Economics

India: Merchandise trade deficit remains elevated

India

Gunjan Gulati[AC]
(91-22) 6639 3125
gunjan.x.gulati@jpmorgan.com

J.P. Morgan India Private Limited

- India's merchandise trade deficit remained elevated in September, though slightly improving to US$10.6 billion from an all-time high of US$13.9 billion in the prior month. The deficit improved on relatively lower import payments. The total export earnings also moderated to US$13.7 billion to be up a 10.4%oya. As per the latest release from the ministry of commerce the total trade gap in the first half of the current fiscal year (year that started April) thus widened to a high of US$59.8 billion against a deficit of US$39.1 billion in the corresponding period last year.

- Total import bill gained 43.3%oya to US$24.4 billion in September, improving from US$29.9 billion in the prior month. Impact of correction in the global crude oil prices along with the likely impact of slower economic activity moderated the total imports. Indeed, total oil-import bill improved to US$9.1 billion (57.1%oya) as compared to US$11.0 billion (76.7%) in August. The volume data for September trade is not yet available; however, the oil imports maintained the healthy pace driven by refining units operating at higher capacity utilization levels and ramping-up new capacity plans.

- On the other hand, the non-oil imports grew 36.2%oya against an average growth of 28.4% in the first-five months of the current fiscal year. The commodity-wise details for April-May suggest that imports of machinery (12.8%oya), electronic goods (7.3%) and gold and silver (7.7%) were the key drivers of the strength in non-oil imports.

- The weakness in export performance is noteworthy and could likely signal the impact of weaker global economic activity. The commodity-wise details are awaited to derive a meaningful inference.

- The sharp correction in commodity prices—especially in crude oil—will likely benefit the merchandise trade gap; however, the likely rebalancing of growth (especially a recessionary situation in the US) is likely to result in decidedly lower spending by both households and business, lowering imports into those economies. This is likely to pose challenge for the domestic exporters. Thus, on our balance of payments forecasts, we expect the merchandise trade deficit to worsen to US$115.9 billion (9.8% of GDP) this fiscal year as compared to a deficit of 90.1 billion (7.6%) in the last fiscal year.

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Figure 1: Merchandise trade balance

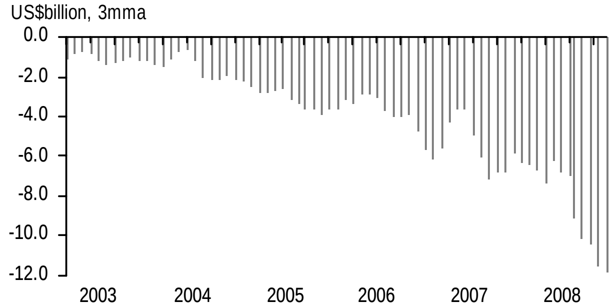

Figure 2: Merchandise trade

Table 1: India—September trade performance

		%oya	%oya
US$ terms	Sep-07	Sep-08	Apr-Sep FY08
Exports	16.1	10.4	30.9
Imports	1.1	43.3	38.6
Oil	13.8	57.1	55.1
Non-oil	-4.4	36.2	99.7
Trade balance (US$ bn)	-4.6	-10.6	-59.8

Source: Ministry of Commerce and Industry

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Gunjan Gulati
(91-22) 6639 3125
gunjan.x.gulati@jpmorgan.com