



Merchandise trade deficit narrowed in June amid a moderation in petroleum deficit; core deficit widened

22 July, 2024

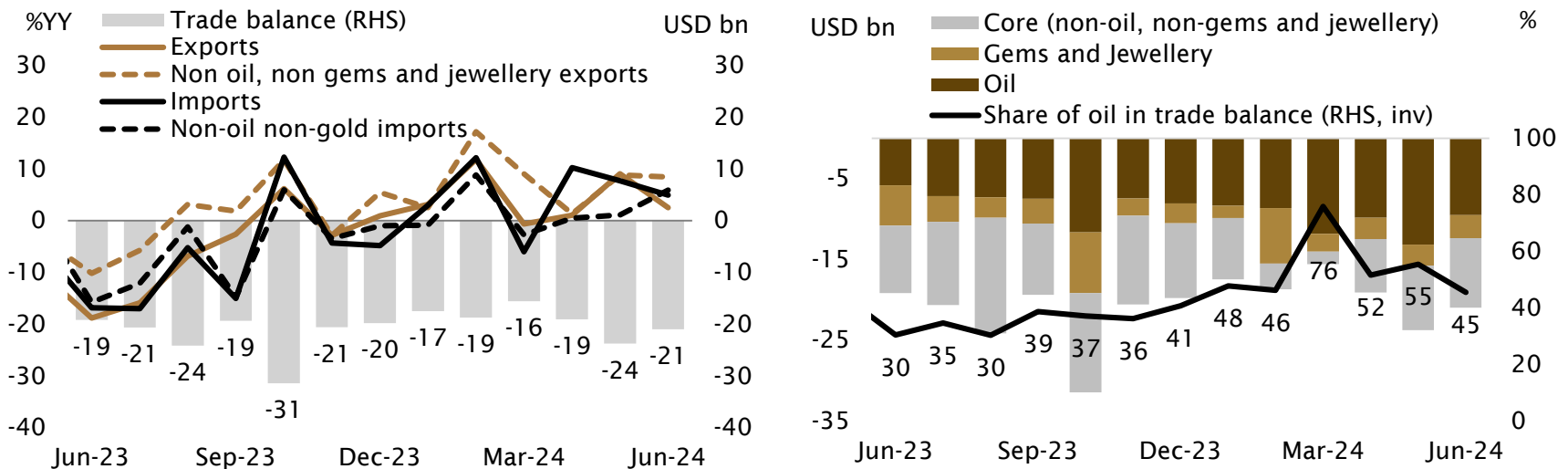




Key takeaways

India's merchandise trade deficit narrowed to USD21bn in June from seven month high of USD23.8bn in May. Petroleum deficit was lower compared to May, while core deficit widened. While base effects were supportive of higher growth in case of both exports and imports, including the core components, month-on-month momentum was negative, with steeper decline in imports than in exports that enabled lower deficit for the month. In terms of year-on-year change, both exports and imports growth eased to 2.5% and 5.0% respectively, from 9.1% and 7.7% respectively. Engineering and electronic goods contributed the most to exports growth. While petroleum exports were a drag, imports added strongly. Gold imports fell sharply. However, for the quarter as a whole, merchandise trade deficit widened to USD64bn from USD56bn in Q1-FY24. In June, services trade balance is expected to have remained stable from the previous month at USD13bn. Services exports rebounded month-on-month after contracting in May, while imports growth was stronger compared to the previous month. The narrowing of goods trade deficit enabled lower deficit in overall trade balance. While volatility in commodity prices and risks from geopolitical tensions will continue to influence global trade, expectations of steady global growth in 2024 could act as a tailwind for trade prospects.

