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February Trade Statistics

Lunar New Year celebrations bring downward pressure on exports

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Summary

- According to February 2015 trade statistics, export value grew for the sixth consecutive month at +2.4% y/y, but the extent of growth fell far below that of the previous month, which recorded +17.0%. The seasonally adjusted figure for export value was also down by -7.0% m/m, suffering its first decline in nine months. It appears that the growth rate which had continued until now has slowed down, with exports now merely treading water as of this point.

- However, we have to keep in mind that both January's sharp growth and February's decline were influenced largely by Lunar New Year celebrations in the Sinosphere. Export value to China grew by +20.8% y/y in January and then fell sharply in February to -17.3%. Although we cannot assess February performance as having been positive, it still exceeded market consensus (+0.3% y/y) which was low due to the Lunar New Year factor. Meanwhile, considering the fact that the total in export value to the entire world in January and February together maintained high growth at +9.4% y/y, we believe these are not completely pessimistic results.

- Import value declined on a y/y basis for the second consecutive month at -3.6% y/y. Meanwhile, import volume achieved growth for the first time in five months at +4.5% y/y. The collapse in the price of crude oil brought the import price down by -7.8% y/y, a major factor in pushing down import value. As a result, the trade balance recorded a deficit for the thirty-second consecutive month at -424.6 bil yen, but shrank in comparison to the previous month. In seasonally adjusted terms, the trade balance recorded an increase for the first time in three months at -638.8 bil yen, due to the major decline in exports.

Trade Statistics — **Chart 1**

	2014 Jun	Jul	Aug	Sep	Oct	Nov	Dec	2015 Jan	Feb
Export value (y/y %)	-2.0	3.9	-1.3	6.9	9.6	4.9	12.8	17.0	2.4
Market consensus (Bloomberg)									0.3
DIR estimate									1.5
Import value (y/y %)	8.6	2.4	-1.4	6.2	3.1	-1.6	1.9	-9.0	-3.6
Export volume (y/y %)	-1.7	1.0	-3.0	2.8	4.8	-1.7	3.9	11.1	-2.1
Export price (y/y %)	-0.3	2.9	1.7	4.0	4.6	6.7	8.6	5.3	4.7
Import volume (y/y %)	7.2	-0.4	-4.6	3.0	-1.8	-6.9	-1.8	-6.3	4.5
Import price (y/y %)	1.3	2.8	3.3	3.2	5.1	5.8	3.8	-2.9	-7.8
Trade balance (Y100 mil)	-8,341	-9,665	-9,532	-9,620	-7,418	-8,988	-6,656	-11,791	-4,246

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

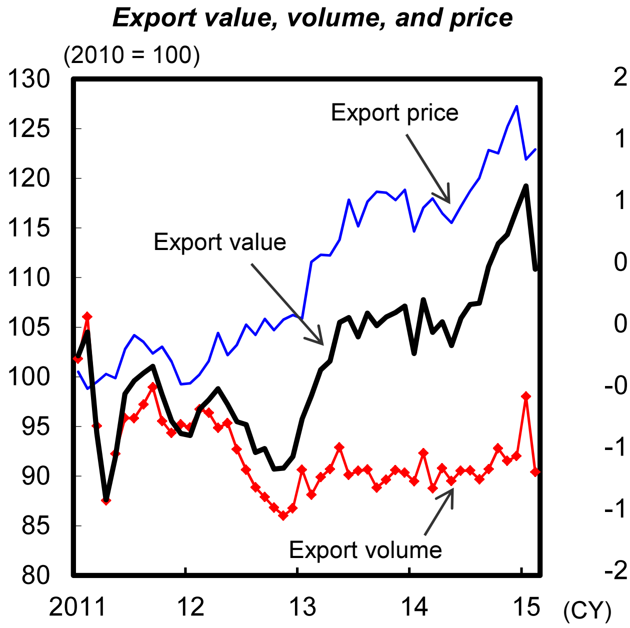
Export value wins y/y growth for sixth consecutive month, but extent of growth shrinks in comparison to previous month

