

Trade deficit worsened in Jan; steps to strike India-US trade deal could offer some respite from tariff wars

1 March, 2025

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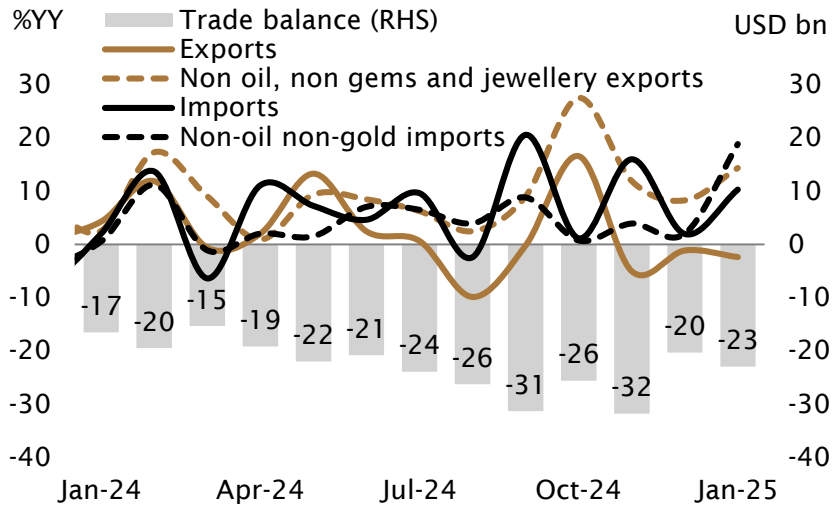
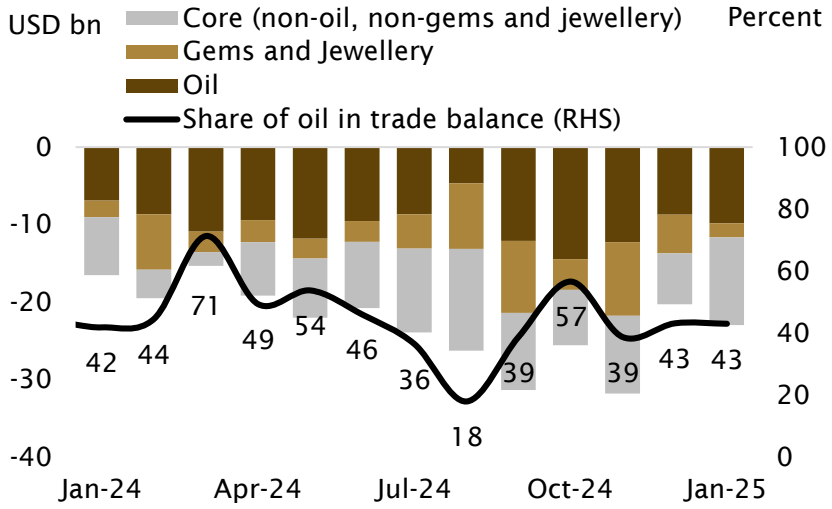
Key takeaways

- In January, merchandise trade deficit deteriorated to USD23.0bn from USD20.3bn in December. Exports remained in year-on-year contraction for the third straight month amid month-on-month decline that offset favorable base effects. Exports fell at a sharper rate of 2.4%YY versus 1.2% in December. Imports were up month-on-month and base effects further lifted year-on-year growth to 10.3% from 1.9% in December.
- Core trade deficit (non-oil, non-gems and jewellery) worsened to five-month high of USD11.3bn from USD6.6bn in December, gems and jewellery trade deficit narrowed to the lowest since mid-2023 to USD1.8bn, while petroleum deficit deteriorated to USD9.9bn from USD8.7bn in December.
- In January, services surplus rose to USD20.3bn from USD19.1bn in December and continued to improve on fiscal year-to-date basis (FYTD). During April-January, goods trade deficit was steeper at USD244bn vis-à-vis USD206bn in the same period in FY24, causing deterioration in the overall trade deficit.
- The resurgence of trade wars has added uncertainties to the global backdrop. While Canada, Mexico and China have been the first in line to face the brunt of tariff wars, India remains vulnerable with tariffs that are higher relative to peers. Though it would be difficult to completely mitigate the spill overs from global trade wars, India's recent steps to negotiate a trade deal with the US by the fall of 2025, including increasing the quantum of bilateral trade to USD500bn by 2030, may offer some respite.

Merchandise trade deficit deteriorated in January amid year-on-year increase in imports and decline in exports