Merchandise trade deficit narrowed in June amid a moderation in petroleum deficit; core deficit widened

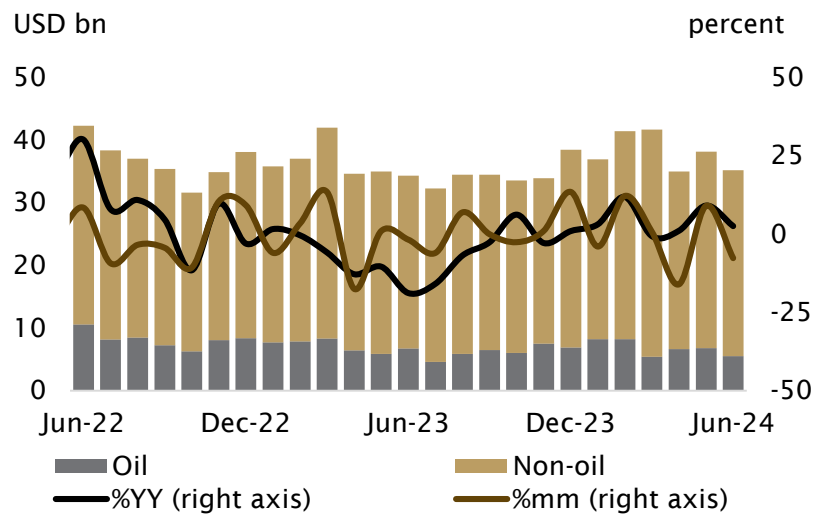




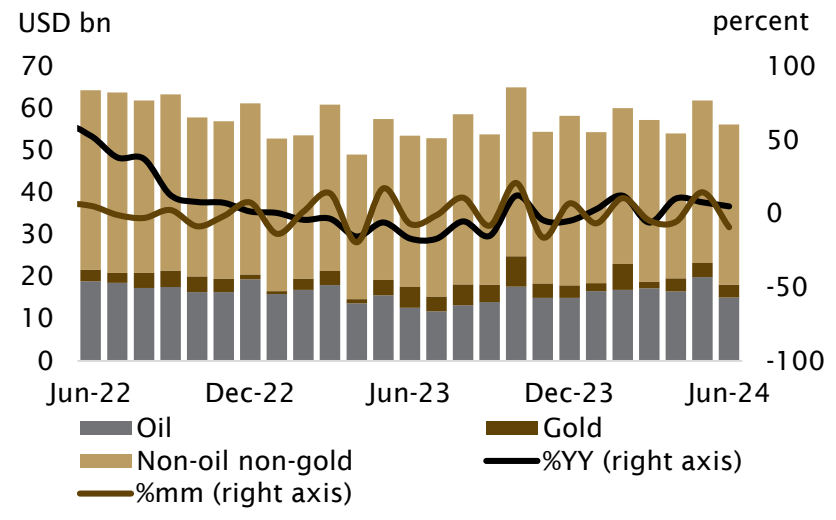
Merchandise trade deficit eased in June from seven-month high in May

- Merchandise trade deficit narrowed to USD21.0bn in June from seven month high of USD23.8bn in May amid month-on-month decline in both exports and imports, with imports falling at a sharper pace. In May, both exports and imports had increased, in line with the long-term trend. In June, exports fell 7.7% from the previous month, steeper than the median drop of 0.9% for the month between FY16-24. Imports declined 9.3% month-on-month, compared to the median growth of 1.9% for June.
- In terms of year-on-year change, both exports and imports growth moderated to 2.5% and 5.0%, respectively from 9.1% and 7.7%, respectively in May. While month-on-month momentum was negative in case of both exports and imports, base effects were in favor of higher year-on-year growth, particularly in case of imports.
- Both core exports and imports (non-oil, non-gems and jewellery) had increased strongly month-on-month in May but fell in June, with core exports falling at a faster pace, so that the core trade deficit widened to USD8.6bn from USD8.0bn in May. Non-core trade deficit narrowed, aided by lower deficit in petroleum trade, even as deficit in gems and jewellery widened.
- Both exports and imports of gems and jewellery fell, in year-on-year and month-on-month basis but the monthly decrease in exports was steeper than the decline in imports, so that the deficit widened compared to May.
- Both exports and imports of oil also dropped month-on-month, with a sharper decrease in imports that led to narrowing of deficit in petroleum trade. The share of oil in total trade deficit moderated to 45% from 55% in May.

