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January 2017 Trade Statistics

Trade balance in the red for first time in 5-months due in part to influence of Lunar New Year celebrations in Sinosphere

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Summary

- According to January 2017 trade statistics, export value grew for the second consecutive month at +1.3% y/y, while falling below market consensus at +5.0%. January export volume was stagnant due to Lunar New Year celebrations in the Sinosphere. It will be necessary to take this into account when looking at export volume and consider this figure in terms of averages instead. The same will be true for looking at February figures as well once they are out.

- Export value in seasonally adjusted terms grew for the sixth consecutive month at +0.7% m/m, while export volume suffered a decline for the second consecutive month at -0.9% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US declined for the second consecutive month at -1.9%, while exports to the EU also declined for the second consecutive month at -2.1%. Exports to Asia fell for the first time in four months at -3.1%. As for export volume by product, passenger vehicle exports to the US appear to be about to peak out, while exports of ICs and audio equipment made major gains in a rebound from the previous months decline. Exports to Asia maintained favorable performance with export volume in the areas of ICs, two-wheelers and auto parts doing well.

- As for the future of exports, our opinion remains unchanged from the previous report. We see moderate growth, which will 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 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2017 Jan
Export value (y/y %)	-11.3	-7.4	-14.0	-9.6	-6.9	-10.3	-0.4	5.4	1.3
Market consensus (Bloomberg)									5.0
DIR estimate									3.7
Import value (y/y %)	-13.7	-18.7	-24.6	-17.2	-16.2	-16.4	-8.8	-2.6	8.5
Export volume (y/y %)	-2.4	3.1	-2.4	0.9	4.7	-1.4	7.4	8.4	-0.3
Export price (y/y %)	-9.1	-10.1	-11.9	-10.3	-11.1	-9.0	-7.3	-2.7	1.6
Import volume (y/y %)	3.6	0.4	-4.0	3.8	-1.5	-2.5	3.6	3.6	6.2
Import price (y/y %)	-16.7	-19.1	-21.5	-20.2	-14.9	-14.3	-11.9	-6.0	2.2
Trade balance (Y100 mil)	-429	6,907	5,104	-229	4,932	4,916	1,479	6,404	-10,869

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

Trade balance in the red for first time in 5-months due in part to influence of Lunar New Year celebrations in Sinosphere

According to January 2017 trade statistics, export value grew for the second consecutive month at +1.3% y/y, while falling below market consensus at +5.0%. The export price in y/y terms was up for the first time in fifteen months (-2.7% in December to +1.6% in January), but January export volume fell for the first time in three months (-0.3% y/y in January as compared to +8.4% in December).

January export volume was stagnant due to Lunar New Year celebrations in the Sinosphere. China's national holiday for the Lunar New Year was February 7-13 in 2016. This year the official national holiday was from January 27 to February 2. Exports to China began to decline just before the national holiday got started, leading us to assume that January figures must have been influenced. It will be necessary to take this into account when looking at export volume and consider this figure in terms of averages instead. The same will be true for looking at February figures as well once they are out.

Meanwhile, import value grew for the first time in 25 months by +8.5% y/y. As a result, the trade balance fell into the red for the first time in five months at -1,086.9 bil yen. At the same time, however, the trade balance was actually in the black in seasonally adjusted terms at +155.5 bil yen.

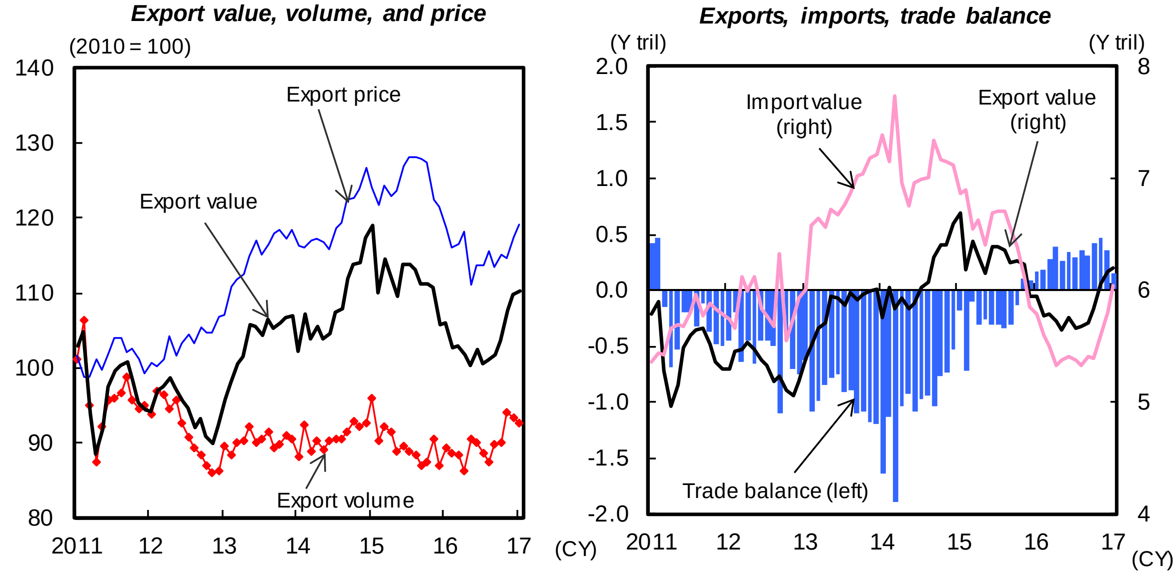
The yen has continually depreciated against the dollar since the middle of November, then in January this year the Japan Customs rate hit 116.48 yen/dlr, representing yen appreciation of 2.6% in comparison to the same month of the previous year. However, since the yen appreciated rapidly against the dollar after the beginning of 2016, we may see the yen depreciate further during February in y/y terms assuming exchange rates continue in the direction they have gone most recently. We believe this will bring upward pressure on export prices.

