Macroeconomics | FIRST CUT

Two gainful months for exports

February 2024

India's merchandise exports strengthened in January, rising 3.1% on-year to $36.92 billion after 1.0% growth December. Despite disruption in trade caused by strife around the Red Sea, exports have fared better than expected, which can be partly attributed to proactive support by the government in the form of easier access to credit, creation of a task force to investigate non-tariff barriers, and tackling sanitary and phytosanitary issues, among others.

While the numbers are encouraging, caution is warranted. Rising global tensions and unevenness in global growth, mean maintaining export momentum will not be an easy task. For instance, many core exports softened in January: electronic goods (9.3% v 14.4%), engineering goods (4.2% v 10.2%), and drugs and pharmaceuticals (6.8% v 9.3%). And some key agricultural exports have been under pressure partly due to the ban on rice exports.

That said, exports of petroleum products rebounded (6.6% v -17.6%) after four months as crude oil prices saw a sequential uptick ($80.1/bbl in January vs $77.6/bbl in December).

Also, interestingly, chemical exports — one of India's key export items — seem to be gaining some traction, posting mild positive growth (0.3%) after remaining in contractionary zone for fifteen consecutive months. On the whole, core (non-oil, non-gold[1]) exports grew 2.5% on-year in January, compared with 5.4% in December.

Cumulatively, India's merchandise exports have declined 4.8% on-year in April-January this fiscal to $354.04 billion, compared with $372.1 billion a year ago.

Overall, exports are displaying resilience in the face of unfavourable conditions. To be sure, they are getting support from a depreciating rupee. The real effective exchange rate[2] (REER) based on export weights has declined 1.25% on-year during April -December 2023.

India's merchandise imports, too, grew at a similar pace as exports — up 3% on-year to $54.41 billion from $52.83 billion in January 2023.

Petroleum and crude products imports turned positive in January, at 4.3% v -22.8% in December. Import of precious metals, too, rose significantly in January. Gold imports surged 173.6% on-year, compared with 156.5% in December. Silver imports rocketed 323.5% compared with a contraction of 19.1% in December. Imports of pearl, precious and semi-precious stones picked up 6.2% on-year, after recording a fall of 11.7% the previous month.

But barring these, core imports fell 2.3% on-year over the 0.2% slip in December, which could possibly hint at some softening in domestic economic momentum.

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[1] Gold here refers to gems & jewellery

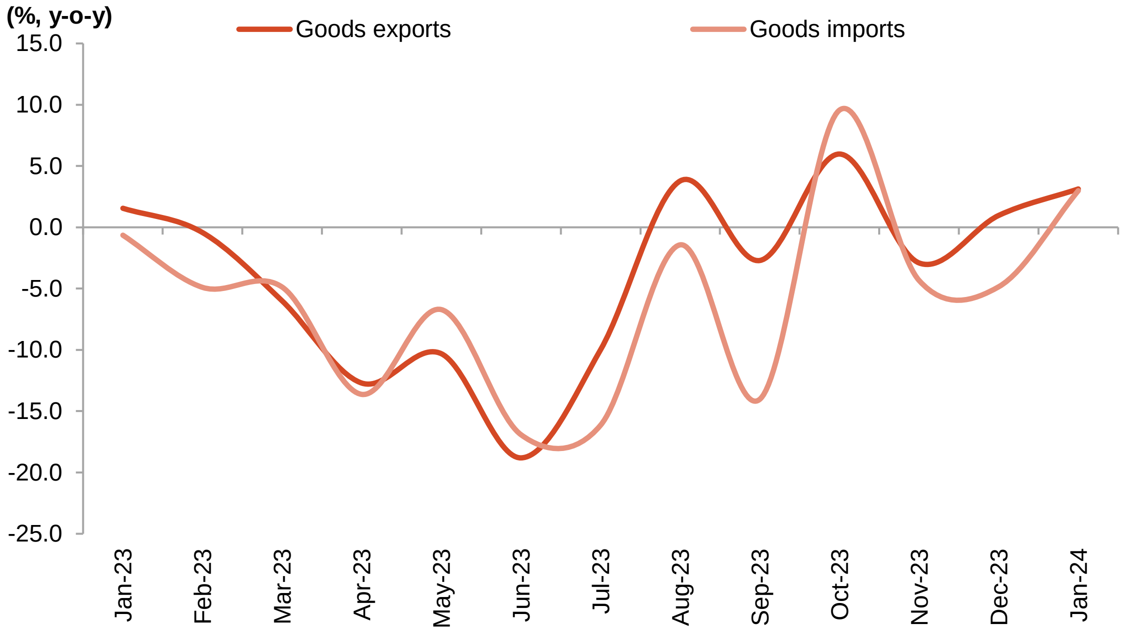
[2] REER measures the value of the rupee relative to its 40 major trading partners (excluding impact of inflation). A rise in REER implies appreciation of the rupee.

With exports doing better than imports on a sequential basis, merchandise trade deficit narrowed to $17.49 billion in January from $19.8 billion in December.

Cumulatively, in April-January this fiscal, merchandise imports contracted 6.9% on-year to $559.55 billion, helping narrow the merchandise trade deficit to $205.51 billion from $229.38 billion.

