Market Intelligence & Analytics

CRISIL
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Quickonomics

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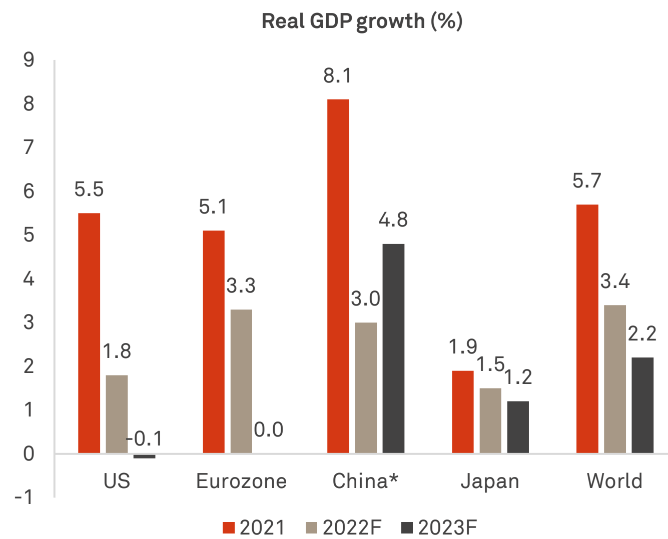
The slowdown shadow

Labour-intensive sectors could bear greater brunt of global deceleration

Three takeaways

- Global slowdown this year will be led by advanced economies, especially the US and the eurozone
- Being two of India's largest export destinations, a slowdown in their economies would imply lower demand for Indian exports
- Domestic labour-intensive sectors such as textiles, footwear, and leather depend significantly on these two regions, making them particularly vulnerable to a slowdown in these economies

Dimming global growth prospects



*Note: *China 2022 data is actual; F - Forecast*
Source: S&P Global, November 2022

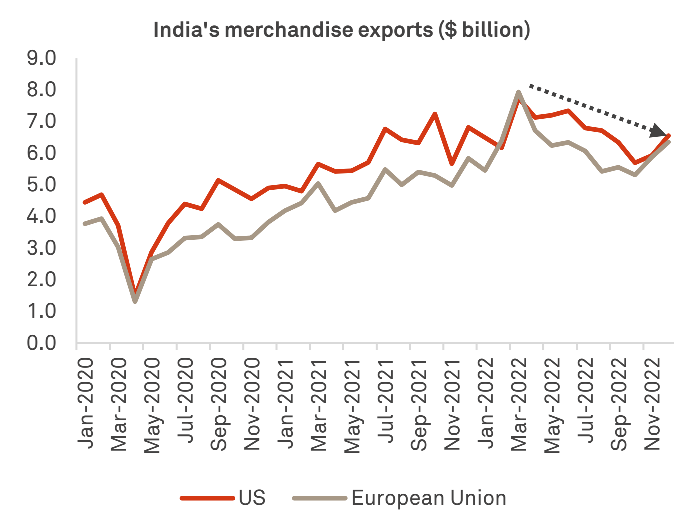
Global slowdown to be led by advanced economies

Global economic activity is projected to slow down in 2023 as the peak impact of synchronised monetary policy tightening across major economies manifests.

Advanced economies are expected to bear the brunt as they aggressively pursued monetary tightening in 2022. S&P Global, in its November 2022 outlook, predicted global growth to slow down to 2.2% this year from an estimate of 3.4% in 2022 with the US economy contracting 0.1% and Eurozone remaining flat in the base case.

More recent commentary on global growth prospects turned a tad positive — for instance, the International Monetary Fund's January 2023 World Economic Outlook — but the advanced economies are projected to slow down this year. The World Trade Organization (WTO) also projects the global trade to slow to 1% in 2023 from 3.5% last year.