Exports growth



Imports growth

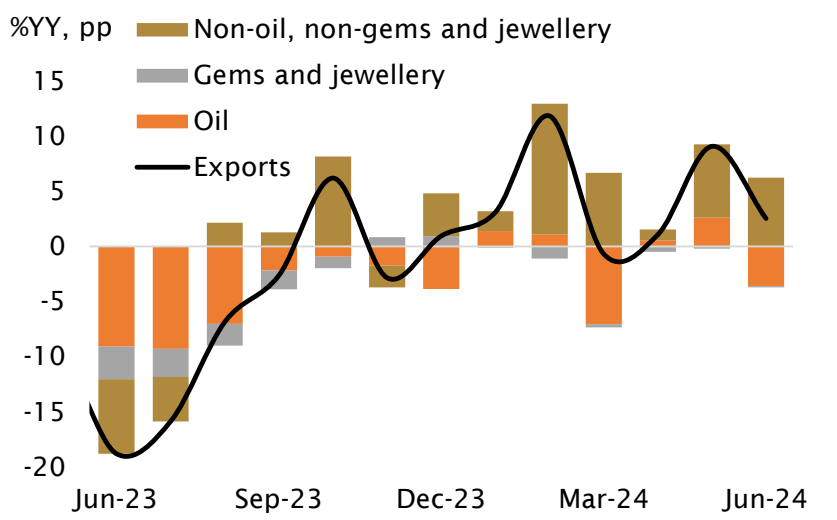




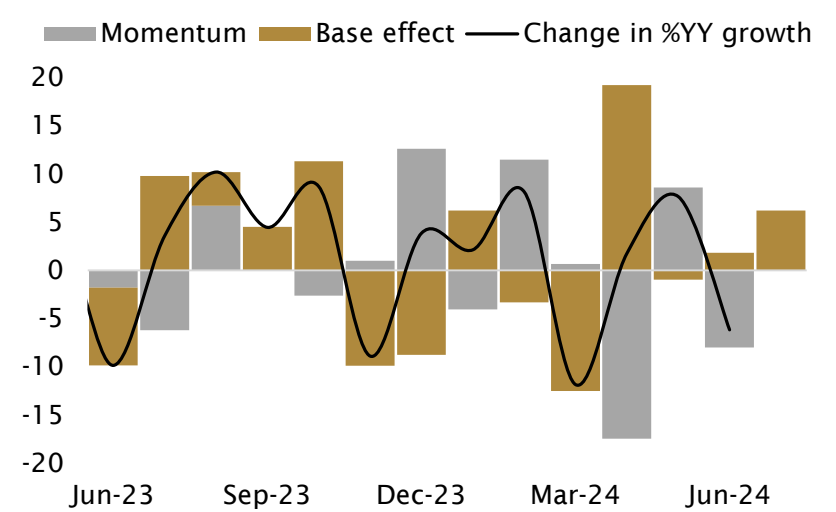
Ease in exports growth due to decline in oil, gems and jewellery exports

- The moderation in merchandise exports growth to 2.5%YY in June from 9.1% in May was due to month-on-month decline amid mildly positive base effect. Oil exports posted double-digit decline, gems and jewellery exports remained in contraction for the sixth consecutive month, while core exports growth was firm but slightly lower than in May.
- Of the 30 main categories, there was year-on-year increase in 19 export groups, lower than 20 in May. Within core exports, engineering goods, electronic goods, drugs and pharmaceuticals added the most to growth, while meat and diary products, other cereals were among major laggards.
- In terms of month-on-month change, the decline in exports was across broad categories of petroleum, gems and jewellery, and core exports.

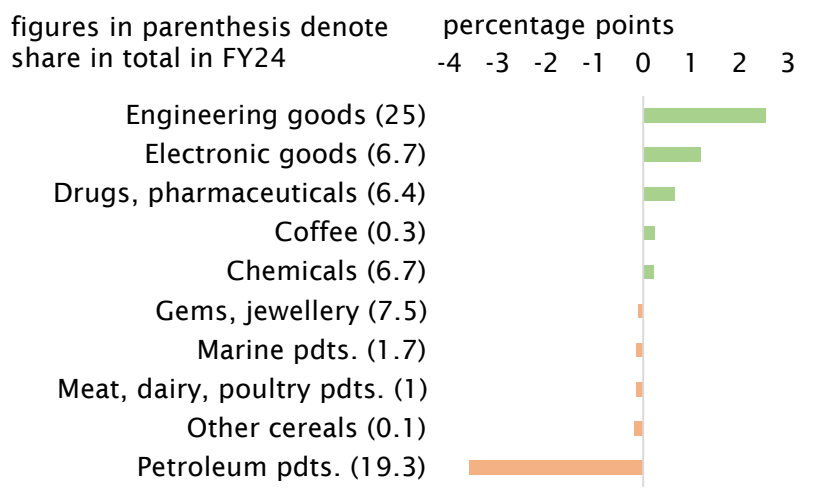
Contribution to exports growth – June 2024



