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January Trade Statistics

Trade Deficit Shrinks Considerably Thanks to Major Growth in Export Volume and Decline in Import Price

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Summary

- According to January 2015 trade statistics, export value grew for the fifth consecutive month at +17.0% y/y. The upward push from the weak yen was a major factor in growth, as well as the export price which grew by +5.2% y/y. In addition, export volume was up sharply by +11.2% y/y, helping to push up export value. The seasonally adjusted figure for export value grew by +1.8% m/m, its eighth consecutive month of growth, in a continuation of the growth trend. Export value exceeded market consensus considerably at +13.5% y/y thanks to major growth in export volume significantly exceeding expectations.
- January 2015 import value declined on a y/y basis for the first time in two months at -9.0% y/y. In addition to a decline in import volume at -6.3% y/y, the import price also fell as a result of the collapse in crude oil prices by -2.9% y/y, the first decline it has experienced on a y/y basis since October 2012. This was a major factor in pushing down import value.
- The trade balance recorded a deficit for the thirty-first consecutive month at -1,177.5 bil yen. However, this figure is less than half the amount recorded during the same month of the previous year due to major growth in exports and the collapse in the price of crude oil. In seasonally adjusted terms, the trade balance recorded -406.1 bil yen, representing the fourth month in a row of shrinking trade deficits.

Trade Statistics

Chart 1

	2014									2015
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Jan
Export value (y/y %)	-2.7	-1.9	3.9	-1.3	6.9	9.6	4.9	12.8		17.0
Market consensus (Bloomberg)										13.5
DIR estimate										9.6
Import value (y/y %)	-3.5	8.5	2.4	-1.4	6.3	3.1	-1.6	1.9		-9.0
Export volume (y/y %)	-3.4	-1.6	1.0	-2.9	2.8	4.8	-1.7	3.9		11.2
Export price (y/y %)	0.7	-0.3	2.9	1.6	4.0	4.6	6.7	8.6		5.2
Import volume (y/y %)	-4.0	7.2	-0.3	-4.5	3.0	-1.7	-7.0	-1.8		-6.3
Import price (y/y %)	0.5	1.2	2.7	3.3	3.2	4.9	5.8	3.8		-2.9
Trade balance (Y100 mil)	-9,108	-8,285	-9,649	-9,527	-9,641	-7,407	-8,952	-6,652		-11,775

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

Export value wins y/y growth for fifth consecutive month, exceeds consensus significantly

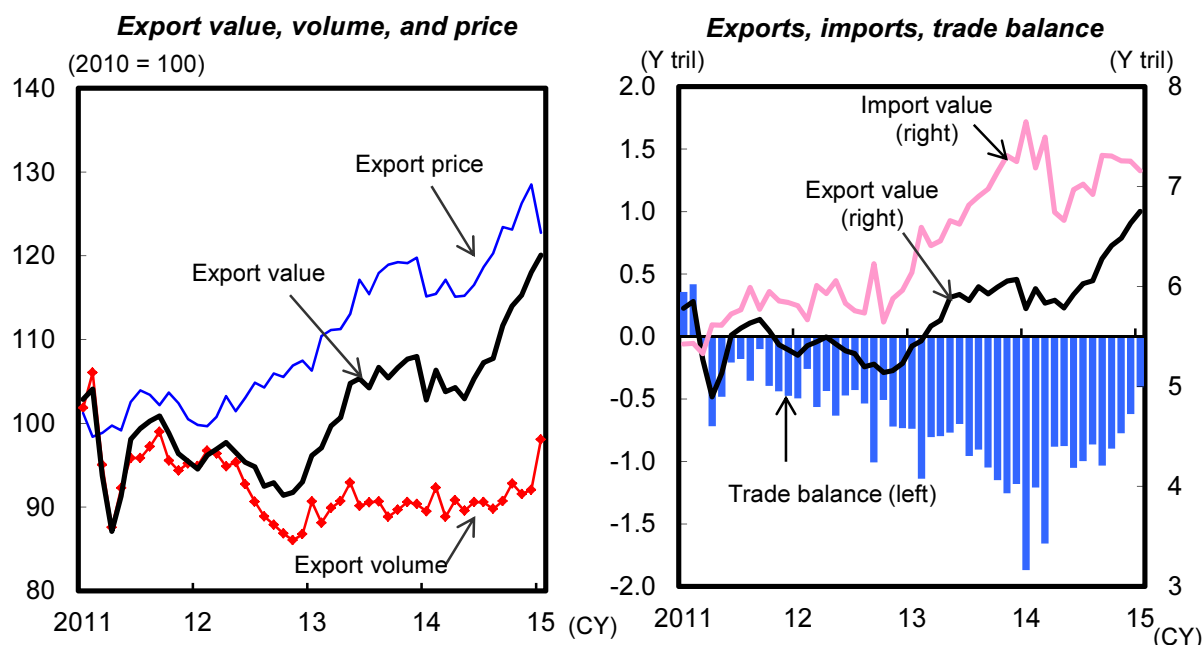
According to January 2015 trade statistics, export value grew for the fifth consecutive month at +17.0% y/y. The upward push from the weak yen was a major factor in growth, as well as the export price which grew by +5.2% y/y. In addition, export volume was up sharply by +11.2% y/y, helping to push up export value. The seasonally adjusted figure for export value grew by +1.8% m/m, its eighth consecutive month of growth, in a continuation of its growth trend. Export value exceeded market consensus considerably at +13.5% y/y thanks to major growth in export volume significantly exceeding expectations.

