

Merchandise Trade

Shift in festive calendar dampened exports in Oct 2022; nevertheless, domestic drivers key to support GDP in H2 FY2023 amidst external slowdown

NOVEMBER 2022



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Reflecting a larger number of holidays, merchandise exports and imports dipped sequentially by 16.0% and 7.3%, respectively, in Oct 2022

Exports' contribution to GDP may moderate in remainder of FY2023 amidst slowdown in external demand; domestic factors would be critical to sustain the GDP growth going forward

The depreciation in INR relative to USD in H1 FY2023 has not translated into gains in India's export competitiveness



- India's merchandise exports fell by 16.6% year-on-year (YoY) in Oct 2022, contracting after a gap of 19 months, amidst a slowdown in external demand and an early onset of the festive season in 2022 vis-à-vis 2021. The larger number of holidays in Oct 2022 also led to a 16.0% month-on-month (MoM) decline, similar to the sequential decline seen in November 2021 (-15.9%).



- Similarly, merchandise imports posted a sequential decline, albeit by a relatively moderate 7.3% in Oct 2022, while reporting a YoY growth of 5.7% given sustenance of domestic demand. In spite of a steep YoY decline in exports, the trade deficit widened only modestly to \$26.9 billion in Oct 2022 from \$25.7 billion in Sep 2022.



- As of now, we expect some rebound in exports and imports in Nov 2022 relative to Oct 2022, although it may not be as strong as the trend seen between November and December of 2021, given the prevailing global demand concerns. We continue to project the FY2023 current account deficit (CAD) at 3.4% of GDP.



- After playing a major role in India's growth rebound in FY2022, the contribution of exports to GDP has moderated in Q1 FY2023 and is likely to temper further in Q2 FY2023 and H2 FY2023, amidst expectations of a slowdown in external demand. Given this, domestic growth drivers would be crucial to sustain India's GDP growth going forward.



- The real effective exchange rate (REER) has risen by 1.0% during H1 FY2023, in contrast with the 5.3% weakening in the monthly average USD/INR pair during this period; the depreciation in the INR relative to the USD has not translated into a gain in India's export competitiveness.



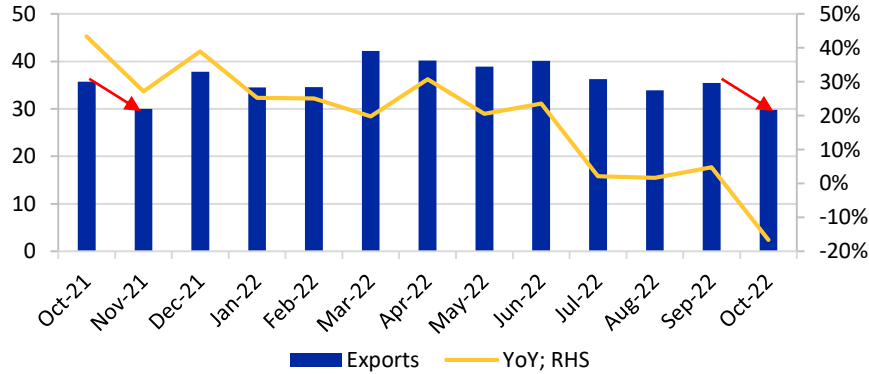
- In Nov 2022 so far, the INR has gained 0.5% MoM against the \$ on an average, following the re-emergence of FII-equity inflows and expectations of smaller rate hikes by the US Fed going forward. We expect the USD/INR pair to trade between 80.5-83.0/\$ till end-March 2023.



Preliminary trends in India's merchandise trade in October 2022

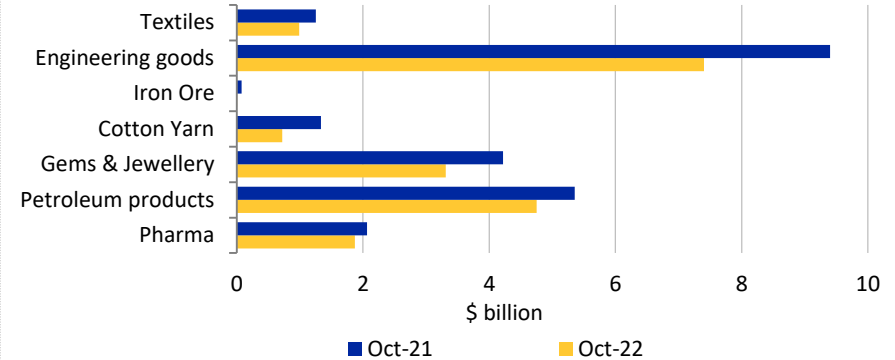
India's merchandise exports contracted in Oct 2022 after 19 months, owing to earlier onset of festive season, in addition to slowing external demand

EXHIBIT: India's merchandise exports (\$ billion; YoY%)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Performance of major export items (\$ billion) in Oct 2021-22

