Macroeconomics | FIRST CUT

Goods exports fall, services soften

August 2024

Merchandise exports contract in July

Merchandise exports contracted in July after rising steadily in the first three months of this fiscal. At $33.9 billion, exports were down 1.5% on-year in July. The contraction in exports was due to weakness in both oil and gems and jewellery exports. Core exports, however, was up 5.7%, albeit lower than the average 8.7% growth seen in the previous two months.

On the other hand, growth in imports picked up 7.5% on-year in July compared with the previous month (5.0%), led by higher oil imports. Out of July's $57.48 bn imports, oil accounted for $13.87 bn or 24.1% of total imports.

Higher import growth compared to exports saw merchandise trade deficit widen to $23.5 bn from $19 bn in the previous fiscal and $21 bn in the previous month. This is the widest monthly trade deficit in nine months.

According to the Union Commerce Secretary, in addition to elevated prices, high demand for oil products in India led to increase in imports and decrease in exports. It is also noteworthy that the discount on Russian oil price has declined compared to the previous fiscal.

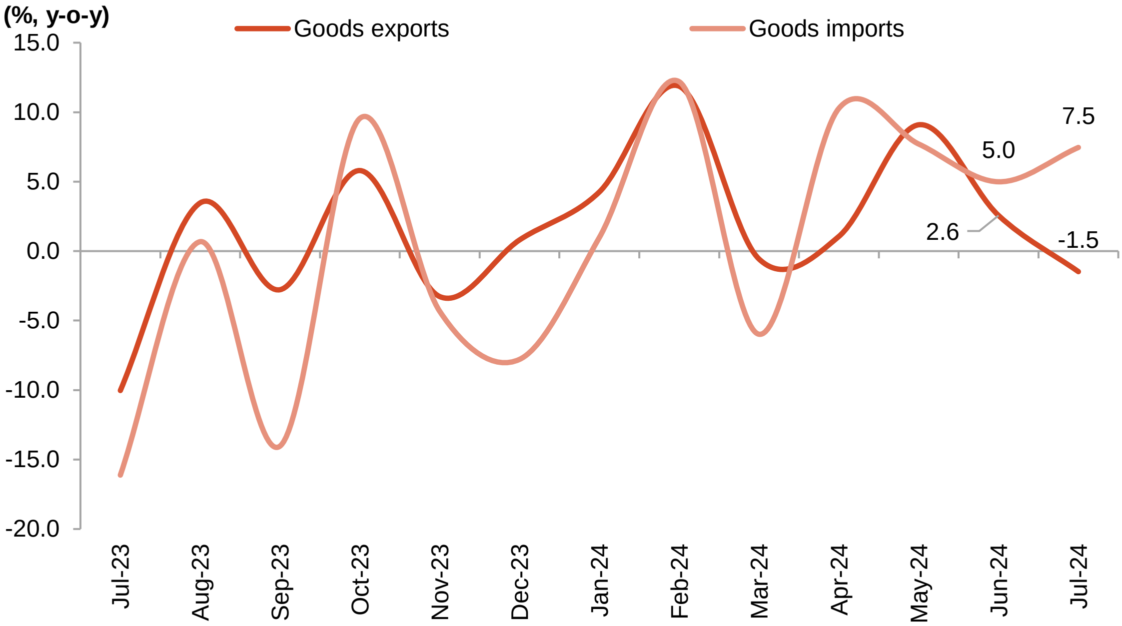
Core imports (non-oil and non-gold), too, came in strong, rising 7.8%, compared to the 7.1% growth logged in the previous month, suggesting strong demand in the economy.

On a cumulative basis, merchandise exports rose 4.15% to $144.12 billion for the April-July period, from $138.39 billion in the year-ago period. Cumulative imports grew faster at 7.6% to $229.7 billion from $213.53 billion. As a result, trade deficit widened to $85.6 billion from $75.14 billion in the previous year.

