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January Trade Statistics

Export volume bottoms out; trade balance surplus takes hold

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Summary

- According to January 2016 trade statistics, export value fell for the fourth consecutive month by -12.9% y/y. Export volume also suffered (-9.1%), with the extent of y/y decline exceeding that of the previous month. Meanwhile, on a seasonally adjusted basis, trade volume is seen as having bottomed out. Hence these results should not be negatively assessed. As for performance in terms of types of goods, household consumer related demand has been favorable, supported by financial environments influenced by monetary easing in all regions. On the other hand, low operating rates continuing worldwide and prices of natural resources continuing to fall, exports of materials and capital goods, which depend on the corporate sector, were unfavorable, confirming the structural changes going on in world economies.

- The trade balance was in the red for the first time in two months at -645.9 bil yen. However, in seasonally adjusted terms, the trade balance has actually improved due to the decline in import prices mostly in the area of petroleum products, and is shown to be in its third consecutive month of surplus.

- As for the future of exports, we see a gradual recovery continuing with ups and downs along the way. The US economy continues to maintain a firm undertone focusing on the household sector, and promises to bring a continued growth trend in exports of durable goods. As for exports to the EU, the collapse in the price of crude oil and the effects of quantitative easing initiated by the ECB are encouraging a comeback. When all is averaged out, the EU is expected to continue recovering. 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 further declines in demand centering on consumer goods will most likely be avoided.

Trade Statistics **Chart 1**

	2015 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2016 Jan
Export value (y/y %)	2.4	9.5	7.6	3.1	0.5	-2.2	-3.3	-8.0	-12.9
Market consensus (Bloomberg)									-10.9
DIR estimate									-12.0
Import value (y/y %)	-8.6	-2.9	-3.1	-3.1	-11.0	-13.3	-10.2	-18.0	-18.0
Export volume (y/y %)	-3.8	0.0	-0.7	-4.1	-3.9	-4.6	-3.1	-4.4	-9.1
Export price (y/y %)	6.4	9.5	8.4	7.5	4.6	2.5	-0.3	-3.8	-4.1
Import volume (y/y %)	-5.3	-1.4	-2.9	-0.7	-1.9	-3.8	1.6	-5.0	-5.1
Import price (y/y %)	-3.5	-1.5	-0.2	-2.4	-9.2	-9.9	-11.6	-13.7	-13.6
Trade balance (Y100 mil)	-2,206	-744	-2,705	-5,715	-1,200	1,048	-3,846	1,403	-6,459

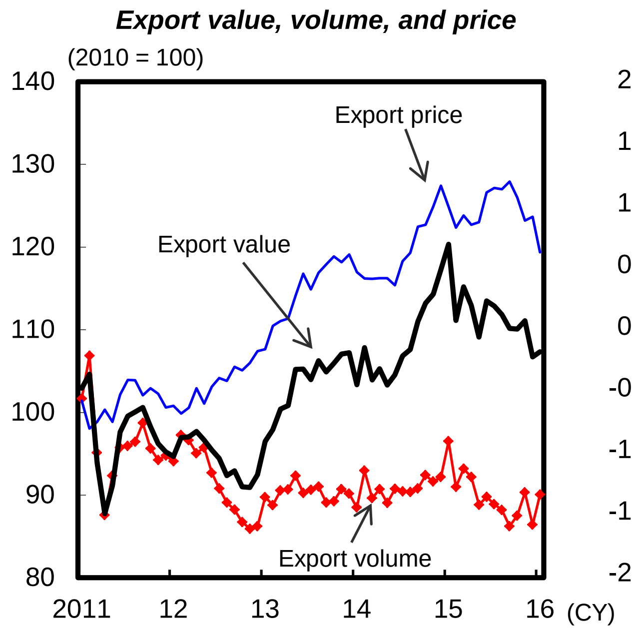
Source: Ministry of Finance, Bloomberg; compiled by DIR.

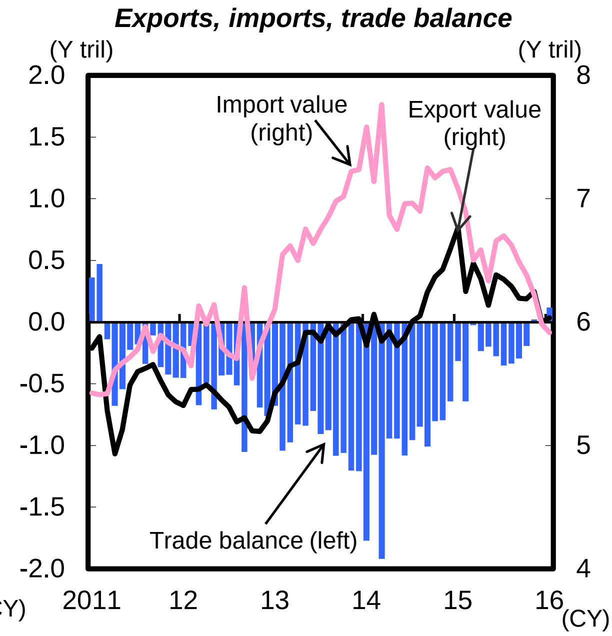
Export volume bottoms out; trade balance surplus takes hold

According to January 2016 trade statistics, export value fell for the fourth consecutive month by -12.9% y/y, while also falling below market consensus at -10.9% y/y. Export prices declined as well at -4.1%, especially in the area of petroleum products. Export volume also suffered (-9.1%), with the extent of y/y decline exceeding that of the previous month. However, this was due largely to the Lunar New Year celebrations in China, as well as a reaction to the highs experienced last year, as well as making the difference look larger in y/y terms. On a seasonally adjusted basis, trade volume is seen as having bottomed out. Hence these results should not be negatively assessed.

