TRADE

15 January 2020

Non-oil imports decline as demand remains weak

India's trade deficit in Dec'19 narrowed to US$ 11.3bn from US$ 12.1bn in Nov'19 as imports fell by (-) 8.8% vis-à-vis (-) 1.8% decline in exports. Weak domestic demand resulted in (-) 12.2% decline in non-oil-non-gold imports. Capital goods imports fell by (-) 16.5% in Dec'19 and (-) 11.2% in FYTD20. With growth improving in FY21, non-oil-non-gold imports should stabilise. Exports too are likely to improve as global trade tensions ease. Given foreign inflows into India, we expect INR to remain stable.

Sameer Narang
Aditi Gupta | Sonal Badhan
chief.economist@bankofbaroda.com

Exports drop: Export growth in Dec'19 fell further to (-) 1.8% from (-) 0.3% in Nov'19. This was driven by sharp fall in exports of organic chemicals (-5.1% versus +2.5% in Nov'19), agriculture items (-3.4% versus 1.5%) and engineering goods (-1.2% versus 6.3%). Owing to higher oil prices (+13% YoY in Dec'19), contraction in oil exports eased to (-) 4.2% from (-) 13.1% in Nov'19. In FYTD20, exports have contracted by (-) 2% versus +10.2% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to contract. We expect exports to show a mild pick-up in FY21 compared with FY20.

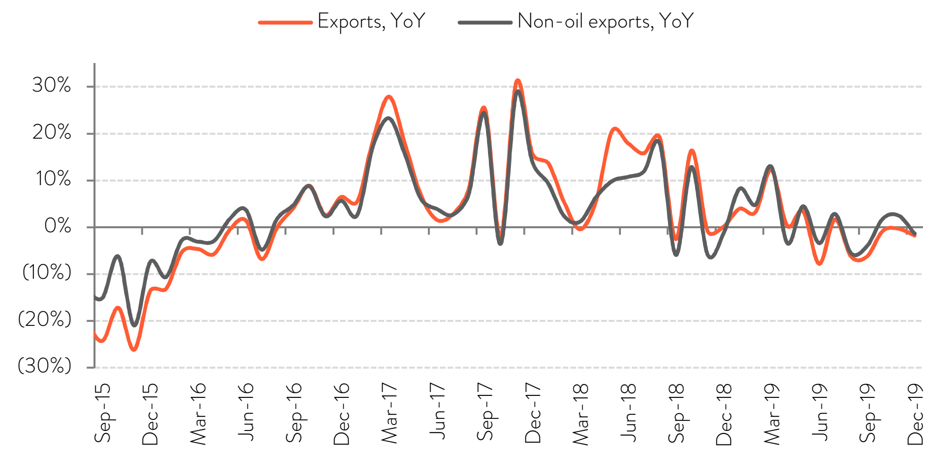
Non-oil-non-gold imports contract sharply: Imports contracted for the 7th straight month at (-) 8.8% in Dec'19 compared with (-) 12.7% in Nov'19. The slower pace of contraction was led by oil imports which declined by (-) 0.8% in Dec'19 versus (-) 18.2% in Nov'19. Gold imports declined by (-) 3.9% in Dec'19 (6.6% in Nov'19). However, non-oil-non-gold imports fell by (-) 12.2%, sharpest decline in 44-months, versus (-) 12% in Nov'19. Within this, imports of pearls and precious metals (-12.0% versus +24.8% in Nov'19) and transport equipment (-30.1% versus -48.5%) contracted the most. However, imports of vegetable oils (16.2%), agricultural products (11.4%) and machinery (3%) rose.

Trade deficit narrows: India's trade deficit narrowed sequentially to US$ 11.3bn from US$ 12.1bn in Nov'19 despite higher oil prices as non-oil-non-gold imports contracted sharply. In FYTD20, trade deficit is now lower by US$ 26.5bn compared with last year as non-oil-non-gold imports have contracted by (-) 7% compared with increase of 8% last year. Both exports and imports are likely to show a mild uptick as both global and domestic demand improves next year. However, trade deficit and CAD will remain well within limits. This along with foreign inflows implies INR will remain stable. Higher global oil prices due to geo-political tensions remain a key risk to this view.

KEY HIGHLIGHTS

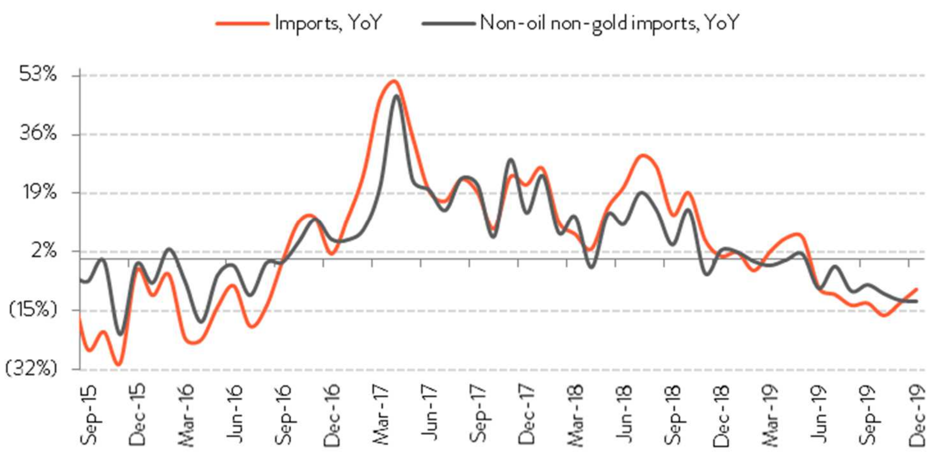
- Exports fell by (-) 1.8% versus (-) 0.3% in Nov'19.
- Imports decline by (-) 8.8% compared with (-) 12.7% in Nov'19.
- Trade deficit narrows to US$ 11.3bn versus US$ 12.1bn in Nov'19.

FIG 1 – EXPORTS DECLINE AT A FASTER PACE



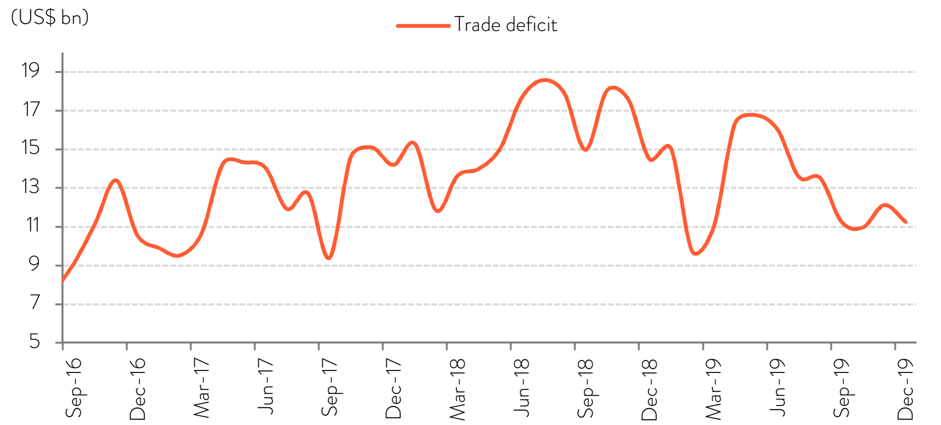
Source: CEIC, Bank of Baroda Research

FIG 2 – NON-OIL-NON-GOLD IMPORTS CONTINUE TO CONTRACT



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS TO US$ 11.3BN



Source: CEIC, Bank of Baroda Research

Disclaimer

Visit us at **www.bankofbaroda.in**

For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com