Lockdown continues to hurt imports; exports witness a modest recovery

India's merchandise trade continued to face the consequences of an extensive and stringent lockdown for the third month in a row in May, even as a sharp contraction in trade deficit to more than 11-year lows of US$3.1bn would future reduce India's external vulnerability. Following a 60% drop in the previous month, India's export bill fell by 36.5% YoY in May, largely led by petroleum products and labour-intensive sectors such as textiles and gems & jewellery all of which saw a 60%+ YoY fall in exports. Excluding these, the YoY decline in exports was much lower at 20%, reflecting easing global restrictions and gradual resumption of business activities. Export of essential categories (agri commodities, pharma and other chemicals), however, was relatively less impacted. Imports on the other hand contracted by a much sharper 51.1% YoY as restrictions were only partially and selectively lifted in May in the wake of a surge in COVID-19 cases back home. Oil imports led the sharp drop, reflecting lower crude oil prices and a significant deterioration in demand, followed by negligible gold imports for yet another month. Excluding oil and gold, imports fell by a relatively lower 33.7%.

Merchandise trade performance is expected to improve meaningfully in June amid further loosening of lockdown restrictions in large parts of the country. That said, exports are likely to fare better than imports as an aggressive policy response globally should help revive global demand faster. Moreover, a relatively more stringent and prolonged lockdown in India and its second-order impact in the form of job losses and decline in disposable incomes may keep discretionary demand weak for an extended period. This is expected to result in a significant contraction in trade deficit, notwithstanding lower crude oil prices, and a current account surplus in FY21. Additionally, a surge in foreign exchange reserves to all-time high levels (US$502bn as of June 5th, +US$44bn YTD) bodes well for the INR.

- Exports fell by 36% YoY in May**…:** After registering a 60% YoY drop in April when the lockdown was effective pan-India for the entire month, India's export bill fell by a relatively lower 36.5% YoY in May. The decline was particularly prononuced in petroleum products (-68.5% YoY), reflecting lower crude oil prices, and labour-intensive sectors such as gems & jewellery (-68.8% YoY), readymade textiles (-66.2% YoY) and leather & leather products (-75.1% YoY) as limited labour availability and social distancing norms kept production levels low, despite partial and selective lifting of lockdown restrictions during the month. Excluding these, the YoY decline in exports was much lower at 20%, reflecting easing global restrictions and gradual resumption of business activities. While exports of engineering goods fell by a much lower 24% YoY, essential categories, viz. agricultural commodities (rice, spices), ores, chemicals and pharmaceuticals fared much better.

Exports fell by 36% YoY in May, much lower than 60% drop in the previous month.

- **…While imports fell by** a much higher 51% YoY**…**: Unlike exports, imports registered a lacklustre performance for the second in a row, with the overall bill falling by 51.1% YoY in May, following a 60% drop in the previous month. Oil imports declined by a huge 72% YoY, reflecting a sharp drop in crude oil prices and weak domestic demand, leading to oil trade deficit contracting to more than 15-year lows. Gold imports also remained almost negligible for the second month in a row. Excluding gold and oil, imports fell by a lower 33.7% YoY in May. Like the trend seen in exports, imports of essential items including medicinal & pharmaceutical products, and other chemicals were relatively less impacted.

Imports fell by a much higher 51% YoY in May; excluding oil and gold, the YoY decline in imports was lower at 34%.

- **…**resulting in trade deficit contracting to more than 11-year lows: A sharper contraction in imports as compared to exports, thanks to relatively faster reopening of global economies as compared to India, resulted in trade deficit contracting to US$3.1bn—the lowest in more than 11 years.

Trade deficit contracted to more than 11-year lows of US$3.1bn in May.

