

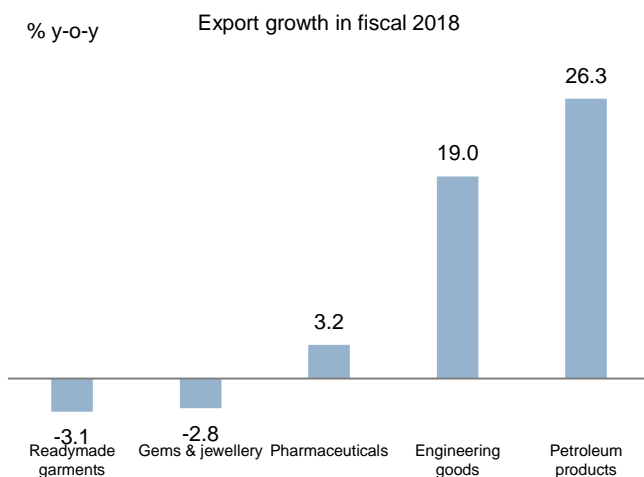
# Labour-intensive sectors push exports into the red

CRISIL Economy First Cut | April 2018

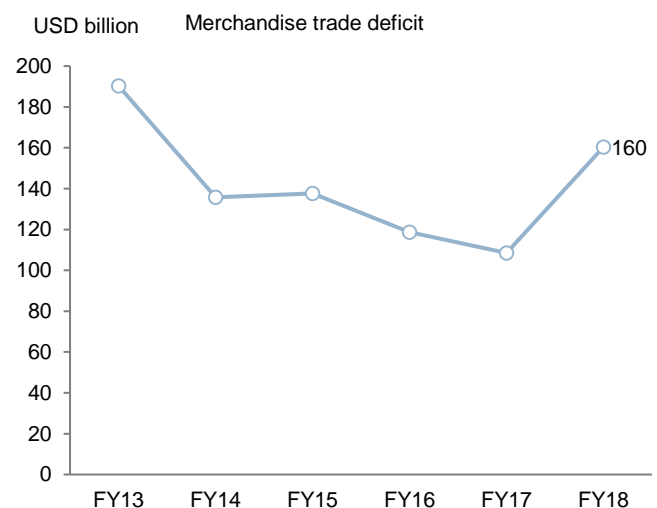
## Overview

- Merchandise exports<sup>1</sup> declined 0.7% on-year in March, compared with 4.5% growth in February. This is the fourth consecutive month of slowdown in exports growth.
- While growth in imports also slowed for the fourth straight month, it continued to outpace exports growth. Imports grew 7.1% in March, compared with 10.4% in February. Trade deficit stood at \$13.7 billion, which is \$1.7 billion higher on-month and \$3 billion higher on-year.
- The sharper fall in exports from major labour-intensive sectors – gems & jewellery and readymade garments – was the key factor behind decline in overall export growth. In addition, exports of petroleum products declined despite a rise in oil prices in the month.
- In fiscal 2018, exports grew an average 9.9% on-year, or less than half the 21.2% growth in imports. As shown by the chart below on the left, poor performance of the labour-intensive sectors has been a drag on export growth throughout this fiscal. On the other side, the import growth in this fiscal has been broad-based, with the drivers of growth being oil, gold, and electronic goods. Trade deficit, which was on a declining trend for the past four years, has widened \$52 billion on-year in fiscal 2018 to \$160 billion.
- We expect trade deficit to widen further in fiscal 2019 as the rise in oil prices and improvement in domestic demand will keep import growth higher than export growth. While exports will benefit from continued strengthening of global growth, persisting GST-related disruptions can pose downside risks. **Due to these factors, we expect current account deficit to increase to 2.5% of GDP in fiscal 2019 from an estimated 1.9% of GDP in fiscal 2018.**

Performance of top five exported commodities<sup>2</sup>



Trade deficit reaches a five-year high



Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

## Export decline intensifies for labour-intensive sectors

- The decline in gems & jewellery exports intensified further to -16.6% on-year in March compared with -5.1% in February; while readymade garments export growth fell to -17.8% compared with -10.2% in February. While this was the second consecutive month of negative growth in gems & jewellery, it was the sixth consecutive month

<sup>1</sup> All trade figures are in US dollar terms

<sup>2</sup> Based on share in India's total exports by value

of negative growth in readymade garments. Glitches and higher compliance costs of the Goods and Services Tax regime has severely hit business activity in these sectors. More recently, the clampdown on gems and jewellery sector following a major scam seems to have hit its export growth.

- Oil exports declined 13.2% even as Brent crude oil prices rose 14.8% on-year to an average \$66 per barrel.
- The domestic currency's movement was not adverse for exports as well. The export-weighted real effective exchange rate<sup>3</sup> (REER) was 0.9% lower on-month, and merely 0.4% higher on-year.
- Sectors that contributed positively to export growth were organic and inorganic chemicals (31.8% growth) and pharmaceuticals (8.4%).

### Gems & jewellery brings down imports growth as well

- Gold imports, which have been on a decline since September, fell further to -40.3% on-year in March compared with -16.9% in February. Import growth of precious and semi-precious stones – key input in gems & jewellery exports – dropped to 0.8% compared with 15.9% in February.
- Oil imports also moderated to 13.9% growth compared with 32.1% in February.
- However, core imports (i.e. non-oil, non-gold imports) picked up to 12.2% growth from 7.3% in February, driven by industrial imports<sup>4</sup> such as machinery (33.4% growth versus 23% in February), transport equipment (32.7% vs -49.1%) and coal, coke and briquettes (44.7%).

### Services imports outpace export growth

- Services export growth was stable at 20.3% on-year in February compared with 20.4% in January. However, import growth rose significantly to 40.2% from 17.1%. Services trade surplus shrunk and \$259 million on-year to \$5.6 billion.

#### Trade performance (% , y-o-y)

	Exports	Imports	Oil	Non-oil	Oil	Non-oil
			Imports	imports	exports	exports
Mar-18	-0.7	7.1	13.9	4.9	-13.2	1.2
Feb-18	4.5	10.4	32.1	4.1	27.4	1.9
Mar-17	27.9	46.3	102.2	34.3	71.6	23.3
FY18	9.9	21.2	25.2	20.1	26.3	7.9
FY17	5.2	2.4	12.5	0.6	6.0	5.3

Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

<sup>3</sup> REER measures the value of the rupee relative to its 36 major export destinations (while removing impact of inflation). A rise in REER implies appreciation of the rupee

<sup>4</sup> Capital goods and intermediate goods required for further production. This includes precious and semi-precious stones, imported for re-export purposes.

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