

Quickonomics

May 09, 2024

Steady in choppy waters

Merchandise exports

India's merchandise exports seem to have weathered the headwinds quite well so far amid heightened geopolitical tensions that have rendered the global environment highly uncertain.

In fiscal 2024, India's merchandise exports clocked \$437.1 billion, down a mere 3.1% from \$451.1 billion in fiscal 2023, despite all the challenges.

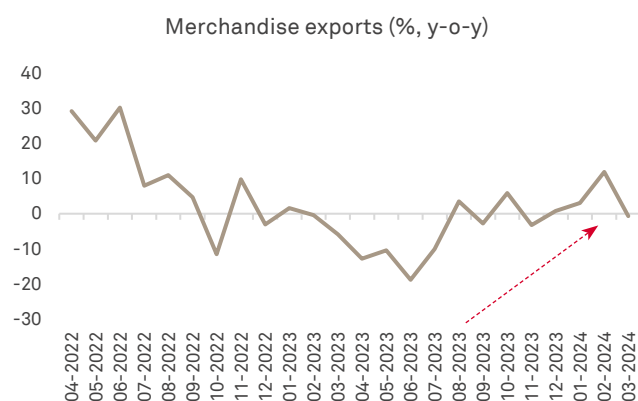
The performance was largely in sync with global trade. According to latest data from the United

Nations Conference on Trade and Development, global merchandise exports declined 4.6% in 2023, similar to India's 4.7% decline during the period, thereby keeping India's share in world exports stable at 1.8%. India's export performance was, in fact, better than developing Asia as a whole, which saw merchandise exports decline a higher 6.8% in 2023.

Besides, even though total merchandise exports recorded a marginal decline for fiscal 2024, monthly data suggests export growth started improving post June 2023 (Chart 1).

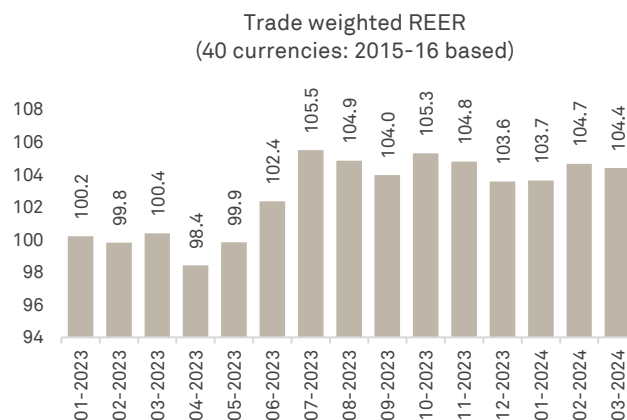
On-year export growth entered the positive zone in August 2023 for the first time in many months and has since displayed healthy momentum. After an average 13.1% on-year contraction during April-July 2023, exports logged 2.2% growth over August 2023-March 2024. Indeed, export growth in the last quarter of fiscal 2024 was faster at 4.5%.

Chart 1: On an uptrend...



Source: Ministry of Commerce and Industry, India, Reserve Bank of India

Chart 2: ...despite REER hit

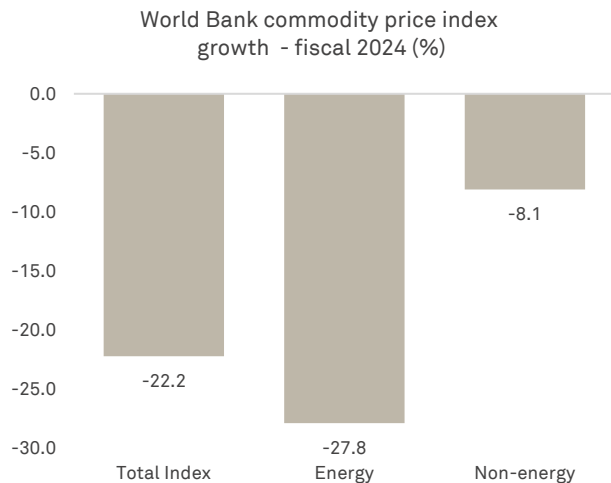


Notably, the improvement in export growth is despite elevated real effective exchange rate (REER) levels (Chart 2). India's 40-currency trade-based REER averaged 104.4 during August 2023-March 2024, up from 101.5 during April-July 2023. The increase in REER is akin to the appreciation of rupee, and indicates a decline in export competitiveness.

