24 October 2016 (No. of pages: 4)

Japanese report: 24 Oct 2016

September Trade Statistics

Exports to US on rebound; decline in imports during the Jul-Sep period a big plus to overseas demand

Economic Intelligence Team
Tsutomu Saito
Shunsuke Kobayashi

Summary

- According to September 2016 trade statistics, export value declined for the twelfth consecutive month by -6.9% y/y, but the extent of the decline was less than in the previous month. Export volume to the US, which suffered a sharp decline during the previous month, shifted into positive numbers, resulting in an upward swing for export value in September. Meanwhile, import value also declined for the twenty-first consecutive month at -16.3%. As a result, the trade balance was back in the black for the first time in two months at +498.3 bil yen. Based on the results of the September trade statistics, we estimate the contribution of overseas demand on a GDP basis for the Jul-Sep period to record a major upswing, due to mainly to the decline in imports.

- Export value in seasonally adjusted terms grew for the second consecutive month at +0.3% m/m, while export volume grew as well for the first time in three months by +1.8% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US rebounded after the previous month's major decline to register growth of +9.9%. Meanwhile, EU exports also grew for the first time in three months by +1.6%, with exports to Asia suffering a decline for the first time in two months at -1.6%. As for export volume by product, auto exports to the US rebounded after having suffered a major decline during the previous month. Meanwhile, exports of auto parts to the US, Europe, and Asia also grew, thereby contributing to upward pressure on export volume.

- 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**

	2016 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Export value (y/y %)	-12.9	-4.0	-6.8	-10.1	-11.3	-7.4	-14.0	-9.6	-6.9
Market consensus (Bloomberg)									-10.8
DIR estimate									-14.2
Import value (y/y %)	-17.8	-14.2	-14.9	-23.3	-13.7	-18.7	-24.6	-17.2	-16.3
Export volume (y/y %)	-9.1	0.2	-1.0	-4.6	-2.4	3.1	-2.4	0.8	4.7
Export price (y/y %)	-4.1	-4.2	-5.8	-5.7	-9.1	-10.1	-11.9	-10.3	-11.1
Import volume (y/y %)	-5.0	-2.5	5.2	-7.5	3.6	0.4	-4.0	3.8	-1.6
Import price (y/y %)	-13.5	-12.0	-19.0	-17.0	-16.7	-19.1	-21.5	-20.3	-14.9
Trade balance (Y100 mil)	-6,477	2,399	7,491	8,207	-429	6,907	5,104	-192	4,983

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

Exports to US on rebound; decline in imports during the Jul-Sep period a big plus to overseas demand

According to September 2016 trade statistics, export value declined for the twelfth consecutive month by -6.9% y/y, but the extent of the decline was less than in the previous month (-9.6% in August). Meanwhile, export value exceeded market consensus, which was at -10.8% m/m. Export volume to the US, which suffered a sharp decline during the previous month, shifted into positive numbers (+4.7% in September as compared to -5.6% in August), resulting in an upward swing for export value in September. On the other hand, appreciation of the yen continues (Japan Customs exchange rate: 101.85 yen/dlr, up 15.8% y/y), causing export price to continue its decline (-11.1% y/y), contributing to downward pressure on export value. Meanwhile, import value also declined for the twenty-first consecutive month at -16.3%. As a result, the trade balance was back in the black for the first time in two months at +498.3 bil yen. Based on the results of the September trade statistics, we estimate the contribution of overseas demand on a GDP basis for the Jul-Sep period to record a major upswing, due to mainly to the decline in imports.

Export volume grows for first time in three months at +1.8% due to rebound in auto exports to the US

Export value in seasonally adjusted terms grew for the second consecutive month at +0.3% m/m, while export volume grew as well for the first time in three months by +1.8% (seasonal adjustment performed by DIR). Looking at export volume by source of demand, exports to the US rebounded after the previous month’s major decline to register growth of +9.9%. Meanwhile, EU exports also grew for the first time in three months by +1.6%, with exports to Asia suffering a decline for the first time in two months at -1.6%.

As for export volume by product, auto exports to the US rebounded after having suffered a major decline during the previous month. Meanwhile, exports of auto parts to the US, Europe, and Asia also grew, thereby contributing to upward pressure on export volume.

