Merchandise trade deficit worsened in August as fall in exports and surge in gold imports offset lower oil imports

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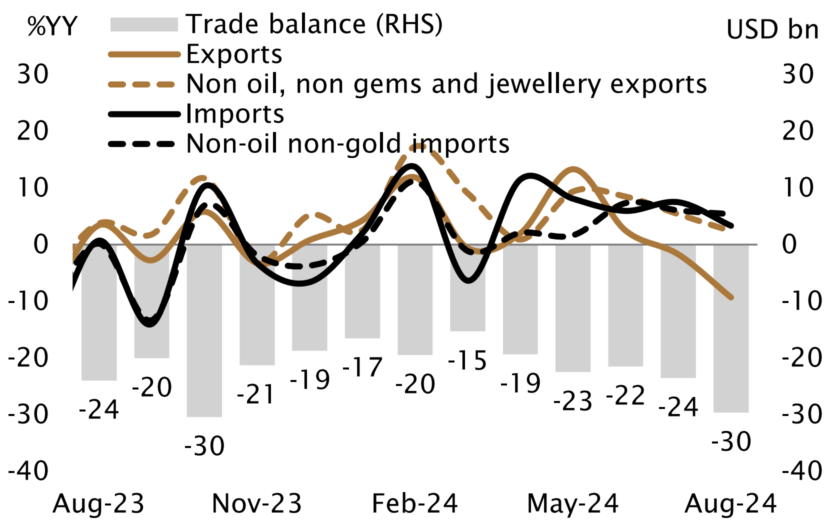
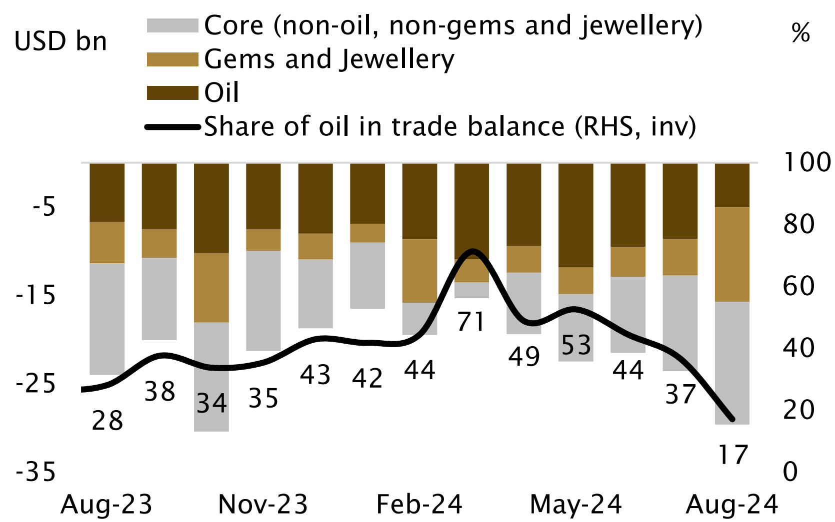
24 September, 2024

Key takeaways

- In August, India's merchandise trade deficit widened to the steepest level in ten months at USD29.6bn from USD23.6bn in July, so that year-to-date deficit worsened to USD116.6bn from USD99.2bn in Apr-Aug FY24.
- Exports contracted year-on-year for the second straight month in August, while imports growth eased but remained positive. There was a surge in gold imports, an outcome of high global prices partly offset by customs duty cut announced in the Union Budget. The deficit in gems and jewellery deteriorated to a record high at USD10.7bn. Petroleum deficit narrowed to the lowest level in three years amid year-on-year declines in both exports and imports, partially reflecting the recent easing in global crude oil prices.
- Even as both core exports and imports posted positive year-on-year and month-on-month growth in August, the pace of increase eased in exports and accelerated in imports, so that the core deficit deteriorated to USD13.9bn from USD12.1bn in July. Services trade surplus was stable in August at around USD15bn.
- Latest data shows signs of revival in global trade but challenges remain. Concerns about slowdown in major economies, and policy uncertainties amid rising protectionism are making the road to recovery a bumpy one. Geopolitical tensions continue to impart volatility to commodity prices and prolong supply chain disruptions. However, the recent spate of monetary policy easing by systemic central banks could lend support to domestic economic activity and that could, in turn, act as a tailwind for global trade prospects.