Price effect at play

Lower international commodity prices played a dominant role in pulling down India's dollar export bill. Most international commodity prices have been on a downward trend since shooting up due to geopolitical uncertainties in February 2022. The World Bank commodity price index shows this holds for both energy as well as non-energy (including metals and minerals) commodities (Chart 3).

Chart 3: Commodity prices easing



Source: World Bank, CRISIL

For instance, India's petroleum export bill reduced to \$84.1 billion in fiscal 2024, from \$97.5 billion in fiscal 2023, as crude oil prices fell². In volume terms, however, India exported out more tonnes of petroleum products in fiscal 2024.

But if we leave out petroleum and gems and jewellery exports (India's other top export items, which were also down 13.8%), core exports managed to grow (up 1.4%, to \$320.2 billion, from \$315.6 billion). The rise in core exports despite the broad-based decline in international commodity prices suggests India was able to ship out a higher volume of most goods, indicating robust demand for Indian goods in international markets.

Core to the fore

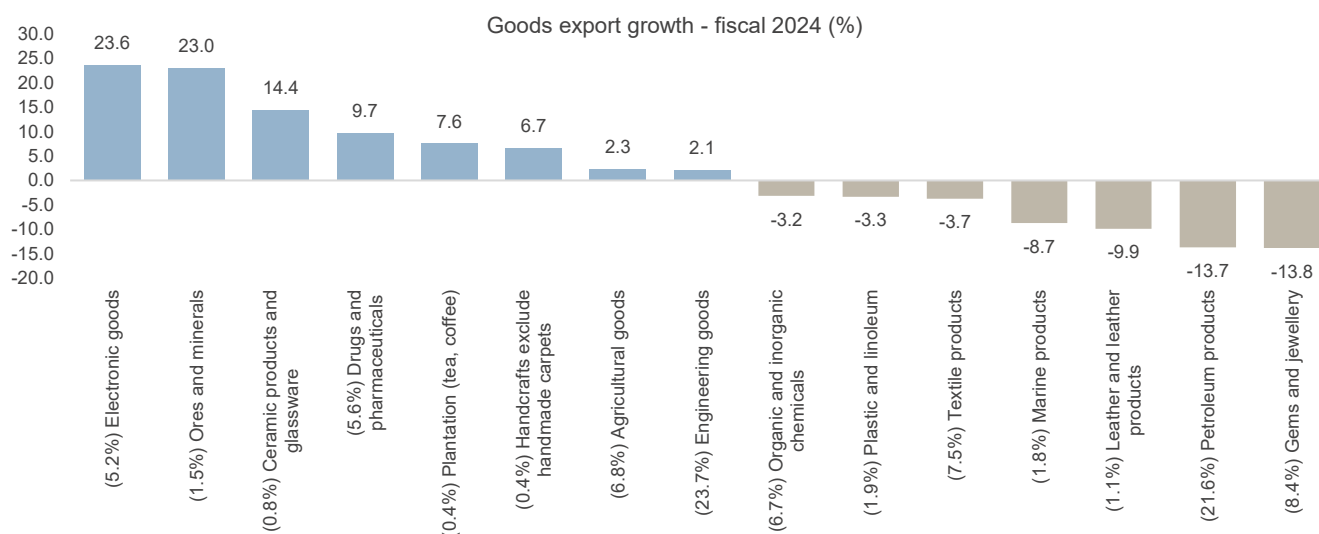
According to quick estimates of the Ministry of Commerce, export items with as much as 45% share (in dollar terms) in India's merchandise exports managed to grow positively in fiscal 2024.

Electronics goods³ recorded the highest growth (Chart 4) as exports of telecom instruments or mobile handsets surged, thanks to a push from the government's Production Linked Incentive scheme.

Barring electronics goods, however, core exports growth was marginally negative.

The sharp decline in energy prices, especially crude oil prices, was one of the biggest contributors to the fall in India's overall merchandise export bill. With over 20%¹ share, oil is India's top export item, and hence, its movement has a large bearing on India's total export earnings.

Chart 4: Core goods drive up overall exports



Note: Figures in parenthesis are shares of respective goods in total merchandise exports in fiscal 2023
Source: Ministry of Commerce and Industry, India, CRISIL

¹It was 21.3% (in dollar value terms) in fiscal 2023

²Brent spot fell to an average \$83.04/bbl in fiscal 2024, from \$95.45/bbl in fiscal 2023

³Electronic goods exports stood at \$29.1 billion in fiscal 2024, up from \$23.6 billion the previous fiscal

Other major core categories that displayed healthy export growth were drugs and pharmaceuticals, agricultural goods and engineering goods – one of India’s largest export categories.

