

EXTERNAL TRADE

*Trade deficit remains in double digits***August 2, 2010**

- **Trade deficit remains elevated**

In June, India's trade deficit eased a tad to USD 10.5 bn from USD 11.3 bn in May 2010, although higher than the average of ~USD 9 bn over the past 12 months. Thus, Q1FY11 trade deficit has reached ~USD 32 bn, highest on record, excepting the quarter ending September 2008, when it was at ~USD 43 bn on the back of exceptionally high oil prices. Relatively slower growth in exports compared to imports (particularly oil imports) in the first three months of the current fiscal led to widening of the trade deficit. Sharp appreciation in INR on REER basis over the past 12 months and relatively weaker external demand environment are contributing to this worsening trend.

Table 1: India's merchandise trade

(USD bn)	Jun-09	May-10	Jun-10	April-June	
				FY10	FY11
Imports	23.0	27.4	28.2	61.8	83.0
Oil imports	6.6	8.8	8.3	16.6	25.3
Non-oil imports	16.4	18.6	19.9	45.2	57.7
Exports	13.6	16.1	17.7	38.3	50.7
Trade balance	(9.4)	(11.3)	(10.5)	(23.5)	(32.3)

Source: Ministry of Commerce, RBI

- **Exports and non-oil imports pick up**

Exports in Q1FY11 amounted to ~USD 51 bn, same as the previous quarter, but significantly higher than same quarter of the previous year. In June, exports recovered to USD 17.7 bn after falling in the previous two months. However, Y-o-Y, exports grew ~30%, the slowest pace in the past five months as base effects have begun to fade.

Imports, meanwhile, came in at ~USD 28 bn in June, marginally higher than USD 27.4 bn in May. Y-o-Y, imports dipped further to ~22% from ~38% in May and ~44% in April, suggesting fading of the base effect. Within imports, oil imports eased while non-oil imports climbed after falling in the previous two months, suggesting healthy domestic economic momentum. Against these trends, the non-oil trade deficit came in at USD 2.2 bn versus USD 2.5 bn in the previous month.

- **Global macroeconomic backdrop remains uncertain**

The US economy is witnessing broadbased deterioration in its economic indicators (including manufacturing, retail sales, housing market, labour market) over the past couple of months. The US Fed has downgraded its assessment of the economy, calling the outlook 'unusually uncertain'. Uncertainties continue to prevail around Europe and China as well. Therefore, India is witnessing a scenario where external demand is softening, while domestic demand is relatively healthy and this may not be favourable to the country's trade deficit, which remains a bit elevated. In addition, INR appreciation on REER basis in recent quarters is also weighing on India's exports. These trends may continue in the near term.

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