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# August Trade Statistics

## Exports slow to recover

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### Summary

- According to August 2014 trade statistics, exports remained stagnant, leaving little room for optimism where improvement in the trade balance is concerned. Exports in monetary terms were down for the first time in two months at -1.3% y/y, though they did exceed market consensus (-2.6% y/y). Export price was up for the second consecutive month at +1.6% y/y, but export volume fell considerably below this figure at -2.9%. Meanwhile, the August import amount suffered a decline for the first time in three months at -1.5% y/y.
- The trade balance was in the red for the 26<sup>th</sup> consecutive month at -948.5 bil yen, though the extent of the deficit shrank slightly in comparison with the previous year (-971.4 bil yen). This was the second consecutive month in which the trade deficit shrank somewhat, due to the fact that the decline in imports exceeded that of exports.
- With the increase in domestic demand, coupled with the expected continuation of growth in import volume and amount, the trade balance is not expected to be back in the black very soon – in fact the deficit is expected to continue for some time. It is still quite possible for the amount of the trade deficit to increase again in the future, with growth in the amount of energy imports due to the yen having weakened further during the latter half of August, and increased imports of communications equipment due to the new iPhone 6 going on sale.

### Trade Statistics

Chart 1

	2013		2014						
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Export value (y/y %)	15.3	9.5	9.8	1.8	5.1	-2.7	-1.9	3.9	-1.3
Market consensus (Bloomberg)									-2.6
DIR estimate									-3.5
Import value (y/y %)	24.8	25.1	9.0	18.2	3.4	-3.5	8.5	2.3	-1.5
Export volume (y/y %)	2.5	-0.2	5.4	-2.5	2.0	-3.4	-1.7	1.0	-2.9
Export price (y/y %)	12.4	9.7	4.2	7.0	3.0	0.7	-0.3	2.9	1.6
Import volume (y/y %)	4.7	8.0	-0.5	11.6	-1.3	-4.0	7.2	-0.3	-4.6
Import price (y/y %)	19.1	15.9	9.6	6.9	4.8	0.5	1.2	2.7	3.2
Trade balance (Y100 mil)	-13,072	-27,950	-8,047	-14,507	-8,149	-9,108	-8,285	-9,621	-9,485

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

## Export Amount Suffers Y/Y Decline for First Time in Two Months

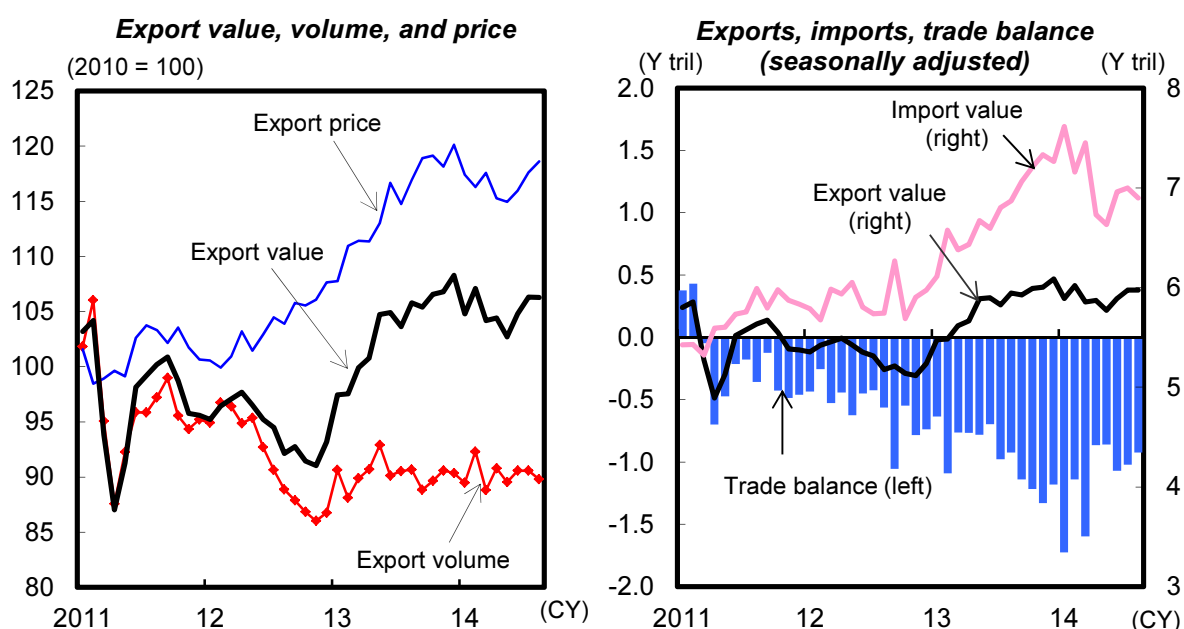
According to August 2014 trade statistics, exports remained stagnant, leaving little room for optimism where improvement in the trade balance is concerned. Exports in monetary terms were down for the first time in two months at -1.3% y/y, though they did exceed market consensus (-2.6% y/y). Export price was up for the second consecutive month at +1.6% y/y, but export volume fell considerably below this figure at -2.9%. In seasonally adjusted terms the export amount showed signs of a comeback during June and July, basically reflecting the growth seen in export price, but it seems to have taken a break in August at -0.0% m/m.