- Expect current account surplus in FY21: Exports are expected to fare better than imports in FY21, benefiting from an aggressive global policy response and relatively lenient lockdown restrictions. India, on the other hand, has seen one of the most stringent and extended lockdowns which not only brought the economic activity to a stand still for a couple of months, but has significantly deteriorated consumption as well as investment demand. In fact, discretionary demand is expected to remain weak in India for an extended period in the wake of falling disposable incomes and changing consumer behaviour. This, along with lower crude oil prices, should result in a significant contraction in trade deficit in FY21, translating into a current account surplus vs. an expected current account deficit of 1% of GDP in FY20. Moreover, a surge in foreign exchange reserves to all-time high levels (US$502bn as of June 5th, +US$44bn YTD) bodes well for the INR.

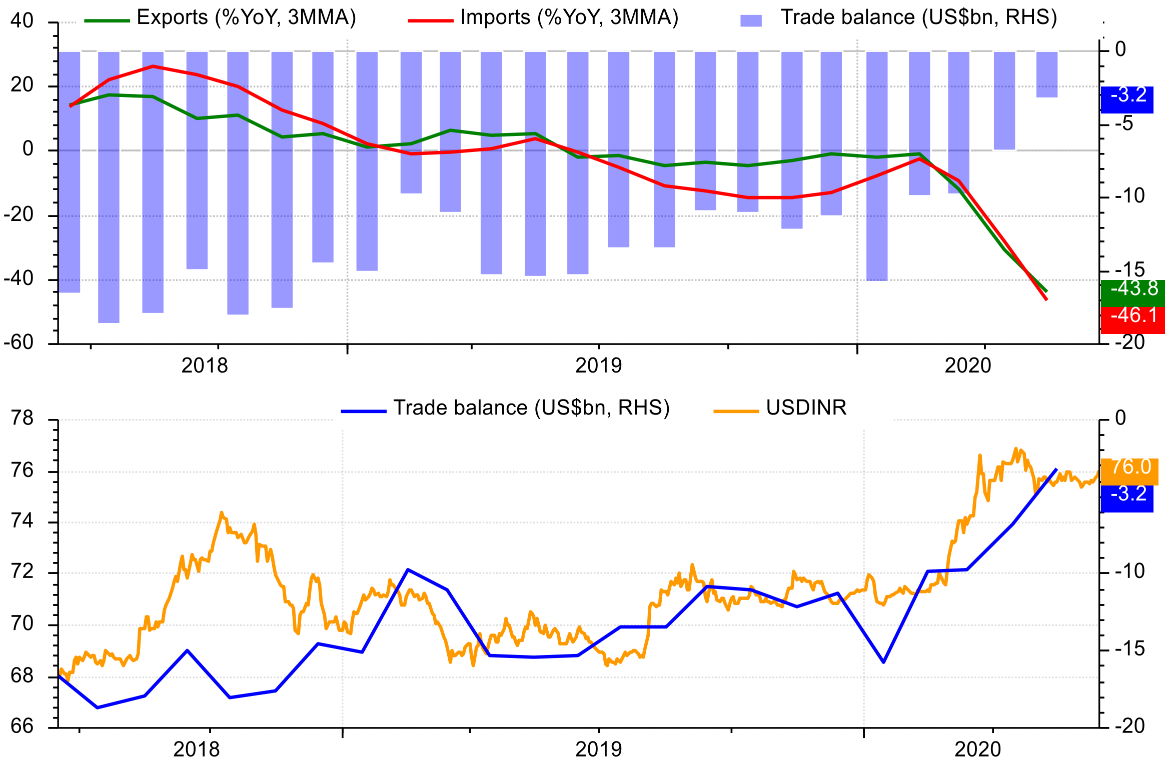
A significant deterioration in trade deficit is likely to translate into a current account surplus in FY21 vs. an expected current account deficit of 1% of GDP in FY20.

