

18 April 2013 (No. of pages: 4)

Japanese report: 18 Apr 2013

March Trade Statistics

Exports also signal end to slide in volume terms

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Summary

- In the March 2013 Trade Statistics (Ministry of Finance), export value increased 1.1% y/y, the first gain in two months, surpassing consensus expectations (up 0.2%). Breaking down export value, in contrast to the tenth consecutive monthly slump in export volume (down 9.8%), the ongoing substantial gain in export price (up 12.1%), reflecting the weaker yen trend, has contributed to pushing up export value.
- The Export Volume Index (seasonally adjusted by DIR) increased from the previous month for shipments to the US, EU and Asian trading partners, the three major destinations of Japan's exports. As a whole, it posted the first advance in three months (up 4.2% m/m). Export volume to Asian trading partners may have increased partly in reaction to the slide in February due to the Lunar New Year factor. However, advances were seen as well for that to the US and EU, for which the impact of such a factor is limited, signaling an end to the underlying downtrend in export volume.
- We anticipate export volume will move toward firming up from persistent sluggishness, leading to an uptrend in exports. Export volume to the EU is likely to remain sluggish for the time being, dragged down by ongoing economic stagnation there. In contrast, that to the US is likely to drive overall export volume, supported by the ongoing moderate economic recovery there. That to Asian trading partners is likely to shift to an uptrend, centering on that to ASEAN nations, where economies have grown steadily, in contrast to a modest recovery in China. In addition to the overseas factor, the forex factor will also support export volume as positive effects of the shift to a weaker yen since end-2012 will emerge gradually—empirically, the shift to a weaker yen will lead to a gain in export volume with around a six-month lag.

Trade Statistics								Chart 1	
	2012						2013		
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Export value (y/y %)	-8.1	-5.8	-10.3	-6.5	-4.1	-5.8	6.3	-2.9	1.1
Market consensus (Bloomberg)									0.2
DIR estimate									3.2
Import value (y/y %)	2.3	-5.2	4.2	-1.5	0.9	1.9	7.1	11.9	5.5
Export volume (y/y %)	-10.3	-4.3	-11.1	-8.1	-7.5	-12.2	-5.9	-15.8	-9.8
Export price (y/y %)	2.4	-1.6	0.9	1.7	3.6	7.3	13.0	15.3	12.1
Import volume (y/y %)	-0.6	-2.1	4.3	-1.0	-0.9	0.0	-1.1	-0.1	-5.5
Import price (y/y %)	-4.5	-3.2	-0.0	-0.5	1.8	1.9	8.3	12.1	11.7
Trade balance (Y100 mil)	-5,286	-7,684	-5,682	-5,562	-9,570	-6,457	-16,335	-7,795	-3,624

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

Exports also signal end to slide in volume terms

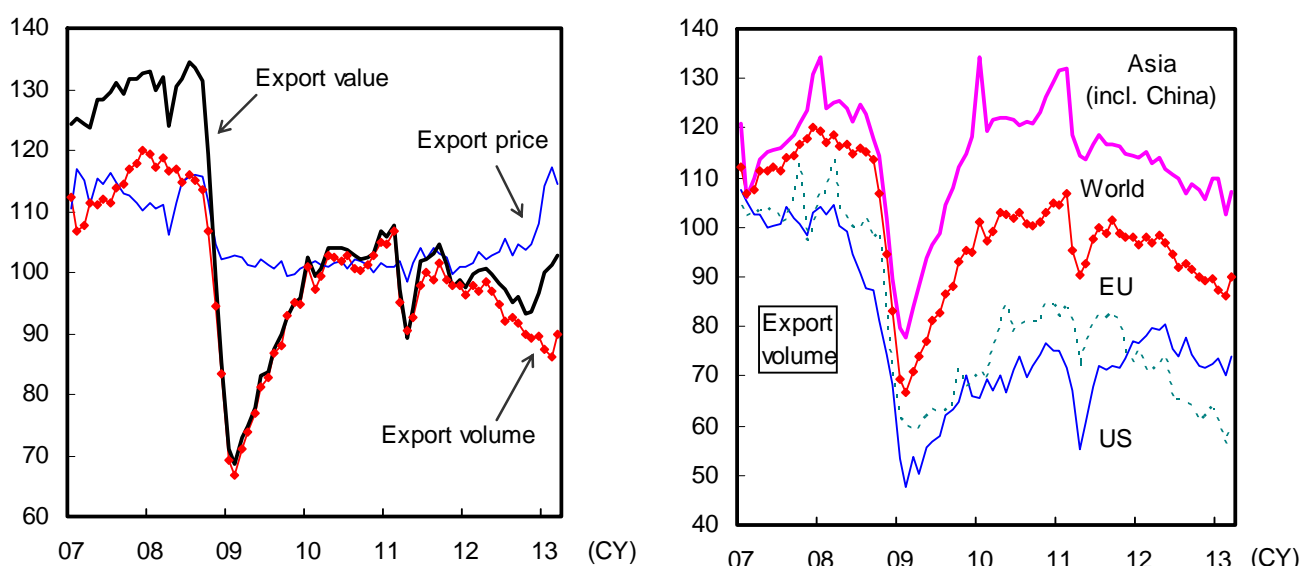
In the March 2013 Trade Statistics (Ministry of Finance), export value increased 1.1% y/y, the first gain in two months, surpassing consensus expectations (up 0.2%). Breaking down export value, in contrast to the tenth consecutive monthly slump in export volume (down 9.8%), the ongoing substantial gain in export price (up 12.1%), reflecting the weaker yen trend, has contributed to pushing up export value. On a seasonally adjusted basis, export value increased 1.6% m/m, the fifth consecutive monthly gain, indicating that the ongoing uptrend in export value continues.

