

Merchandise trade deficit narrowed to five-month low in September

23 October, 2024

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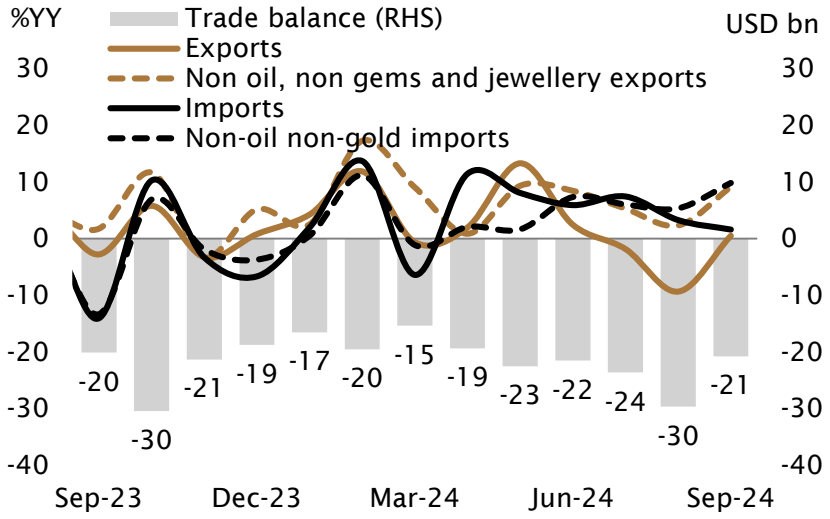
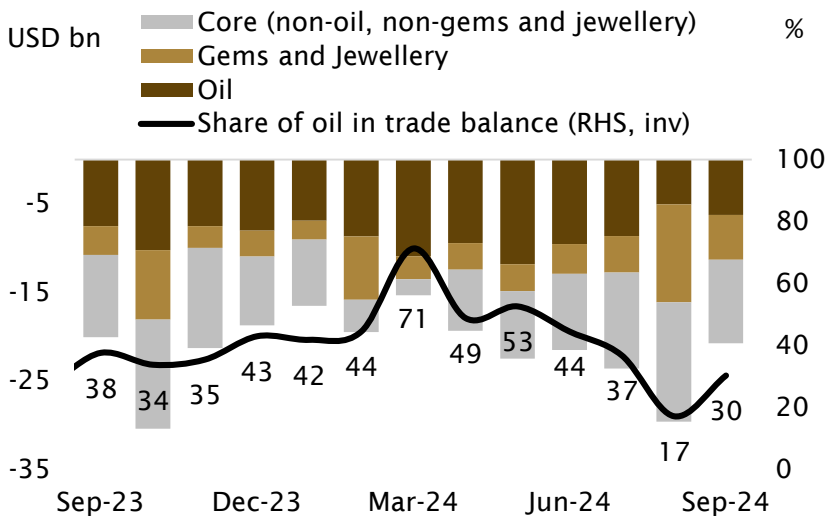
Key takeaways

- In September, merchandise trade deficit narrowed to a five-month low of USD20.8bn from USD29.6bn in August. However, year-to-date deficit deteriorated to USD137.4bn in H1-FY25 from USD119.2bn in H1-FY24. Exports increased year-on-year after declining for two months, while imports growth eased for the second consecutive month. In terms of sequential momentum, both exports and imports fell month-on-month.
- The year-on-year surge in gold imports in August following the customs duty cut announced in the latest Union Budget normalized in September, and in fact, fell month-on-month, so that the deficit in gems and jewellery trade halved from record USD11.1bn in August to USD5bn in September. Petroleum trade deficit deteriorated compared to August amid steady imports and month-on-month decline in exports. The share of oil in merchandise trade deficit increased to 30% from 17% in August.
- Core deficit (non-oil, non-gems and jewellery) narrowed for the first time in FY25 to USD9.5bn in September from USD13.5bn in August, as core imports fell month-on-month, while core exports grew. Base effects were positive for both, driving improvement in year-on-year growth rates compared to August.
- In its latest outlook update, the WTO mildly upgraded global trade growth forecast for 2024 due to support to economic activity from monetary easing by systemic central banks. However, risks to recovery remain tilted to the downside due to geopolitical tensions and policy uncertainties.

Merchandise trade deficit narrowed to five-month low in September amid a rebound in exports and lower imports

