

27 January 2014 (No. of pages: 4)

Japanese report: 27 January 2014

# December Trade Statistics

**Export volume fell first time in 3 months, while 2013 trade deficit hit historic high**

Economic Research Dept  
**Tsutomu Saito**

## Summary

- December 2013 trade statistics recorded the tenth consecutive month of export gains, with exports boasting 15.3% y/y growth, but fell below market consensus (+18.0%). Export amount in terms of price was +12.4% y/y continuing major gains, while export volume was up 2.6% y/y, third month in a row of y/y gains, helping to push up total export amount. In seasonally adjusted terms export amount was up 1.7% m/m, making this the third month in a row of m/m growth.
- Export volume index on a seasonally adjusted basis (DIR) fell for the first time in 3-months on a m/m basis, recording -1.2%. Export volume to the EU showed significant growth at +8.9% m/m, while exports to the U.S. fell 5.8% m/m, and those to Asia showed a m/m decline of 2.0%, helping to push overall figures downward.
- We project that export volume to all regions will be picking up. Though one hears rumors that the J-curve effect is losing its hold due to the weakening yen, the example of past incidences of yen depreciation tell us that it takes time for the trade balance to move significantly into the black. We see a continued recovery in export volume, which will lead in turn to the gradual taking hold of a downward trend in the trade deficit. We believe there is a very good possibility that the trade deficit will begin to gradually shrink after the middle of 2014.

Trade Statistics									Chart 1
	2013								
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Export value (y/y %)	3.8	10.1	7.4	12.2	14.6	11.5	18.6	18.4	15.3
Market consensus (Bloomberg)									18.0
DIR estimate									18.0
Import value (y/y %)	9.5	10.1	11.8	19.7	16.1	16.6	26.2	21.1	24.7
Export volume (y/y %)	-3.0	-1.2	-5.0	1.8	1.9	-1.8	4.4	6.2	2.6
Export price (y/y %)	7.0	11.5	13.1	10.2	12.5	13.6	13.6	11.5	12.4
Import volume (y/y %)	2.5	-2.2	-5.0	2.4	-1.9	-2.1	6.4	5.0	4.7
Import price (y/y %)	6.9	12.5	17.6	16.9	18.3	19.1	18.7	15.4	19.1
Trade balance (¥100 mil)	-8,848	-9,981	-1,817	-10,295	-9,679	-9,378	-10,967	-12,941	-13,021

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

## Export volume suffered m/m decline for the first time in 3-months

Dec. 2013 trade stats recorded the tenth consecutive month of export gains, with exports boasting 15.3% y/y growth, but fell below market consensus (+18.0%). Export amount in terms of price was +12.4% y/y continuing major gains, while export volume was up 2.6% y/y, third month in a row of y/y gains, helping to push up total export amount. In seasonally adjusted terms export amount was up 1.7% m/m, making this the third month in a row of m/m growth.

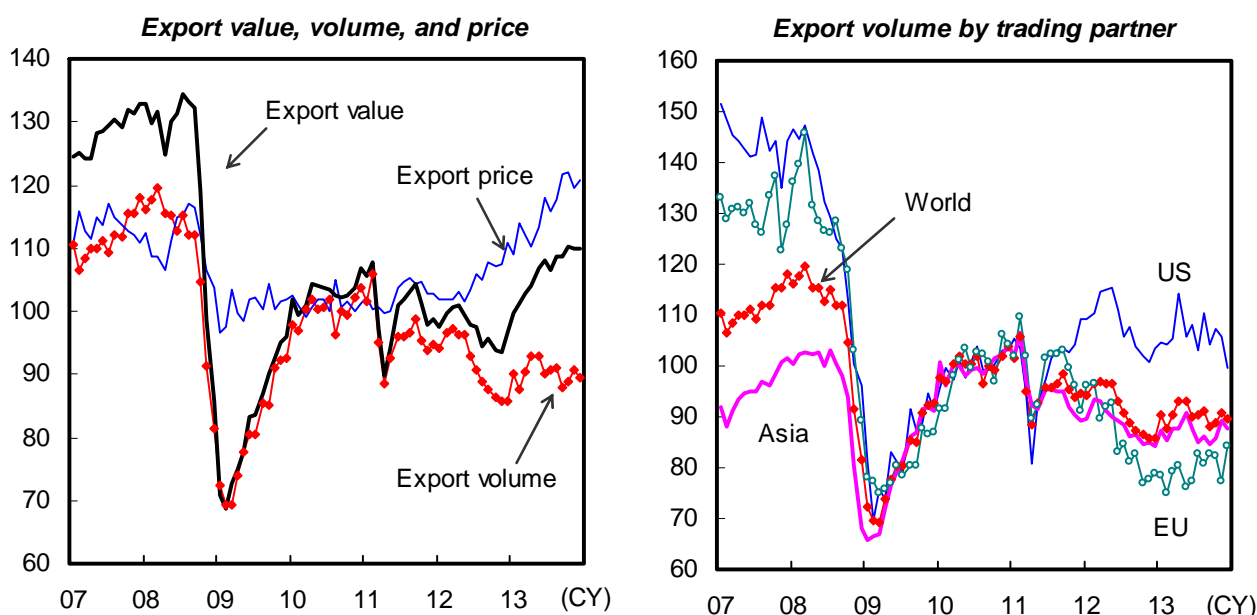
Export volume index on a seasonally adjusted basis (DIR) fell for the first time in 3-months on a m/m basis, recording -1.2%. Export volume to the EU showed significant growth at +8.9% m/m, while exports to the U.S. fell 5.8% m/m, and those to Asia showed a m/m decline of 2.0%, helping to push overall figures downward. Export volume to the EU was showing weak performance at one point, but average numbers reveal that they have been in a growth trend overall. As for December, it appears that general machinery has continued its firm tone centering on construction machinery. Export volume to the U.S. has continued its stagnant performance, with performance for transport machinery especially slow in December, and it is quite possible that this contributed to the overall decline in export volume. Meanwhile, export volume to Asia appears to be coming out of a slump, but for the time being is trading water.