Figure 1: India monthly trade balance for May 2020

	Exports		Imports								Trade balance
	US$bn	%YoY	Total (US$ bn)	%YoY	Oil imports (US$bn)	%YoY	Non-oil imports (US$bn)	%YoY	Gold Import (US$bn)	%YoY	US$bn
May-20	19.1	-36.5	22.2	-51.1	3.5	-72.0	18.7	-43.1	0.1	-98.4	-3.1
Apr-20	10.4	-60.2	17.1	-59.6	4.7	-59.7	12.5	-59.6	0.0	-99.9	-6.8
May-21	30.0	3.6	45.4	3.3	12.4	7.5	32.9	1.8	4.8	37.4	-15.4
FY21TD	29.4	-47.5	39.3	-55.2	8.1	-66.1	31.2	-51.1	0.1	-99.1	-9.9

Source: Ministry of Commerce, CMIE Economic Outlook, NSE

Figure 2: India monthly trade balance trend



Source: Refinitiv Datastream, NSE

Figure 3: Non-oil, non-gold imports trend

Non-oil non-gold imports remained weak for yet another month, falling by 34% YoY in May

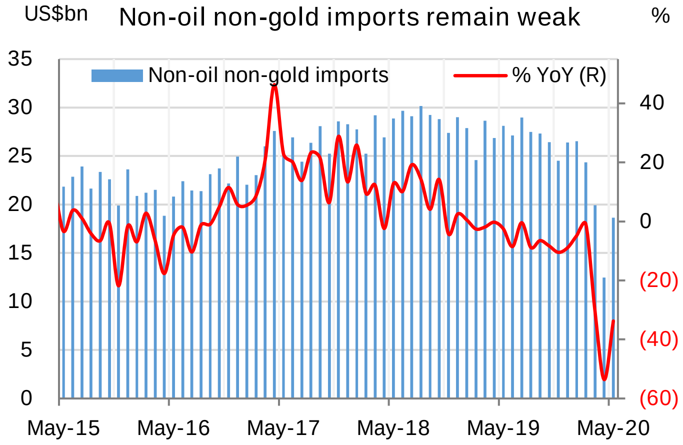
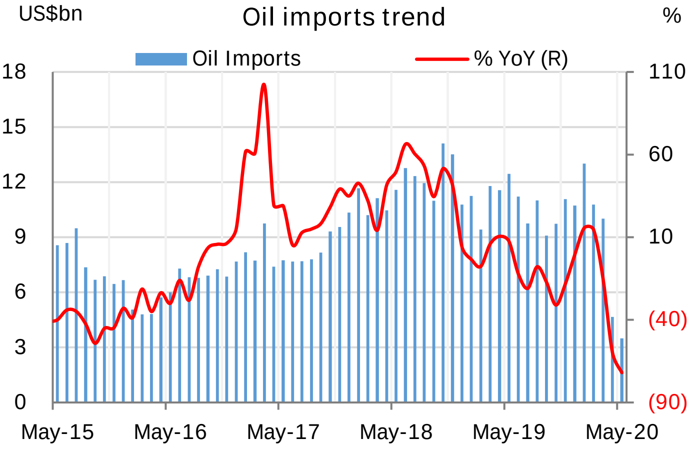


