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January Trade Statistics

Export volume falls below expectations, while trade deficit hits historic high on a single month basis

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Summary

- January 2014 trade statistics recorded the 11th consecutive monthly gain at 9.5% y/y, but fell below market consensus (+12.7%). Export amount in terms of price was up 9.7% y/y, continuing major growth, while export volume fell below in y/y terms for the first time in four months at -0.2%. This was most likely due to overall export amount dragging somewhat. In seasonally adjusted terms export amount was down for the second consecutive month at -3.5% m/m.

- Export volume index on a seasonally adjusted basis (DIR) fell for the second consecutive month at -0.7% m/m. By region, exports to the U.S. grew 7.4% m/m, while those headed for the EU were down by 3.1% along with Asia recording -3.2%, thereby dragging down the overall figures. However, the decline in exports to Asia is thought to be due largely to seasonal factors. Hence it can be interpreted as merely a temporary setback.

- We expect that export volume to all regions will continue to improve. Exports should gradually gain momentum, especially to the U.S. and EU, where economic expansion is expected to continue.

- The trade deficit is a difficult hurdle to overcome. Of the 11.5 trillion yen posted in 2013, four trillion yen is seen as being due to the increase in imports associated with the shutdown of nuclear power plants, while seven trillion yen is considered to be due to the hollowing out effect. However, we believe that the trade balance will gradually improve beyond midyear.

Trade Statistics — **Chart 1**

	2013 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2014 Jan
Export value (y/y %)	10.1	7.4	12.2	14.6	11.5	18.6	18.4	15.3	9.5
Market consensus (Bloomberg)									12.7
DIR estimate									14.6
Import value (y/y %)	10.1	11.8	19.7	16.1	16.6	26.2	21.2	24.7	25.0
Export volume (y/y %)	-1.2	-5.0	1.8	1.9	-1.8	4.4	6.2	2.5	-0.2
Export price (y/y %)	11.5	13.1	10.2	12.5	13.6	13.6	11.5	12.4	9.7
Import volume (y/y %)	-2.2	-5.0	2.4	-1.9	-2.1	6.4	5.0	4.7	8.0
Import price (y/y %)	12.5	17.6	16.9	18.3	19.1	18.7	15.4	19.1	15.7
Trade balance (Y100 mil)	-9,981	-1,817	-10,295	-9,679	-9,378	-10,967	-12,977	-13,042	-27,900

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

Export volume declined for second consecutive month

January 2014 trade statistics recorded the 11th consecutive monthly gain at 9.5% y/y growth, but fell below market consensus (+12.7%). Export amount in terms of price was up 9.7% y/y, continuing major growth, while export volume fell below in y/y terms for the first time in four months at -0.2%. This was most likely due to overall export amount dragging somewhat. In seasonally adjusted terms export amount was down for the first time in 2-months at -3.5% m/m.

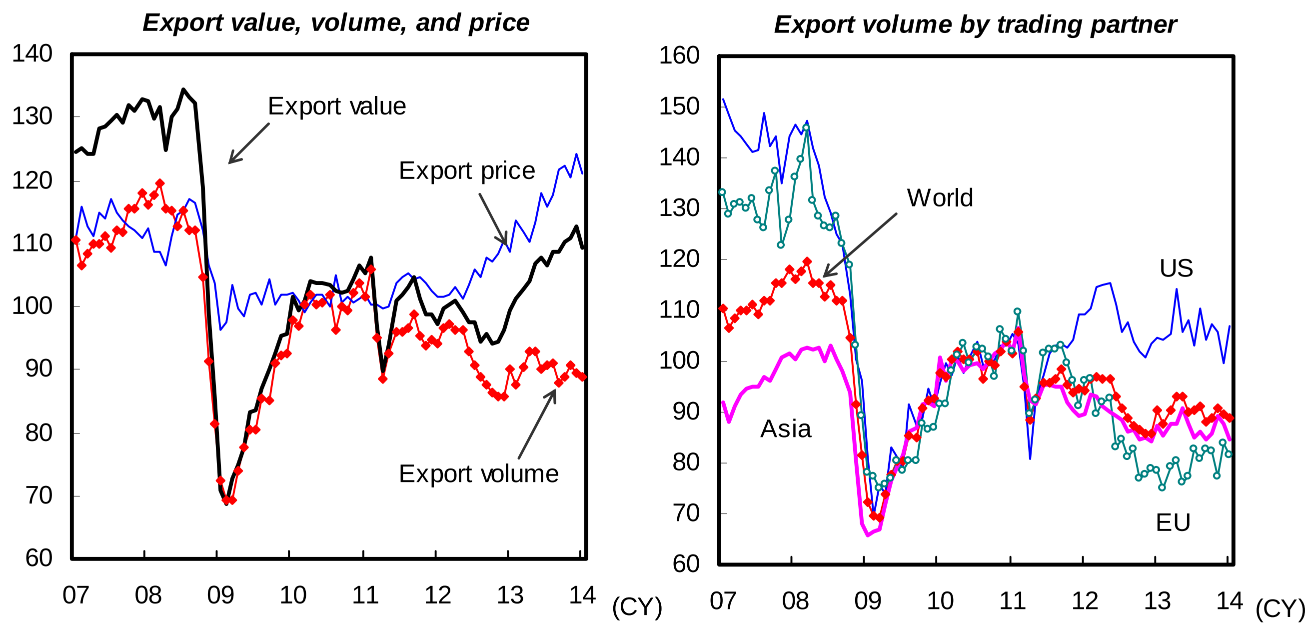
Export volume index on a seasonally adjusted basis (DIR) fell for the second consecutive month at -0.7% m/m. On a region by region basis exports to the U.S. grew 7.4% m/m, while those headed for the EU were down by 3.1% along with Asia recording -3.2%, thereby dragging down the overall figures.