## Increase in import volume brings 2013 record trade deficit

Import amount in December recorded y/y gains for the fourteenth month in a row at +24.7%. In addition to a major increase in import prices at 19.1% on a y/y basis, import volume also recorded y/y gains for the third month in a row at +4.7%, serving to further push the import amount up. As a result, the trade balance recorded a deficit for the eighteenth month in a row, at 1,302.1 billion yen in red ink. Meanwhile, the trade deficit for the full year of 2013 posted a historic high of 11,474.5 billion yen.

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

Chart 2



Source: Ministry of Finance; compiled by DIR.

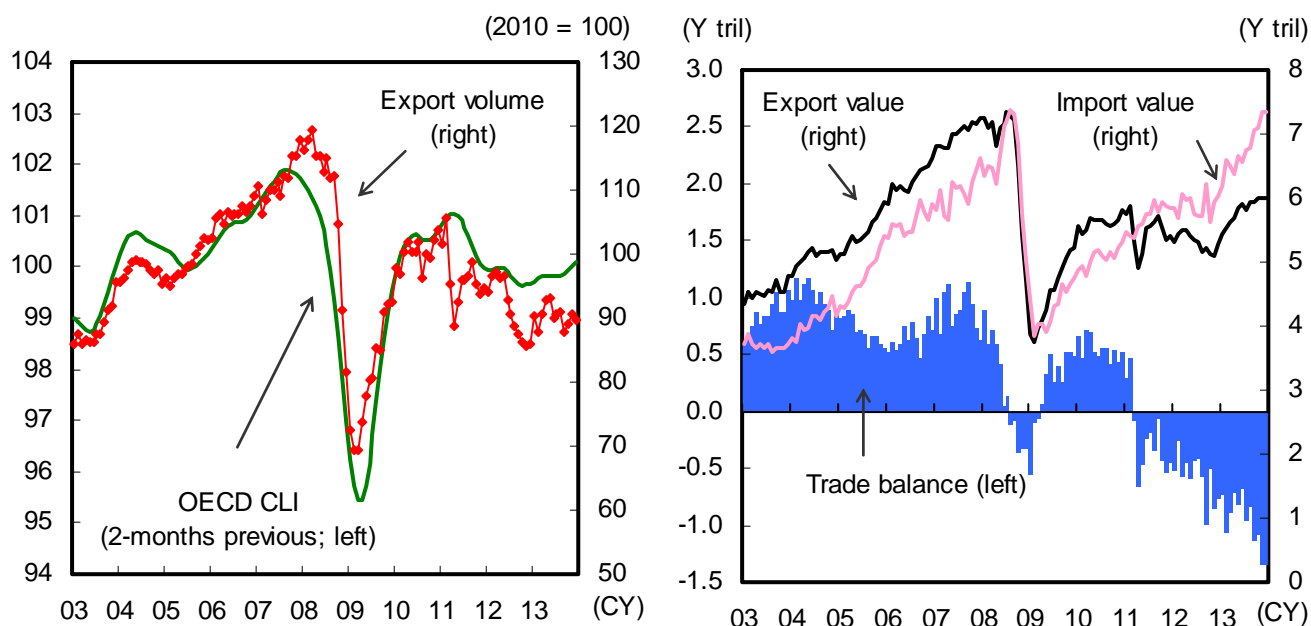
Note: Export value seasonally adjusted by Ministry of Finance; other by DIR.