Despite three-year low oil deficit, trade deficit widened in August due to higher core, gems and jewellery imports

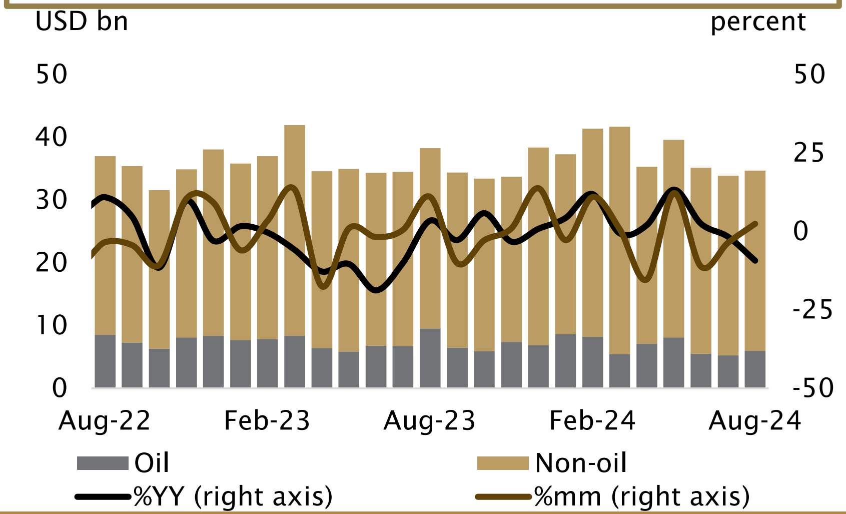




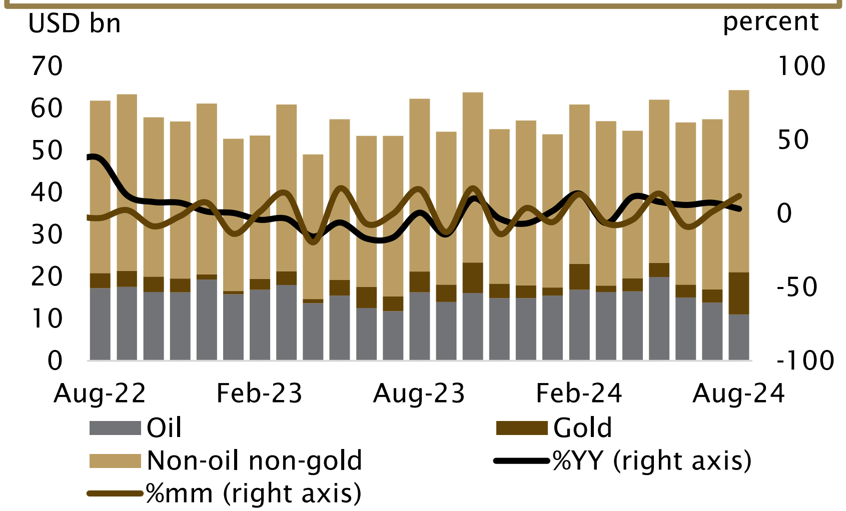
Despite low oil deficit; gold, core imports drove up trade deficit in Aug

- In August, merchandise trade deficit widened to the steepest level in ten months at USD29.6bn from USD23.6bn in July. Imports surged 12% month-on-month, higher than the average growth of 2% for the month (FY16-24) and 1.4% in July. Exports were also up month-on-month but at a slower pace of 2.4%, that nevertheless marked an improvement compared to 0.2% average growth for August and from 3.6% decline in July. In terms of year-on-year change, exports fell for the second straight month and at the sharpest pace in 13 months at 9.3%. Imports continued to grow for the fifth consecutive month, but at a slower pace of 3.3%YY from 7.5% in July. While monthly momentum was positive for exports and imports, base effects were negative, dragging down both.
- Core exports (non-oil, non-gems and jewellery) continued to fall month-on-month for the third straight month but the pace of decline eased. Core imports rose at a faster pace than in July. As a result, core deficit deteriorated to the steepest level in 23 months at USD13.9bn from USD12.1bn in July. Despite the oil deficit narrowing to a three-year low, non-core trade gap worsened to USD15.8bn from USD11.4bn in July, due to record-high deficit in gems and jewellery at USD10.7bn. During April-July FY25, deficit in gems and jewellery was contained between USD2.6-2.8bn but in August, gold imports surged over 200% month-on-month, while gems and jewellery exports rose around 9% after falling for two straight months. In terms of year-on-year change, gems and jewellery exports remained in contraction for the eighth successive month, while gold imports rebounded after three months.
- Petroleum imports remained in sequential decline for the third month in August, while exports rebounded. As a result, oil deficit narrowed to a three-year low, with share of oil in trade deficit falling to 17% from 37% in July.