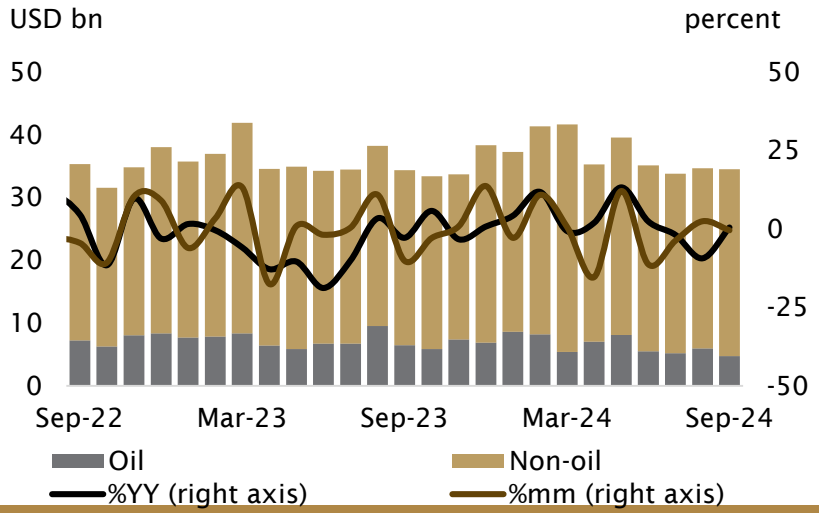




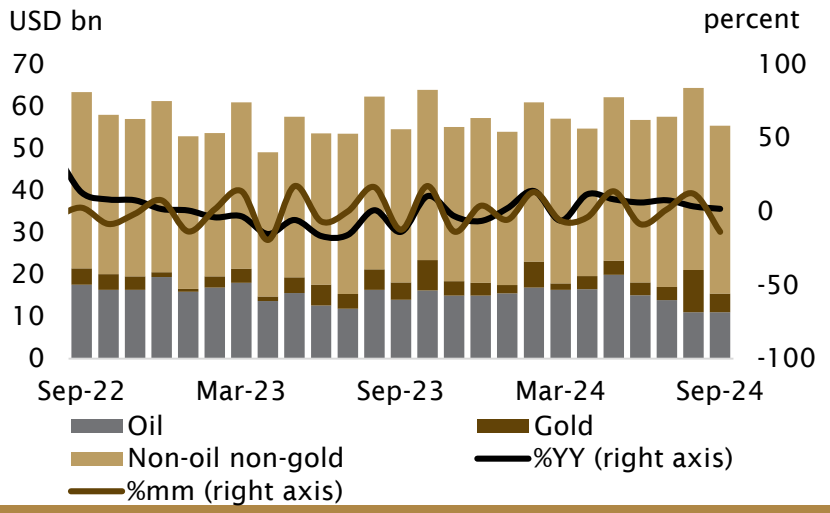
Merchandise trade deficit narrowed to five-month low in September

- In September, merchandise trade deficit narrowed to a five-month low of USD20.8bn from USD29.6bn in August. Both exports and imports fell month-on-month, with imports (-14%) contracting at a sharper pace than exports (-0.4%). Base effects were positive, supporting year-on-year growth in both exports and imports. Exports rose 0.5%YY after declining for two straight months. Imports grew but the pace eased to 1.6%YY from 3.3% in August, dragged by the sharp month-on-month decline.
- Core trade deficit (non-oil, non-gems and jewellery) narrowed for the first time in FY25 to USD9.5bn in September from USD13.5bn in August, as core imports fell 9.3%MM after increasing for two straight months, while core exports grew 1.0% after remaining in contraction for three months. Base effects were positive for core exports and imports, driving improvement in year-on-year growth rates compared to August.
- Petroleum trade deficit deteriorated to USD6.3bn from USD5.1bn in August amid steady imports and around 20% month-on-month decline in exports. The share of oil in trade balance increased to 30% from 17% in August.
- The deficit on account of gems and jewellery more than halved from record USD11.1bn in August to USD5bn in September. In August, the customs duty cut on precious metals announced in the latest Union Budget had spurred a surge in gold imports that normalized in September. Imports of gems and jewellery fell month-on-month, and the year-on-year growth eased compared to August. The month-on-month increase in exports was the fastest in four years, though unfavorable base effects kept the year-on-year growth in contraction.

Exports growth



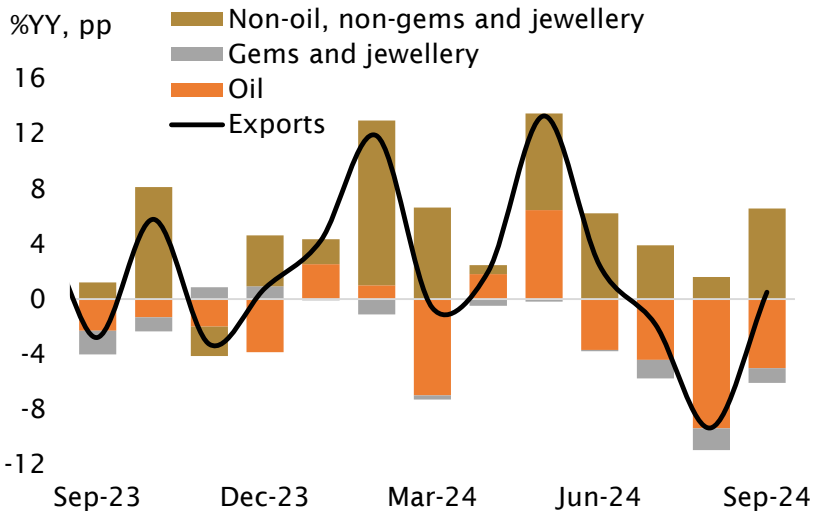
Imports growth



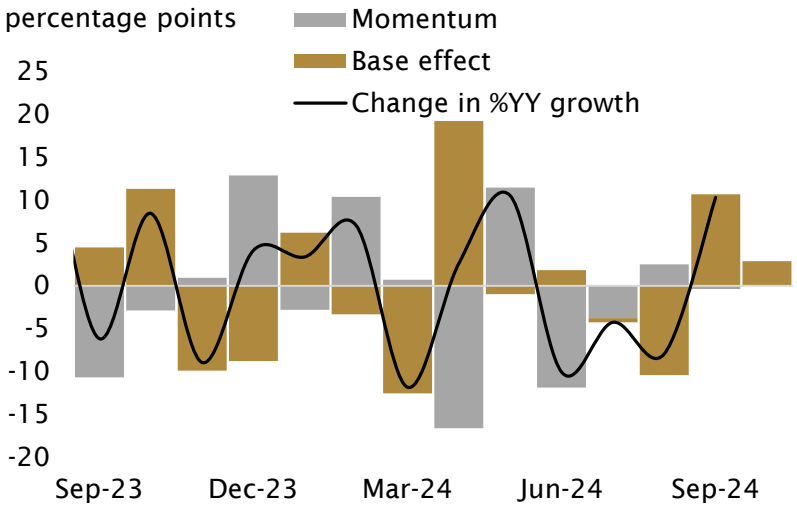
Core goods, base effects drove rebound in year-on-year exports growth

