

Macroeconomics | **FIRST CUT**

Core to the rescue

August 2023

Continuing their declining streak, India's merchandise exports contracted for the sixth consecutive month in July, and at \$32.3 billion, were down 15.9% on-year. If not for a favourable base effect (as exports had fallen substantially on-month last July), the annual contraction this July would have been even larger.

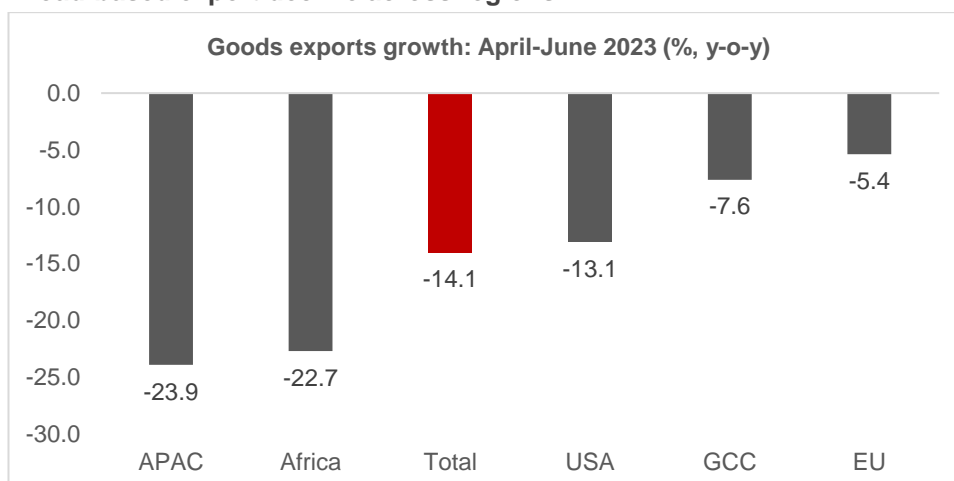
Amid the gloomy exports scenario, a couple of things provide some solace.

First, the export figure for June was revised up a good \$1.4 billion (to \$34.3 billion, from \$32.9 billion earlier), which means exports contracted slightly lesser (18.8% from 22.0% earlier).

Second, the 15.9% contraction in July was largely a result of the slowdown in oil exports, which were down 43.8% on-year. Core exports, i.e., non-oil, non-gold¹ exports, fell a much lesser 5.7%. In fact, sequentially and on a seasonally adjusted basis, core exports marginally rose in July, due to an improvement in the exports of other key categories such as engineering goods, and organic and inorganic chemicals, and labour-intensive export categories such as gems and jewellery, ceramic products and glassware, and a few textile products (carpets, man-made yarn, and fabrics, among others).

That said, the pressure on goods exports remains, and the sequential improvement in core exports is unlikely to be sustained as global growth is expected to be slower in the second half this year. Plus, the current resilience in demand conditions seen in advanced economies, which are key destinations for India's exports, stems largely from services. Moreover, the decline appears broad-based, in that goods exports are slowing not only to the West, but also to emerging markets, especially the Asia-Pacific² (see chart below), India's largest regional export destination.

Broad-based export decline across regions



Source: Ministry of Commerce and Industry, CRISIL

¹ Gold here refers to gems and jewellery

² For more details, please refer to CRISIL Quickconomics: *Beware the Pacific headwinds*, July 31, 2023

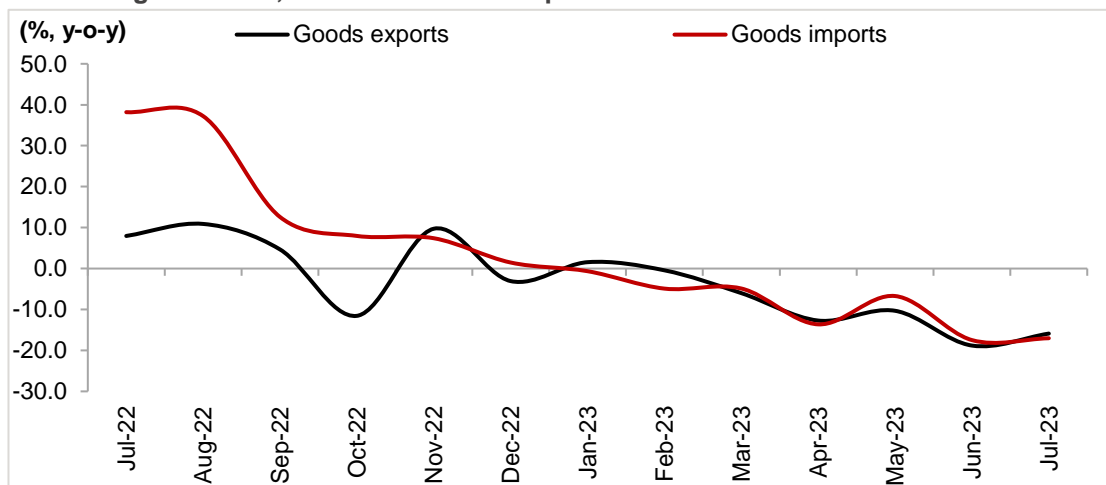
Cumulatively, during April-July 2023, India’s merchandise exports fell 14.5% on-year, to \$136.2 billion, from \$159.3 billion in the year-ago period.