Exports growth



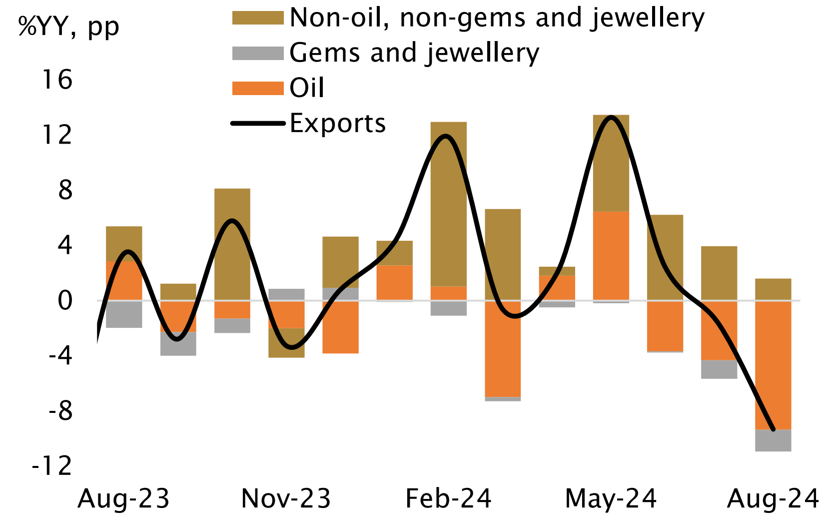
Imports growth



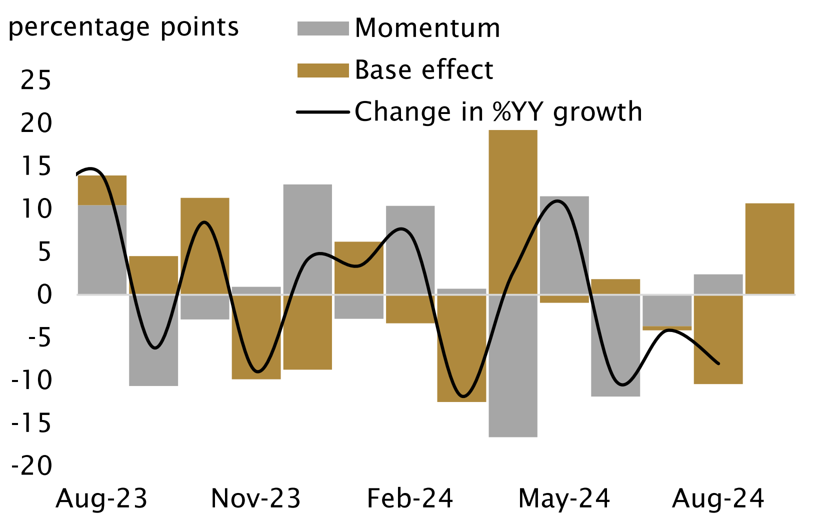
Exports fell y-o-y at the sharpest pace in 13 months; core exports held up

- In terms of year-on-year change, exports fell for the second consecutive month in August and at a steeper rate of 9.3% versus 1.7% in July. The drag was from an unfavorable base that offset the positive month-on-month momentum.
- In terms of year-on-year change, petroleum exports fell for the third straight month in August, and at the steepest rate since end-2020. Gems and jewellery exports remained in contraction for the eighth straight month. Growth in core exports eased, but has remained positive since end-2023.
- Of the 30 main categories, exports fell year-on-year in 11 groups, unchanged from July. Within core exports, engineering goods, chemicals, engineering goods, RMG of all textiles, and pharmaceuticals added to growth, while rice, marine products, and iron ore were among laggards.
- In terms of month-on-month change, gems and jewellery, and oil exports increased, while core exports fell.

Contribution to exports growth – August 2024



Base effects dragged down exports in August



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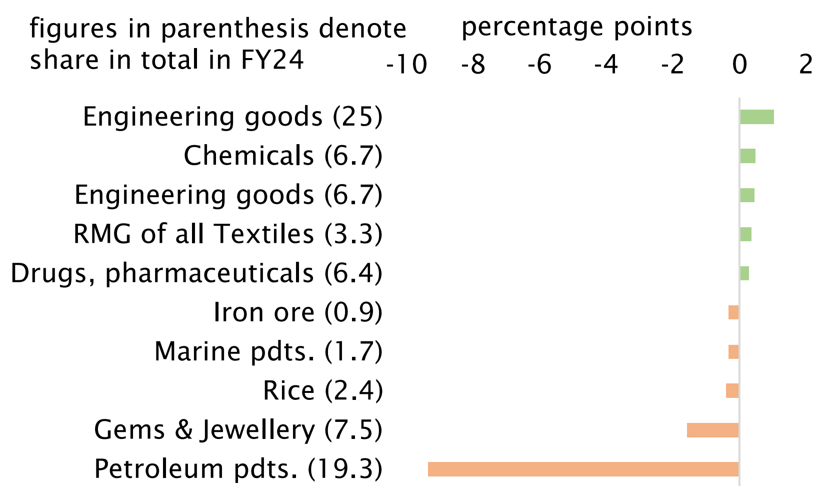
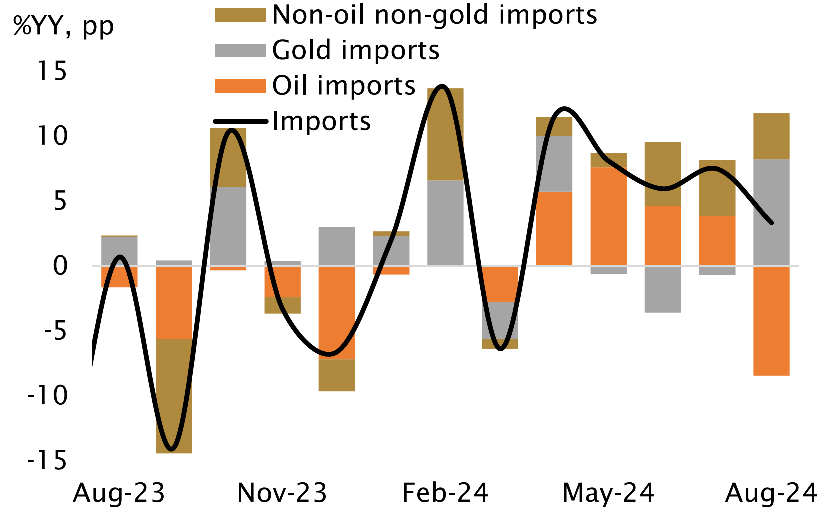