- In terms of year-on-year change, exports rebounded in September after declining for two straight months. The improvement was driven by a favorable base effect that offset the mildly negative month-on-month momentum.
- In terms of year-on-year change, oil exports posted double-digit drop for the fourth month, while gems and jewellery exports have been in contraction since January. Core exports growth improved to 9.1%YY from 2.4% in August.
- Of the 30 main categories, exports increased year-on-year in 22 groups, up from 20 in August. Within core exports, engineering goods, chemicals, plastic, pharmaceuticals, and RMG of all textiles added to growth; while iron ore, marine and ceramic products were among laggards.
- In terms of month-on-month change, oil exports fell, gems and jewellery exports growth surged to a four-year high, and core exports rebounded after three months.

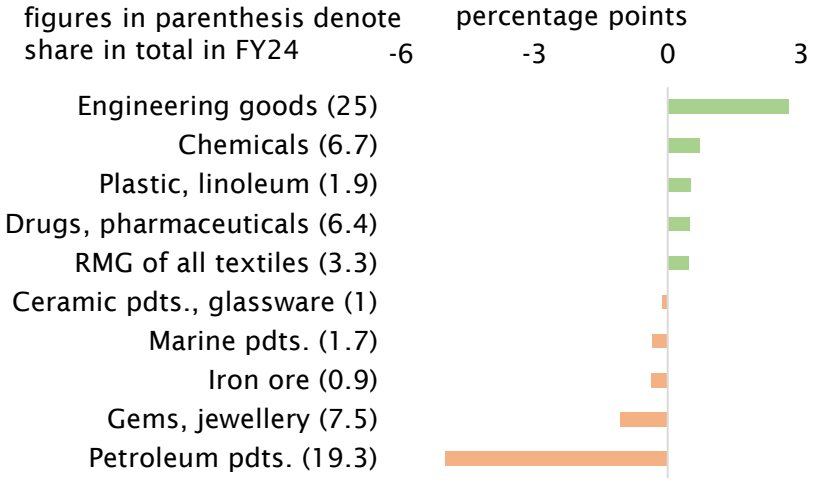
Contribution to exports growth – September 2024



Base effects lifted y-o-y growth despite m-o-m decline



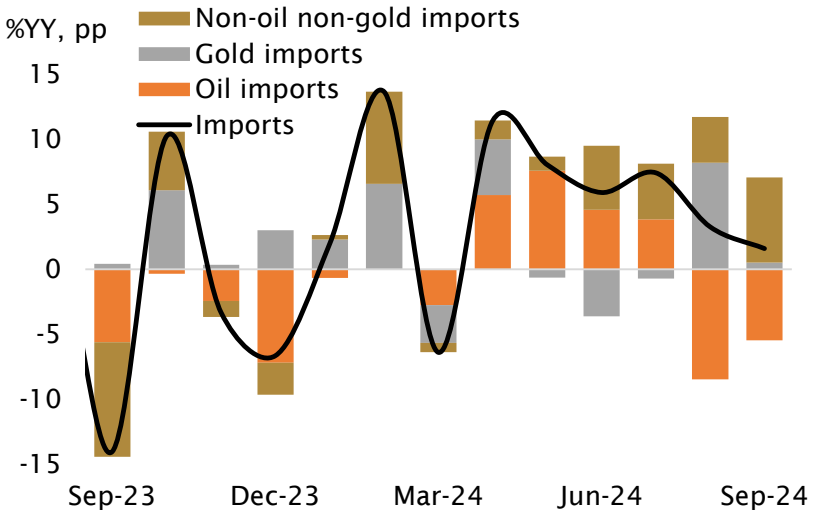
Contribution to exports growth – September 2024



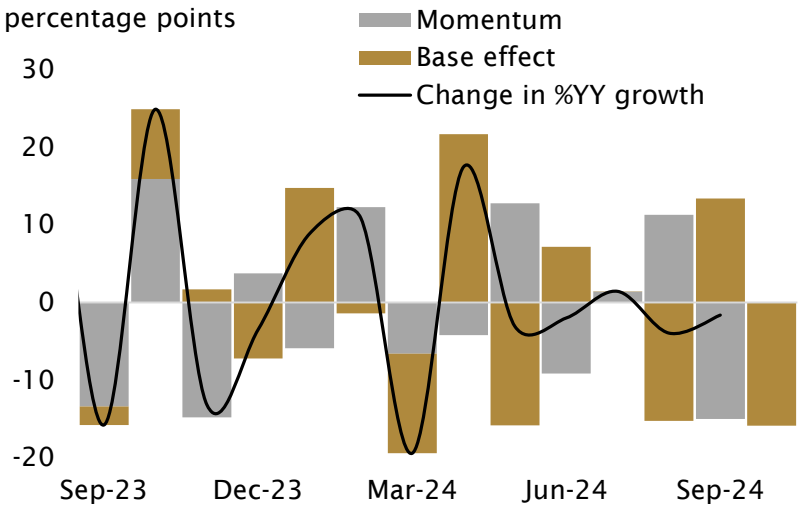
Gold imports normalized, petroleum imports stayed in contraction

