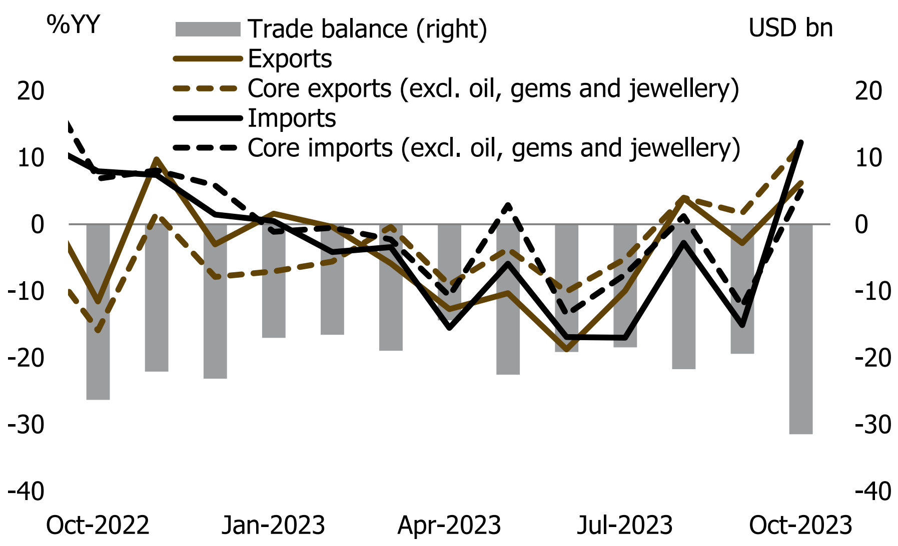
Merchandise trade deficit reached a record high in October; services surplus rose

Key takeaways: India's merchandise trade deficit reached a record high at USD 31.5 billion in October from USD 19.4 billion in September. The deterioration was due to a surge in imports that had remained in contraction for eight consecutive months. Imports of gems and jewellery, and electronic products surged ahead of the festive season, while relatively higher prices of crude oil during the month kept the oil import bill high. However, excluding gems and jewellery, and oil, core exports grew at a faster pace than core imports. Services trade surplus improved, with both exports and imports rebounding after declining in September. Certain data indicators suggest an increase in trade flows in November but the outlook remains clouded by an expected slowdown in global growth, as the impact of monetary tightening works its way across economies. While this could weigh on demand for exports, moderation in domestic growth in H2-FY24 could keep a lid on imports, thereby lowering the drag from external sector on the economy's overall growth.

Summary

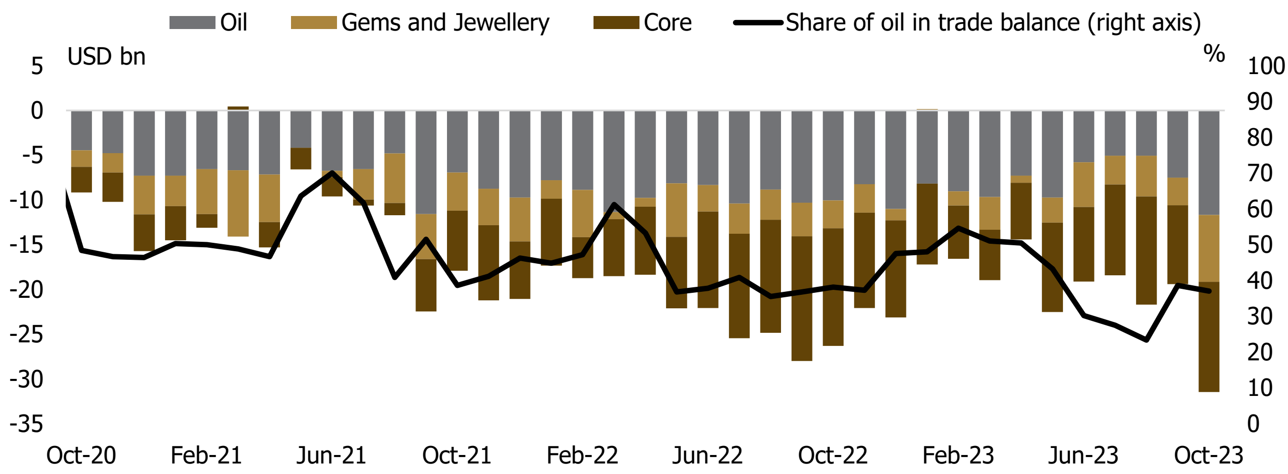
- **India's merchandise trade balance widened to an all-time high** of USD 31.5 billion in October from USD 19.4 billion in September. The deterioration was **due to a surge in imports that had remained in contraction for eight months.** Core trade balance (excluding petroleum, gems and jewellery) widened to USD 12.3 billion from USD 8.8 billion in September.
- Petroleum imports were supported by high prices during the month. Gems and jewellery imports; including gold, silver, and pearls, precious and semi-precious stones; were buoyant ahead of the festive season. Core imports rose but at a slower pace.
- Exports increased after declining in September. Both petroleum and gems and jewellery exports remained in contraction, but core exports grew at a robust pace, higher than growth in core imports.