Services exports were weaker, growing at 3.7% in June[1], compared with 10.2% in May. However, the simultaneous slowdown in services imports resulted in a services trade surplus of $14.4 billion in June, higher than $12.4 billion in June last year and $14.3 billion in May.

[1] The latest data released by the RBI for the services sector is for June 2024

Goods imports rose, while exports contracted in July



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Data highlights

- The uptick in outbound shipments was led by electronic goods (37.3%), meat, dairy and poultry products (56.2%), oil meals (22%), readymade garments (11.8%), spices (13%) and tea (21.8%) — all of which logged strong growth on-year. However, categories such as gems and jewellery (-20.4%), ceramic products and glassware (-21.1%), organic and inorganic chemicals (-12%) and rice (-15.3%) witnessed a contraction.
- While Brent spot price increased to $85.3/bbl, compared with $80.1/bbl in July last year, oil exports dipped 22.2% on-year, suggesting lower export volumes.
- Even as oil exports fell, oil imports rose 17.3% on-year, compared with 19.6% in the previous month, on account of higher domestic demand.
- Among other core export goods, exports of manmade yarn and fabrics (3.9% vs. 2.8%) were higher than in June. That said, growth in drugs and pharmaceuticals (8.4% vs. 9.9%), engineering goods (3.7% vs. 10.3%), fruits and vegetables (2.2% vs. 7%), iron ore (7.7% vs. 24.7%), plastic and linoleum (8.8% vs. 9.9%) was slower than in the previous month.
- Our labour-intensive sectors displayed resilience. Growth in carpets (10.5% vs. 10.6%), handicrafts (13.2% vs. -16.6%), manmade yarn and fabrics (3.9% vs.2.8%) was stronger than in the previous month. Exports of leather and leather products clocked 2.3% growth on-year for the first time since November 2022. Exports of readymade garments was also robust at 11.8% compared with 3.7% in the previous month.
- Agricultural products such as coffee (-1% vs. 70%), cashew (-25.5% vs. -7.3%), rice (-15.3% vs. 1%) and fruits and vegetables (2.2% vs. 7%) saw contraction. To be sure, the growth in rice and fruits and vegetables was moderate compared with the previous month because of an unfavourable base. With rainfall improving in July, sowing of kharif crops is improving and hence production is expected to pick up. Especially, with the build-up of rice inventories, exports are expected to pick up in the coming months.
- Meanwhile, spices (13% vs.9.8%), tea (21.8% vs.3.2%) and tobacco (39.9% vs.37.7%) grew at a faster pace than in the previous month. Exports of spices picked up after contracting in May on account of pesticide-related issues.
- Marine product exports shrank 4.6% on-year compared with -7.7% in the previous month. Despite this, exports in this category are expected to pick up on account of the reduction in Basic Customs Duty (BCD). Growth in dairy and poultry products surged 56.2% compared with -13.9% in the previous month.
- Imports of silver (439.2% vs. 377.4%), leather and leather products (100.1% vs. -17.4%), coal, coke and briquittes (9.1% vs. -16.7%), newsprint (20.5% vs. 3.1%), organic and inorganic chemicals (8.1% vs.1.3%), surgical instruments (19% vs.14%) and vegetable oils (14.5% vs.9.3%) recorded strong growth compared with June.

Outlook

The fiscal started on a good note, with merchandise exports logging steady growth in the first quarter. This along with key multilateral organisations' forecasts of better on-year trade growth are encouraging. The government's increased focus on foreign trade agreements should also provide a thrust. While July saw a mild contraction in exports, whether this will sustain remains to be seen.

That said, growth in imports so far has surpassed exports, thus widening the trade deficit. This will remain a key monitorable, especially since the US has announced tariff hikes on Chinese imports, which could potentially lead to some dumping by China in the larger Asian market, including in India. In fact, various news items indicate that import of steel from China and Vietnam has been on the rise in recent months.

The expected moderation in domestic growth, however, should keep a tab on growth in imports and, thereby on trade deficit. At the same time, the surplus in services trade and robust remittances flow suggests the current account is expected to remain in a safe zone.

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