Merchandise imports too, fell, for the seventh consecutive month in July, and at \$52.9 billion, were down 17.0% on-year. Like in exports, the decline in imports was also led by oil. Gold imports too, fell substantially, following the government’s move to restrict certain categories of gold imports last month. Compared with overall imports, core imports fell a smaller 7.5%. In fact, sequentially and on a seasonally adjusted basis, core imports registered positive growth, allaying some of the fears of a domestic demand slowdown setting in, as was indicated by a sharp slowdown in core imports in June. Among others, investment-centric imports such as of machinery and machine tools again gained pace.

With a greater sequential decline in exports than in imports, merchandise trade deficit rose to \$20.7 billion in July, from \$18.8 billion in June. That said, it was down from \$25.4 billion recorded in July last year.

Another positive development is the rebound in services exports. After reaching a low of 3.5% in June, services exports grew an estimated 16.8% in July. This suggests that some of the softness seen in services exports recently (likely due to issues in the banking sector in the US and Europe) could indeed be transitory. To be sure, a recent report by information technology (IT) research firm Gartner³ pointed towards higher IT spends by the banking industry in 2023 (over 2022) globally. This should keep India’s services exports in good stead and its current account deficit (CAD) contained.

Continuing in the red, albeit with some sequential relief



Source: Ministry of Commerce and Industry, CRISIL

³ Released June 21, 2023

Data highlights

- With a fall in international crude prices, the decline in overall merchandise exports continued to be led by oil exports, which fell a massive 43.7% on-year to \$4.6 billion in July. Crude prices averaged \$80.1/bbl, down from \$108.9/bbl a year ago. Interestingly, oil exports fell sequentially, i.e. on-month, as well, despite an on-month rise in oil prices (from \$74.9/bbl in June). This implies that the decline in the dollar value of oil exports was purely on account of a decline in volumes and fortifies the slowing demand for the commodity amid slower global demand. CRISIL projects crude prices this fiscal to decline to \$75-80/bbl, from \$95/bbl last fiscal
- July also saw some softening in electronic goods exports, which have hitherto grown at a stellar pace and reflect the government's early success in pushing these exports. At \$2.0 billion, electronic goods exports were up 13.1% on-year, compared with a much stronger 48.6% growth achieved in the previous three months
- Likewise, pharmaceutical exports lost some steam, registering a sequential decline and paltry annual growth of 0.1% (down from 5.5% in the previous three months)
- That said, July saw some sequential improvement in core exports, most notably in engineering goods, organic and inorganic chemicals, and gems and jewellery – three of India's top export items – leading to lesser annual contraction in these categories. Interestingly, some labour-intensive exports, especially in the textile sector, such as carpets; cotton yarn, fabrics, made-ups, and handlooms; and man-made yarn, fabrics, and made-ups, saw a sequential improvement in exports. That said, readymade garments, which form the bulk of India's textile exports, continued to be in the red
- Despite the ban on non-basmati white rice exports announced in July, India's total rice exports were up 5.4% on-year to \$0.98 billion (and up from \$0.84 billion in June). This could suggest that a) the rise was purely a price effect, reflecting a surge in global rice prices, b) ready consignments were being pushed out when the rice ban kicked in on July 20. That said, rice exports are expected to slow down August onwards. To be sure, non-basmati white rice constitutes ~25% of India's total rice exports
- On the import front, the overall decline was again led by oil imports, which fell 36.6% on-year to \$11.8 billion in July, following the annual decline in international crude prices. Unlike oil exports, which were up sequentially, oil imports declined sequentially despite the on-month rise in oil prices in July, suggesting that India took recourse to discounted crude oil from Russia
- Gold imports too, fell. At \$3.5 billion, they were down 47.7% on-year, despite the rise in international gold prices (both on-year and on-month), reflecting the government's efforts to curb non-essential imports. Most recently, certain types of gold imports were put under restriction on July 12
- After a temporary decline in June, investment-related imports picked up again, as reflected in a 14.0% and 8.4% on-year rise in the import of electrical and non-electrical machinery, and machine tools, respectively, in July
- Pulses imports continued to grow sharply, in sync with the government's efforts to increase the domestic availability of pulses. They were up 211.2% in July, following a similar rise the previous month
- Services exports grew 3.5% on-year to \$27.9 billion in June (estimated to have grown 16.8% in July). Services imports, on the other hand, contracted 3.4% to \$15.2 billion. As result, services trade surplus improved to \$12.6 billion in June, from \$11.6 billion in May and \$11.1 billion in June last year.

Outlook

Merchandise exports are increasingly facing headwinds from the slowdown in goods demand globally, not only in advanced economies such as the US and euro area, but also from emerging markets, most importantly the Asia-Pacific. Exports are facing a double whammy from a fall in prices and volumes in many cases.

That said, an expected slowdown in domestic growth in the second half of this fiscal would keep a check on India's imports. At the same time, services export growth appears to be turning robust again.

As a result, we project India's CAD, which was 2.0% of the 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

Media contacts

Aveek Datta

Media Relations
CRISIL Limited
M: +91 99204 93912
aveek.datta@crisil.com

Riddhi Savla

Media Relations
CRISIL Limited
M: +91 98199 57423
riddhi.savla1@crisil.com

Roma Gurnani

Media Relations
CRISIL Limited
M: +91 78754 32131
roma.gurnani@ext-crisil.com

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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

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