# EXTERNAL TRADE

## Trade deficit narrows largely due to lower imports

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India Equity Research | Economy

**India's trade deficit for September came in at USD14bn, lower than the USD17.5bn average for the last three months. Key takeaways: 1) Non-oil exports growth was flat YoY (versus 13% average for last three months) largely due to a high base. 2) Agriculture exports contracted for the second consecutive month (versus last 12-month average growth of 11%). 3) Labour-intensive sectors (readymade garments and leather, among others) continue to remain sluggish. 4) Crude oil balance reduced on a sequential basis. 5) Non-oil and non-gold imports slowdown led by machinery and electronic goods imports.**

**Going ahead, we expect exports growth to remain lackluster. Apart from a high base, a soft patch in the global economy (global PMIs and world trade volume have weakened in recent months) could outweigh gains from INR depreciation. We expect the trade deficit to remain elevated in ensuing months given high oil prices and likely moderation in exports.**

### Trade deficit slows sequentially

The trade deficit for September, at USD14bn, is much below our expectation and much lower than the last three months' average of USD17.5bn. The deficit is at a five-month low and the moderation is largely attributable to lower oil and gold balance.

### Non-oil exports slow due to high base

September exports contracted 2% YoY with non-oil exports remaining flat YoY (last three months' average of 13%). The moderation in non-oil export growth is largely attributable to the high base owing to change in GST regulations. Among sub-components, agriculture exports contracted for the second consecutive month (despite no base effect). This could be due to greater currency depreciation for India's agriculture peers than the INR and perhaps imposition of countervailing duties by some countries against India's. Apart from this, labour-intensive segments (readymade garments, leather products, etc.) continue to remain sluggish and are a cause for concern.

### Non-oil and gold imports slow down

Total imports slowed to 10% YoY (17% YoY average for the last three months). The slowdown is largely due to lower oil imports despite an increase in oil prices. This may be due to the bunching-up effect and may increase ahead. Besides, the slowdown in non-oil and gold imports pertains largely to machinery and electronic goods.

### Global headwinds on the rise

In recent months, global activity indicators such as global PMI and world trade volumes have moderated. While the INR has depreciated, we do not think it can outweigh the negative headwinds from global trade. As a result, we expect the trade balance to remain elevated, especially given the rise in crude oil prices.

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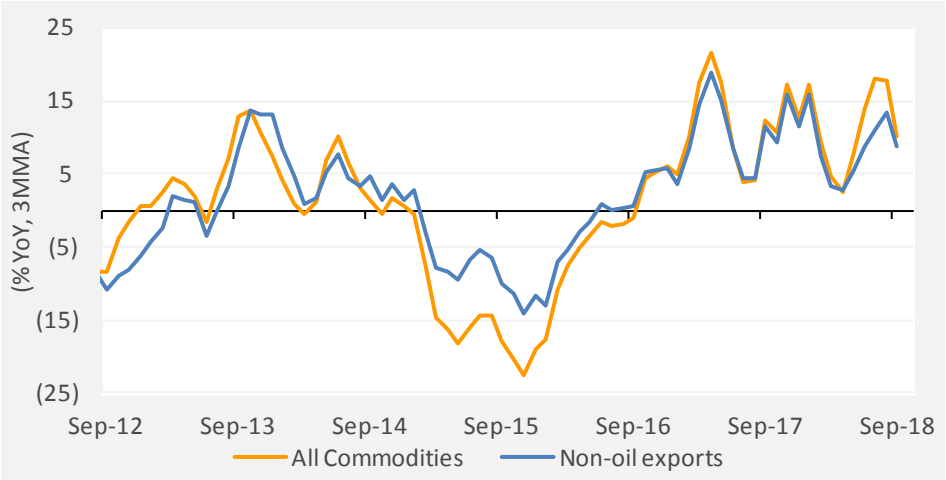
**Table 1: India's merchandise trade**

| (USD bn) | Sep-18 | Aug-18 | Jul-18 | Jun-18 | Apr-Sept FY19 | Apr-Sept FY18 |
|---|---|---|---|---|---|---|
| Imports | 41.9 | 45.2 | 43.8 | 44.3 | 258.3 | 222.4 |
| Oil imports | 10.9 | 11.8 | 12.3 | 12.7 | 69.8 | 46.5 |
| Gold imports | 2.6 | 3.6 | 3.0 | 2.4 | 17.6 | 17.0 |
| Non oil and gold imports | 28.4 | 29.8 | 28.5 | 29.2 | 170.9 | 159.0 |
| Exports | 28.0 | 27.8 | 25.9 | 27.1 | 163.3 | 145.7 |
| Trade balance | (14.0) | (17.4) | (17.9) | (17.1) | (95.1) | (76.7) |

