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# August Trade Statistics

## Export volume to US suffers major decline

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### Summary

- According to August 2016 trade statistics, export value declined in year-to-year terms for the eleventh consecutive month by -9.6%. This was likely due to the sharp decline in export volume to the US. Moreover, the continuing appreciation of the yen has caused the export price to continue its decline, contributing to downward pressure on export value. Meanwhile, import value also declined for the twentieth consecutive month at -17.3%. As a result, the trade balance fell into the red for the first time in three months at -18.7 bil yen.
- Export value in seasonally adjusted terms declined for the second consecutive month at -0.0% m/m, while export volume declined as well for the second consecutive month by -0.5% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US suffered a major decline at -12.4%, while EU exports also declined for the second consecutive month at -1.8%. Meanwhile, exports to Asia were up just slightly for the first time in two months at +0.1%. As for export volume by product, automobile exports to the US, which had been maintaining a firm undertone until now, suffered a steep decline, while exports of iron & steel and non-ferrous metals to Asia also fell, contributing to the overall negative tone. On the other hand, exports of ICs to Asia continue to achieve growth, due most likely to sales of new model smart phones.
- 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. With the world economy overall showing the effects of monetary easing, demand for consumer goods is relatively favorable. However, with low operating rates and the continuing downturn in natural resource prices, we expect that it will take quite a bit more time for a significant and sustainable recovery in corporate demand affecting materials and capital goods to take hold.

### Trade Statistics

Chart 1

|                              | 2015  |        | 2016  |       |       |       |       |       |       |
|------------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
|                              | Dec   | Jan    | Feb   | Mar   | Apr   | May   | Jun   | Jul   | Aug   |
| Export value (y/y %)         | -8.0  | -12.9  | -4.0  | -6.8  | -10.1 | -11.3 | -7.4  | -14.0 | -9.6  |
| Market consensus (Bloomberg) |       |        |       |       |       |       |       |       | -4.7  |
| DIR estimate                 |       |        |       |       |       |       |       |       | -4.5  |
| Import value (y/y %)         | -18.0 | -17.8  | -14.2 | -14.9 | -23.3 | -13.7 | -18.7 | -24.7 | -17.3 |
| Export volume (y/y %)        | -4.4  | -9.1   | 0.2   | -1.0  | -4.6  | -2.4  | 3.1   | -2.4  | 0.9   |
| Export price (y/y %)         | -3.8  | -4.1   | -4.2  | -5.8  | -5.7  | -9.1  | -10.1 | -11.9 | -10.4 |
| Import volume (y/y %)        | -5.0  | -5.0   | -2.5  | 5.2   | -7.5  | 3.6   | 0.4   | -4.0  | 3.8   |
| Import price (y/y %)         | -13.7 | -13.5  | -12.0 | -19.0 | -17.0 | -16.7 | -19.1 | -21.5 | -20.3 |
| Trade balance (Y100 mil)     | 1,389 | -6,477 | 2,399 | 7,491 | 8,207 | -429  | 6,907 | 5,136 | -187  |

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

## Trade balance falls into the red for the first time in three months

According to August 2016 trade statistics, export value declined in year-to-year terms for the eleventh consecutive month by -9.6%, while at the same time falling considerably below market consensus by -4.7%. This was likely due to the sharp decline in export volume to the US. Moreover, the continuing appreciation of the yen (Japan Customs exchange rate: 103.24 yen/dlr, up 16.8% y/y) has caused the export price to continue its decline (-10.4% y/y), contributing to downward pressure on export value. Meanwhile, import value also declined for the twentieth consecutive month at -17.3%. As a result, the trade balance fell into the red for the first time in three months at -18.7 bil yen.

## Export volume declines for second consecutive month at -0.5% due to major decline in exports to the US

Export value in seasonally adjusted terms declined for the second consecutive month at -0.0% m/m, while export volume declined as well for the second consecutive month by -0.5% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US suffered a major decline at -12.4%, while EU exports also declined for the second consecutive month at -1.8%. Meanwhile, exports to Asia were up just slightly for the first time in two months at +0.1%.

As for export volume by product, automobile exports to the US, which had been maintaining a firm undertone until now, suffered a steep decline, while exports of iron & steel and non-ferrous metals to Asia also fell, contributing to the overall negative tone. On the other hand, exports of ICs to Asia continue to achieve growth, due most likely to sales of new model smart phones. Meanwhile, import volume also declined for the second consecutive month by -1.3% m/m (seasonal adjustment by DIR).