January 2015 import value declined on a y/y basis for the first time in two months at -9.0% y/y. In addition to a decline in import volume at -6.3% y/y, the import price also fell as a result of the collapse in crude oil prices by -2.9% y/y, the first decline it has experienced on a y/y basis since October 2012. This was a major factor in pushing down import value. Import volume continued its decline in y/y terms for the fourth consecutive month, while in m/m terms, it actually grew for the first time in four months at +4.3% (seasonal adjustment by DIR). This figure indicates that import volume is making a comeback, following the trend of improving domestic demand.

The trade balance recorded a deficit for the thirty-first consecutive month at -1,177.5 bil yen. However, this figure is less than half the amount recorded during the same month of the previous year due to major growth in exports and the collapse in the price of crude oil. In seasonally adjusted terms, the trade balance recorded -406.1 bil yen, representing the fourth month in a row of shrinking trade deficits.

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 wins major m/m growth, encourages expectations of accelerated growth trend

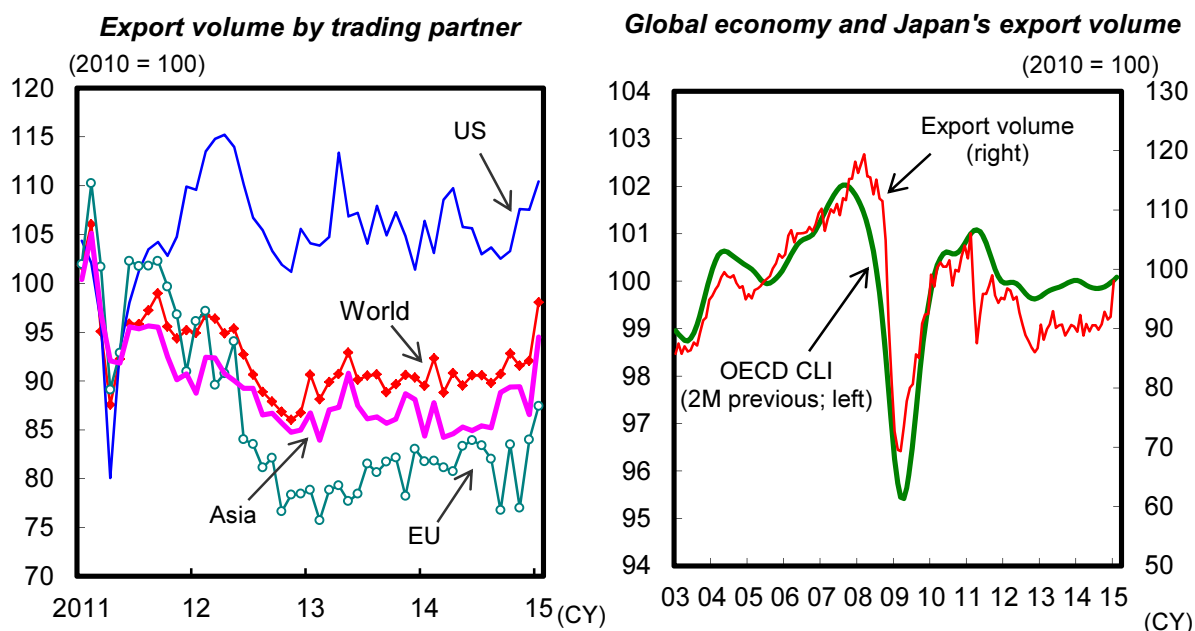
The export volume index on a seasonally adjusted basis (DIR) recorded major growth at +6.5% m/m for the second consecutive month, while the 3-month moving average grew for the sixth consecutive month. The growth trend was seen on an export volume basis as well. Looking at regional trends we