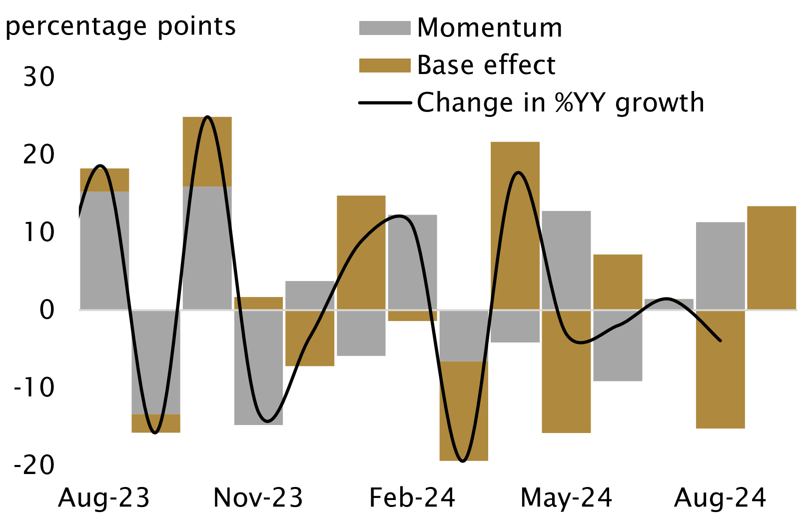
Petroleum contained overall imports growth even as gold imports surged

- Merchandise imports growth eased to 3.3%YY in August from 7.5% in July due to an unfavorable base effect, even as month-on-month momentum was positive.
- In terms of year-on-year change, oil imports fell after a gap of four months and at the sharpest rate in 13 months. Gold imports surged over 100% after declining for three months, an outcome of high global prices partly offset by customs duty cut announced in the Union Budget. Core imports growth continued to ease but has been positive FYTD.
- Of the 30 major categories, imports rose year-on-year in 18 groups, lower than 19 in July. Within core, electronic goods; machinery, and chemicals added to imports growth. Imports of chemical products, precious and semi-precious stones, dyeing/coloring materials, and vegetable oil fell.
- In terms of month-on-month change, core imports grew, petroleum imports fell while gold imports surged strongly.

Contribution to imports growth – August 2024



Base effect spurred easing in imports growth in August



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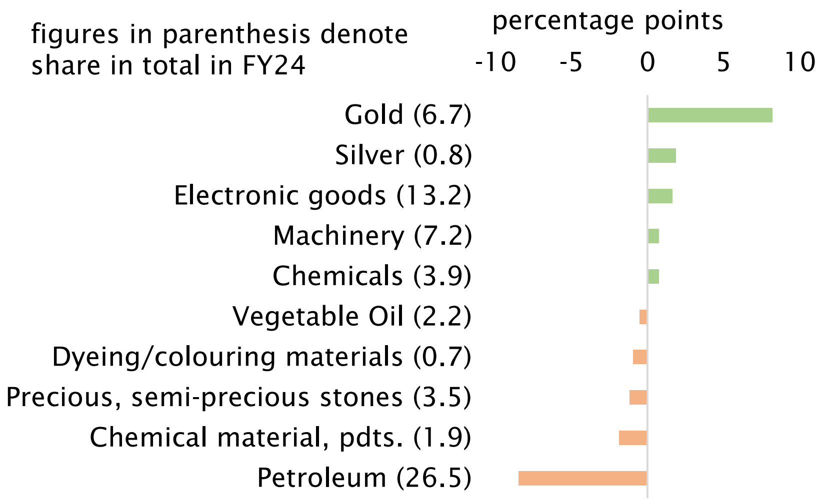