## Export volume expected to continue picking up due to expanding overseas economies

We see export volume to all regions picking up. Import volume in the U.S. remains stagnant despite the firming up of personal spending, but with the continuation of the economic recovery, imports from Japan should gradually increase. Similarly, the EU is expected to see a trend of continued expansion in its economy after having hit bottom in 2013, meaning that possibilities are high that exports to the EU will return to a growth trend as well. The Asian economies are expected to show only gradual improvement with the region overall held back by the decline in China's economy, but we also see exports strengthening their growth trend to Asia bit by bit.

Global Economy and Japan's Export Volume and Trade Balance

Chart 3



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.

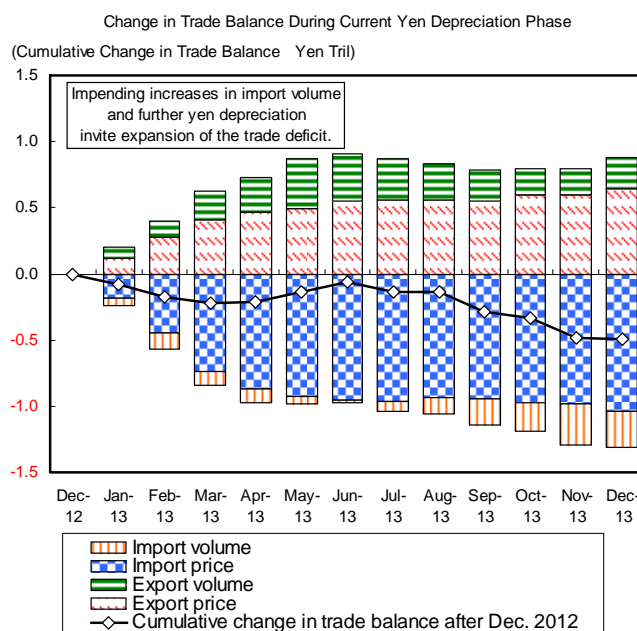
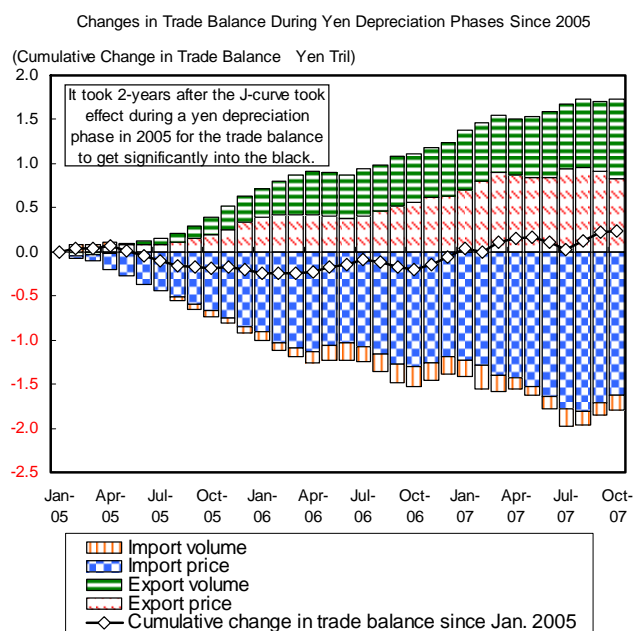
## J-curve effect takes time, but is expected to gradually take hold

The trade deficit is expected to continue its current trend due to growing import volume encouraged by domestic economic expansion. However, export volume is also making a comeback as mentioned earlier, and so with the additional influence of the upcoming increase in sales tax, there is a very good possibility that the import amount could shrink somewhat. We believe there is a very good possibility that the trade deficit will begin to gradually shrink after the middle of 2014.

Though one hears rumors that the J-curve effect due to the weakening yen is losing its hold, the example of past incidences of yen depreciation tell us that it takes time for the trade balance to move significantly into the black (see Chart 4). We see a continued recovery in export volume, which will lead in turn to the gradual taking hold of a downward trend in the trade deficit. We believe there is a very good possibility that the trade deficit will begin to gradually shrink after the middle of 2014.

## J-Curve Effect During Past Instances of Yen Depreciation

Chart 4



Note: All figures seasonally adjusted using 3-month moving average. Seasonal adjustment by DIR.  
Source: Ministry of Finance, compiled by DIR