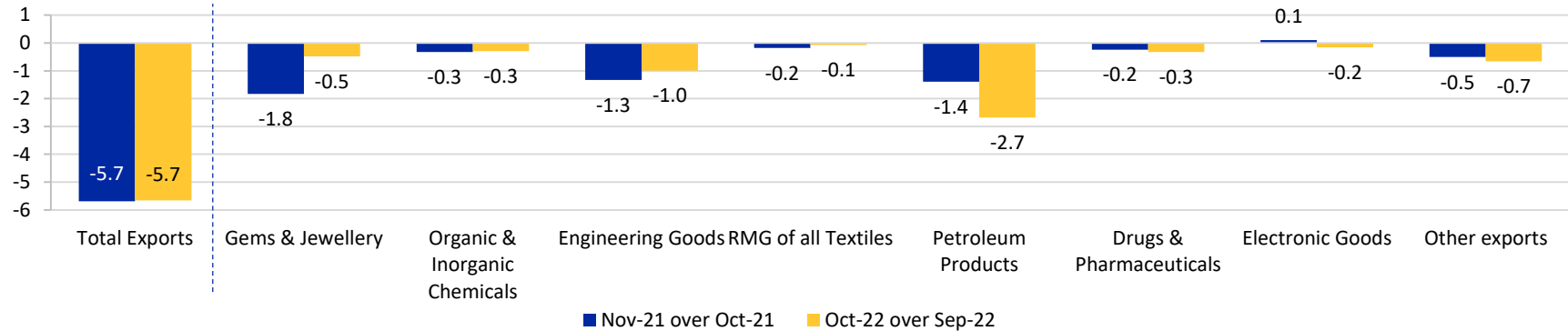


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise exports declined by 16.6% YoY in October 2022 to a 20-month low \$29.8 billion from \$35.7 billion in October 2021. This was the first instance of a YoY contraction in 19 months.
- The YoY decline was primarily led by non-oil exports, which dipped by 17.6% to a 22-month low \$25.0 billion in October 2022 from \$30.4 billion in October 2021. The \$5.3 billion YoY decline in non-oil exports was mainly driven by engineering goods (YoY change: -\$1.0 billion), gems and jewellery (-\$0.5 billion), drugs and pharmaceuticals (-\$0.3 billion), etc.
- In addition, oil exports declined by 11.3% to \$4.8 billion in October 2022 from \$5.4 billion in October 2021.
- In addition to the impact of a slowdown in external demand, currency movements and lower commodity prices, the early onset of the festive season in 2022, relative to 2021 and the consequent shift in the holiday calendar led to the YoY decline in Oct 2022. **This was evident in the MoM trends (MoM: Oct 2022: -16.0%; Oct 2021: +5.7%; Nov 2021: -15.9%).**

Sequential dip in exports in Oct 2022 was driven by larger number of holidays in the month, similar to the trend seen in Nov 2022

EXHIBIT: MoM changes in India's merchandise exports in Nov 2021 and Oct 2022 (\$ billion)

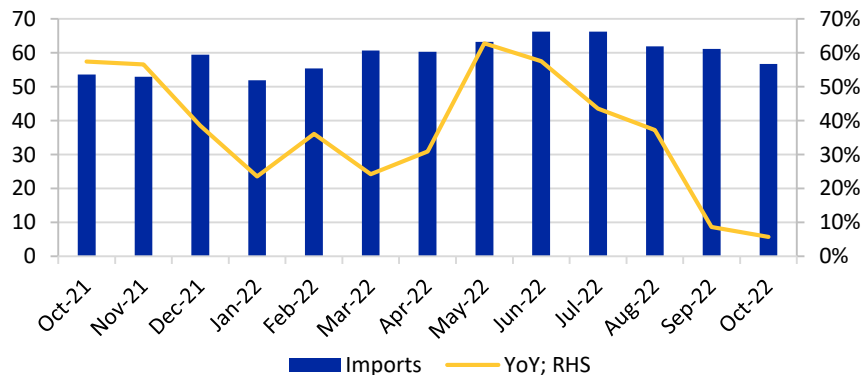


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise exports moderated on a sequential basis in October 2022, which we believe was driven by a larger number of holidays related to the festive season in the month.
- The sequential trend in exports in October 2022 (-16.0%; -\$5.66 billion) echoes what was recorded in November 2021 (-15.9% -\$5.69 billion), which had seen a later onset of the festive season. While exports of petroleum products recorded a sharper MoM decline in Oct 2022 (-\$2.7 billion) relative to Nov 2021 (-\$1.4 billion), some of the larger items such as gems and jewellery (-\$0.5 billion MoM in Oct 2022 vs. -\$1.8 billion MoM in Nov 2021), engineering goods (-\$1.0 billion vs. -\$1.3 billion), and RMG textiles (-\$0.1 billion vs. -\$0.2 billion) witnessed a lower sequential dip in Oct 2022 as compared to that seen in Nov 2021.
- Accordingly, we expect some rebound in exports and imports in November 2022 relative to October 2022, although it may not be as strong as the trend seen between November and December of 2021, given the prevailing global demand concerns.
- We continue to project the FY2023 current account deficit at 3.4% of GDP.**

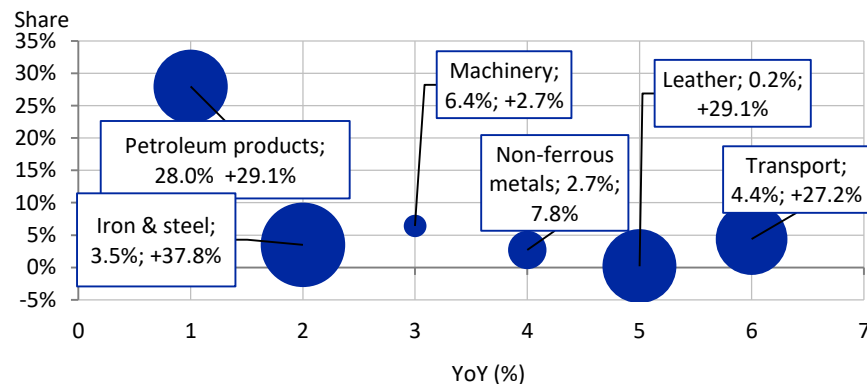
In contrast, merchandise imports rose by a modest 5.7% YoY in Oct 2022 led by oil, even as non-oil imports posted a dip

EXHIBIT: India's merchandise imports (\$ billion; YoY%)



Source: Ministry of Commerce and Industry, Gol; ICRA Research

EXHIBIT: Imports of Commodity Groups having major share in overall imports in Oct 2022 and their YoY growth rate