- The year-on-year growth in merchandise imports eased for the second straight month in September to 1.6%YY from 3.3% in August. The pace of moderation was slower than the previous month due to base effects that offset the negative month-on-month momentum.
- In terms of year-on-year change, oil imports posted double-digit decline for the second straight month. Gold imports growth normalized after surging over 100% in August. Core imports growth accelerated to the highest in FY25.
- Of the 30 major categories, imports rose year-on-year in 20 groups, higher than 18 in August. Within core imports, machinery, chemicals, electronics, and non-ferrous metals added to growth. Imports of precious stones, vegetable oils, fertilizers, and dyeing/coloring materials fell.
- In terms of month-on-month change, gold and core imports fell, while petroleum imports were stable.

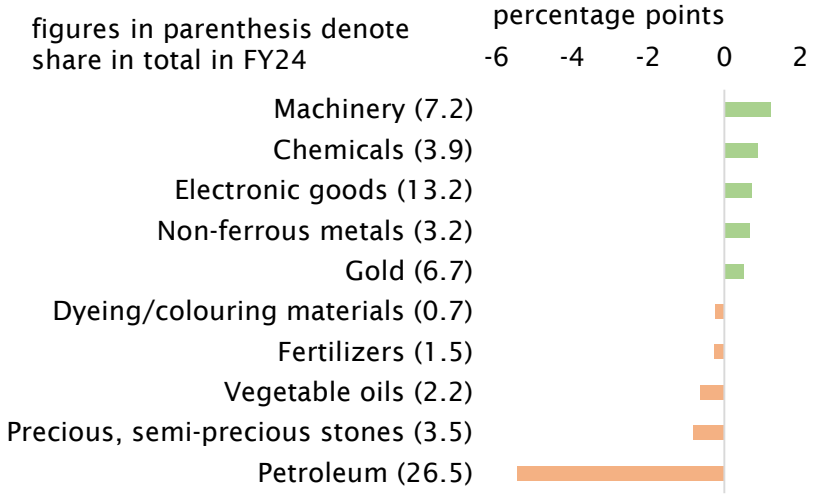
Contribution to imports growth – September 2024



Imports growth eased at a slower pace in September



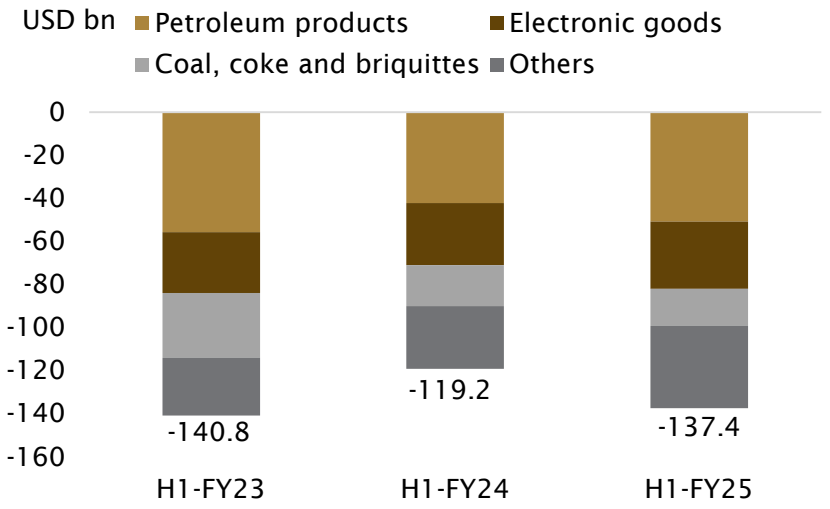
Contribution to imports growth – September 2024



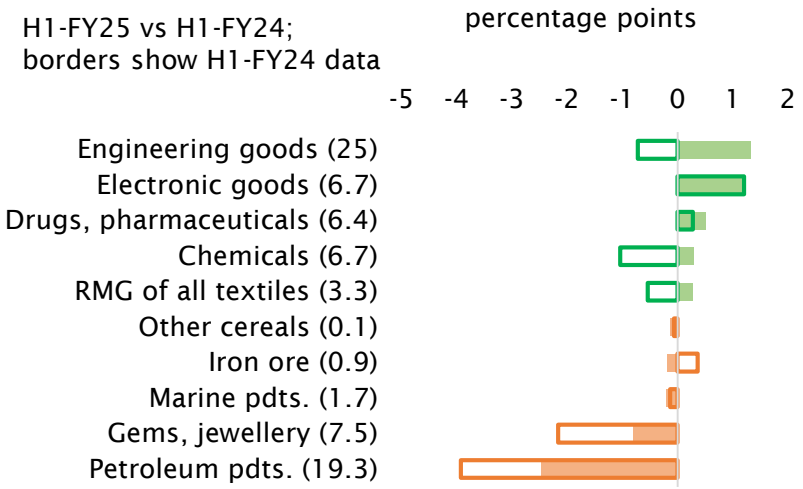
Merchandise trade deficit widened in H1-FY25 vs. same period last fiscal

- In H1-FY25 (April-September), both exports and imports rebounded after contracting in the corresponding period of FY24. Exports grew 1%YY versus 8.9% decline in H1-FY24, and imports rose 6.2% compared to 11.3% drop. The trade deficit widened vis-à-vis H1-FY24 due to the drag from oil and electronic goods but remained lower than the corresponding period in FY23.
- Engineering goods added the most to exports growth, more than reversing the trend in H1-FY24. The contribution of electronic goods and pharmaceuticals remained strong in H1-FY25. Exports of chemicals and textiles added to growth after declining in H1-FY24. Petroleum products and gold jewellery remained a drag.
- With the recent surge in imports, gold added the most to growth in H1-FY25, displacing electronic goods. Oil also added to imports, reversing the trend seen in H1-FY24.