Export Volume Index (seasonally adjusted by DIR) increased from the previous month for shipments to the US, EU and Asian trading partners, three major destinations of Japan's exports. As a whole, it posted the first advance in three months (up 4.2% m/m). Export volume to Asian trading partners may have increased partly in reaction to the slide in February due to the Lunar New Year factor. However, advances were seen as well for that to the US and EU, for which the impact of such a factor is limited, signaling an end to the underlying downtrend of export volume.

On the import front, import value increased 5.5% y/y, the fifth consecutive monthly gain. While import volume declined 5.5%, import price jumped 11.7%, due to the ongoing shift to a weaker yen. As a result, the trade balance posted a deficit of Y362.4 billion, a negative figure for the ninth consecutive month. On a seasonally adjusted basis, the trade balance posted a deficit of Y922.0 billion. Thus, the underlying deficit trend continues, although the margin of deficit narrowed from the previous month.

According to our tentative estimate based on the March trade statistics, GDP-based exports and imports are likely to increase roughly 2% in Jan-Mar 2013 in real terms, with foreign demand (net exports) posting a positive contribution of around 0.2 percentage points to GDP growth.

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.

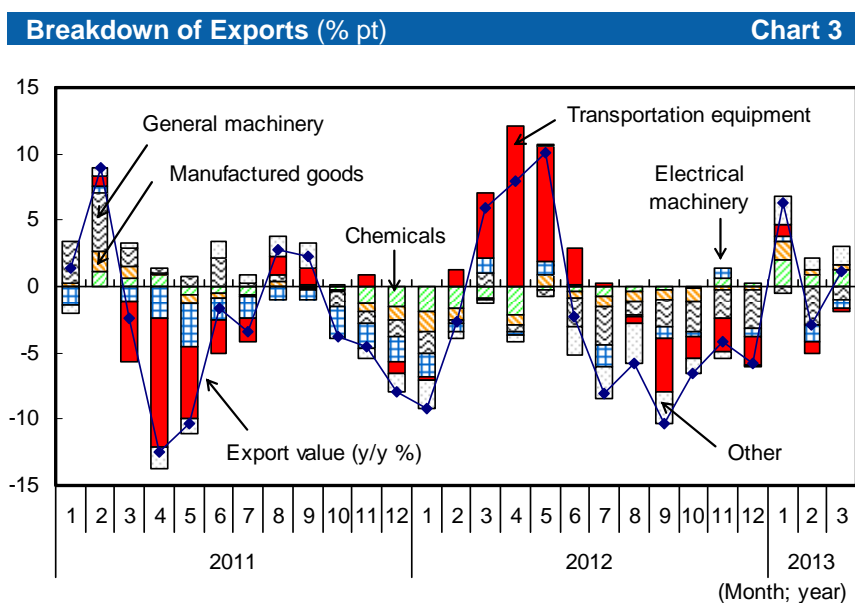
Material shipments to Asian trading partners pushed up export value

Exports of chemicals and manufactured goods pushed up overall exports y/y.

