Merchandise trade deficit widened to seven month high in May amid an increase in petroleum imports

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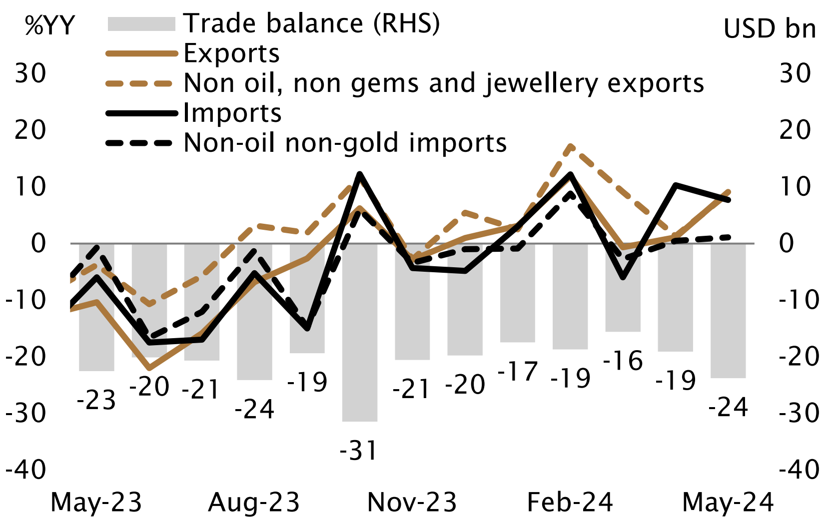
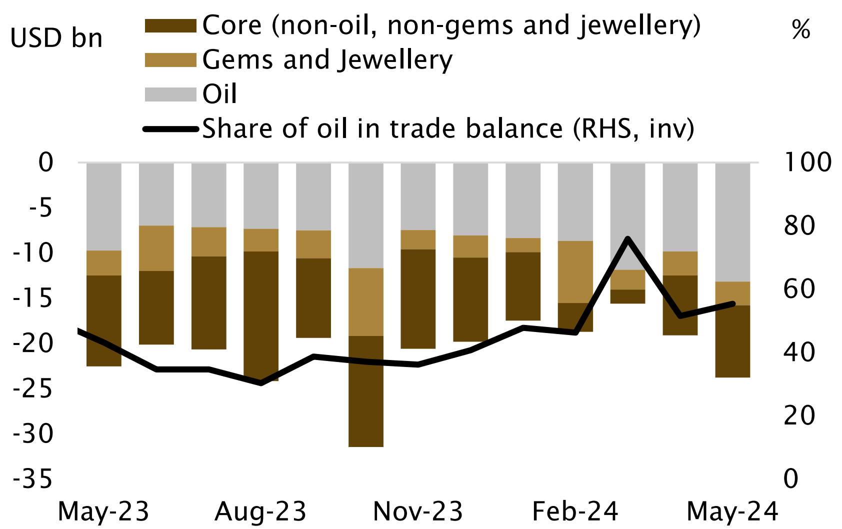
Key takeaways

India's merchandise trade deficit widened to the highest level in seven months at USD23.8bn in May from USD19.1bn in April, as imports grew at a faster pace month-on-month than exports. Core exports and imports also exhibited a similar trend, resulting in a steeper core trade deficit. Petroleum imports grew over 20% month-on-month, also the fastest pace in seven months, while exports growth was tepid. As a result, petroleum trade deficit deteriorated to a record level of USD13.2bn from USD9.8bn in April. The share of oil in overall trade deficit increased to 55.4% from 51.5% in the previous month. Also, year-to-date merchandise trade deficit was higher compared to the corresponding period (April-May) in FY24. Services trade surplus moderated to USD12.9bn in May from USD13.7bn in April amid month-on-month increase in imports, and a decline in exports. With the widening of merchandise trade deficit and moderation in services trade surplus, overall trade deficit (goods plus services) deteriorated to USD10.9bn in May from USD5.4bn in April. Global trade prospects for 2024 remain unchanged from the previous month, with recovery expected in 2024, though the trade growth rate is expected to remain below the pre-pandemic trend. However, as noted in a recent note by the UN, an increase in the number of global trade restrictions in recent years pose an additional risk to global trade recovery.

