Macroeconomics | FIRST CUT

Merchandise exports shrink, imports hit an all-time high

September 2024

Exports contract 9.3%, while imports rise 3.3% on-year

India's merchandise exports, which grew in the first quarter of this fiscal, seem to be facing headwinds this quarter. Exports contracted 9.3% on-year in August, following a 1.7% contraction in July, to $34.7 billion. This was driven by a sharp 37.6% on-year contraction in oil exports, reflecting softer crude-oil prices that averaged $80.9/bbl in August 2024 vs $86.2/bbl in August 2023, followed by gems and jewellery exports (down 23.1% on-year). Meantime, core[1] exports growth softened to 2.4% on-year from 5.7% in the previous month.

That said, some pressure on exports could also be due to the real effective exchange rate (REER), which has been ticking up since the beginning of this fiscal until July[2]. An increase in REER is akin to appreciation of the rupee and adds pressure to exports, making them less competitive.

Although exports contracted, merchandise imports continued to grow, rising 3.3% on-year to an all-time high of $64.4 billion in August 2024, compared with $62.3 billion in August 2023 and $57.5 billion in July 2024. With oil imports contracting sharply, driven by a softening in crude oil prices, the surge in overall imports reflected a) a rise in core imports (suggesting buoyant domestic demand) and b) a sharp surge in gold and silver imports (due to an impact of duty cuts announced in the July budget).

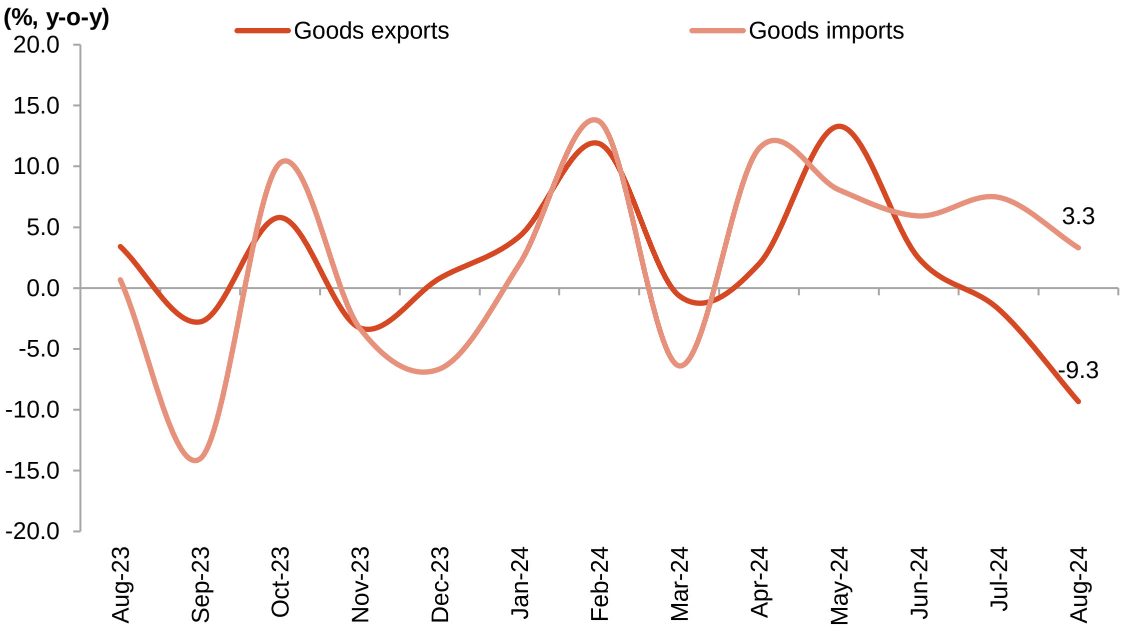
The growth in imports, along with a decline in export growth, has led to a widening of the merchandise trade deficit to $29.7 billion from $24 billion in the year-ago period and $23.6 billion in the previous month. Although imports from China have increased in the last few months, there has also been a surge in imports from some other Asian economies such as Thailand and Vietnam. August also saw a rise in imports from Japan.

Cumulatively, merchandise exports rose 1.1% to $178.68 billion during April-August from $176.67 billion in the year-ago period. Cumulative imports grew faster at 7.1% to $295.3 billion from $275.8 billion. As a result, trade deficit widened to $116.6 billion from $99.2 billion in the previous year.

