# Merchandise trade deficit widened to nine-month high in July

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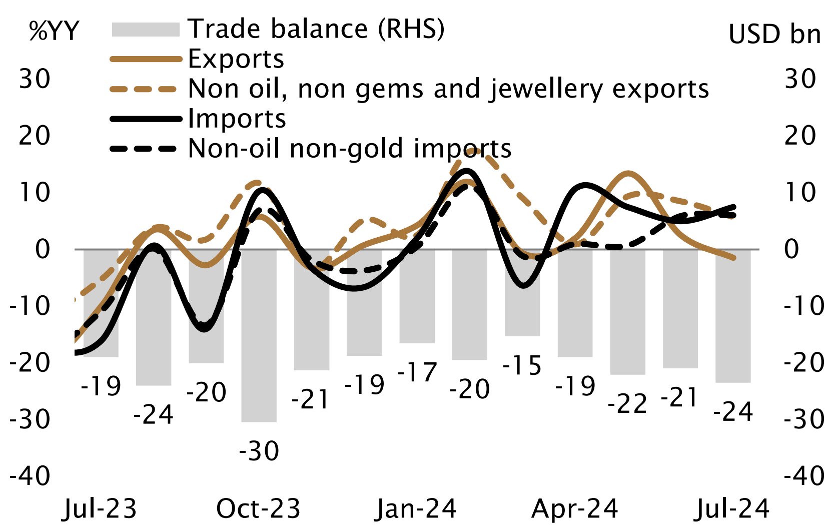
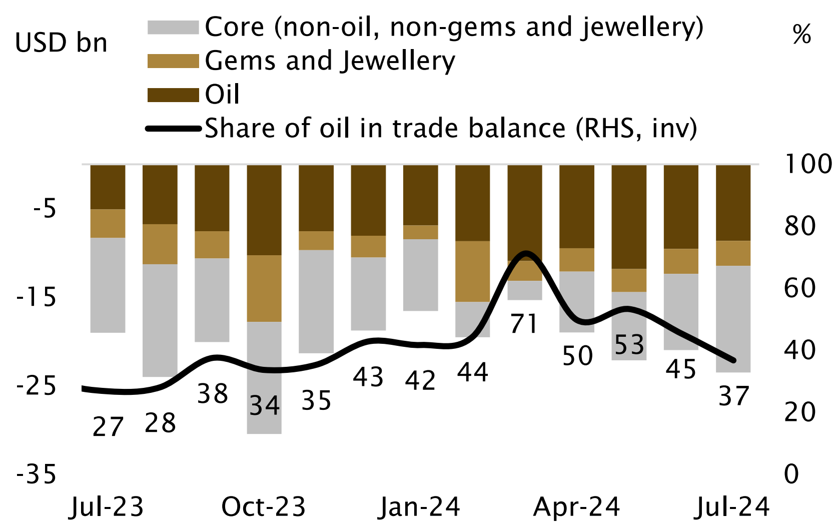
# Key takeaways

- India's merchandise trade deficit widened to nine-month high in July at USD23.5bn from USD21.0bn in June. The increase was driven by higher core deficit, even as the gap in case of petroleum, and gems and jewellery narrowed. For overall goods trade during the month, both base effects and month-on-month momentum were in favor of higher year-on-year growth in imports and decline in exports.
- During April-July, merchandise trade deficit was USD85.6bn, higher than USD75.1bn in the corresponding period of FY24 due to larger deficits in petroleum and electronic goods.
- By economy, India's exports to the Netherlands contributed the most to year-on-year growth in July, while on the imports side, the UAE added the most to growth.
- Services trade surplus was stable in July from around USD14bn in June. As noted in the Economic Survey for FY24, the spread of Global Capability Centers is expected to continue supporting business services exports.
- Though global trade uncertainty has receded, and expectations of recovery abound for 2024 and 2025, latest data shows that global trade volume fell 0.3%YY in Q1, though on a year-to-date basis, the mild increase of 0.1% during January-May marked an improvement from the decline of 0.7% in the corresponding period of 2023. Risks remain from geopolitical tensions (including spillovers to commodity prices) and policy uncertainty, with rising protectionism expected to weigh on trade recovery.