Merchandise trade deficit widened to seven month high in May amid an increase in oil imports

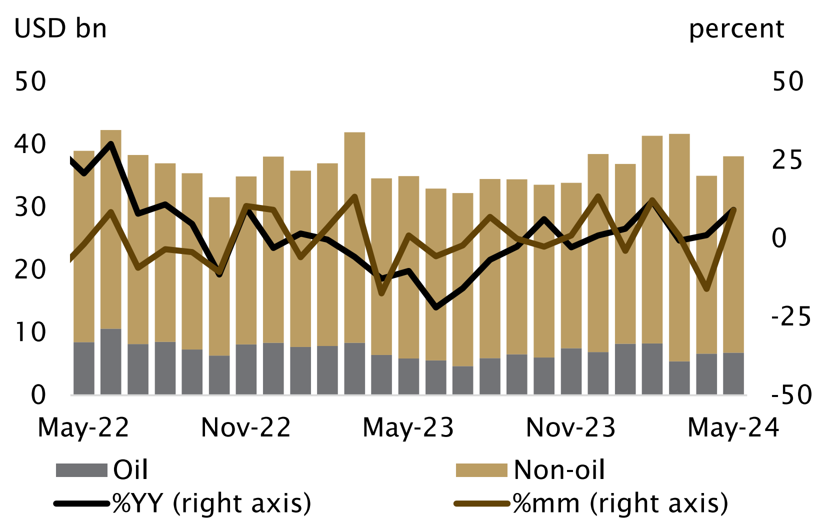




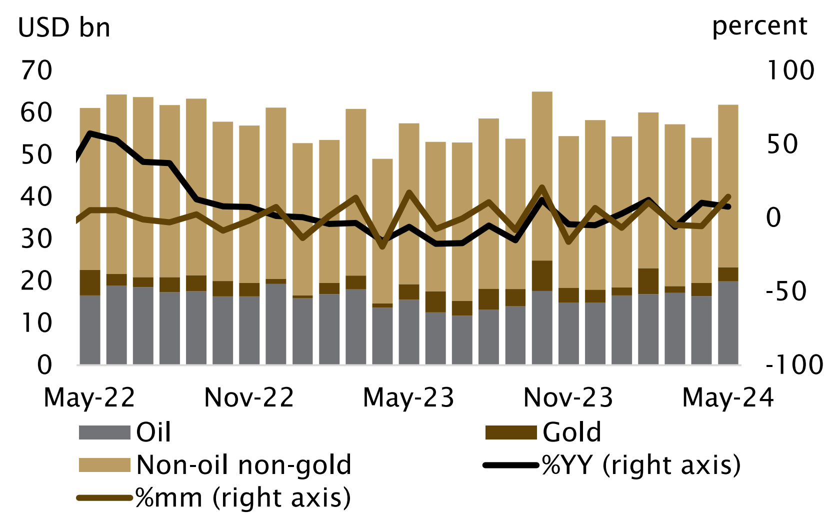
Merchandise trade deficit widened to seven-month high in May

- Merchandise trade deficit widened to seven-month high at USD23.8bn in May from USD19.1bn in April, as imports grew at a faster pace from the previous month than exports. In April, both imports and exports had contracted month-on-month, in line with the long-term trend. In May, imports increased 14.5% from the previous month, higher than the long-term (FY16-24) average growth of 7.3% for the month of May. Exports were up 9.0%, lower than the long-term average growth of 13.5%.
- In terms of year-on-year change, exports growth improved to 9.1%YY from 1.1% in April, while imports growth eased to 7.7%YY from 10.3%. While month-on-month momentum was positive in case of both exports and imports, base effects were negative for both, and more so in case of imports.
- Both core exports and imports (non-oil, non-gems and jewellery) had declined month-on-month in April and in May, the growth in core imports from the previous month exceeded the increase in core exports, so that the core trade deficit widened to USD8.0bn from USD6.6bn in April.
- Both exports and imports of gems and jewellery increased from the previous month but lower year-on-year. Oil imports grew over 20% month-on-month, the fastest pace in seven months, while exports growth was tepid at over 2%. As a result, petroleum trade deficit deteriorated to a record level of USD13.2bn from USD9.8bn in April. The share of oil in overall trade deficit increased to 55.4% from 51.5% in the previous month.