Lower y-o-y exports growth due to negative momentum



Contribution to exports growth – June 2024

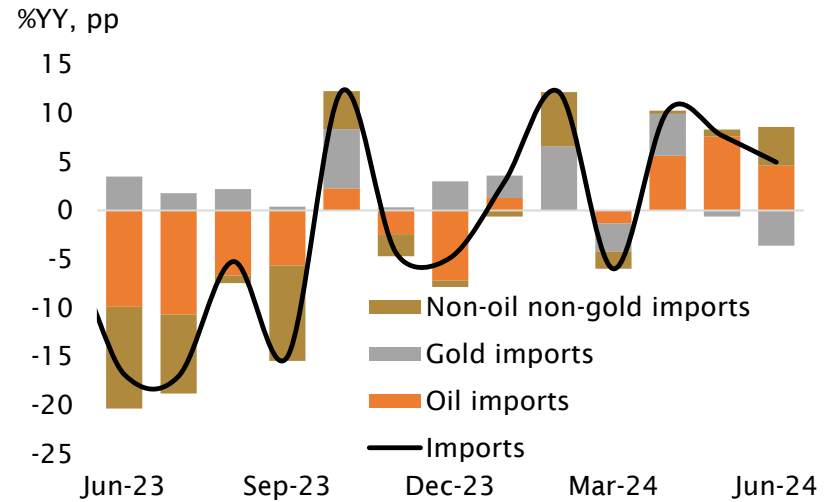




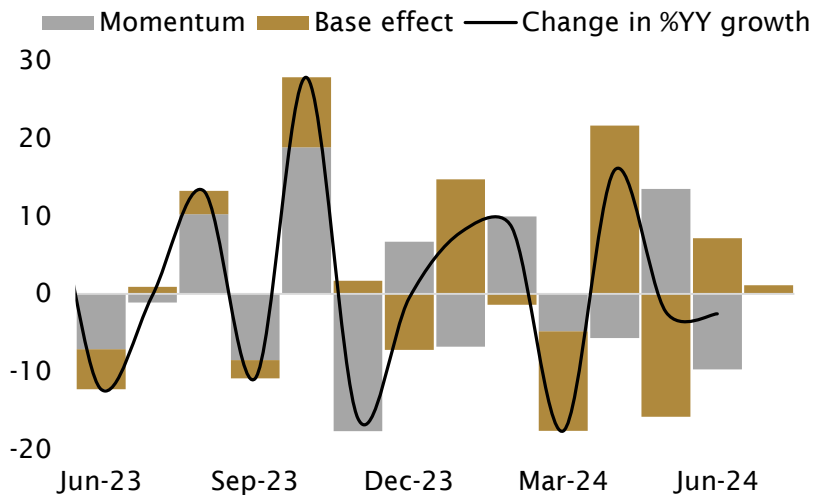
Decrease in gold imports dragged down merchandise imports growth

- Merchandise imports growth eased to 5.0%YY in June from 7.7% in May. This moderation was due to the steepest month-on-month decline in imports in seven months, while as base effect was supportive of higher growth. Gold imports fell year-on-year, while core imports increased. Oil imports posted double-digit year-on-year growth for the third straight month.
- Of the 30 major groups, imports fell in nine, lower than 14 in May. Within core imports, electronic goods, non-ferrous metals and machinery added the most to growth. Imports of coal, coke, and briquettes; fertilizers, precious and semi-precious stones, and chemical products declined.
- In terms of month-on-month change, imports fell across broad categories of petroleum, gold, and core imports.

