

19 March 2014 (No. of pages: 3)

Japanese report: 19 March 2014

February Trade Statistics

Export volume achieves m/m growth for first time in 3 months. Trade deficit shrinks considerably

Economic Research Dept
Tutomu Saito

Summary

- According to February 2014 trade statistics, export volume recorded its 12th consecutive monthly gain in monetary terms at +9.8% y/y, but fell below market consensus (+12.4%). Even so, results were considered to be positive overall. Export price was up 4.2% y/y, a decline in comparison to last month's growth. On the other hand, export volume grew in y/y terms for the first time in two months at +5.4%, providing upward thrust for exports. In seasonally adjusted terms export amount grew for the first time in two months, registering +2.8% in month-to-month terms.
- Export volume index on a seasonally adjusted basis (DIR) grew for the first time in 3 months at +3.4% m/m. By region, exports to Asia grew +5.1% m/m helping to push the overall figures up. On the other hand, US figures were down by 3.4% m/m in addition to the EU, which fell by 0.7% m/m.
- We expect that export volume will continue to pick up. If import volume in the advanced economies begins to recover, Japan's exports to those countries should gradually strengthen their growth trend as well.
- As for what the future holds, import volume is expected to continue growing, reflecting the expansion of the domestic economy. This in turn will contribute to the continuation of the current trend in the trade deficit. However, exports are expected to begin picking up when imports take a short breathing spell after their peak due to last minute demand, and imports may very well continue this decline. Hence we expect the trade deficit to gradually shrink after the middle of 2014.

Trade Statistics								Chart 1	
	2013							2014	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Export value (y/y %)	7.4	12.2	14.6	11.4	18.6	18.4	15.3	9.5	9.8
Market consensus (Bloomberg)									12.4
DIR estimate									11.1
Import value (y/y %)	11.7	19.7	16.2	16.7	26.3	21.2	24.8	25.1	9.0
Export volume (y/y %)	-5.1	1.8	1.9	-1.8	4.4	6.2	2.5	-0.2	5.4
Export price (y/y %)	13.1	10.2	12.5	13.5	13.6	11.5	12.4	9.7	4.2
Import volume (y/y %)	-5.0	2.4	-1.9	-2.1	6.4	3.4	4.7	8.0	-0.5
Import price (y/y %)	17.5	16.9	18.4	19.2	18.7	17.2	19.1	15.9	9.6
Trade balance (¥100 mil)	-1,805	-10,325	-9,714	-9,432	-11,004	-13,011	-13,072	-27,917	-8,003

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

Export volume achieves m/m growth for first time in 3 months

February 2014 trade statistics recorded their 12th consecutive monthly gain in monetary terms at +9.8% y/y, but fell below market consensus (+12.4%). Even so, results were considered to be positive overall. Export price was up 4.2% y/y, a decline in comparison to last month's growth. On the other hand, export volume grew in y/y terms for the first time in two months at +5.4%, providing upward thrust for exports. In seasonally adjusted terms export amount grew for the first time in two months, registering +2.8% in month-to-month terms.

Export volume index on a seasonally adjusted basis (DIR) grew for the first time in 3 months at +3.4% m/m. By region, exports to Asia grew +5.1% m/m helping to push the overall figures up. On the other hand, US figures were down by 3.4% m/m in addition to the EU, which fell by 0.7% m/m.

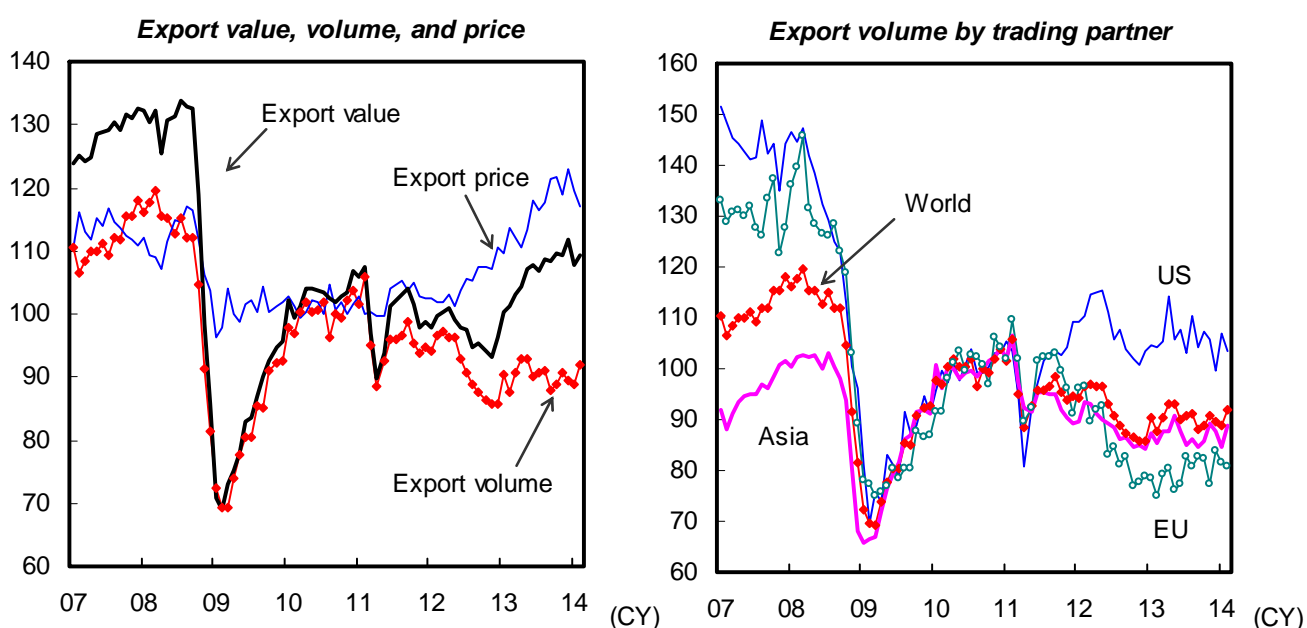
Growth in export volume to Asia was due largely to increases in exports to China and the Asian NIEs. This may be due to the earlier dates for the Lunar New Year celebration this year (Jan. 31 to Feb. 6 in 2014 as compared to Feb 9 to 15 during the previous year), causing exports which normally would have gone out in January to slide into February. Meanwhile, the decline in exports to the US was influenced mostly by a drop in automobile exports. As for exports to the EU, declines in general machinery and electrical devices appear to have contributed to the overall downturn.