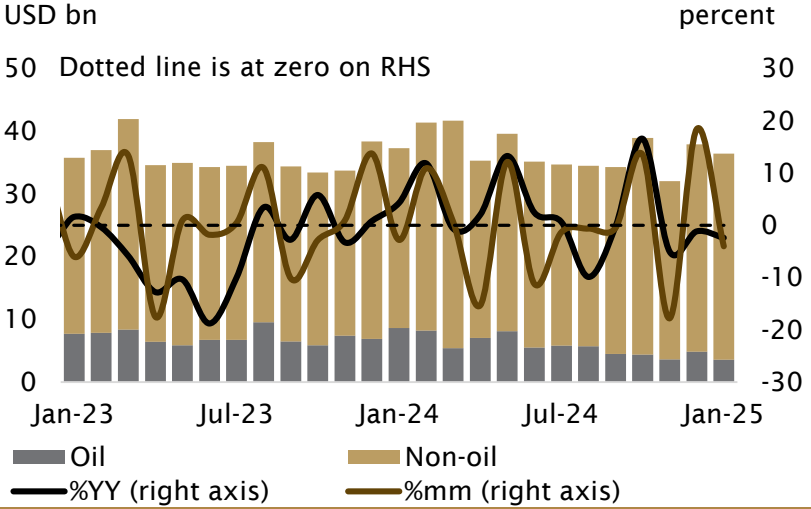




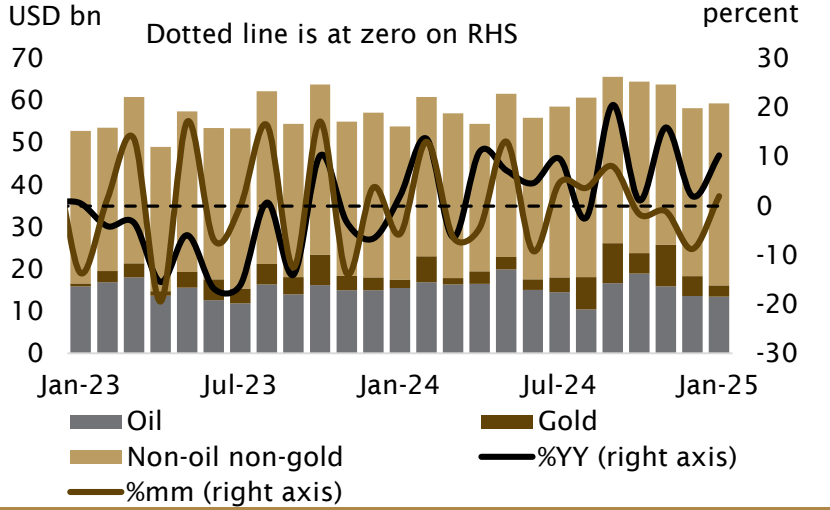
Goods trade deficit worsened; as gap widened in core, petroleum trade

- In January, goods trade deficit deteriorated to USD23.0bn from USD20.3bn in December. Base effect was favorable in case of exports but was offset by month-on-month decline, so that exports remained in year-on-year contraction for the third straight month and at a sharper rate of 2.4% versus 1.2% in December. Imports were up month-on-month and base effects lifted year-on-year growth to 10.3% from 1.9% in December.
- Core trade deficit (non-oil, non-gems and jewellery) worsened to five-month high of USD11.3bn from USD6.6bn in December amid month-on-month decrease in exports and an increase in imports. Base effects drove double-digit year-on-year growth in both exports and imports, with the latter hitting a 29-month high.
- The gems and jewellery trade deficit narrowed to the lowest since mid-2023 to USD1.8bn from USD5.0bn in December, as exports rose month-on-month, while imports stayed in contraction. The year-on-year growth in exports surged to the highest since Oct-2022, aided by favorable base effects, but imports growth dwindled.
- Petroleum trade deficit deteriorated to USD9.9bn from USD8.7bn in December. Both exports and imports fell month-on-month, with exports declining at a sharper rate. Base effects were also negative for both, so that year-on-year growth rates were negative, and the steepest in four years in case of exports. The share of oil in trade deficit eased fractionally but was largely stable at around 43%.

Exports growth



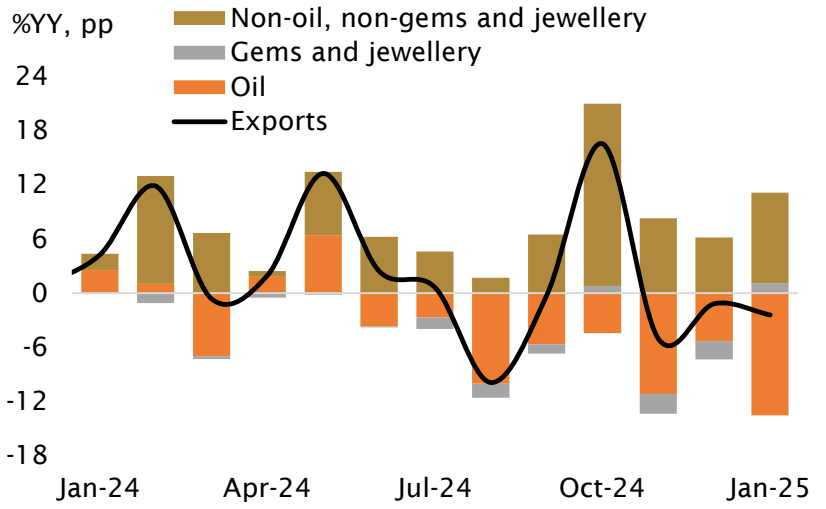
Imports growth



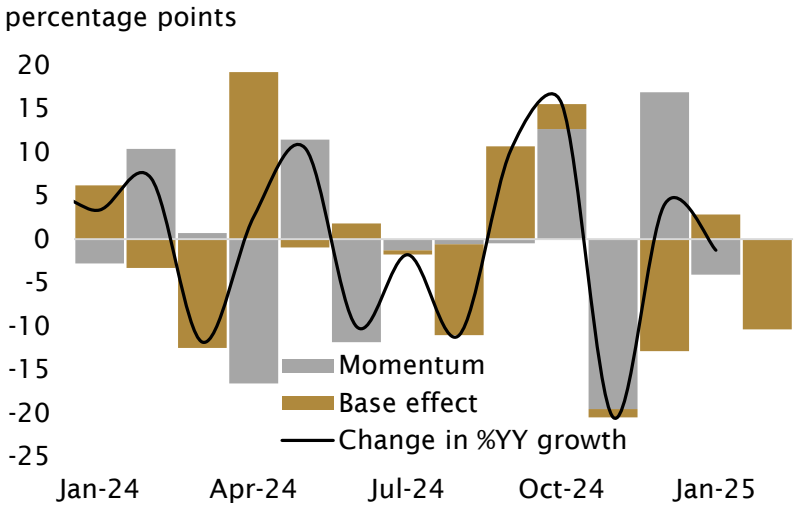
Exports fell y-o-y due to negative monthly momentum, drop in oil exports

- Total exports fell at faster pace of 2.4%YY in January, compared to 1.2% in December amid month-on-month drop in exports that offset favorable base effects.
- In terms of year-on-year change, petroleum exports slumped at the sharpest rate in four years. Gems and jewellery exports rose after declining for two straight months, while core exports growth swung back to double-digits, marking the fourteenth straight month of expansion.
- Of the 30 main categories, exports fell year-on-year in five groups, less than six in December. Within core exports, iron ore, oil meals, and chemicals were among laggards, while electronic and engineering goods, pharmaceuticals and rice contributed to growth.
- Exports of petroleum and core fell month-on-month, while those of gems and jewellery surged.