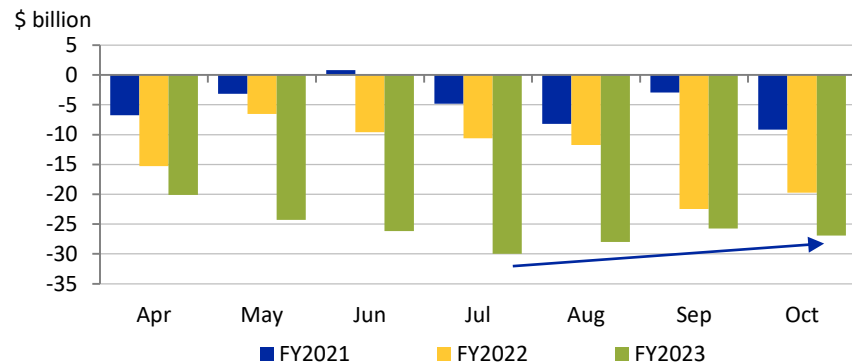


Source: Ministry of Commerce and Industry, Gol; ICRA Research

- Merchandise imports reported a YoY expansion of 5.7% to \$56.7 billion in October 2022 from \$53.6 billion in October 2021, falling below \$60 billion after a gap of seven months. On a MoM basis, imports contracted by 7.3%, reflecting the higher number of holidays in October 2022 vis-à-vis October 2021.
- The \$3.1 billion YoY increase in imports was driven by oil (YoY: +29.1%; to \$15.9 billion in October 2022 from \$12.3 billion in October 2021).
- However, non-oil imports dipped by 1.3% YoY in October 2022, driven by the contraction in coal, coke and briquettes (-4.0%), organic and inorganic chemicals (-10.4%), pearls (-13.0%), etc., which was partly offset by the rise in other components, such as iron and steel (YoY: +37.8%), transport equipment (+27.2%), leather and leather products (+29.1%), machinery (+2.7%), etc.
- Moreover, gold imports (-27.5%; to \$3.7 billion in October 2022 from \$5.1 billion in October 2021) declined, led by constrained demand following the import duty hike, high inflation, as well as higher consumer spending on travel and other discretionary items.

Trade deficit displayed modest sequential rise to \$26.9 billion in Oct 2022, despite the sharp YoY decline in merchandise exports

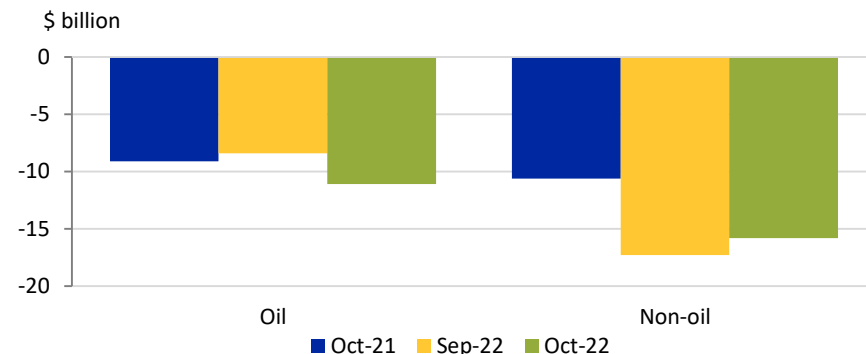
EXHIBIT: Trends in Merchandise Trade Balance- Aggregate



Source: Ministry of Commerce and Industry, GoI; ICRA Research

- With a sequential decline in both exports (-16.0%) and imports (-7.3%), the merchandise trade deficit widened to \$26.9 billion in October 2022 (\$17.9 billion in October 2021) from \$25.7 billion in September 2022.
- However, the rise in the trade deficit in October 2022 was not so alarming, in spite of the large YoY contraction in the merchandise exports figure.
- Moreover, the size of the trade deficit in October 2022 was smaller than the levels seen in July 2022 and August 2022.

EXHIBIT: Trends in Merchandise Trade Balance- Oil and Non-oil



Source: Ministry of Commerce and Industry, GoI; ICRA Research

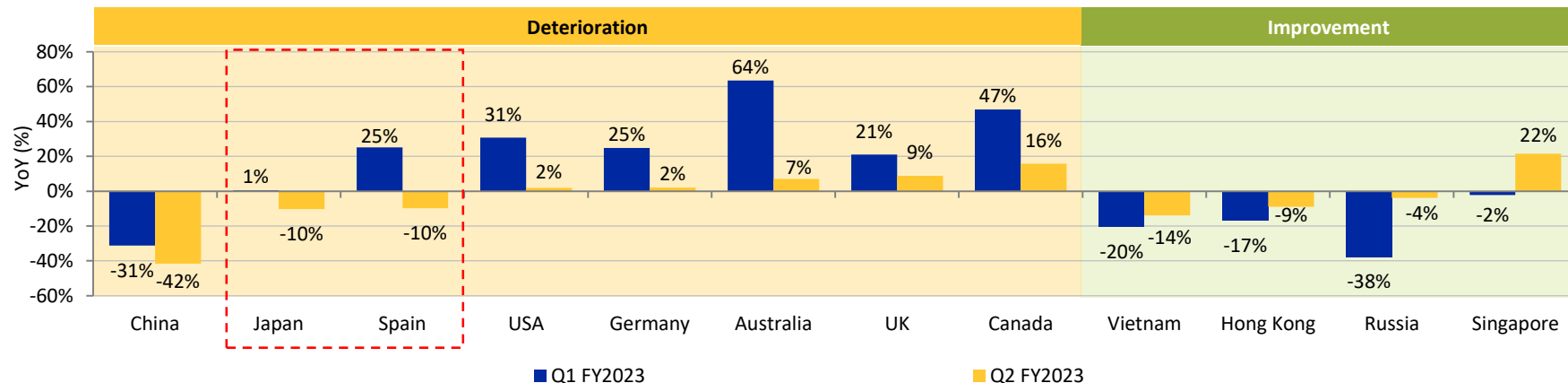
- The sequential widening in the merchandise trade deficit was driven by the oil segment (to \$11.1 billion in October 2022 from \$8.4 billion in September 2022), while also exceeding the year-ago level (\$6.9 billion in October 2021).
- In contrast, the non-oil segment recorded a narrower deficit of \$15.8 billion in October 2022 (\$11.0 billion in October 2021), relative to \$17.3 billion in September 2022.



