Macroeconomics | FIRST CUT

Momentary respite for exports

October 2022

The sharp deceleration in exports growth in the previous two months was halted in September, bringing some respite on the trade front. Merchandise exports grew 4.9% on-year to $35.5 billion in September, compared with a meagre 1.6% growth in August.

Exports also grew sequentially[1] by 4.0% on-month in September. The improvement was largely led by higher oil and gems and jewellery exports in September. Rise in oil exports despite lower international commodity prices and export tax on some of the petroleum products was welcome.

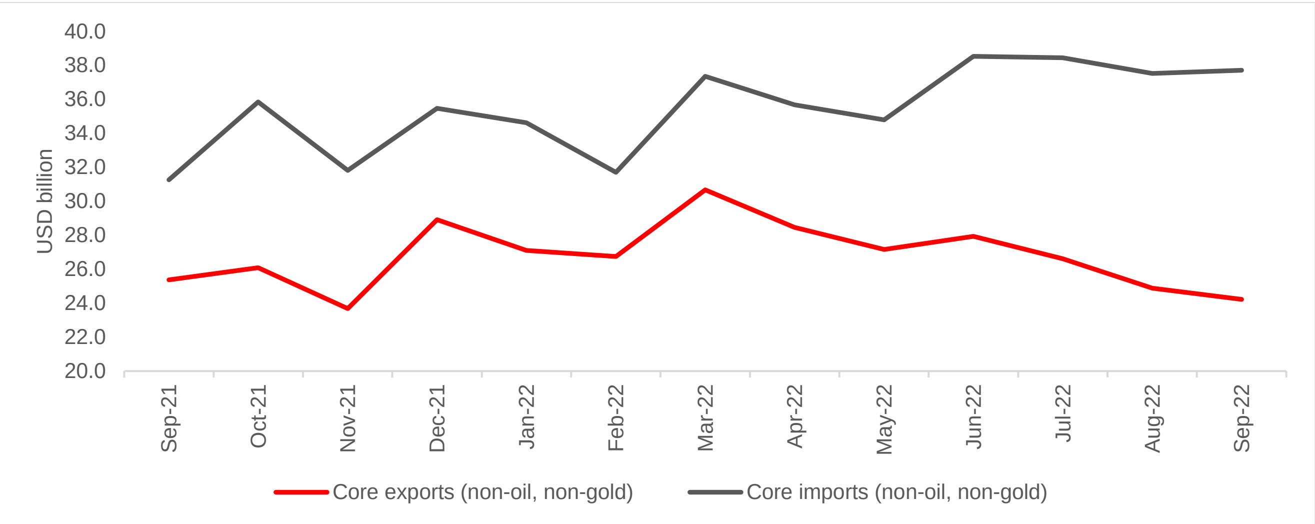
That said, core (non-oil non-gold exports) continued to soften, reflecting the slowdown in India's exports to the largest destinations, such as the European Union and the US. Exports to Asia are still holding up, although signs of weakness have started emerging in some economies, such as Hong Kong and Malaysia. That said, exports to China have already been declining for a while, as its economy reels under the impact of the property sector meltdown and a strict Covid-19 policy.

Merchandise imports grew a mild 8.7% on-year to $61.2 billion in September (down from 37.3% growthin August). Sequentially, imports have declined for the second straight month in September. While this is largely a reflection of lower oil import bill – thanks to softer global crude oil prices during August and September – core imports (non-oil, non-gold) too are seeing some moderation. To be sure, the correction in international crude oil prices after the OPEC+ decision to cut oil supply would push up the oil import bill again.

A sequential moderation in imports along with a rise in exports led merchandise trade deficit to soften to $25.7 billion in September from $28.0 billion in August. But it still remains large compared with $22.5 billion in September 2021.

For the first half of this fiscal, i.e., April to September 2022, merchandise exports grew 15.5% on-year to $229 billion, while imports have grown 38.1% to $379 billion. This has led trade deficit in the first half of this fiscal to widen to $150.2 billion from $76.2 billion in the year-ago period.

Core exports continue to decline



Source: Ministry of Commerce and Industry, CRISIL

[1] On a seasonally adjusted basis

Data highlights

- The mild improvement in India's merchandise exports in September was largely a result of higher petroleum and gems and jewellery exports. But core exports continued to lose steam and declined for the second consecutive month in September (-4.6% on-year versus -1.6% in August), reflecting lower global demand in key geographies. Sequentially, i.e., on an m-o-m basis in seasonally adjusted terms, core exports declined for the fifth consecutive month.
- Trade deficit, however, has got some cushion with imports also coming down. Sequentially, imports declined -1.8% on-month in September. Moderation in imports is primarily led by oil imports, which contracted in September (-5.4% on-year) – for the first time since February 2021 – and also declined sequentially (-4.8% on-month). Core (non-oil non-gold) import growth almost halved to 20.6% on-year in September from 40.6% in August and were sequentially pretty much flat.
- Services exports displayed some improvement in August, growing 24.3% on-year (to $25.4 billion), up from 20.2% in July. Sequentially, services exports rose faster than imports, leading to services trade surplus improving to $10.3 billion in August, from $9.3 billion in July.