Contribution to exports growth – January 2025



Despite base effects, m-o-m drop dragged y-o-y growth



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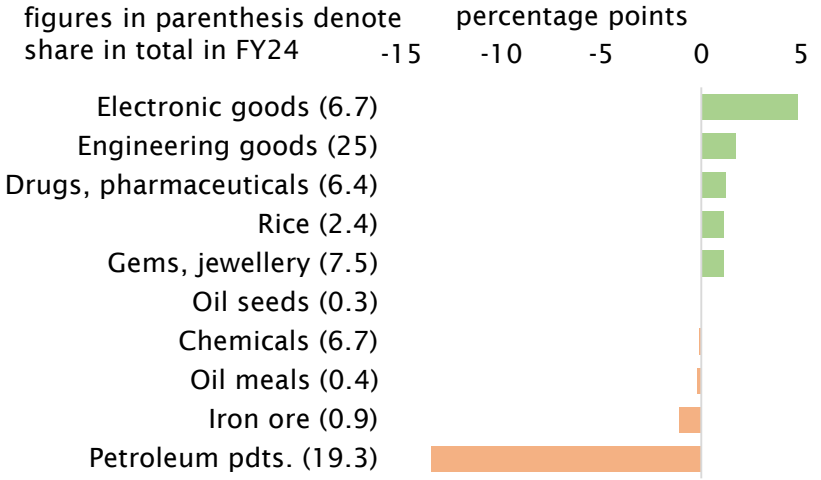
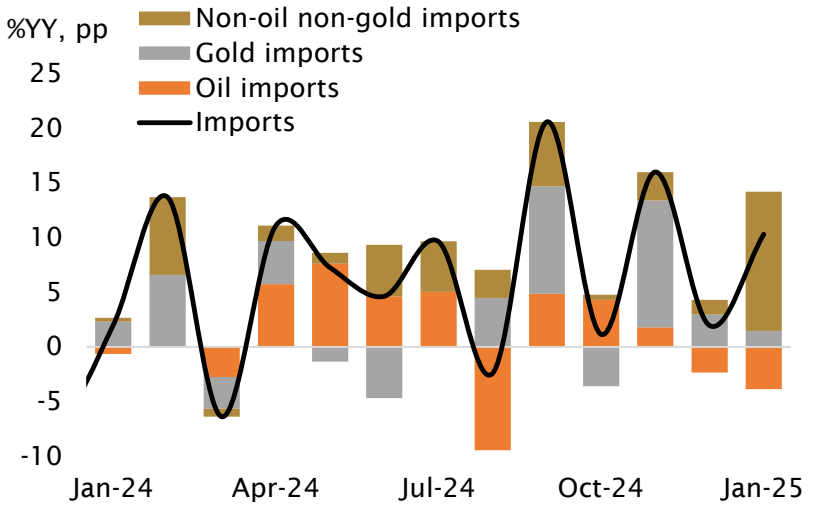


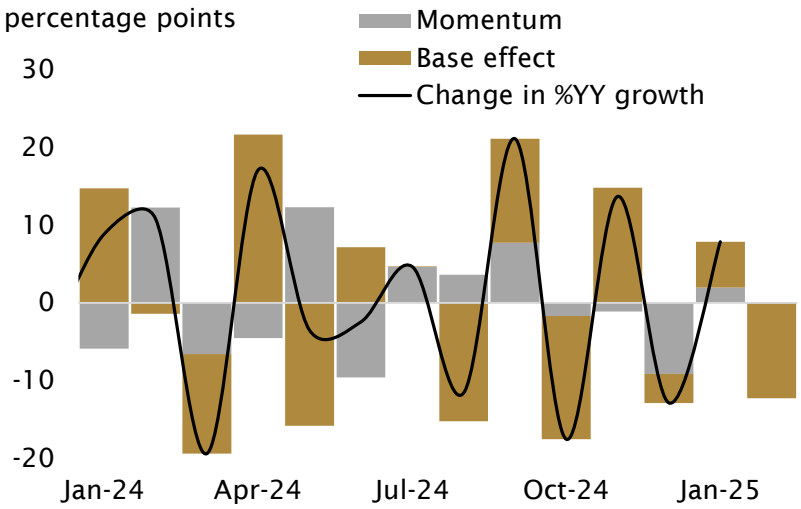
Y-o-Y import growth swung to double digits amid surge in core imports

- Buoyed by month-on-month increase and base effects, the year-on-year import growth swung back to double digits at 10.3%YY in January from 1.9% in December.
- In terms of year-on-year change, oil imports remained in contraction for the second straight month, while gold imports growth eased. Core imports growth surged to the highest in 29 months (since Sep-2022), buoyed by base effects and monthly momentum.
- Of the 30 major categories, imports rose year-on-year in 26 groups, higher than 19 in December. Within core imports, electronics, machinery and chemicals added to growth. Imports of pearls, precious stones; coal, briquettes, etc; and project goods were laggards.
- Imports of petroleum, and gems and jewellery fell month-on-month, while those of core goods increased.