Exports growth



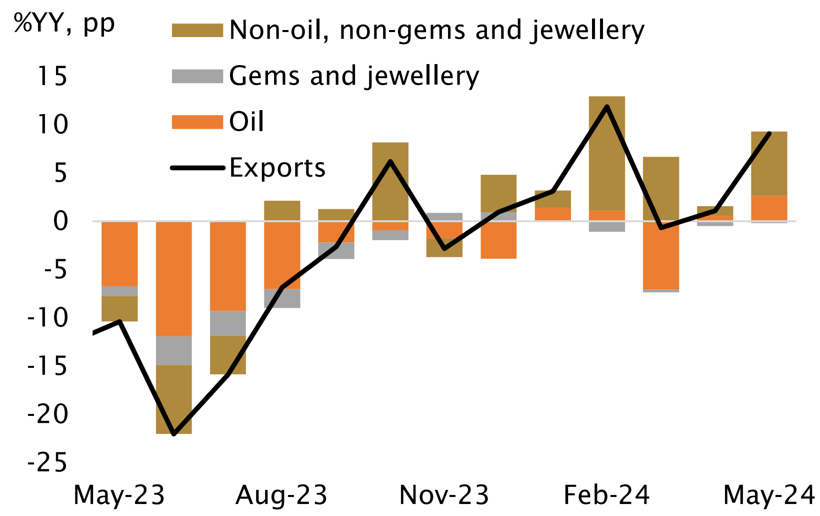
Imports growth



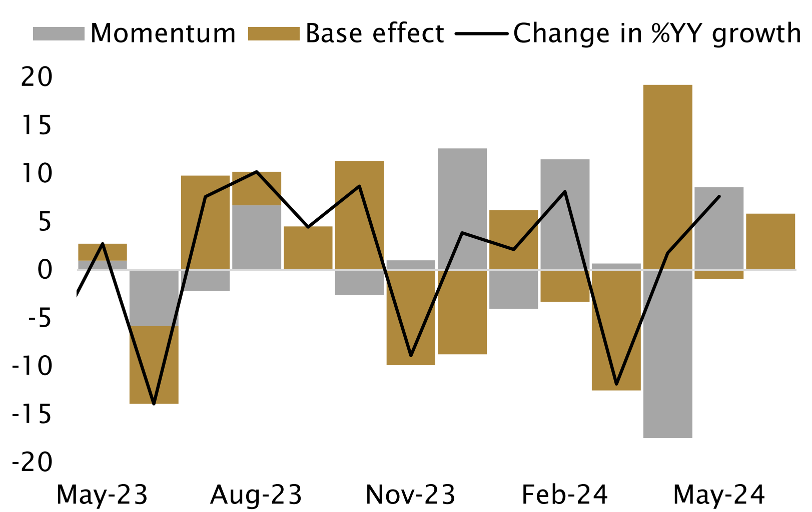
Improvement in exports growth driven by higher momentum

- Higher merchandise exports growth of 9.1%YY in May compared to 1.1% in April was driven by month-on-month increase in momentum amid mildly negative base effect. Oil exports growth rose to double-digits, core exports growth improved, while gems and jewellery exports remained in contraction for the fifth straight month.
- Of the 30 main categories, there was year-on-year increase in 20 export groups, up from 13 in April. Within core exports, engineering goods, electronic goods, drugs and pharmaceuticals added the most to growth, while spices and other cereals were among major laggards.
- In terms of month-on-month change, the increase in exports was across broad categories of petroleum, gems and jewellery, and core exports.