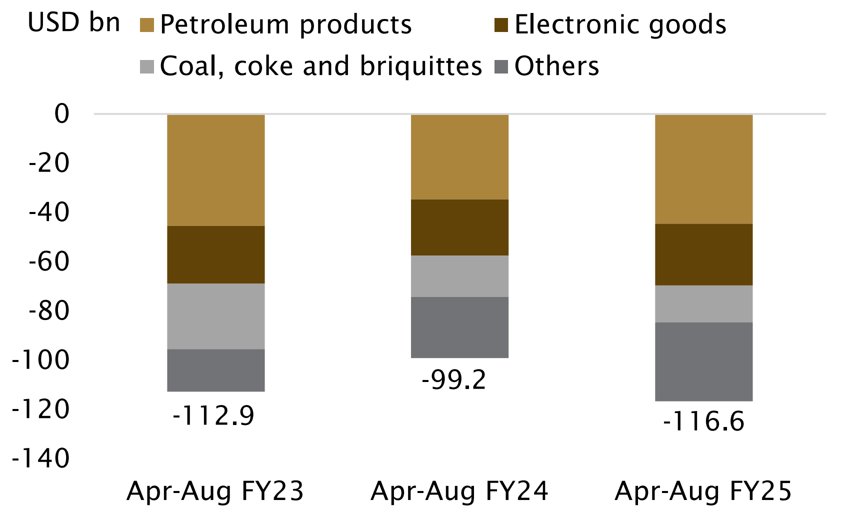
Merchandise trade deficit widened in Apr-Aug vs. same period last fiscal

- Services trade surplus was stable in August from the level of around USD15bn in July. Exports rose month-on-month but at a slower pace than July, while imports remained in contraction but at lower rate.

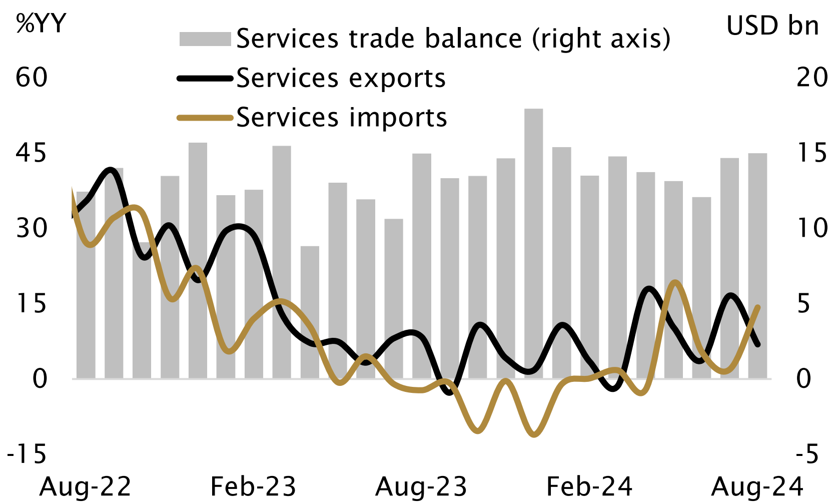
- In terms of year-on-year change, services exports growth eased from July due to an unfavorable base and slower momentum. Despite month-on-month decline, imports growth quickened to double-digits due to base effect. The overall trade deficit (merchandise plus services) deteriorated to USD14.7bn from USD8.9bn in July due to steeper deficit on the goods account.

- During April-August, goods trade deficit worsened to USD116.6bn from USD99.2bn in the respective period of FY24, due to larger deficits in oil and electronic goods.

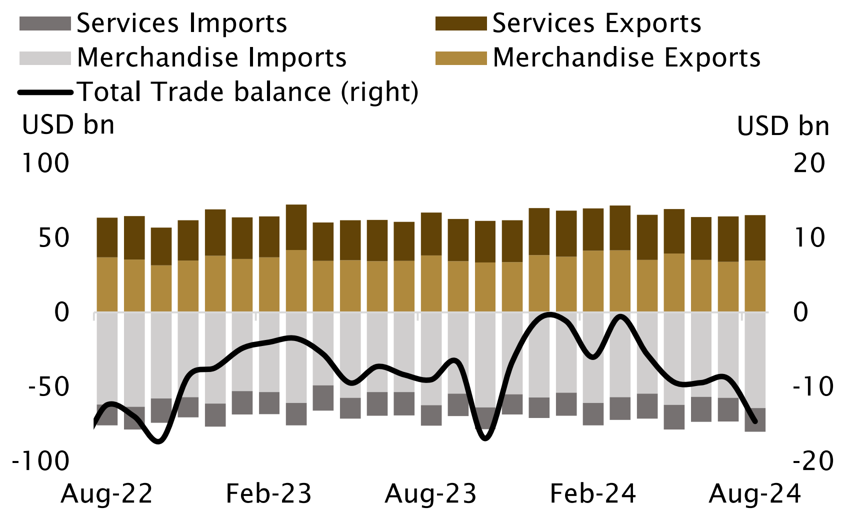
Goods trade deficit deteriorated fiscal year-to-date basis



