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# May Trade Statistics

## Trade deficit for the first time in four months

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### Summary

- The trade figures for May 2016 show exports down in value for the eighth straight month, this time by -11.3% y/y mainly due to the fall in export prices. The key factor behind the weak export prices has shifted to yen strengthening from decline in natural resource prices. The value of imports also fell for the 17th consecutive month, declining by -13.8% y/y, although in volume terms they returned to growth for the first time in two months with an increase of +3.6% y/y. Overall, the effect was to push trade balance into deficit by -40.7 bil yen, for the first time in four months. Seasonally adjusted, the overall balance has remained substantially in the black, albeit somewhat reduced month-on-month due to recovery in import volumes and the recovering price of natural resources.
- Going forward, exports look set to remain range bound, albeit with ups and downs along the way. Household consumption-related demand is relatively strong, buoyed by accommodative monetary conditions worldwide, but corporate sector demand, in the shape of the demand for materials and capital goods, will likely take some time to fully recover as long as capital utilization rates and natural resource prices remain weak. The value of exports and yen-based corporate earnings, both of which have been adversely affected by increasing yen strength since early in the year, will also bear close monitoring from here on.

Trade Statistics										Chart 1
	2015				2016					
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Export value (y/y %)	0.5	-2.2	-3.4	-8.0	-12.9	-4.0	-6.8	-10.1	-11.3	
Market consensus (Bloomberg)									-10.0	
DIR estimate									-11.5	
Import value (y/y %)	-11.0	-13.4	-10.2	-18.0	-17.8	-14.2	-14.9	-23.3	-13.8	
Export volume (y/y %)	-3.9	-4.6	-3.1	-4.4	-9.1	0.2	-1.0	-4.6	-2.4	
Export price (y/y %)	4.6	2.5	-0.3	-3.8	-4.1	-4.2	-5.8	-5.7	-9.1	
Import volume (y/y %)	-1.9	-3.8	1.7	-5.0	-5.0	-2.4	5.2	-7.5	3.6	
Import price (y/y %)	-9.3	-9.9	-11.6	-13.7	-13.5	-12.0	-19.0	-17.1	-16.8	
Trade balance (¥100 mil)	-1,213	1,048	-3,875	1,389	-6,477	2,399	7,491	8,232	-407	

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

## Trade deficit for the first time in four months

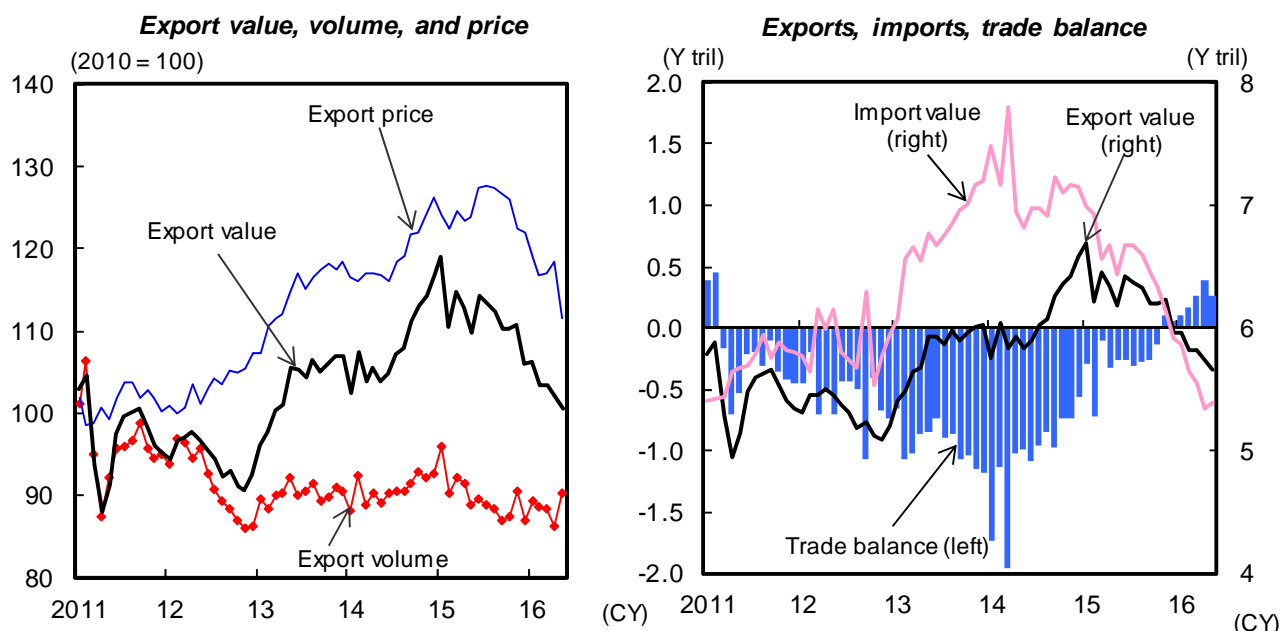
The trade figures for May 2016 show exports down in value for the eighth straight month, this time by -11.3% y/y, and slightly weaker as such than the consensus (-10.0% y/y). The key factor was falling export prices (-9.1% y/y). The main reason for the weak export prices has shifted to yen strengthening from decline in natural resource prices. The value of imports also fell for the 17th consecutive month, declining by -13.8% y/y, although in volume terms they returned to growth for the first time in two months with an increase of +3.6% y/y. Overall, the effect was to push trade balance into deficit by -40.7 bil yen, the first time in four months. Seasonally adjusted, the overall balance has remained substantially in the black, albeit somewhat reduced month-on-month due to recovery in import volumes and the recovering price of natural resources.

