TRADE

16 July 2019

Exports and imports slowing down

Led by a decline in both exports and imports, India's trade deficit remained steady at US$ 15.3bn in Jun'19 versus US$ 15.4bn in May'19. Non-oil-non-gold imports fell sharply to a 35-month low, suggesting a further slowdown in domestic consumption. While some of the decline in exports can be attributed to base effect, exports are unlikely to see much pickup due to worsening global backdrop. Even imports are likely to be muted as oil prices have remained below US$ 70/bbl. We thus expect CAD to remain steady at 2.1% of GDP in FY20.

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Exports decline sharply: India's exports fell by (-) 9.7% in Jun'19 versus an increase of 3.9% seen in May'19. This is the sharpest fall since Jan'16 when it fell by (-) 13.2%. The decline is led by (-) 32.8% fall in oil exports. Lower prices and throughput explain this. However, non-oil exports also fell by (-) 5.7% on the back decline in textile exports (-12.6%), agri products (-11.8%) and gems and jewellery exports (-10.7%). During Q1FY20, export growth has been weaker at (-) 1.7% versus 15.3% growth in Q1FY19 and 6.3% in Q4FY19. We are likely to see muted export growth in the near-term on the back of lower realisation of oil exports and dip in volume of non-oil exports as global growth is decelerating.

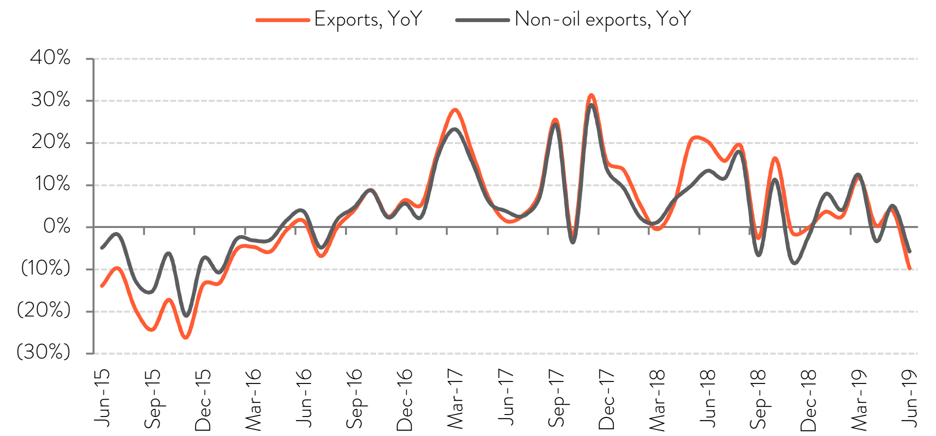
Imports also decline: Imports also declined by (-) 9.1% in Jun'19 versus 4.3% in May'19. Oil imports fell by (-) 13.3% on the back of lower crude prices. Gold imports increased albeit at a slower pace of 13% in Jun'19 versus 37.4% in May'19. Non-oil-non-gold imports also declined steeply by (-) 9%, sharpest decline in 35 months versus (-) 1.3% in May'19. This was led by lower imports of pearls and precious metals (-23.6%), capital goods (-14%) and non-ferrous metals (-12.4%). During Q1FY20, non-oil-non-gold imports have declined by (-) 4.5% versus an increase of 5.8% in Q1FY19. The domestic consumption slowdown implies non-oil-non-gold imports are likely to remain muted.

CAD at 2.1% of GDP in FY20: India's trade deficit remained broadly stable at US$ 15.3bn in Jun'19 as both exports and imports declined. In Q1FY20, trade deficit is stable at US$ 46bn compared with US$ 45.2bn last year. Lower oil prices coupled with global and domestic consumption slowdown suggest that imports as well exports are likely to remain muted. We thus expect CAD to remain stable at 2.1% of GDP in FY20. This should support INR at current levels. FII inflows have also remained positive at US$ 5.7bn in FYTD20. Higher oil prices and global growth slowdown are a key risk to our view.

KEY HIGHLIGHTS

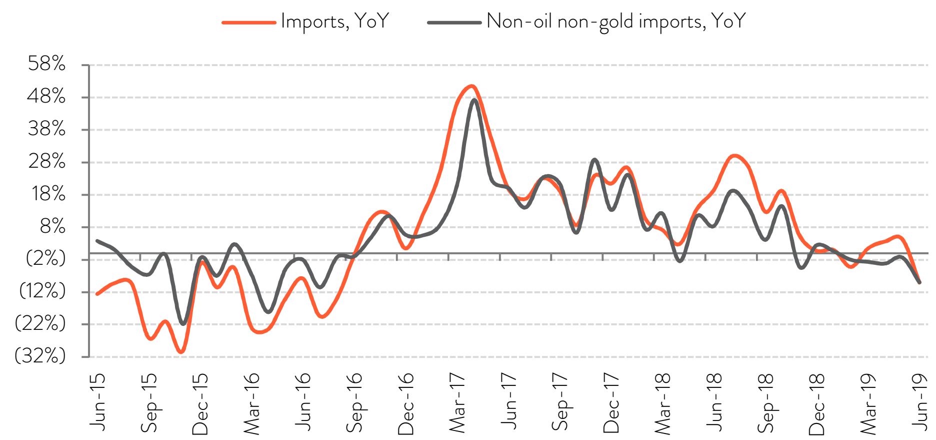
- Exports decline by (-) 9.7% in Jun'19 compared with 3.9% in May'19.
- Imports also decline sharply by (-) 9.1% in Jun'19 compared with 4.3% in May'19.
- Trade deficit remained broadly stable at US$ 15.3bn in Jun'19 versus US$ 15.4bn in May'19.

FIG 1 – EXPORT GROWTH FALLS TO A 41-MONTH LOW IN JUN'19



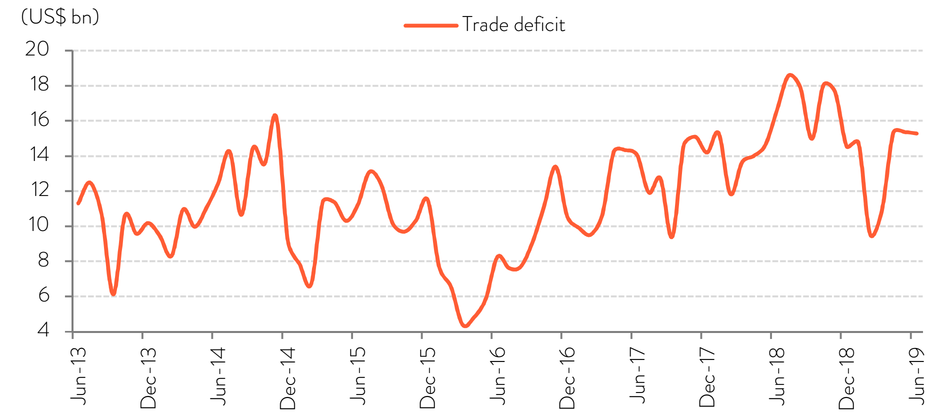
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS ALSO DECLINE IN JUN'19



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT STEADY



Source: CEIC, Bank of Baroda Research

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