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June Trade Statistics

Trade surplus recorded for first time in two months, seen in moderate growth trend

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Summary

- According to June 2016 trade statistics, export value fell for the ninth consecutive month by -7.4% y/y. With the export price in decline due to yen appreciation, export value continues to fall on a year-to-year basis. Meanwhile, import value also declined for the eighteenth consecutive month at -18.8% y/y. This put the trade balance in the black for the first time in two months at +692.8 bil yen. Trade surplus is now in a moderate expansion trend due to the comeback in export volume and declining import value associated with the appreciation of the yen.
- As for the future of exports, there is a good possibility that performance will continue to mark time, with some ups and downs along the way. The effects of monetary easing in the world economy overall produces a financial environment which is expected to provide support for relatively favorable demand in the area of household consumption. However, we expect that it will take quite a bit more time for a significant and sustainable recovery in demand for materials and capital goods (in other words corporate sector demand) to take hold as low operating rates continue, along with the decline in raw materials prices.
- In the mid to long-term, there are fears that the effects of Brexit may bring downward pressure on exports. Meanwhile, difficulties are seen in EPA negotiations between Japan and the EU. (The original target for completing these negotiations was the end of the year.) Japanese corporations with offices in the UK are now rethinking their European strategy. The effects of Brexit on trade between Japan and the UK as well as Japan and Europe are expected to be significant. Developments in Brexit related negotiations, as well as other trade related negotiations will be watched closely.

	Trade Statistics									Chart 1
	2015			2016						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Export value (y/y %)	-2.2	-3.4	-8.0	-12.9	-4.0	-6.8	-10.1	-11.3	-7.4	
Market consensus (Bloomberg)									-11.3	
DIR estimate									-10.0	
Import value (y/y %)	-13.4	-10.2	-18.0	-17.8	-14.2	-14.9	-23.3	-13.8	-18.8	
Export volume (y/y %)	-4.6	-3.1	-4.4	-9.1	0.2	-1.0	-4.6	-2.4	2.9	
Export price (y/y %)	2.5	-0.3	-3.8	-4.1	-4.2	-5.8	-5.7	-9.1	-10.0	
Import volume (y/y %)	-4.0	1.7	-5.0	-5.0	-2.4	5.2	-7.5	3.6	0.4	
Import price (y/y %)	-9.8	-11.6	-13.7	-13.5	-12.0	-19.0	-17.0	-16.8	-19.1	
Trade balance (¥100 mil)	1,048	-3,875	1,389	-6,477	2,399	7,491	8,207	-406	6,928	

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

Trade surplus recorded for first time in two months, seen in moderate growth trend

According to June 2016 trade statistics, export value fell for the ninth consecutive month by -7.4% y/y, while at the same time exceeding market consensus (-11.3%). With the export price in decline (-10.0%) due to yen appreciation, export value continues to fall on a year-to-year basis. Meanwhile, import value also declined for the eighteenth consecutive month at -18.8% y/y. This put the trade balance in the black for the first time in two months at +692.8 bil yen. Trade surplus is now in a moderate expansion trend due to the comeback in export volume and declining import value associated with the appreciation of the yen.

Export volume grows for second consecutive month at +0.6% m/m; IC and auto exports see comeback