The August import amount suffered a decline for the first time in three months at -1.5% y/y. While import price achieved considerable growth at +3.2% y/y, import volume suffered a major year to year decline at -4.6%, thereby pushing down figures for import amount. Looking at import amount in seasonally adjusted terms, there was a decline of -1.4% m/m. The effects of the reactionary decline after the increase in consumption tax last April are gradually being resolved, and import volume is slowly making a comeback following improvements made in personal consumption which has breathed life back into domestic demand, but performance was largely effected by the decline in energy imports. Moreover, since the yen exchange rate used to figure trade statistics lags behind the actual rate by around two weeks, it is likely that the rapid weakening of the yen during the latter half of August will bring upward pressure on the import price in September and beyond.

The trade balance was in the red for the 26<sup>th</sup> consecutive month at -948.5 bil yen, though the extent of the deficit shrank slightly in comparison with the previous year (-971.4 bil yen). This was the second consecutive month in which the trade deficit shrank somewhat, due to the fact that the decline in imports exceeded that of exports. On a seasonally adjusted basis the trade deficit hit -924.2 bil yen, shrinking slightly in m/m terms.

Export Value, Volume, Price and Trade Balance

Chart 2



Source: Ministry of Finance; compiled by DIR.

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

## Export Volume Remains Stagnant with Month-to-Month Decline of -0.9%

The export volume index on a seasonally adjusted basis (DIR) fell in m/m terms for the first time in three months at -0.9%. Export volume continued to mark time. By region, export volume to the US exhibited growth of +0.7% m/m, while EU exports were down by -1.6% and exports to Asia were down by -0.2%, thereby bringing overall export volume down. The continued slowdown in exports of electrical devices appeared to be behind the major decline in exports to the EU, while the situation in the Ukraine may also have contributed to overall declines in the region.

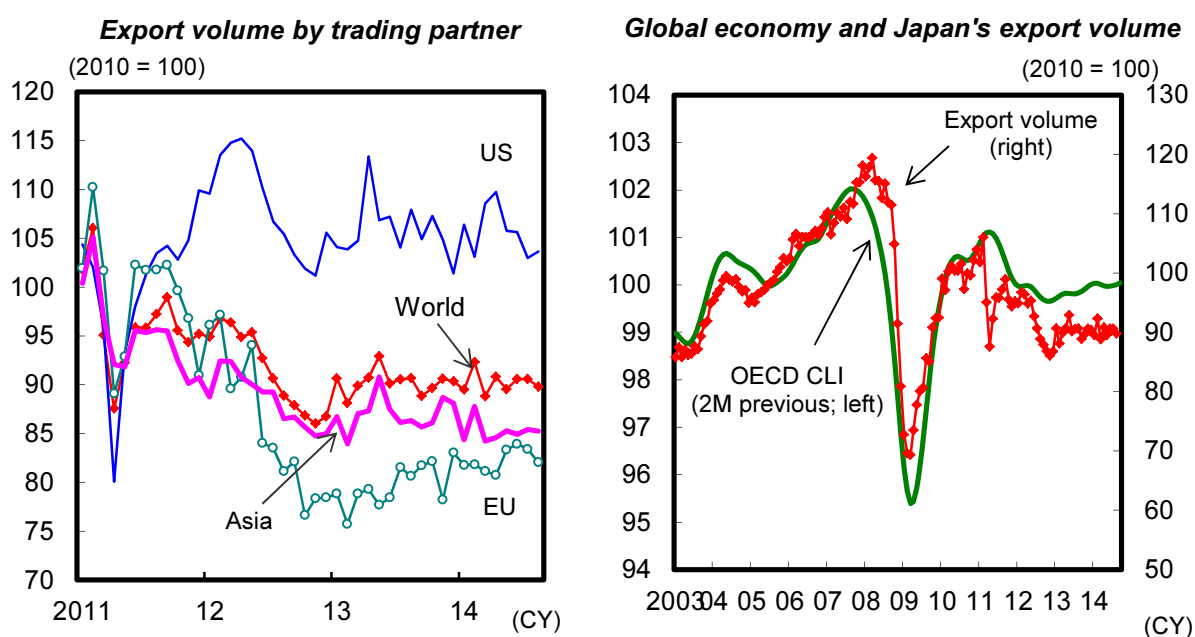
## Trade Balance Expected to Continue Reporting Deficits, While Effects of Weakening Yen Require Continued Monitoring

As for the future of export volume, performance is expected to gradually move toward a growth trend. Looking at economic trends by region, the US economy is continuing to expand backed by robust personal consumption. Automobiles, Japan's major export to the US, continue to mark time due to progress in Japanese auto makers moving their production to the US. However, as the corporate sector recovers, export growth is also promised, centering on capital goods. The EU has experienced somewhat of a slowdown up to now, but gradual economic expansion is expected, due to the monetary easing policy of the European Central Bank. Exports to the EU appear to be taking a breather at this point, but are expected to move into a growth phase in the future. 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, which have been slow of late, are also expected to gradually see a comeback.

With the increase in domestic demand, coupled with the expected continuation of growth in import volume and amount, the trade balance is not expected to be back in the black very soon – in fact the deficit is expected to continue for some time. It is still quite possible for the amount of the trade deficit to increase again in the future, with growth in the amount of energy imports due to the yen having weakened further since the latter half of August, and expectations that imports of communications equipment will increase due to the new iPhone 6 going on sale. However, possibilities are good that the size of the trade deficit will gradually shrink in the midterm with the help of a comeback for export volume supported by the recovery in overseas economies.

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.