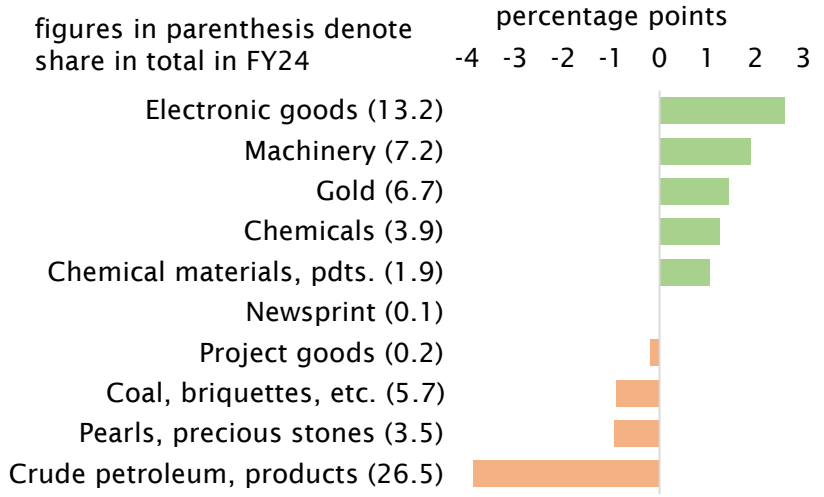
Contribution to imports growth – January 2025



Base effects, monthly momentum drove import growth



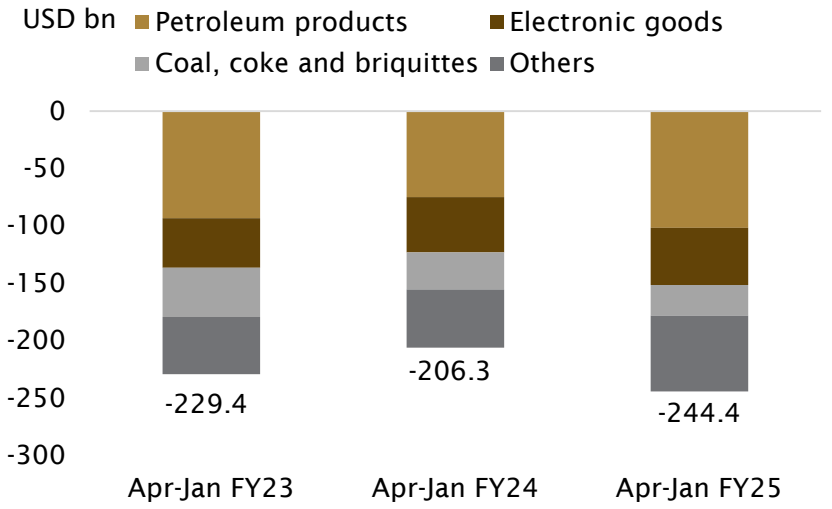
Contribution to imports growth – January 2025



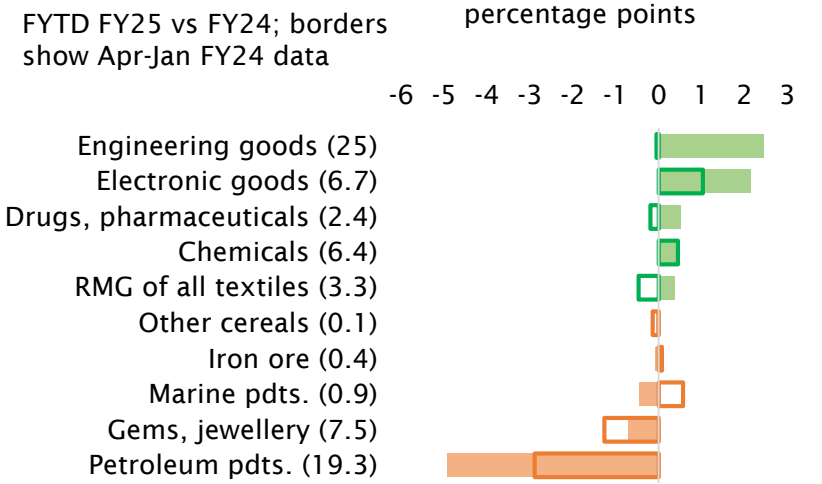
Goods trade deficit widened in Apr-Jan FY25 vs same period in FY23, FY24

- On a fiscal year-to-date basis, year-on-year growth in exports and imports stayed positive after decreasing in the same period of FY24. Exports grew 1.4%YY versus 4.9% decline in FYTD FY24. Imports rose 7.7%YY, compared to 6.8% fall. In FYTD terms, the trade deficit was steeper in FY25 vis-à-vis FY24 and FY23.
- Engineering and electronic goods added the most to exports growth. The contribution of pharmaceuticals and RMG textiles was strong, a reversal from the trend in FY24. Chemicals also added to growth. Petroleum products and gold jewellery remained a drag.
- Gold added the most to imports growth in FYTD FY25. Electronics contributed to imports, partly reversing the trend in FYTD FY24. The contribution of oil to imports growth was similar to that in FYTD FY24. Imports of chemicals, precious stones remained in contraction.

Trade deficit widened in Apr-Jan FY25 vs Apr-Jan FY24

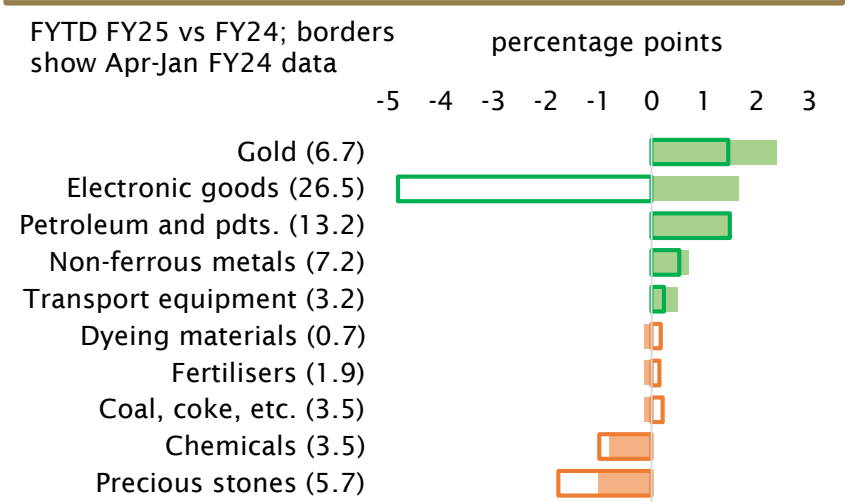


Contribution to %YY exports growth – FYTD (Apr-Jan)



