

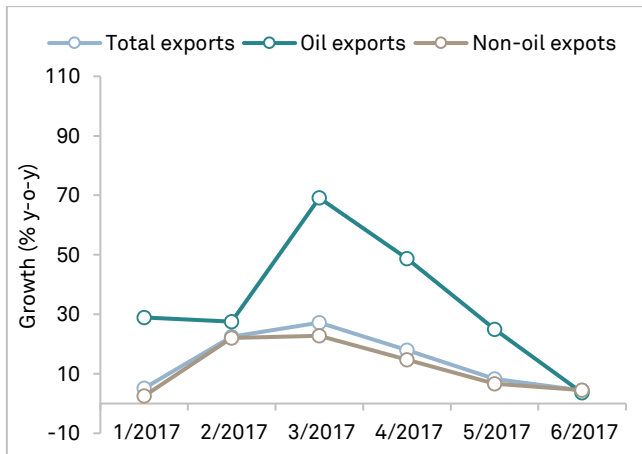
Growth in exports slows further

Crisil Economy First Cut | July 2017

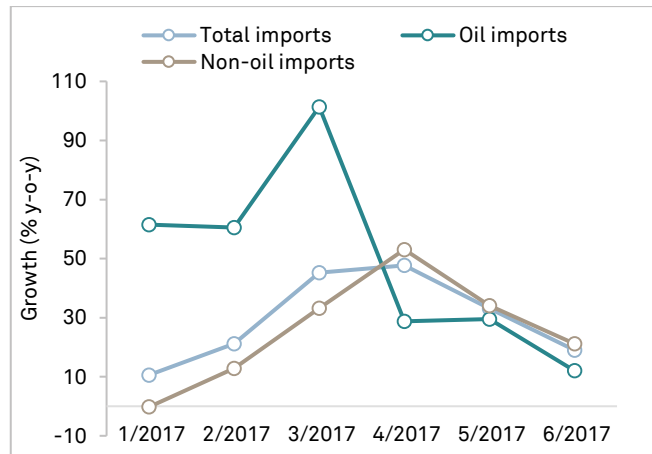
Overview

- After starting 2017 on a strong footing, India's exports¹ have slowed down in the past three months. Merchandise exports grew 4.4% on-year in June, compared with 8.3% in May. While growth in imports slowed, it was still faster than growth in exports. Imports grew 19% on-year in June, compared with 33.1% in the previous month.
- Declining oil prices was a major factor behind the moderation in the growth of both exports and imports. Oil prices averaged \$46.4 per barrel in June, the lowest in seven months. Growth in oil exports plunged to 3.6% from 24.9% in May, while growth in imports slid to 12% from 29.5% in May.
- Growth in exports of non-oil goods also declined, to 4.5% from 6.6% in May. The deceleration was broad-based with 15 out of 30 top export commodities witnessing negative growth. A strong rupee may have hurt India's export competitiveness. The real effective exchange rate (REER), measuring the rupee's value relative to the currencies of India's six largest trading partners, increased 6.5% in June.
- The trend of imports growing faster than exports is expected to continue this fiscal, as domestic demand strengthens. Normal monsoon and payouts to government employees as per the Seventh Pay Commission recommendations, are expected to boost consumption in fiscal 2018. However, the global economy is only recovering gradually, which could mean only a moderate growth in India's exports. Due to a wider trade deficit, we expect India's current account deficit to rise a bit to 1% of GDP in fiscal 2018 from 0.7% in fiscal 2017.

Exports decelerated in oil as well as non-oil goods



Imports also moderated, but stayed stronger than exports



Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

Export growth falls for the third consecutive month

- Export growth was negative in 15 out of 30 top commodities, the most prominent being gems & jewellery (-2.7%), pharmaceuticals (-2.2%), and textiles (-1.4%).

¹ All trade figures are in US dollars

- Pharmaceutical exports have been on a downward trajectory since January 2017. Rising global competition is depressing prices, and hence earnings from exports. Indian drug makers are also facing quality issues abroad, especially in the United States, the largest market for local pharma.
- However, exports growth was robust in engineering goods (14.8%), organic and inorganic chemicals (13.2%), and rice (27.3%).
- Exports to key destinations moderated in May, such as China (4.4% compared with 40% in April), United Arab Emirates (3.9% compared with 11.5%) and Europe (15.2% compared with 19.4%). However, exports to the US rose modestly to 17.1% in May from 14.2% in April.

Import growth remains strong and broad-based

- Imports grew 19% in June, driven by a 21.2% growth in non-oil imports.
- Growth in non-oil imports was led by a doubling in gold to \$2.4 billion. Core imports (consumption goods excluding oil and gold) also grew 25.2%. The largest rise was seen in precious and semi-precious stones (86.3%), and electronic goods (24.2%).
- Imports of pulses were up 11.2%, which is surprising given that India had record-high pulses production in fiscal 2017.
- Imports of investment-related goods rose 7.6%, after declining 0.9% in the previous month.

Services exports decline further

- Like merchandise exports, services exports have been falling since April 2017. Exports declined 0.2% on-year in May. However, imports declined more by 3.9%, increasing trade surplus to \$5.8 billion in May 2017 from \$5.5 billion in May 2016.

Trade performance (% , y-o-y)

	Exports	Imports	Oil	Non-oil	Oil	Non-oil
			imports	imports	exports	exports
Jun-17	4.4	19.0	12.0	21.2	3.6	4.5
May-17	8.3	33.1	29.5	34.0	24.9	6.6
Jun-16	1.1	-8.5	-16.6	-5.7	-10.8	2.9
April-June FY18	10.2	33.3	23.4	36.1	36.8	10.7
April-June FY17	-2.0	-15.0	-23.6	-11.9	-21.8	-1.2

Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

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