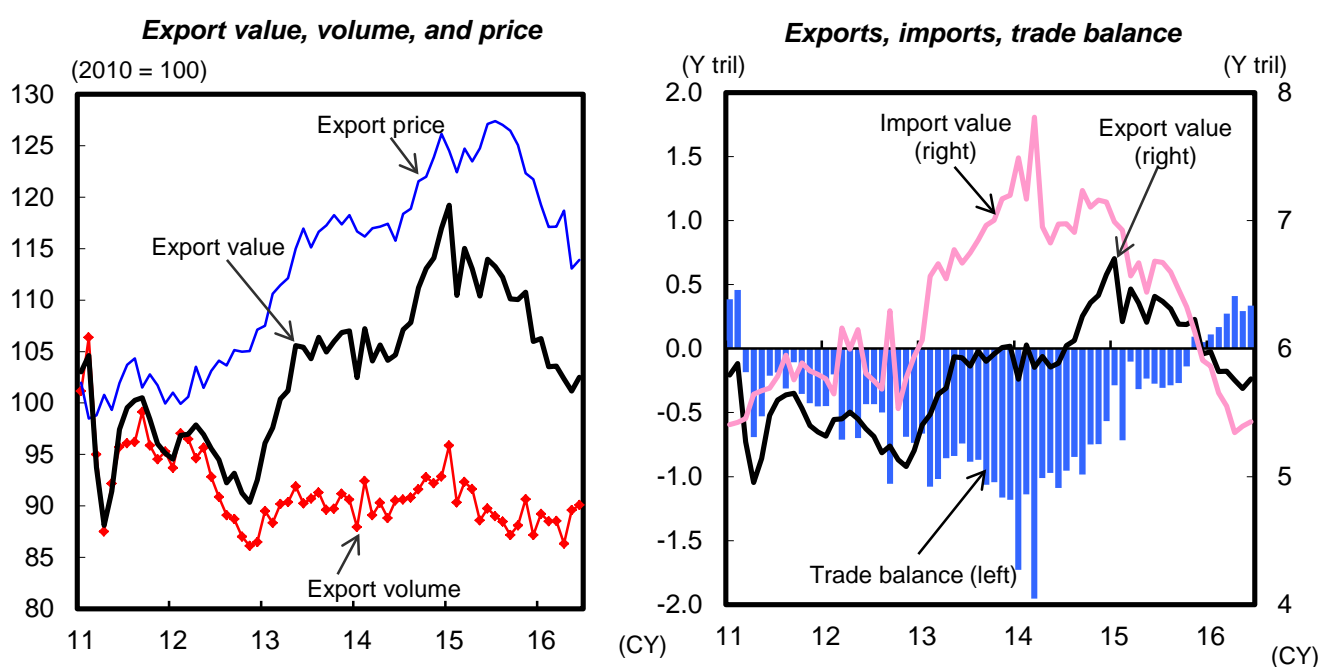
Export value in seasonally adjusted terms grew for the first time in three months by +1.3% m/m, while export volume grew for the second consecutive months by +0.6% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, EU exports grew considerably by +5.7% m/m in a significant rebound after consecutive declines experienced in April and May, while exports to the US grew also for the second consecutive month by +0.5%. Meanwhile, exports to Asia declined for the first time in two months by -0.6%. As for export volume by product, growth in exports of ICs, passenger vehicles, and non-ferrous metals contributed to overall growth. Export volume of ICs shows an especially strong growth trend. Export volume has suffered continuous declines since the beginning of last year, but exports to all regions hit bottom by around the end of last year. Meanwhile, import volume grew for the first time in two months by +3.6% m/m.

Import value continues y/y decline, yen appreciation major factor despite price of crude bottoming out

Looking at import value in terms of price factors and volume factors, we see that the import price continues to decline, due mostly to yen appreciation, at -19.1% y/y. The import price is no longer being depressed so much by the decline in the price of crude oil. Meanwhile, import volume grew for the second consecutive month by +0.4%. In seasonally adjusted terms, import value grew for the second consecutive month by +0.6% 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.

