TRADE

14 December 2018

Non-oil-non-gold imports decline

India's trade deficit narrowed to US$ 16.7bn in Nov'18 from US$ 17.1bn in Oct'18 on account of sharp decline in imports. Imports slowed on account of base effect and a steep decline in non-oil-non-gold imports (-5.8%). Exports too registered a steep fall (0.8% versus 17.9% in Oct'18), mainly owing to adverse base effect. The continued dip in oil prices (-8% MTD basis in Dec'18) will be positive for external balance in the coming months. Reversal in FPI inflows remains a key risk.

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Exports slump: Growth in exports declined sharply to 0.8% in Nov'18 from 17.9% in Oct'18, owing to adverse base effect (US$ 26.3bn; 31% in Nov'17). This decline was led by gems & jewellery (-16.9%), agriculture products (-16.5%) and engineering goods (-16.4%). Oil exports rose by 42.7% to US$ 5.1bn. On a FYTD basis, exports are growing at the same pace as last year (11%). Region wise, while our exports are growing to all regions (ex-China and Asia-Pacific), significant improvement is visible in exports to Americas, Europe and Middle East.

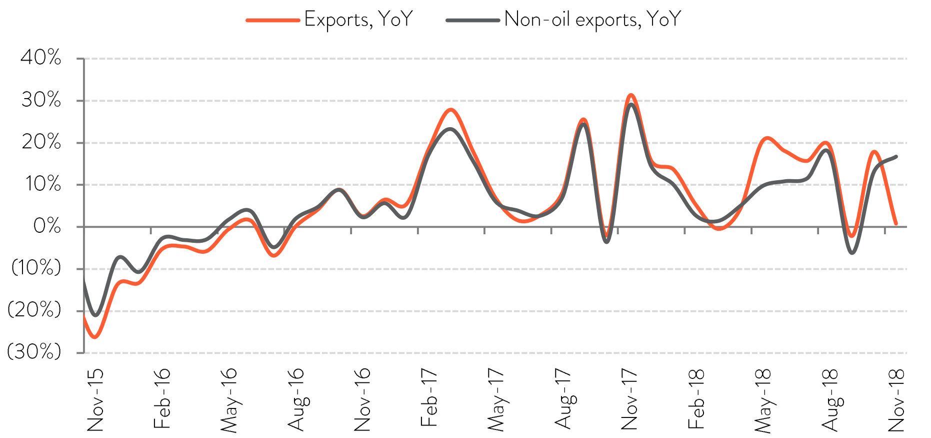
Imports also decelerate: Imports rose by 4.3% to US$ 43.2bn in Nov'18 compared with US$ 44.2bn in Oct'18 (17.9%). The declaration was partly due to base effect (23.7% in Nov'17). In fact, oil imports rose by 41.3% in Nov'18 slightly lower than 53.1% in Oct'18, even as oil prices are up by 5% over Nov'17. More importantly, non-oil-non-gold imports declined by (-) 5.8% from 11.7% in Oct'18, leading indicator of slowdown in domestic demand if the trend sustains. Electronic imports increased by only 0.3% versus 31.9% in Oct'18. Gold imports on the other hand fell by (-) 15.6% in Nov'18 from (-) 43% in Oct'18. Capital goods imports also declined for the third straight month (-0.5% versus -1% in Oct'18).

External outlook stable: India's trade deficit declined sequentially to US$ 16.7bn from US$ 17.1bn. A deceleration in imports, particularly non-oil-non-gold imports explain this. Oil imports are higher by US$ 32.4bn during FYTD19 but are expected to moderate with the recent decline in oil price. We expect trade deficit to rise to US$ 188bn in FY19 (US$ 129.9bn in FYTD19) thus leading to a CAD of 2.5% of GDP in FY19. Reversal in FPI outflows, volatility in oil prices and global trade war remain a key risk to the outlook.

KEY HIGHLIGHTS

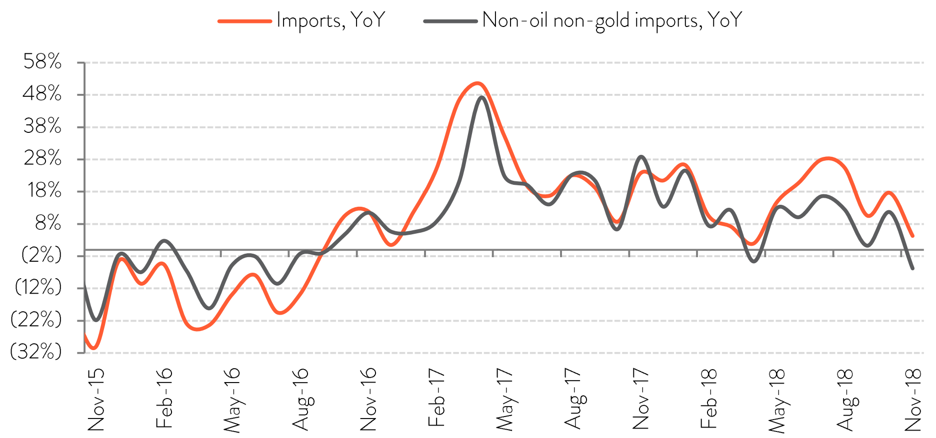
- Exports growth falls sharply to 0.8% in Nov'18 from 17.9% in Oct'18.
- Import growth also decelerates to 4.3% in Nov'18 versus 17.9% in Oct'18.
- Trade deficit narrows to US$ 16.7bn from US$ 17.1 in Oct'18.

FIG 1 – EXPORT GROWTH DIPS IN NOV'18



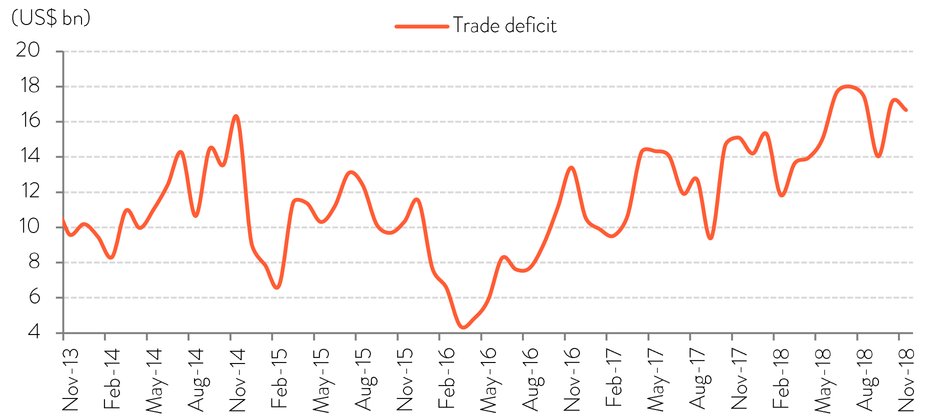
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS ALSO DECELERATE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT NARROWS TO US$ 16. 7BN



Source: CEIC, Bank of Baroda Research

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