Exports to the US and the EU on a declining trend



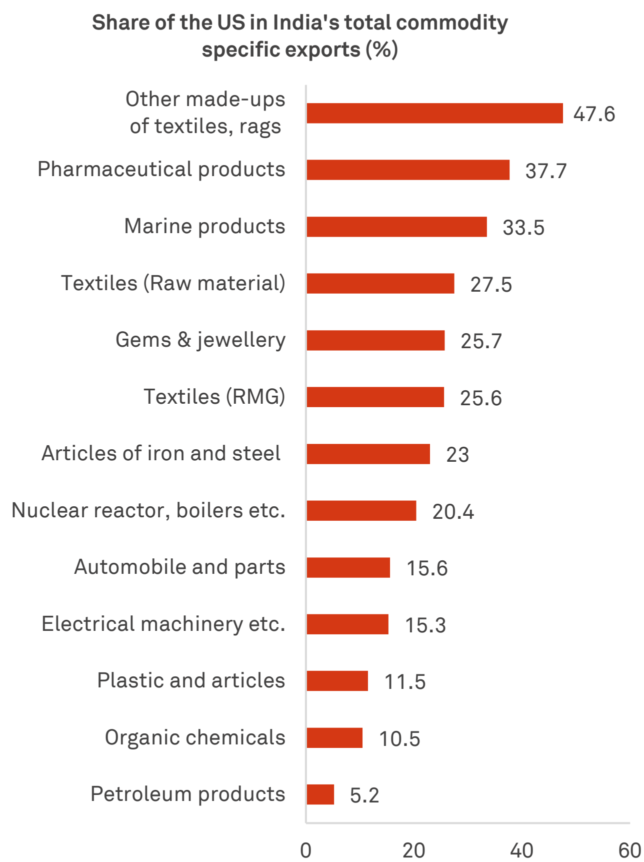
Source: Commerce ministry, India

This is worrisome because India's growth cycles have become highly synchronised with those of advanced economies over the years[1]. The most important and direct impact of this will be reduced demand for Indian goods abroad. The US and European Union (EU) are two of the largest destinations, accounting for 18% and 15.4%, respectively, of India's merchandise exports in fiscal 2022. Indeed, exports to these two regions have been on a declining trend since July 2022, barring a slight uptick in November and December (see right chart above), which could be a reflection of festive demand towards the year end.

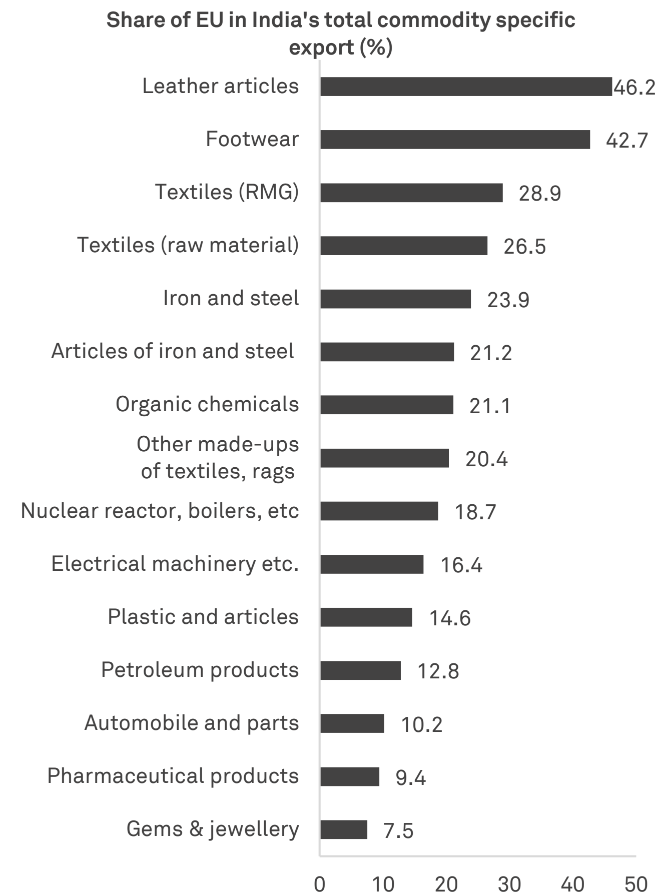
Which export products are at a greater risk?

Here, we put together the list of India's top export items to these regions (which roughly amount to ~75% of India's exports to each to the two regions). To assess the vulnerability of various export commodities on account of slower demand, we look at the share of the US and the EU in India's total export of those commodities (see charts below).

Exposure of India's exports to the US



Exposure of India's exports to the EU



PS: The above shares are averages of exports of fiscal 2019 and fiscal 2020; the HS Code with full explanation for each of these export items is provided in the annexure
Source: Commerce ministry, India; CRISIL

It is apparent that dependence on these regions is disproportionately large for many of the export items. The share of exports to these regions is higher than 20% for almost half of these commodities, and as high as above 40% in some cases. For instance, the EU accounts for 46.2% and 42.7% of India's leather and footwear exports, respectively. Likewise, the US commands a large share in items such as 'other madeup of textiles, rags', pharmaceutical products and marine products. To be sure, there are several common export items to the two regions and their combined share is significantly large for items such as textiles, both raw materials and ready-made garments (RMGs), articles of iron and steel, 'nuclear reactor, boilers, etc', automobiles and parts, organic chemicals, and electrical machinery. Such high concentration of exports (especially on discretionary

[1] Please refer to Quickonomics titled 'Let this sync in', November 02, 2022

items such as textiles and leather products) to these two regions make domestic exporters vulnerable to a slowdown in their economies.

It is noteworthy that labour-intensive categories such as leather articles, footwear, and textiles have the highest export dependence on these advanced economies.

Which commodities have already started getting impacted?

Here, we assess the country-wise, commodity-wise monthly data available till November 2022. As the overall export slowdown was observed post June, we break the data into two periods i.e., Apr-Jun 2022 and Jul-Nov 2022 to see how various commodities were affected in the latter period. The following tables show the export performance during the two periods. The weights (wt.) given in the table below represents the share of each commodity (in value terms) in India's total exports to that region[2] .

