

INDIA WITNESSES MERCHANDISE TRADE SURPLUS IN JUNE

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India recorded a merchandise trade surplus of \$0.79 billion in Jun'20. Past data shows that this is the first time since Jan'02 (\$10 million) that India has recorded a merchandise trade surplus. However, this surplus is not because the exports have drastically picked up. Exports in Jun'20 were \$21.91 billion, exhibiting a negative growth of (-)12.41%. The major factor is the decline in merchandise imports, which were \$21.11 billion, 47.59% lower over imports in Jun'19.

The highest exports were in the engineering goods category, which has made a recovery from \$2.4 billion in Apr'20 to \$6.1 billion in Jun'20. Although the y-o-y growth is still a negative (-)7.5%, the gains are substantial, given the constraints imposed due to COVID-19. Drugs and Pharmaceuticals exports had been going strong despite the lockdown. They have become the second highly exported commodity for Jun'20. Organic and inorganic chemicals exports have also improved and they have come to the pre-COVID levels. Owing to the petroleum price decline and overall low demand, the petroleum product exports are still exhibiting double digit negative growth. The sector which has made big improvement is the gems and jewellery sector, whose April exports were a mere \$36 million and which are now at \$1.6 billion. Readymade garments sector has also shown some pickup, when we compare it to the April level. So have electronic goods. Overall, exports have done considerably well given the constraints, though it could be a reflection of previous export contracts that was stranded. Agri and allied exports have provided support in the period of lockdown and are still doing well.

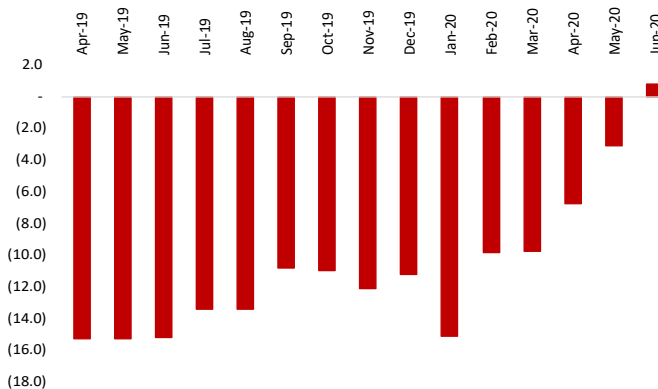
With oil prices declining the value of crude oil imports has come down substantially. Compared to \$11.0 billion in Jun'19, Crude oil imports were just \$4.9 billion in Jun'20, thus providing significant respite in the import bill. Another major area of import, Gold, has not achieved the levels seen previously. Gold imports were just \$3 million in Apr'20 and have slowly climbed to \$0.6 billion in Jun'20 (y-o-y growth: -77.42%). Pearls, precious & semi-precious stones imports have also not recovered fully. Overall, Non-Oil and Non-Gold imports were \$15.57 billion in Jun'20, recording a negative growth of (-) 41.37%. However, some traction is visible in electronic goods imports, which were \$3.1 billion in Jun'20 (y-o-y growth: -34.1%) as compared to \$1.6 billion in Apr'20, indicating imports from China have not contracted at least in this segment. Worryingly, machinery and transport equipment imports have not picked up substantially. Chemical imports have also been impacted, but the extent of decline is less as compared to other segments.

The export recovery portends well for the economy, although to reach the previous levels of exports it will take some time, as discretionary spend will increase only gradually. Decline in machinery and metal imports shows that industry is still very skeptical and rightfully so. However, this also does not augur well for the economy. Comparatively lower oil prices will keep providing support to the trade balance and we still maintain that India can witness a current account surplus this fiscal. With significant accretion of forex reserves (\$513.25 billion) and a high import cover, Rupee can see further appreciation.

MERCHANDISE TRADE SURPLUS FOR JUN'20

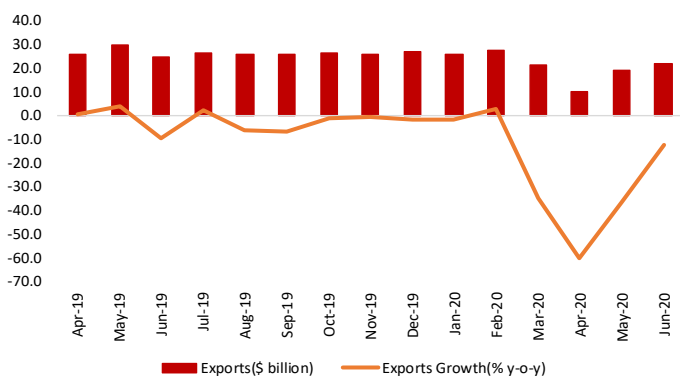
- ◆ India recorded a merchandise trade surplus of \$0.79 billion in Jun'20. Past data shows that this is the first time since Jan'02 (\$10 million) that India has recorded a merchandise trade surplus.
- ◆ However, this surplus is not because the exports have drastically picked up. Exports in Jun'20 were \$21.91 billion, as compared to \$25.01 billion in Jun'19, exhibiting a negative growth of (-)12.41%. Given the COVID situation, this is not bad. But the major factor is the decline in merchandise imports. Imports in Jun'20 were \$21.11 billion, which was 47.59% lower over imports of \$40.29 billion in Jun'19.
- ◆ Cumulative value of exports for Q1 FY21 was \$51.32 billion as against \$81.08 billion during the period Q1 FY20, registering a negative growth of (-) 36.71%.
- ◆ Cumulative value of imports for Q1 FY21 was \$60.44 billion as against \$127.04 billion during the period Q1 FY20, registering a negative growth of (-) 52%.
- ◆ Thus overall trade deficit is for Q1 FY21 is \$9.13 billion, indicating India can witness current account surplus in Q1 FY21.