Goods trade deficit rose to nine-month high in July due to higher core deficit; oil, gems and jewellery gap narrowed

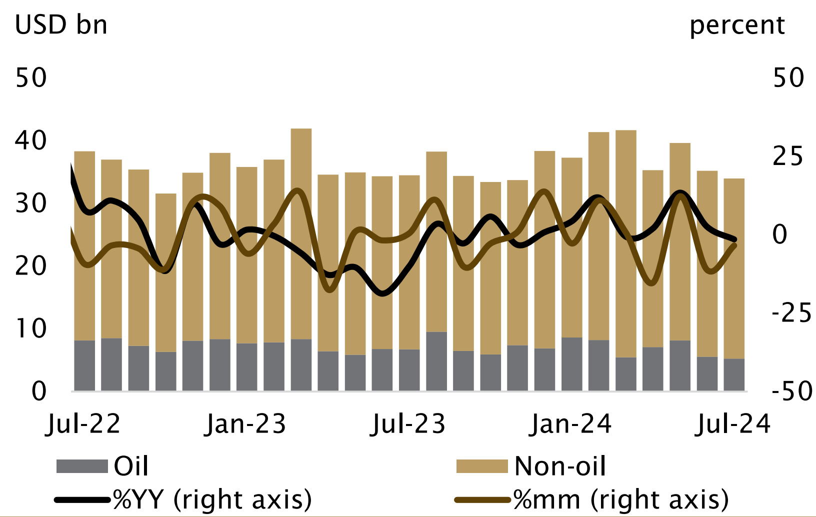


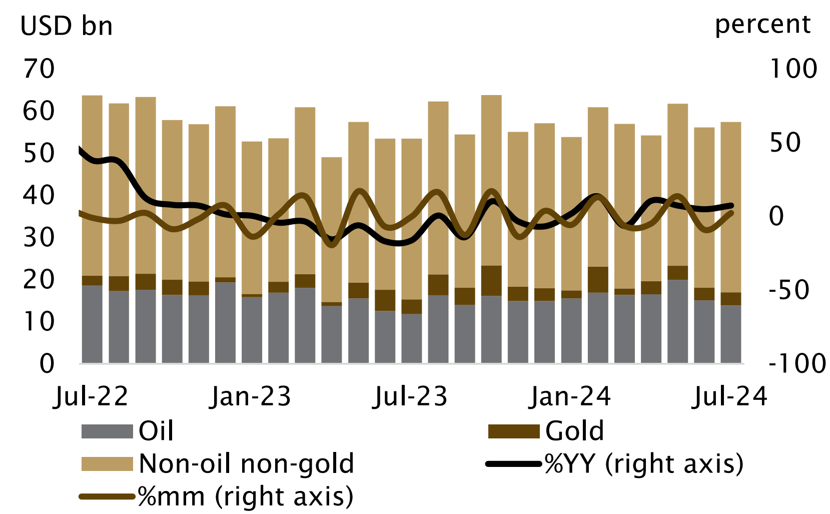
# Merchandise trade deficit widened to nine-month high in July

- Merchandise trade deficit widened to nine-month high in July at USD23.5bn from USD21.0bn in June amid month-on-month decline in exports and an increase in imports. In June, both exports and imports had decreased. In July, exports fell 3.5% from the previous month, contrary to the median increase of 0.5% for the month between FY16-24. Imports rose 2.3% month-on-month, compared to remaining flat in July as per median historical data.
- In terms of year-on-year change, exports fell 1.5%, the sharpest drop in eight months, while the increase of 7.5% in imports was the fastest in three months. Both momentum and base effects were unfavorable, dragging down exports and driving imports higher.
- Both core exports and imports (non-oil, non-gems and jewellery) had decreased month-on-month in June, and while core exports continued the downtrend in July, the pace of contraction eased, while core imports increased. As a result, core trade deficit deteriorated to USD12.1bn from USD8.6bn in June. Non-core trade deficit narrowed to a six-month low, aided by lower gap in both petroleum, and gems and jewellery.
- Both exports and imports of gems and jewellery fell sequentially for the second straight month in July, with the deficit in this category stable from June at around USD2.8bn. In terms of year-on-year change as well, exports and imports remained in contraction, with exports posting the steepest double-digit decline in 11 months.
- Both exports and imports of oil fell sequentially for the second consecutive month in July, with a sharper drop in imports enabling lower deficit in petroleum trade. The share of oil in trade deficit eased to 37% from 45% in June.