Export volume to US, EU, and Asia suffers m/m declines

Export value in seasonally adjusted terms grew for the sixth consecutive month at +0.7% m/m, while export volume suffered a decline for the second consecutive month at -0.9% (seasonal adjustment by DIR).

Looking at export volume by source of demand, exports to the US declined for the second consecutive month at -1.9%, while exports to the EU also declined for the second consecutive month at -2.1%. Exports to Asia fell for the first time in four months at -3.1%. As for export volume by product, passenger vehicle exports to the US appear to be about to peak out, while exports of ICs and audio equipment made major gains in a rebound from the previous months decline. Exports of two-wheelers, buses and trucks to the EU are currently maintaining favorable performance. Passenger vehicle exports appear to be close to peaking out. Exports to Asia maintained favorable performance with export volume in the areas of ICs, two-wheelers and auto parts doing well. However, exports of passenger vehicles, buses and trucks are stagnant.

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 price grows for first time in 25 months. Growth in import volume contributes to rise in import value

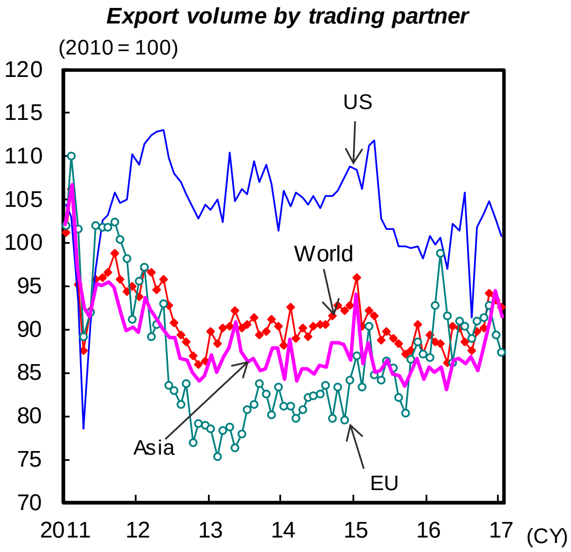
Looking at import value in terms of price factors and volume factors, we see that the import price grew by +2.2% y/y (-6.0% in November), while import volume grew by +6.2% (+3.6% in November). The yen has continually depreciated against the dollar since the middle of November, and the rising price of crude oil has brought additional strength, causing the import price to rise for the first time in 25 months. Meanwhile, growth in import volume also contributed to the increase in import price.

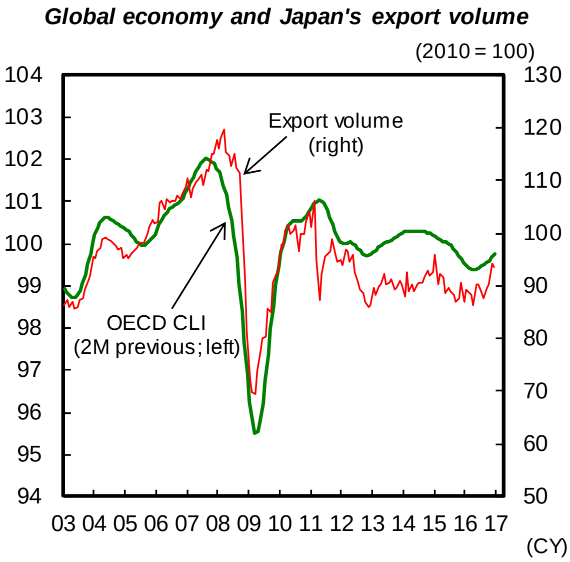
Moderate growth trend seen continuing in future, but caution recommended due to Trump risk

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. 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.