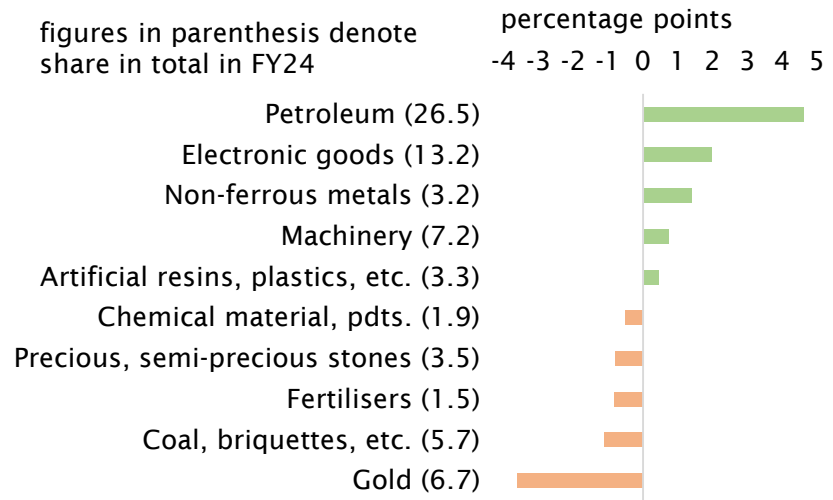
Contribution to imports growth – June 2024



Moderation in y-o-y imports growth due to base effects



Contribution to imports growth – June 2024

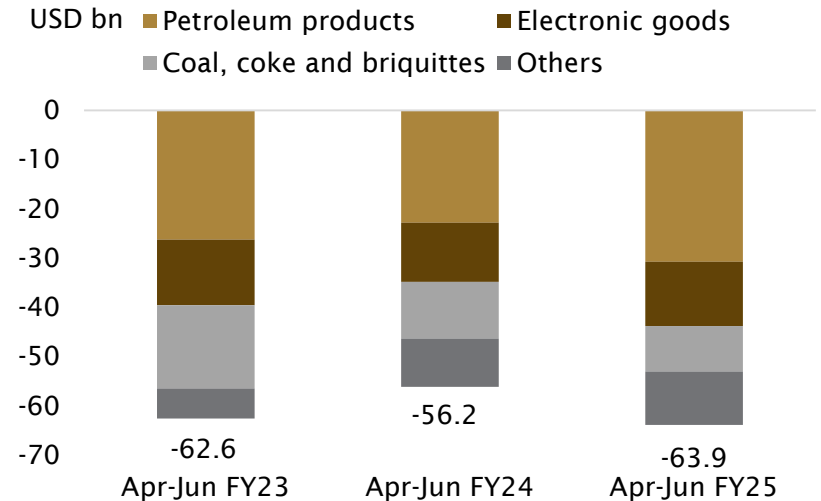




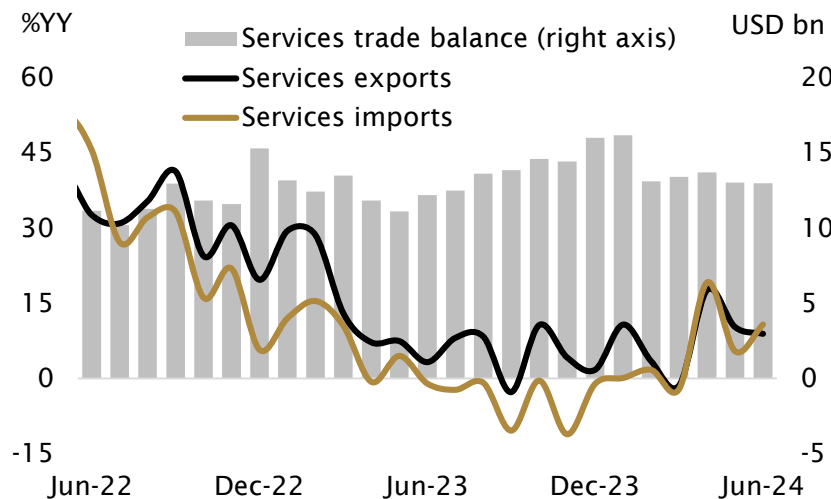
Merchandise trade deficit widened in Q1 vs. same quarter in last fiscal