Exports growth



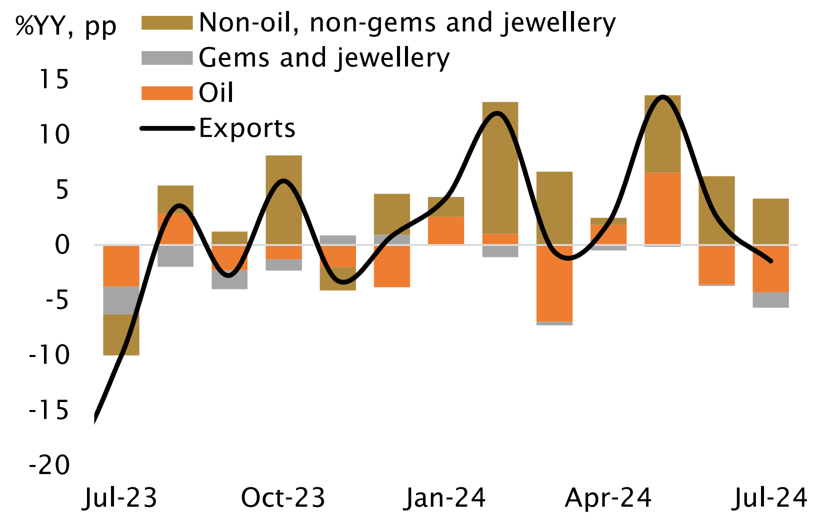

Imports growth



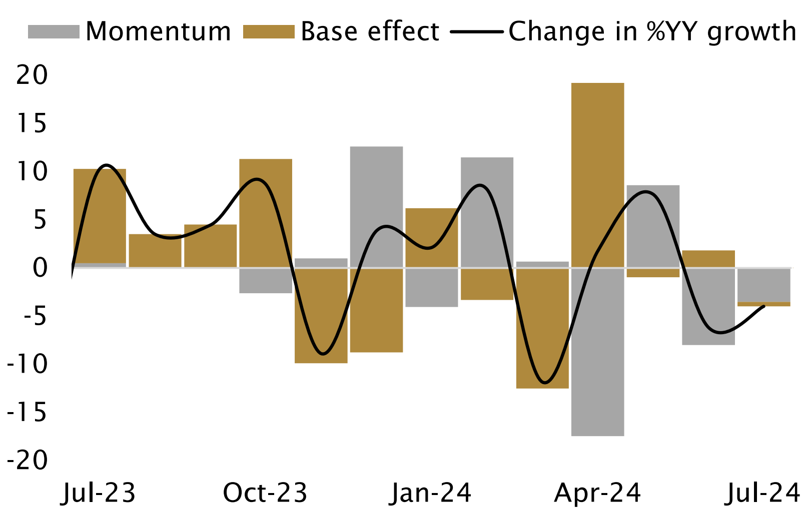
# Exports fell year-on-year due to decline in oil, gems and jewellery exports

- The decrease in merchandise exports of 1.5%YY in July, compared to 2.5% increase in June was due to unfavorable impact from both base effect and month-on-month decline.
- In terms of year-on-year change, oil exports remained in double-digit contraction for the second straight month in July, and at a steeper rate than in June. Gems and jewellery exports decreased for the seventh straight month and fell at the sharpest pace in 11 months. Growth in core exports eased for the second straight month in July.
- Of the 30 main categories, exports fell year-on-year in 12 groups, higher than 11 in June. Within core exports, electronics and engineering goods, pharmaceuticals added to growth, while chemicals, rice, and ceramic products were among laggards.
- In terms of month-on-month change, exports fell across broad groups of oil, gems and jewellery, and core exports.

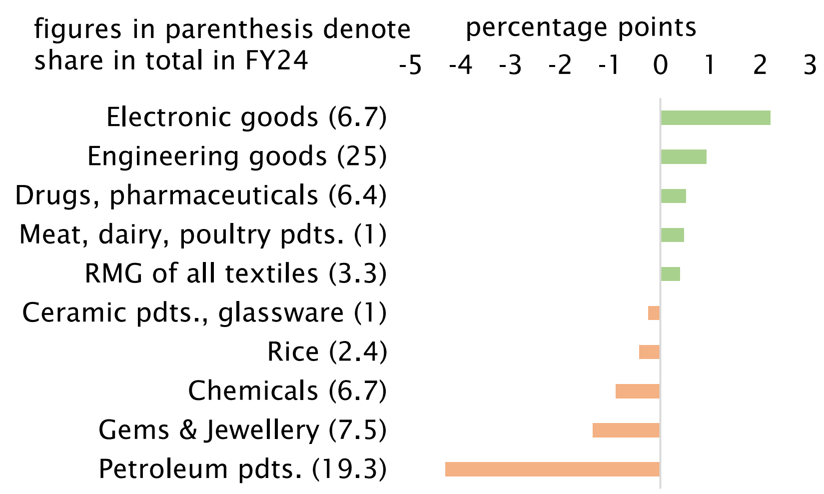
Contribution to exports growth – July 2024




