Macroeconomics | FIRST CUT

Exports accelerate

November 2024

Exports grew 17.3%, while imports grew 3.9% on year in October

India's merchandise exports staged a strong comeback, growing 17.3% on-year in October, the fastest in 28 months. The increase was a mild 0.5% the previous month even as there was average 5.8% on-year contraction during July-August. At $39.2 billion, exports surged as core[1] and gems & jewellery exports rose 27.7% and 8.7% on-year, respectively, even as oil exports contracted. Within the core group, export growth was particularly strong in categories such as engineering goods, electronic goods, chemicals, textiles, marine products and rice.

Brent crude oil prices averaged $75.7 per barrel in October, compared with $91.1 in the same month of 2023, reflecting weakness in oil exports, which contracted 21.9% on-year during the month. Apparently, taking advantage of the subdued oil prices, India jacked up its oil imports, which rose 13.4% on-year in the month.

Meanwhile, merchandise imports grew slower than exports at $66.34 billion or 3.9% on-year in October. While oil imports surged, gems and jewellery imports contracted, and core import growth was stable.

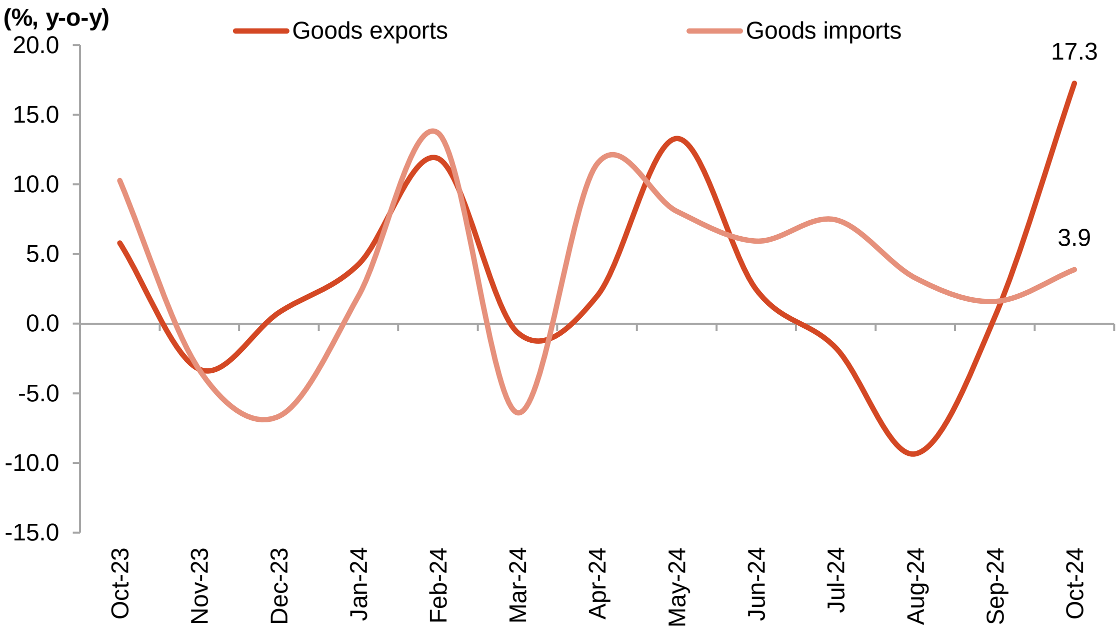
With the faster exports growth, the merchandise trade deficit narrowed to $27.1 billion in October from $30.43 billion in October 2023.

Cumulatively, merchandise exports rose 3.2% to $252.3 billion during April-October from $244.5 billion in the year-ago period. Cumulative imports grew faster, at 5.8%, to $416.9 billion from $394.2 billion. As a result, the trade deficit during the period widened to $164.7 billion from $149.7 billion.

Services exports grew 14.6% on-year in September[2], up from 5.7% in August. Services imports grew at 13.2% on-year versus 8.8%. Hence, the services trade surplus rose to $16.1 billion in September compared with $13.8 billion in September 2023 and $13.9 billion in August 2024. This is the highest surplus post January 2024, when it was $16.2 billion.

[1] Non-oil and non-gold
[2] The latest data released by the RBI for the services sector is for September 2024

Huge jump in export growth compared with import growth in October



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Data highlights

- Oil exports contracted for the fifth consecutive month in October, at 21.9% on-year, compared with 26.8% last month, owing to a fall in prices
- There was a sharp 25.6% on-year uptick in non-oil exports versus 6.8% on-year growth in September
- Growth improved for key core sectors such as engineering goods (39.4% vs 10.6%), drugs and pharmaceuticals (8.2% vs 7.2%), organic and inorganic chemicals (27.4% vs 11.2%) and electronic goods (45.7% vs 7.9%)
- Within the labour-intensive sectors, exports continued to do well, except for ceramic products and glassware (-6.1% on-year in October vs -10.9% in September). On the other hand, exports of gems and jewellery (8.8% vs -11.5%), readymade garment textiles (35.1% vs 17.3%), carpets (16.8% vs 14.9%), cotton yarn, fabrics, handloom products (7% vs 3.5%), handicrafts (32.7% vs 48.1%), leather and leather products (12.3% vs 8.9%) saw healthy positive growth
- Performnace is healthy for agricultural exports as well. Rice exports surged 85.8% on-year in October, following the 24.9% rise in the previous month, owing to the government removing curbs on overseas shipments of basmati and non-basmati rice. Cashew (7.2% vs 2.2%), fruits and vegetables (15.9% vs 8.4%), tea (9.3% vs 5.7%), spices (30.9% vs 26.7%) also saw higher positive growth.
- Within the import sectors, gold (-1.4% vs 6.9%) and pearl and precious and semi-precious stones (-29.5% vs -21.6%) imports fell. Imports of electrical and non electrical remained positive, but slowed to 8.7% on-year from 17.4%. Another category that saw strong import growth was vegetable oils, which grew 50.9% on-year, compared with -23.2% on-year previous month.

Outlook

This fiscal started on a good note, with merchandise exports growing steadily in the first quarter. Then came the contraction in the second quarter.

Hence, the healthy revival in exports growth in October is welcome, but its sustainability remains to be seen. Geopolitical uncertainties, including around the proposed tariff hikes by the Donald Trump government, continue to pose risks.

Growth in imports so far has surpassed exports this fiscal, causing the trade deficit to widen. This will be monitorable, especially because the United States has announced tariff hikes on Chinese imports (and more could follow with Trump coming in as the new President). Coupled with the slowdown in the Chinese economy, this is triggering aggressive exports from China to Asian markets, including India.

Higher merchandise trade deficit thus bears watching.

That said, the surplus in services trade and robust remittances flow provide some comfort and should help keep the current account in safe zone.

Analytical contacts

Dharmakirti Joshi
Chief Economist, CRISIL Ltd
dharmakirti.joshi@crisil.com

Adhish Verma
Senior Economist, CRISIL Ltd
adhish.verma@crisil.com

Meera Mohan
Economic Analyst, CRISIL Ltd
meera.mohan@crisil.com

Media contacts

Prakruti Jani
Media Relations
CRISIL Limited
M: + 91 98678 68976
prakruti.jani@crisil.com

Roma Gurnani
Media Relations
CRISIL Limited
M: +91 70662 92142
roma.gurnani@ext-crisil.com

Sanjay Lawrence
Media Relations
CRISIL Limited
M: +91 89833 21061
sanjay.lawrence@crisil.com

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