Figure 4: Oil imports trend

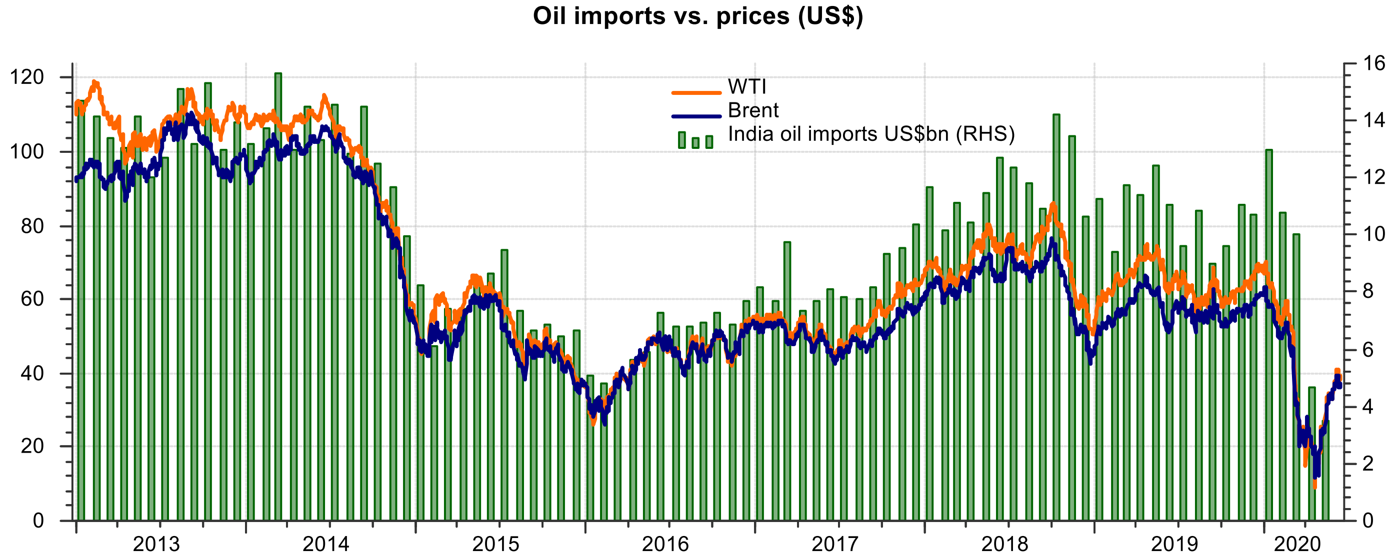
Oil imports fell by a much sharper 72% YoY in May, reflecting lower crude oil prices and weak demand.



Source: Ministry of Commerce, CMIE Economic Outlook, NSE

Figure 5: Oil imports vs. Brent crude oil prices trend

An increase in crude oil prices over the last few weeks, coupled with continued lifting of mobility restrictions, should translate into a pick-up in oil imports over the coming months