Seasonally adjusted, the value of exports fell -1.3% m/m. In volume terms, on the other hand, exports were up +4.8% m/m (seasonal adjustment by DIR), returning to an uptrend for the first time in four months. A volume-based breakdown by trading partner shows exports to the EU down -5.9% m/m, their second steep fall in succession, reflecting an ongoing reaction following the February/March surge in exports, particularly ships. On the other hand, exports to the US and Asia were up +5.4% m/m and +4.0% m/m respectively, representing a return to growth after one weak month in each case. Despite trending continuously lower for most of last year, export volumes have shown signs of bottoming out more or less across the board regardless of destination since the end of the year.

A breakdown of import values by reference to price-related and volume-related factors shows the price of imports continuing to fall, down -16.8% y/y, primarily in response to the ongoing strengthening of the yen. At the same time, the effect of the fall in crude oil prices looks to be putting import prices under less downward pressure year-on-year. The volume of imports recovered from their unusually steep fall of the previous month to rise by +3.6%, their first upturn in two months. The seasonally adjusted value of imports rose +1.0% m/m, the first such rise in 11 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.

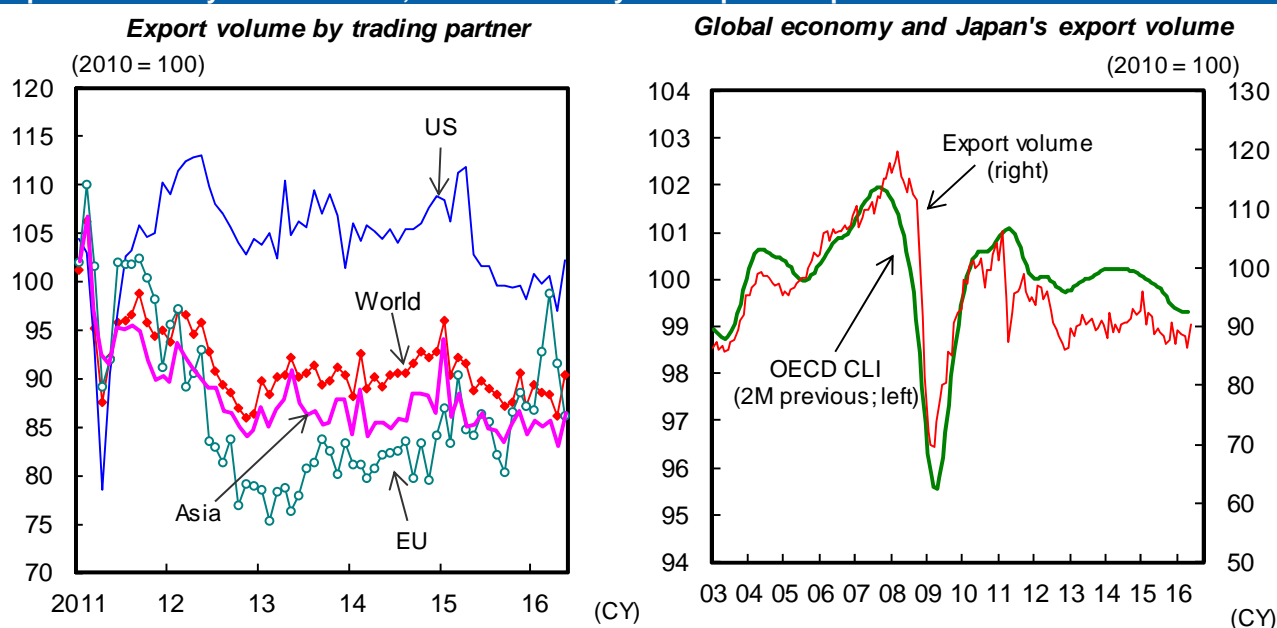
## Faltering progress in prospect

Going forward, exports look set to remain range bound, albeit with ups and downs along the way. The US economy is showing signs of slowing but, given positives such as the improving employment environment, exports of consumer goods to the US can be expected to remain firm. Exports to Europe are starting to pick up, helped by factors such as falls in the price of crude oil and quantitative easing by the ECB, a recovery trend which, taken in the round, may be expected to continue. On the Asian economic front, there are signs that the pace of capital outflows is starting to ease under such circumstances as US economic slowdown, dollar weakness, and falling interest rates. Reflecting this beneficial turn in the external environment coupled with the effects of monetary easing, we expect to see a recovery in the demand for consumer goods.

However, it is also likely to be some time before we see a full-scale, ongoing recovery of overseas demand. It is highly likely that exports of capital goods and materials will for the time being remain weak both to the US, where corporate earnings growth remains sluggish, and also to Asia, where action has yet to be taken to rein in overcapacity. The value of exports and yen-based corporate earnings, both of which have been adversely affected by increasing yen strength since early in the year, will also bear close monitoring from here on.

**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