The increase in export volume to the U.S. was largely due to a recovery for exports of passenger vehicles and auto parts which had suffered declines last month. Meanwhile, exports of machinery, such as general machinery and transport equipment to the EU slowed somewhat after having achieved continued growth in recent months. However, considered in terms of averages, we believe that European export volume is maintaining a growth trend. As for export volume to Asia, China suffered considerable declines. Exports to Asian NIEs are also down, and it is thought that the decline in exports to Greater China has pushed down exports to Asia overall. However, it is possible that this was due mostly to the lunar new year (Feb 9-15 last year) having shifted back ten days to Jan 31 – Feb 6 in 2014. Hence it can be interpreted as merely a temporary setback.

Trade deficit recorded historic high in January 2014

Import amount in January exceeded the previous year's results for the 15th consecutive month, recording +25.0% y/y. The import price increased by 15.7% y/y, continuing its steady rise, and import volume grew by 8.0% y/y backed by the domestic economic recovery, recording the fourth consecutive month of y/y gains and pushing up the overall import amount. As a result, the trade deficit hit 2,790 billion yen, the 19th consecutive month of red ink, putting it at a historic high in single month terms.

Export Value, Volume, Price and Export Volume by Trading Partner (2010 = 100) **Chart 2**

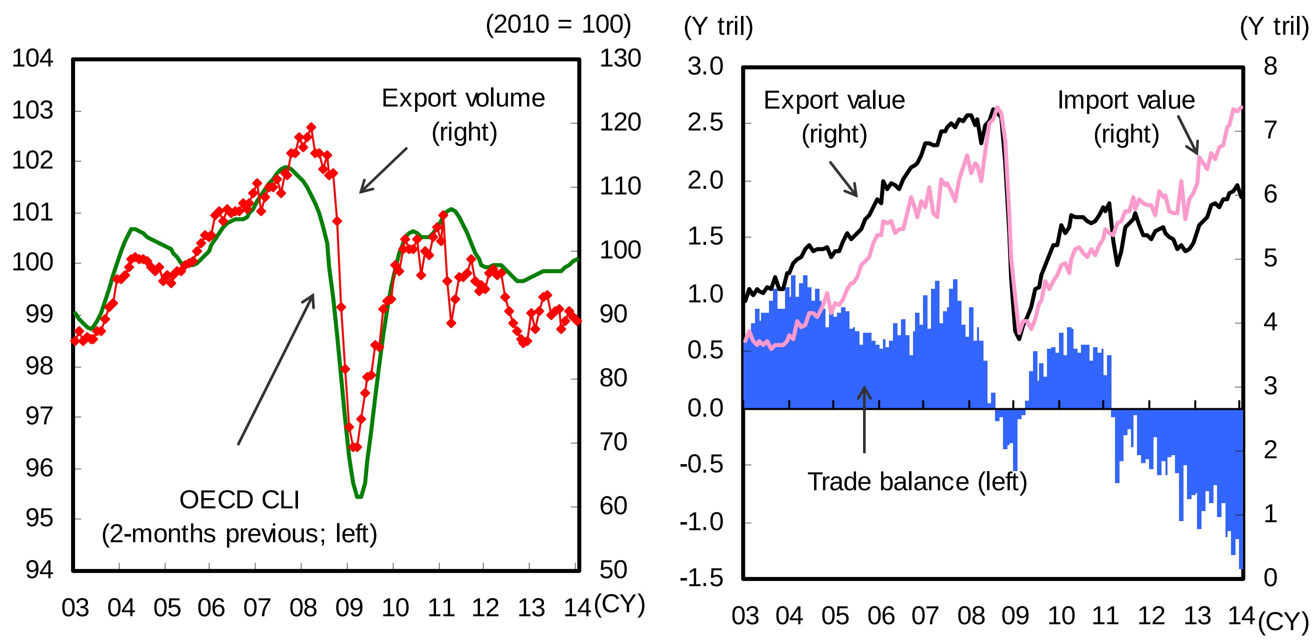


