TRADE

03 December 2020

Trade deficit expands as exports slip

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India's trade deficit expanded to US$ 10bn in Nov'20 from US$ 8.7bn in Oct'20 led by moderation in exports and stable non-oil-non-gold imports. Stable non-oil-non-gold imports indicate normalization of domestic economic activity. Capital goods imports continue to contract, albeit at a slower pace. Recent high frequency data point to some moderation in domestic economic activity which implies imports may remain muted. We expect trade deficit in FY21 at US$ 82bn versus US$ 158bn in FY20 which should support INR.

KEY HIGHLIGHTS

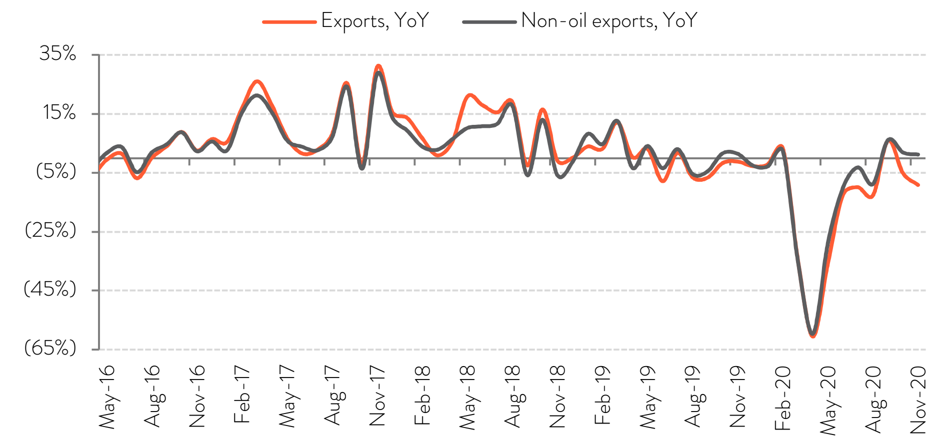
- Exports fell by 9.1% in Nov'20 compared with a decline of 5.1% in Oct'20.
- Imports contract by 13.3% in Nov'20 versus a decline of 11.5% in Oct'20.
- Trade deficit rises to US$ 10bn from US$ 8.7bn in Oct'20.

Exports fall again: Preliminary data shows that exports fell by 9.1% in Nov'20 after a 5.1% drop in Oct'20. Oil exports fell sharply by 63.8% in Nov'20 compared with a 52% decline in Oct'20. Non-oil export growth also eased marginally to 1.2% in Nov'20 from 1.9% in Oct'20. Within this, exports of plastics and linoleum fell the most at 23.3% compared with a 6.9% drop in Oct'20. This was followed by decline in engineering goods (8.3% versus 3.7% decline in Oct'20). Exports of drugs and pharmaceuticals also decelerated to 11.1% versus an increase of 21.9% in Oct'20. In FYTD21, exports are now down by 17.4% compared with a drop of 2.3% in FYTD20. Increase in global Covid-19 cases continues to pose risk to global growth and India's export recovery.

Non-oil-non-gold imports improve: India's imports contracted by 13.3% in Nov'20 compared with a decline of 11.5% in Oct'20. This was led by 43.4% decline in oil imports versus 38.5% dip in Oct'20. Sharp deceleration was also seen in gold imports as it slipped to 2.7% in Nov'20 compared with an increase of 35.9% in Oct'20. However, non-oil-non-gold imports rose by 3% in Nov'20 from 0.9% in Oct'20. Within this, import of vegetable oil and electronic goods rose the most, by 34% and 36.1% respectively. Imports of machinery and transport equipment also contracted less sharply at 13.4% and 19.6% respectively compared with 16% and 56.3% respectively in Oct'20.

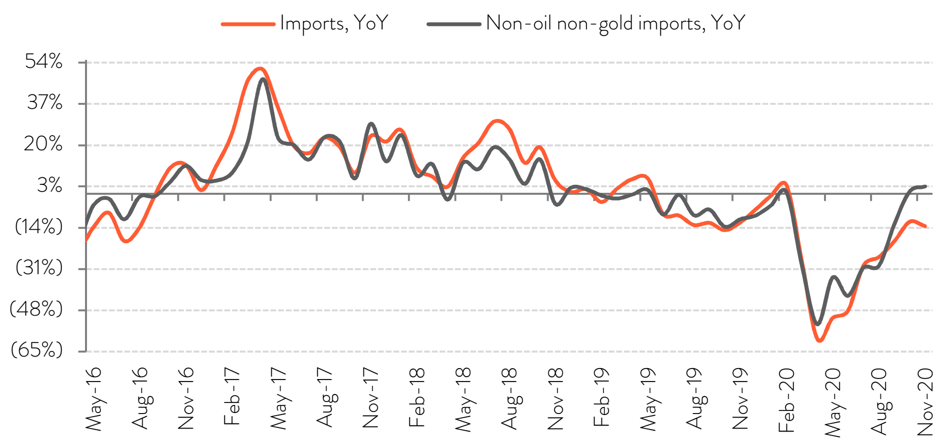
Trade deficit to expand: India's trade deficit in Nov'20 rose to US$ 10bn from US$ 8.7bn in Oct'20. This is the highest monthly deficit in FYTD21 so far. However, some moderation in domestic demand is likely as seen in high frequency data such as manufacturing PMI (56.3 in Nov'20 versus 58.9 in Oct'20), diesel demand (-7% versus 7.4% in Oct'20), electricity demand (4.4% versus 5.3%) and GST collections (1.4% versus 10.2%). The outlook for exports is relatively muted due to second wave of Covid-19. We expect trade deficit to increase to US$ 82bn in FY21 (US$ 42.8bn in FYTD21).

FIG 1 – EXPORTS FALL BY 9.1% IN NOV'20



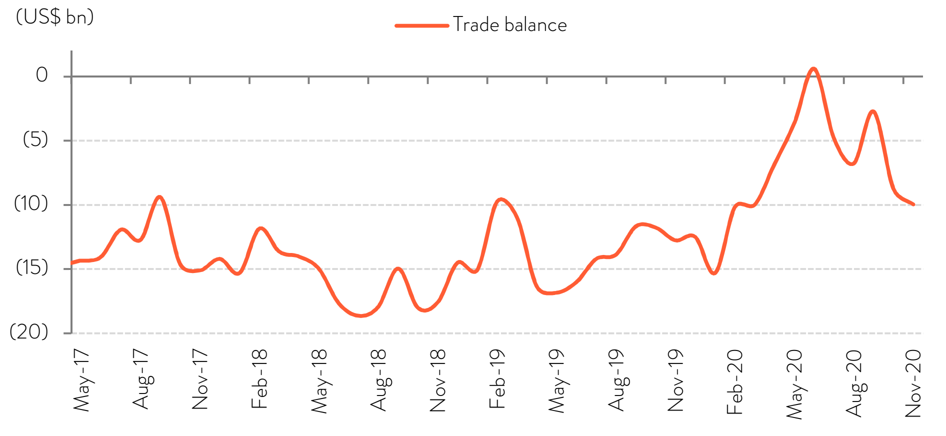
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS MODERATE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT EXPANDED IN NOV'20



Source: CEIC, Bank of Baroda Research

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