Contribution to exports growth – May 2024



Higher y-o-y exports growth in May due to momentum



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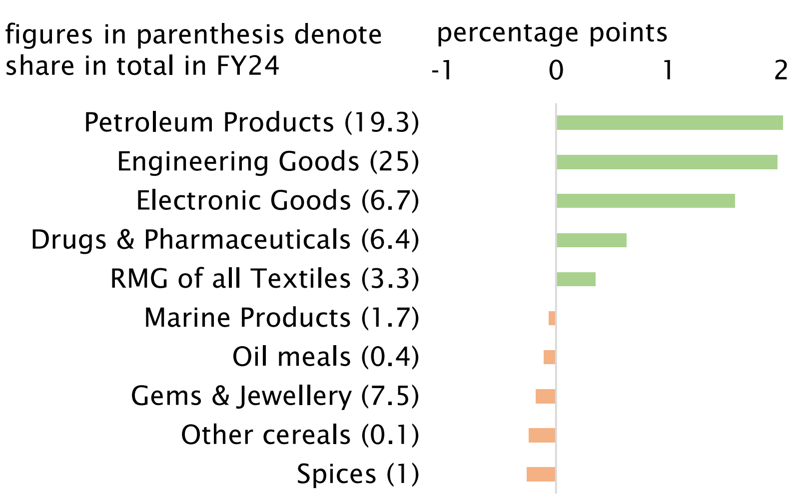


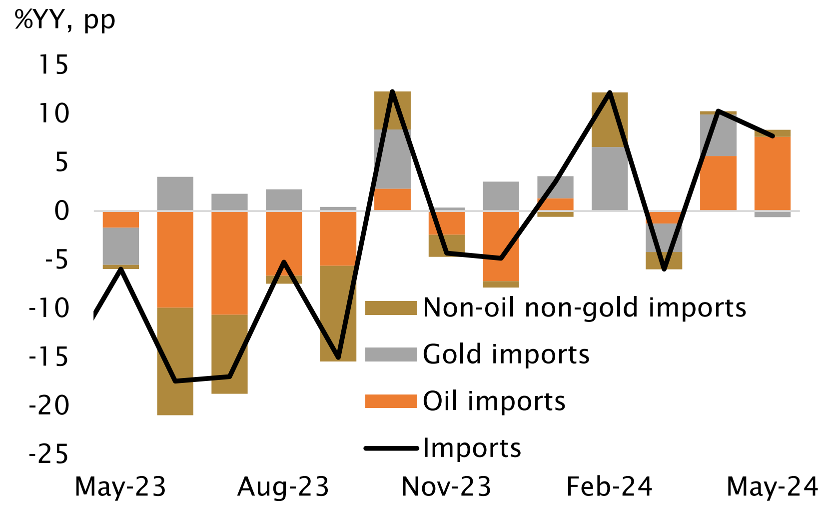
Moderation in imports growth due to favorable base effect

- Merchandise imports growth eased to 7.7%YY in May from 10.3% in April. This moderation was due to favorable base effect, even as month-on-month growth surged to a seven-month high. The year-on-year increase in oil imports was the highest since early 2023, even as core imports growth was muted, and gems and jewellery imports fell.

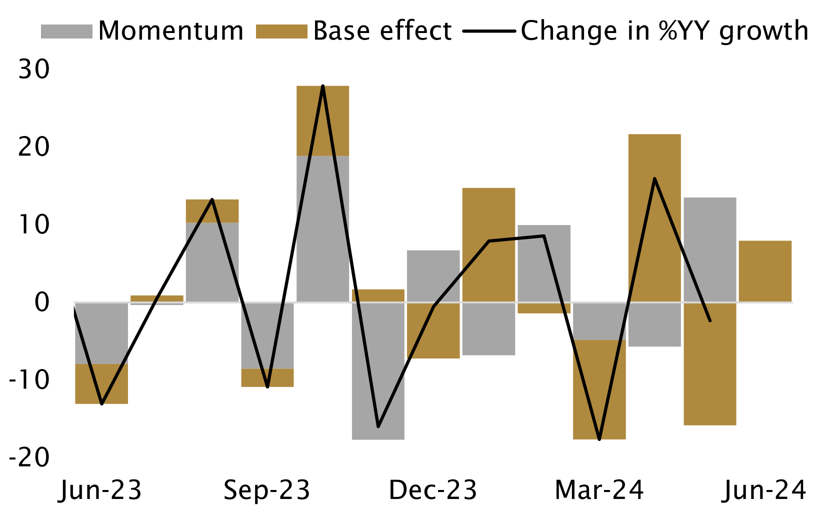
- Of the 30 major groups, imports fell in 14, unchanged from April. Within core imports, transport equipment, electronic goods, vegetable oil and pulses added the most to growth. Imports of coal, coke, and briquettes; fertilizers, iron and steel, and chemical products declined.