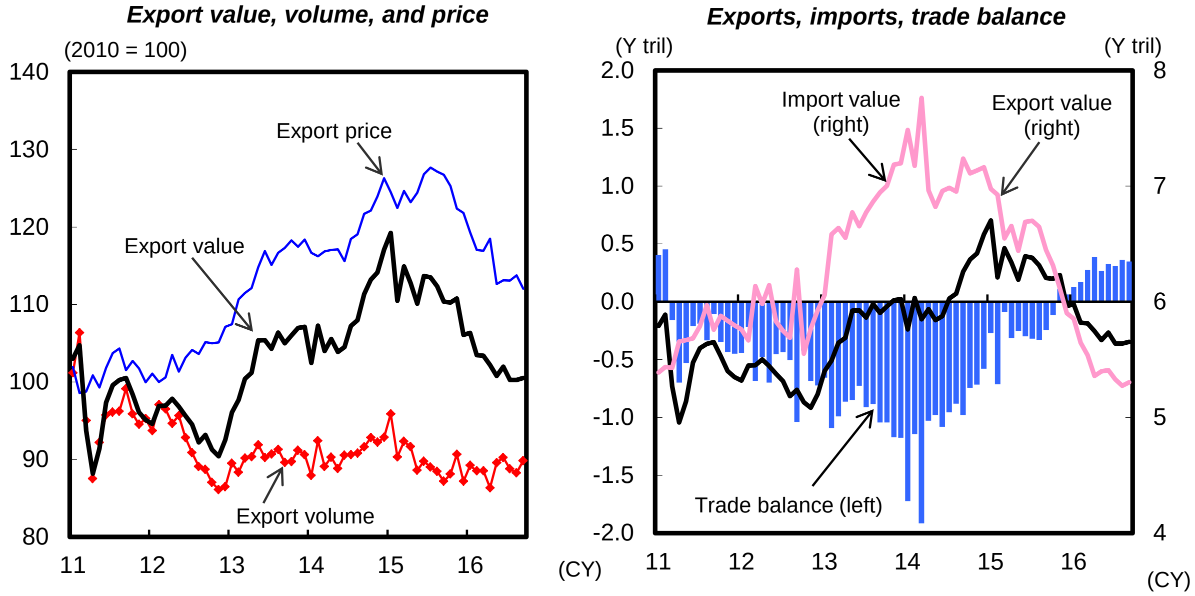
Export volume of ICs to Asia, which have continued to achieve growth in recent months, remained flat during the previous month, but as of this point are continuing to maintain a high level. On the other hand, export volume of computers and units, which had been in a moderate growth phase until last month, suffered a decline, while recording media also suffered a major decline. Exports of electrical machinery experienced various ups and downs as can be seen by the results, which are better understood by looking at the trends by product or commodity.

Import value continues y/y decline due to yen appreciation, but extent of decline shrinks due to rebound in price of crude oil

Looking at import value in terms of price factors and volume factors, we see that the import price declined by -14.9% y/y, while import volume declined by -1.6%. Yen appreciation continues to be a major factor contributing to downward pressure on the import price, but the extent of the decline has shrunk in y/y terms (-20.3% in August) due to the rebound in the price of crude oil.

In seasonally adjusted terms, import value grew for the first time in three months by +0.6% m/m, while the trade balance in seasonally adjusted terms was in the black at +349 bil yen. Import volume declined for the third consecutive month by -0.2% (seasonal adjustment by DIR).

Export Value, Volume, Price and Trade Balance **Chart 2**



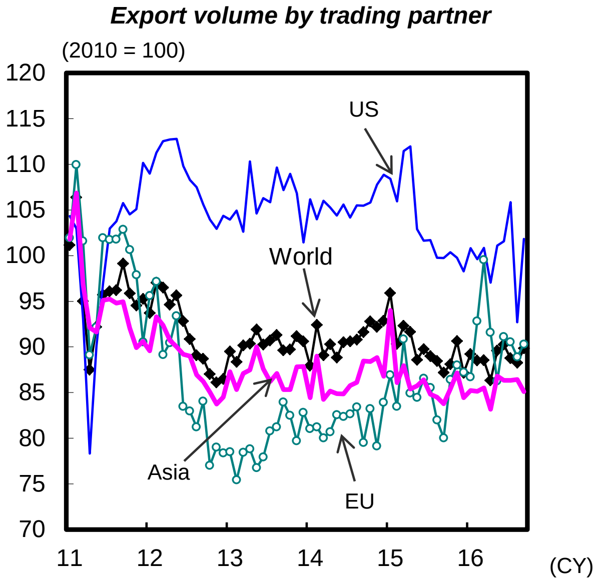
Source: Ministry of Finance; compiled by DIR.
Note: Export volume and export price seasonally adjusted by DIR.

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