Trade deficit widened in H1-FY25 vis-à-vis H1-FY24

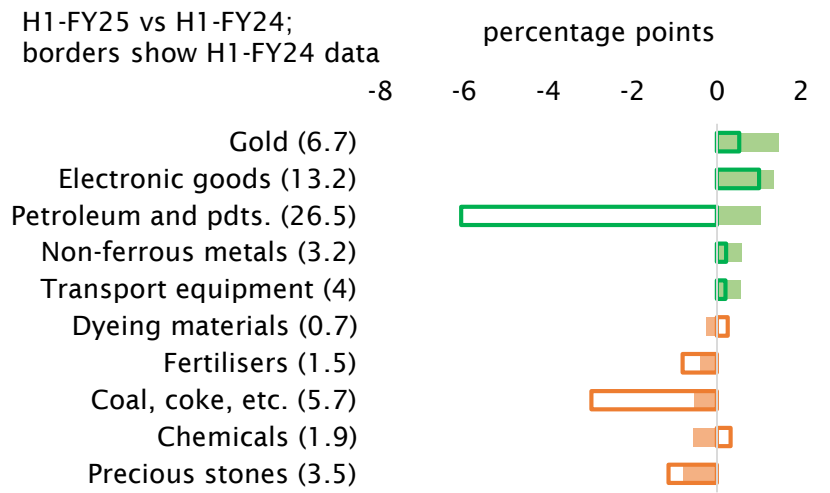


Contribution to %YY exports growth



Note: Numbers in parenthesis show share in FY24

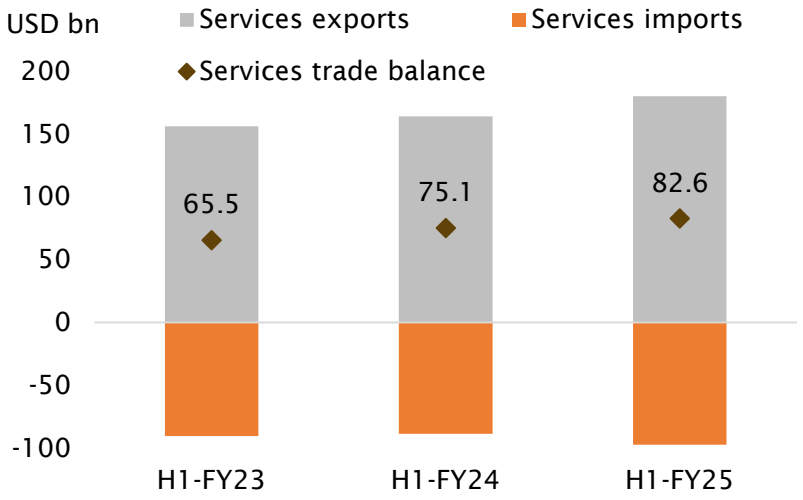
Contribution to %YY imports growth



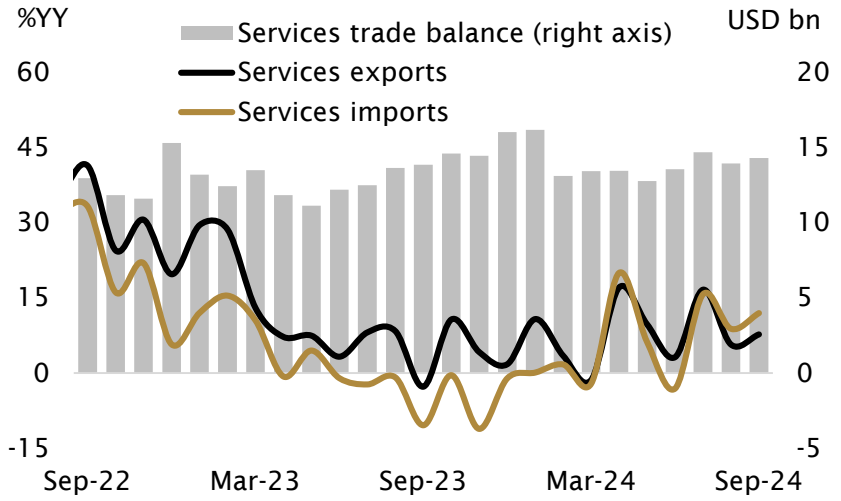
Services trade surplus improved in H1-FY25 vs. same period last fiscal

- Services trade surplus continued to improve in H1-FY25. Exports grew at a faster pace of 9.8%YY versus 5% in H1-FY24. Imports grew 9.6%YY, following 1.9% decline.
- In September, services trade surplus improved to USD14.3bn from USD13.9bn in August amid month-on-month increase in exports and decline in imports. Exports grew 0.9%, reversing 0.8% decline in the previous month. Imports fell 0.6% versus 3.3% growth in August.
- In terms of year-on-year change, both exports and imports growth improved from August, supported by base effects. Enabled by lower goods deficit and higher services surplus, overall deficit (goods plus services) narrowed to USD6.5bn from USD15.7bn in August. In H1-FY25, overall trade deficit deteriorated to USD54.8bn from USD44.2bn in H1-FY24, as higher services surplus failed to offset the worsening in goods trade deficit.

