Macroeconomics | FIRST CUT

In free fall

July 2023

The headwinds of slowing global growth are beginning to buffet India's trade on all sides.

Merchandise exports fell a massive 22.0% on-year in June to $32.9 billion, marking the fifth straight month of decline.

While the large decline could be attributed partly to a high base effect, as exports had unexpectedly shot up in the same month last year, exports declined sequentially and on a seasonally-adjusted basis too.

Moreover, unlike in recent months when the fall in oil exports (one of India's top export commodities) was a major cause for decline in overall exports, June also saw a sharper contraction in core (non-oil, non gold[1]) exports.

The decline in India's exports mirrors a similar slowdown from the larger Asian region, suggesting reduced demand for goods from advanced economies where the focus has shifted to services consumption.

For the April-June quarter, India's merchandise exports fell 15.1% on-year, compared with an average decline of 2.0% in the previous two quarters.

While the decline in commodity prices has played a big role in the fall in dollar value of India's exports, volumes have declined in many cases too. According to data from the commerce ministry, 40 of 75 commodities witnessed an on-year decline in exported volume during April-May 2023. These include categories such as organic chemicals, base metals etc. That said, volume of petroleum exports rose during April-May 2023 (over same period last year), which means the fall in oil exports (in dollar terms) is purely a price effect.

A second significant development, in what could be an early sign of weakeness setting into domestic demand, is a massive decline in merchandise imports in June. Overall merchandise imports fell 17.5% on-year to $53.1 billion, while core imports dropped 14.5% to $33.3 bilion in June. Investment related imports, which saw robust growth in the past few months, also softened.

In fact, sequentially (in seasonally adjusted terms), imports fell more than exports. With imports declining sharply, merchandise trade deficit marginally narrowed to $20.1 billion in June, from $22.1 billion previous month and the year-ago period.

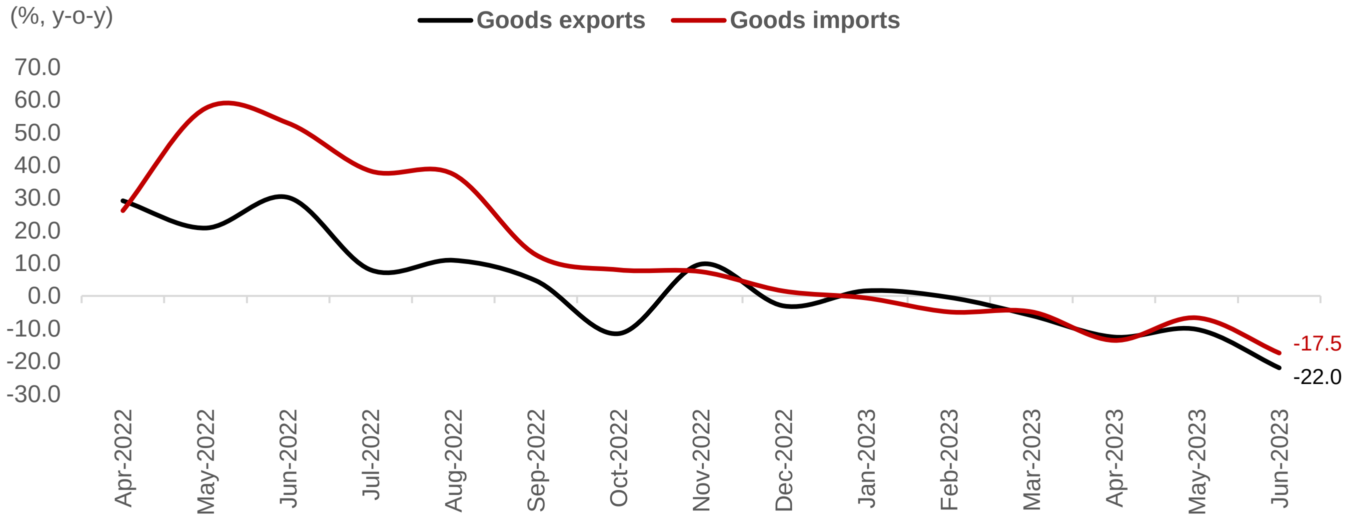
The third area of concern, at least for now, is the slowdown in India's services goods exports. In the first two months of the fiscal for which actual data is out, services exports grew 7.6% on average, down from 23.8% for the previous three months.