- **Services trade surplus was stable in June from the level of USD13bn in May.** Exports increased month-on-month after declining in May, while imports rose at a faster pace than in the previous month.
- In terms of year-on-year change, services exports growth moderated compared to May due to unfavorable base effects. The year-on-year growth in imports almost doubled compared to the previous month due to base effects and monthly momentum.
- The **overall trade deficit (merchandise plus services) narrowed to USD8bn from USD10.8bn in May** due to lower deficit on the goods account.
- In Q1, merchandise trade deficit widened to USD63.9bn compared to USD56.2bn in the corresponding quarter of FY24. This was largely driven by larger deficits in petroleum, and electronic goods.

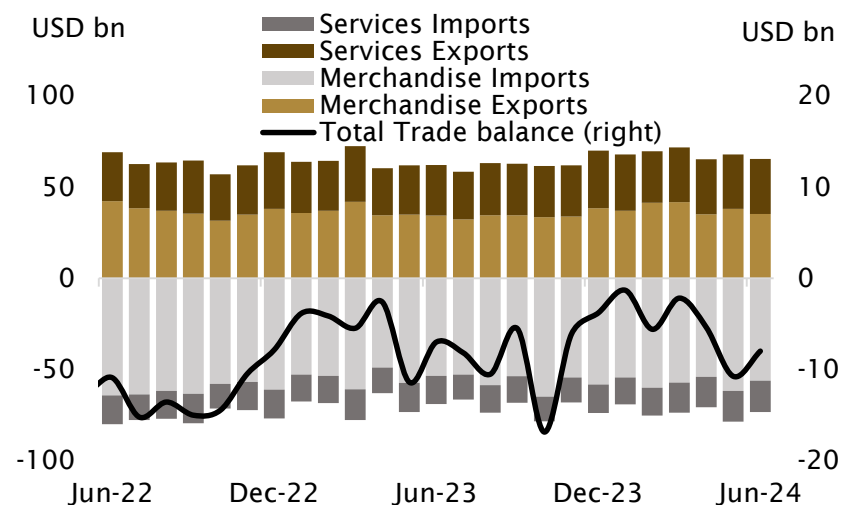
FY25 Apr-Jun goods trade deficit wider than in FY24



Services trade surplus stable in June



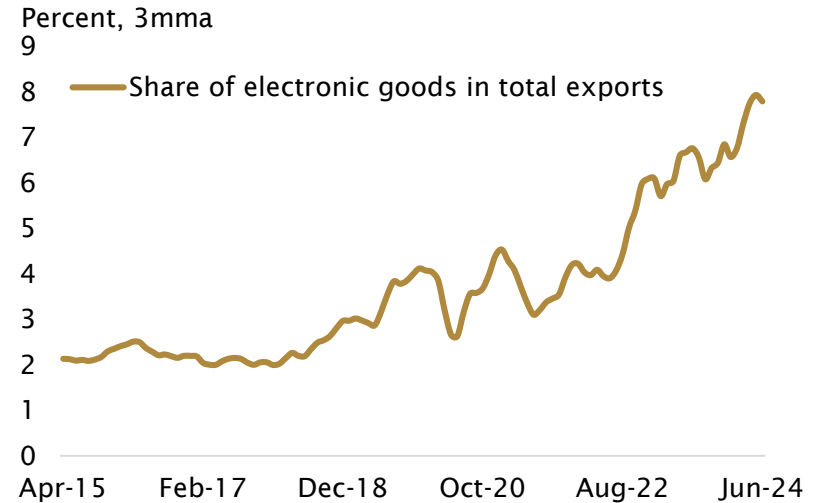
Total trade deficit narrowed in June compared to May





