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July Trade Statistics

Export value declines considerably due to yen appreciation, while export volume to US registers growth

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Summary

- According to July 2016 trade statistics, export value fell in year-to-year terms for the tenth consecutive month by -14.0%. The yen continues to appreciate on the foreign exchange market, bringing a major decline in export price. Meanwhile, import value also declined for the nineteenth consecutive month at -24.7%. As a result, the trade balance was in the black for the second consecutive month at +513.5 bil yen.
- Export value in seasonally adjusted terms declined for the first time in two months by -1.8% m/m, while export volume declined as well for the first time in two months, also by -1.8% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US grew considerably by +4.2%, while EU exports declined for the first time in two months by -0.6%. Meanwhile, exports to Asia declined for the second consecutive month by -0.2%. While export volume shifted into a declining trend in July, some products showed signs of hitting bottom, hence results were not necessarily that negative.
- 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. 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.

Trade Statistics

Chart 1

	2015	2016	2016	2016	2016	2016	2016	2016	2016	2016
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Jul
Export value (y/y %)	-3.4	-8.0	-12.9	-4.0	-6.8	-10.1	-11.3	-7.4	-14.0	-14.0
Market consensus (Bloomberg)										-13.7
DIR estimate										-18.0
Import value (y/y %)	-10.2	-18.0	-17.8	-14.2	-14.9	-23.3	-13.7	-18.8	-24.7	-24.7
Export volume (y/y %)	-3.1	-4.4	-9.1	0.2	-1.0	-4.6	-2.4	3.1	-2.5	-2.5
Export price (y/y %)	-0.3	-3.8	-4.1	-4.2	-5.8	-5.7	-9.1	-10.1	-11.8	-11.8
Import volume (y/y %)	1.7	-5.0	-5.0	-2.4	5.2	-7.5	3.6	0.4	-4.0	-4.0
Import price (y/y %)	-11.6	-13.7	-13.5	-12.0	-19.0	-17.0	-16.7	-19.1	-21.5	-21.5
Trade balance (Y100 mil)	-3,875	1,389	-6,477	2,399	7,491	8,207	-429	6,931	5,135	5,135

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

Trade balance in black for second consecutive month; export value suffers considerably from appreciating yen

According to July 2016 trade statistics, export value fell in year-to-year terms for the tenth consecutive month by -14.0%, keeping within market consensus (-13.7%). The yen continues to appreciate on the foreign exchange market (the rate announced by Japanese customs in July was 103.1 yen to the dollar, 16.2% in yen appreciation in comparison to the previous year), bringing a major decline in export price (-11.8%). Meanwhile, import value also declined for the nineteenth consecutive month at -24.7%. As a result, the trade balance was in the black for the second consecutive month at +513.5 bil yen. The trade surplus is now in a moderate growth trend due to the comeback in export volume and declining import value associated with the appreciation of the yen.

Export volume declines for first time in two months by -1.8% m/m; while some products including autos hit bottom

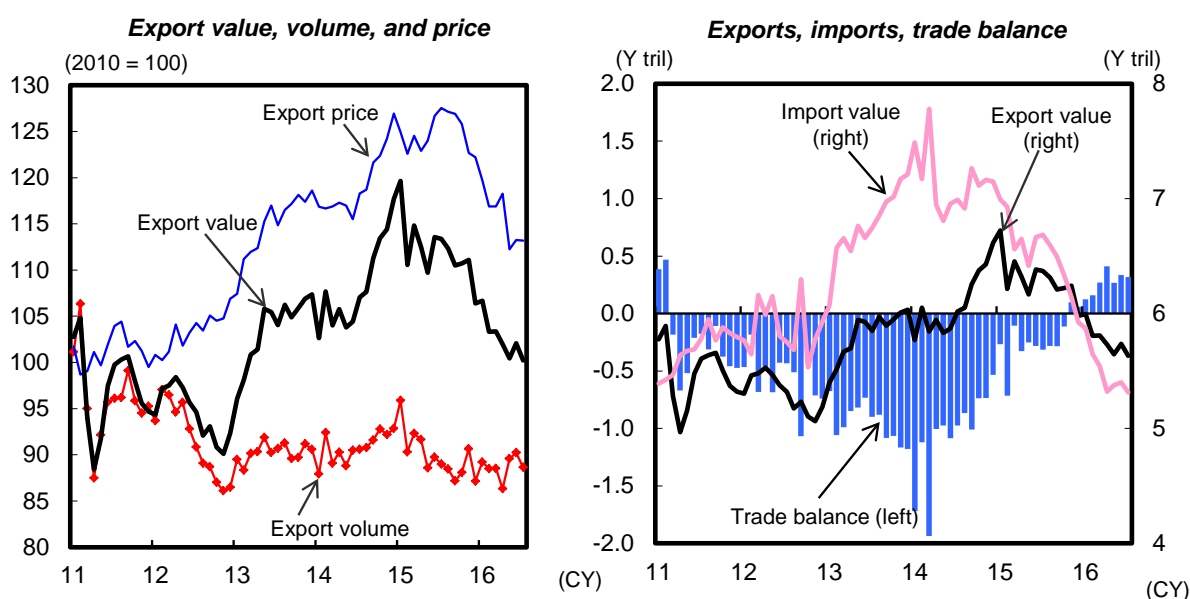
Export value in seasonally adjusted terms declined for the first time in two months by -1.8% m/m, while export volume declined as well for the first time in two months, also by -1.8% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US grew considerably by +4.2%, while EU exports declined for the first time in two months by -0.6%. Meanwhile, exports to Asia declined for the second consecutive month by -0.2%. As for export volume by product, a decline in export volume of general machinery appears to have contributed to the overall decline. On the other hand, Export volume of automobiles to the US and ICs to Asia continue to chalk up growth. While export volume declined in July, some products showed signs of hitting bottom, hence results were not necessarily that negative. Meanwhile, import volume declined for the first time in two months by -0.5% m/m.