Base effects, momentum dragged down exports in July



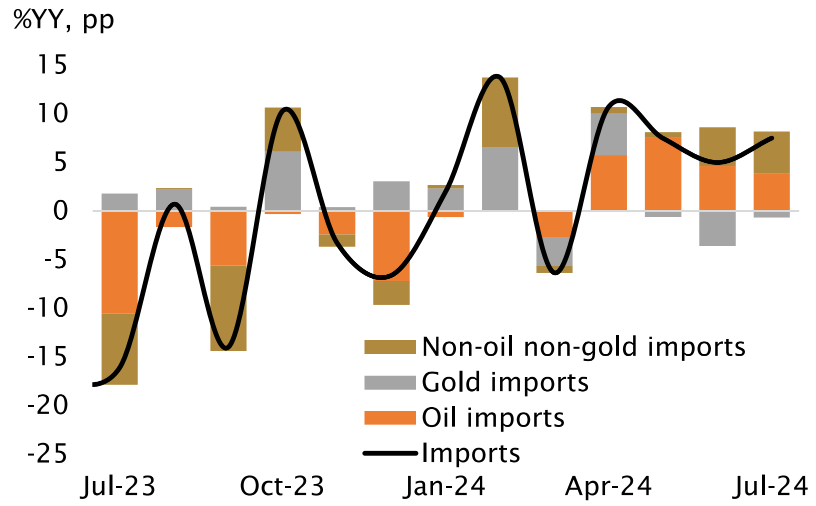

Contribution to exports growth – July 2024



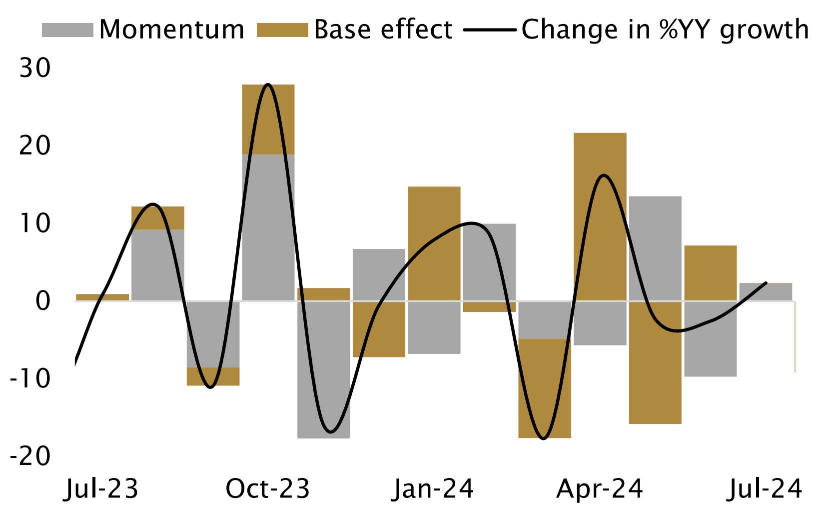
# Core, petroleum imports drove higher year-on-year imports growth in July

- Merchandise imports growth rose to 7.5%YY in July from 5.0% in June, with both base effect and month-on-month momentum supportive of higher growth.
- In terms of year-on-year change, gold imports posted double-digit contraction for the second successive month, though at a softer rate in July. Oil imports continued to expand by double digits for the fourth straight month, though the pace has been easing since May. Core imports grew at a stable rate of around 6% in both June and July.
- Of the 30 major groups, imports rose in 19, lower than 21 in June. Within core imports, electronic goods; non-ferrous metals; and coal, coke, and briquettes added to growth. Imports of precious and semi-precious stones, chemical products, fertilizers, and transport equipment declined.
- In terms of month-on-month change, petroleum imports fell but gold and core imports increased.

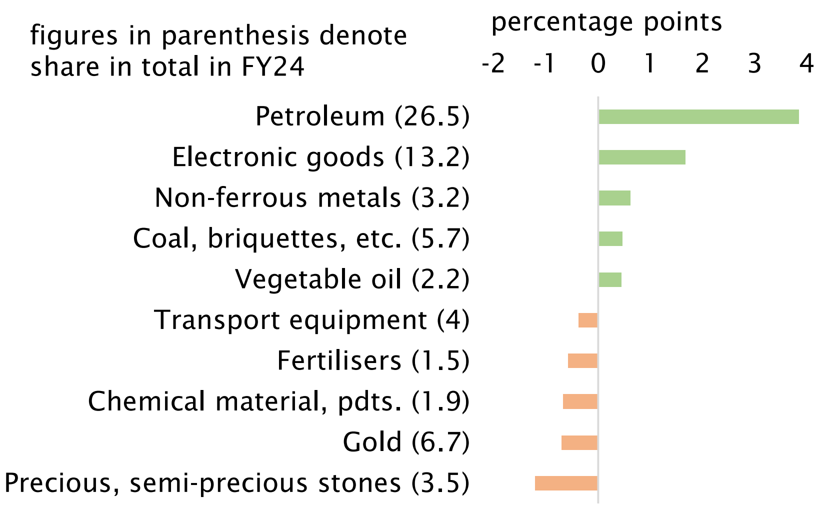
Contribution to imports growth – July 2024