Note: Numbers in parenthesis show share in FY24

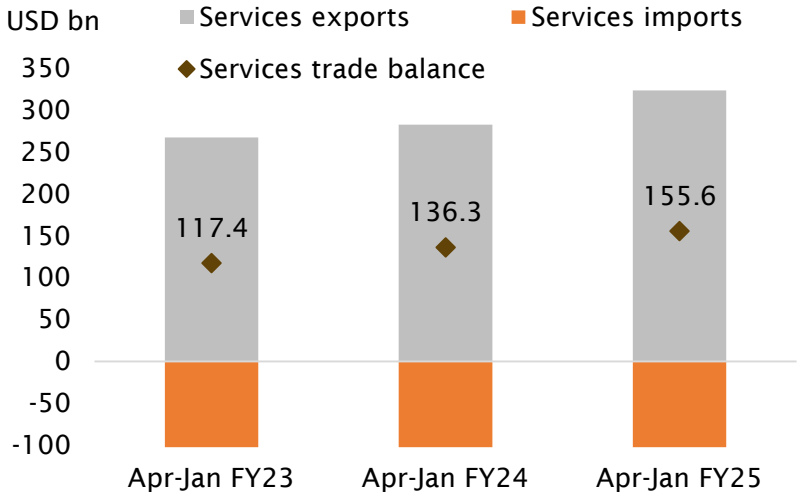
Contribution to %YY imports growth – FYTD (Apr-Jan)



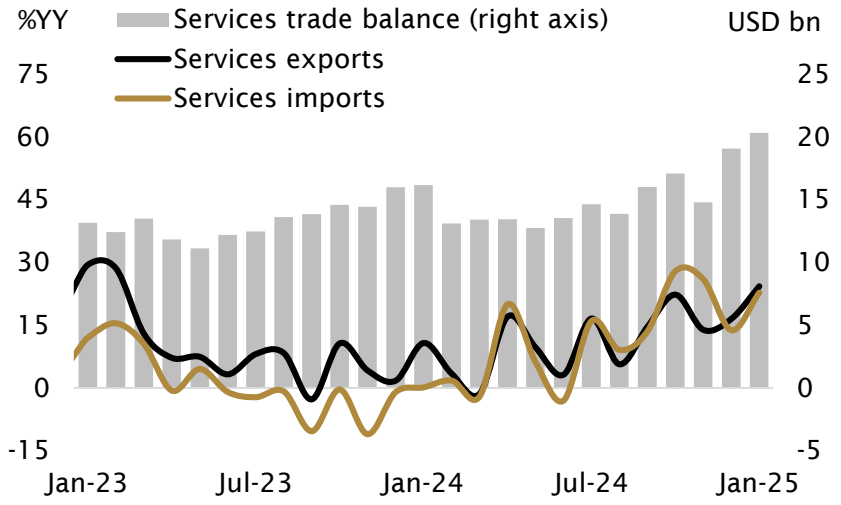
Services trade surplus improved further in January and on FYTD basis

- In fiscal year-to-date terms (FYTD-April-January), services trade surplus improved to USD155.6bn from USD136.3bn in the same period of FY24. Both exports and imports grew over 14%YY. In FYTD FY24, exports were up 5.7%YY, while imports had declined 2.4%.
- In January, services surplus rose to USD20.3bn from USD19.1bn in December. The month-on-month growth in both exports and imports eased compared to December, and exports growth continued to outpace imports.
- In terms of year-on-year change, both services exports and imports growth improved from December, aided by both monthly momentum and base effects.
- Despite higher services surplus, widening in goods deficit led to steeper total deficit of USD2.7bn versus USD1.2bn in December. In FYTD FY25, total deficit widened to USD88.8bn from USD70.0bn in FYTD FY24.

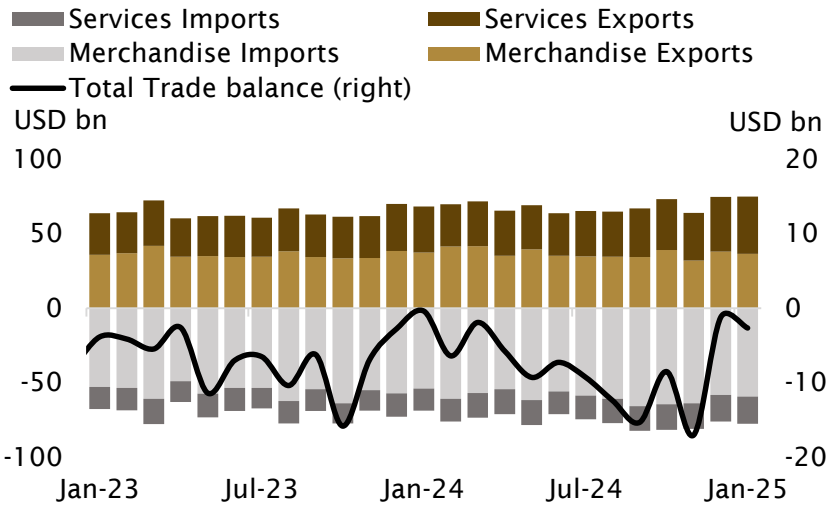
Services surplus continued to improve FYTD FY25



Services trade surplus improved further in January



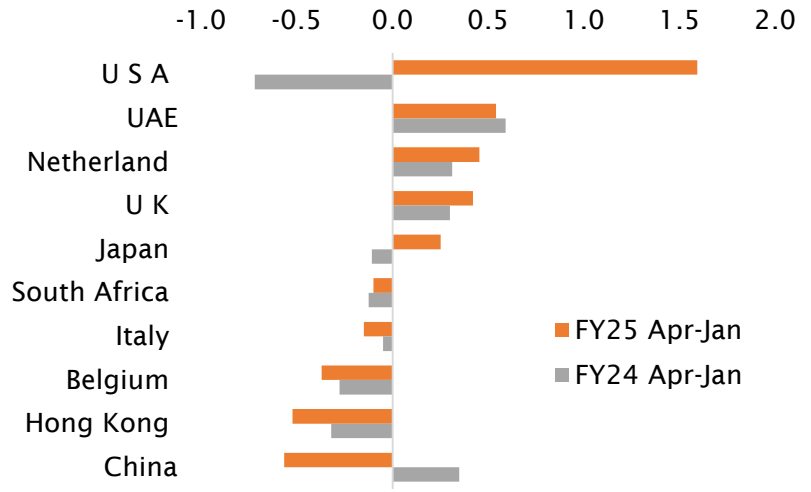
Total trade deficit worsened on monthly and FYTD basis



