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September Trade Statistics

Negative contribution of foreign demand to Jul-Sep GDP likely

Economic Research Dept
Masahiko Hashimoto

Summary

- In the September 2013 Trade Statistics (Ministry of Finance), export value posted a y/y advance for the seventh month in a row (up 11.5%) but short of consensus expectations (up 15.5%). Breaking down export value, export price remains on a strong uptrend (up 13.6%), benefitting from ongoing weak-yen effects and pushing up export value, while export volume fell short of the year-earlier level for the first time in three months (down 1.9%). On a seasonally adjusted m/m basis, export value posted the first slide in two months (down 0.3%), while it posted the tenth consecutive gain on a three-month moving average basis. This suggests that the underlying uptrend continues but has begun to slacken due to stagnant growth in export volume.
- The Export Volume Index (seasonally adjusted by DIR) posted the first m/m slide in two months (down 1.2%). By trading partner, exports to the EU increased, but those to Asian trading partners and the US declined, pushing down the headline index. Underlying export volume to the EU has firmed up reflecting the bottoming out of the EU economy, while exports to Asian trading partners and the US have stagnated. As a whole, export volume has leveled off.
- Based on the September figures, we calculated the impact of trade on GDP figures. While imports are likely to increase q/q in Jul-Sep 2013, exports are to remain flat, resulting in foreign demand (net exports) seeing the first negative contribution to q/q GDP in three quarters. We estimate the contribution to be minus 0.5-percentage points.

Trade Statistics		Chart 1								
	2013									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Export value (y/y %)	6.3	-2.9	1.1	3.8	10.1	7.4	12.2	14.6	11.5	
Market consensus (Bloomberg)									15.5	
DIR estimate									15.3	
Import value (y/y %)	7.1	12.0	5.6	9.5	10.1	11.8	19.7	16.0	16.5	
Export volume (y/y %)	-1.5	-12.8	-7.1	-3.0	-1.2	-5.0	1.8	1.9	-1.9	
Export price (y/y %)	7.9	11.4	8.9	7.0	11.5	13.1	10.2	12.5	13.6	
Import volume (y/y %)	-0.7	0.3	-4.5	2.5	-2.2	-5.0	2.4	-1.9	-2.2	
Import price (y/y %)	7.9	11.6	10.6	6.9	12.5	17.6	16.9	18.2	19.1	
Trade balance (Y100 mil)	-16,335	-7,813	-3,669	-8,848	-9,981	-1,817	-10,295	-9,628	-9,321	

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

Export volume stagnating

In the September 2013 Trade Statistics (Ministry of Finance), export value posted a y/y advance for the seventh month in a row (up 11.5%) but short of consensus expectations (up 15.5%). Breaking down export value, export price remains on a strong uptrend (up 13.6%), benefitting from ongoing weak-yen effects and pushing up export value, while export volume fell short of the year-earlier level for the first time in three months (down 1.9%). On a seasonally adjusted m/m basis, export value posted the first slide in two months (down 0.3%), while it posted the tenth consecutive gain on a three-month moving average basis. This suggests that the underlying uptrend continues but has begun to slacken due to stagnant growth in export volume.

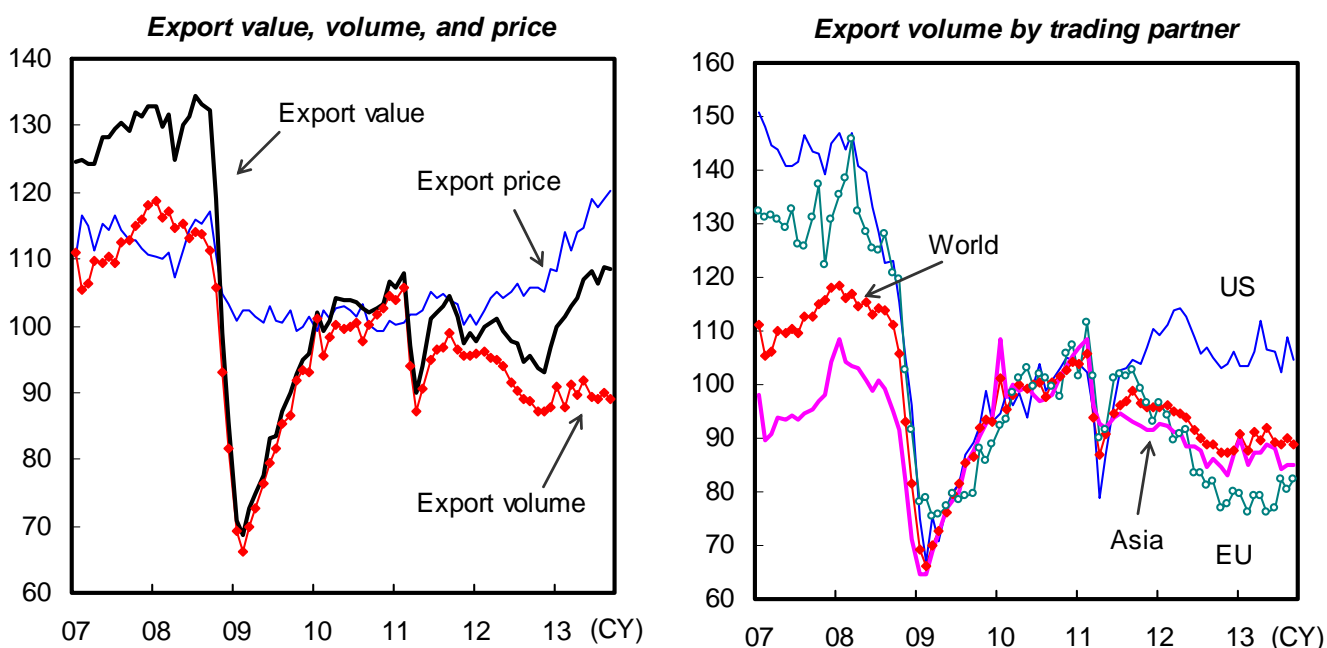
The Export Volume Index (seasonally adjusted by DIR) posted the first m/m slide in two months (down 1.2%). By trading partner, exports to the EU increased, but those to Asian trading partners and the US declined, pushing down the headline index. Underlying export volume to the EU has firmed up reflecting bottoming out of the EU economy, while exports to Asian trading partners and the US have stagnated. As a whole, export volume has leveled off.