Base effects, momentum enabled higher import growth




Contribution to imports growth – July 2024



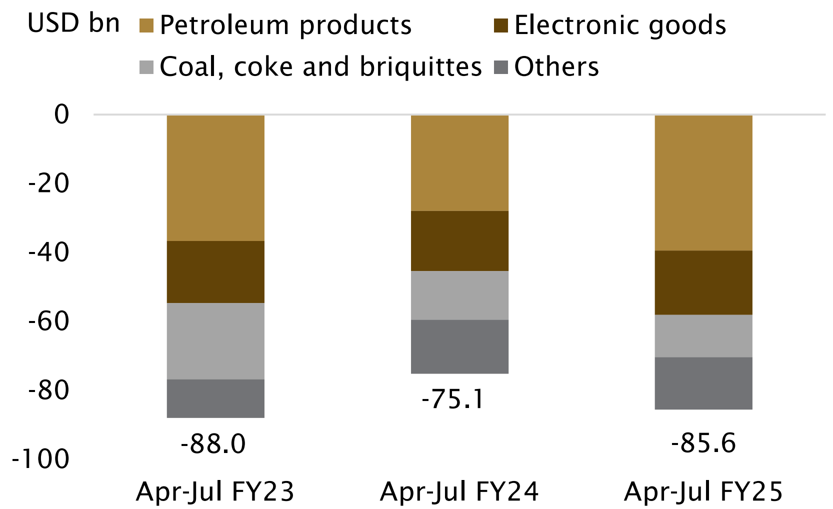
# Merchandise trade deficit widened in Apr-Jul vs. same period in last fiscal

- Services trade surplus was stable in July from the level of around USD14bn in June. Both exports and imports fell month-on-month, continuing the trend from previous month but at lower rates.

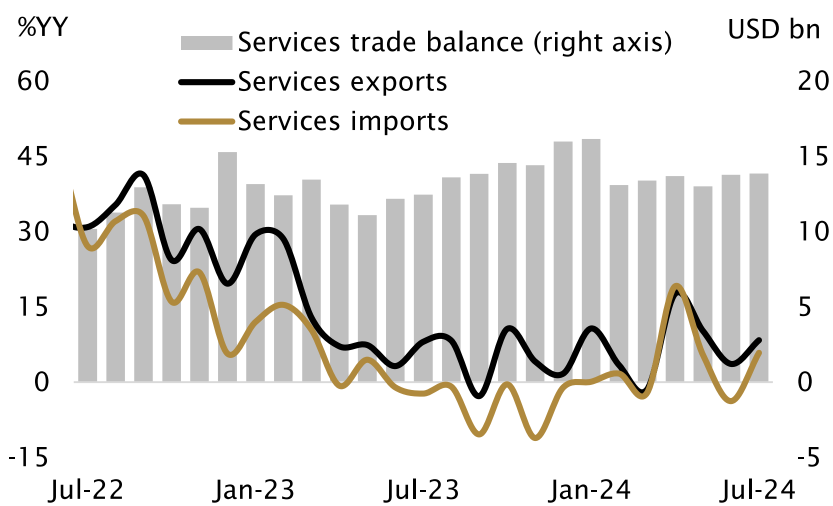
- In terms of year-on-year change, services exports grew at a quicker pace than in June due to favorable base effect. Imports rose after declining in June, again due to base effect. The overall trade deficit (merchandise plus services) widened to USD9.6bn from USD7.2bn in June due to steeper deficit on the goods account.

- During April-July, merchandise trade deficit widened to USD85.6bn from USD75.1bn in the corresponding period of FY24. This was driven by larger deficits in petroleum and electronic goods.

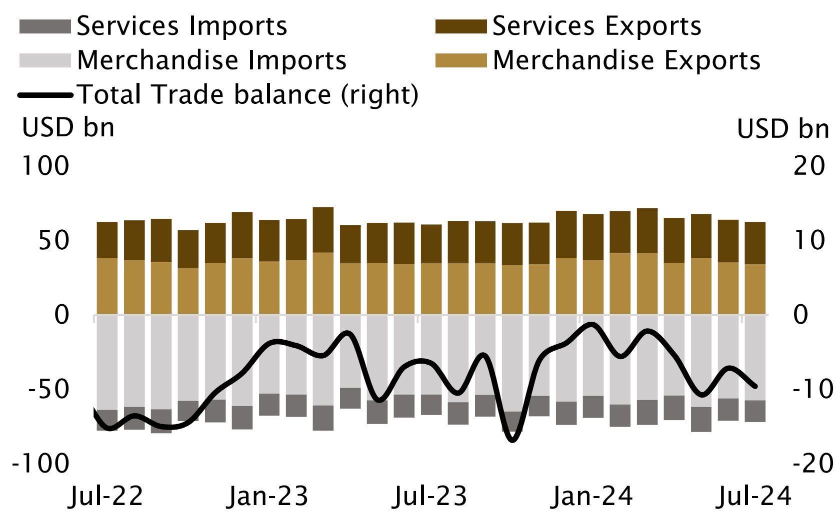
Goods trade deficit widened in fiscal year-to-date basis