Fine print

Agriculture and allied exports: Despite the ban on non-basmati rice, wheat and some other curbs from time to time, overall agriculture and allied exports posted positive growth, led by other categories such as meat and poultry products, spices, fruits and vegetables, oil meals, oil seeds and unmanufactured tobacco.

Engineering goods exports: Key products that registered healthy growth included electrical machinery and equipment, other construction machinery, aircraft, and spacecraft and parts.

The high growth in ores and minerals exports, as seen in Chart 4, was a result of the surge in iron ore exports (up 118%, to \$3.9 billion in fiscal 2024, from \$1.8 billion) on account of a low base (as these exports were hit by high export duty imposed in fiscal 2023, which was subsequently removed) and sequential improvement in Chinese demand this fiscal. High growth of mica also supported overall ore and mineral exports from India.

Some crucial misses

Among India’s top core exports, **organic and inorganic chemicals** remained a laggard, declining 3.2% to \$29.4 billion in fiscal 2024, from \$30.3 billion in the previous fiscal.

Labour-intensive exports remained in the red. Other than gems and jewellery, exports of a few of India’s large, labour-intensive sectors remained under stress – **textile products** (mostly ready-made garments, even though some categories such as cotton yarn, fabrics, made-ups and handloom products managed to increase their exports during the fiscal), **leather and leather products** and **marine products**.

Discovering new shores

India’s destination-wise trade data suggests support from some of its traditional large export partners such as Europe and the Gulf Cooperation Council (GCC), while exports to the US – India’s largest exporting destination – declined marginally in fiscal 2024 (Chart 5).

Chart 5: Regions that supported India’s exports



Note: SACU – South African Customs Union
Source: Ministry of Commerce and Industry, India, CRISIL

At the same time, India was able to push its exports to some smaller partners such as East Africa and, thereby, support its overall merchandise exports.

Fine print

US: Demand from the US remained weak despite the economy posting healthy growth. This was because US

growth was largely services sector led. That said, there has been some revival in India's goods exports to the US in the past few months.

European Union: Despite a sharp slowdown in its economic growth, India's exports to the region grew last fiscal. While this was largely led by petroleum exports (which grew 32.8% on-year to \$17.8 billion during April-February fiscal 2024, from \$13.4 billion in the year-ago period, even as India's overall oil exports declined), some other key items that India was able to push to the European Union were machinery (up 4.5% on-year during April 2023-February 2024), iron and steel (up 17.6%), pharmaceutical products (up 5.8%) and auto and auto parts (up 6.2%).

It is worth noting that improvement in exports to the European Union, the region feared to be most impacted by the geopolitical uncertainties, suggests the exporters were possibly able to sustain the momentum by adopting newer trade routes (for instance, routing exports via Cape of Good Hope in South Africa), which increased the travel time but did not impact demand for goods, at least till last fiscal.

GCC: Rise in exports to GCC reflects further improvement in India's exports to the United Arab Emirates (UAE), which is the largest export destination of India's goods in the GCC region and with which India's free trade agreement, Comprehensive Economic Partnership Agreement (CEPA), came into force in May 2022. This likely gave a push to India's exports to the country.

It is noteworthy that India's gems and jewellery exports to the UAE increased by a whopping 42.3% on-year during April-February fiscal 2024, even as India's overall gems and jewellery exports declined 14.5% during this period.

Africa: Even as exports to South Africa have shown some improvement recently, exports to East Africa rose sustainably through the fiscal and were supported by commodities such as oil and pharmaceutical products, and to some extent by machinery.

Oceania: While export growth to Oceania (led by Australia) was the highest among all the regions, it must be kept in mind that a low base was at play as exports to Oceania had dropped in the year-ago period.

Asia: In the past few months, there has been some improvement in exports to Northeast Asia (led by China) and ASEAN. It remains to be seen if this trend can sustain.

Conclusion

India's goods exports have fared well, despite the turbulence in the overseas markets, including disruptions on account of geopolitical issues. Upwardly revised global growth forecasts and better trade volume growth forecast by the World Trade Organization bode well for India's exports going ahead. India's push to bilateral free trade agreements and its ambition to grow its manufacturing sector should also support goods exports in the near term.

That said, given the uneven global growth environment and the persisting geopolitical issues, there could be some hiccups along the way. In such a scenario, continuous efforts and government support would be required to keep the export machinery going.

⁴Euro area or euro zone real GDP growth slowed down to 0.5% in 2023, from 3.5% in 2022

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