Macroeconomics | FIRST CUT

Show of resilience

April 2024

Exports flat in March over February

India's merchandise exports seem to be resilient despite geopolitical uncertainties in the Middle East. Merchandise exports remained flat in March vis-à-vis February ($41.7 bn and $41.4 bn, respectively). The on-year contraction of 0.7% last month was on a high base.

India's core exports grew a heathy 9.1% on-year in March

Lower oil and gems and jewellery exports dragged down overall exports in March. Barring these, core exports maintained a steady momentum and grew 9.1% on-year. Pharmaceuticals, engineering goods, organic and inorganic chemicals and readymade garments continued to show strong growth in March. Sequentially, core exports rose from $29.9 billion to $33.7 billion last month.

Cumulatively, India's merchandise exports fell only 3.2% on-year to $437.06 billion in fiscal 2024, from $451.07 billion a year ago, because of lower oil (down 14.1%) and gems and jewellery (down 12.9%) exports. Sans these two categories, i.e. core exports grew positively last fiscal (up 1.3% to $319.9 billion).

Merchandise imports saw a steeper contraction, at 6.0% on-year to $57.28 billion in March compared with 12.2% growth in February. Resultantly, merchandise trade deficit narrowed to $15.6 billion from $19 billion in March last year.

Cumulatively, merchandise imports contracted 5.4% on-year to $677.47 billion in fiscal 2024.

Lower crude oil imports (down 14.1% on-year) played the key role in crimping the overall import bill, though higher gems and jewellery imports (up 9.7%) did offset it a bit.

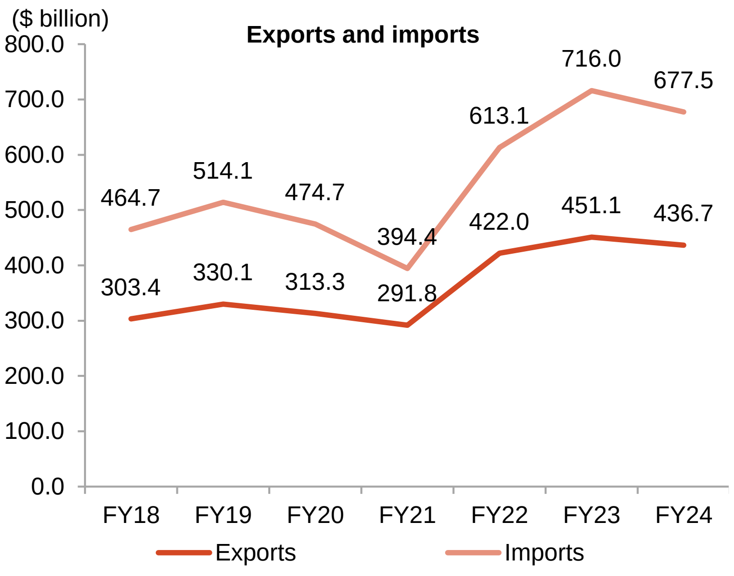
The trade deficit narrowed to $240.1 bn last fiscal from $264.9 bn in fiscal 2023.

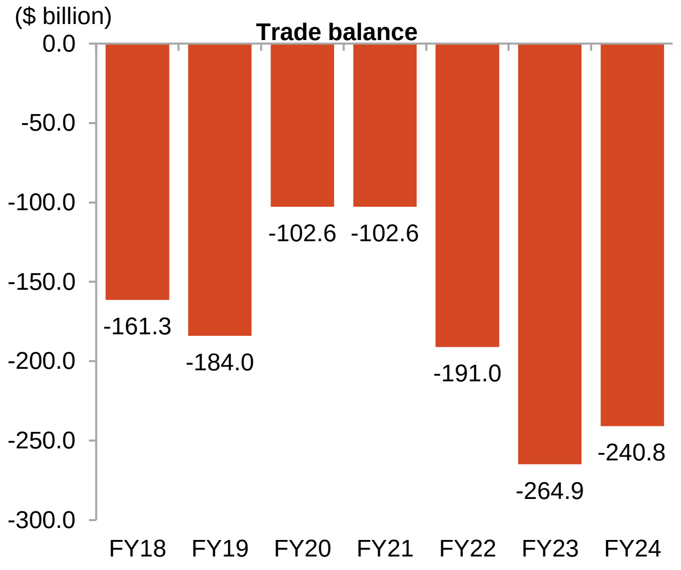
Notably, despite higher on-year gross domestic product (GDP) growth in fiscal 2024, India's core imports slipped 3.6% on-year in the fiscal. Capital goods imports (machine tools and transport equipment) fell 7.3% on-year. This partly syncs with weak consumption demand and overall growth being driven largely by investments (which as a corollary are less import-intensive).