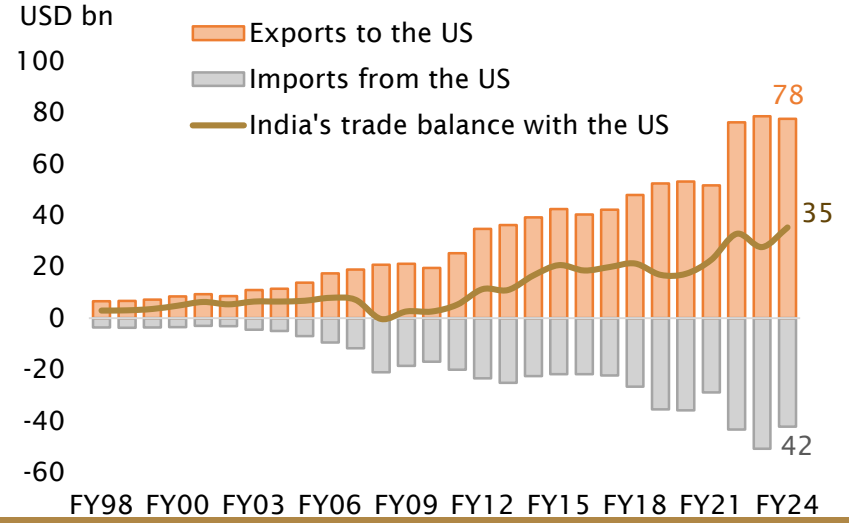
US remains the biggest destination for India's exports

- India's trade deficit continues to be the largest vis-à-vis China. However, on fiscal year-to-date terms (Apr-Jan FY25), China ranked second in terms of contribution to India's imports growth, with the UAE taking the lead. Exports to the US contributed the most to growth with key items being drug formulations, telecom instruments, precious stones, petroleum products, and gold jewellery.
- In FY24, the largest share of India's exports (~18%) went to the US, while imports from the US constituted ~6% of India's total imports. The share of exports to the US has improved from the slump of around 10% in FY11 but remains lower than the peak of about 23% in FY00.
- India has mostly had trade surplus vis-à-vis the US except for in FY08. In FY24, this surplus was around USD35bn. In FYTD terms, trade surplus has increased to USD31bn from USD27bn in Apr-Jan FY24.

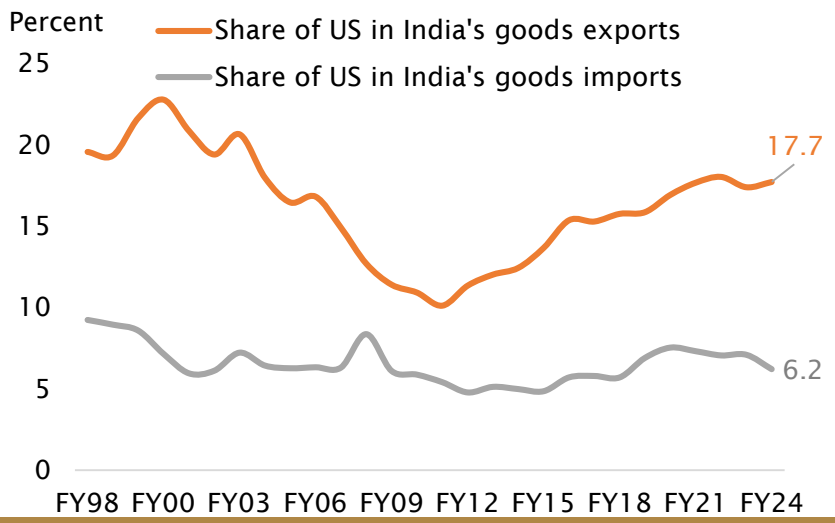
Contribution to y-o-y export growth – Apr-Jan FY25



India-US trade surplus reached USD35bn in FY24



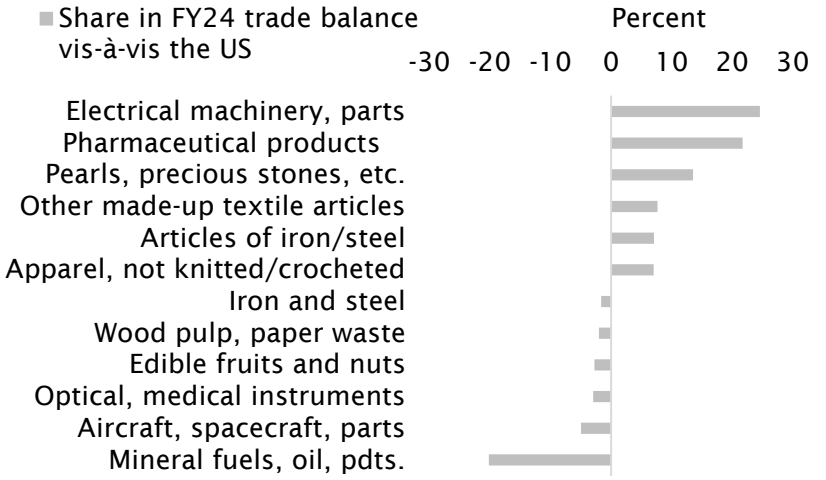
US tops the list of India's export destinations



