Macroeconomics | FIRST CUT

Exports growth at a 20-month high

March 2024

Imports surge afresh, too, widening the trade deficit in goods

Displaying strong momentum, especially amid the ongoing Red Sea crisis and uneven economic growth outcomes among trade partners, India's merchandise exports surged 11.9% on-year in February to $41.4 billion – the fastest growth since June 2022 - after growing 3.1% in January. With this, exports grew for the third consecutive month, indicating sustained momentum.

The near-term challenge to India's exports due to the Red Sea crisis has been limited so far. How the crisis impacts prices when export contracts are renewed will be a key monitorable. Barring this hiccup, the recent healthy export momentum and forecasts by major multilateral organisations of better trade growth this year over last year are encouraging.

The current account remains in safe zone with robust services trade surplus and healthy remittances.

On a seasonally adjusted basis, exports grew 5.4% on-month after declining 2.6% in January.

Many core export items such as pharmaceuticals, engineering goods, organic and inorganic chemicals and readymade garments recorded a surge in February.

Chemical exports picked up pace swiftly, growing 33% on-year after recording mild growth of 0.3% on-year in January and remaining in negative territory for the previous 15 consecutive months. On the whole, core (non-oil, non-gold[1]) exports grew 17.2% on-year in February compared with 2.5% in January, registering the highest growth since April 2022. That said, exports of gems and jewellery remained in negative territory for the second consecutive month.

Cumulatively, India's merchandise exports fell 3.45% on-year to $394.99 billion in the April-February period this fiscal compared with $409.11 billion a year ago.

Merchandise imports grew faster than exports in February, surging 12.2% on-year to $60.1 billion compared with 1% the previous month.

Core imports grew 5.2% on-year after declining 1.1% on-year on average in the November 2023 to January 2024 period due to a sharp surge in gems & jewellery imports (94.4% on-year) primarily led to a higher merchandise import bill in February.

The merchandise trade deficit widened to $18.71 billion in February from $16.57 billion a year ago and $16.46 billion the previous month.

[1] Gold here refers to gems and jewellery

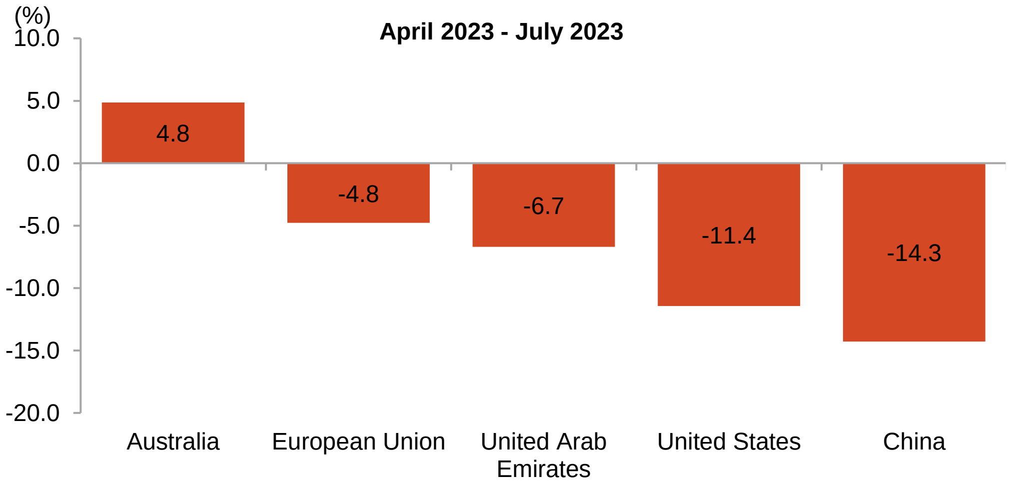
Cumulatively, merchandise imports contracted 5.32% on-year to $620.19 billion in April-February this fiscal, helping narrow the merchandise trade deficit to $225.2 billion from $245.94 billion in the corresponding period the previous fiscal.

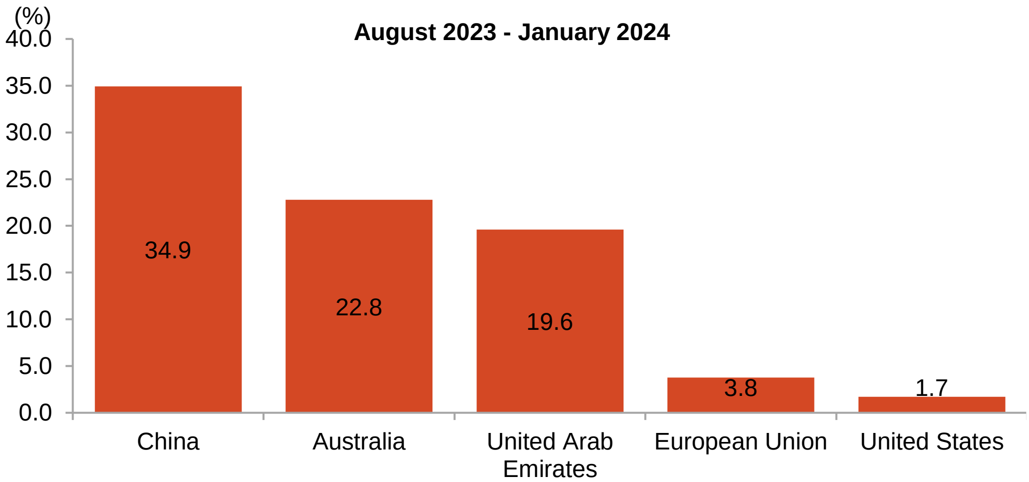
India's services exports continued to grow, rising 10.8% on-year in January 2024[2], while imports saw mild hardening to 0.1%. As a result, the services trade surplus rose to $16.17 billion in January from $13.17 billion a year ago and $15.98 billion the previous month.