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

Looking at import value in terms of price factors and volume factors, we see that the import price declined by -21.5% y/y. The price of crude oil and LNG are in a rebound in dollar terms, but yen appreciation has brought considerable downward pressure on the import price. Meanwhile, import volume declined for the first time in three months by -4.0% y/y. In seasonally adjusted terms, import value declined for the first time in three months by -1.6% 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.

Exports expected to mark time 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.

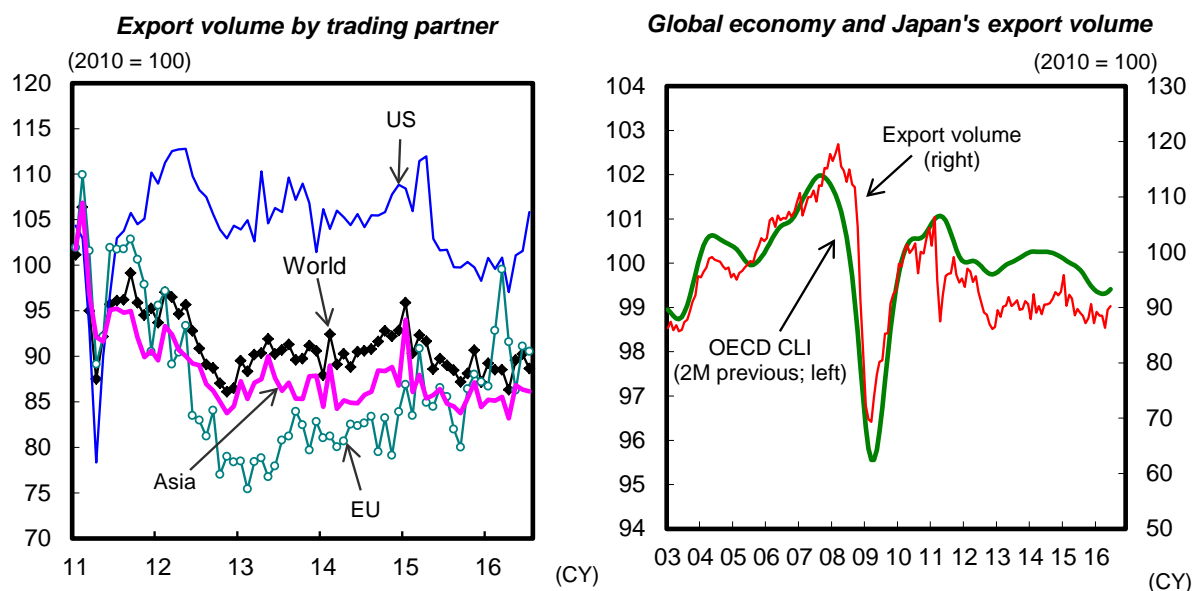
However, we expect that it will take quite a bit more time for a significant and sustainable recovery in overseas demand to take hold. There is a good possibility that exports of capital goods and materials to both the US and Asia will continue to be unfavorable due to the low level of US corporate earnings,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

Caution required regarding effects of Brexit

In the mid to long-term, there are fears that the effects of Brexit may bring downward pressure on exports. 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. 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.) 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