Services trade surplus remained stable in August



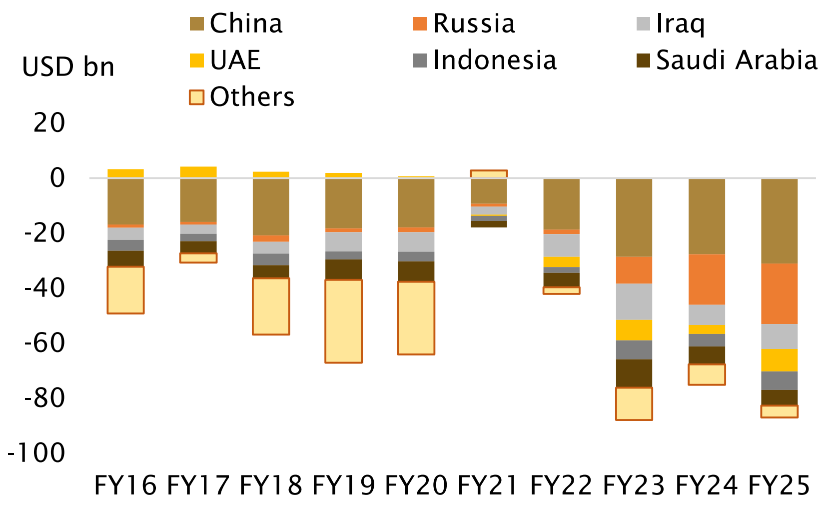
Total trade deficit widened in Aug due to goods account



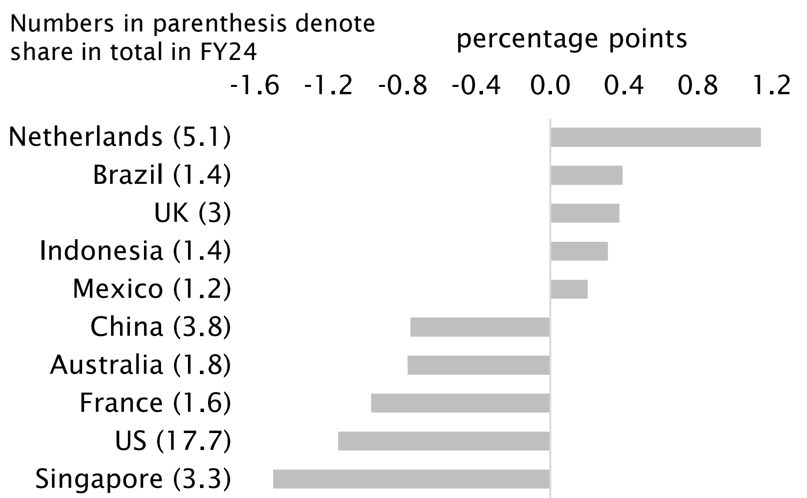
Merchandise trade deficit remained the widest vis-à-vis China in Apr-Jul

- During April-July FY25, India's trade deficit remained the widest against China at around USD31bn, up 12%YY. The largest imports were of computer hardware, and telecom instruments. Trade deficit also increased vis-à-vis Russia, Iraq, the UAE and Indonesia.
- For August, preliminary data shows higher year-on-year imports from nine out of 20 major economies. The UAE added the most to growth, followed by Switzerland and China. Higher imports from the UAE during April-July included precious stones, gold, and oil products. Imports from Russia fell 40%YY after increasing for five months.
- Initial data on exports shows year-on-year decline to 12 out of 20 major economies. The main drag was from Singapore and the US. The Netherlands added the most to growth, with data for April-July showing higher exports of petroleum products and telecom instruments.