Import volume falls in y/y terms for first time in 5 months. Trade deficit shrinks.

The February import amount made y/y gains for the sixteenth consecutive month at +9.0% y/y. Meanwhile, the import price grew by 9.6% in y/y terms in a continuation of the recent trend, thereby contributing to growth in exports in monetary terms. On the other hand, import volume, which has grown continuously in recent months, fell in y/y terms for the first time in 5 months, recording a y/y drop of 0.5%. As a result, the trade deficit declined considerably compared to last month, hitting 800.3 bil yen, representing 20 straight months of deficits.

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

Chart 2



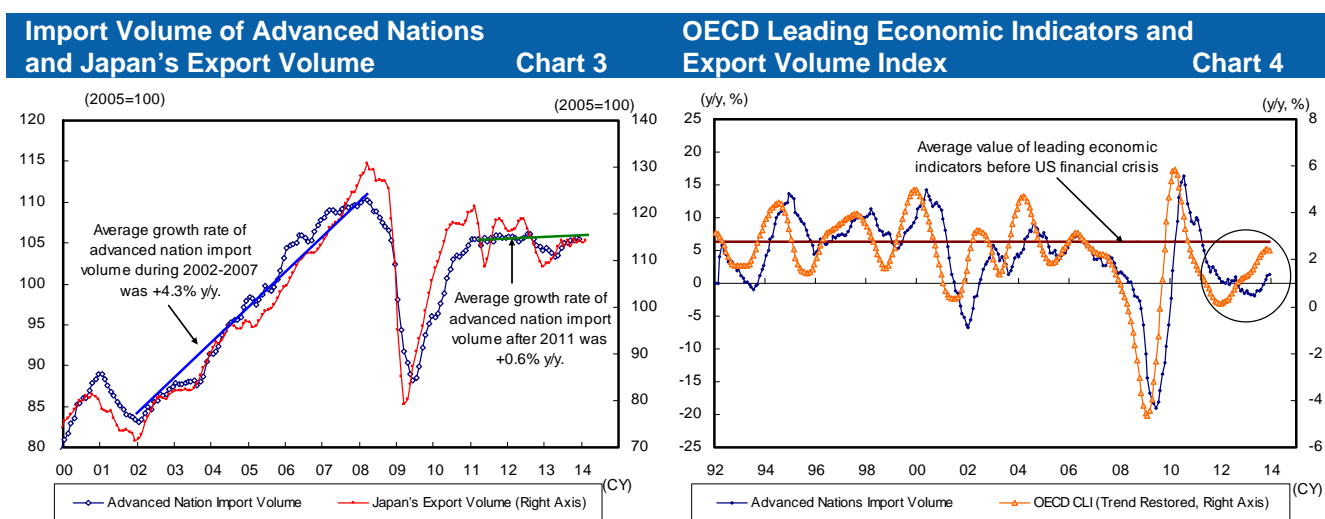
Source: Ministry of Finance; compiled by DIR.

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

Export volume expected to continue improving due to expanding overseas economies

We expect that export volume will continue to pick up. The slow growth for export volume of late is due largely to sluggish imports in the advanced nations. Chart 3 compares import volume in the advanced nations with Japan's export volume. We can see by the shapes of the graphs that these are generally linked. It is not difficult to see the relationship between sluggish imports in the advanced nations and slow growth in Japan's exports. However, if we now take into consideration the OECD leading economic indicators, which precede the advanced nations' import volume index, we see that the current trend actually shows continued improvement (Chart 4). Our outlook therefore calls for a gradual strengthening of the growth trend for Japan's exports as the import volume in the advanced nations moves into a growth trend in the future.

While import volume in the US has been faltering despite the recent robust trend in personal consumption, if the recovery in the corporate sector, centering mostly on capex, gains momentum, imports of Japanese goods are expected to gradually increase. As for the EU, economic recovery is expected to continue after having hit bottom in 2013, hence making it quite possible that Japan's exports to that region will recover as well. Meanwhile, the slowdown in China's economy is expected to make improvement in the Asian economies overall a gradual one. Even so, exports to Asia are expected to gradually win back their upward trend.



Source: Netherlands Bureau for Economic Policy Analysis (CPB), compiled by DIR

Source: Netherlands Bureau for Economic Policy Analysis (CPB), OECD, compiled by DIR

Trade deficit expected to shrink gradually

As for what the future holds, import volume is expected to continue growing, reflecting the expansion of the domestic economy. This in turn will contribute to the continuation of the current trend in the trade deficit. However, exports are expected to begin picking up when imports take a short breathing spell after their peak due to last minute demand, and imports may very well continue this decline. Hence we expect the trade deficit to gradually shrink after the middle of 2014.