- In terms of month-on-month change, imports growth was in double digits across broad categories of petroleum, gems and jewellery, and core imports.

Contribution to imports growth – May 2024



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



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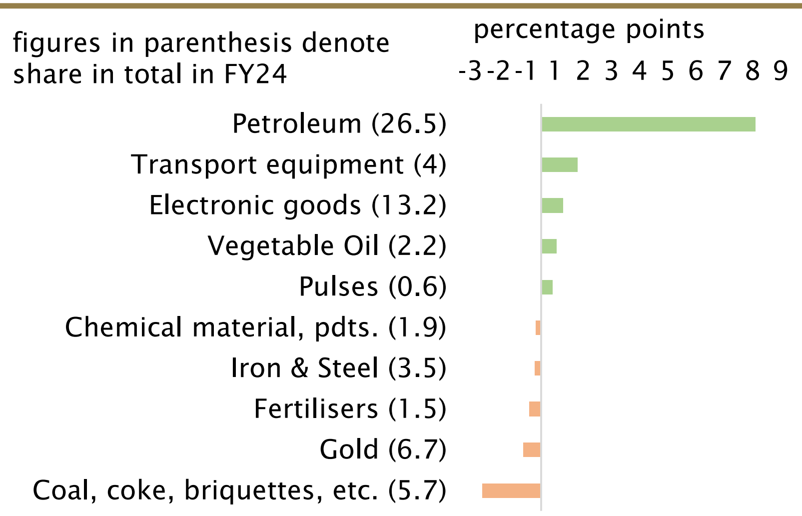
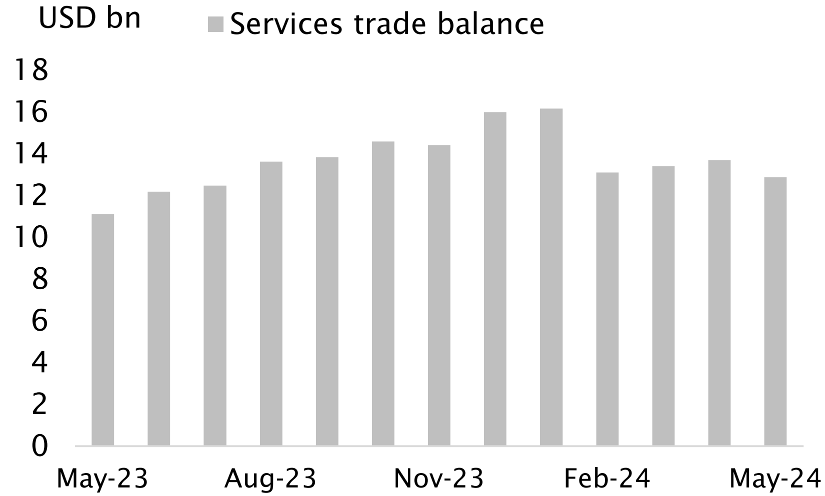


Services trade surplus moderated due to higher imports

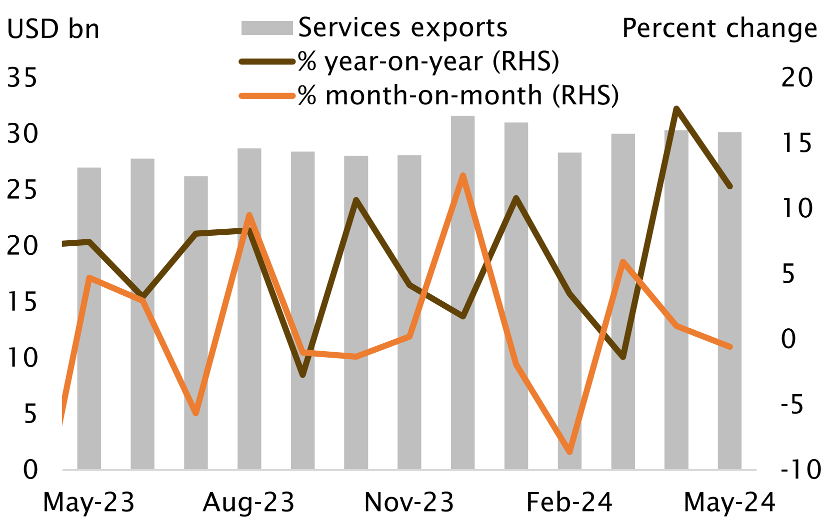
- Services trade surplus moderated to USD12.9bn in May from USD13.7bn in April amid 3.9% month-on-month increase in imports, and 0.6% decline in exports.

