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January Trade Statistics

Exports halting decline, but still not strong

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Summary

- In the January 2013 Trade Statistics (Ministry of Finance), export value increased 6.4% y/y, the first advance in eight months, with a wider gain than consensus expectations (up 5.6%). On a seasonally adjusted basis, export value increased 3.6% m/m, the third consecutive monthly gain, indicating that the underlying trend began to cease persistent declines. However, export volume declined 6.0% and the ongoing slide continued. While industrial production and other domestic economy-related indicators tend to closely follow the export volume trend, the degree of export recovery is insufficient to drive the domestic economy.
- Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to the US increased for the second consecutive month, that to Asian trading partners remained flat from the previous month, and that to the EU declined. As a whole, it saw the first slide in two months (down 2.4% m/m). While underlining trends of export volume to the US and Asian trading partners began to show signs of recovery, the trend to the EU hampered overall exports.
- Import value increased 7.3% y/y, the third consecutive monthly gain. Behind this was an import price surge (up 8.4%), due to the sharp shift to a weaker yen. As a result, the trade balance posted a deficit of Y1,629.4 billion, a negative figure for the seventh consecutive month and the largest-ever deficit. On a seasonally adjusted basis, however, the trade balance posted a deficit of Y678.9 billion, narrowing the margin of deficit for the second consecutive month. While the trade balance has been on the deficit side as import volumes of LNG and other fuels have remained high, the deficit margin began to signal a halt to expansion.

Trade Statistics										Chart 1
	2012								2013	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Export value (y/y %)	10.0	-2.3	-8.1	-5.8	-10.3	-6.5	-4.1	-5.8	6.4	
Market consensus (Bloomberg)									5.6	
DIR estimate									3.8	
Import value (y/y %)	9.4	-2.2	2.2	-5.3	4.2	-1.5	0.9	1.9	7.3	
Export volume (y/y %)	9.3	-2.3	-10.2	-4.2	-11.1	-8.1	-7.5	-12.2	-6.0	
Export price (y/y %)	0.6	0.1	2.4	-1.6	0.9	1.7	3.6	7.3	13.1	
Import volume (y/y %)	8.5	-0.7	7.0	-2.1	4.2	-1.0	-0.9	0.0	-1.0	
Import price (y/y %)	0.9	-1.5	-4.5	-3.3	-0.1	-0.5	1.9	1.8	8.4	
Trade balance (Y100 mil)	-9,172	592	-5,226	-7,638	-5,649	-5,546	-9,565	-6,433	-16,294	

Source: Ministry of Finance, Bloomberg; compiled by DIR.