Trends in India's commodity wise and region wise exports in H1 FY2023

Growth in India's exports to most economies had moderated in Q2 FY2023, relative to Q1 FY2023, partly led by a normalising base

EXHIBIT: YoY trends in India's exports to major countries in Q1 FY2023 and Q2 FY2023

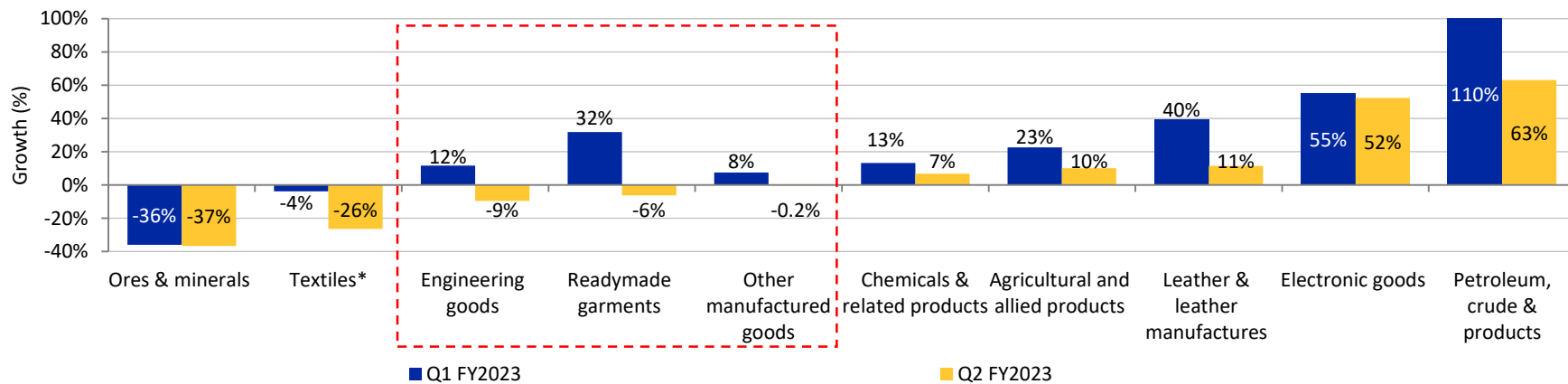


Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and Industry, GoI; ICRA Research

- Growth in India's exports to most of the major economies recorded a deterioration in Q2 FY2023, relative to Q1 FY2023, led by a slowdown in global demand as well as normalising base. Amongst its major exporting partners, the YoY contraction in India's exports to China widened to 41.6% in Q2 FY2023 from 31.1% in Q1 FY2023, partly driven by the stringent Covid-19 lockdown imposed in China and the consequent slowdown in demand.
- Additionally, exports to Japan (-10.3% in Q2 FY2023 vs. +0.5% in Q1 FY2023) and Spain (-9.7% vs. +25.2%) witnessed a YoY contraction in Q2 FY2023, relative to the growth recorded in the previous quarter.
- In contrast, countries such as Vietnam (-13.9% vs. -20.5%), Hong Kong (-9.0% vs. -17.0%), Russia (-3.9% vs. -37.8%), and Singapore (+21.5% vs. -2.2%) witnessed an improvement in Q2 FY2023, vis-à-vis Q1 FY2023. **Going forward, a slowdown in external demand, in the event of a global recession is likely to dampen India's exports to major economies, which poses a downside risk to the country's growth outlook.**

Growth in exports of all major commodities deteriorated in Q2 FY2023, relative to Q1 FY2023, amidst flagging external demand and base normalisation

EXHIBIT: YoY growth trends in India's commodity-wise exports in Q1 FY2023 and Q2 FY2023

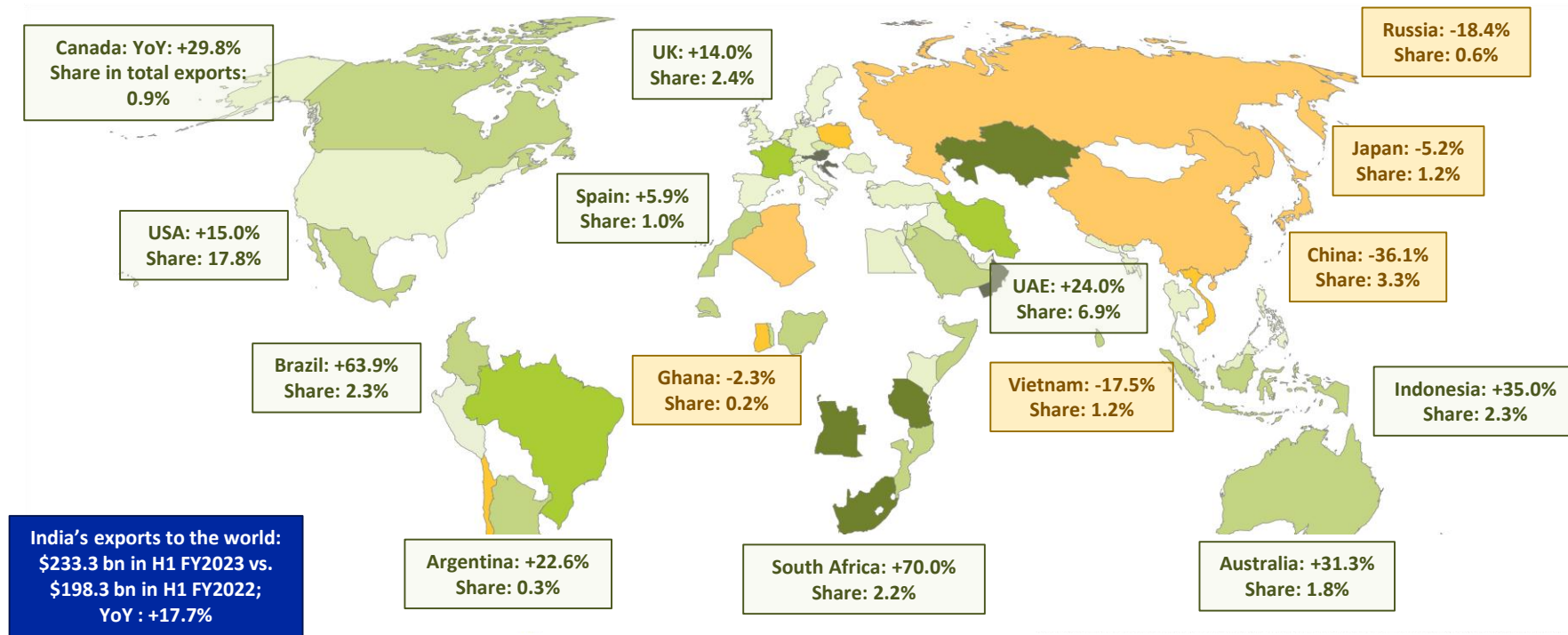


*excluding readymade garments; Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and Industry GoI; ICRA Research

- Led by the slowdown in global demand and the fading of a favourable base, India's exports of all major commodities recorded a deterioration in pace of YoY expansion in Q2 FY2023, vis-à-vis Q1 FY2023. Moreover, the exports of commodities such as engineering goods (to -9.2% in Q2 FY2023 from +11.8% in Q1 FY2023), readymade garments (to -6.3% from +31.8%), and other manufactured goods (to -0.2% from +7.5%) slipped into a YoY contraction in Q2 FY2023, after recording a healthy expansion in the previous quarter.
- Moreover, five of the 10 major commodities contracted on a YoY basis in Q2 FY2023, accounting for nearly ~46% of the total exports in that quarter.