Import value advanced y/y for the 11th consecutive month (up 16.5%). Import volume saw the second y/y slide in a row (down 2.2%), while import price saw a persistent surge (up 19.1%), meaning the price increase due to the weaker yen continued to push up import value. As a result, the trade balance posted a deficit of Y932.1 billion, a negative figure for the 15th consecutive month.

Based on the September figures, we calculated the impact of trade on GDP figures. While imports are likely to increase q/q in Jul-Sep 2013, exports are to remain flat, resulting in foreign demand (net exports) seeing the first negative contribution to q/q GDP in three quarters. We estimate the contribution to be minus 0.5-percentage points.

Export Value, Volume, Price and Export Volume by Trading Partner (2010 = 100)

Chart 2



Source: Ministry of Finance; compiled by DIR.

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

Export value by goods; transportation equipment firm

Export value by major item increased y/y across the board, due in part to price rises driven by the weaker yen. Especially in September, transportation equipment, chemicals, and general machinery made significant contributions to y/y growth.

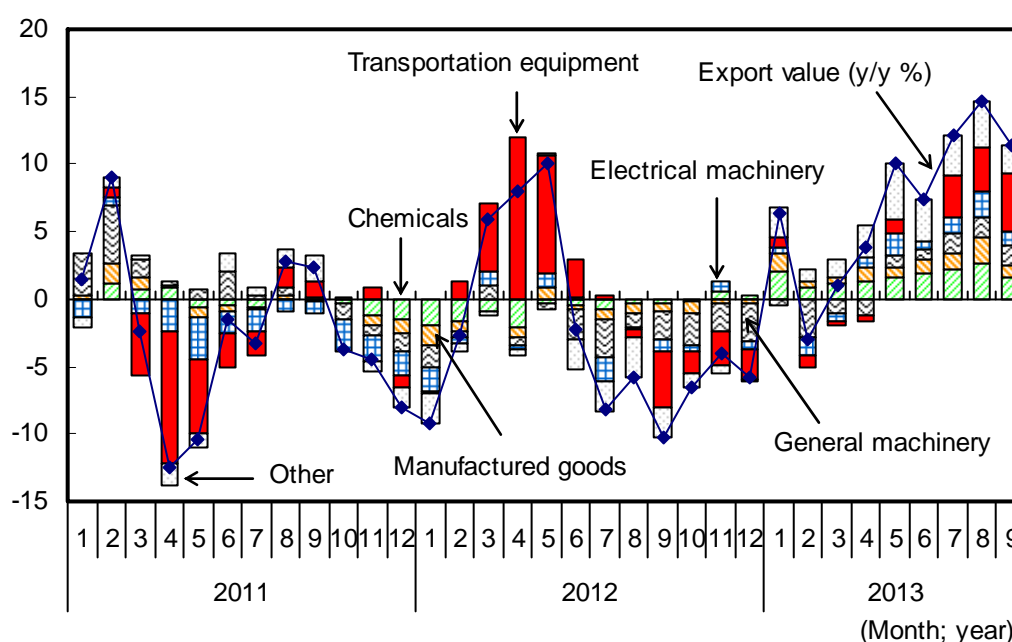
Export value of transportation equipment increased y/y for the fifth month in a row (up 19.1%), accelerating the pace of growth from August. Behind this were exports of such equipment to the US, the largest market for such exports, remaining steady (up 39.1%), and those to the EU advancing for the third consecutive month (up 31.2%). Meanwhile, those to Asian trading partners increased (up 8.6%) but the pace of growth slowed from August. While those to China surged (up 29.8%) in reaction to previous year's plunge related to the Chinese boycott of Japanese product, those to ASEAN declined for the first time in two months (down 11.8%), putting the brake on exports to Asian trading partners.