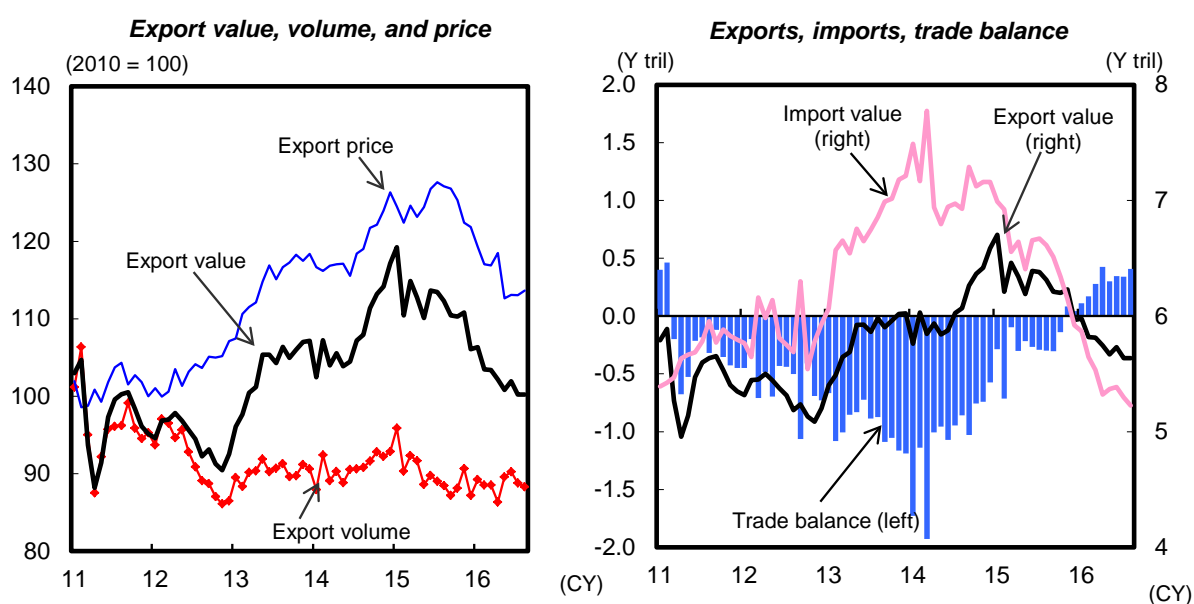
## Import value continues y/y decline due to yen appreciation

Looking at import value in terms of price factors and volume factors, we see that the import price declined by -20.3% y/y. Yen appreciation continues to be a major factor contributing to downward pressure on the import price. In contrast, import volume grew in year-to-year terms for the first time in two months at +3.8%.

In seasonally adjusted terms, import value declined for the second consecutive month by -1.3% m/m. Due to the decline in import value, the trade balance in seasonally adjusted terms made it moderately into the black.

Export Value, Volume, Price and Trade Balance

Chart 2



Source: Ministry of Finance; compiled by DIR.

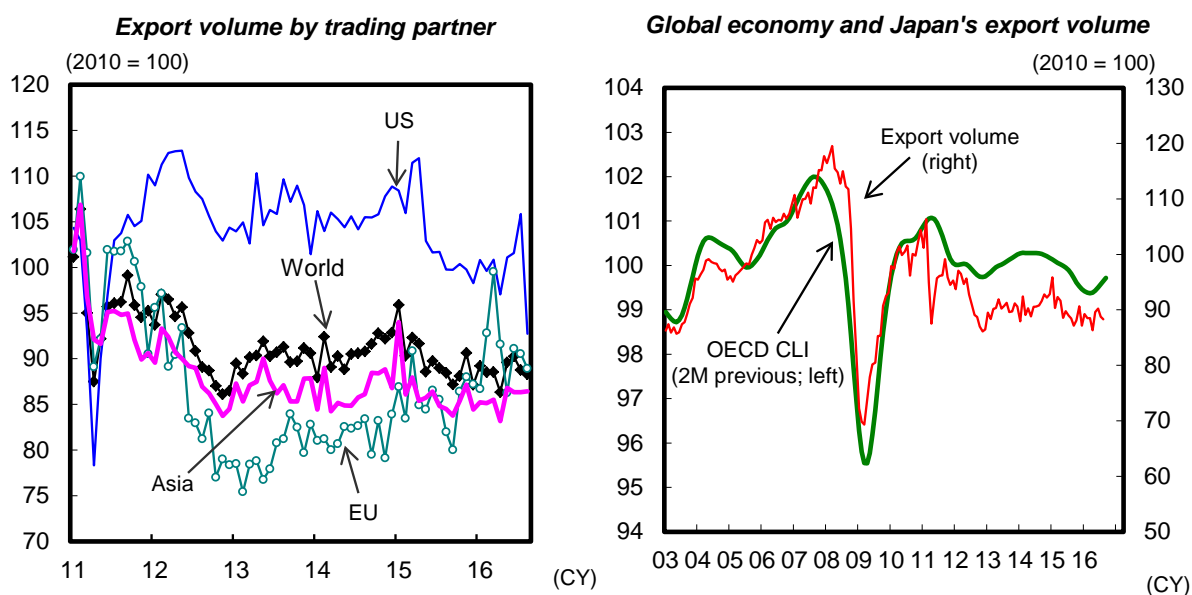
Note: Export volume and export price seasonally adjusted by DIR.

## Exports expected to continue marking time

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 very good possibility that exports of capital goods and materials to both the US and Asia will continue their unfavorable performance 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.

**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