India's exports to the US (% y-o-y)

Wt. (%)	Commodity	Apr-Jun 2022	Jul-Nov 2022	
19.3	Gems & jewellery	10.2	-16.8	↓
8.5	Pharmaceutical products	-0.2	8.7	
7.6	Nuclear reactor, boilers etc.	25.6	10.8	
6.7	Petroleum products	137.1	6.4	↓
4.7	Electrical machinery etc.	55.0	60.5	
4.5	Other madeup of textiles, rags	-7.9	-31.3	↓
3.9	Organic chemicals	1.9	-1.1	
3.8	Automobile and parts	38.0	-2.0	↓
3.6	Textiles (RMG)	65.5	-18.8	↓
3.5	Marine products	-9.4	-40.5	↓
3.5	Articles of iron and steel	68.1	16.0	
3.5	Textiles (Raw material)	81.2	4.3	↓
2.0	Plastic and articles	26.8	-13.0	↓

India's exports to the EU (% y-o-y)

Wt. (%)	Commodity	Apr-Jun 2022	Jul-Nov 2022	
12.1	Petroleum products	287.0	37.3	↓
8.4	Nuclear reactor, boilers etc.	19.9	6.7	
7.8	Organic chemicals	16.0	8.4	↓
6.3	Gems & jewellery	56.6	-6.1	↓
5.3	Iron and steel	-13.1	-59.2	↓
4.9	Textiles (RMG)	83.1	-9.2	↓
4.7	Textiles (Raw material)	47.1	13.2	↓
4.7	Electrical machinery etc.	113.0	96.1	
4.1	Automobile and parts	49.6	4.1	↓
3.3	Articles of iron and steel	36.9	-5.2	↓
2.8	Pharmaceutical products	37.4	29.8	
2.6	Plastic and articles	3.8	-7.2	↓
2.6	Footwear	39.5	25.2	
2.5	Leather articles	39.8	1.8	↓
2.3	Other madeup of textiles, rags	15.5	-17.7	↓

PS: Red text indicates a sharp fall in on-year growth in Jul-Nov 2022 period, green text indicates continued good performance; red downward arrow indicates a decline in sequential momentum in seasonally adjusted terms in the latter period and blue downward arrow indicates negative momentum in both time periods
Source: Commerce ministry, India; CRISIL

The above data suggests that export slowdown hasn't precipitated to all product categories so far. For instance, exports of electrical machinery and pharmaceutical products (an essential commodity) to both regions continue to hold well. Similarly, footwear exports to the EU also continue to perform well.

On the other hand, exports of gems and jewellery (a discretionary product and one of India's top export products) to both the regions are dwindling. Exports of many other labour-intensive sectors such as textiles (raw material and RMG), plastics, articles of iron and steel have been falling.

[2] To account for any large base effects, we have also analysed the sequential momentum in the seasonally adjusted series

Conclusion

For many individual export commodities, the dependence on the two regions (the EU and the US) is disproportionately large. And this is mostly true of labour-intensive sectors such as textiles, leather, footwear, and plastics. Exports of many of these commodities are already facing headwinds and the pain could increase with a slowdown in advanced economies intensifying this year. That said, exports from resilient sectors such as electrical machinery and pharmaceuticals could partially offset the impact in terms of balance of payments. We also draw some solace as import intensity of some of India's key exports such as petroleum products, gems and jewellery and pharmaceuticals is relatively large[3], indicating a slowdown in the exports of these items implies some softening in imports as well.

Annexure

Generic name	HS Code	Full Description
Gems & jewellery	71	Natural or cultured pearls, precious or semi-precious stones, pre-metals, clad with pre-metal and articles thereof; imitation jewellery; coins
Pharmaceutical products	30	Pharmaceutical products
Nuclear reactor, boilers, etc	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
Petroleum products	27	Mineral fuels, mineral oils and by-products of their distillation; bituminous substances; mineral waxes.
Electrical machinery, etc	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts
Other made up of textiles, rags	63	Other made up textile articles; sets; worn clothing and worn textile articles; rags
Organic chemicals	29	Organic chemicals
Automobile and parts	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof
Textiles (RMG)	61	Articles of apparel and clothing accessories, knitted or crocheted
Marine products	3	Fish and crustaceans, molluscs and other aquatic invertebrates
Articles of iron and steel	73	Articles of iron or steel
Textiles (raw material)	62	Articles of apparel and clothing accessories, not knitted or crocheted
Plastic and articles	39	Plastic and articles thereof
Iron and steel	72	Iron and steel
Footwear	64	Footwear, gaiters and the like; parts of such articles
Leather articles	42	Articles of leather, saddlery and harness; travel goods, handbags and similar cont. articles of animal gut (other than silk-worm)

[3] Import intensity of India's manufacturing exports, an industry level analysis, ISID Working Paper, February 2020

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