Exports to economies with ~12% share declined in H1 FY2023, on YoY basis

EXHIBIT: YoY trends and share of India's exports to major countries in H1 FY2023



While low base boosted performance of exports in H1 FY2023, pace of expansion is likely to be low in H2 FY2023

Commodity-wise YoY trends in India's major exports



Petroleum exports, accounting for ~23% of India's total exports, recorded a considerable YoY growth of 84.0% in H1 FY2023.



India's exports of engineering goods (share of ~22% in total exports), posted a muted 0.4% YoY expansion in H1 FY2023



Agricultural and allied products, accounting for ~11% share in exports, witnessed a healthy YoY expansion of 16.3% in H1 FY2023



While electronic goods account for a mild ~5% share in total exports, they posted a healthy YoY growth of 54.9% in H1 FY2023

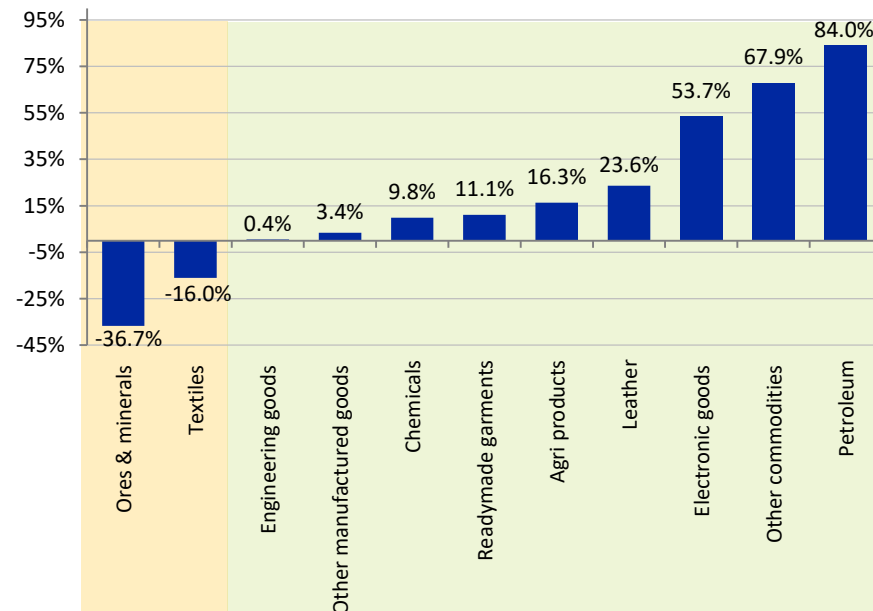


In contrast, textiles (~4% of total exports) contracted by 15.8% during H1 FY2023, vis-à-vis H1 FY2022



Even as ores and minerals forms a muted ~1% of total exports, it recorded a YoY contraction of 36.7% in H1 FY2023

EXHIBIT: YoY trends in India's commodity-wise merchandise exports in H1 FY2023



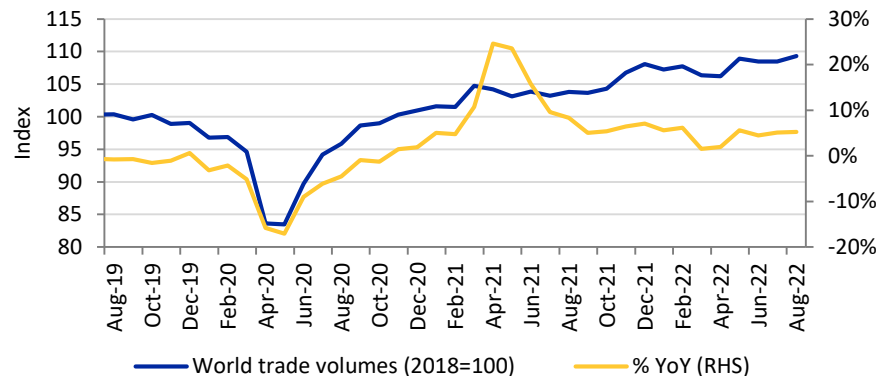
Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S), Ministry of Commerce and Industry GoI; ICRA Research



Impact of global recession on India's exports and ICRA's Outlook on INR

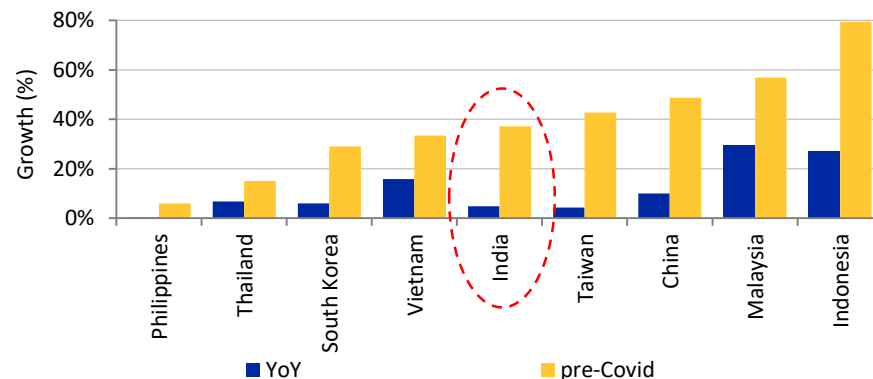
World trade volumes have remained stable in FY2023 so far; export performance of EMEs was mixed relative to pre-Covid levels

