Festival gold rush widens trade deficit to new high

Exports in Oct grew at fastest pace in 11 months, imports in 13 months; gold imports up 95.4%

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New Delhi, 15 November

India's merchandise trade deficit surged to a record $31.5 billion in October as festival demand led to a sharp increase in imports of gold and silver, even as exports registered positive growth, aided by a favourable base.

According to data released by the commerce department on Wednesday, merchandise exports grew at the fastest pace (6.2 per cent) in 11 months to $33.6 billion in October. Imports rose at the fastest pace (12.3 per cent) in 13 months to $65.03 billion. Gold imports rose by 95.4 per cent to $7.2 billion and silver imports increased by 124.6 per cent to $1.3 billion during the month.

Commerce Secretary Sunil Barthwal said the government believed that the October data was a signal towards the "stabilising" of green shoots.

"The greenshoots that we have talked about during the August data are now stabilising (and) we are hopeful that we will be crossing last year's high figures," Barthwal said.

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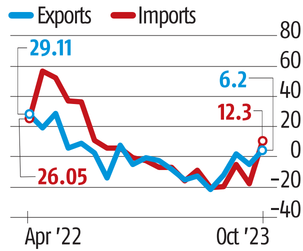
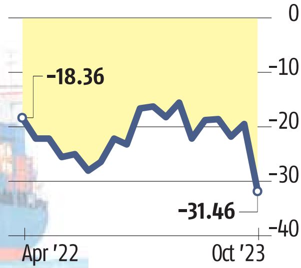
TRADE GROWTH TRAJECTORY Growth (% Y-o-Y)



Trade balance Value ($ bn)



Source: Ministry of Commerce & Industry

NO DEADLINE FOR UK-INDIA FTA, SAYS COMMERCE SECRETARY P3

commodity prices," write analysts at Motilal Oswal.

Any decline in operating-profit margins from current levels could weigh on corporate profits if revenue growth remains in slow lane as seen in the last two quarters.

Among major sectors, BFSI companies grew the fastest in Q2FY24 with 20.9 per cent Y-o-Y growth in revenues, driven by a strong double-digit increase in gross interest income and fee incomes. They were followed by automobile and auto ancillaries companies, which reported 19.1 per cent Y-o-Y growth in net sales, thanks to higher sales volumes and a rise in average selling price per vehicle. In contrast, the combined net sales of oil & gas companies were down 8.9 per cent on a Y-o-Y basis in Q2FY24.

Similarly, the combined net sales of IT services companies grew just 6.5 per cent Y-o-Y in Q2 FY24, the slowest increase in the last 11 quarters.

The automotive sector was the third-biggest contributor, accounting for 13 per cent of incremental growth in earnings in Q2FY24, nearly twice their share in corporate profits

Trade deficit...

"This is happening despite a fall in the commodity prices globally, as [they] along with, high interest rate and exchange rates continues to remain a challenge. We are also doing a thorough analysis of new markets which we can target," Barthwal said.

While merchandise exports have been contracting since February, August became an outlier due to data revision.

Aditi Nayar, chief economist at ICRA, said that given the shift in the festival calendar, the merchandise trade deficit was expected to widen to $22.8 billion in October.

"The higher-than-anticipated merchandise trade deficit was on account of gold and oil imports, with exports in line with our forecast. Non-oil imports should moderate in November, as would exports, given a higher number of holidays. We foresee the trade deficit for the current month at $22-25 billion," she said.

A Sakthivel, president, Federation of Indian Export Organisations, said growth in merchandise exports despite weak global demand and moderation in commodity prices reflect Indian exporters may be eating into the share of some other countries.

"The tension in West Asia has also made businesses and markets sceptical and nervous, though it will have a limited impact unless it escalates. While goods exports growth has remained somewhat sombre, services have continued on with its momentum and maintained a rising trend, helping to narrow the overall trade deficit and keeping the current account deficit under check," he said.

Services exports saw 13.4 per cent growth at $28.7 billion in October, with services imports increasing by 6 per cent to $14.3 billion, resulting in a surplus of $14.4 billion. The services trade data, however, is an 'estimation', which will be revised based on the Reserve Bank of India's subsequent release.

In October, India's merchandise exports witnessed contraction in only 8 of the 30 key sectors. The recovery was led by pharmaceuticals (29.3 per cent), engineering goods (7.2 per cent) and electronics goods (28.2 per cent). Merchandise imports contracted in 10 of the 30 key items. The recovery was led by coal (4.5 per cent), petroleum (8.1 per cent), chemicals (4.5 per cent), plastic (9.5 per cent), iron and steel (7.4 per cent), non-ferrous metals (21.2 per cent), machinery (17.6 per cent) and electronic goods (26.2 per cent).

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