Services trade surplus remained stable in July



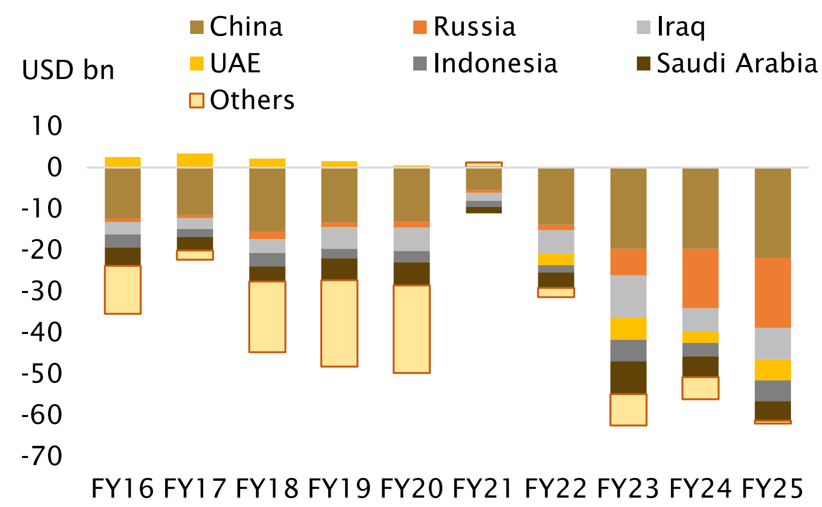

Total trade deficit widened in July compared to June



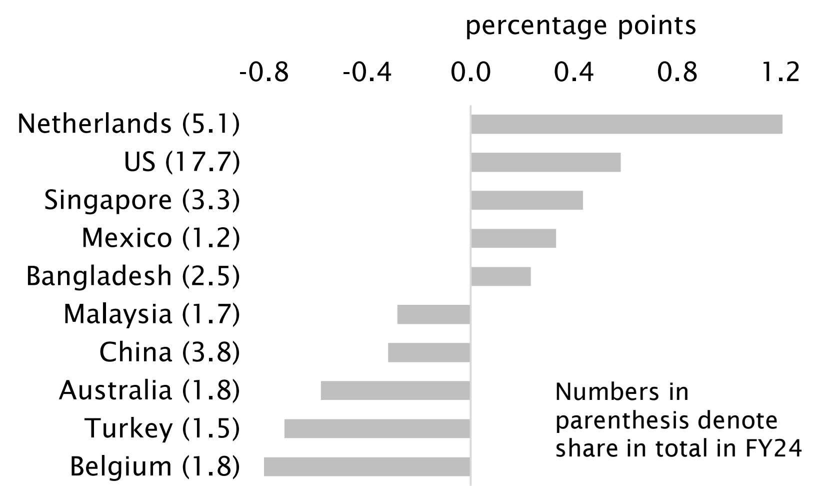
# Merchandise trade deficit remained the widest vis-à-vis China in Apr-Jun

- During April-June FY25, India's trade deficit remained the widest against China at around USD22bn, up 11%YY. The largest imports were of electronic components, computer hardware, and telecom instruments. Trade deficit also increased vis-à-vis Russia, Iraq, the UAE and Indonesia.
- Since May, the UAE has been adding the most to import growth, surpassing contribution from China and Russia, and driven by higher imports of crude petroleum, gold, and precious and semi-precious stones. In July, the share of imports from the UAE was the second highest after China, surpassing Russia after a gap of four months.
- In July, Netherlands added the most to exports growth, displacing the US and UAE. During April-June, petroleum products were the main exports to these economies. In case of the US, exports of pharma, telecom devices, precious and semi-precious stones were also high.