India's export performance rebounded from August 2023 through February 2024, registering average growth of 2.7% compared with a 13% decline in the first four months of this fiscal (April-July 2023).

In terms of markets, India's exports to key destinations are shown in the charts below.

India's exports to key destinations





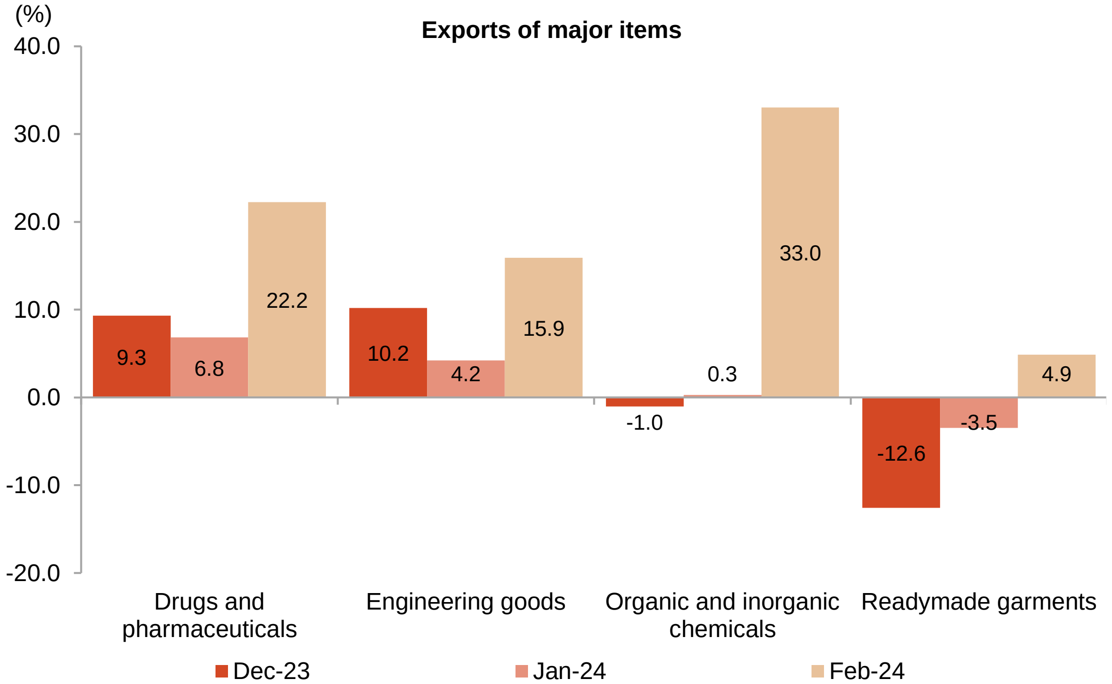
Source: Ministry of Commerce and Industry, CEIC, CRISIL

[2] Latest services trade data released by the Reserve Bank of India for January 2024

Both exports and imports surged in February

Source: Ministry of Commerce and Industry, CRISIL

Key export items displayed strong growth in February



Source: Ministry of Commerce and Industry, CRISIL

Data highlights

- Exports of major items such as drugs and pharmaceuticals (22.2% on-year in February vs 6.8% in January), engineering goods (15.9% vs 4.2%), organic and inorganic chemicals (33% vs 0.3%) and readymade garments (4.9% vs -3.5%) displayed robust growth, while petroleum products (5.1% vs 6.6%) showed a slight slowdown. Meanwhile, exports of gems and jewellery (-11.3% vs -1.3%) remained in the red
- Interestingly, exports of labour-intensive sectors such as carpets (14.6% v 9.4%), cotton, yarn, fabrics, made-ups, handloom products and others (17.1% v 2.5%), handicrafts (87% v -16.6%) improved further compared with the previous month. Ceramic products and glassware (9.8% v -3.5%), plastic and linoleum (22.1% v 9.6%) and readymade garments (4.9% v -3.5%) also exhibited positive growth
- Agricultural exports have gained momentum, driven by fruits and vegetables (12.7% v 10.6%), oil seeds (37.7% v 11.3%), rice (1.8% v -3.3%), spices (14.8% v 20.5%) and tobacco (58.2% v 47.3%). However, exports of cashew (-13.6% v -20.8%) and oil meals (-24.6% v 14.7%) slowed
- Oil imports turned positive, increasing 0.1% on-year to $16.89 billion in February from $15.53 billion in January in line with an increase in Brent crude oil prices to $83.8 per barrel from $80.2 per barrel the previous month
- Imports of gold (133.8% v 173.6%) and silver (13234.4% v 323.5%) increased on-year. While growth in silver imports was supported by a significantly low base, the same cannot be said about gold, which faced an unfavourable base. Pearl, precious and semi-precious stones showed weak growth (-13.4% v 6.2%)
- Core imports (non-oil and non-gold) rose 5.2% on-year compared with a 2.3% decline in January
- Import growth of industrial[3] products such as iron and steel (9.5% v -7.5%) and machine tools (24.9% v 0.1%) was positive and strong. Coal, coke and briquittes (2.1% v 21.2%) saw positive, but slower growth compared with the previous month

[3] Capital goods and intermediate goods required for further production.

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