TRADE

15 April 2020

Trade contraction shows impact of lockdown

India's trade deficit remained steady at US$ 9.8bn in Mar'20 on a MoM basis. Both exports and imports came off sharply showing the impact of lockdowns. Notably, non-oil-non-gold imports fell steeply by 30.5%, posting the worst decline on record. Exports too fell across categories. Oil exports were lower due to sharp decline in prices. However, lower oil prices also imply that CAD as % of GDP will moderate further in FY21. This bodes well for INR.

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KEY HIGHLIGHTS

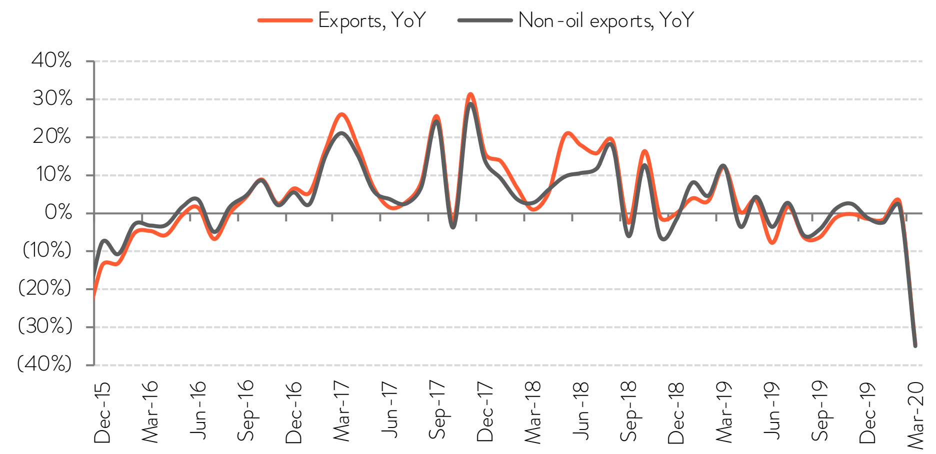
- Exports contract by (-) 34.6% in Mar'20 compared with an increase of 2.9% in Feb'20.
- Import growth also slips to (-) 28.7% in Mar'20 versus an increase of 2.5% in Feb'20.
- Trade deficit remained stable at US$ 9.8bn versus US$ 9.9bn in Feb'20.

Exports nosedive: Exports fell steeply in Mar'20 by 34.6% versus an increase of 2.9% in Feb'20. During FY20 exports have contracted by 4.8% from an increase of 8.7% in FY20. In Mar'20, apart from domestic lockdown, sharp reduction in global demand also contributed to the decline. The sharpest decline was seen in engineering goods at 42.3% followed by gems & jewellery at 41% and chemicals falling by 32.9%. Oil exports too fell by 31.1% versus an increase of 10.1% in Feb'20. With countries across the world, including India, imposing lockdowns, we expect exports to remain muted in the near term due to both demand and supply conditions.

Imports fall steeply as well: Imports too plunged by 28.7% in Mar'20 versus an increase of 2.5% in Feb'20. Oil imports led the fall at 15% compared with an increase of 14.3% in Feb'20 as oil prices crashed by 49.7% in Mar'20 on a YoY basis. After showing a pickup in Jan-Feb'20, non-oil-non-gold imports fell by 30.5% registering the biggest decline on record as the COVID-19 restrictions kicked-in. Within this, imports of pearls and precious stones fell the most at 53.5%, followed by iron and steel at 45.8% and electronics at 29.1%. Capital goods imports too fell by 20% versus an increase of 7.6% in Feb'20.

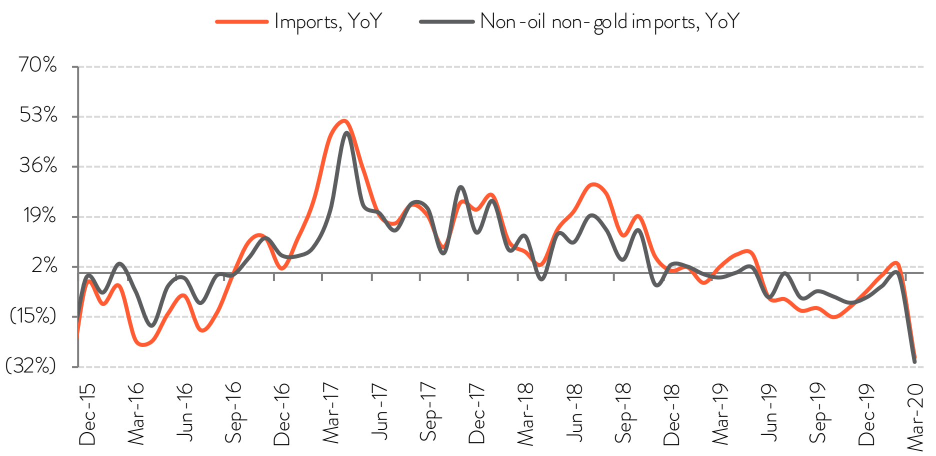
Trade deficit to remain contained: India's trade deficit remained stable at US$ 9.8bn in Mar'20 (US$ 9.9bn in Feb'20) as both exports and imports fell by US$ 6bn MoM. For FY20, trade deficit narrowed to US$ 160bn from US$ 184bn in FY19 led by a drop in both oil deficit (US$ 4bn) and non-oil deficit (US$ 20bn). Exports are expected to remain tepid as global growth is likely to fall by 3% (IMF). Lockdowns in India's major export partners such as EU and US will also impinge on exports. However, range-bound oil prices and weak demand will keep imports in check. Hence, we expect trade deficit to be even lower in FY21. This should ease some pressure on INR.

FIG 1 – EXPORT GROWTH NOSEDIVES



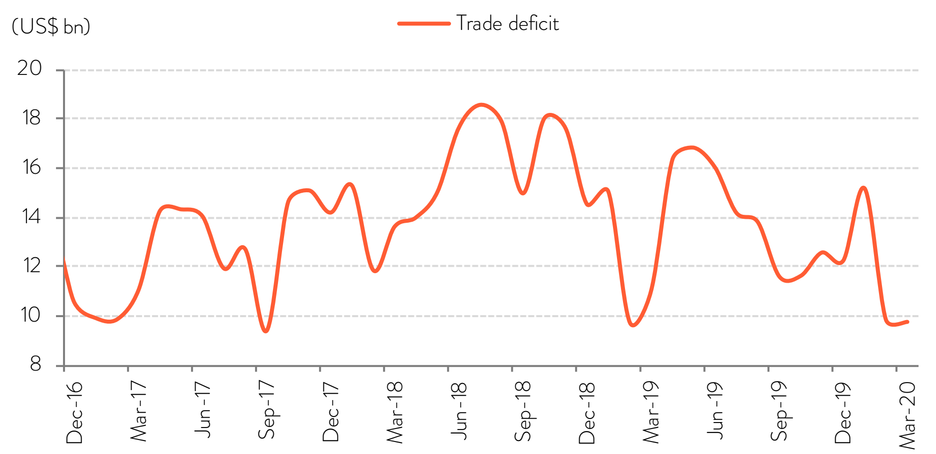
Source: CEIC, Bank of Baroda Research

FIG 2 – SIMILAR TREN VISIBLE IN IMPORTS



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT REMAINS STABLE IN MAR'20



Source: CEIC, Bank of Baroda Research

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