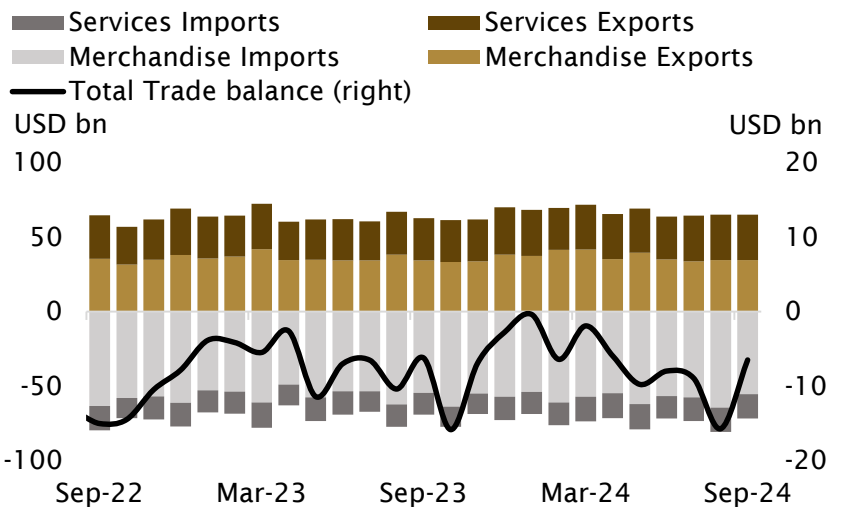
Services surplus improved in H1-FY25 vs. H1-FY24



Services trade surplus improved in September



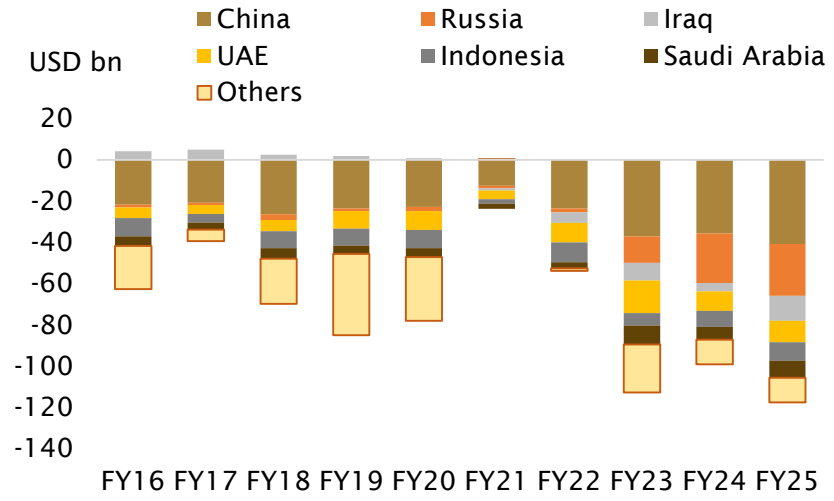
Total trade deficit narrowed in Sep; worsened in H1-FY25



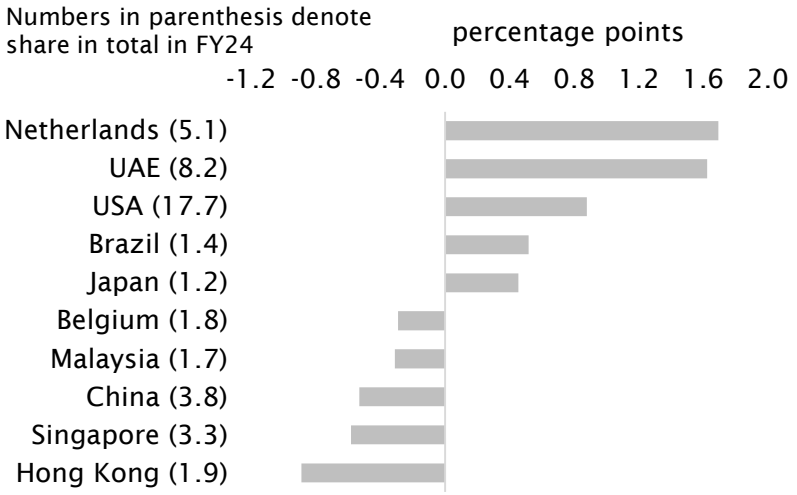
Merchandise trade deficit remained the widest vis-à-vis China in Apr-Aug

- Detail data till August shows that India's trade deficit was the steepest vis-à-vis China, followed by Russia. Computer hardware and telecom instruments were the main imports from China, while from Russia, petroleum and fertilizers were the key imports. Initial data for September shows that imports from the UAE added the most to growth, even as China topped the list in terms of share. As per data till August, in addition to petroleum products, India imported gold and precious stones from the UAE and exported precious metal jewellery.
- Exports to the Netherlands added the most to growth in September, though share of exports remained the largest to the US. Detailed data till August shows that petroleum products and telecom instruments were major exports to the Netherlands, while electronic components, cotton fabrics, and pharmaceuticals were key exports to the US.

