Macroeconomics | FIRST CUT

Decline slows

September 2023

The declining streak of India's merchandise exports continued for the seventh straight month in August, but the pace slowed to 6.9% on-year to $34.5 billion, compared with an average 15% slide in the preceding quarter, indicating some sequential improvement.

While oil exports continue to witness a sharp decline (down 30.7% on-year in August) due to lower on-year prices, both non-oil and core (non-oil, non-gold[1]) exports grew, if only mildly, for the first time in nine months in August — helped also by a low-base effect. Sectors such as pharmaceuticals, electronic goods, ceramics and some textile categories registered healthy export growth beside a sequential uptick in gems and jewellery exports.

Overall goods exports remain under pressure as global growth is softening and purchasing power impacted by high inflation. Moreover, there has been a shift in focus from manufacturing towards services, as indicated by purchasing manager indices (PMI), especially in the advanced economies.

Cumulatively, India's merchandise exports fell 13.1% on-year to $170.7 billion during April-August 2023 from $196.3 billion in the year-ago period.

Merchandise imports, too, fell in August and the pace of their contraction was slower as well. Put another way, there was a sequential uptick. At $58.6 billion in August — the highest in eight months — merchandise imports were down a mere 5.2% on-year (compared with an average decline of 13.7% in the previous three months).

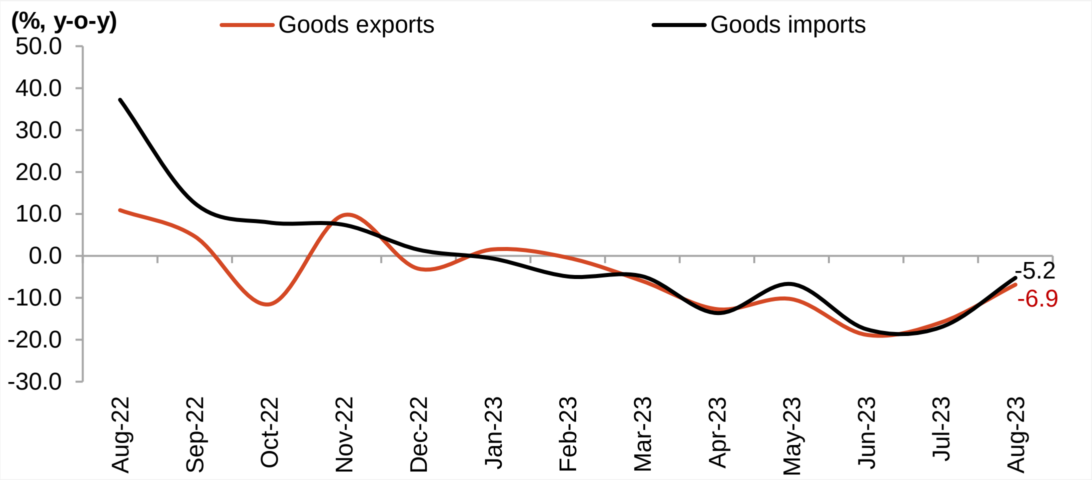
While overall merchandise imports fell, both non-oil and non-oil, non-gold imports grew on-year in August indicating healthy domestic economic momentum and increased local demand in view of the August festive season.

With imports increasing faster sequentialy than exports, merchandise trade deficit rose to a 10-month high of $24.2 billion in August from $20.1 billion in July. With the recent uptick in energy commodity prices, especially that of crude oil, India's oil trade deficit has gone up in the past two months and will remain a key monitorable. Brent crude rose to $86.2/barrel (bbl) on average in August from $80.1/bbl in July and crossed $90/bbl in September.

After strong 12.7% on-year growth in July, services export growth is estimated to have declined to 3.8% in August (final data for services trade is released with a lag of two months). But services imports continued to shrink, thereby keeping the services trade surplus intact. This augurs well for India's overall trade balance, especially at a time when merchandise exports are facing headwinds.