Services exports were strong, growing at 16.6% in July[3], compared with 3.7% in June. Services import grew at a slower pace than exports, clocking 15.7% on-year in July versus a 3.8% contraction in June. As a result, services trade surplus was at $14.7 billion in July, higher than $12.5 billion in July 2023 and $13.8 billion in June.

[1] Non-oil and non-gold
[2] Latest data available until July
[3] The latest data released by the RBI for the services sector is for July 2024

Merchandise exports contract, while import continue to grow



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Data highlights

- Sector-wise, exports saw slower growth in drugs and pharmaceuticals (4.7% vs. 8.4%), electronic goods (7.9% vs. 37.3%), fruits and vegetables (-1.8% vs. 2.2%), gems and jewellery (-23.1% vs. -20.4%) and oil (-37.6% vs. -22.2%).
- Amid plummeting crude-oil prices (a 6.15% on-year decline in Brent spot price in August to $80.9/bbl on average), oil imports contracted 32.4% on-year in August.
- Oil exports have contracted for the third consecutive month in August (at 37.6% on-year), reflecting a strong price effect – where exports and imports are softer due to lower oil prices.
- Non-oil exports growth moderated to a mere 0.1% in August from 3.2% in July and added to the woes.
- That said, some core categories stood ground as exports of engineering goods (4.4% vs. 3.7%), organic and inorganic chemicals (8.3% vs. -12%), plastic and linoleum (11.1% vs. 8.8%) performed better than the previous month.
- However, exports of stone, plaster, cement and glassware (-23.2% vs. -21.1%), cotton yarn and fabrics (-9.4% vs. -4.1%) and iron ore (-54.7% vs. 7.7%) contracted in August. The latter reflects slowing Chinese demand, as it is a major destination of this export.
- Labour-intensive sectors displayed mixed growth in August compared with the previous month. Growth in carpets (8.9% vs. 10.5%), handicrafts (7.2% vs. 13.2%), manmade yarn and fabrics (1.6% vs. 3.9%), leather and leather products (0.1% vs. 2.3%) was lower than the previous month. Export of readymade garments (11.9%) was marginally higher than the previous month (11.8%). Exports of jute came in stronger at 15.2% compared with a 14.3% contraction in the previous month.
- Some of the agricultural products saw a revival. Exports of cashew (6.8% vs. -25.5%) coffee (69.6% vs. -1%), oil seeds (8.1% vs. 0%) and spices (19.1% vs. 13%) turned positive, while fruits and vegetables (-1.8% vs. 2.2%), meat, dairy and poultry products (9.8% vs. 56.2%), oil meals (-10.5% vs. 22%), cereals (-66.4% vs. -81.4%), rice (-16.1% vs. -15.3%), tea (14.9% vs. 21.8%) and tobacco (34.4% vs. 39.9%) declined.
- Gold imports grew 103.7% in August from -10.7% in July, while silver grew 727% from 439.2%, reflecting the impact of duty cuts announced on the metals during the budget in July.
- Meanwhile, imports of electronic goods (12.8% vs. 11.5%), machine tools (15.7% vs. 12.1%), machinery (10.2% vs. 3.2%), ores and minerals (21.5% vs. 1.8%), non-ferrous metals (22.2% vs. 17.4%), organic and inorganic chemicals (21.2% vs. 8.1%), transport equipments (7.1% vs. 9.6%) and wood and wood products (12.4% vs. -0.7%) increased in August. Growth in machinery and machine tool imports point towards healthy investment demand in the domestic market.

Outlook

The fiscal started on a good note, with merchandise exports logging steady growth in the first quarter. However, exports contracted in July and August. Issues such as container shortages amid trade-route disruptions and the US's impending tariff hikes on Chinese exports seem to be at play. Concomitantly, a fall in the price of crude—one of India's top export items—is impacting oil exports.

Growth in imports so far has surpassed exports, thus widening the trade deficit. This will remain a key monitorable, especially because the US has announced tariff hikes on Chinese imports, which, coupled with the slowdown in the

Chinese economy, seem to be leading to a dumping by China in the larger Asian market, including in India. In fact, recent months have already seen rise in import of steel from China and Vietnam.

Therefore, a higher merchandise trade deficit bears watching. However, the surplus in services trade and robust remittances flow provide some comfort and should help keep the current account in the safe zone.

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