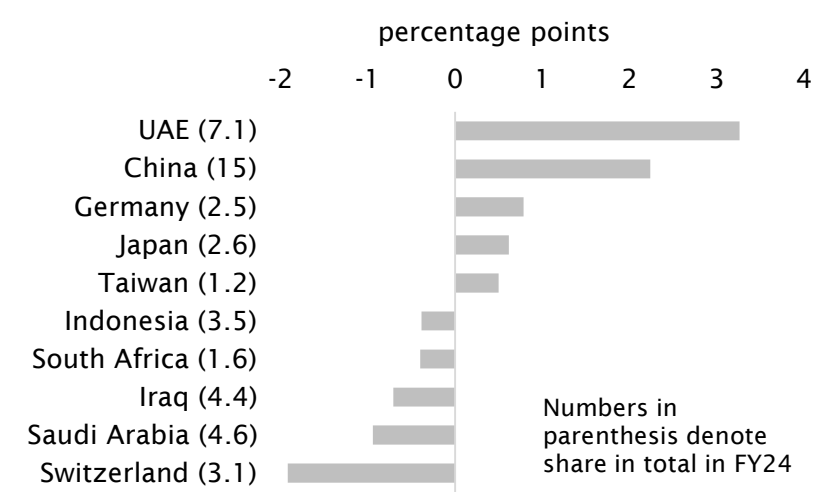
Trade deficit by economy – April-August



Contribution to exports growth – September 2024



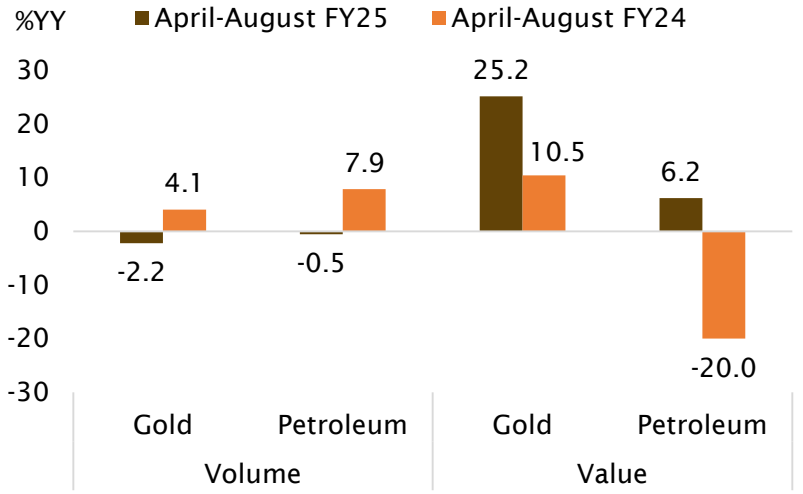
Contribution to imports growth – September 2024



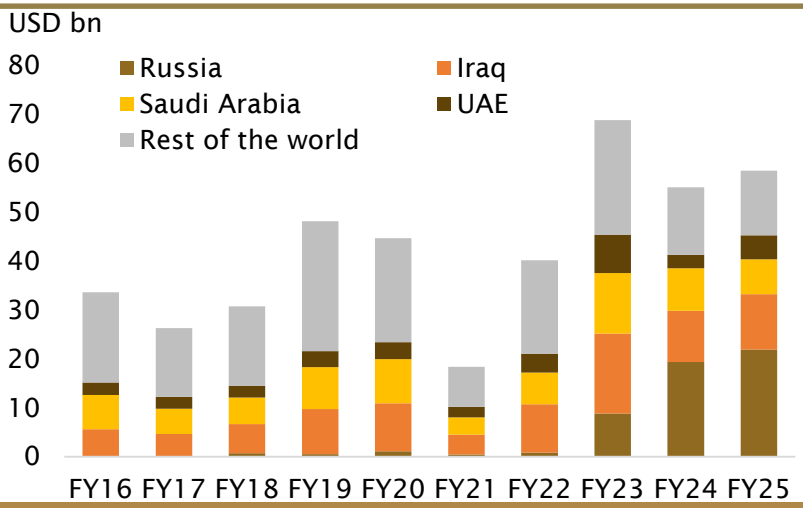
Despite higher petroleum, gold imports in value terms; volumes fell FYTD

- Even as gold and oil imports were higher FYTD year-on-year in value terms till August, volumes fell, reflecting the impact of higher prices. Gold import volumes fell 2.2%YY, and petroleum 0.5%. In April-August FY25, oil prices rose 5%YY versus 26% decline in April-August FY24. Gold prices were up 21%YY, higher than 7% rise in April-August FY24.
- Most of the increase in gold imports post the customs duty cut in the latest Union Budget, was from the UAE and Switzerland. In April-August FY25, share of gold imports was the highest from Switzerland, though mildly lower at 36% versus 38% in April-August FY24. The share of imports from the UAE, South Africa and Peru has risen year-on-year.
- India continued to import most of crude petroleum from Russia, with its share rising to 37% in April-August FY25 from 35% in April-August FY24. Share of imports from Iraq was stable at 19%, while that from Saudi Arabia eased to 12% from 16% and rose slightly in case of the UAE.