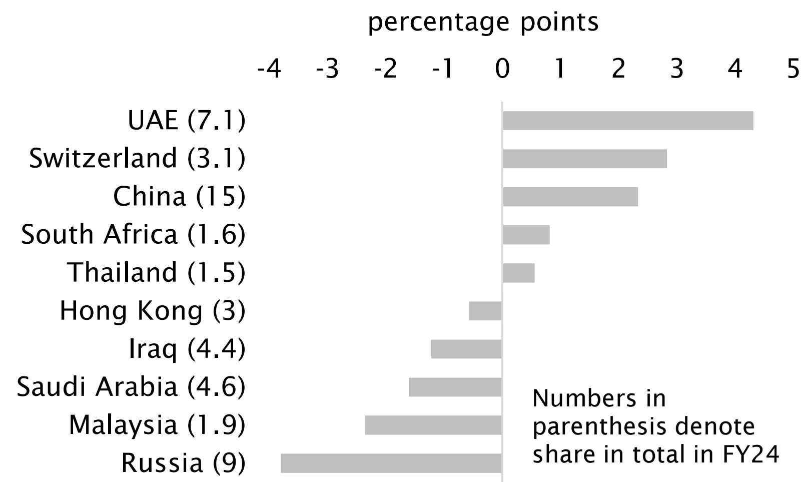
Trade deficit by economy – April-July



Contribution to exports growth – August 2024



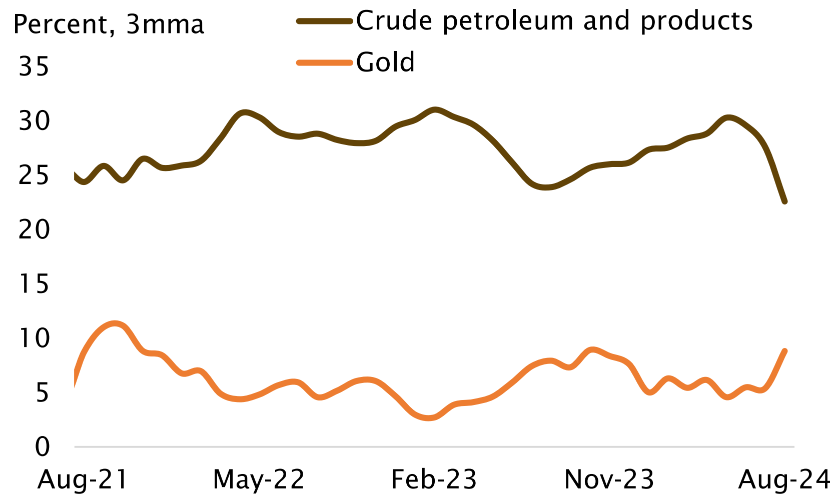
Contribution to imports growth – August 2024



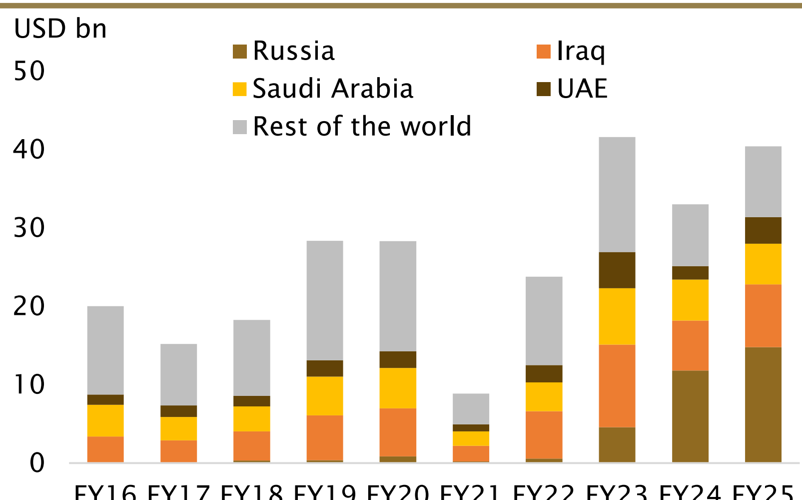
Lower customs duty fueled gold imports; softer prices dragged oil trade

- Crude petroleum and products dragged down trade in August, partly due to the lagged effect of lower prices since the recent peak in April. The share of crude oil in total imports eased to 17% in August from 49% average in Q1. Petroleum products is also a key export category and its share in exports eased slightly to 17% from 19% in Q1.
- Detailed data till June suggests that India imported crude oil from Russia (37% share), Iraq (20%), and Saudi Arabia (13%) in FY25. Petroleum product exports were the highest to the Netherlands (24% share), followed by the UAE (10%) and the US (7%). The top three destinations were the same in case of smartphone exports, albeit in a different order.
- In August, share of gold in total imports surged to 16% from an average of 5.5% in Q1. Detailed data is available only till June, making it difficult to assess the source of latest surge in gold imports. In Q1-FY25, 78% of India's gold imports were from Switzerland, UAE and South Africa.

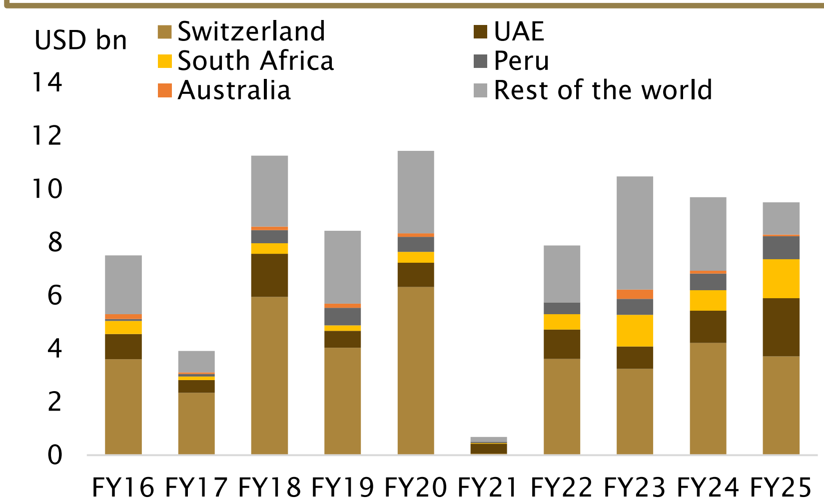
Share in India's imports (3-month moving average)