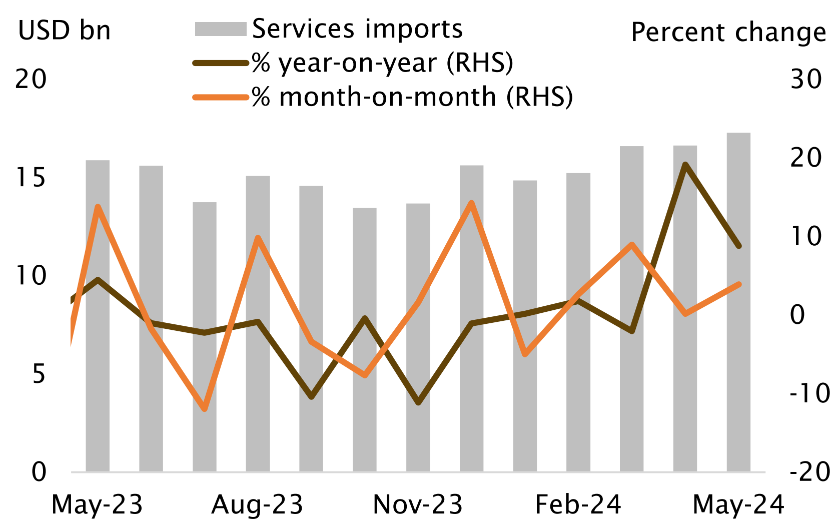
- In terms of year-on-year change, exports and imports growth eased to 11.7% and 8.8%, respectively from 17.7% and 19.1%, respectively, in April. The moderation in growth was partly driven by base effects, which were unfavorable in case of both exports and imports.

Services trade surplus moderated in May



Year-on-year services exports and imports growth eased in May; exports fell month-on-month, while imports increased





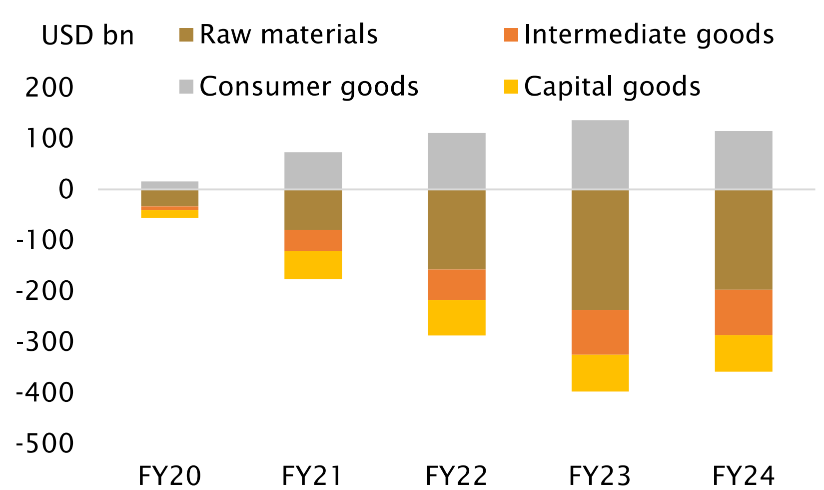
Year-to-date merchandise trade deficit higher than in Apr-May FY24

- On a cumulative basis, year-to-date merchandise trade deficit was higher than the corresponding period (April-May) in FY24. The deficit remained the steepest in the same categories of oil, electronic goods, and coal, coke and briquettes.