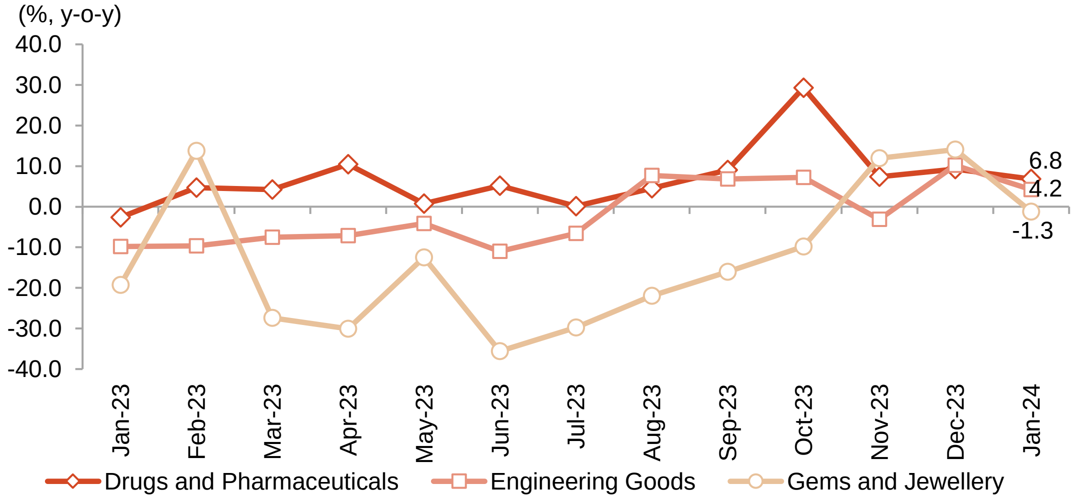
India’s services exports continued to grow positively, rising 1.3% on-year in December 2023, while imports contracted. As a result, the services trade balance remains robust at $15.97 billion in December, compared with $15.38 billion in December 2022. India’s performance in services exports has largely remained strong this fiscal and is a big positive for keeping India’s current account deficit in check.

Both export and import grew in January



Source: Ministry of Commerce and Industry, CRISIL

Key exports recorded slower growth in January



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- The Red Sea is a busy corridor for India's sea trade to Europe and the US and any disruption can have significant consequences. While the overall impact doesn't seem to be too large for now, it manifested in pockets as slower export growth — such as drugs and pharmaceuticals (6.8% v 9.3%), engineering goods (4.2% v 10.2%) and gems and jewellery (-1.3% v 14.1%) in January
- Oil exports reversed course, increasing 6.6% to $8.21 billion compared with a decline of 17.6% in December. This is in line with the 2.95% on-month increase in Brent crude oil prices to $80.2 bb/l from $77.9 bb/l in December 2023. Core exports grew 2.5% on-year in January compared with a 5.4% growth in December
- It is encouraging to see that export growth in labour-intensive sectors like carpets (9.4% vs 3.8%), cotton, yarn, fabrics, made-ups, handloom products and others (2.5%) remained positive compared with the previous month
- On the other hand, ceramic products and glassware (-3.5%) and handmade carpets (-16.6%) exports fell. Growth in readymade garments remained negative at 3.5%, though better than the 12.6% decline in December
- Agricultural product exports such as cashew (-20.8% v -0.6%), fruits and vegetables (10.6% v 25.4%), spices (20.5% v 27.7%) and tobacco (47.3% v 38.9%) saw mixed growth. Rice exports was down 3.3% on-year compared with 14.4% decline in December. This is in line with the government's efforts to reduce rice exports to maintain domestic availability
- Oil imports turned positive in January, increasing 4.3% on-year. Sequentially, oil imports rose to $16.57 billion in January from $14.94 billion in December
- Imports of gold (173.6% v 156.5%), pearls, precious and semi-precious stones (6.2% v -11.7%) increased on-year
- Core imports (non-oil and non-gold) fell 2.3% on-year compared with a 0.2% decline in December. Import growth was positive, but lower compared with the previous month for machine tools (0.1% v 9.8%)
- That said, imports of cotton (-32.3% on-year), artificial resins (-7.9%), leather and leather products (-28.8%) declined
- Industrial imports[3] such as coal coke and briquettes (21.2% v 4.8%), dyeing, tanning and colouring materials (3% v -2.4%) and petroleum and crude (4.3% v -22.8%) saw a pick up. On the other hand, transport equipment (-20.6% v -55.1%), iron and steel (-7.5% v -2.4%), ores and other minerals(1.7% v 2.2%) saw weaker growth
- Services exports rose in December to $31.61 billion, compared with $28.09 billion in November, while services imports increased to $15.63 billion from $13.68 billion. As a result, services trade surplus was up to $15.98 billion in December from $14.41 the previous month. Services trade surplus remains positive on-year as well

Outlook

While merchandise exports has been positive in the past two months, it remains to be seen if this trend can sustain, given the global headwinds.

[3] Capital goods and intermediate goods required for further production.

The near-term challenge for India's exports from the disruption caused by the Red Sea strife has been contained so far. How this impacts prices when exports contracts are renewed will bear watching. Barring this hiccup, forecasts by major multilaterals of better trade growth this year over last is encouraging.

The current account remained in the safe zone in the second half of this fiscal with trade deficit lower at $87.86 billion during October-January. Robust services trade surplus and helathy remittances are positives.

Consequently, we expect India's current account deficit to be eminently manageable this fiscal.

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