EXHIBIT: Monthly world trade volumes (2018 = 100, YoY %)



Data available till Aug 2022; Trade volumes are seasonally adjusted; Source: CPB Netherlands Bureau for Economic Policy Analysis, ICRA Research

EXHIBIT: Growth trends in exports of major EMEs in Q2 FY2023, relative to Q2 FY2022 and Q2 FY2020 (pre-Covid)

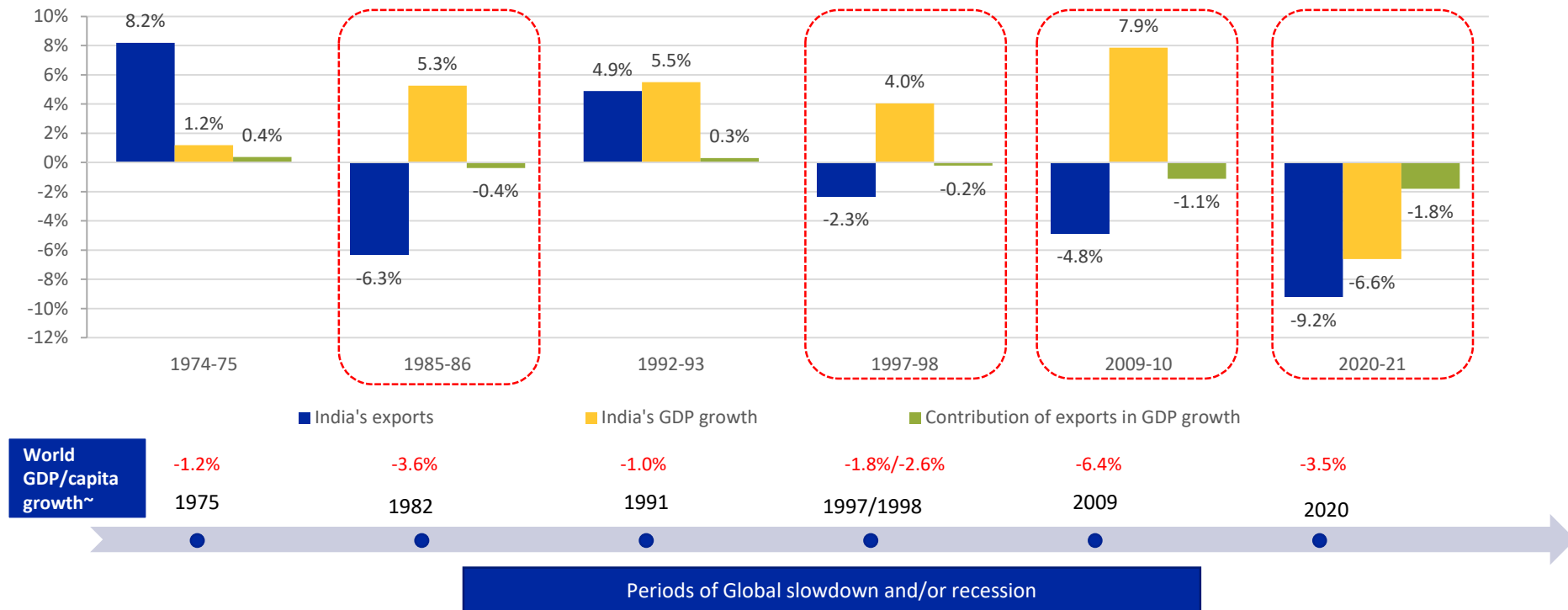


Note: Data for all economies is seasonally adjusted; Source: CEIC, ICRA Research

- As per the CPB World Trade Monitor, global trade volumes have remained stable during FY2023 so far, posting a modest YoY growth of 4.5% in Apr-Aug FY2023 (+16.0% in Apr-Aug FY2022). In sequential terms, the YoY growth rate rose marginally to a three-month high 5.3% in August 2022 from 5.1% in July 2022.
- The export performance of major EMEs reveals a mixed trend in Q2 FY2023, with the YoY growth ranging from 0.2-29.4%. Moreover, the YoY performance of India's exports stood at 4.8% in Q2 FY2023, trailing the global trend in July-August 2022, and better than only Philippines (+0.2%) and Taiwan (+4.3%), partly reflecting the normalising base in the case of India. Notably, the depreciation in the INR, against the USD, has been relatively moderate in CY2022 so far, as compared to the other EMEs. This is likely to have supported the exports performance of these economies, as compared to India.
- Compared to the pre-Covid levels of Q2 FY2020, India recorded a healthy growth of 37.1% in Q2 FY2023, and stood in the middle of the subset for nine EMEs, performing better than Philippines (+6.0%), Thailand (+15.0%), South Korea (+29.0%), and Vietnam (+33.4%).

Global recessions often lead to a decline in India's exports, exerting downward pressure on GDP growth

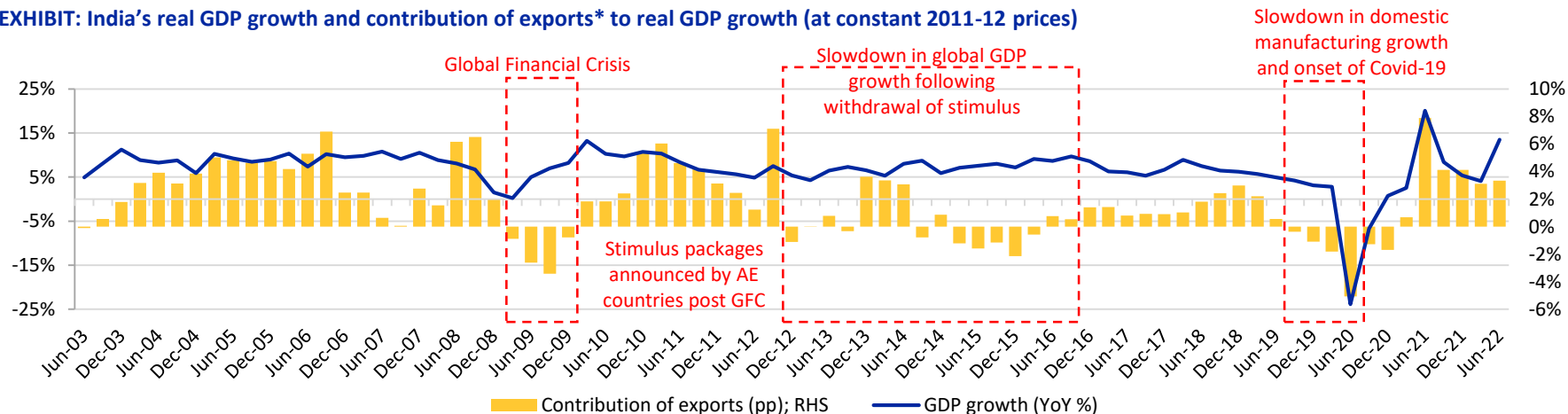
EXHIBIT: Impact of global slowdown on India's exports – YoY growth in exports*, YoY growth in GDP, and exports contribution to GDP (at 2011-12 prices)