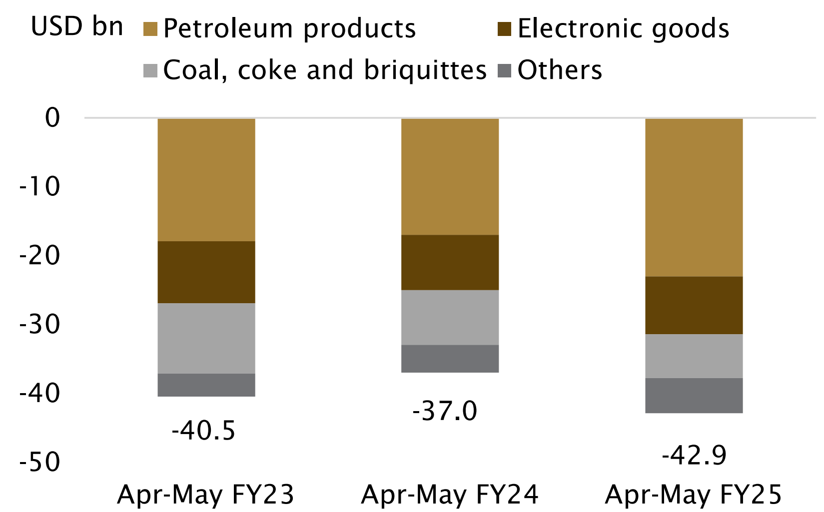
- With the widening of merchandise trade deficit and moderation in services trade surplus, overall trade deficit (goods plus services) deteriorated to USD10.9bn in May from USD5.4bn in April. Both total exports and imports rebounded month-on-month after declining in April, with imports growth exceeding that of exports.

- In terms of type of goods, India remained a net exporter of consumer goods in FY24, and continued to import more of raw materials, intermediate, and capital goods.

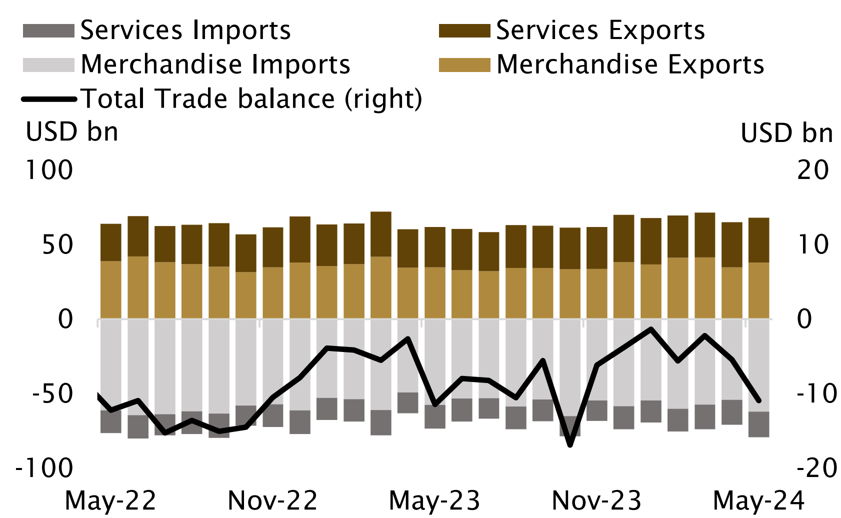
India remained net exporter of consumer goods in FY24