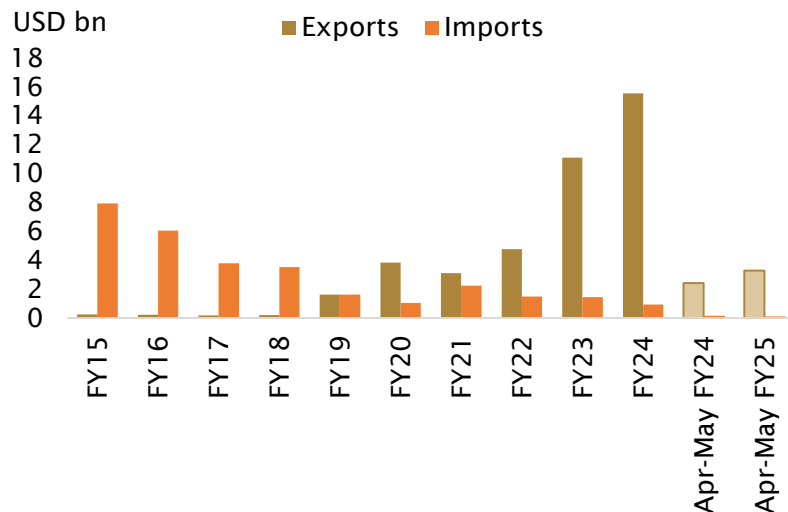
Electronic goods exports on the rise, aided by government schemes

Rising share of electronic goods in total exports

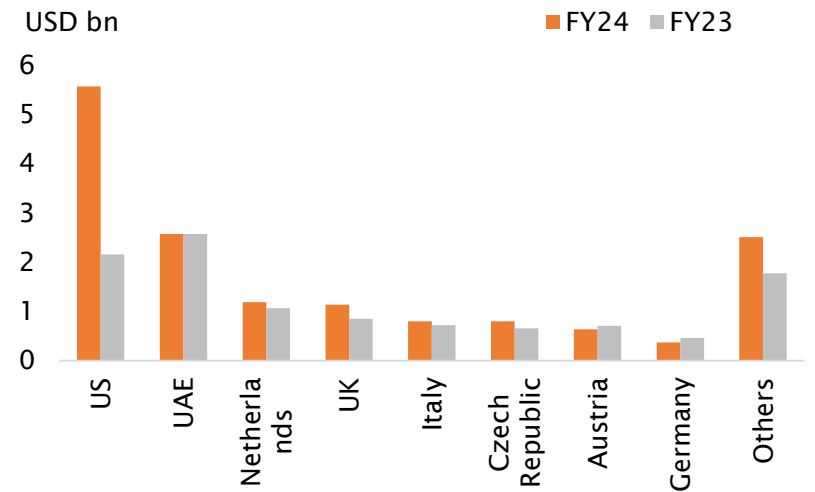


- The 'State of the economy' article in the RBI's latest monthly bulletin cited a recent article in 'The Economist', that noted the boom in India's electronics industry, which is reflected not only in production numbers but also in exports data. The support from government in the form of PLI schemes is attracting investment from domestic and foreign firms.
- The share of electronic goods in India's total exports has increased from 2.3% in FY16 to 6.7% in FY24, amounting to around USD30bn from USD6bn. Smart phone exports grew over 40% in FY24, with the US as major export destination. Imports of mobile phones have subsequently declined over the years.

