Exports jump 20% in May, trade deficit widens

Merchandise exports in May jumped 20.2%, the fastest pace in six months, as a rise in oil prices helped boost outbound shipment value, although engineering goods, chemicals and pharmaceutical products registered decent expansion.

The trade deficit widened to a four-month high of $14.62 billion as a higher net oil import bill negated gains from a contraction in gold and precious stone imports. The labour-intensive garment segments continued slide, with exports declining 16.6% in May. Leather exports inched up only 2%.

But what could comfort policymakers is that, even discounting petroleum and gems and jewellery, exports rose a decent 13.9%. For the first two months of this fiscal, non-petroleum and non-gems and jewellery exports grew 12.8% from a year ago, slightly higher than the 12.6% rise in overall goods exports during this period.

With the US Federal Reserve having hiked the interest rate by 25 basis points earlier this week, the potential weakening of the rupee against the dollar might brighten export prospects. The rupee on Friday tumbled below the 68-mark to end at a fresh three-week low against the US currency. But analysts say the key to any improvement in export competitiveness will be how much the currencies of its peers depreciate against the dollar in such a scenario.

More importantly, with the US going ahead with its additional tariff plans against Chinese goods worth $50 billion, in a fresh escalation of a potential global trade war, India's exports, like that of many others, could come under pressure. The World Trade Organisation (WTO) has forecast trade growth at 4.4% for 2018, down from 4.7% in 2017.

Friday's official data showed merchandise exports rose to $28.86 billion and imports advanced to $43.48 billion in May. Although garments exports dropped, the textile segments witnessed double-digit growth. The major drivers of exports were engineering goods (14.8%), chemicals (34.2%) and drugs and pharmaceuticals (25.7%). Petroleum exports grew a massive 104.5%, thanks to the price rise. Meat, dairy and poultry product exports jumped 14.6%, suggesting that the impact of a crackdown against illegal abattoirs in Uttar Pradesh has diminished.

Still, the high trade deficit in recent months due to an improvement in imports may continue to pressure the current account deficit (CAD). Aditi Nayar, principal economist with Icra, said: "Based on the available data for April-May 2018, the CAD may widen to $15-16 billion or around 2.4% of GDP in the ongoing quarter, from $14 billion in Q1 FY18, with higher commodity prices counteracting the likely contraction in gold imports."

Services exports growth slowed sequentially to 4.3% to $17.56 billion in April from a rise of 7.2% in the previous month. Services imports rose 6.2% to $10.92 billion in April from a year earlier, against a 1.4% rise in the previous month.

Federation of Indian Export Organisations president Ganesh Kumar Gupta said that the exports data have shown a robust growth but MSME units are either showing very modest growth or are into negative territory.