see improvements in all areas, with exports to the US up by +2.7% m/m, EU exports up by +4.1%, and Asian exports up by +9.2% m/m. A sharp rise in exports to Asia was a significant factor in pushing up the overall result. It is still a bit early to make any conclusions on single month results, but these numbers certainly encourage expectations that growth has picked up in export volume, attaining a quicker pace than was seen in the extremely moderate growth in recent months. However, the steep growth in exports to Asia may have been influenced by the fact that the Lunar New Year celebrated in most of the East Asian countries is nearing. Hence it should be kept in mind that a sudden steep decline could occur in February.

Looking at export volume by region and types of goods, we see that exports of iron and steel products to the US, which had been experiencing continued growth up to now, have declined. One of the factors behind this may be the decline in automobile exports. In contrast, electrical machinery achieved growth, helping to pull overall performance up along with it. Meanwhile, exports to the EU appear to be continuing the growth seen during the last month, focusing especially on transport equipment. As for exports to Asia, electronic components and devices won favorable performance, while exports of general machinery to China and the ASEAN recorded growth, along with exports of transport equipment the Asian NIEs. Growth in these areas contributed to overall positive results.

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.

Trade deficit expected to shrink further in February

As for the future of exports, the growth trend in terms of export volume is expected to continue in association with the recovery in overseas economies. Meanwhile, our outlook for the economy by trading partner sees the US continuing its economic expansion lead by robust personal consumption. Automobiles, Japan's major export product to the US, are expected to continue experiencing sluggish growth due to the increase in local production carried out by Japanese auto makers in the US, but growth in exports is expected in the future centering on capital goods, which are now showing strength. Meanwhile, there is a slowdown in growth in the EU and China, bringing a danger factor into the mix. However, the additional monetary easing policy of the European Central Bank should take effect and bring about a gradual comeback. Meanwhile, emerging economies in Asia other than China with strong dependence on the US economy are likely to see an acceleration of the recovery led by US

economic expansion. Therefore, exports to both Asia and the EU are expected to continue in a growth trend.

The trade deficit is expected to continue to shrink as a result of improved export volume supported by recovery in overseas economies. Meanwhile, falling oil prices should also contribute significantly to bringing down the trade deficit in the short-term. According to January trade statistics, the unit price of imported oil was \$63.8/bbl, higher than the international oil market where it has been at around \$50/bbl. The unit price of imported oil tends to lag about a month behind the international crude oil market, so the price of imported crude oil is expected to drop further in February, and to contribute further to the reduction of the trade deficit. However, along with the reversal experienced in the crude oil price, an increase is expected in domestic demand along with growth in import volume. Hence the pace of decline in the trade deficit is expected to slow somewhat in March and beyond. Although we expect Japan to continue maintaining a trade deficit, we also see the extent of the deficit to continue shrinking until it moves closer to zero. We believe that with the low price of crude oil and the current trend in the yen exchange rate, the trade balance stands a chance of getting back into the black earlier than previously expected.