Growth in goods export to falter in FY23 due to slowdown in demand

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Troubled times

- Arvind Group says US retailers have started inventory correction; expects muted Q2 vis-à-vis Q1
- Bajaj Auto's Rakesh Sharma says some nations have forex issues, and his company is facing serious problems in Africa and Sri Lanka
- Some exporters say FY23 goods export growth may drop to 10-15% from 45% (on a contracted base) in FY22

FEARS OF DEMAND slowdown in key markets such as the US and the EU, foreign exchange woes in Sri Lanka, Nepal and some African nations and persistent supply-side challenges are set to spell trouble for Indian companies, who had put up a stellar show in exports in FY22. On top of these, elevated inflation has hurt discretionary spending in some of the advanced economies.

Some exporters told FE that unless the Ukraine conflict is resolved fast and the US and the EU economies start to grow meaningfully again, India's export growth could come down to 10-15% in FY23 from 45% in the previous year (albeit on a contracted base). Exports had hit a record $422 billion in FY22, far exceeding the earlier peak of $330 billion, on the back of an industrial resurgence in advanced economies, which is now losing momentum. Goods exports fell, albeit marginally, for the first time in 17 months in June.

In a recent earning call, Arvind Ltd said: "Consumer demand in the US is showing initial signs of slowing down in response to interest rate hikes. Also, the US brands and retailers have started inventory correction and postponement of buying; though we have not seen cancellations yet." The company expects its performance in the Q2FY23 to be marginally muted compared to Q1 and "it will depend upon recessionary situation in global markets and commodity prices going ahead".

Rakesh Sharma, executive director, Bajaj Auto, said: "We are in the midst of the storm so there will certainly be some impact on shipments during the second quarter." Currencies everywhere have tumbled against the greenback. "Over and above the devaluation, there is also a shortage of the availability of dollars. We are facing a more serious problem in the African belt, much less in Latin America or Asia," Sharma said.

Some other large companies have already flagged impact of a slowdown in the key markets on India. R Shankar Raman, chief financial officer at L&T, said last week: "All major economies are recalibrating their growth and India will be no exception. We need to wait and watch to see how the situation pans out for us."

RIL's CFO V Srikanth, too, said last week that recession fears were overtaking oil-market fundamentals, resulting in lower prices and margins.

Importantly, as some exporter said, some countries in Africa have started to cut down on discretionary imports to conserve their forex reserves at a time when the US interest rate hike has spurred a capital flight from developing economies. On top of these, crisis-ridden Nepal and Sri Lanka have restricted imports to a bare minimum. These, too, could potentially put a leash on India's export momentum, said the exporters.

The US and the EU together accounted for 33% (or $141 billion) of India's exports in FY22. Similarly, exports to Nepal and Sri Lanka were to the tune of $15.4 billion last fiscal and shipments to Egypt and Ethiopia stood at $4.4 billion. The International Monetary Fund last week trimmed its 2022 growth forecasts for the US to 2.3% from 3.7% predicted in April. The Euro zone

1.2% in 2022 and 2023, respectively, down from the Fund's earlier projections of 2.8% and 2.3%.

Curbs or outright ban on a number of items, including steel, iron ore, petroleum products and wheat, will also impinge on export prospects. Sectors ranging from textiles, gems & jewellery and transport equipment to plastics to rubber products are facing a slowdown in export orders, said the exporters.

According to Ajay Sahai, director general and chief executive of apex exporters' body FIEO, with major economies facing recession, demand will take a hit and it's bound to impact new orders. "In some segments, such as steel and cotton yarn, demand has already come down. Unless the geopolitical situation improves drastically, we may not see major improvement in export growth, especially on a high base," he said. However, he firmly ruled out a contraction in exports.

There is silver lining as well for some sectors, said the exporters. Sectors, such as pharmaceuticals and food and agriculture, are typically more insulated than others in times of recession. Even some segments of the engineering goods are doing well.

R Uday Bhaskar, director general at the Pharmaceutical Export Promotion Council, said recession fears may not impact pharma exports. "These are not like any other products where recession will pull down demand." "This fiscal, we were expecting the exports to go up to about $28 billion from $24.5 billion last fiscal and we will meet the target," Bhaskar added.

On Wednesday, commerce secretary BVR Subrahmanyam expressed optimism that exports, which have already hit $156 billion in the first four months of the fiscal, will likely jump to $500 billion in FY23. He conceded that any potential demand slowdown in the US and the EU due to recession is a matter of concern. However, possible diversion of orders from Covid-hit China, the benefits of trade agreements with the UAE and Australia signed earlier this year and stepped-up efforts to diversify markets will more than make up for any potential shortfall in any market, the secretary said.

(With inputs from Kritika