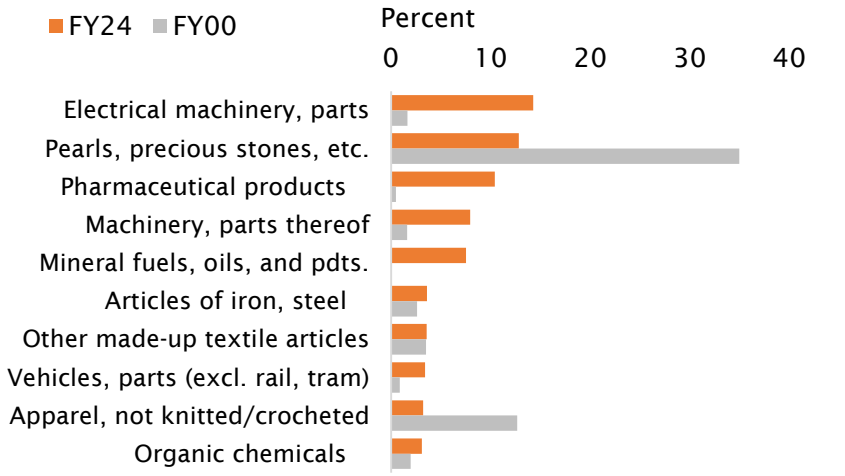
Decoding changes in patterns in US-India goods trade

- Despite having a net trade surplus vis-à-vis the US, imports from the US comprised 6% of India's total imports in FY24. Mineral fuels, oils and products topped the list, with their share in imports from the US rising to 31% from 2% in FY00. In FY00, nuclear reactors, boilers, machinery, and parts topped the list at 17% share and continued to remain among top three imports from the US in FY24, followed by pearls and precious stones.
- In case of exports to the US, electrical machinery and equipment topped the list at 14% share, followed by pearls and precious stones, and pharmaceuticals. The share of pharmaceuticals increased from 0.5% in FY00 to over 10% in FY24, while that of electrical machinery and parts rose to more than 14% from less than 2% in FY00. The share of pearls and precious stones in exports to the US has eased to almost a third from 35% in FY00.

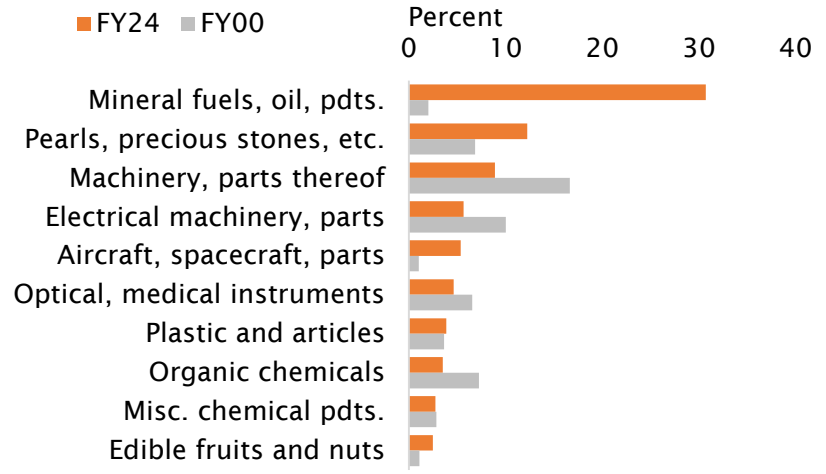
Share of items in trade balance vis-à-vis the US (FY24)



Share of items in total exports to the US



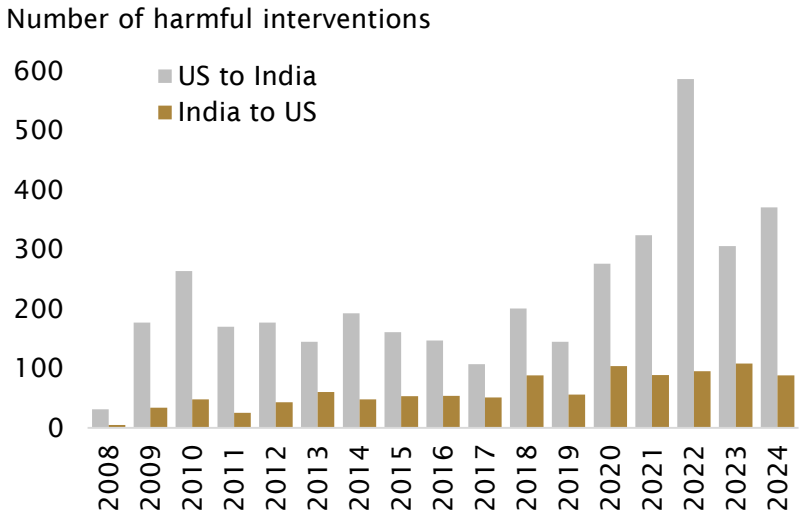
Share of items in total imports from the US



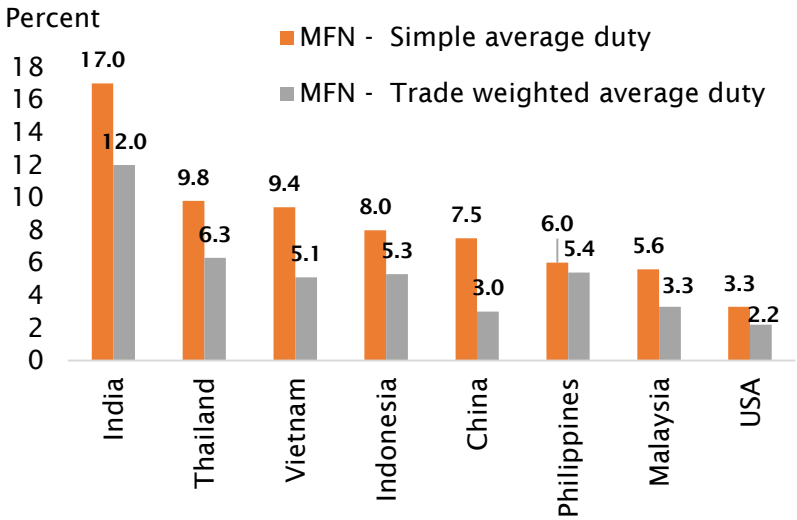
India's steps to negotiate a trade deal with the US may offer some respite

- The resurgence of trade wars has added uncertainties to the global backdrop that was already grappling with volatility due to geopolitical tensions and continuous repricing of monetary policy moves amid sticky last mile of disinflation and pockets of weakness in economic activity. While Canada, Mexico and China have been the first in line to face the brunt of tariff wars, India remains vulnerable with tariffs that are higher relative to peers. The argument that India has been relatively subdued in imposing non-tariff barriers may not hold ground to the extent desirable, as nations turn more protectionist.
- Though it would be difficult to completely mitigate the spill overs from global trade wars, India's recent steps to negotiate a trade deal with the US by the fall of 2025, including increasing the quantum of bilateral trade to USD500bn by 2030, may offer some respite.

