

17 June 2015 (No. of pages: 4)

Japanese report: 17 Jun 2015

May Trade Statistics

Recovery and growth trend takes a breather

Economic Intelligence Team
Shunsuke Kobayashi

Summary

- According to May 2015 trade statistics, export value grew for the ninth consecutive month at +2.4% y/y, though the extent of growth slowed considerably in comparison with the previous month, which recorded +8.0%. Performance fell below market consensus (+3.0%). Meanwhile, import value declined by -8.7% y/y, its fifth consecutive month of decline. Seasonal factors tend to make May a month where the trade balance can easily slip into a deficit, and indeed, the trade balance was in the red for the second consecutive month at -216 bil yen.
- Looking at export value in terms of the price factor and the volume factor, we see that export volume was down for the first time in three months at -3.8% y/y, hence bringing the growth rate in export value down significantly from the previous month. The seasonally adjusted figure for export value fell for the second consecutive month at -2.7% m/m due to special factors and weak performance of exports to the US.
- This month's results indicate that overseas demand is taking a temporary breather from its overall recovery and growth trend. As for the future of exports, we retain our previous opinion that the moderate growth trend will continue despite some ups and downs along the way. This is made possible by the fact that favorable growth in the US economy sustains the economies of the EU and Asia, which have now bottomed out in response to monetary easing.

Trade Statistics

Chart 1

	2014				2015					May
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		
Export value (y/y %)	6.9	9.6	4.9	12.8	17.0	2.5	8.5	8.0	2.4	
Market consensus (Bloomberg)									3.0	
DIR estimate									3.0	
Import value (y/y %)	6.2	3.1	-1.6	1.9	-9.1	-3.6	-14.4	-4.2	-8.7	
Export volume (y/y %)	2.8	4.8	-1.7	3.9	11.1	-2.1	3.2	1.8	-3.8	
Export price (y/y %)	4.0	4.6	6.7	8.6	5.3	4.7	5.1	6.0	6.4	
Import volume (y/y %)	3.0	-1.8	-6.9	-1.8	-6.3	4.5	-10.3	0.1	-5.3	
Import price (y/y %)	3.2	5.1	5.8	3.8	-3.0	-7.7	-4.6	-4.3	-3.6	
Trade balance (Y100 mil)	-9,620	-7,418	-8,988	-6,656	-11,738	-4,285	2,227	-558	-2,160	

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

Recovery and growth trend takes a breather

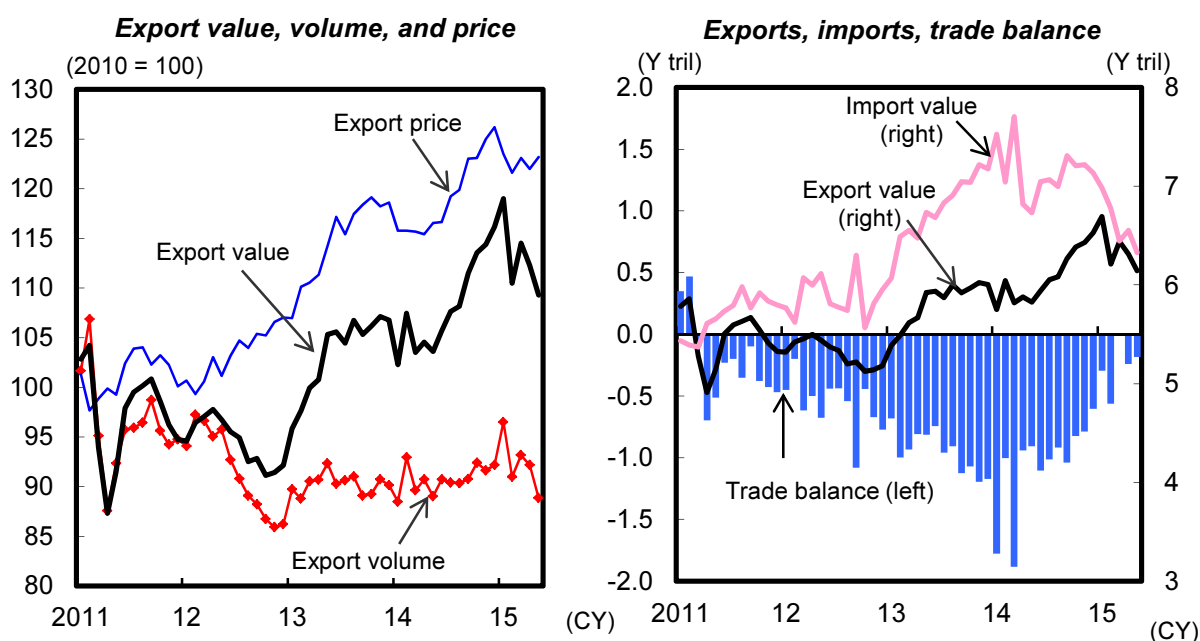
According to May 2015 trade statistics, export value grew for the ninth consecutive month at +2.4% y/y, though the extent of growth slowed considerably in comparison with the previous month, which recorded +8.0%. Performance fell below market consensus (+3.0%). Even considering the fewer business days in May (18 days in comparison to the previous year's 20 days), results were negative on the whole, with overseas demand at an apparent standstill. Meanwhile, import value declined by -8.7% y/y, its fifth consecutive month of decline. Seasonal factors tend to make May a month where the trade balance can easily slip into a deficit, and indeed, the trade balance was in the red for the second consecutive month at -216 bil yen.