Those of chemicals increased 12.7% y/y, the fifth monthly gain in a row. Those to major export destinations (US, EU, and Asian trading partners) increased across the board, maintaining the ongoing firm trend in general. Those to Asian trading partners currently account for more than 70% of such exports, and they increased substantially (up 14.7%), driving such exports overall.

Those of manufactured goods increased 3.3% y/y, the third monthly gain in a row. While declines were seen for those to the US (down 2.1%) and EU (down 11.4%), those to Asian trading partners increased (up 6.3%), driving such exports overall. Among such exports, shipments of steel/iron and nonferrous metals to ASEAN nations were steady, both posting the fifth monthly gain in a row.

Meanwhile, exports of general machinery, transportation equipment, and electrical machinery continued to decline y/y in March, but with narrower margins of declines from the previous month, indicating those exports firmed up overall. While shipments of the former two items to Asian trading partners and the EU continued to decline, those to the US increased and supported those exports overall. With regard to exports of the last item, a favorable development was seen—those to NIEs increased for the first time in two months, thanks to a gain in those of semiconductors/other electronic components.

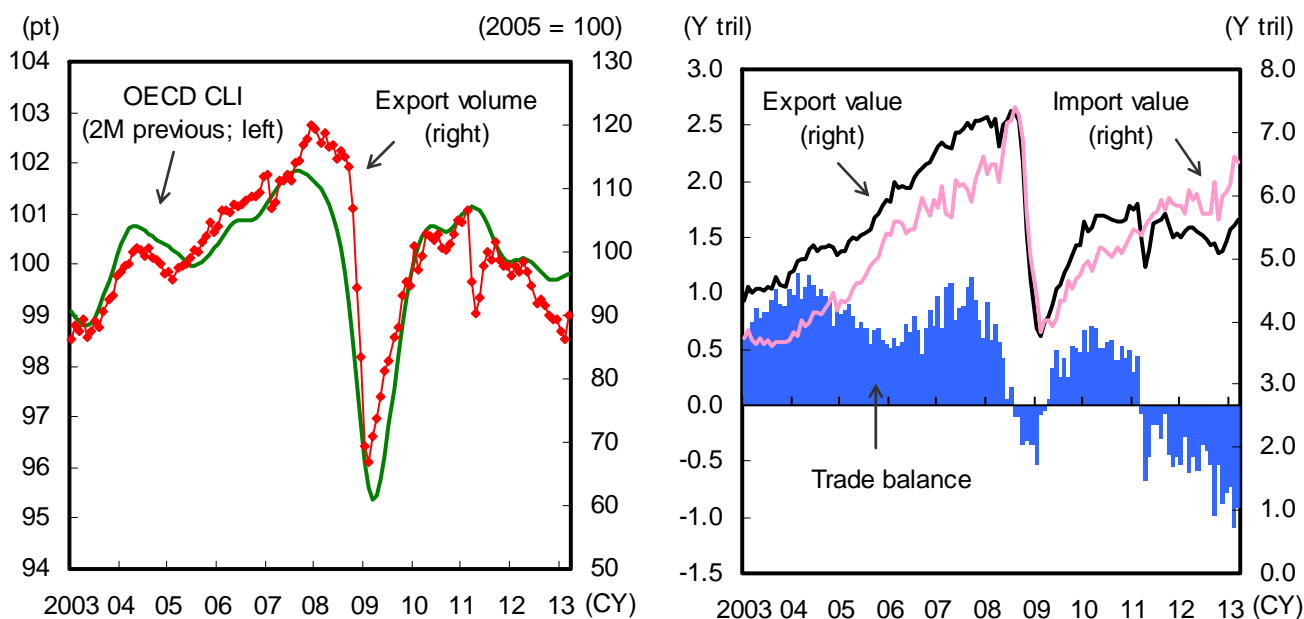


Gradual recovery in exports; gradual narrowing in trade deficit

We anticipate export volume will move toward firming up from persistent sluggishness, leading to an uptrend in exports. Export volume to the EU is likely to remain sluggish for the time being, dragged down by ongoing economic stagnation there. In contrast, that to the US is likely to drive overall export volume, supported by the ongoing moderate economic recovery there. That to Asian trading partners is likely to shift to an uptrend, centering on that to ASEAN nations, where economies have grown steadily, in contrast to a modest recovery in China. In addition to the overseas factor, the forex factor

will also support export volume as positive effects of the shift to a weaker yen since end-2012 will emerge gradually—empirically, the shift to a weaker yen will lead to a gain in export volume with around a six-month lag. Meanwhile, 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.