FY25 Apr-May goods trade deficit lower than in FY24



Total trade deficit widened in May compared to April

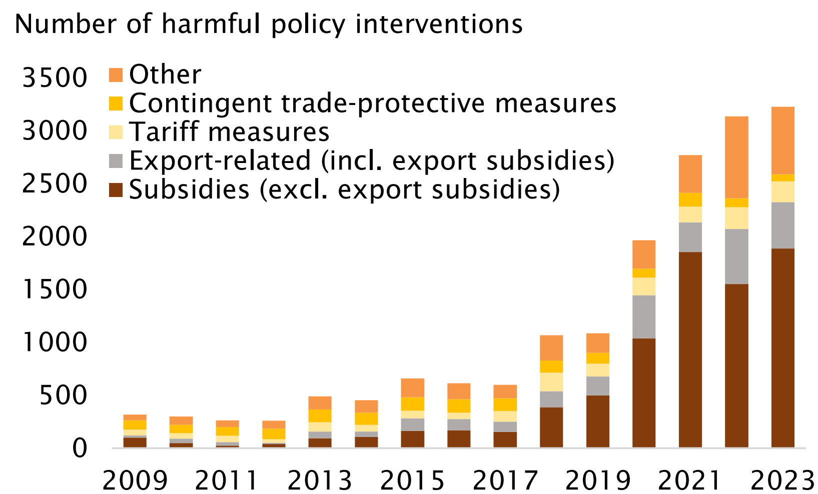


Risks to 2024 outlook remain despite expected recovery in global trade

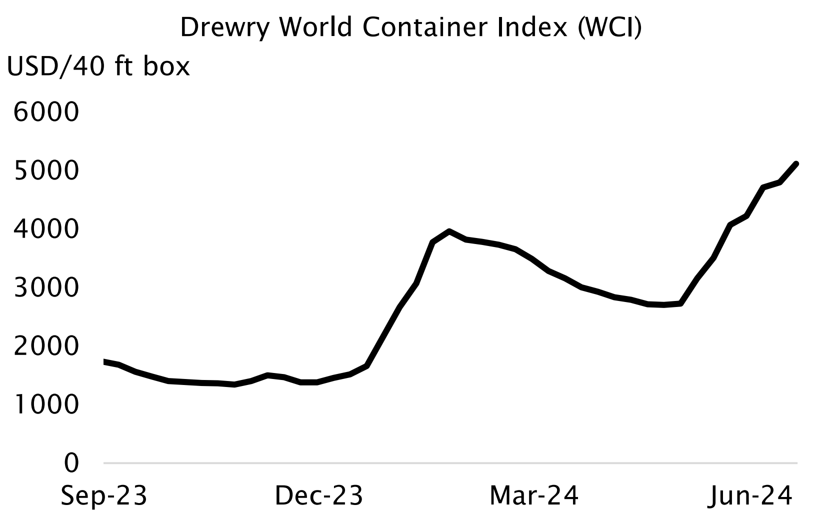
- Global trade prospects for 2024 remain unchanged from the previous month, with the same broader underlying themes, Global trade is expected to recover in 2024 after contracting in 2023, though the growth rate is expected to remain below the pre-pandemic trend. The shifts in supply chains amid preference for nearshoring and the risks from geopolitical tensions will continue to dominate the global trade landscape.

- However, as noted in the UN's latest note on 'World Economic Situation and Prospects', the increase in the number of trade restrictions in recent years (tripled between 2019 and 2022), particularly in the form of subsidies, pose an additional risk to global trade recovery.

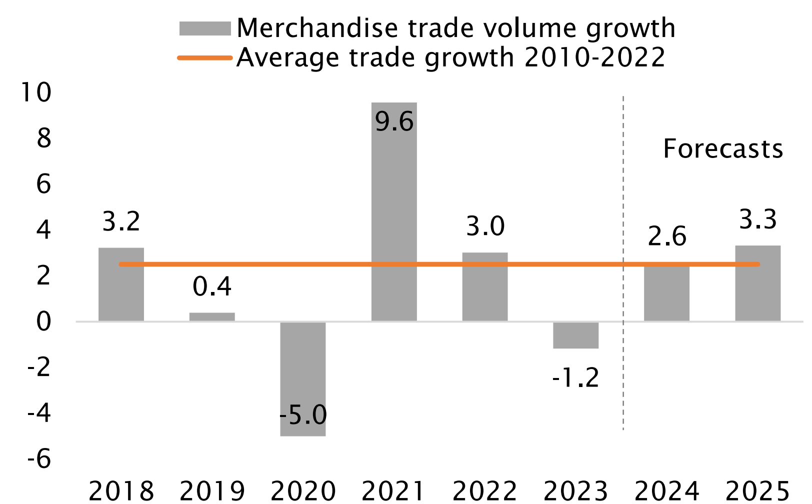
New trade restrictions at the global level



Global freight charges continue to rise



Global trade expected to recover in 2024 and 2025



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