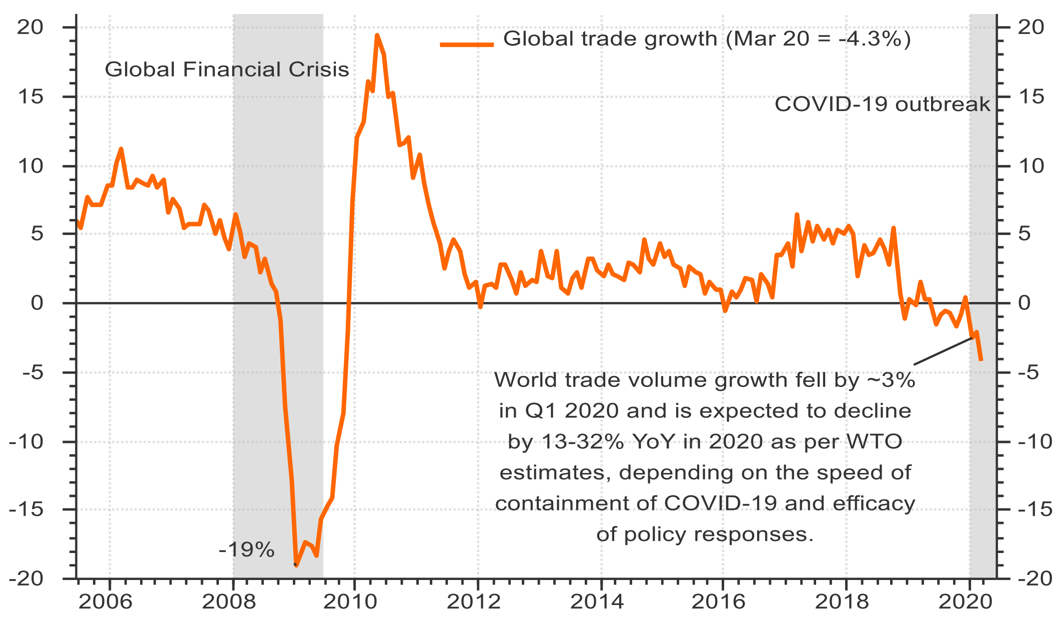


Source: Refinitiv Datastream, NSE

Figure 6: Global trade projected to fall sharply in 2020

World trade volume growth which was already on a declining trend over the last 12-15 months, thanks to the trade war, has worsened further owing to the economic and social disruptions caused by the COVID-19 outbreak. World trade volume fell by 4.3% in March (as per the latest data released by CPB Netherlands Bureau for Economic Policy Analysis) and is expected to contract by 13 to 32% in FY21 as per the World Trade Organisation. The UNCTAD (United Nations Conference on Trade and Development), in its recent report, projected global trade to fall by 27% in Q2 2020 and 20% in 2020 as a whole.

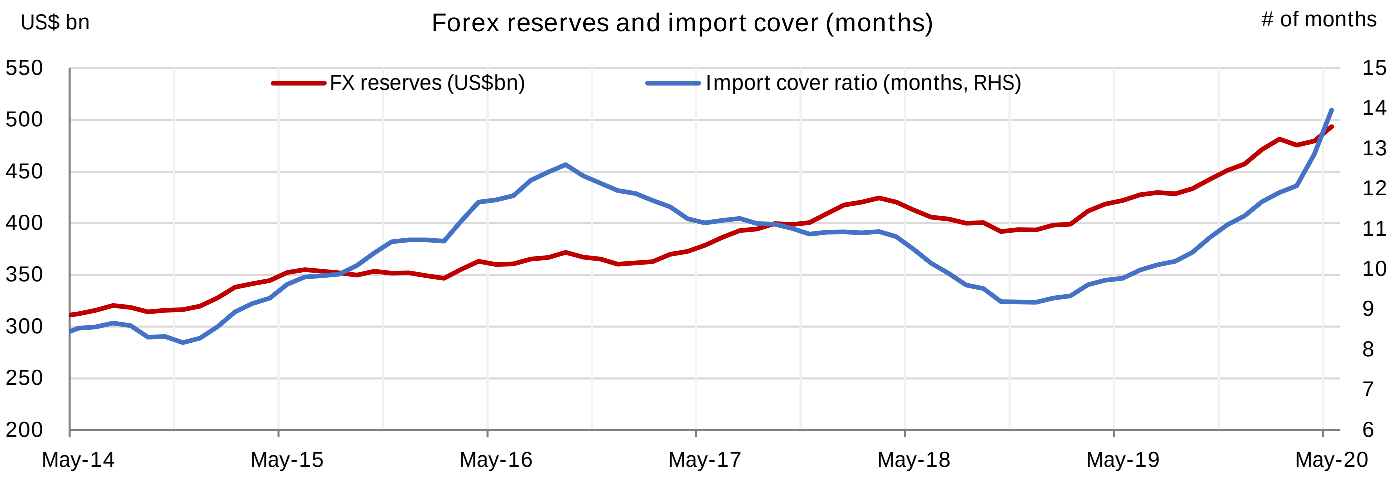
Global trade growth (%YoY)



Source: Refinitiv Datasream, NSE.

Figure 7: Global trade projected to fall sharply in 2020

On the positive side, a significant accretion to forex reserves over the years, and particularly this year (+US$44bn in 2020 till date), has resulted in a significant improvement in import cover, further supported by moderation in domestic demand. After falling to eight months in 2014, India's import cover has improved sharply to 14 months now, thereby reducing India's external vulnerability.



Source: CMIE Economic Outlook, NSE. Import cover is calculated as the ratio of forex reserves at the end of the period to average monthly imports over the last 12 months

Economic Policy & Research

Tirthankar Patnaik, PhD	tpatnaik@nse.co.in	+91-22-26598149
Prerna Singhvi, CFA	psinghvi@nse.co.in	+91-22-26598316
Ashiana Salian	asalian@nse.co.in	+91-22-26598163
Runu Bhakta, PhD	rbhakta@nse.co.in	+91-22-26598163