

TRADE

03 December 2020

Trade deficit expands as exports slip

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.

Sameer Narang | Sonal Badhan
Jahnvi

chief.economist@bankofbaroda.com

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).

©2020 Bank of Baroda. All rights reserved

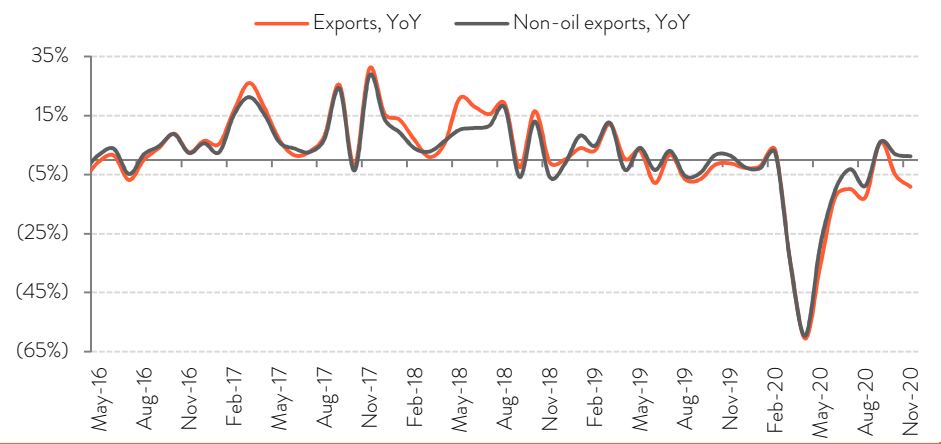
Important disclosures are provided at the end of this report.

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.

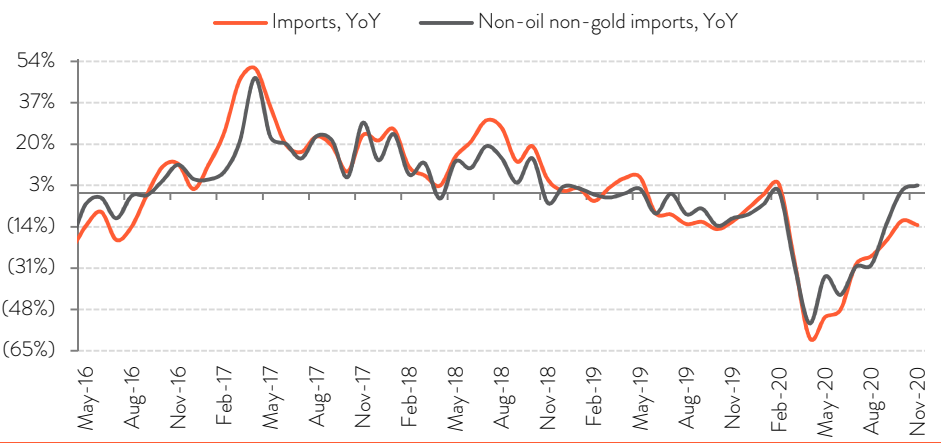


FIG 1 – EXPORTS FALL BY 9.1% IN NOV'20



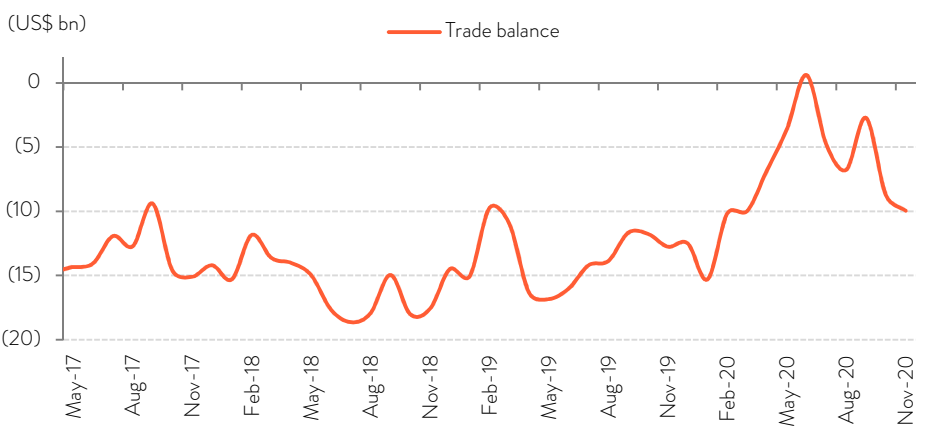
Source: CEIC, Bank of Baroda Research

FIG 2 – IMPORTS MODERATE



Source: CEIC, Bank of Baroda Research

FIG 3 – TRADE DEFICIT EXPANDED IN NOV'20



Source: CEIC, Bank of Baroda Research

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.in



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

chief.economist@bankofbaroda.com