[1] Gold here refers to gems and jewellery

Export growth continues to be in the red, albeit with some sequential relief



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- While oil exports were down 30.6% on-year in August (as crude oil prices were down from year ago levels[2]), they improved sequentially, rising for the first time in four months (to $5.9 billion in August from $4.6 billion in July), a reflection of the recent uptick in crude oil prices. Brent spot price spiked from $80.1/bbl in July to $86.2/bbl in August, thanks to supply cuts by key oil exporting countries. To be sure, Brent has already gone past $90/bbl mark in September
- Among other large categories, gems and jewellery exports also saw some sequential improvement, rising to $2.6 billion in August from $2.3 billion in July despite gold prices and broader precious metal prices[3] falling during the month. International gold prices were down to $1918.7/troy oz in August from $1951.0/troy oz in July, as US dollar appreciated during the month
- While export growth in engineering goods - India's biggest export items – turned positive (7.7%) for the first time in 14 months in August, it was helped by a low base. That said, there was a mild sequential uptick as well, but its sustainability remains to be seen
- Elsewhere, pharmaceutical exports grew a healthy 4.5% (to $2.2 billion in August) and electronic exports were again back on a high growth trajectory, rising 26.3% on-year in August, up from 13.1% in July
- Among the low ticket items, ceramics and glassware exports continued to clock high growth for the second consecutive month, rising 29.3% on-year in August. In the textile space, 'cotton yarn, fabrics, madeups, handloom products, etc', the second biggest category after readymade garments (RMG), registered positive growth for the second consecutive month, rising 26.0% on-year in August
- As for the laggards, 'organic and inorganic chemicals' exports – one of India's biggest export items – continued to falter, declining 17.8% on-year in August. Moreover, export of labour-intensive RMG textiles and low value-add 'plastic and linoleum' continued to be in the red, declining 8.1% and 8.6% on-year, respectively, in August
- In the agriculture space, rice exports contracted 9.8% on-year in August, due to government's export ban on non-basmati rice. To be sure international rice prices have risen sharply[4] in the past two months, given India is the top rice exporter/supplier. This means a decline in rice exports in volume terms would have been sharper. Also, coffee exports declined for the first time in six months in August (-0.8% on-year), potentially reflecting lower production of robusta beans on account of an erratic monsoon
- On the import front, the overall decline was once again led by oil imports which fell 23.8% on-year to $13.2 billion in August, following the annual decline in international crude prices. But, like oil exports, oil imports too rose sequentially in August following the uptick in crude oil prices on-month. This also indicates that the benefit of cheaper/discounted Russia oil may be reaching its limit as Russia curtails supply/exports of its oil
- Gold imports picked up once again, rising 38.8% on-year to $4.9 billion in August (compared with $3.5 billion in July), reflecting increased demand amid the festive season, especially as gold prices softened
- Electrical and non-electrical machinery imports continued to grow robustly in August (up 16.2% on-year) in sync with India's continued capex focus
- Pulses imports continued unabated, rising 76.3% on-year to $244.2 million, as the government tries to ramp up availabilty in the domestic market

[2] Brent spot averaged $86.2/bbl in August 2023, compared with $98.6/bbl in August 2022
[3] World Bank Precious Metals index stood at 145.77 in August, down from 148.65 in July
[4] As per World Bank, price of Thai Rice A.1 rose to $626/mt in August, from $495.8/mt in June

- On the other hand, coal – one of India's largest import items – has been witnessing a continuous decline in imports as domestic production continues to improve. In August, coal imports were down 43.5% to $2.6 billion. Cumulatively, coal imports have fallen 37.1% during April-August 2023
- Services exports grew 12.7% on-year to $26.2 billion in July (growth is estimated to have slowed to 3.8% in August). Services imports, on the other hand, contracted 1.3% to $13.8 billion in July. As result, services trade surplus improved to $12.5 billion in July from $9.5 billion a year ago

Outlook

Merchandise exports are increasingly facing headwinds from the slowdown in goods demand globally, not only in advanced economies such as the United States and euro area but also in emerging markets, especially in the Asia-Pacific region. 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 softening of India's imports, albeit not as much as the slowdown in exports. But at the same time, the services trade surplus remains robust and remittances are expected to remain healthy.

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

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

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