Crude petroleum imports in Q1 by economy



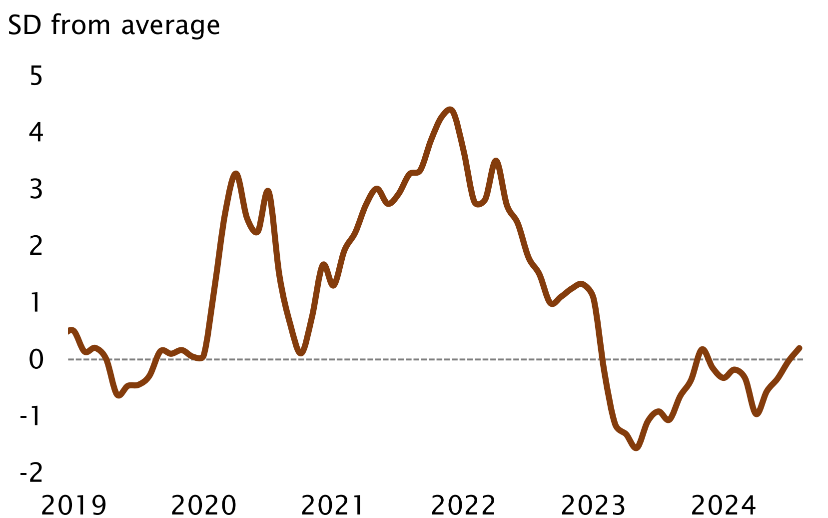
Gold imports in Q1 by economy



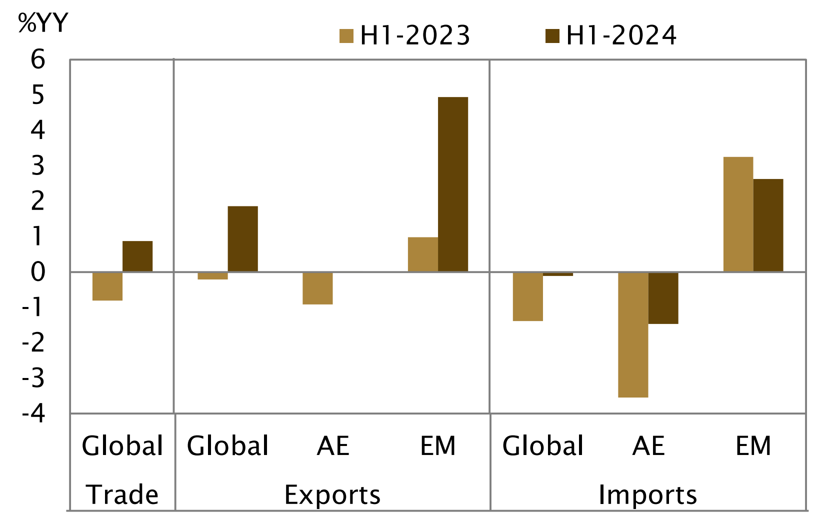
Headwinds remain for global trade recovery

- Latest data shows that global trade volume rose 0.9%YY on average between January-June (H1) 2024. This marked an improvement from the corresponding period in 2023 when trade volumes fell 0.8%. The recovery seems to have been led by emerging market economies so far, where exports have increased at a faster pace and growth in imports remains positive despite some moderation. In advanced economies, the contraction in trade seems to have eased but both exports and imports are yet to revive.
- There is still room for global trade to catch up in H2-2024 to match the full year growth forecasts by some of the multilateral agencies. As per WTO, global trade volume is expected to grow 2.6%YY in 2024, and 3.3% in 2025, following a decline of 1.2% in 2023. Challenges remain, making the road to recovery a bumpy one, including concerns about slowdown in major economies, and policy uncertainties amid rising protectionism. Geopolitical tensions continue to impart volatility to commodity prices and prolong supply chain disruptions.
- However, the easing of monetary policy by systemic central banks this year could support economic activity, and act as a tailwind for global trade recovery. On the domestic front, lower customs duties on precious metals, announced in the Union Budget for FY25, reflected in a surge in gold imports in August. However, recent easing in crude oil prices could help keep a lid on the import bill, and the surplus on services account could also ease some pressure off the overall balance of payments. In a recent note, technology lead Gartner predicted continued growth in IT spending globally in 2024 and 2025, particularly on information security.

Global supply chain pressure index on an uptrend



Global trade reviving but not yet out of the woods



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1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.
Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in