Ups and downs seen in future

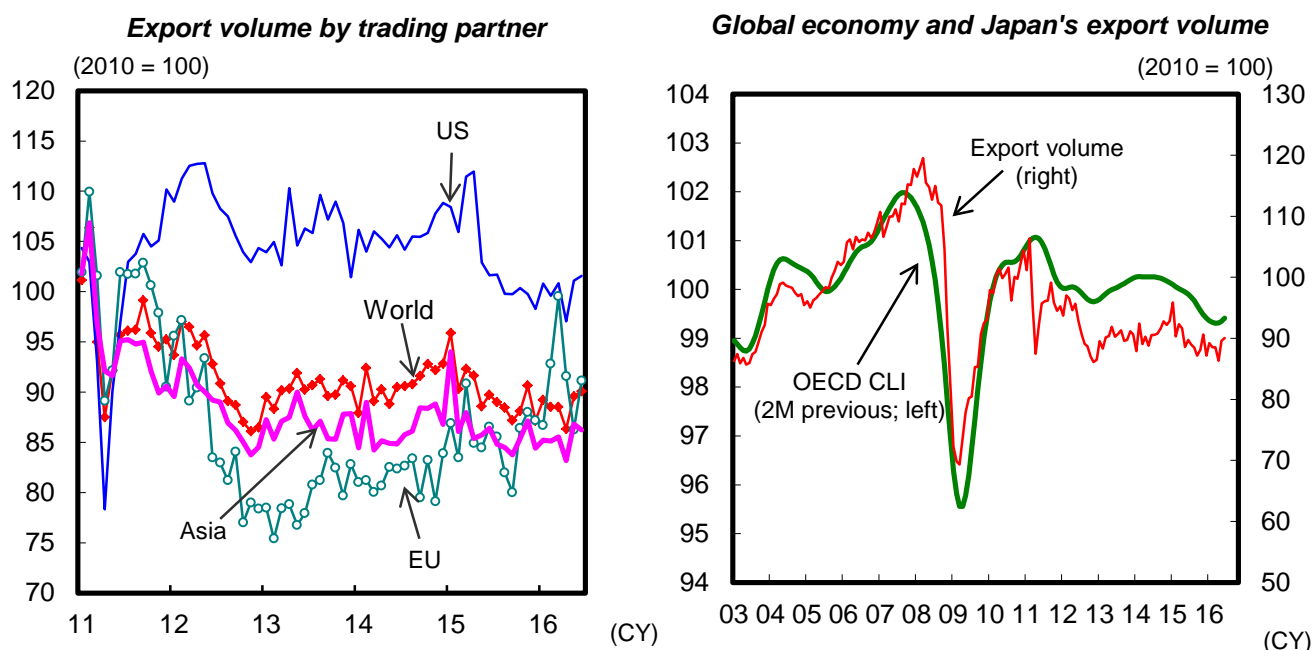
As for the future of exports, there is a very good possibility that performance will continue to mark time, with some ups and downs along the way, as overseas economies continue moderate growth. The US economy is expected to continue its slowdown, but backed by improvements in the employment environment, exports of consumer goods to the US will likely continue a steady undertone. As for exports to the EU, the low price of crude oil and the effects of quantitative easing initiated by the ECB are encouraging a comeback. When all is averaged out, exports to the EU are expected to continue recovering. The Asian economy shows signs of capital outflow beginning to slow down due to the slowdown of the US economy as well as the depreciation of the dollar and the decline in interest rates. As suggested here, the favorable turn in the external environment and the effects of monetary easing are expected to find themselves reflected in a recovery in demand for consumer goods.

However, we expect that it will take quite a bit more time for a significant and sustainable recovery in overseas demand to take hold. There is a good possibility that exports of capital goods and materials to both the US and Asia will continue to be unfavorable due to the low level of US corporate earnings, and the continuing necessity of adjustments which Asian economies still need to carry out in regard to overcapacity.

Continued monitoring of effects of Brexit required

In the mid to long-term, there are fears that the effects of Brexit may bring downward pressure on exports. Meanwhile, difficulties are seen in EPA negotiations between Japan and the EU. (The original target for completing these negotiations was the end of the year.) Japanese corporations with offices in the UK are now rethinking their European strategy. The effects of Brexit on trade between Japan and the UK as well as Japan and Europe are expected to be significant. Developments in Brexit related negotiations, as well as other trade related negotiations will be watched closely.

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