India's services exports continued to grow, rising 3.5% on-year in February 2024[1], while imports hardened 1.8%. As a result, the services trade surplus rose to $13.11 billion in February from $12.43 billion a year ago.

[1] The latest services trade data released by the Reserve Bank of India is for February 2024

Overall exports, imports and trade balance



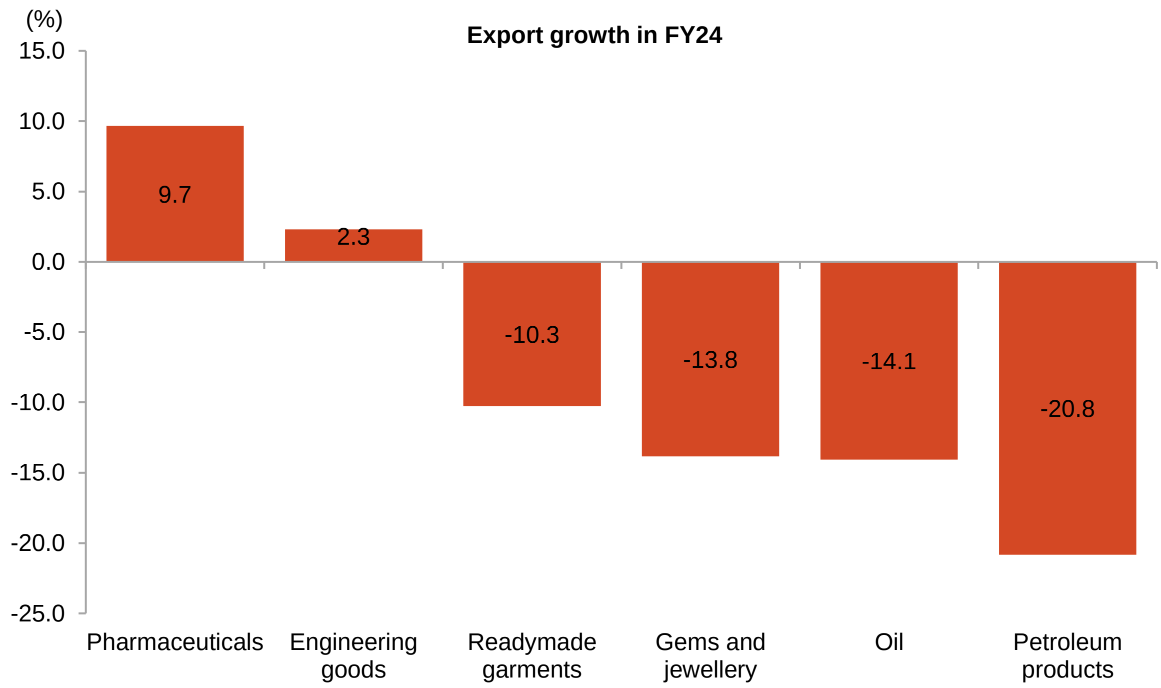


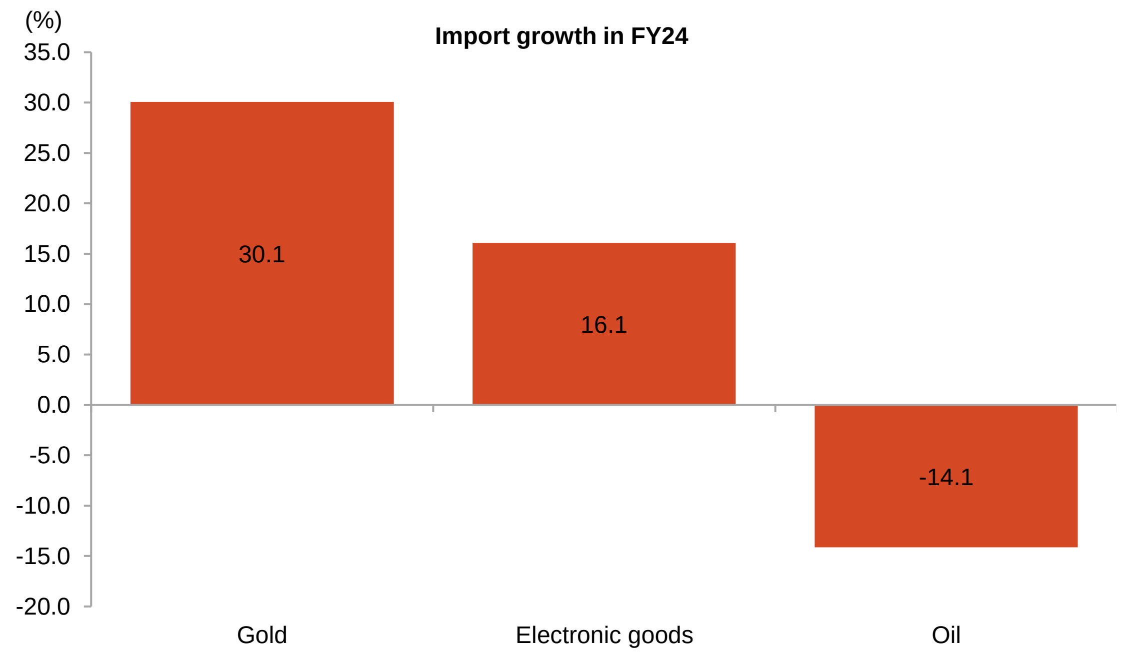
Source: Ministry of Commerce and Industry, CRISIL

In fiscal 2024, merchandise exports contracted 3.2% on-year. Poor performance by the labour-intensive sectors (gems and jewellery and readymade garments) and petroleum products were a drag on export growth[2] throughout the fiscal (see chart below). On the other hand, import growth[3] has been lagging because of declining oil imports. Meanwhile, there has been an uptick in gold and electronic goods imports.

Export and import growth in fiscal 2024 differs from the growth experienced in the preceding two fiscals. Export growth averaged 25.8% on-year in fiscals 2022 and 2023, while for imports it was 36.1% on-year.

[2] Based on share in India's total exports by value
[3] Based on share in India's total imports by value