*Including both goods and services; ~Recession as per IMF is a YoY decline in world GDP per capita, current prices; (U.S. dollars per capita); Source: IMF; NSO; ICRA Research

Exports accounted for just 3.3% in the 13.5% GDP growth in Q1 FY2023; domestic growth drivers key to bolster GDP growth in H2 amidst slowing external demand

EXHIBIT: India's real GDP growth and contribution of exports* to real GDP growth (at constant 2011-12 prices)

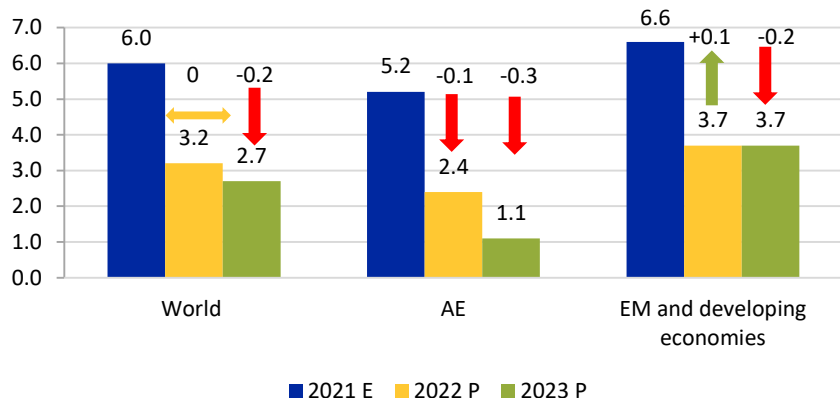


*Including goods and services; Source: NSO; Gol; ICRA Research

- With a contribution of as much as 4.6 percentage points to the real GDP growth of 8.7% in FY2022, exports had played a major role in supporting India's growth rebound in FY2022. However, in Q1 FY2023, exports accounted for just 3.3% of the 13.5% YoY GDP growth, much lower than the trends seen in Q3 FY2022 (4.1% of the 5.4% GDP growth) and Q4 FY2022 (3.1% of the 4.1% GDP growth).
- With a moderation in the YoY growth in merchandise exports to 9.9% in Q2 FY2023 from 24.5% in Q1 FY2023, as per initial data released by the Ministry of Commerce and Industry, the contribution of exports to the GDP growth is likely to have further eased in Q2 FY2023.
- Moreover, a continued slowdown in external demand amid global recession fears owing to Monetary Policy tightening, is likely to weigh on India's exports and GDP growth in the remainder of FY2023; this implies that domestic drivers of growth would be crucial to support GDP expansion in H2 FY2023.

India's export prospects for FY2024 weak amidst expected moderation in world output, trade volumes

EXHIBIT: IMF's Oct 2022 WEO growth projections on output/GDP (%)



Arrows indicate upward/downward/no revision relative to projections provided in WEO July 2022; Source: IMF; ICRA Research

EXHIBIT: IMF's Oct 2022 WEO growth projections on world trade volumes

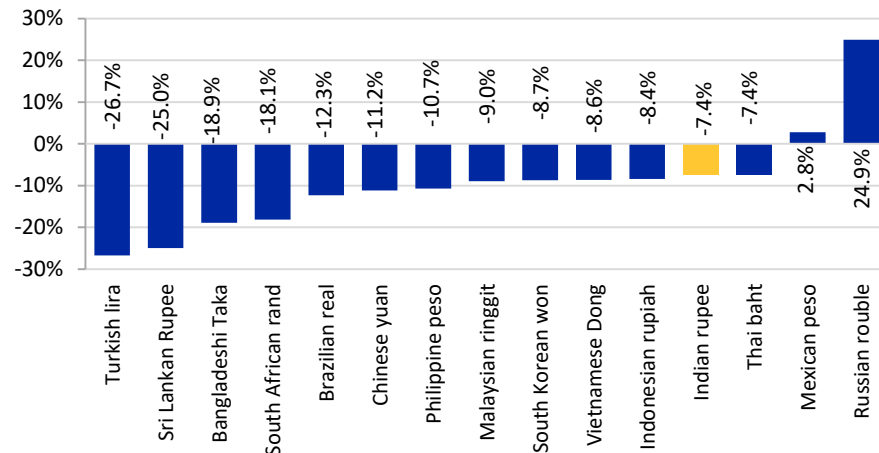
	2021 E	2022 P	2023 P	Deviation from July 2022 WEO	
	%	%	%	2022 P	2023 P
World trade volume (goods and services)	10.1	4.3	2.5	0.2	-0.7
Imports-AE	9.5	6.0	2.0	-0.2	-0.8
Imports-EE/DE	11.8	2.4	3	1.3	-0.3
Exports-AE	8.7	4.2	2.5	-0.3	-1.0
Exports-EE/DE	11.8	3.3	2.9	0.1	-0.4

AE: Advance Economies; EE: Emerging Economies; DE: Developing Economies; E: estimate; P: Projected; Source: IMF; ICRA Research

- Against the backdrop of considerably high inflation, normalisation of monetary and fiscal policies, tightening financial conditions, Russia-Ukraine conflict, and the scars of Covid-19 pandemic, the IMF has projected the growth of the world output to decelerate to 2.7% in CY2023 from 3.2% in CY2022, considerably lower than the 6.0% estimated for CY2021. While the economic growth of the advanced economies is estimated to more-than-halve to 1.1% in CY2023 from 2.4% in CY2022, that of emerging and developing economies is projected to be steady at 3.7%.
- Additionally, the world trade volumes are expected to grow by a modest 2.5% in CY2023, well below the historical average of 4.6% during 2000-21, partly attributable to the likely impact of recession in major economies on the demand for goods and services, persisting supply side pressures, slowdown in China and its relevance for global supply chains, etc. Considering this, India's export growth prospects for FY2024 appear weak.