Since services import growth too has softened, the services trade balance has not been affected much so far. Nevertheless, services trade will remain a crucial monitorable as it has hugely helped keep India's current account deficit (CAD) in check in the past.

---

[1] Gold here refers to gems and jewellery

All chips are down



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- With the fall in international crude oil prices, the decline in overall merchandise exports continued to be led by oil exports, which fell a massive 47.5% on-year to $5.6 billion in June. Crude prices have fallen for two months in a row: Brent spot averaged $74.9/bbl in June, down from $75.7/bbl in May and $120.1/bbl in June last year. With global demand, particularly from China, softening, oil prices face a downward pull. CRISIL recently revised down its fiscal 2024 crude oil price forecast to $75-80/bbl, from $80-85/bbl earlier
- At the same time, the slowdown has intensified in engineering goods, India's largest export item. It witnessed a decline of 11.0% on-year in June, compared with an average 6.3% decline in the previous three months. Also, gems and jewellery — another big-ticket export item – declined 35.6% on-year in June, while organic and inorganic chemicals exports fell 26.7%
- While the decline in labour-intensive exports continued, with textiles (readymade garments) shrinking 16.9% on-year in June and leather 11.8%, a few other export categories, which had hitherto displayed healthy growth, such as 'ceramic products and glassware' and 'oil meals', also faltered
- Electronic goods exports displayed healthy on-year growth of 45.4% in June but did not grow sequentially, suggesting some impact of demand slowdown is starting to show up here as well
- That said, pharma exports displayed resilience and grew 5.1% on-year (up from 0.8% previous month)
- On the import front, the decline was once again led by oil imports which fell 33.8% on-year to $12.5 billion in June, following the decline in international crude prices
- Also some of the investment related imports such as 'electrical and non-electrical machinery' and 'machine tools' slipped into red in June, from healthy double-digit growth in recent months. They were down 2.2% and 5.4% on-year, respectively, though it remains to be seen if this is a temporary blip

- At the same time, there was a sharp sequential slowdown in iron and steel imports, which came as a relief amid the trend of dumping of cheaper steel into India. Iron and steel import growth dropped to just 1% on-year in June from an average 16.5% in the previous three months
- In contrast, after contracting continuously and sharply for many months (as the government tried to curb non-essential imports and raised the duty on them), gold imports surprisingly shot up 82.4% on-year to $5.0 billion in June. While the high growth was partly on account of a low base, there was healthy sequential growth as well. This is because: a) gold prices have remained firm on-year ($1,942.9/troy oz in June 2023 vs $1,836.57/troy oz in June 2022) and b) there has been an unusual rise in import of gold from Indonesia under the free trade agreement, according to various government sources. The latter recently led the government to put import of some forms of gold jewellery under restriction
- Pulses imports also witnessed a sharp rise of 201.9% on-year. This is in sync with government's efforts to increase the domestic availability of pulses in view of the shortage and resultant price pressures
- Services exports grew 7.7% on-year to $27.1 billion in May. It is estimated to have slowed to 0.7% in June. Services imports, on the other hand, grew a slower 2.0% to $15.5 billion in May. As result, services trade surplus stood at $11.6 billion in May, up from $9.9 billion a year ago. That said, sequentially, trade surplus reduced a tad, from $12.2 billion in April.

Outlook

Merchandise exports are increasingly facing headwinds from the slowdown in goods demand globally, especially in advanced economies such as the United States and euro area — both key export markets for India. At the same time, there appears to be a slowdown in India's exports to the Asia Pacific region too. Exports are facing a double whammy from both, a fall in prices and volumes in many cases.

That said, deceleration in domestic growth is also leading to a softening in India's imports.

As a result, we project India's CAD, which was 2.0% of gross domestic product in fiscal 2023, to soften to 1.8% this fiscal.

Analytical contacts

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

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

About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK | INSTAGRAM

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

Argentina | Australia | China | Hong Kong | **India** | Japan | Poland | Singapore | Switzerland | UAE | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited /lifeatcrisil

CRISIL
An S&P Global Company