Figure 1: Merchandise trade deficit deteriorated in October



Source: Ministry of Commerce and Industry

Figure 2: Core trade deficit (excl. petroleum, and gems and jewellery) also widened in October

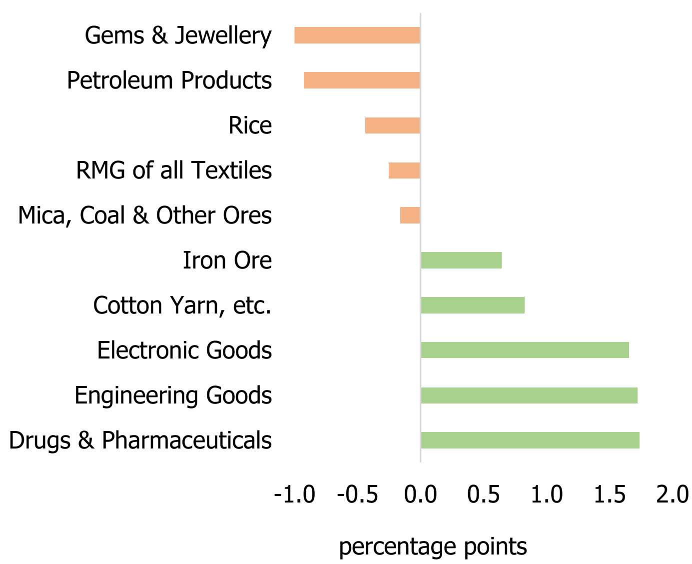


Source: Ministry of Commerce and Industry

Exports grew in October after declining in September

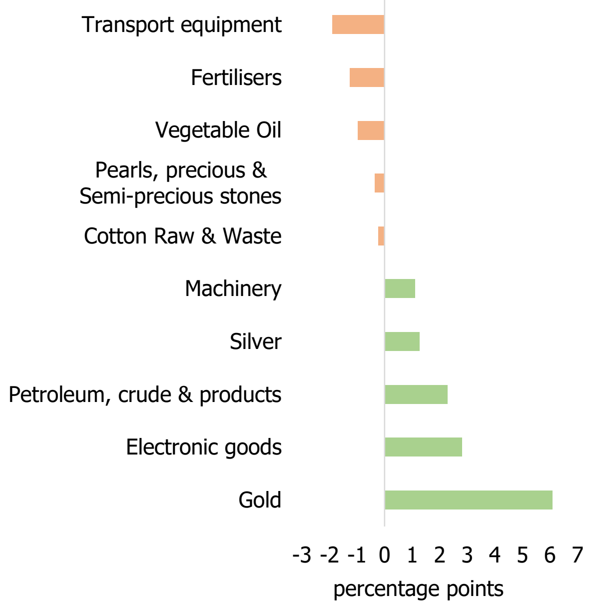
- Overall exports grew 6.2%YY in October after declining 2.8% in September. Exports of petroleum, and gems and jewellery remained in contraction, while excluding these items, core exports registered double-digit growth at 11.7%.
- On a sequential basis (percent, month-on-month) though, overall exports declined for the second straight month.
- Of the 30 major categories of exports, 22 registered growth in October compared to the previous year, up from 12 in September. In terms of contribution relative to the corresponding month a year ago, **drugs and pharmaceuticals contributed the most to export growth followed by engineering and electronic goods.** Gems and jewellery, and petroleum products were among major laggards that dragged down export growth.
- **Exports of rice have been declining since August due to policy measures** to rein in prices and ensure adequate domestic supply. The government had banned exports of non-basmati white rice in July and imposed 20% export duty on parboiled rice in August.
- During April-October 2023, overall exports fell 7.0%YY compared to the 12.5% growth during the corresponding period a year back.