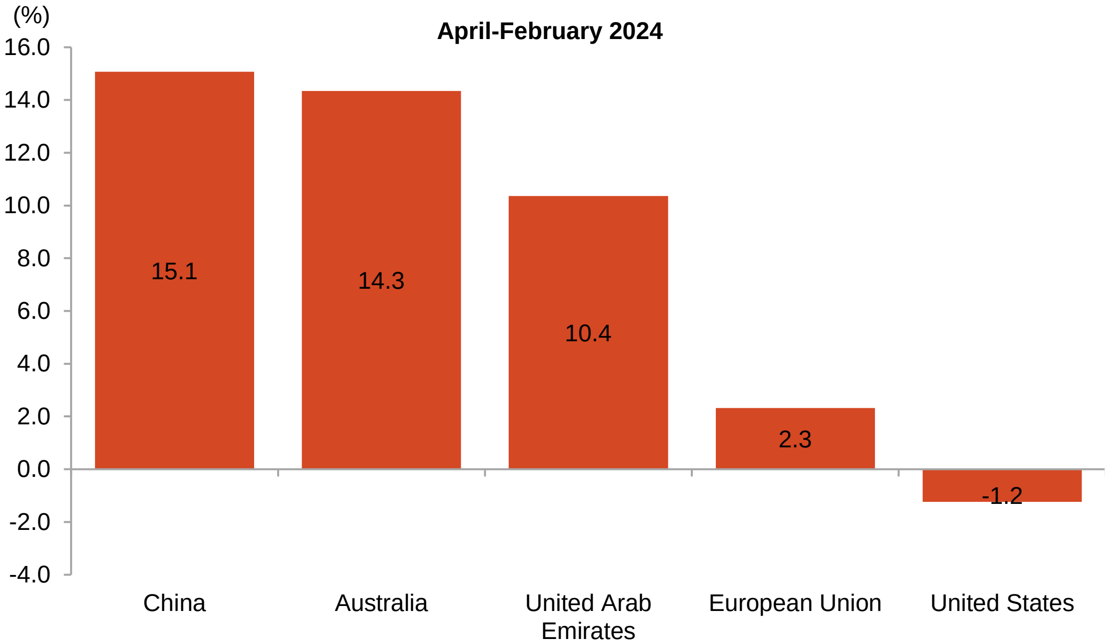




Source: Ministry of Commerce and Industry, CEIC, CRISIL

China leads India's region-wise exports as shown in the chart below.

India's exports to key destinations



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Among the top merchandise export destinations, the high on-year growth of exports to Australia is largely driven by a low base effect.

Data highlights

- Exports of drugs and pharmaceuticals (12.7% on-year in March vs 22.2% in February), engineering goods (10.7 % vs 15.9%), organic and inorganic chemicals (39.7% vs 33%) and readymade garments (1.7% v 4.9%) presented a mixed bag, while petroleum products (-35.4% v 5.1%) dropped. Meanwhile, exports of gems and jewellery (-4.6% v -11.3%) continued to be in the red
- Exports of labour-intensive sectors such as cotton, yarn, fabrics, made-ups, handloom products and others (6.8% vs 17.1%) remained in the expansionary zone and handicrafts (128.4% v 87%) improved further on-month. Carpets (16.2% vs 14.6%), ceramic products and glassware (0.2% vs 9.8%), plastic and linoleum (11.2% vs 22.1%) and readymade garments (1.7% vs 4.9%) also exhibited positive growth
- March recorded slower sequential growth in agricultural exports. Growth in fruits and vegetables (2.9% vs 12.7%) and tobacco (35.8% vs 58.2%) decelerated. Exports of cashew (-11.7 vs -13.6%), oil meals (-45.2% vs -24.6%), oil seeds (-23.3% vs 37.7%) and rice (-2.9% vs 1.8%) remained in the red
- Oil imports turned negative, growing -4.4% on-year to $17.23 billion this March from $18.02 billion in March last year
- Imports of gold plunged 53.6% on-year in March, to hit the lowest level since January 2023. Imports of silver continued to increase on-year (1058.8% vs 13234.4%), while those of pearls, precious and semi-precious stones continued to decline (-17.7% vs -13.4%)
- Core imports (non-oil and non-gold) fell 3.6% on-year compared with 5.2% growth in February
- Import growth of industrial[4] products such as machine tools (13.4% vs 24.9%) was positive. Coal, coke and briquettes (-6.6% vs 2.1%) and iron and steel (-10.1% vs 9.5%) saw negative on-month growth

Outlook

The near-term challenge to India's exports due to the geopolitical uncertainties in the Middle East has been limited so far. How this crisis will impact prices when export contracts are renewed is a key monitorable. Barring this hiccup, the recent healthy export momentum and key multilateral organisations' forecasts of better on-year trade growth this fiscal are encouraging.

The current account remains in a safe zone with robust services trade surplus and healthy remittances.

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

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