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# December 2016 Trade Statistics

## Export value makes y/y gains for first time in 15 months

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### Summary

- According to December 2016 trade statistics, export value grew for the first time in 15 months at +5.4% y/y, while at the same time exceeding market consensus (+1.1%). In addition to export volume winning a higher percentage of growth than in the previous month, export price saw a major reduction in the extent of its decline. These factors helped to push up export value. Meanwhile, import value declined for the 24<sup>th</sup> consecutive month by -2.6% y/y, putting the trade balance into the black for the fourth consecutive month at +641.4 bil yen.
- Export value in seasonally adjusted terms grew for the fifth consecutive month at +1.8% m/m, while export volume suffered a decline for the first time in four months at -0.7% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US declined for the first time in four months by -2.0%, while exports to the EU also declined for the first time in four months by -3.8%. Exports to Asia were up for the third consecutive month at +3.6%. As for export volume by product, export volume of ICs and audio devices to the US declined, while exports of passenger vehicles took a breather from the growth trend of recent months. Exports to Asia maintained favorable performance with export volume in the areas of passenger vehicles, buses and trucks, as well as ICs doing well.
- As for the future of exports, our opinion remains unchanged from the previous report. We see moderate growth, which can be maintained due to the underlying strength of overseas economies. However, we advise caution as regards recent developments occurring immediately after President Trump's inauguration, such as the decision to withdraw from TPP and renegotiate NAFTA, possibly even withdrawing from that agreement. If the US economy becomes overly protectionist, it could cause world trade to stagnate, turning into a long-term risk factor.

### Trade Statistics

### Chart 1

	2016								
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Export value (y/y %)	-10.1	-11.3	-7.4	-14.0	-9.6	-6.9	-10.3	-0.4	5.4
Market consensus (Bloomberg)									1.1
DIR estimate									-0.5
Import value (y/y %)	-23.3	-13.7	-18.7	-24.6	-17.2	-16.2	-16.4	-8.8	-2.6
Export volume (y/y %)	-4.6	-2.4	3.1	-2.4	0.9	4.7	-1.4	7.4	8.4
Export price (y/y %)	-5.7	-9.1	-10.1	-11.9	-10.3	-11.1	-9.0	-7.3	-2.7
Import volume (y/y %)	-7.5	3.6	0.4	-4.0	3.8	-1.5	-2.5	3.6	3.6
Import price (y/y %)	-17.0	-16.7	-19.1	-21.5	-20.2	-14.9	-14.3	-12.0	-6.0
Trade balance (¥100 mil)	8.207	-429	6.907	5.104	-229	4.932	4.916	1.508	6.414

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

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

## Export price sees reduction in extent of decline while export value makes y/y gains for first time in 15 months

According to December 2016 trade statistics, export value grew for the first time in 15 months at +5.4% y/y, while at the same time exceeding market consensus (+1.1%). In addition to export volume winning a higher percentage of growth than in the previous month (+7.4% in November to +8.4% in December), export price saw a major reduction in the extent of its decline (-7.3% in November to -2.7% in December). These factors helped to push up export value. Export volume is in a growth trend and December results were very positive.

Meanwhile, import value declined for the 24<sup>th</sup> consecutive month by -2.6% y/y, putting the trade balance into the black for the fourth consecutive month at +641.4 bil yen.

The yen has continually depreciated against the dollar since the middle of November, but began to strengthen in December with the Japan Customs rate at 113.31 yen to the dollar, or yen appreciation of 7.6% in comparison to the previous year. This is because the Japan Customs rate was 122.63 yen to the dollar during the same month of the previous year, a much weaker yen than recently. However, since the yen appreciated rapidly against the dollar after the beginning of 2016, we may see the yen exchange rate becoming a factor in pushing up export value by spring 2017 if recent exchange rates continue.

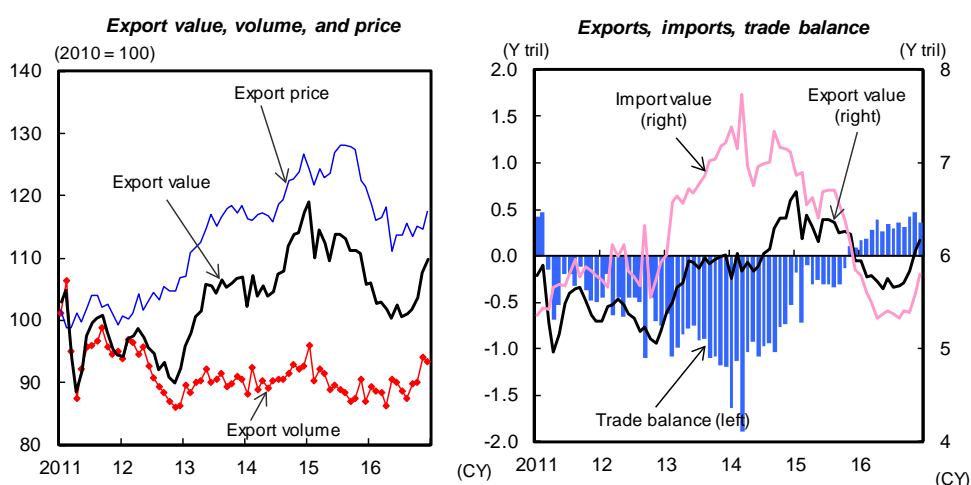
## Export volume to US and EU declines for the first time in 4 months. Asian exports continue favorable performance

Export value in seasonally adjusted terms grew for the fifth consecutive month at +1.8% m/m, while export volume suffered a decline for the first time in four months at -0.7% (seasonal adjustment by DIR).