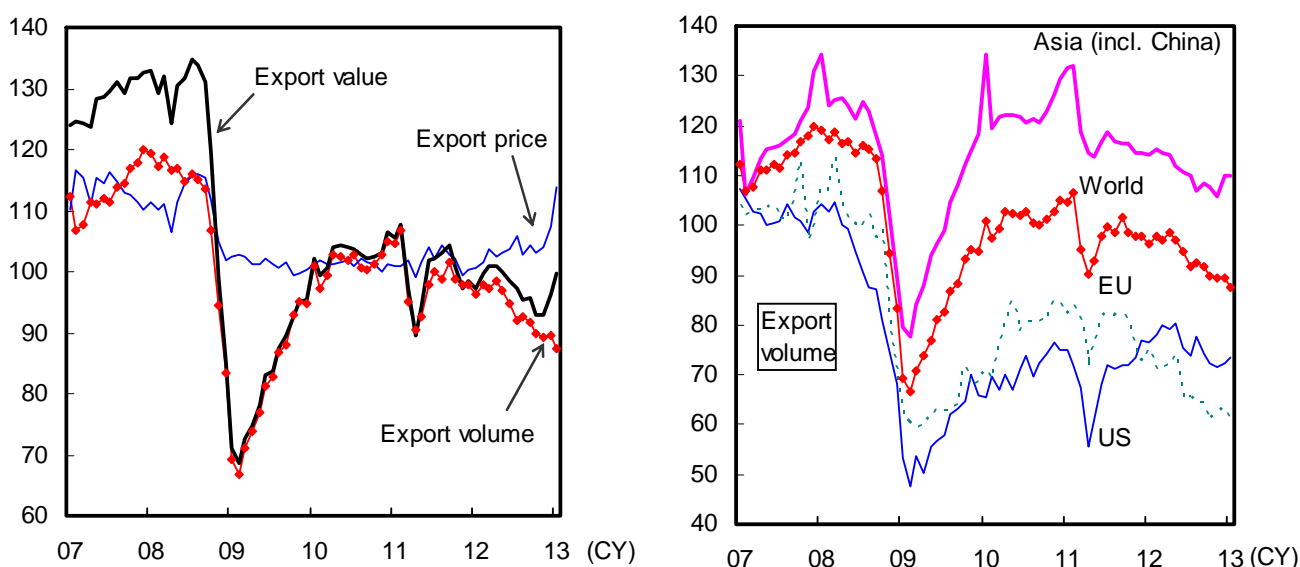
Higher price pushed up export value

In the January 2013 Trade Statistics (Ministry of Finance), export value increased 6.4% y/y, the first advance in eight months, with a wider gain than consensus expectations (up 5.6%). On a seasonally adjusted basis, export value increased 3.6% m/m, the third consecutive monthly gain, indicating that the underlying trend began to cease persistent declines. However, breaking down export value, a substantial 13.1% export price gain, reflecting the weaker yen trend, contrasted with the ongoing decline in export volume (down 6.0%). While industrial production and other domestic economy-related indicators tend to closely follow the export volume trend, the degree of export recovery is insufficient to drive the domestic economy.

Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to the US increased for the second consecutive month, that to Asian trading partners remained flat from the previous month, and that to the EU declined. As a whole, it saw the first slide in two months (down 2.4% m/m). While underlining trends of such volume to the US and Asian trading partners began to show signs of recovery, the trend to the EU hampered overall exports.

On the import front, import value increased 7.3% y/y, the third consecutive monthly gain—import volume declined 1.0%, while import price rose 8.4%, due to the sharp shift to a weaker yen. As a result, the trade balance posted a deficit of ¥1,629.4 billion, a negative figure for the seventh consecutive month and the largest-ever deficit. However, it should be noted that January figures have often seen a seasonal tendency of smaller export value and larger import value. On a seasonally adjusted basis, the trade balance posted a deficit of ¥678.9 billion, narrowing the margin of deficit for the second consecutive month. While the trade balance has been on the deficit side as import volumes of LNG and other fuels have remained high, the deficit margin began to signal a halt to expansion.

Export Value, Volume, Price and Export Volume by Trading Partner (2005 = 100; SA basis) Chart 2



Source: Ministry of Finance; compiled by DIR.

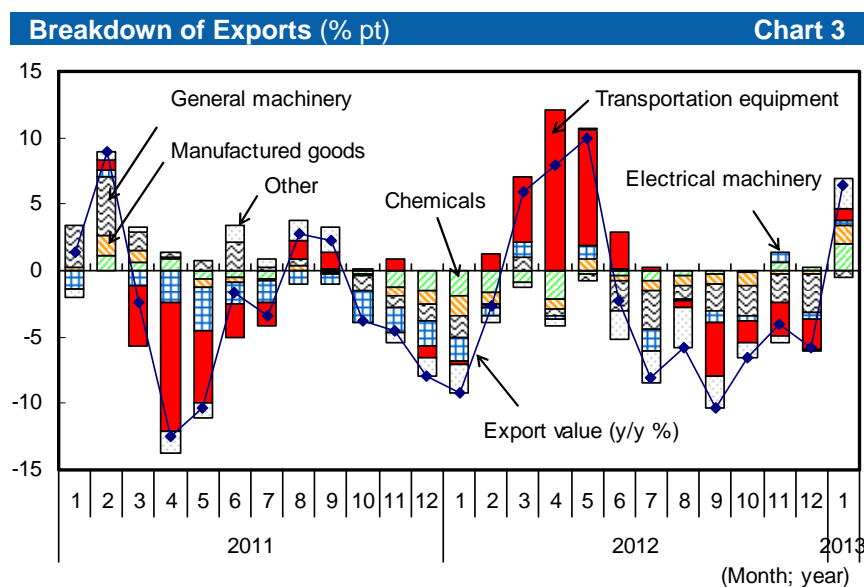
Note: Export value seasonally adjusted by Ministry of Finance; other by DIR.

First y/y gain in eight months for export value

Exports of chemicals and transportation equipment pushed up overall export value.

Those of chemicals increased 20.3%, the third monthly gain in a row. Those to Asian trading partners, the major export destination, saw a substantial advance of 23.8%, pushing such exports up overall. Of those, shipments to China surged 38.9%, owing to calendar effects (Lunar New Year in Jan in 2012; Feb in 2013). Those to ASEAN and NIEs jumped as well, also reflecting calendar effects. Thus, such an advance should warrant some discount. However, those to a wide range of destinations, including the US and EU, also increased, indicating exports of chemicals began to signal a recovery as a whole.

