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February Trade Statistics

Value basis recovery vs. volume basis stagnation in export volume

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Summary

- In the February 2013 Trade Statistics (Ministry of Finance), export value declined 2.9% y/y, the first slide in two months, with a wider fall than consensus expectations (down 1.7%). Breaking down export value, a substantial 15.0% export price gain, reflecting the weaker yen trend, contrasted with the significant slump in export volume (down 15.5%).
- February figures should be discounted to some extent because lower y/y growth partly reflected calendar effects (leap year in 2012; Lunar New Year in Jan in 2012 vs. Feb in 2013). On a seasonally adjusted basis, export value increased 1.3% m/m, the fourth consecutive monthly gain, indicating that the ongoing uptrend in export value continues, supported by advances in export prices.
- Looking at export volume (indicator closely related to domestic economic activity; seasonally adjusted by DIR) by trading partner, that to the US saw the first decline in three months, that to Asian trading partners and the EU declined for the second consecutive month. As a whole, it declined for the second consecutive month (down 1.0% m/m). The Lunar New Year factor should explain the slide in such volume to Asian trading partners to some extent. However, declines were seen as well for that to the US and EU, for which the impact of such a factor is limited, indicating that the underlying downtrend continues.

Trade Statistics

Chart 1

	2012							2013	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Export value (y/y %)	-2.3	-8.1	-5.8	-10.3	-6.5	-4.1	-5.8	6.3	-2.9
Market consensus (Bloomberg)									-1.7
DIR estimate									1.4
Import value (y/y %)	-2.2	2.3	-5.2	4.2	-1.5	0.9	1.9	7.1	11.9
Export volume (y/y %)	-2.4	-10.3	-4.3	-11.1	-8.1	-7.5	-12.2	-5.9	-15.5
Export price (y/y %)	0.1	2.4	-1.6	0.9	1.7	3.6	7.3	13.0	15.0
Import volume (y/y %)	-0.6	7.1	-2.1	4.3	-1.0	-0.9	0.0	-1.1	-0.1
Import price (y/y %)	-1.6	-4.5	-3.2	-0.0	-0.5	1.8	1.9	8.2	12.0
Trade balance (Y100 mil)	561	-5,286	-7,684	-5,682	-5,562	-9,570	-6,457	-16,309	-7,775

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

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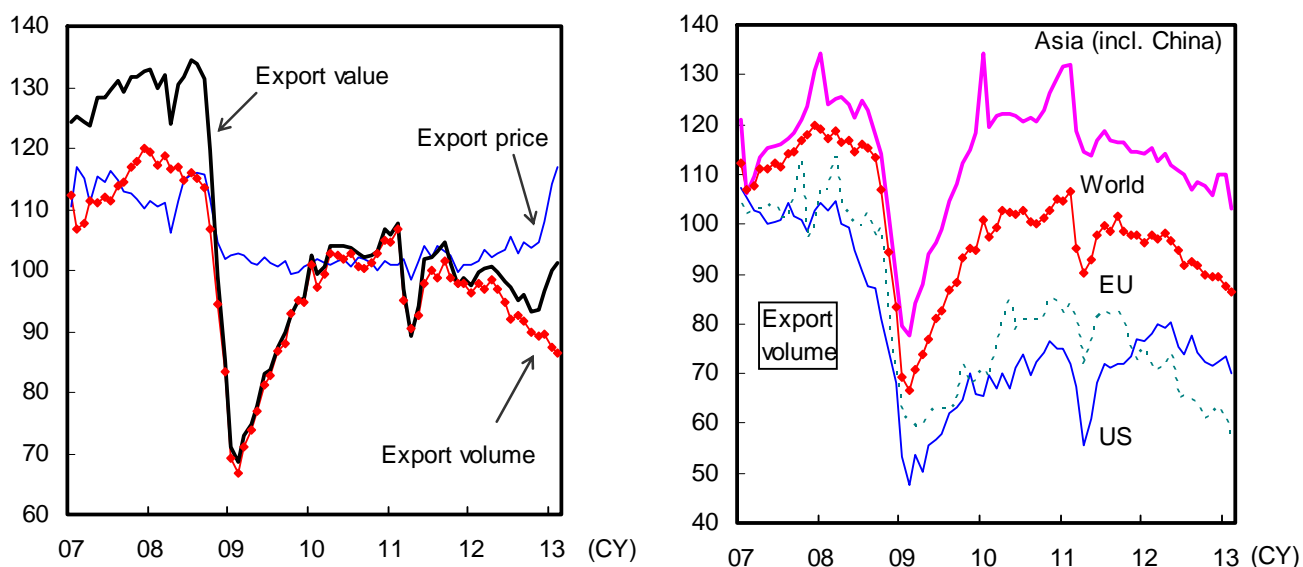
Value basis recovery vs. volume basis stagnation in export volume