Export value of chemicals increased y/y for the 11th month in a row (up 15.9%). By trading partner, exports of chemicals increased across the board. Those to the US, the EU, and Asian trading partners advanced 17.1%, 6.1%, and 14.4%, respectively, maintaining the ongoing firm trend in general. Especially, exports of organic compounds surged (up 39.6%), centering on those to Asian NIEs and China, pushing up exports of overall chemicals.

Export value of general machinery increased y/y for the fifth month in a row (up 7.7%). The major factor behind this was exports to China increasing for the fourth consecutive month, reflecting gains in those of computer parts and centrifugals/pumps. Those to Asian NIEs increased for the fifth consecutive month, mainly supported by those of power generating machines. Those to the US posted the ninth consecutive monthly gain and those to the EU the fourth consecutive monthly gain. In general, exports of general machinery were steady. The exception was those to ASEAN, which saw the ninth consecutive decline, mainly due to a slide in exports of metal working machinery.

Breakdown of Export Value by Goods (% pt)

Chart 3



Source: Ministry of Finance; compiled by DIR.

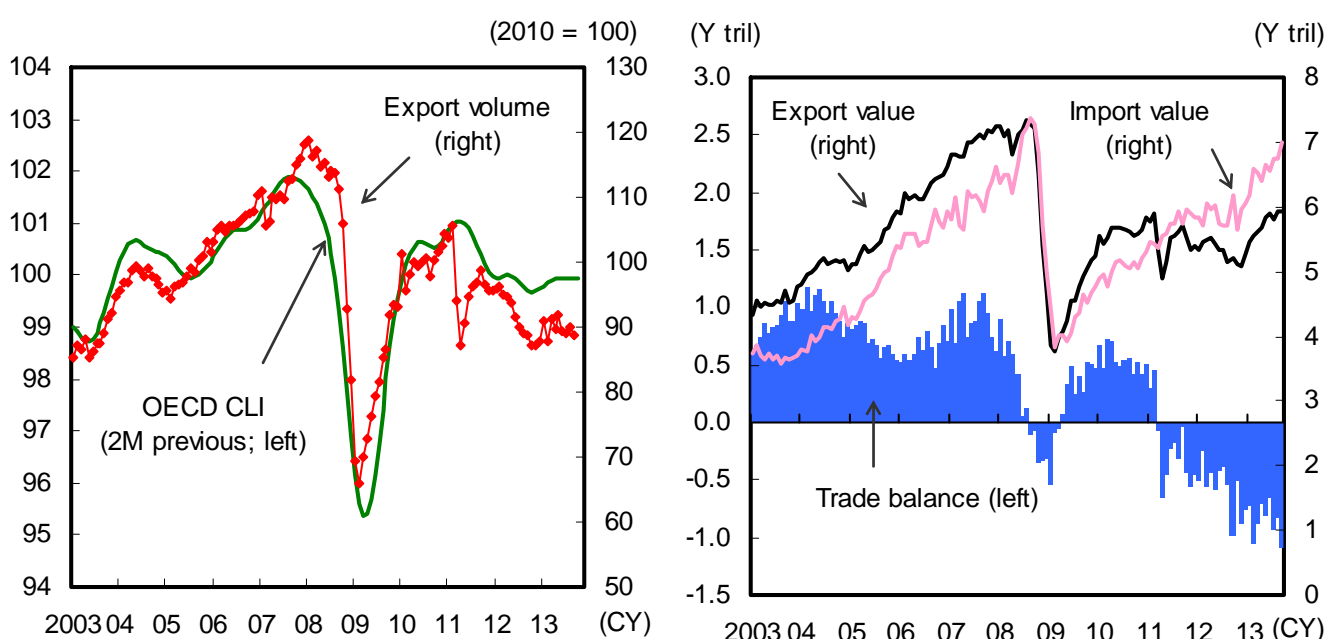
Note: Other=sum of foods, mineral fuels, raw materials, and "other".

Export volume to turn around centering on those to US

We anticipate export volume turning around going forward. Supported by economic recovery in the US, export volume to the US is expected to turn around from the current stagnation, driving overall export volume. That to the EU is also likely to continue to firming up. Meanwhile, ASEAN economies have slowed down, and the possibility of weakening exports to Asian trading partners warrants a close watch.

We expect imports to increase gradually, along with higher domestic demand. Considering the persistently high-volume imports of energy sources, the trade balance is likely to continue posting negative figures. However, the margin of trade deficit is likely to narrow gradually, accompanying higher 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.