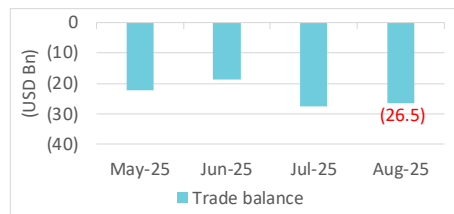


EXTERNAL TRADE

MACRO MUSINGS

GDP GROWTH



Trade deficit remains elevated

August trade deficit narrowed modestly, but remains quite elevated at USD26.5bn (USD27.4bn in July) while ex-oil deficit widened further to USD17.7bn from USD16.1bn in July. Highlights: i) core exports (ex-oil) held steady at 8% YoY (3mma), aided by a low base; ii) electronics exports (36% YoY on 3mma) outperformed while the labour intensive exports such as textiles lagged (1% YoY on 3mma); and iii) core imports (ex-oil) decreased -3% YoY in August from 6% in July.

Looking ahead, the impact of tariffs is likely to weigh on exports in the coming months. However, subdued domestic demand should keep even imports under check. Accordingly, we reckon the trade deficit would remain steady/narrow marginally over the coming months.

Core trade deficit widens

India's overall goods trade deficit narrowed modestly, but still remains quite elevated at USD26.5bn (versus USD27.4bn in July) while ex-oil deficit widened further to USD17.7bn in August from USD16.1bn. The super core (ex oil, gold) also stayed elevated at USD14.6bn. Gold trade deficit nearly doubled to USD3.1bn in August compared with July while oil trade deficit narrowed to USD8.8bn from USD11.2bn. Within core category, electronics imports continued to weigh heavily with trade deficit in this segment expanding further to USD6.8bn in August versus USD6.1bn in July, whereas other sectors registered broadly stable deficit levels.

Exports recovery remains muted

Merchandise exports decreased to 6.7% in August from 7.3% YoY in July. On a trend basis, however, the overall export growth increased to 4.6% YoY in August from 1.3% in July, aided by a low base. Core exports (excluding oil) remained largely stable at 7.8% YoY, aided by a weak base too. Within categories, electronics exports sustained robust momentum, soaring 36% YoY on a 3mma basis. In contrast, labour-intensive segments lost traction: textiles exports slowed sharply to 0.8% YoY from 3.4% while RMG decelerated to 1% YoY in August from 6% in July.

Imports dip as demand momentum slows

Imports contracted sharply, falling to -10.1% YoY in August from 8.6% growth in July. Even on 3mma, imports weakened, slipping to -2.1% YoY in August from 1.1% in July. Core imports (ex oil) too fell to -3% from 6% in July on 3mma with a broad-based slowdown across categories. Machinery goods imports decreased to 10% in August from 17% in July while electronics imports fell to 10% from 15% in July.

Tariff impact to weigh on export outlook

Overall, the trade deficit for August remains elevated. Looking ahead, the tariff impact is likely to weigh on exports in coming months, clouding the near-term outlook. At the same time, subdued domestic demand should help keep imports under check. Accordingly, we reckon the trade deficit shall remain steady or narrow marginally in the coming months.

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