Macroeconomics | FIRST CUT

Services exports resilient, goods slip

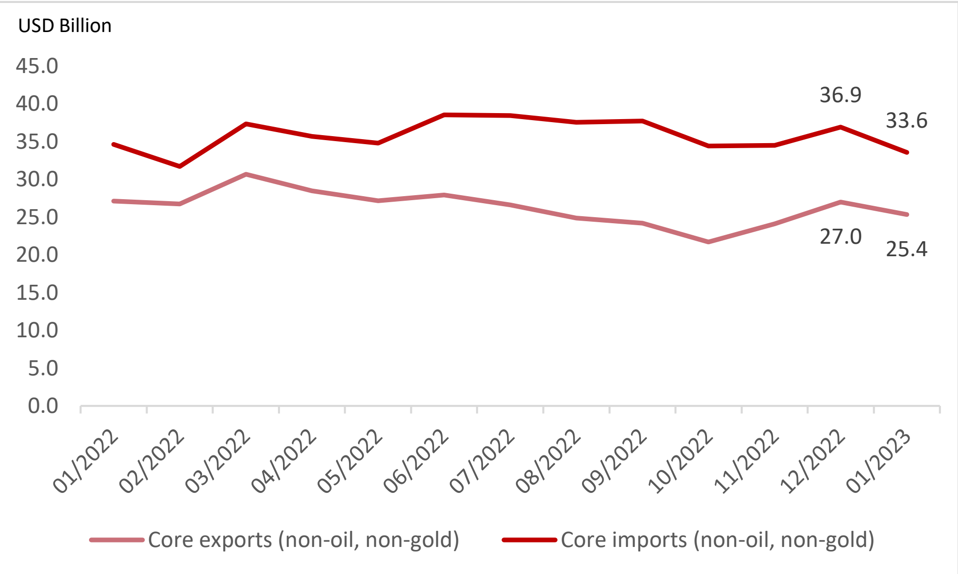
February 2023

India's merchandise exports fell on-year for the second consecutive month in January, by 6.6% to $32.9 billion, despite a favorable base effect. This implies sequential softening in exports during the month. Exports in December 2022 stood at $38.0 billion (revised up from $34.5 billion reported earlier).

Core (non-oil, non-gold) exports fell 7.5% on-year in January. While oil exports grew mildly on-year, they dwindled sequentially despite an uptick in international crude oil prices and a reduction in tax on petroleum exports in the month, suggesting softer global demand. The resilience of goods exports is being tested now as the impact of monetary tightening on demand conditions in the advanced economies unfolds. The slowdown in global growth this year would be led by the advanced economies, especially the US and the euro area — two of the largest export destiations for India[1].

Merchandise imports fell on-year in January, but at a slower pace than exports. At $50.7 billion, they reduced 3.7% on-year (greater than the 0.2% on-year decline in December). Core imports contracted on-year — for the first time this fiscal — signalling some softening in domestic demand. They fell sequentially as well. Oil imports declined sequentially, in tandem with oil exports, despite international crude prices rising to an average of $80.4/barrel in January from $78.1/barrel in December.

Core exports and imports decline in January



Source: Ministry of Commerce and Industry, CRISIL

A steeper decline in exports than imports led to a marginally wider trade deficit of $17.7 billion in January, compared with $17.3 billion a year ago. Sequentially, however, imports fell more than exports, leading to a lower trade deficit (vs $22.1 billion in December).

[1] Please refer to CRISIL Quickonomics 'The slowdown shadow', February 15, 2023, for more details

Year-to-date (April 2022 to January 2023), merchandise exports stood at $369.5 billion, up 8.5% from $340.3 billion in the year-ago period. Imports, on the other hand, rose 21.9% to $602.5 billion from $494.1 billion. As a result, the cumulative trade deficit rose to $233.2 billion from $153.8 billion. That said, the sequentially declining trade deficit indicates the pressure on current account deficit (CAD) is easing.

Data highlights

- Merchandise exports fell both on-year and sequentially in January, suggesting softening global demand. Exports of two of India's largest export items, engineering goods and gems and jewellery, continued to contract on-year, by 9.8% and 19.3%, respectively. Pharmaceutical exports witnessed a marginal decline of 2.6% on-year in January (pharmaceutical exports have grown 3% on-year so far this fiscal). Exports in key labour-intensive sectors such as textiles and leather also contracted on-year.

- Healthy exports in some sectors provided some counter-balancing in January. For instance, exports of electronic goods surged 55% on-year. Likewise, following the reversal and reduction (basis grade and type) of export duty by the Government of India in December, iron ore exports continued to rise, by 21%. Exports of agri commodities (low share in total exports) such as rice, fruits and vegetables, oil meals, and oilseeds grew in double digits.

- Merchandise imports declined 3.7% on-year in January, helped by a steep decline of 70.8% on-year in gold imports, like in the previous month. Gems and jewellery imports fell 29.7% on-year. In fact, import growth turned negative in some of the core categories. For instance, electrical and non-electrical machinery imports fell 2.5%, the first on-year contraction since February 2021. Imports of electronic goods and organic and inorganic chemicals witnessed double-digit contraction.

- The deficit in merchandise trade continues to be mitigated to a good extent by the surplus in services trade. In December — the latest month for which final data is available — the services trade surplus rose to $15.5 billion from $8.4 billion a year ago. Services exports grew 20.4% on-year to $31.3 billion, far outpacing the growth of 5.7% on-year in service imports to $15.8 billion. The share of services exports in total exports has improved significantly to 41.6% this fiscal (April-December) from 37.6% last fiscal.

Outlook

Exports are expected to face headwinds from the anticipated slowdown in global growth, largely premised on lower growth in advanced economies such as the US and the euro area — both key export markets for India. Further, decelration in domestic growth could cause some softening in imports.

Net-net, we see the import bill remaining higher than the export bill, leading to a wider CAD this fiscal. Some support is expected from healthy services exports. Robust remittances and lower gold imports could also limit the downside to CAD.

We expect CAD to settle at 3.2% of gross domestic product this fiscal (compared with 1.2% last fiscal) and decline to 2.4% next fiscal.

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