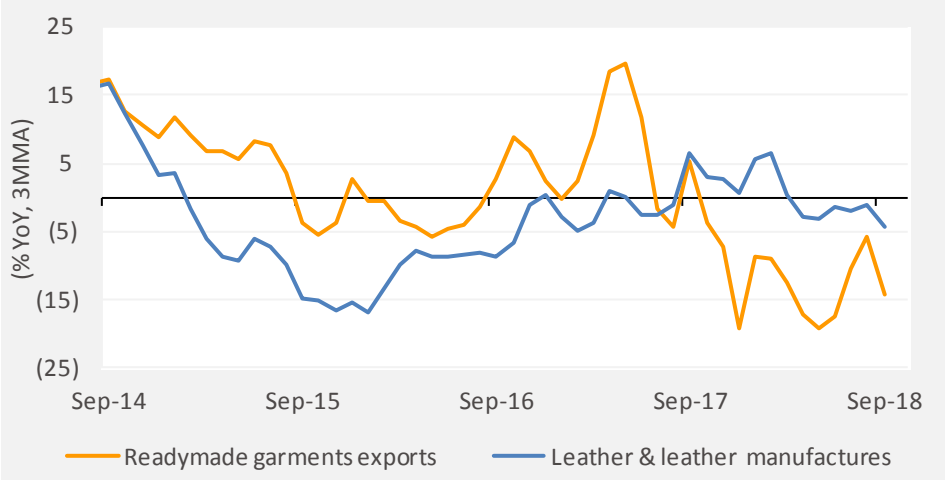
*Source: Ministry of Commerce, Edelweiss research*

**Chart 1: Export growth remains subdued**



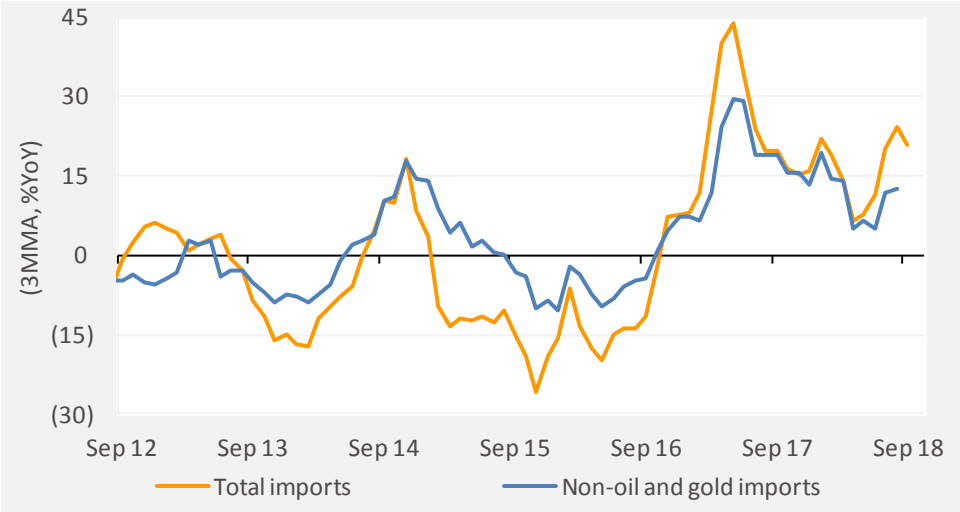

*Source: CMIE, Ministry of Commerce, Edelweiss research*

**Chart 2: Labour-intensive exports remain sluggish**




*Source: CMIE, Ministry of Commerce, Edelweiss research*

**Chart 3: Total imports growth slows on trend basis**




*Source: CMIE, Ministry of Commerce, Edelweiss research*

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