Mobile phone exports from India



Smartphone exports from India

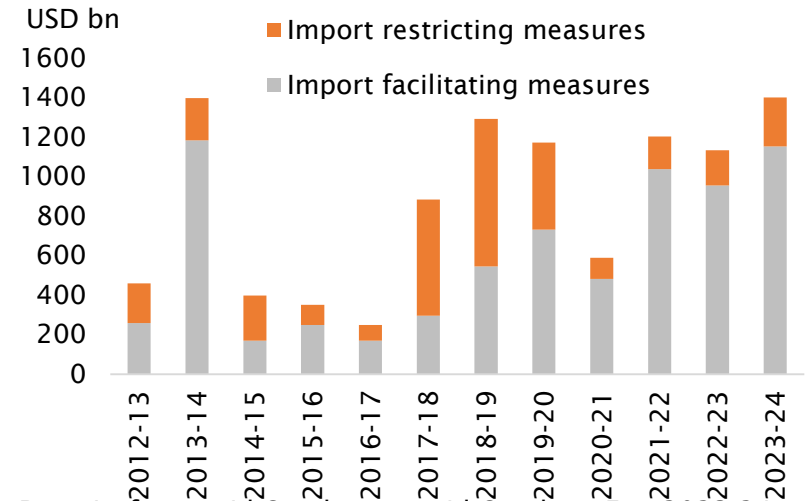




Steady global growth in 2024 to act as a tailwind for trade prospects

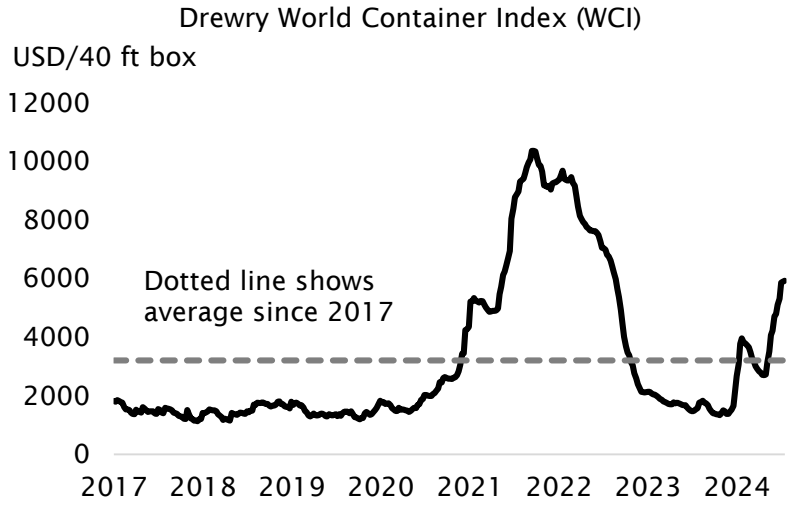
- Global trade is expected to recover in 2024 after contracting in 2023, though growth is likely to remain below the pre-pandemic trend. The shifts in supply chains amid preference for nearshoring and risks from geopolitical tensions (volatile commodity prices, high freight charges, etc.) will continue to impact global trade.
- In its latest outlook update, the IMF kept global growth forecast unchanged for 2024 at 3.2% compared to its update in April (growth in 2023 was at 3.3%). **Steady global growth could act as a tailwind for trade prospects.**
- A recent note by the UN noted the increase in the number of trade restrictions globally in recent years. However, in its latest trade monitoring update, the WTO observed an increase in import facilitating measures between Oct-2023 to May-2024, which should support global trade prospects in 2024.

Increase in import facilitating measures in 2023-24

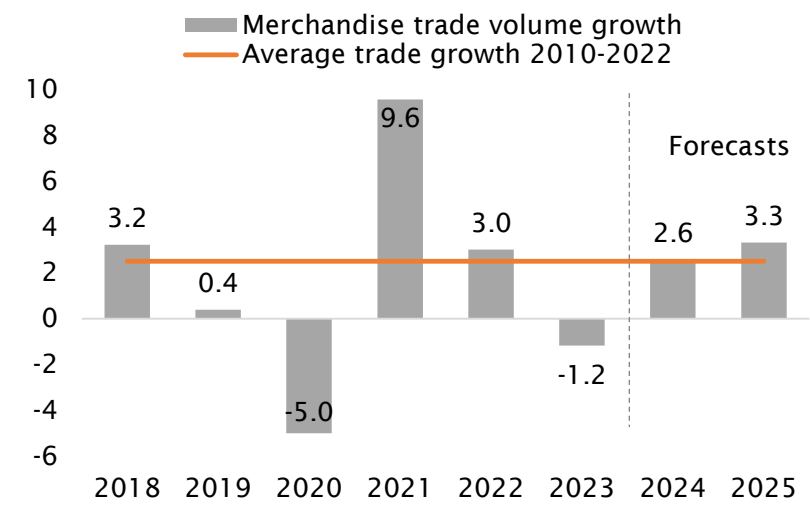


Data is from mid-October to mid-October. For 2023-24, data is from mid-October to mid-May.

Global freight charges continue to rise



Global trade expected to recover in 2024 and 2025





DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright in this document vests exclusively with Trust Group.

Trust Group

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