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July Trade Statistics

Export volume hits bottom and is now marking time

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Summary

- According to July 2015 trade statistics, export value grew for the eleventh consecutive month at +7.6% y/y, while exceeding market consensus (+5.2%). Although growth appears to have slowed down in comparison to the previous month’s +9.5%, this was mainly due to the number of business days in July and the price effect due to yen appreciation. Export volume continued to mark time, repeating the pattern seen over the last few months. Meanwhile, import value declined by -3.2% y/y, its seventh consecutive month of decline, and the trade balance was in the red for the fourth consecutive month at -268.1 bil yen.

- This month’s results confirm that overseas demand continues to be stagnant. However, momentum has left behind its worst period, and signs of hitting bottom have begun to emerge. Exports are expected to recover gradually in the future, alternating between moments of strength and weakness.

- The corporate sector in the US carries the weight of sagging crude oil prices and a strong dollar. It should therefore be noted that capital goods, a major export item to the US, may continue to perform unfavorably. However, the household sector continues to maintain a steady undertone, and exports centering on durables are expected to recover and enter a growth phase. As for the EU economy, the collapse in the price of crude oil and the effects of quantitative easing initiated by the ECB are encouraging a comeback. Recovery and expansion should continue in the future. Meanwhile in Asia, China’s real economy is beginning to show signs of pulling out of the doldrums due to the lowering of its reserve deposit rate and interest rate, and the reducing of exchange rate interventions in the form of purchasing renminbi. There is a good chance that further declines in demand can be avoided.

Trade Statistics **Chart 1**

	2014		2015						
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Export value (y/y %)	4.9	12.8	17.0	2.5	8.5	8.0	2.4	9.5	7.6
Market consensus (Bloomberg)									5.2
DIR estimate									2.0
Import value (y/y %)	-1.6	1.9	-9.1	-3.6	-14.4	-4.1	-8.6	-2.9	-3.2
Export volume (y/y %)	-1.7	3.9	11.1	-2.1	3.2	1.8	-3.8	0.0	-0.6
Export price (y/y %)	6.7	8.6	5.3	4.7	5.1	6.0	6.4	9.5	8.4
Import volume (y/y %)	-6.9	-1.8	-6.3	4.5	-10.3	0.1	-5.3	-1.4	-2.9
Import price (y/y %)	5.8	3.8	-3.0	-7.7	-4.6	-4.2	-3.5	-1.6	-0.2
Trade balance (Y100 mil)	-8,988	-6,656	-11,738	-4,285	2,227	-593	-2,206	-705	-2,681

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

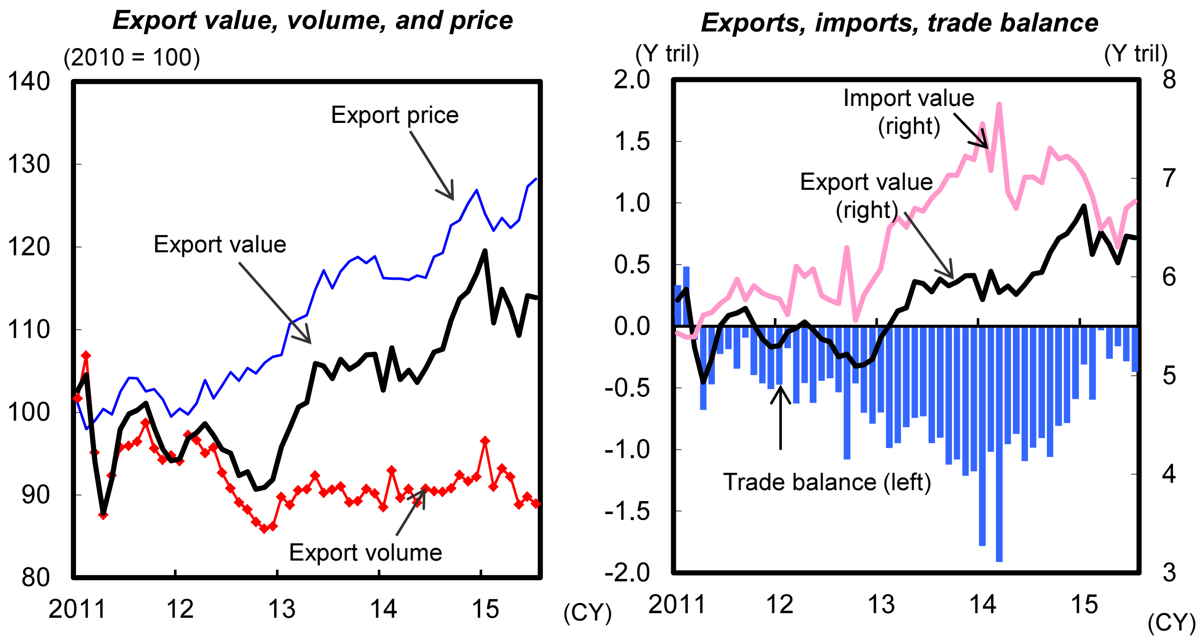
Export volume marking time

According to July 2015 trade statistics, export value grew for the eleventh consecutive month at +7.6% y/y, while exceeding market consensus (+5.2%). Although growth appears to have slowed down in comparison to the previous month's +9.5%, this was mainly due to the number of business days in July and the price effect due to yen appreciation. Export volume continued to mark time, repeating the pattern seen over the last few months. Meanwhile, import value declined by -3.2% y/y, its seventh consecutive month of decline, and the trade balance was in the red for the fourth consecutive month at -268.1 bil yen.