India's Merchandise Trade Balance(\$ billion)



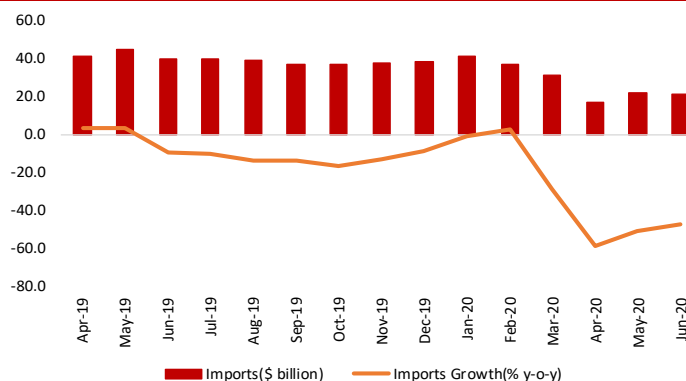
Source: SBI Research

India's Merchandise Exports



Source: SBI Research

India's Merchandise Imports



Source: SBI Research

EXPORTS COMPOSITION

- The highest exports were in the engineering goods category, which has made a recovery from \$2.4 billion in Apr'20 to \$6.1 billion in Jun'20. Although the y-o-y growth is still a negative -7.5%, the gains are substantial, given the constraints imposed due to COVID-19. Drugs and Pharmaceuticals exports had been going strong despite the lockdown. They have become the second highly exported commodity for the month of June, with India exporting \$2.1 billion worth of products (y-o-y growth: 9.9%). Organic and inorganic chemicals exports have also improved and they have come to the pre-COVID levels. Owing to the petroleum price decline and overall low demand, the petroleum product exports are still exhibiting double digit negative growth. The sector which has made big improvement is the gems and jewellery sector, whose April exports were a mere \$36 million and which are now at \$1.6 billion. Readymade garments sector has also shown some pickup, when we compare it to the April level. So have electronic goods. Overall, exports have done considerably well given the constraints. Agri exports like rice, spices, cereals have provided support in the period of lockdown and are still doing well.

Top 10 Exports-Jun'20 (\$ billion)						
Sr No	Product	Jun-19	Mar-20	Apr-20	May-20	Jun-20
1	Engineering Goods	6.6	5.4	2.4	5.7	6.1
2	Drugs & Pharmaceuticals	1.8	1.5	1.5	2.0	2.0
3	Organic & Inorganic Chemicals	1.6	1.6	1.2	1.8	2.0
4	Petroleum Products	2.7	2.5	1.2	1.6	1.9
5	Gems & Jewellery	3.1	2.0	0.0	1.1	1.6
6	RMG of all Textiles	1.2	1.1	0.1	0.5	0.8
7	Cotton Yarn/Fabrics/made-ups, Handloom Products etc.	0.8	0.7	0.1	0.5	0.8
8	Electronic Goods	0.9	0.7	0.2	0.5	0.7
9	Rice	0.5	0.7	0.5	0.7	0.7
10	Plastic & Linoleum	0.7	0.5	0.5	0.7	0.6

Source: SBI Research

Export Growth Rate in aggregated sectors

Product	Mar-20		Apr-20		May-20		Jun-20		Value (\$ billion)
	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	
Engineering and Electronic Goods	-40	-27	-65	-58	-27	140	-9	10	6.8
Chemicals and Pharma	-28	-17	-24	-12	1	39	14	5	4.0
Agri and allied products	-29	-6	-36	-34	-12	41	8	13	2.5
Textiles	-32	-22	-88	-85	-60	255	-23	60	2.0
Petroleum Products	-31	-27	-66	-50	-68	31	-32	15	1.9
Gems & Jewellery	-41	-33	-99	-98	-69	2849	-50	47	1.6
Miscellaneous manufacturing (Leather, ceramics, plastics, etc.)	-32	-23	-54	-43	-31	78	-17	11	1.1
Minerals and ores	-11	9	-28	-37	19	96	25	-3	0.7