Figure 3: Contribution to %YY export growth



Source: Ministry of Commerce and Industry

Figure 4: Contribution to %YY import growth

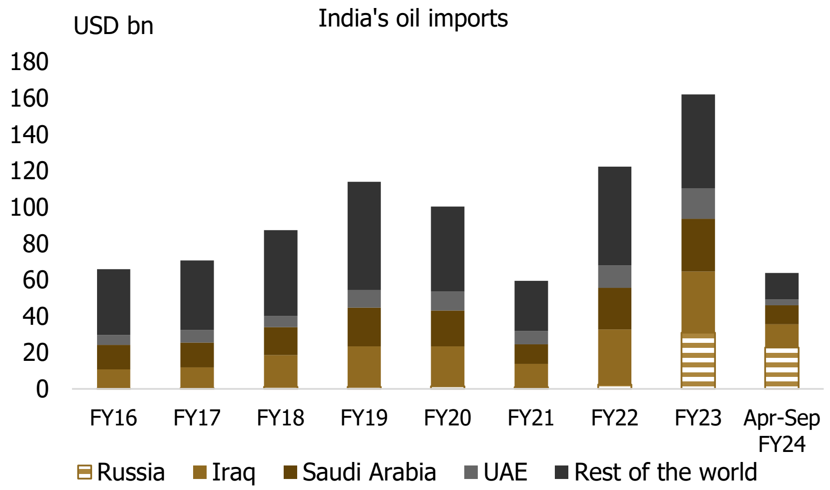


Source: Ministry of Commerce and Industry

Imports increased after declining for eight consecutive months

- Imports grew 12.3%YY in October, with oil imports up 8.1%. Imports of gems and jewellery (including gold; silver; and pearls, precious and semi-precious stones) surged 62.8%YY due to demand ahead of the festive season. Core imports increased 5.0% after declining 12.3% in September.
- Overall imports increased 20.9% month-on-month, with oil, gold and core imports, all growing in double-digits.
- Of the 30 major categories of imports, 20 registered growth in October compared to the previous year, up from ten in September. **In terms of contribution relative to the corresponding month a year ago, gold imports topped the list, followed by electronic goods and petroleum.** Transport equipment, fertilizers, and vegetable oil were among major categories that dragged down overall import growth.
- **Imports of investment-related goods such as machinery and machine tools grew at a strong pace in October, reflecting continued momentum in domestic investment activity.**
- **Based on the latest economy-wise data, oil imports from Russia remained strong during April-September.**
- During April-October 2023, overall imports fell 8.9%YY compared to the 31.2% growth during the corresponding period a year back.