Looking at export value in terms of the price factor and the volume factor, we see that the weak yen brought upward pressure on the export price, which increased its growth rate to +6.4% as compared to the previous month's +6.0%. However, export volume was down for the first time in three months at -3.8% y/y, hence bringing the growth rate in export value down significantly from the previous month. The seasonally adjusted figure for export value fell for the second consecutive month at -2.7% m/m, slowing the recovery trend to a standstill.

Import value in terms of price and volume factors shows a continued decline in import price in year-to-year terms due mainly to the decline in the price of crude oil. Performance was down by -3.6% y/y. However, the extent of the decline slowed somewhat in comparison to the previous month (-4.3%), reflecting the price of crude oil, which has hit bottom. On the other hand, import volume declined for the first time in two months at -5.3%. In seasonally adjusted terms, import value was down by -3.5% m/m, its first decline in two months.

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.

Exports to US show weak tone, while EU and Asia hang in the balance

Export volume on a seasonally adjusted basis (seasonally adjusted figures estimated by DIR) was down by -3.6% m/m.

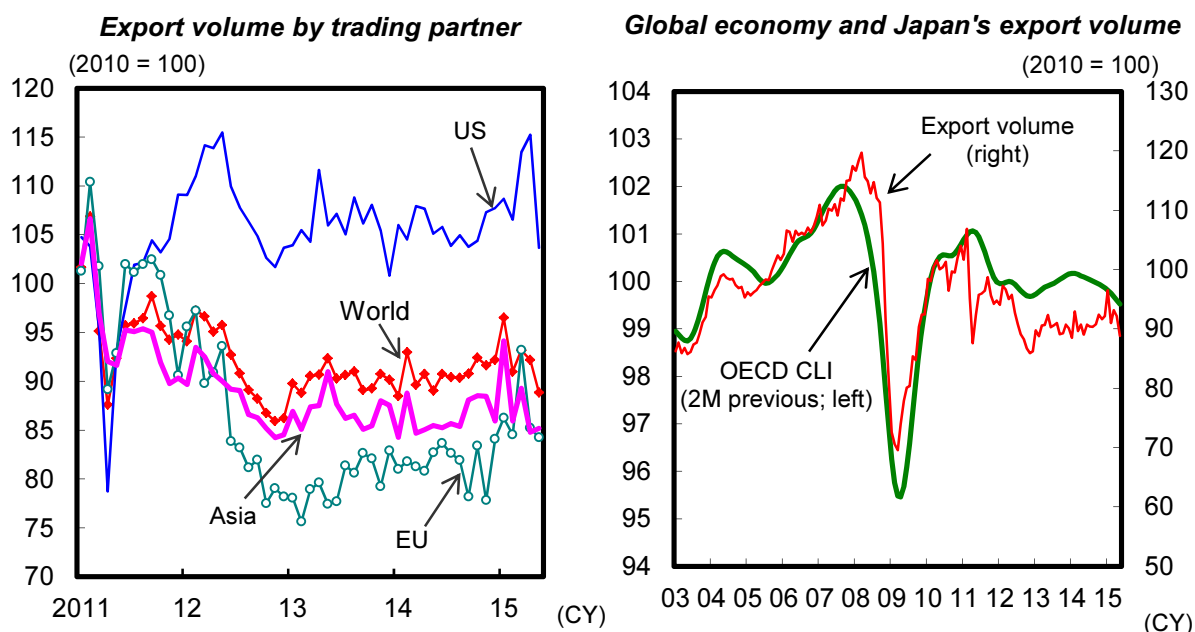
Export volume to the EU was down by -1.1% while Asia was up by +0.5%. The latter represented a recovery in comparison to the major decline of the previous month, with momentum bringing figures up from the negative numbers to just above the zero level.

Looking at export volume on a month-to-month basis by trade partner and export commodity, we see that US exports suffered a major decline at -10.0%. One of the sources of this month's low performance is that in terms of export commodity, the "others" category, which brought overall performance up during the previous month due to special factors, did not have the same effect in May. But the most worrisome point was that exports to the US exhibited a weak tone overall, centering on major items such as general machinery and transport equipment.

Exports to the EU continue in mixed performance. General machinery, which suffered a decline during the previous month, shows signs of making a comeback, while transport equipment, which maintained a high level of performance as of the beginning of 2015, is seeing declines. Exports to Asia are seeing similar ups and downs. As for China and the Asian NIEs, a moderate recovery has been observed in the areas of general machinery, electrical devices, and transport machinery, while iron and steel products appear to be continuing in a correction phase.

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.

Recovery seen after temporary sluggishness

This month's results indicate that overseas demand is taking a temporary breather from its overall recovery and growth trend. As for the future of exports, we retain our previous opinion that the moderate growth trend will continue despite some ups and downs along the way.

Looking at exports by trading partner, the US economic expansion maintains a firm undertone, with exports expected to maintain their growth trend centering on capital goods. While it will continue to be important to keep an eye on the effects that the switch to monetary restraint will have on the real economy, the Fed is expected to carry out interest rate hikes in consideration of the needs of the economy.

As for the EU economy, 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. Exports to the EU won major growth in March this year, bringing performance to a whole new level. Though growth appears to be taking a breather this month, we believe that in the mid-term, exports to the EU will shift back into a moderate growth phase.

As for Asia, the slowdown continues centering on China, requiring watchfulness in regard to each of the Asian economies. However, if China's attempts to lower its reserve deposit rate are successful along with the lowering of interest rates, its real economy should get a lift, and this would promise to bring a recovery in exports of capital goods, which have been stagnant of late.