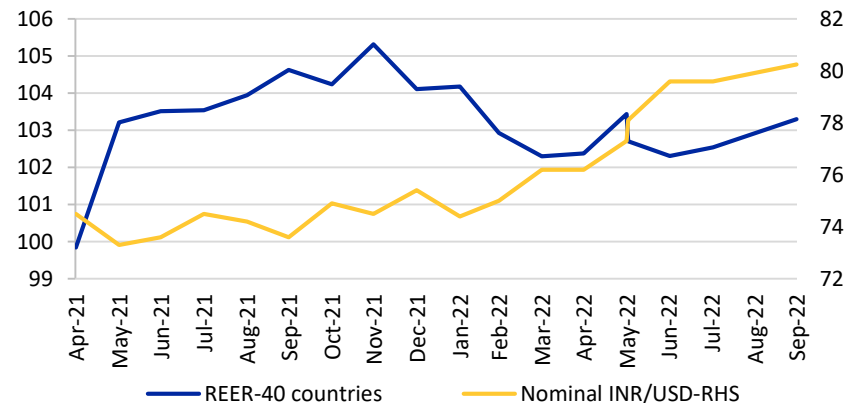
INR has appreciated against several EM and AE currencies, hampering export competitiveness

EXHIBIT: Exchange Rate Movements of Various Currencies Relative to the USD in FY2023 YTD (till Nov 15, 2022)



Source: Bloomberg; ICRA Research

EXHIBIT: REER- 40 countries, export-based weights and Nominal exchange rate of USD/INR

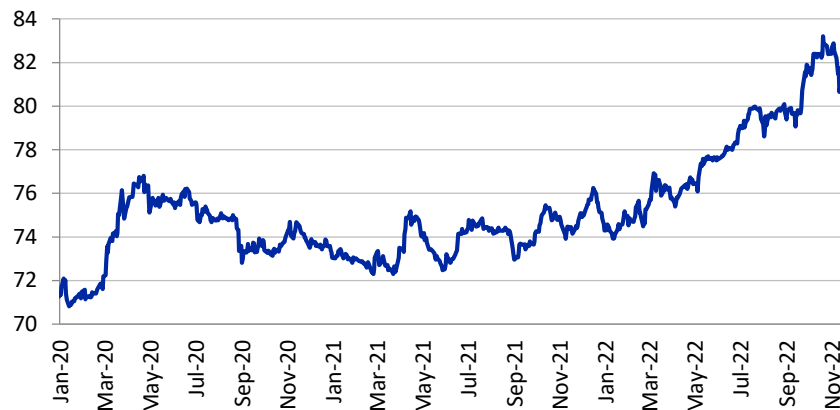


Source: RBI; ICRA Research

- The INR has weakened by 7.4% relative to the USD in FY2023 so far (till mid-Nov 2022), much lesser than the depreciation of other EM economies such as Turkey, South Africa, Sri Lanka, South Korea, Bangladesh, China and Malaysia.
- India's REER –based on 40 currencies stood at 103.3 in September 2022, rising by 0.7% MoM, in contrast with the 0.8% depreciation in the USD/INR pair. The REER has risen by 1.0% during April-September 2022, in contrast with the 5.3% weakening in the monthly average USD/INR pair during this period, implying that the depreciation in the INR relative to the USD has not translated into a gain in India's export competitiveness.

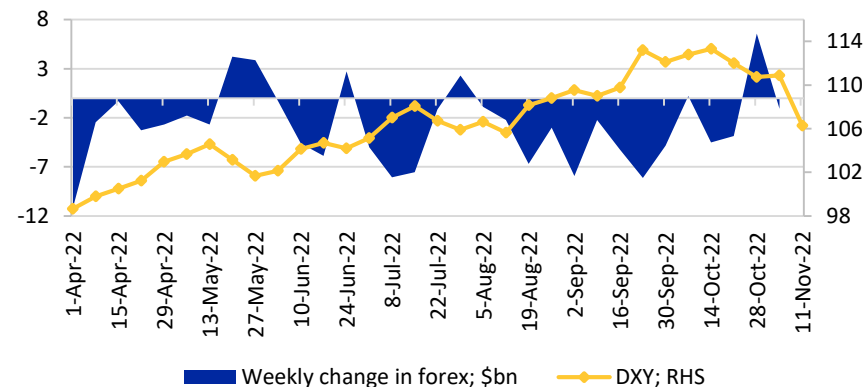
Changes in forex reserves negatively correlated with trends in DXY, reflecting revaluation effect; ICRA expects INR to trade between 80.5-83.0/\$ till March 2023

EXHIBIT: Movement in USD/INR reference rate



*Till Nov 15, 2022; Source: RBI; ICRA Research

EXHIBIT: Weekly change in Forex reserves (\$ billion) and level of DXY



Source: RBI; ICRA Research

- During the recent episodes of strengthening of DXY, the forex reserves held by the RBI have witnessed a decline, partly reflecting the revaluation changes. Likewise, forex reserves rose whenever the DXY displayed some weakness, as seen during the weeks ended May 27, 2022, June 24, 2022, August 5, 2022 and recently on Oct 28, 2022.
- In November 2022 so far, INR has gained by a mild 0.5% MoM against the \$ on an average, following the re-emergence of FII-equity inflows and expectations of smaller rate hikes by the US Fed going forward. **We expect the USD/INR pair to trade between 80.5-83.0/\$ till end-March 2023.**
- The DXY declined by a sharp 4.2% to 106.8 at mid-Nov 2022 from the 111.5 seen at the beginning of the month. **This is likely to be mirrored in a rise in forex reserves in the immediate term.**



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