Slower engineering, textile exports weigh down on overall exports; gems and jewellery as well as electronic goods do some counterbalancing

- Some relaxation in the government-imposed duties on petroleum product exports during September likely helped oil exports rebound at a time when international oil prices declined to $88.2/bbl from $95.9/bbl in August. India's oil exports rose to $7.4 billion in September, from $5.7 billion in August, representing a 43.2% rise on-year and 31.7% increase on-month[2].
- But it is worrisome that exports of engineering goods – India's biggest export item – continue to weaken, falling 10.9% on-year to $8.4 billion in September. This not only reflects lower demand in the export markets, but also some loss of competitiveness for India's exports, due to higher raw material cost (such as higher domestic steel prices and higher landed cost of other imported intermediaries due to the rupee depreciation).
- Textile imports are also under pressure, which is not a good news, as it is a highly labour-intensive sector and can have job implications. 'Cotton yarn, fabrics, madeups, handloom products' and 'readymade garments of all textiles' were down 39.0% and 18.1% on-year, respectively, in September. These were down sequentially as well, reflecting weaker demand in advanced economies, especially European Union.
- Agri exports too remained weak as the government tries to protect local food requirement and contain food inflation. Exports of *other cereals* (largely reflecting wheat) and *rice* were down sequentially 17.8% and 20.4% on-month, respectively, in September. Recent government permission to allow broken rice exports, for which contracts were signed before the ban came into effect, could lead to some uptick in rice exports in the coming month.
- Gems and jewellery exports – another key export item from India – however continues to do well, reflecting gains from the India-UAE CEPA agreement, which came into force earlier this year. These exports grew 17.3% on-year to $3.8 billion in September.
- Exports of electronic goods (though they do not have a large share in India's total merchandise exports and a relatively low domestic value add component) also continued to increase. In September, exports of electronic goods jumped 72% on-year to $2 billion, the highest ever.

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[2] On seasonally adjusted basis

Lower crude oil and gold prices pull down overall imports

- Imports continued to moderate in September, growing a mere 8.7% on-year to $61.2 billion. The growth is sharply lower from 37.3% in the previous month, largely because of lower oil import bill, as international crude oil prices fell in September. Oil imports declined 5.4% on-year to $15.9 billion in September.
- Gold imports fell 24.6% on-year to $3.9 billion in September, as gold prices continued lower, especially as the US dollar is gaining strength. In September, global gold prices averaged $1,680.78/troy oz, down from $1,764.56/troy oz in August.
- Among the core categories, growth in imports of electronic goods moderated to 3.8% on-year in September (from 23.3% previous month). Likewise, machinery import growth softened to 16.5% from 33.3%.
- That said some of the primary products or raw material imports saw a high growth in September. For instance, imports of coal, fertilizers and iron & steel grew 60.8%, 48.3% and 39.2% on-year in the month.

Services trade surplus rises

- Services trade data showed that services exports growth improved to 24.3% in August (latest available data), from 20.2% in July. Services imports grew 27.1% on-year in August (compared with 22.3% in July).
- Sequentially, however, services exports grew faster than imports, as a result of which services trade surplus rose to $10.3 billion in August from $9.3 billion in July.

Outlook

The outlook for India's trade deficit and current account deficit (CAD) remains weak, because of mutliple headwinds to global growth that are likely to pull down exports. The IMF recently slashed its 2023 world growth outlook to 2.7% from an estimated 3.2% this year, with the slowdown coming primarily from the advanced economies, such as Europe and the US, which are key markets for India's exports. The World Trade Organisation recently cut its 2023 global trade growth forecast sharply down to a mere 1% from 3.4% earlier.

Also, a depreciating rupee may not support India's overall exports much, as they are more responsive to trends in global growth. A decline in commodity prices from their record highs will cushion the sequential momentum in the import bill, but is unlikely to have a significant impact on the overall deficit figure, as prices still remain elevated from the year-ago period. In fact, oil prices are once again firming up after the OPEC+ announced oil-supply cuts recently.

Net-net, we see the import bill ballooning even as exports slow down, leading to a wider CAD. Some support is expected from the rebalancing of trade from merchandise to services, which will boost services exports. But this will not meaningfully alter the overall trade balance. We, thus, expect India's CAD at 3.0% of GDP this fiscal, compared with 1.2% in the previous fiscal. Risks to CAD are tilted downside.

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