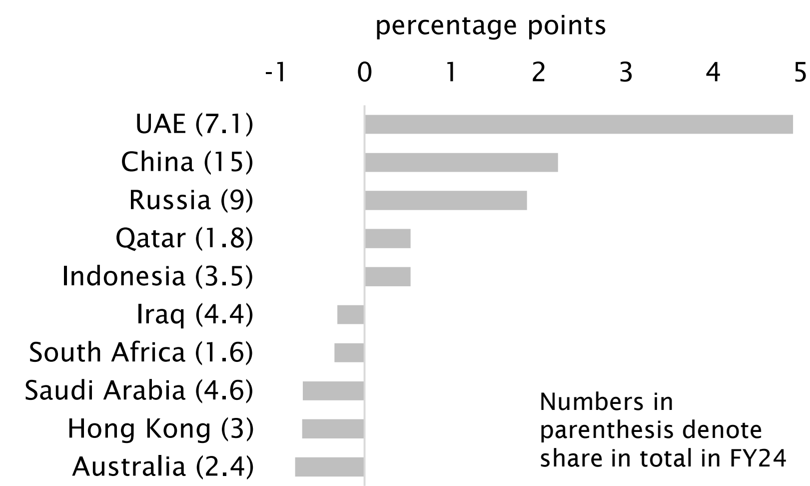
Trade deficit by economy – April-June




Contribution to exports growth – July 2024




Contribution to imports growth – July 2024



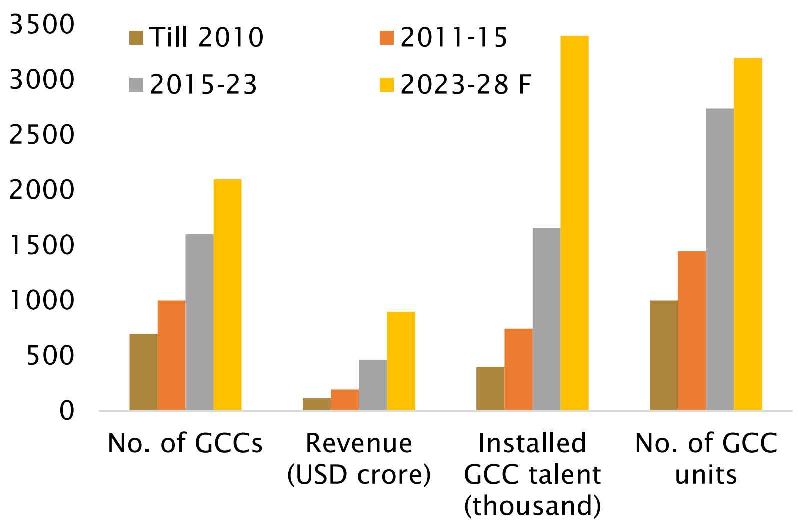
# Select insights from the latest Economic Survey on the external sector

- The share of business services in India's services exports has increased in the post-pandemic period from around 19% in FY19 to 26% in FY24, with a CAGR of 20%. The latest Economic Survey for FY24 attributes this rise to the proliferation of Global Capability Centres (GCCs). The upbeat outlook for this segment indicates that services exports are likely to continue to cushion the external sector from the deficit in goods trade.

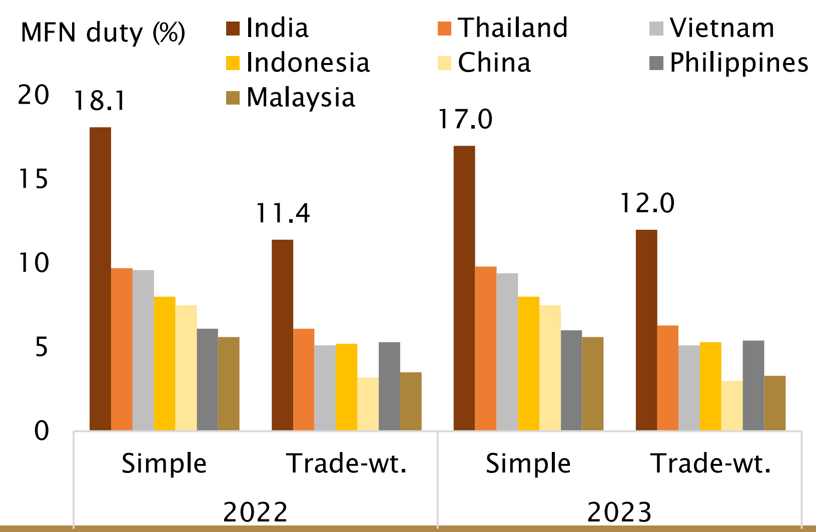
- The Economic Survey also noted the government's efforts towards trade facilitation, as exemplified in the economy's rising participation in global value chain (GVC) related trade, initiatives such as the PLI schemes and Districts as Export Hubs (DEH), signing of four new FTAs between 2021-24 after a gap of ten years, and improved logistics resulting in lower costs and dwell time at ports.

