

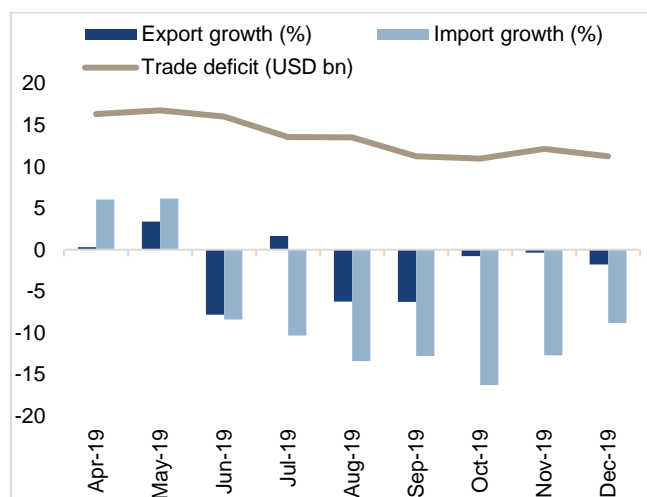
Starved of demand, trade deficit slims further

CRISIL Economy First Cut | January 2020

Overview

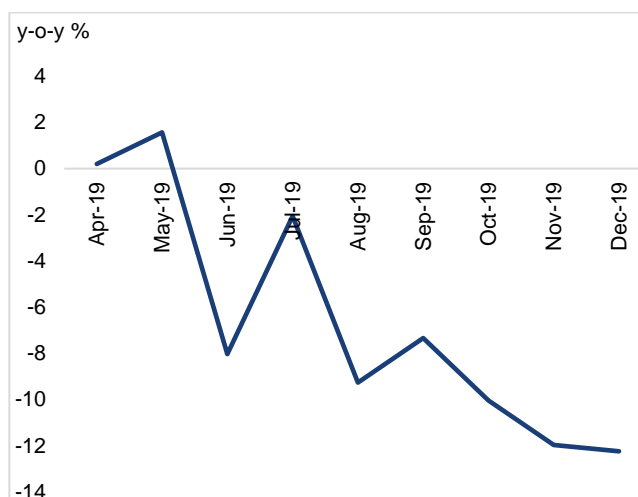
- Merchandise trade deficit¹ – the biggest contributor to India’s current account deficit (CAD) – has been narrowing for the past few months. December exports dwindled further and imports fell sharper, in furtherance of this trend
- December marked the fifth straight month of declining exports, the fall steepening to 1.8% on-year compared with 0.3% in November. Imports diminished for the seventh straight month on weak demand, by 8.8% in December (12.7% in November). Trade deficit was \$0.9 billion lower on-month, and \$3.2 billion lower on-year, at \$12.2 billion
- Significantly, imports fell despite rising prices of key items – crude oil and gold. Further, non-oil non-gold imports (i.e., core imports) have declined now for seven months straight. This clearly reflects the extent of weakness in domestic demand.
- Exports have declined 2% on average in the first nine months of this fiscal, and imports, by 7.8%. Imports are expected to remain subdued as domestic demand is expected to see only a mild pick up even as crude prices remain in the safe zone. CRISIL Research expects crude to average \$63-68 per barrel in fiscal 2020 compared with \$70.1 in fiscal 2019
- **Based on these factors, we expect the CAD to narrow to 1.4% of GDP in fiscal 2020, compared with 2.1% of GDP in fiscal 2019**

Sharp decline in imports helps narrow trade deficit



Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

Core imports fall for seventh month in a row



Exports taper for fifth successive month

- Exports decline in December was driven by petroleum products (-4.2% vs -13.1% previous month), gems and jewellery (-8.2% vs -8.1%), and plastic products (-18.7% vs -15.3%)
- Engineering goods and chemicals, whose exports had briefly recovered in the past two months, slipped again in the negative territory. Engineering exports declined 1.2% (6.3% growth in November), and organic and inorganic chemicals declined 5.1% (2.5% growth)
- Deterioration was also seen in key exports of agriculture and allied products, such as rice (-5.4% vs 4.7%) and meat, dairy and poultry products (-17.7% vs 8.3%)

¹ All trade figures are in US \$ terms

- However, exports remained robust for electronic goods and pharmaceuticals, though growth rate moderated relative to the previous month. Growth rates for the two segments were 30.4% vs 46.1%, and 13% vs 20.6%, respectively

Core imports lead decline

- Core imports declined 12.2% on-year in December, similar to 12% decline previous month. Sharpest fall was seen in industrial-related goods such as transport equipment (-30.1% vs -48.5% previous month), coal, coke and briquettes (-22.4% vs -23.2%), and iron and steel (-21.5% vs -26.2%). Stress in gems and jewellery sector has also reduced imports of precious and semi-precious stones (-12% vs 24.8%)
- Gold imports slipped 3.9% on-year compared with 6.6% growth previous month, hit by the double whammy of high prices and weak economic growth. Prices averaged \$1,479 per troy ounce in December, 0.6% higher on-month and 18.3% higher on-year
- Crude oil imports also dipped 0.8% despite a rise in prices. However, the rate of decline was lower (18.2% decline in previous month). Brent crude prices averaged \$65.9 per barrel, 5% higher on-month and 16.6% higher on-year.

Services surplus narrows

- Services export growth picked up to 7.9% on-year in November compared with 5.3% previous month. However, the rise in imports was sharper at 13.5% from 7.6%. Hence, services trade surplus reduced \$310 million on-month and 44 million on-year to \$6.5 billion in November

Trade performance (% , y-o-y)

	Exports	Imports	Oil imports	Non-oil imports	Oil exports	Non-oil exports
December 2019	-1.8	-8.8	-0.8	-11.6	-4.2	-1.4
November 2019	-0.3	-12.7	-18.2	-10.3	-13.1	2.5
December 2018	0.1	0.8	4.2	-0.4	9.4	-1.3
April-December FY20	-2.0	-7.8	-10.2	-6.7	-7.8	-0.7
April-December FY19	10.2	14.8	44.7	6.5	34.4	6.9

Source: Ministry of Commerce and Industry, CEIC, CRISIL Research

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