The import price fell for the thirteenth consecutive month at -18.0%. Meanwhile, the trade balance was in the red for the first time in two months at -645.9 bil yen. However, in seasonally adjusted terms, the trade balance has actually improved due to the decline in import prices mostly in the area of petroleum products, and is shown to be in its third consecutive month of surplus.

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.

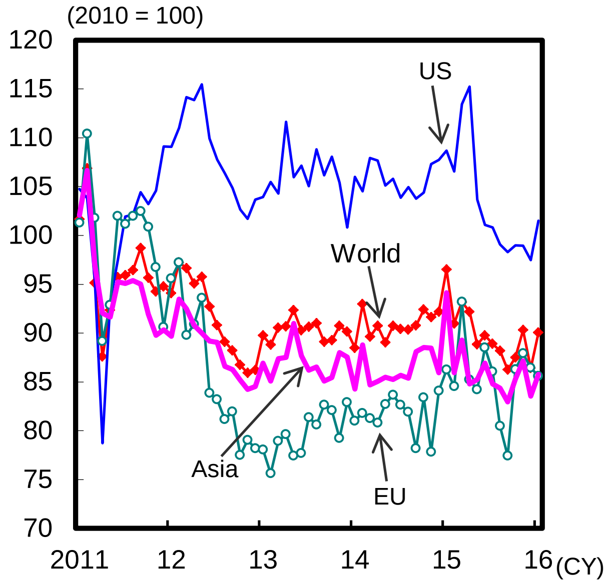
Worldwide corporate demand unfavorable, while household consumer related demand is favorable

Export value in seasonally adjusted terms was up by +0.6% m/m. Meanwhile, export volume was also up by +4.2% (seasonal adjustment by DIR), achieving growth for the first time in two months. Looking at export volume by source of demand, exports to the US were up by +4.2%, while EU exports were down by -1.0% and Asia was up by +2.7%, making it a mixed bag. Exports to the US showed a rebound from the previous month when fairly major declines were suffered, while exports to the EU seemed to be going through an adjustment phase after the high performance at the end of last year. All in all, exports appear to be on the way to bottoming out in all regions. As for performance in terms of types of goods, exports of automobiles and related parts to the US and the EU continued to win favorable performance, while exports of materials and capital goods to Asia and the US were unfavorable. With low operating rates continuing worldwide and prices of natural resources continuing to fall, exports of materials and capital goods, which depend on the corporate sector, were weak. But at the same time, household consumer related demand has been favorable, supported by financial environments influenced by monetary easing in all regions. Results tended to confirm the structural changes going on in world economies.

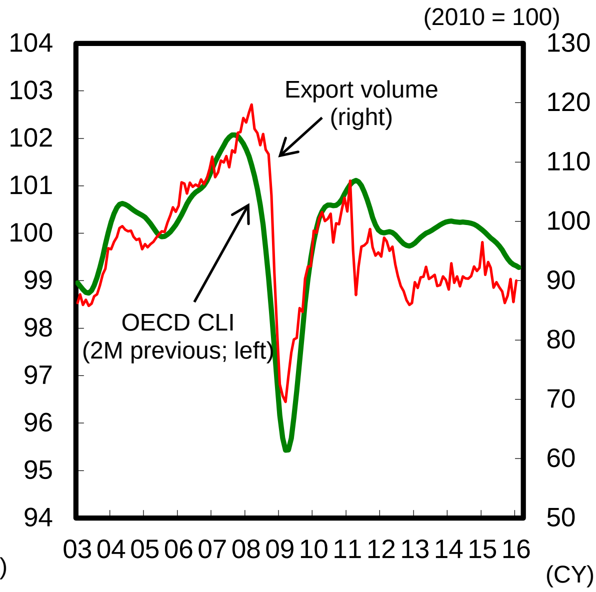
As for the future of exports, the gradual recovery along with some ups and downs is expected to continue. The US economy continues to maintain a firm undertone focusing on the household sector, and promises to bring a continued growth trend in exports of durable goods. As for exports to the EU, the collapse in the price of crude oil and the effects of quantitative easing initiated by the ECB are encouraging a comeback. When all is averaged out, the EU is expected to continue recovering. 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 further declines in demand centering on consumer goods will most likely be avoided. However, as can be seen from the turmoil experienced in the world's financial markets at the beginning of the year, it will take some time for overseas demand to achieve a complete and sustained recovery. Falling prices for petroleum products and the strong dollar are creating a drag on the US corporate sector, while possibilities are high that exports of capital goods and materials to Asia will continue to be unfavorable as corporations continue to work through the process of adjustment for excess capacity.

Export Volume by Trade Partner; Global Economy and Japan's Export Volume **Chart 3**

Export volume by trading partner



Global economy and Japan's export volume



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