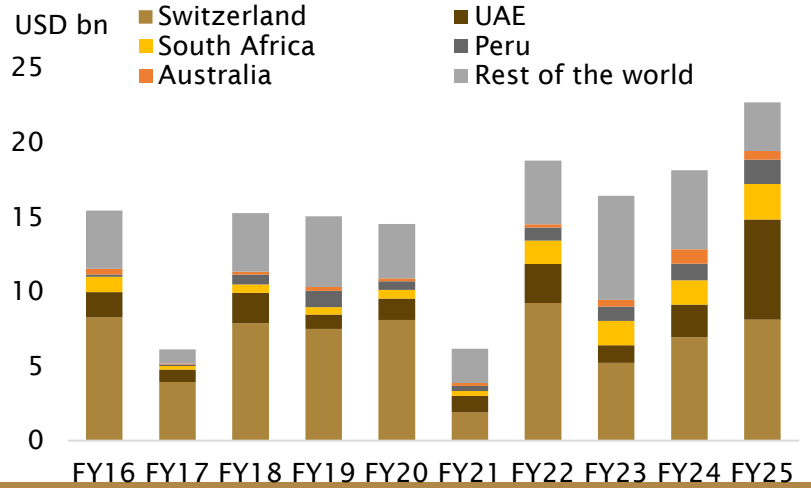
Imports of gold, oil fell y-o-y FYTD in volume terms



Crude petroleum imports by economy – April-August



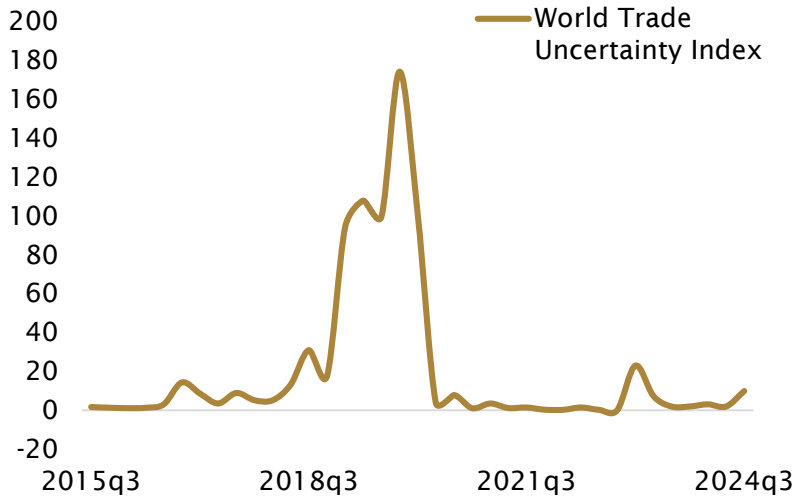
Gold imports by economy – April-August



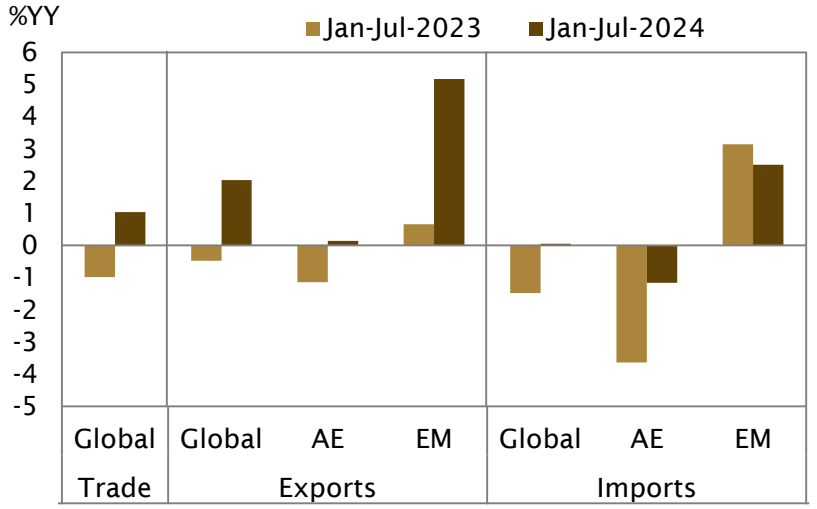
Bumpy road ahead for global trade recovery

- Latest data on global trade volumes suggests continued recovery in 2024, albeit at a tardy and uneven pace, and led by emerging market economies so far. Global exports were up 2%YY in January-July versus 0.5% decline in the corresponding period a year ago. Within EM, China and emerging Asia led the rebound, while the slump in exports from the UK and Euro area kept the pace of exports growth muted in case of advanced economies. Global imports rose 0.1%YY on an average between January-July, compared to 1.5% decline in the respective period a year ago. EM imports posted positive year-on-year growth, though lower than in January-July 2023. China and emerging Asia again led the gains amid notable recovery in Latin America imports. Imports of advanced economies remained in contraction, though at a shallower pace, tracing the weakness in Japan, Euro area and the UK, even as US imports rebounded.
- In its latest outlook update, the WTO marginally raised global trade growth forecast for 2024 to 2.7%YY from 2.6% earlier, and lowered it for 2025 to 3% from 3.3%. The report noted that monetary policy easing that has started in advanced economies is expected to boost consumption and investment, and thereby support gradual recovery of global trade. However, risks to the outlook remain tilted to the downside due to 1) widening regional conflicts 2) financial market volatility due to monetary policy divergence 3) fragmentation of supply chains due to geopolitical tensions. In addition to these factors, policy related risks ahead of the US Presidential elections have driven a mild uptick in the global trade uncertainty index recently.

Slight uptick in global trade uncertainty



Uneven and slow recovery in global trade



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