

24 July 2014 (No. of pages: 3)

Japanese report: 24 Jul 2014

June Trade Statistics

Trade deficit grows due to recovery for imports

Economic Intelligence Team
Masahiko Hashimoto

Summary

- According to June 2014 trade statistics, exports in monetary terms were down -2.0% y/y, their second consecutive month of year-to-year decline. Meanwhile, figures fell below market consensus as well (+1.0% y/y). Declines were due mainly to export volume having fallen in y/y terms for the second consecutive month at -1.7%, with export prices down also by -0.3% y/y, the first decline in export prices since May 2011.
- June import amount achieved y/y growth for the first time in two months at +8.4%. The main factor encouraging growth was import volume which won y/y growth for the first time in three months at +7.2%. Import amount in seasonally adjusted terms was up +5.0% in m/m terms, registering growth for the first time in three months. As a result, Japan's trade balance was in the red by 822.2 bil yen, the first time in three months the trade deficit grew in year-to-year terms.
- The export volume index on a seasonally adjusted basis (DIR) grew for the first time in two months at +1.1% m/m. By region, exports to the US and Asia were down just slightly, with the US at -0.1% m/m, Asian exports at -0.4% m/m. Meanwhile, the EU gained +0.9%, thereby providing the support needed for overall gains.

Trade Statistics

Chart 1

	2013			2014					
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Export value (y/y %)	18.6	18.4	15.3	9.5	9.8	1.8	5.1	-2.7	-2.0
Market consensus (Bloomberg)									1.0
DIR estimate									2.2
Import value (y/y %)	26.3	21.2	24.8	25.1	9.0	18.2	3.4	-3.5	8.4
Export volume (y/y %)	4.4	6.2	2.5	-0.2	5.4	-2.5	2.0	-3.4	-1.7
Export price (y/y %)	13.6	11.5	12.4	7.0	4.2	4.4	3.0	0.7	-0.3
Import volume (y/y %)	6.4	3.4	4.7	8.0	-0.5	11.6	-1.3	-4.0	7.2
Import price (y/y %)	18.7	17.2	19.1	6.9	9.6	5.9	4.8	0.5	1.1
Trade balance (¥100 mil)	-11,004	-13,011	-13,072	-27,950	-8,047	-14,507	-8,149	-9,108	-8,222

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

Export Amount Declines in Y/Y Terms for Second Consecutive Month

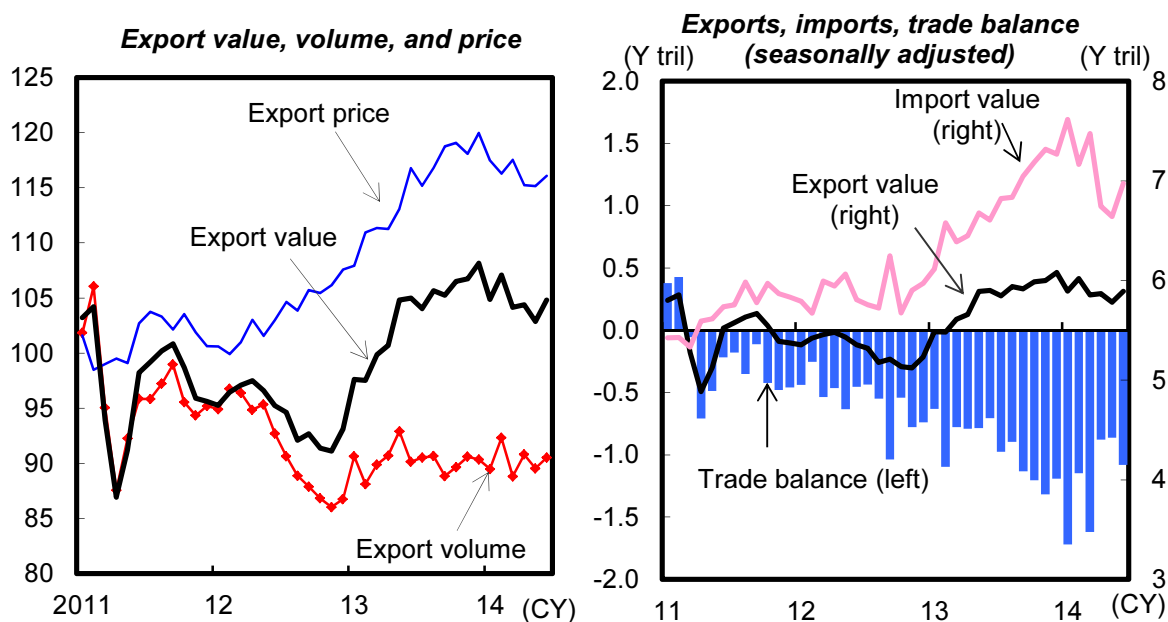
According to June 2014 trade statistics, exports in monetary terms were down -2.0% y/y, their second consecutive month of year-to-year decline. Meanwhile, figures fell below market consensus as well (+1.0% y/y). Declines were due mainly to export volume having fallen in y/y terms for the second consecutive month at -1.7%, with export prices down also by -0.3% y/y, the first decline in export prices since May 2011. However, on a seasonally adjusted basis, export amount grew for the first time in two months at +1.9% m/m. The main factor behind the decline in export amount is that export price has been in a gradual decline since the end of 2013, but looking at the month of June alone, it appears that the declines in the export amount have finally come to a halt.

