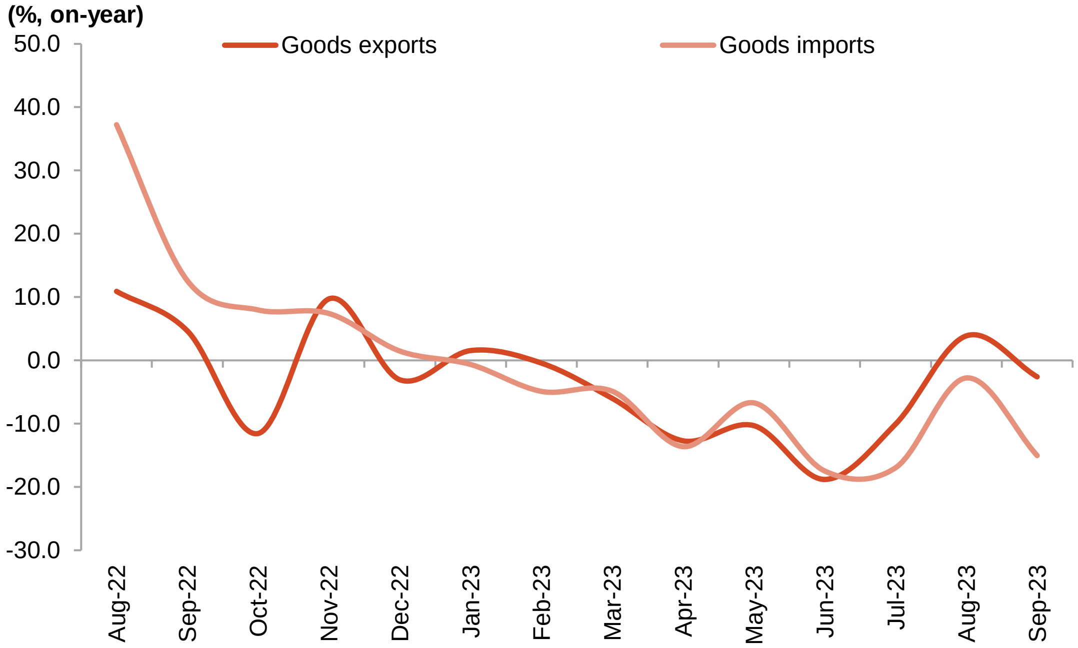
Merchandise imports fell a sharp 15% on-year to $53.8 billion in September, and were also down sequentially from $60.2 billion in August. However, services exports recorded 8%+ growth for the second consecutive month in August (the latest month for which actual data is available).

Unlike exports, not only was the decline in merchandise imports sharper, but was also more broad-based with all three categories — oil, gold and core — recording on-year decline in September, indicating some softness in domestic economic momentum. This may correct in the near term on upcoming festive demand.

A sharper decline in imports than exports narrowed the merchandise trade deficit to $19.4 billion in September from $21.7 billion in August and $27.9 billion in September last year.

[1] Merchandise exports data for August was revised upwards to $38.5 billion from $34.5 billion
[2] Brent spot averaged $94/bbl in September 2023 compared with $86.2/bbl in August 2023 and $90.2/bbl in September 2022
[3] Gold refers to gems and jewellery

Merchandise imports fell more than exports in September



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- Oil exports slipped 10.6% on-year to $6.5 billion in September (vs $9.6 billion in August), despite Brent spot price spiking to $94/bbl from $86.2/bbl in August
- Down 3.7% on-year to $1.9 billion in September, electronic exports fell to the lowest level (and below $2 billion mark) in seven months.
- In the agriculture space, coffee exports contracted for the second consecutive month in September (-4.1% on-year), reflecting poor production. Rice exports dropped 25.1% because of ban on non-basmati rice exports.
- On the other hand, engineering goods exports remained positive for the second consecutive month in September, rising 6.8% on-year to $8.9 billion. Also, drug and pharmaceutical exports grew a healthy 9.0% on-year to $2.4 billion in the month.
- Ceramics and glassware exports continued to clock high growth for the third consecutive month, at 50.5% on-year in September compared with 29.3% the previous month. In the textile space, ‘cotton yarn, fabrics, made-ups, handloom products, etc’, the second biggest category after readymade garments, registered positive growth for the third consecutive month, up 27.4% on-year in September.
- Oil imports fell 20.3% on-year to $13.9 billion in September and were marginally down on-month as well. Decline in the oil import bill, despite higher crude oil prices, likely suggests fall in import volumes.
- Gold imports saw some correction in September ($4.1 billion) from the August high ($4.9 billion). Seen another way, gold imports rose just 6.9% on-year, much lower than 38.8% on-year last month. To be sure, positive

gold import growth is largely a reflection of higher gold prices[4] even as the government is trying to curb gold imports.

- Electrical and non-electrical machinery import growth slowed to 3.9% on-year in September from 15.1% in the previous two months.
- The following key core import categories witnessed a decline: coal (-33.4%), transport equipment (-53.1%), iron and steel (-3.2%), vegetable oils (-24.1%) and chemicals (-12.0%).
- Services exports grew 8.4% on-year to $28.7 billion in August, the latest month for which actual data is available. At the same time, services imports contracted 0.8% to $15.1 billion. As a result, services trade surplus rose to $13.6 billion in August from $11.3 billion last year.

Outlook

Merchandise exports remain under pressure because of global headwinds not only in advanced economies, such as the US and the eurozone, but also in emerging markets, especially the Asia-Pacific. Exports are facing a double whammy from fall in prices and volumes in many cases.

That said, deceleration in domestic growth is also softening India's imports. At the same time, services trade surplus is robust and remittances are expected to remain healthy.

As a result, we project India's current account deficit, or CAD, which was 2.0% of gross domestic product in fiscal 2023, to soften to 1.8% this fiscal. The spike in oil prices, however, could pose some upside to CAD this fiscal and will bear watching.

4 International gold price averaged $1,915.9/troy oz in September 2023 compared with $1,680.8/troy oz in September 2022

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