Exports of transportation equipment increased 3.5% y/y, the first gain in six months. Those to the US, the major export destination, increased 16.0%. This, combined with advances in those to ASEAN (up 10.5%), those to the Middle East (up 13.2%), and those to Russia (up 32.0%), pushed up overall such exports. While those to the EU continued to drop (down 10.6%), the margin of decline has been on a narrowing trend. Those to China continued to lose traction and plunged (down 36.0%) following dives due to worsening Japan-China relations in 2012, but narrowed the margin of decline from the previous month. The narrowing was moderate, however, as the level of such exports was low over the same month a year ago due to the Lunar New Year.



Source: Ministry of Finance; compiled by DIR.

Note: Other=sum of foods, mineral fuels, raw materials, and "other".

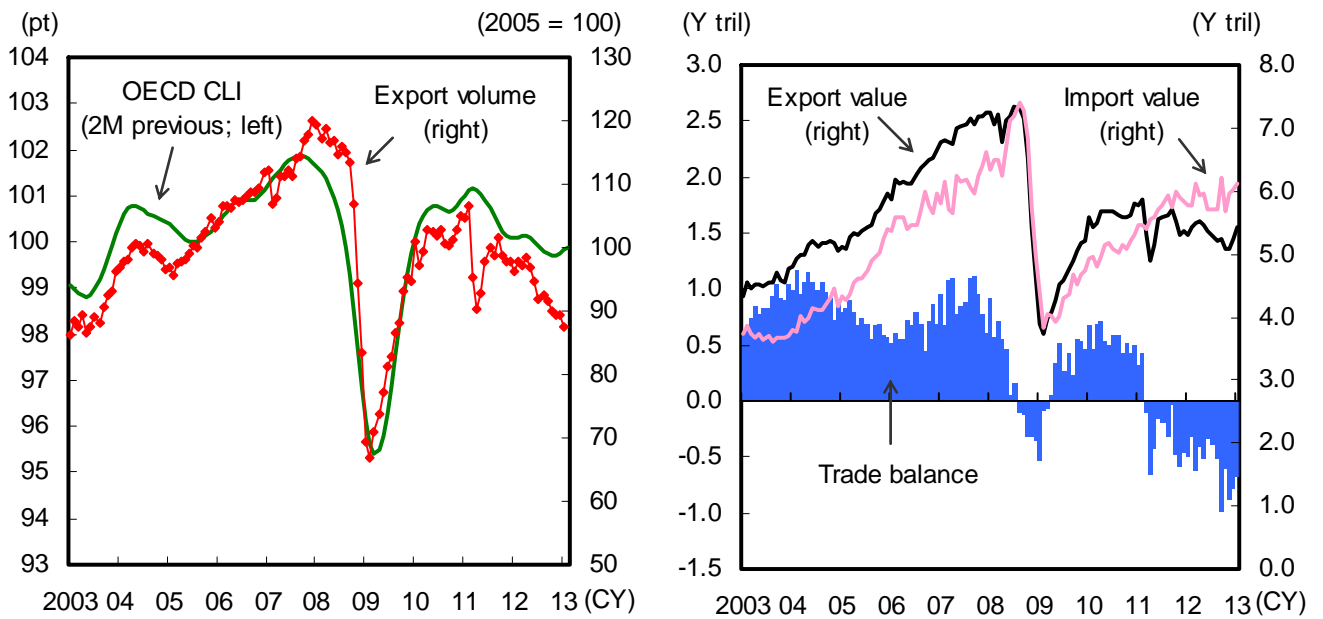
Recovery in exports vs. narrowing trade deficit

We anticipate export volume will gradually move upward going forward, supported by improved price competitiveness, due to the shift to a weaker yen, and a recovery in overseas economies. As in January, exports to the EU will likely remain sluggish for the time being, dragged down by ongoing economic stagnation there. In contrast, those to the US and Asian trading partners will likely increase, driving overall exports, supported by an ongoing moderate economic recovery in the case of the former and an improvement in economies in the case of the latter.

While imports have been flat, we expect them to enter an uptrend, accompanied by increases in import volume, reflecting a recovery in the domestic economy. At the same time, import prices are likely to

increase due to the recent shift to a weaker yen. Thus, the trade deficit is likely to widen for the time being, but the deficit margin is likely to narrow gradually, accompanied by increases in export volume.

Global Economy and Japan's Export Volume and Trade Balance **Chart 4**



Source: Ministry of Finance; OECD; compiled by DIR.
 Notes: 1) OECD CLI (Composite Leading Indicator): OECD member and six non-member countries.
 2) Export volume seasonally adjusted by DIR.