The increase in export value was due mainly to price factors. The export price grew by +8.4% y/y, a slowdown in growth rate compared to the previous month's +9.5%, due to the appreciation of the yen brought on by the risk-off mood which ensued after the financial problems in Greece came to the forefront and Chinese stock prices fell. Export volume took a slight downturn after the previous month when figures were flat, but this was due mainly to the number of business days in July (June had one more business day in comparison to the previous year, while July had the same number of days as the previous year). Trade volume is seen as continuing to mark time.

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 -0.2% y/y. Meanwhile, import volume declined for the third consecutive month by -2.9%. In month-to-month terms, the extent of the decline widened from the previous month's -1.4%. However, this was due largely to the number of business days in July. In seasonally adjusted terms, import value grew for the second consecutive month by +1.1% m/m.

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.

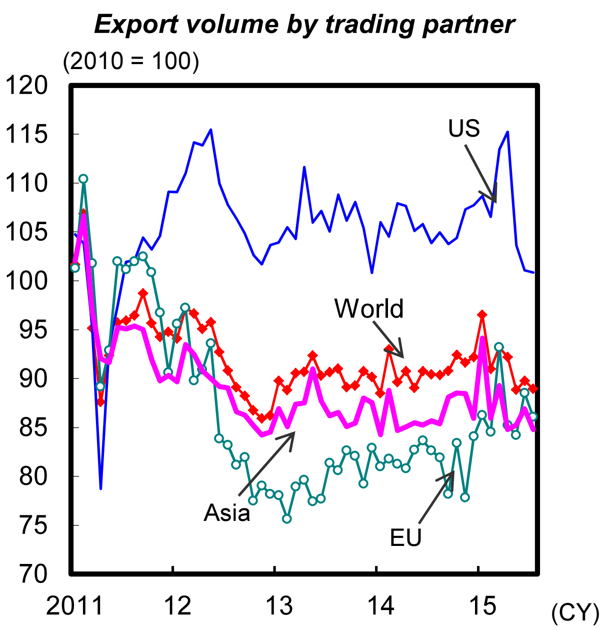
Exports of consumer goods to US put up a good fight, but EU and Asia retreating; headliners continue to struggle

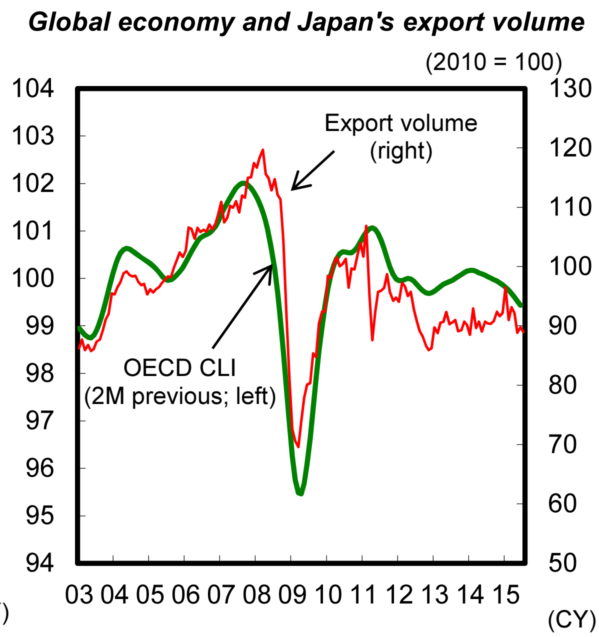
The seasonally adjusted figure for export value was down by -0.2% m/m. Meanwhile, export volume was down by -0.9% m/m (seasonally adjusted figures estimated by DIR) marking time despite its first decline in two months. Looking at performance by trading partner, export volume to the US showed signs of hitting bottom at -0.2%. Demand for automobiles was notably strong. On the other hand, exports to the EU were down by -2.8% m/m, while exports to Asia were disappointing at -2.4%. Export volume to the EU was affected by special factors such as the number of ships leaving port during the previous month, and similarly in July, exports got a significant lift due to better availability of ships and considerable growth in iron and steel. But ultimately, results were weak despite having shaken off the special factors. At the same time, it should be noted that the level itself is a high one due to the increase in exports since the beginning of the year. As for Asia, the decline in exports is seen as being due partly to the influence of China's turbulent financial markets. Goods suffering declines included mineral fuels, which may have been influenced by stockpiling, but assuming the effect on the index is limited to a single month, there should be no need for pessimism.

This month's results confirm that overseas demand continues to be stagnant. However, momentum has left behind its worst period, and signs of hitting bottom have begun to emerge. Exports are expected to recover gradually in the future, alternating between moments of strength and weakness.

The corporate sector in the US carries the weight of sagging crude oil prices and a strong dollar. It should therefore be noted that capital goods, a major export item to the US, may continue to perform unfavorably. However, the household sector continues to maintain a steady undertone, and exports centering on durables are expected to recover and enter a growth phase. As for the EU economy, the collapse in the price of crude oil and the effects of quantitative easing initiated by the ECB are encouraging a comeback. Recovery and expansion should continue in the future. Meanwhile in Asia, China's real economy is beginning to show signs of pulling out of the doldrums due to the lowering of its reserve deposit rate and interest rate, and the reducing of exchange rate interventions in the form of purchasing renminbi. There is a good chance that further declines in demand can be avoided.

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.