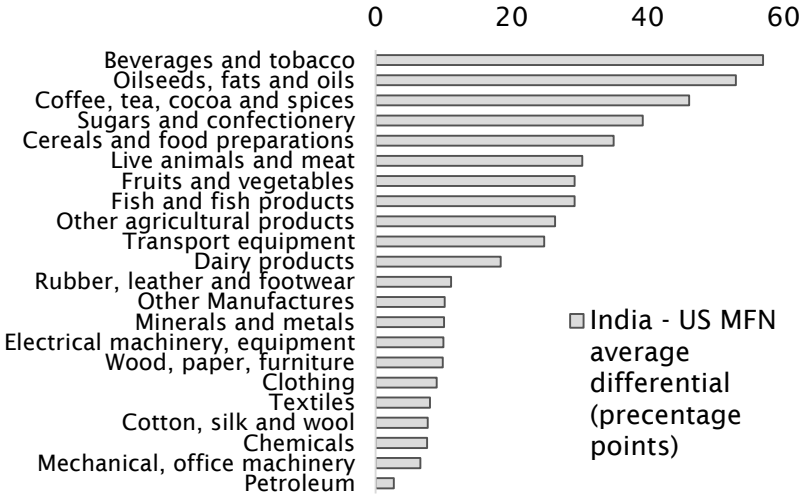
Non-tariff barriers



Tariffs imposed by India relatively higher vis-à-vis peers



MFN differential: India vs US

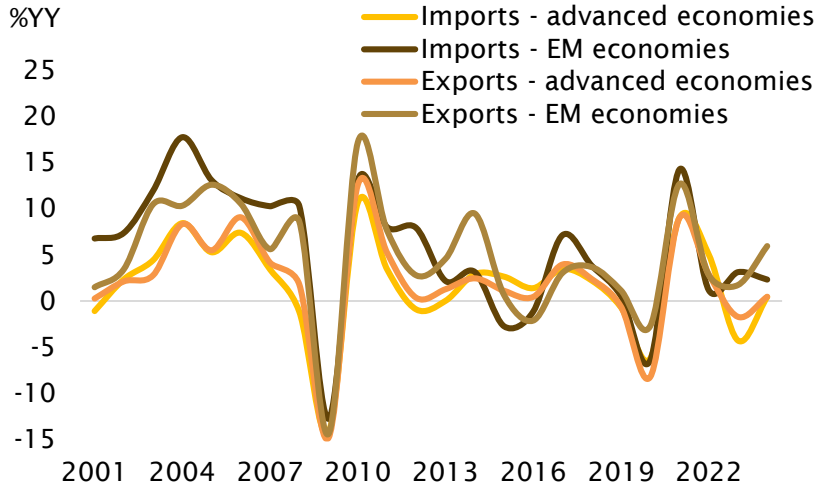


Global tariff wars to hurt trade flows

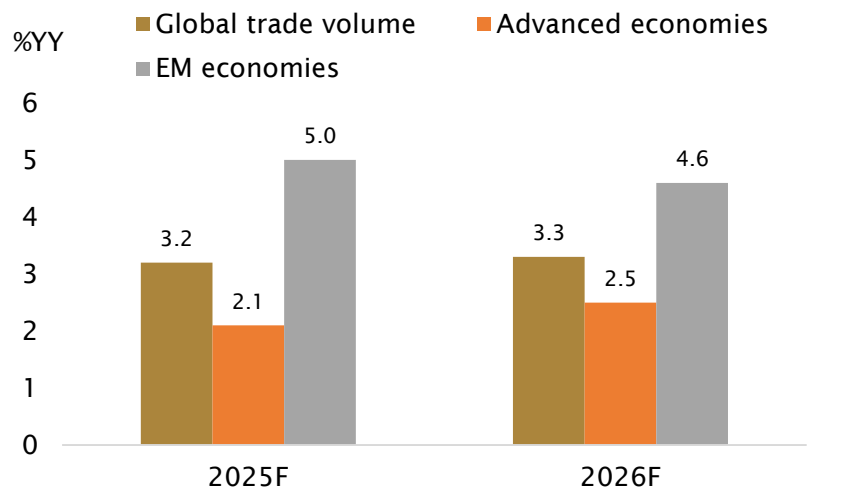
- As per the latest data from CPB (Netherlands Bureau for Economic Policy Analysis), global trade volumes recovered in 2024 after declining in 2023. This was in line with the trends in trade flows of advanced economies. In case of emerging market economies, both exports and imports growth rates remained positive in 2023 and 2024, amid deceleration in import growth and higher export growth.

- The recovery in global trade remains thwarted by the prospects of global trade wars and geopolitical tensions. In its latest World Economic Outlook update in January, the IMF trimmed forecasts for global trade volume of goods and services for 2025 and 2026 by 20bps and 10bps respectively, to 3.2% and 3.3%, respectively. The IMF cites that the increase in trade policy uncertainty is likely to hurt investment among trade-intensive firms, though it expects the impact to be transitory. There could also be some offset from front-loading of trade flows to deal with policy uncertainties and anticipated trade restrictions.

Global trade volumes improved in 2024



IMF has trimmed global trade forecasts



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