June import amount achieved y/y growth for the first time in two months at +8.4%. The main factor encouraging growth was import volume which won y/y growth for the first time in three months at +7.2%. Import amount in seasonally adjusted terms was up +5.0% in m/m terms, registering growth for the first time in three months. Import volume has been in a recovery. Factors supporting this trend include (1) the gradual resolving of the reactionary decline in imports of natural resources after the increase in the petroleum and coal tax (there was a steep rise in imports of oil and coal in March prior to the April tax increase), and (2) increasing domestic demand due to the gradual recovery in personal consumption since the reactionary decline which occurred just after the increase in consumption tax.

As a result of high growth in imports, Japan's trade balance was in the red by 822.2 bil yen, the first time in three months the trade deficit grew in year-to-year terms. On a seasonally adjusted basis the trade deficit hit 1.08 tril yen, the first time for deficits to grow on an m/m basis in three months.

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

Chart 2



Source: Ministry of Finance; compiled by DIR.

Note: Export volume and export price seasonally adjusted by DIR.

Export Volume Wins M/M Growth for First Time in Two Months Due to Positive EU Exports

The export volume index on a seasonally adjusted basis (DIR) grew for the first time in two months at +1.1% m/m. By region, exports to the US and Asia were down just slightly, with the US at -0.1% m/m, Asian exports at -0.4% m/m. Meanwhile, the EU gained +0.9%, thereby providing the support needed for overall gains.

Exports of automobiles to the US, which declined last month, are beginning to make a comeback in terms of volume. In comparison, materials and electronic devices suffered declines, causing a drag on overall results, which were flat in comparison to the previous month. As for exports to the EU, automobiles appeared to be taking a breather from their recovery trend, but growth in electrical devices and general machinery helped to push overall figures up, ultimately winning growth in export volume for the second consecutive month. Meanwhile, exports of major electronic parts to the Asian NIEs declined, causing a drag on overall results.

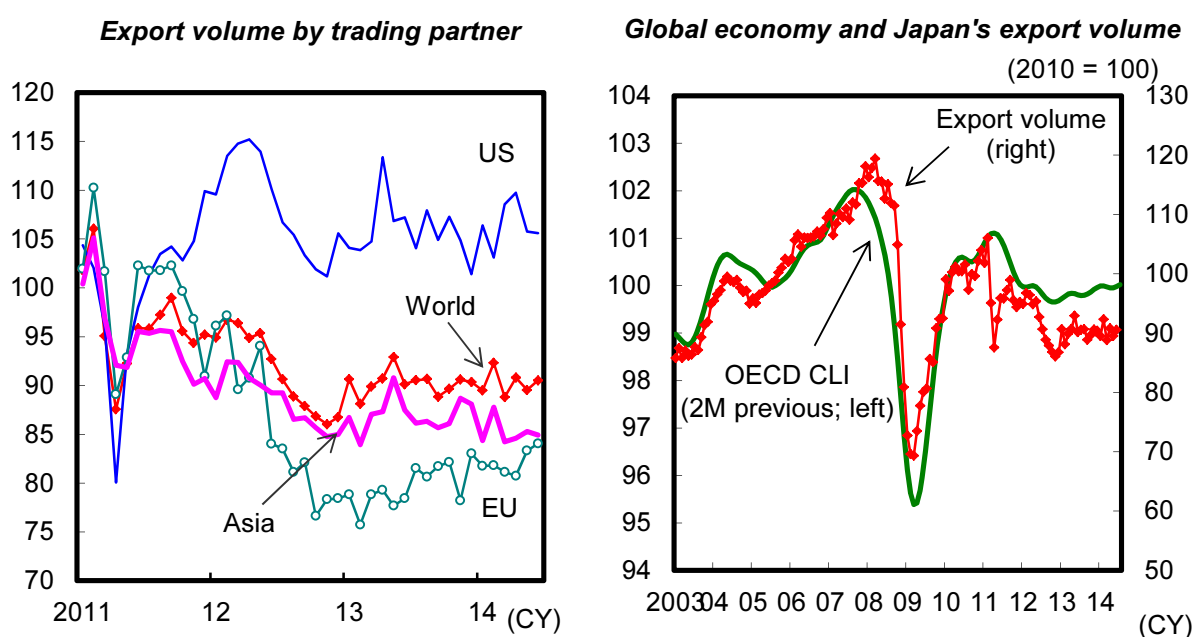
Export Volume Stands a Good Chance of Strengthening Recovery Trend in Response to Comeback in Overseas Demand

As for the future of export volume, the recovery trend is expected to gradually strengthen. Looking at trends by region, the US economy is continuing to expand backed by robust personal consumption. If the corporate sector moves into a full-fledged recovery centering on capex, exports from Japan are expected to achieve even more growth. The EU is also strengthening its economic recovery trend, even if somewhat more gradual, and since economic expansion is expected to continue in the future, exports to the EU stand a good chance of strengthening their recovery trend. Recovery in the US and EU economies is also expected to give a lift to the Asian countries, which are seen making more rapid improvement. Meanwhile, China, which had been stagnating recently, is beginning to show signs of a comeback due to effective economic policy. Therefore, exports to Asia are also expected to gradually increase momentum.

A comeback for export volume will also mean a good chance of shrinking the trade deficit in the future. However, along with the expansion of domestic demand, import volume and amount are expected to continue growing, hence the trade deficit is not expected to disappear soon. Trade deficits will likely continue for some time.

Export Volume by Trade Partner; Global Economy and Japan's Export Volume

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.