Source: Ministry of Finance; compiled by DIR.
Note: Export value seasonally adjusted by Ministry of Finance; other by DIR.

Export volume 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. Even so, exports to Asia are expected to gradually gain momentum.

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.

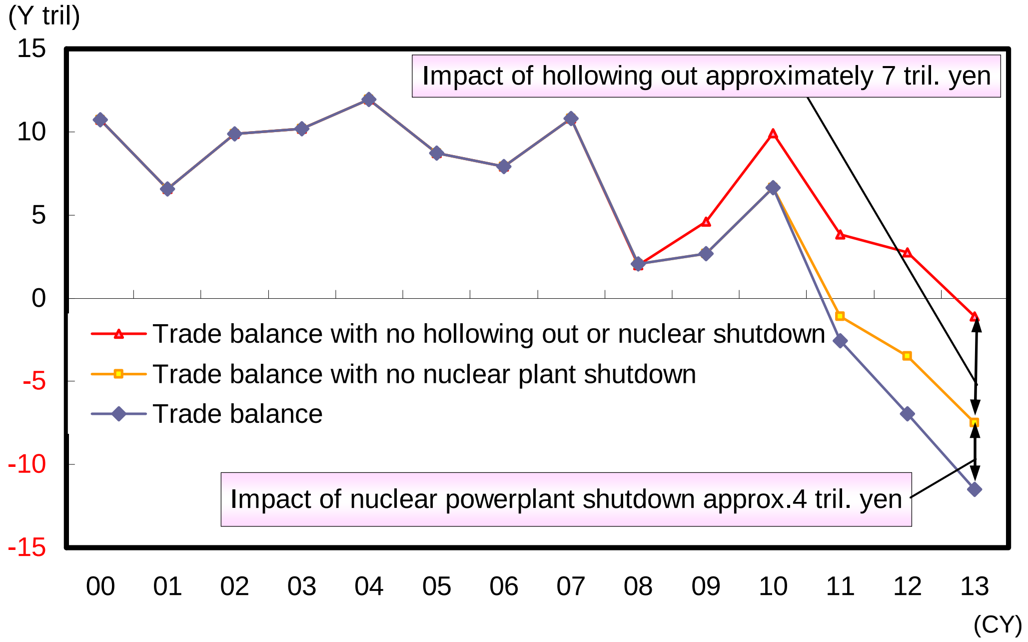
Trade deficit expected to expand due to hollowing out effect and nuclear plant shutdowns

Our outlook for the near future sees the current trend in trade deficits continuing, backed by the continued rise in import volume due to the domestic economic recovery. We estimate that of the 11.5 trillion yen posted in 2013, four trillion yen is due to the increase in imports associated with the shutdown of nuclear power plants, while seven trillion yen is due to the hollowing out effect. (See Chart 4)

Trade deficit difficult hurdle to overcome, but gradual improvement is seen

Nuclear power plants are not likely to go back into operation very soon, and it is expected to take quite a bit of time to correct the problem of the hollowing out effect. Hence the trade deficit is an extremely difficult hurdle to overcome. However, export volume is expected to pick up in the near future. After the consumption tax hike goes into effect, import volume will likely decline. Therefore, there is a very good possibility that the trade balance may gradually improve beyond midyear.

Impact of Hollowing-out Effect and Shutdown of Nuclear Power Plants on Trade Balance **Chart 4**



Source: Ministry of Finance, compiled by DIR.