- Though India stands to be a key beneficiary in Asia of the China-plus-one-strategy, there are challenges from rising mercantilism. As noted in a recent article by Nomura, Asian economies could join the bandwagon of their Western counterparts and turn protectionist in the face of China's overcapacity. This could have implications for trade policies and pose an additional challenge for an economy like India where tariffs are already higher relative to peers (Source: WTO). In 2023, India was also the second largest user of non-tariff measures after the US.

Growth of Global Capacity Centers (GCCs) in India



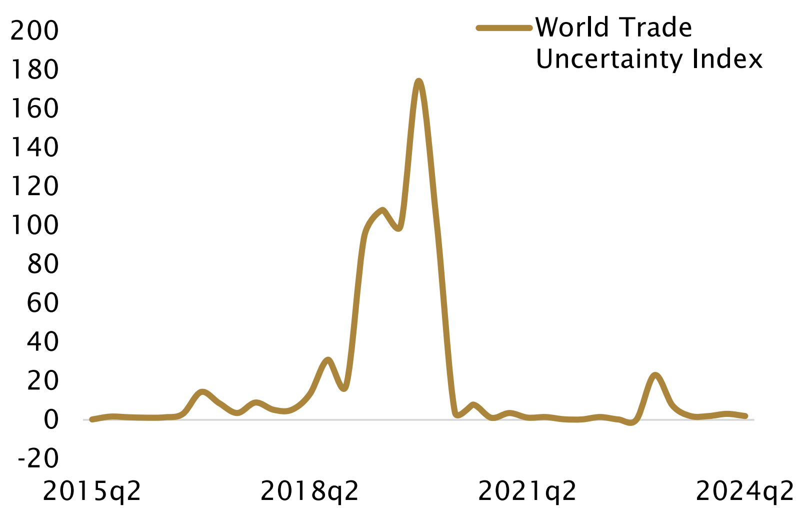

India's tariff rates are higher relative to peers



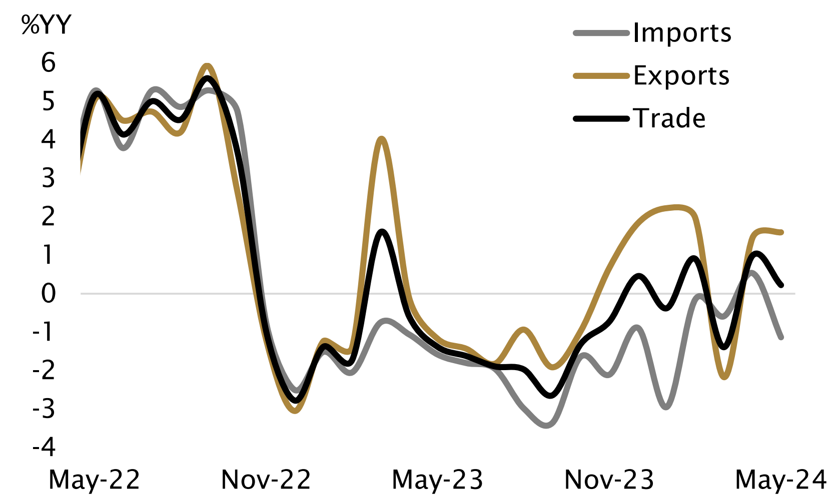
# Global trade growth currently lagging expectations of a firm rebound

- As per the latest WTO forecasts, global trade volume growth is expected to recover in 2024 (2.6%) and 2025 (3.3%) after contracting in 2023 (-1.2%). Risks remain from geopolitical tensions (including spillovers to commodity prices) and policy uncertainty, with rising protectionism expected to weigh on trade recovery.
- The forecasts from WTO peg year-on-year global trade volume growth from Q1-Q4 2024 at 1.2%, 2%, 3.2%, and 3.9%, respectively. While global trade uncertainty has receded, latest data from CPB (Netherlands Bureau for Economic Policy Analysis) shows that global trade fell 0.3%YY in Q1, though the growth of 0.1%YY during January-May was an improvement from the decline of 0.7% in the corresponding period in 2023. What stands out in the year-to-date data is the contraction in imports of advanced economies that has persisted in both 2023 and 2024. Within emerging market economies, China's imports fell in 2024 vis-à-vis an increase in 2023. Exports increased year-on-year during January-May compared to remaining flat in the corresponding period of 2023, with EM (including China) leading the way. Exports from AE rose slightly (led by Asia ex-Japan) after declining in January-May 2023.
- Domestically, results from the RBI's latest industrial outlook survey suggest that manufacturers' expect both exports and imports to decline in Q2-FY25, with net responses (optimistic responses minus pessimistic) declining to the levels last seen in Q4-FY21. In another development, lower customs duties on precious metals, announced in the Union Budget for FY25, could result in higher imports.

Global trade uncertainty has abated




Global trade volume growth moderated in May



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