Exports barely rise in August, trade deficit remains elevated

FE BUREAU
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MERCHANDISE EXPORTS INCHED up marginally in August from a year before, reflecting a demand slowdown in key western markets, but a sustained surge in imports kept trade deficit at an elevated level.

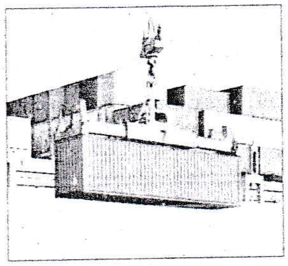
According to the provisional data released by the commerce ministry on Wednesday, exports rose 1.6% from a year earlier to $33.9 billion, while imports jumped 37.3% to $61.9 billion. Consequently, trade deficit in August hit $28 billion, the second-highest on record and close to the monthly peak of $30 billion in July.

Interestingly, following a cut in the windfall tax, petroleum product exports rose almost 23% to $5.7 billion, against a 9% rise in the previous month. This somewhat propped up overall exports in August.

Meanwhile, high trade deficit will continue to pressure the current account deficit (CAD), already expected to have hit a nine-year high in the first quarter. Official sources, however, stressed the government has adequate heft to finance the CAD.

Importantly, with global commodity prices moderating, export value will remain under pressure in the coming months. This will add to the woes of a demand slowdown in the US, EU, China and the UK. However, domestic exporters are pinning hopes on the diversion of a portion of western orders away from China, whose ability to ship out is somewhat undermined by the fresh Covid outbreak there.

Although imports still remain elevated, the pace of growth is slowing—from 43.6% in July to 37.3% in August. It suggests pent-up domestic demand, responsible for a spurt in purchases in the aftermath of the Omicron onslaught, is probably losing steam, some analysts said. However, some others suggest domestic manufacturers are probably selling their products in the local markets more aggressively, weighing down the growth on external trade.



FEARS OF DEMAND SLOWDOWN

$28 billion Trade deficit in August, the second-highest on record and close to the monthly peak of $30 billion in July

37.3% Jump in imports in August, to touch $61.9 billion

The data showed exports in the first five months of this fiscal hit $193.5 billion, up almost 18% from a year earlier. Imports, however, jumped about 46% to $318 billion, leading to a record trade deficit of $131.5 billion. Earlier this month, commerce secretary BVR Subrahmanyam exuded confidence that exports would pick up going ahead. The optimism stems from the fact that India's recent trade deals with the UAE and Australia will start bearing fruit soon, and that there could be a partial diversification of western orders away from Covid-hit China. The secretary said exports of both goods and services will exceed $750 billion in FY23 from a record $676 billion in FY22.

Fresh challenges in the global supply chains, the restrictions on wheat and wheat export supplies, higher duties on despatches of certain steel products and iron ore will continue to drag down export growth. For instance, iron ore exports crashed by 91% to just $13.4 million.

Goods imports, meanwhile, continued to be driven by a massive 87% year-on-year jump in purchases of crude oil & petroleum products to $17.7 billion and 134% spurt in coal to $4.5 billion. A spurt in prices of crude oil and coal just served to inflate the import bill of a net commodity importer like India. Electronics imports, too, rose 23% to $7.3 billion in August, and purchases of machinery and organic and inorganic chemicals jumped 33% and 43%, respectively, to $3.9 billion and $3 billion.