TRADE

02 December 2021

Export momentum weakens

India's trade deficit widened to a record high of US$ 23.3bn in Nov'21 from US$ 19.7bn, led by a slowdown in exports. Both oil and non-oil exports eased. Imports also moderated, led by gold and oil imports. Even, non-oil-non-gold imports eased marginally. In FYTD22, trade deficit is already above the pre-pandemic level, led by a recovery in domestic economy. However, the discovery of the new variant of Covid-19 lends considerable uncertainty to the outlook. Overall, we expect CAD at 1.5% of GDP in FY22.

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Exports ease: As per preliminary data, India's exports eased to US$ 29.9bn in Nov'21 from US$ 35.7bn in Oct'21, registering 26.5% YoY increase versus 43.1% in Oct'21. This was on account of slowdown in both oil and non-oil exports. Oil exports eased to US$ 3.8bn in Nov'21 from US$ 5.2bn in Oct'21. Within non-oil exports, softening was broad-based with exports of engineering goods (37% versus 50.9%) and chemical products (32.5% versus 41.9%) slowing and contraction seen in exports of pharma products (-7% versus -0.9%) and gems and jewellery (-11% versus +44.2%). However, over a 2-year horizon, exports have remained resilient rising by 15.9% in FYTD22, supported by non-oil exports (18.7%). Oil exports have flattened.

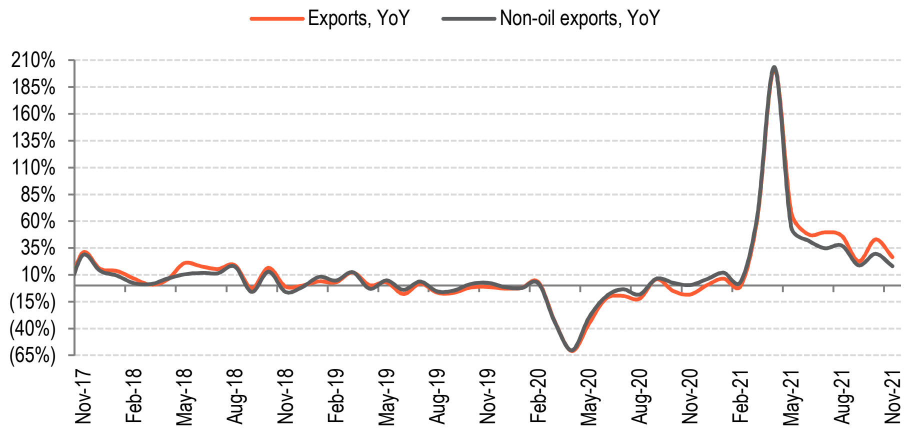
Imports moderate further: Imports slowed down to 57.2% in Nov'21 (US$ 53.2bn) after increasing by 62.5% in Oct'21 (US$ 55.4bn). This was led by a dip in gold imports at 39.7% versus 104.2% in Oct'21. Oil imports too moderated slightly to 132.4% in Nov'21 from 140.5% in Oct'21. Non-oil-non-gold imports also dipped marginally to 39.9% (US$ 34.2bn) versus 40.1% (US$ 35.8bn) in Oct'21. Within this, imports of machinery decelerated the most to 29.3% versus 41.8% in Oct'21. Other items such as chemicals, non-ferrous metals and electronics also noted some deceleration. On the other hand, imports of coal (135.8%) and vegetable oils (78.8%) picked up. In FYTD22, on a 2-year basis imports are up by 18%.

Trade deficit at record-high: India's trade deficit expanded to a fresh record high of US$ 23.3bn from US$ 19.7bn in Oct'21 as export growth lost some momentum. Trade deficit in FYTD22 stands at US$ 119.1bn versus US$ 43.6bn in FYTD21 and US$ 113.4bn in FYTD20. While the recent decline in oil prices is positive for India's external balance, threat of new Covid-19 variant will have a negative impact on global demand and exports. Domestic demand will also take a hit if lockdown restrictions are brought back. Overall, we expect trade deficit at ~US$ 180bn in FY22. Thus, CAD is likely to remain contained at ~1.5% of GDP in FY22. Higher software and remittance receipts should offset the higher trade deficit.

Key highlights

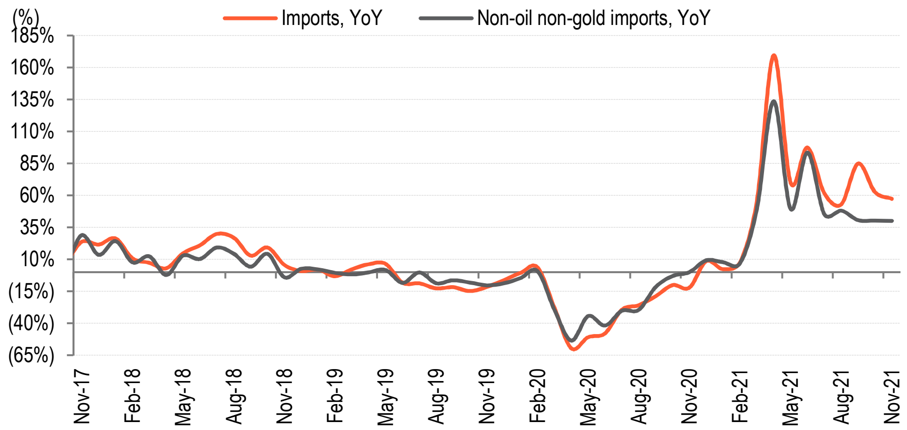
- Exports decelerate to 26.5% in Nov'21 from 43.1% in Oct'21.
- Import growth moderates to 57.2% in Nov'21 from 62.5% in Oct'21.
- Trade deficit expands to a fresh record high of US$ 23.3bn in Nov'21 from US$ 19.7bn in Oct'21.

Fig 1 – Exports growth slows



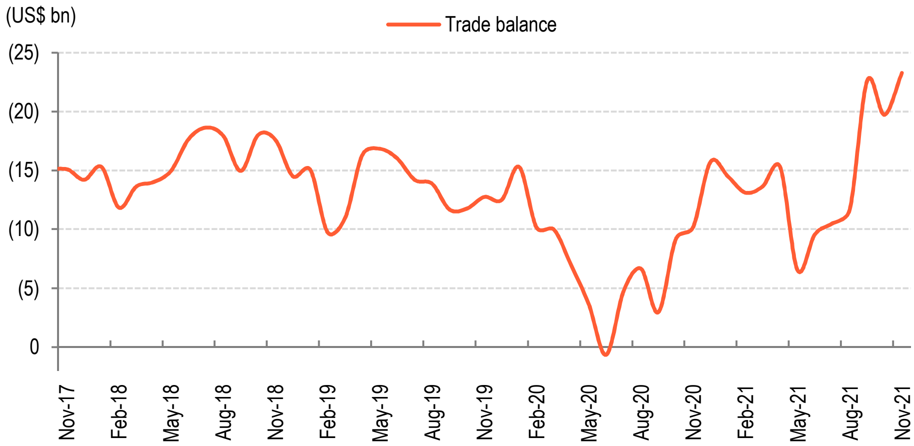
Source: CEIC, Bank of Baroda Research

Fig 2 – Imports too moderate



Source: CEIC, Bank of Baroda Research

Fig 3 – Trade deficit at fresh record-high



Source: CEIC, Bank of Baroda Research

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