Looking at export volume by source of demand, exports to the US declined for the first time in four months by -2.0%, while exports to the EU also declined for the first time in four months by -3.8%. Exports to Asia were up for the third consecutive month at +3.6%. As for export volume by product, export volume of ICs and audio devices to the US declined, while exports of passenger vehicles took a breather from the growth trend of recent months. Export volume of audio equipment and 2-wheeler vehicles to the EU declined considerably, but this is believed to be a reactionary decline in response to the previous month's major growth. Exports of passenger vehicles and auto parts & accessories to the EU are currently maintaining favorable performance. Exports to Asia maintained favorable performance with export volume in the areas of passenger vehicles, buses and trucks, as well as ICs doing well. On the other hand, exports of iron & steel, as well as non-ferrous metals and other raw materials lacked teeth.

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.

## Import value continues y/y decline, but extent of decline shrinks considerably

Looking at import value in terms of price factors and volume factors, we see that the import price declined by -6.0% y/y (-12.0% in November), while import volume grew by +3.6% (+3.6% in November). The extent of the decline in import price shrank considerably due to the weak yen / strong dollar situation since the middle of November, and this contributed significantly to a reduction in the extent of the decline in import value.

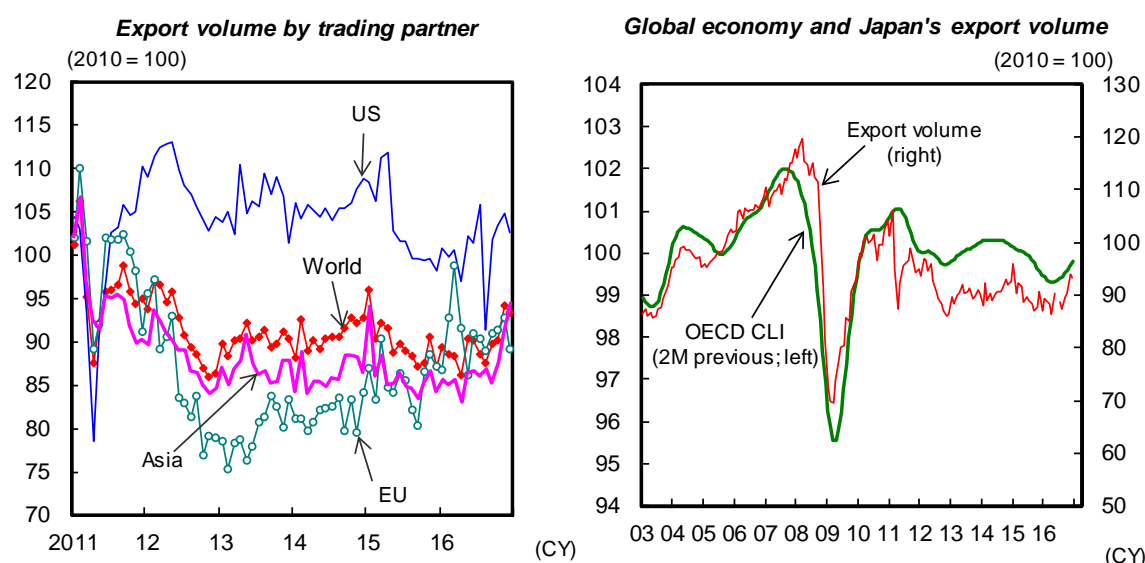
## Moderate growth trend seen continuing in future, but caution recommended due to Trump risk

As for the future of exports, our opinion remains unchanged from the previous report. We see moderate growth, which can be maintained due to the underlying strength of overseas economies. Exports of consumer goods to the US are expected to maintain underlying strength backed by improvements in the US employment environment. On January 20 Donald Trump was sworn in as president of the United States. This could mean lower taxes, a development which would raise the growth rate of the US economy in the future, promising to bring an increase in exports to the US as well. Meanwhile, the effects of quantitative easing by the ECB are encouraging the EU economy to make a comeback. Exports to the EU are expected to continue in the future, focusing on consumer goods. As for the Asian economy, risks remain due to economic and financial trends in the first world economies centering on the US, but economies in Asia appear to have bottomed out. Exports of capital goods continue to be viewed with caution, but demand for consumer goods is expected to recover.

However, we advise caution as regards recent developments occurring immediately after President Trump's inauguration, such as the decision to withdraw from TPP and renegotiate NAFTA, possibly even withdrawing from that agreement. If the US economy becomes overly protectionist, it could cause world trade to stagnate, turning into a long-term risk factor. Of particular concern is President Trump's claim that Japan's business practices in the area of automobile trade are unfair. If the problem of trade friction arises between Japan and the US, Japan's export driven industries could take a hit.

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