In the February 2013 Trade Statistics (Ministry of Finance), export value declined 2.9% y/y, the first slide in two months, with a wider fall than consensus expectations (down 1.7%). Breaking down export value, a substantial 15.0% export price gain, reflecting the weaker yen trend, contrasted with the significant slump in export volume (down 15.5%). However, February figures should be discounted to some extent because lower y/y growth partly reflected calendar effects (leap year in 2012; Lunar New Year in Jan in 2012 vs. Feb in 2013). On a seasonally adjusted basis, export value increased 1.3% m/m, the fourth consecutive monthly gain, indicating that the ongoing uptrend in export value continues, supported by advances in export prices.

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On the import front, import value increased 11.9% y/y, the fourth consecutive monthly gain. While import volume declined 0.1%, import price jumped 12.0%, due to the ongoing shift to weaker yen. As a result, the trade balance posted a deficit of Y777.5 billion, a negative figure for the eighth consecutive month. On a seasonally adjusted basis, the trade balance posted a deficit of Y1086.6 billion, widening the margin of deficit from the previous month.

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.

Calendar effects brought first y/y gain in two months for export value

Exports of general machinery and electrical machinery dragged down overall exports y/y.

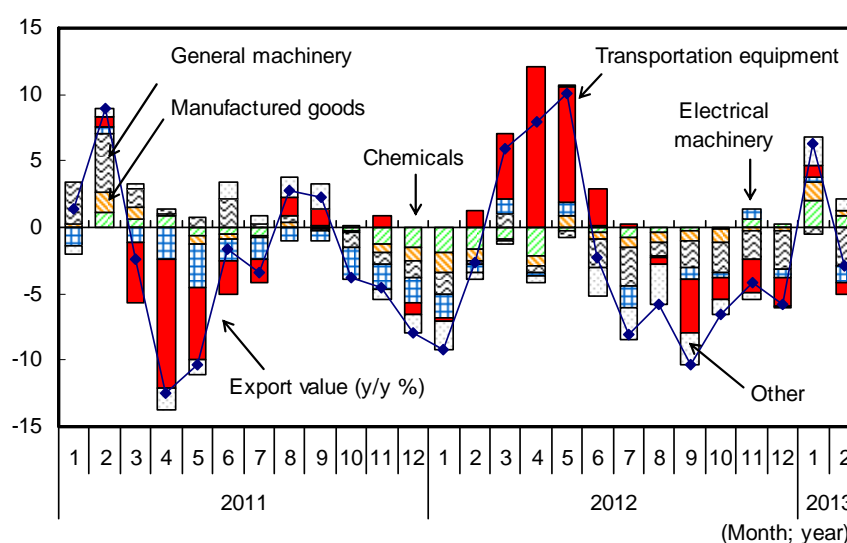
Those of general machinery declined 13.4% y/y, the 11th monthly slide in a row. Those to Asian trading partners, the major export destination, plunged substantially (down 20.6%), dragging down such exports overall. Of those, shipments to China plunged 27.0%, significantly widening the slide from the previous month (down 10.5%), owing to calendar effects (Lunar New Year in Jan in 2012; Feb in 2013). Those to ASEAN and NIEs slumped as well. In contrast, those to the US posted the second monthly gain in a row (up 5.8%), driven by gains in those of engines/turbines.