Source: SBI Research

IMPORTS COMPOSITION

- In our import basket, crude has the highest % share. With oil prices declining the value of crude oil imports has come down substantially. Compared to \$11.0 billion in Jun'19, Crude oil imports were just \$4.9 billion in Jun'20, thus providing significant respite in the import bill. Another major area of import, Gold, has not achieved the levels seen previously. Gold imports were just \$3 million in Apr'20 and have slowly climbed to \$0.6 billion in Jun'20(y-o-y growth: -77.42%). Pearls, precious & semi-precious stones imports have also not recovered fully. Overall, Non-Oil and Non-Gold imports were \$15.57 billion in Jun'20, recording a negative growth of (-) 41.37%, as compared to Non-Oil and Non-Gold imports of \$26.57 billion in Jun'19. However, some traction is visible in electronic goods imports, which were \$3.1 billion in Jun'20 (y-o-y growth: -34.1%) as compared to \$1.6 billion in Apr'20. Machinery and transport equipment imports have not picked up substantially. Chemical imports have also been impacted, but the extent of decline is less as compared to other segments.

Top 10 Imports-Jun'20 (\$ billion)						
Sr No	Product	Jun-19	Mar-20	Apr-20	May-20	Jun-20
1	Petroleum, Crude & products	11.0	10.0	4.7	3.5	4.9
2	Electronic goods	4.8	3.3	1.6	2.9	3.2
3	Machinery, electrical & non-electrical	3.0	2.2	1.4	2.2	1.7
4	Organic & Inorganic Chemicals	1.9	1.4	1.3	1.4	1.3
5	Coal, Coke & Briquettes, etc.	2.1	1.6	1.2	1.3	0.9
6	Vegetable Oil	0.7	0.7	0.6	0.6	0.7
7	Pearls, precious & Semi-precious stones	2.1	1.4	0.0	0.4	0.6
8	Iron & Steel	1.4	0.9	0.7	1.2	0.6
9	Fertilisers, Crude & manufactured	0.8	0.2	0.3	0.6	0.6
10	Artificial resins, plastic materials, etc.	1.3	0.9	0.7	1.0	0.6

Source: SBI Research

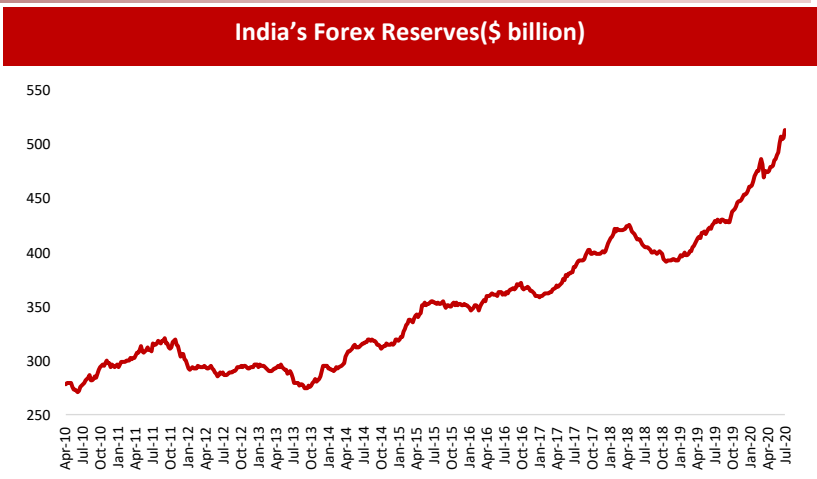
Import Growth Rate in aggregated sectors

Product	Mar-20		Apr-20		May-20		Jun-20		Value (\$ billion)
	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	Y-o-Y Growth Rate(%)	M-o-M Growth Rate(%)	
Crude, metals and minerals	-21	-10	-57	-47	-60	2	-54	0	7.4
Capital and Consumer Goods (Electrical & Mechanical Goods, Transport Equip. etc)	-24	-12	-58	-53	-37	67	-37	-8	6.1
Chemicals(fertilizers, pharma, dyeing etc.)	-32	-15	-30	2	-24	26	-23	-8	3.2
Gems and jewellery and precious metals	-57	-44	-98	-96	-88	630	-74	74	1.4
Others(wood, textiles, food products, etc.)	-32	-25	-31	-10	-28	16	-31	-15	1.3
Artificial resins, plastic materials, etc.	-29	-19	-43	-21	-31	31	-52	-36	0.6

Source: SBI Research

WAY FORWARD

- ◆ The export recovery portends well for the economy, although to reach the previous levels of exports it will take some time, as discretionary spend will increase only gradually. Decline in machinery and metal imports shows that industry is still sceptical and rightfully so. This also does not augur well for the economy. Comparatively lower oil prices will keep providing support to the trade balance and we still maintain that India can witness a current account surplus this fiscal.
- ◆ With significant accretion of forex reserves (\$513.25 billion) and a high import cover, Rupee can see further appreciation.



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