Figure 5: Oil imports from Russia remained strong during Apr-Sep

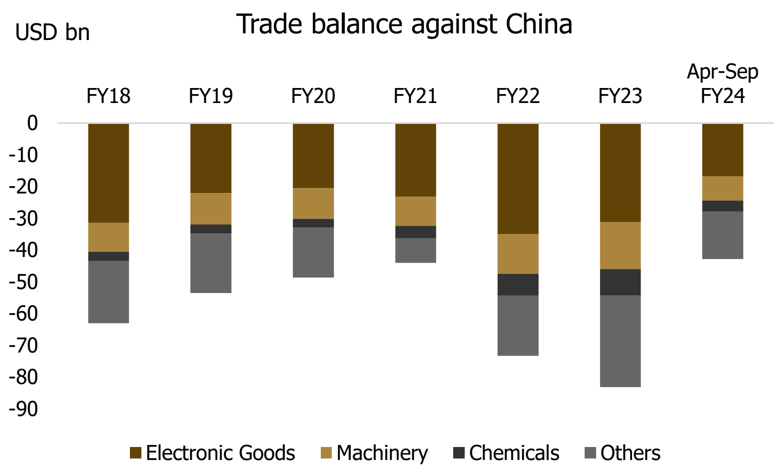


Source: Ministry of Commerce and Industry

Trade balance narrowed on a cumulative basis; remained the largest against China

- During April-October 2023, merchandise trade deficit narrowed to USD 147.1 billion from USD 167.1 billion during the corresponding period a year ago. Both exports and imports continued to decline on a year-on-year basis during this period, compared to the double-digit growth during April-October 2022.
- Core trade deficit was also lower at USD 68.1 billion during April-October 2023 versus USD 77.8 billion during the corresponding period a year ago.
- **Merchandise trade deficit remained the steepest in case of petroleum products; electronic goods; and coal, coke and briquettes. Based on the latest data for April-September, trade deficit was the widest against China for electronic goods, machinery, and chemicals.**

Figure 6: Trade deficit remained the steepest against China

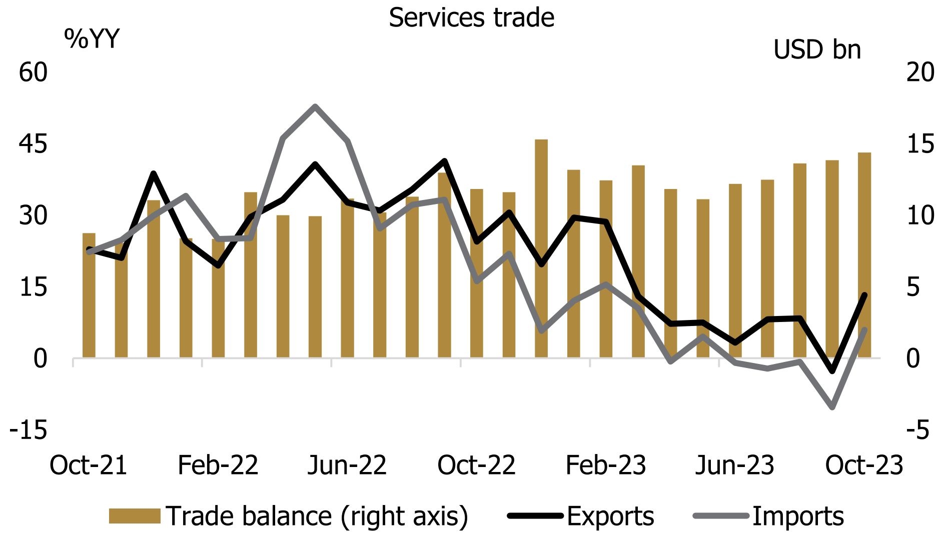


Source: Ministry of Commerce and Industry

Services trade surplus improved in October

- **Both exports and imports of services increased in October after declining in September**, with the growth in exports exceeding the rise in imports. Exports rose 13.2%YY versus a drop of 2.7% in September. Imports grew 5.9% following a decline of 10.3%. **Services trade surplus improved to USD 14.4 billion from USD 13.8 billion in September.**
- On a sequential basis, exports rose 1.0% month-on-month in October, reversing an equivalent decline in the previous month. Imports remained in contraction for the second straight month.

Figure 7: Services trade surplus improved in October



Source: Ministry of Commerce and Industry

Outlook

- Monthly estimates from the Keil trade indicator suggest an improvement in India's trade flows for the month of November. However, outlook remains clouded by the expected slowdown in global growth in 2024 as the impact of monetary policy tightening finds its way across economies. While this could impact the demand for exports, there are a few tailwinds that could soften the impact on the external sector.
- World Bank, in its latest commodities outlook, expects commodity prices to decline slightly over the next two years in its baseline forecast, despite the uptick in geopolitical tensions.
- The moderation in domestic growth expected in H2-FY24 is likely to keep a lid on demand for imports.
- The surplus in services trade is expected to provide some cushion to the overall current account balance despite the steep deficit in merchandise trade.

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