Exports of electrical machinery declined 7.6% y/y, the first slide in two months. While those to Asian trading partners currently account for some 70% of such exports, they declined, centering on those to China (down 20.6%), dragging down such exports overall.

Meanwhile, despite adverse calendar effects (leap year in 2012; Lunar New Year in Jan in 2012 vs. Feb in 2013), those of chemicals and manufactured goods grew y/y. In the case of the former, the ongoing uptrend to Asian trading partners and the US continues, and such exports overall steadily increased, posting the fourth monthly gain in a row (up 9.2%). In the case of the latter, such exports increased for the second consecutive month (up 3.4%), driven by higher shipments of iron/steel to ASEAN countries.

Breakdown of Exports (% pt)

Chart 3



Source: Ministry of Finance; compiled by DIR.

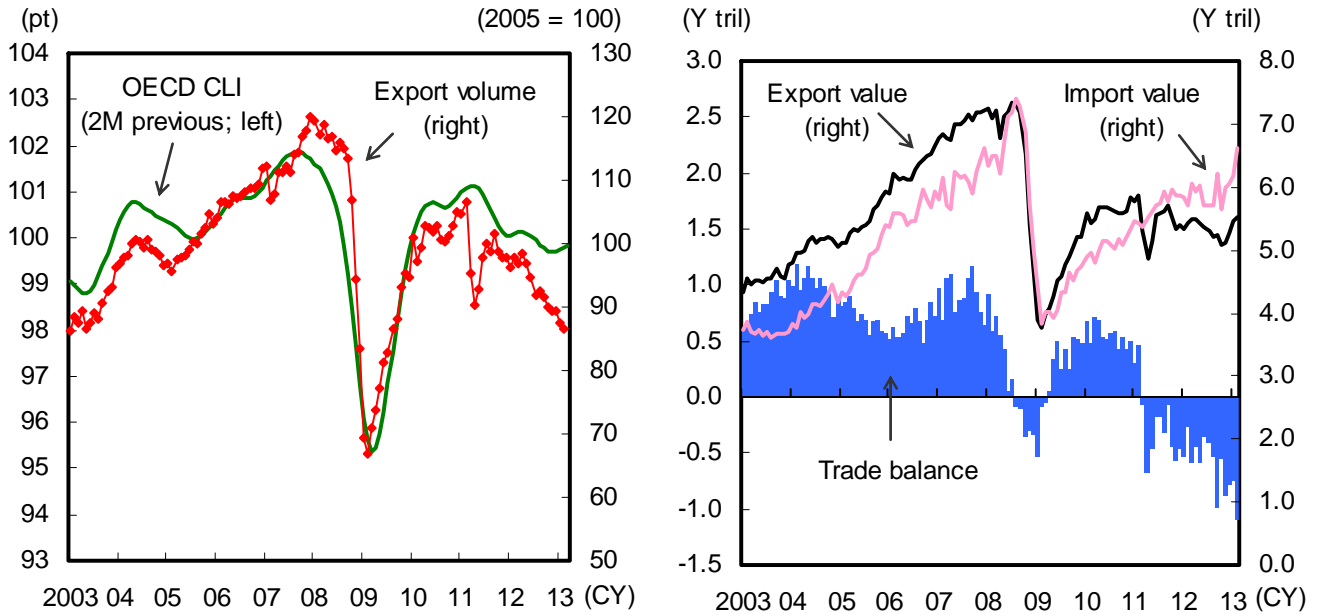
Note: Other=sum of foods, mineral fuels, raw materials, and "other".

Gradual recovery in exports; gradual narrowing in 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 the recovery in overseas economies. 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 the ongoing moderate economic recovery in the case of the former and an emerging improvement in the economies in the case of the latter. The trade balance has been on the

deficit side as import volumes of LNG and other fuels have remained high, and a turnaround to the surplus side is unlikely for the time being. However, the deficit margin will likely 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.