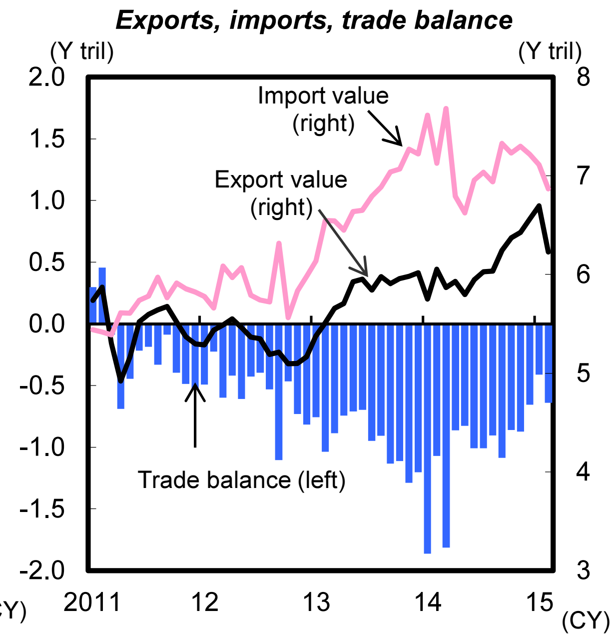
According to February 2015 trade statistics, export value grew for the sixth consecutive month at +2.4% y/y, but the extent of growth fell far below that of the previous month, which recorded +17.0%. Looking at export value in terms of the price factor and the volume factor, we see that the weak yen brought upward pressure on results, while the export price continued its climb by +4.7% y/y. However, the extent of growth in export price shrank in comparison to the previous month, while export volume (-2.1% y/y) suffered a loss in comparison to the considerable growth of the previous month (+11.1%), bringing downward pressure on export value. The seasonally adjusted figure for export value was also down by -7.0% m/m, suffering its first decline in nine months. It appears that the growth rate which had continued until now has slowed down, with exports now merely treading water as of this point. However, we have to keep in mind that both January's sharp growth and February's decline were influenced largely by Lunar New Year celebrations in the Sinosphere. Export value to China grew by +20.8% y/y in January and then fell sharply in February to -17.3%. Although we cannot assess February performance as having been positive, it still exceeded market consensus (+0.3% y/y) which was low due to the Lunar New Year factor. Meanwhile, considering the fact that the total in export value to the entire world in January and February together maintained high growth at +9.4% y/y, we believe these are not completely pessimistic results.

Import value declined on a y/y basis for the second consecutive month at -3.6% y/y. Meanwhile, import volume achieved growth for the first time in five months at +4.5% y/y. The collapse in the price of crude oil brought the import price down by -7.8% y/y, a major factor in pushing down import value. Import volume in seasonally adjusted terms (seasonal adjustment by DIR) grew for the second consecutive month at +1.1% m/m. 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-second consecutive month at -424.6 bil yen, but shrank in comparison to the previous month. In seasonally adjusted terms, the trade balance recorded an increase for the first time in three months at -638.8 bil yen, due to the major decline in exports.

Export Value, Volume, Price and Trade Balance | **Chart 2**





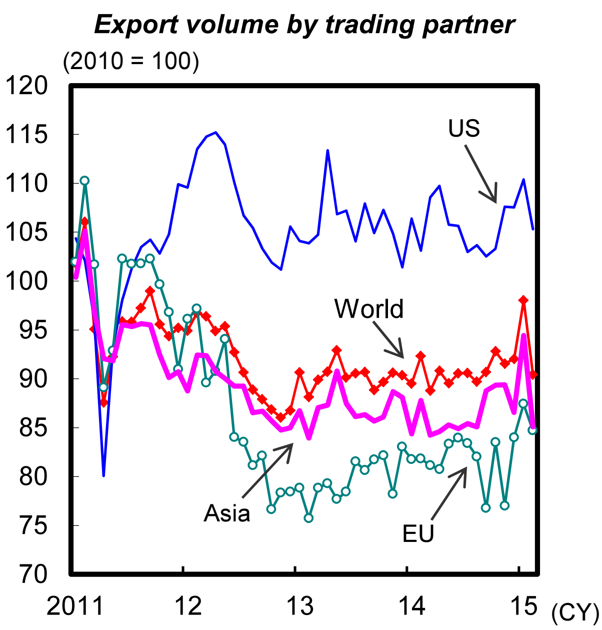
Source: Ministry of Finance; compiled by DIR.
Note: Export volume and export price seasonally adjusted by DIR.

