

Macroeconomics | **FIRST CUT**

Exports hold out

January 2023

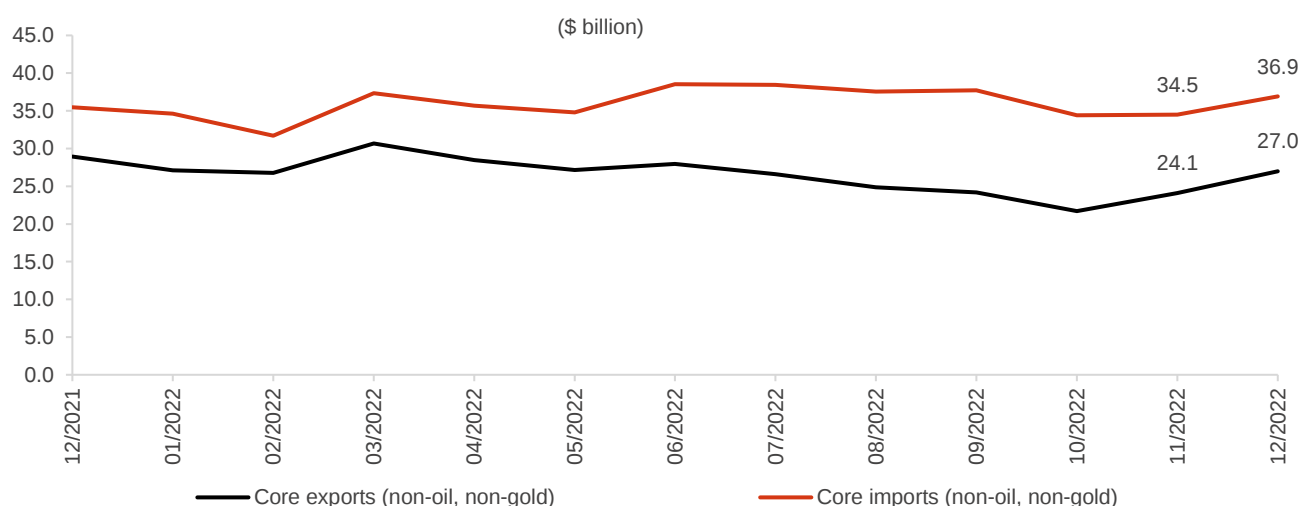
India's merchandise exports, at \$34.5 billion in December 2022, were down 12.2% on-year largely due to the high base of December 2021. But on-month, exports were stable. Recall that November export numbers had been revised significantly up, to \$34.8 billion from \$31.9 billion earlier, translating to 9.6% growth (vs 0.6% as per the initial data).

Core (non-oil, non-gold) exports fell by a lesser degree (-8.5% on-year) than overall exports. Again, the annual decline was mostly high base effect driven. Sequentially, core exports rose in December¹. Oil exports, however, fell, tracking a decline in international crude oil prices.

The apparent resilience in India's exports is likely a reflection of the fact that the growth slowdown in key advanced economies has not been as sharp as feared earlier, at least for now. That said, sustaining export performance is likely to become a challenge, as global growth is expected to sharply slow in the coming months, especially in the United States (US) and Europe, which are big export markets for India.

Merchandise imports too fell, but at a much slower pace than exports. At \$58.2 billion, they were down 3.5% on-year in December (vs. 9.8% growth in November). While imports contracted for the first time this fiscal year, it was partly on account of a high base and partly due to a sharp decline in gold imports. But on-year core import growth was still positive. Moreover, it improved sequentially in December, indicating persisting momentum in domestic economic activity. Oil imports, on the other hand, fell, in sync with softer international crude prices that declined to an average of \$78.1/barrel in December, from \$87.4/barrel in November.

Both core exports and imports show uptick in December on-month



Source: Ministry of Commerce and Industry, CRISIL

¹ They were stable on-month in seasonally adjusted terms

Steeper decline in exports than imports led to a wider trade deficit of \$23.8 billion in December 2022, compared with \$21.1 billion a year ago. Sequentially, the trade deficit was only marginally up (compared with \$23.4 billion in November 2022).

Year-to-date (April to December), merchandise exports stood at \$332.7 billion, up 9.1% from \$305.0 billion in the year-ago period. Imports, on the other hand, rose to \$551.7 billion from \$441.5 billion (up 25.0%). As a result, the cumulative trade deficit rose to \$218.9 billion from \$136.5 billion.

It is noteworthy that among key trading partners, India's merchandise trade deficit during April-November 2022 rose significantly with China (to \$58.0 billion vs \$43.6 billion in the year ago period), Saudi Arabia (\$22.2 billion vs \$13.1 billion) and Indonesia (\$14.7 billion vs \$6.0 billion). To be sure India also saw its trade deficit with Russia rising substantially (\$27.1 billion vs \$3.4 billion). At the same time, India's trade surplus with the US declined to \$18.9 billion from \$21.7 billion. India also reduced its trade deficit with South Africa to \$1.6 billion from \$2.8 billion.

Data highlights

- While merchandise exports declined 12.2% on-year in December, it was largely on account of a high base. Exports were stable on-month. While oil exports fell in sync with the decline in international crude oil prices, core (non-oil, non-gold) exports displayed resilience as shipments of key export categories such as engineering goods, pharmaceuticals, organic and inorganic chemicals and electronics remained robust.
- Iron ore exports shot up in December following the reversal and reduction (basis grade and type) of export duty by the Government of India and helped by the opening up of the Chinese economy (where restocking demand picked up before the Chinese New Year). Textile (readymade garments) exports also seem to have gained some traction in the past two months. However, gems and jewellery exports — India's third highest export item — fell in December.
- Merchandise imports declined 3.5% on-year in December partly due to high base effect and partly on account of a sharp 51.3% fall in gold imports, as higher gold prices dented demand. Oil imports too were sequentially down as a result of the fall in crude prices. That said, core imports maintained positive sequential momentum in December, hinting at robust domestic economic activity.
- Services trade surplus rose and continued to provide cushion to overall trade deficit. In November — the latest month for which final data is available — the services trade surplus rose to \$11.7 billion from \$11.0 billion a year ago. Services exports grew 30% on-year to \$27.0 billion, outpacing growth in imports at 21.7% to \$15.4 billion.

Outlook

The outlook for India's trade deficit and current account deficit (CAD) remains under pressure because of multiple headwinds to global growth that are likely to pull down exports. S&P Global recently slashed its 2023 world growth outlook by 20 bps to 2.2%, with the slowdown coming primarily from advanced economies such as Europe and the US — both key markets for India. The World Trade Organization expects merchandise trade growth in 2023 to slow to 1% in 2023 from 3.5% last year.

The rupee depreciation may not be very helpful as India's exports are more influenced by trends in global growth. A decline in commodity prices from their record highs will cushion the sequential momentum in the import bill but is

unlikely to have a significant impact on the overall deficit figures, as prices remain elevated from the year-ago period.

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

We foresee India's CAD at 3.2% of GDP this fiscal, compared with 1.2% last fiscal.

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