

Macroeconomics | **FIRST CUT**

Key exports face heat

April 2023

India's merchandise exports fell 13.9% on-year to \$38.4 billion in March 2023, compared with a 0.4%¹ contraction in the previous month. To be sure, the decline is not only on account of a high base effect (since exports had picked up sharply in March 2022) but also due to a loss in sequential momentum. **It is important to note the decline was largely attributed to a massive decline in oil and gems & jewellery exports** while core (non-oil, non-gold) exports were less affected.

With average international crude oil prices cooling to \$76.5/barrel in March, from \$80.3/barrel in February, India's oil exports declined to \$5.4 billion from \$7.8 billion, down 44.6% on-year. This also suggests the benefit of high oil exports on the back of the price surge following the Russia-Ukraine conflict in 2022 is now diminishing. It is noteworthy that in fiscal 2023, oil exports grew a massive 40.1% even as non-oil exports declined 0.5%.

Gems & jewellery exports declined sharply in March, contracting 27.4% on-year. Their duller sheen hints at softening discretionary demand, especially in the United States, the biggest export destination for India's gems & jewellery exports.

Core (non-oil, non-gold²) exports fell by a narrower 2.5% on-year in March, helped by an uptick in exports of items such as pharmaceutical products, coffee, dairy and poultry, and continued healthy growth in electronic, iron ore and some of the agri (oil meals, oil seeds, etc.) exports. Demand is shifting from goods towards less import-intensive services in India's major export destinations such as the US. The goods export slowdown could intensify and spread to other product categories, especially as the impact of monetary policy tightening gathers pace. Moreover, India's top export items such as engineering goods and gems & jewellery remain under stress and petroleum exports have also started declining, weighing on overall export prospects this fiscal.

Merchandise imports fell by a lesser 7.9% on-year to \$58.1 billion in March. This too was largely premised on a 23.7% on-year decline in oil imports, reflecting the benefit of lower crude prices. Core imports also shrank, but by a smaller 4.7%, indicating domestic economic activity is still showing resilience (sequentially, in seasonally adjusted terms, core imports fell just 0.5%). At the same time, it is noteworthy that the on-year decline in core imports also reflects the benefit from the lower international commodity prices. That said, gold imports rose sharply during the month, weighing on the overall import bill.

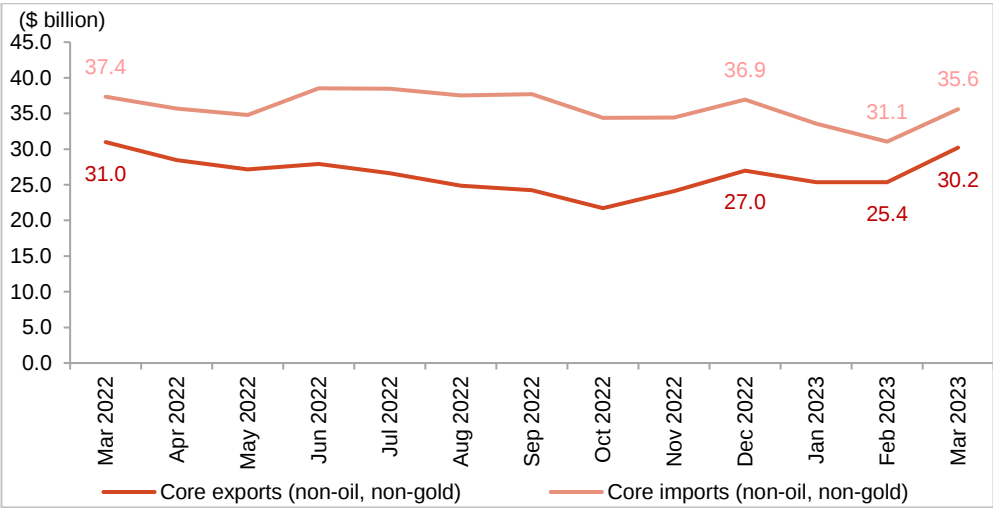
As a result of the sharper decline in overall exports vis-à-vis overall imports, India's merchandise trade deficit widened to \$19.7 billion in March from \$16.2 billion in February and \$18.5 billion a year ago.

For fiscal 2023, India's merchandise trade deficit stood at \$266.7 billion, up from \$191.1 billion in fiscal 2022. Exports rose to \$447.5 billion from \$422.0 billion in fiscal 2022 (up 6.0%). However, imports shot up by a much larger 16.5% (to \$714.2 billion from \$613.0 billion), suggesting India's trade balance was impacted adversely from harder commodity prices and its relatively higher growth in the previous fiscal.

¹ Due to the upward revision in the data, exports fell a mere 0.4% on-year in February 2023, compared with an 8.8% decline suggested initially by the commerce ministry

² Gold in the core exports and imports, refer to total gems & jewellery data

Core exports and imports witnessed some uptick in March



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- India's top three export items continued to contract in March. While engineering goods, the largest export item, contracted 7.5% on-year, petroleum products and gems & jewellery, the second and third largest export items, also contracted, by 44.6% and 27.4%, respectively. At the same time, decline in labour-intensive exports intensified with textiles (readymade garment) exports falling 16.8% (following 12.1% contraction in February) and leather exports down 16.6% (down 14.5% in February)
- While India's key traditional exports have been dwindling, healthy growth in other export categories is partially offsetting the decline. For instance, thanks to the push from the Production-Linked Incentive scheme, electronics exports continued their stellar performance, rising 57.4% on-year in March. Oil meal and oil seeds exports were up 156.6% and 99.5%, respectively (for full fiscal 2023, these exports have grown 50.7%, 55.1% and 25.4%, respectively)
- Lending further support were pharmaceutical exports, which grew for the second straight month in March, after declining in the previous two. Coffee exports too returned to positive territory, brewing a healthy 17.9% on-year growth in March. In fact, fiscal 2023 saw coffee exports rising 9.3% to \$1.12 billion, up from \$1.02 billion in fiscal 2022, marking the second consecutive year when coffee exports exceeded the \$1 billion-mark
- After declining in previous many months (and thereby assuaging the overall import bill), gold imports shot up in March, rising 216.8% on-year to \$3.3 billion (vs \$2.6 billion in February). Among other key import items, electrical and non-electrical machinery imports were up 16.0% on-year, reflecting buoyant investment demand domestically. Iron and steel and chemical imports were up a healthy 20.1% and 19.4%, respectively
- On the other hand, among major import categories, items that helped lower the import bill were oil imports, down 23.8% to \$16.1 billion in March (as oil prices fell). This was followed by coal, imports of which were down 25% on-year to \$3.5 billion in March, reflecting both the decline in international coal prices and ramp-up in domestic production of the commodity. Also keeping the import bill in check were continuously declining electronics and fertiliser imports, which were down 16.8% and 50.1% on-year, respectively
- Services exports continued their splendid performance in February (the latest month for which final data is available³), mitigating a part of the deficit in the goods. Services exports grew 28.8% to \$27.4 billion in February while services imports rose only 10.8% to \$14.4 billion. As a result, the services trade surplus improved to \$13.1 billion in February, from \$8.3 billion a year ago

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, deceleration in domestic growth could soften imports somewhat.

The falling trade deficit is beginning to have a salutary effect on India's current account deficit (CAD), which we expect to moderate to 2.0% of gross domestic product from 2.5% estimated for the current fiscal. The risks to the CAD are tilted downwards.

³ That said, the provisional data for March has exhibited some softness in services exports. More clarity will emerge when the final data is released next month.

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