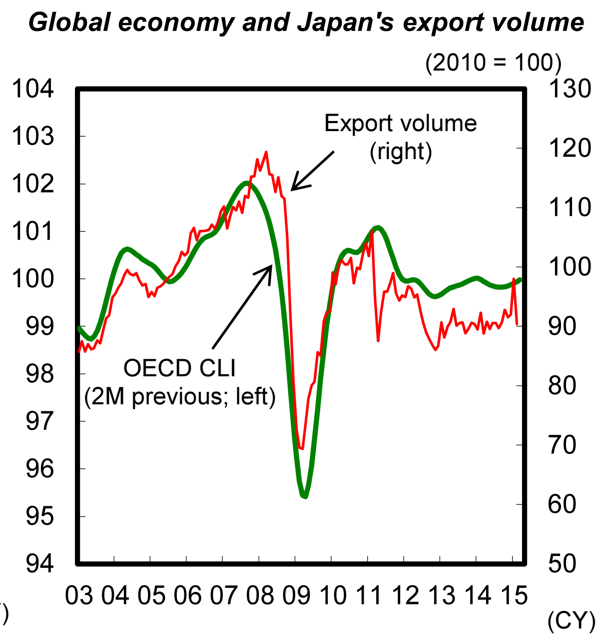
Export volume suffers m/m decline, decline in exports to Asia notable

Looking at the export volume index in seasonally adjusted terms (seasonal adjustment by DIR), we see a decline for the first time in three months at -7.8% m/m. Declines were also seen in performance by region, with -4.6% m/m for the US, -3.1% for the EU, and -9.9% for Asia. The decline in Asian trade was especially notable due to the influence of the Lunar New Year celebrations, and was the major factor in pushing down overall results.

As for export volume by region and types of goods, exports to the US saw automobiles, Japan's major export product there, suffer a decline, while in addition, electrical machinery, which was a major factor in pushing up last month's results, also declined, bringing downward pressure on overall performance. As for exports to the EU, transport equipment such as automobiles achieved growth, while electrical machinery suffered a decline along with iron and steel products. As for exports to Asia, most goods experienced declines in comparison to the previous month in both China and the newly industrialized economies (NIES). Exports to the ASEAN also suffered declines, especially in the area of electrical machinery, which won growth during the previous month, but in February contributed to the overall decline.

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.

Shrinking of trade deficit expected to slow down

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, the decline in the price of crude oil and the additional quantitative easing policy of the European Central Bank is helping the Euro Zone move toward a comeback. Hence exports to Europe are expected to experience moderate growth. As for Asia, the decline in the Chinese economy brings in a certain danger factor, but 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.

Meanwhile, since exports to Asia are mostly production goods going into products whose final destination is the US and Europe, further growth is expected in the future centering on electronic parts which have maintained a strong undertone as of late.

The trade deficit is expected to continue to shrink as a result of improved export volume supported by recovery in overseas economies. However, the main factor in the rapid decline in the trade deficit in recent months was the collapse in the price of crude oil, and there are growing signs now that the crude oil price may bottom out in the near future. In addition, expanding domestic demand is expected to be accompanied by further growth in import volume. Hence the pace of decline in the trade deficit shows a good possibility of slowing somewhat in the coming months. We do believe, however, that the trade deficit will continue to shrink at a moderate pace.

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