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Macroeconomics | First cut

Trade slides with crude and core

March 2025

As merchandise exports and imports fall, trade deficit narrows

India’s merchandise exports fell for the fourth month on the trot, by 10.9% on-year to $36.9 billion in February from $41.4 billion a year ago, after a 2.4% decline in January. This is the sharpest contraction in trade in 20 months that stems from a broad-based decline in the exports of crude oil, core[1], and gems and jewellery, amid rising uncertainties from tariff actions.

Crude oil exports slumped to a nine-month low as prices fell. Brent crude slipped to $75.2 per barrel compared with $83.8 per barrel a year ago and $79.2 per barrel in January.

However, in volume terms, exports of petroleum products increased between April and January, which suggests the February fall in their exports was driven by price. Additionally, core exports contracted 4.7% on-year — the first time in 15 months — partly owing to a high-base effect.

Merchandise imports, too, fell — 16.3% on-year to $50.96 billion in February from $60.9 in the year-ago period — following 10.4% growth, on average, in the previous three months. The biggest drag came from oil imports, which skid 29.6% after a 13.5% decline in January. Gems and jewellery imports dived 59.8% on-year owing to a 62% drop in gold imports. Prices of the yellow metal surged 43.1% on-year to $2,895/toz from $2,023/toz in February 2024. Growth fell sequentially as well, by 13%. On the other hand, core imports grew 3.1% on-year.

All that meant was merchandise trade deficit narrowed to $14.1 billion in February from $23 billion in January and $19.5 billion a year ago.

Cumulatively, merchandise export growth was flat — $395.6 billion during April-February compared with $395.4 billion in the year-ago period. Cumulative imports, on the other hand, increased 5.7% to $656.7 billion from $621.2 billion. As a result, the trade deficit during the period widened to $261.1 billion from $225.8 billion.

Services exports grew 12% on-year in January (vs 16.5% in December), whereas services import growth moderated to 12.6% from 13.8%. Consequently, services trade surplus was $18 billion in January compared with $16.2 billion in the year-ago period but mildly lower than $19.1 billion in December.

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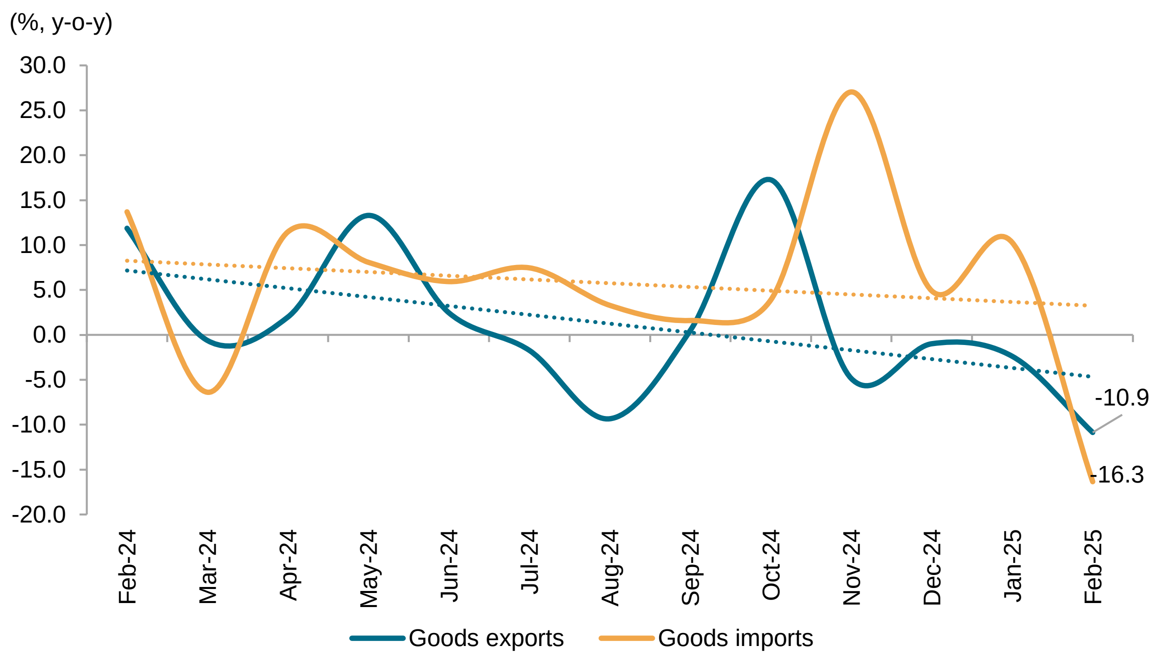
[1] *Non-oil and non-gold*

Both exports and imports contract in February



Source: Ministry of Commerce and Industry, CEIC, Crisil

Data highlights

- Non-oil exports contracted by 6.3% on-year in February (vs 14.5% growth in the previous month), mainly because of the 20.7% fall in gems and jewellery exports, despite a high base
- In the core exports category, exports of drugs and pharmaceuticals (-1.5% vs 21.5%), engineering goods (-8.6% vs 7.4%) and organic and inorganic chemicals (-24.5% vs -1.9%) came under pressure. Growth in readymade garments although positive, slowed to 4% from 11.5% in January
- Exports of other labour-intensive categories such as carpets (4.9% vs 18%) showed positive, albeit slower, growth. Exports of ceramic products and glassware (-11.3% vs 10.4%), cotton yarn, fabrics and made-ups (-4.4% vs 16.4%), handicrafts (-28.2% vs 19.5%), leather and leather products (-1.5% vs 6.4%) declined
- Agricultural exports such as meat, dairy and poultry products (6.7% vs 35.7%), fruits and vegetables (0.9% vs 0.8%), marine products (3.4% vs 8%) and rice (13.2% vs 44.6%) also saw weakness. For cashew, growth was in the negative (-11.6% vs 6.9%)
- Among the import categories, gold imports declined 62% (vs 40.8% growth in the previous month), while pearl, precious and semi-precious stones declined 41.6% (vs 29.1% fall in January). Oil imports slipped 29.6% following 13.5% contraction in the previous month. Meanwhile, growth in electrical and non-electrical machinery slowed to 5.3% from 27.8% in January

Outlook

The export performance has been volatile this fiscal. Merchandise exports have been trending down for four months.

Geopolitical uncertainties, including the tariff hikes proposed by the Donald Trump administration in the US, continue to pose risks.

Imports have outpaced exports so far, in fiscal 2025, causing the trade deficit to widen. The US's proposed tariff hike on Chinese goods, coupled with the expected slowdown in the Chinese economy, will trigger aggressive exports from there to other Asian markets, including India.

The merchandise trade deficit, thus, bears watching.

That said, the surplus in services trade and robust flow of remittances provide a cushion and should keep the current account in the safe zone. We project current account deficit at 1% of the gross domestic product in fiscal 2025 and 1.3% in fiscal 2026.

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