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June Trade Statistics

Slowdown in export volume expected to be temporary

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Summary

- According to June trade statistics, export value grew by +9.7% y/y, less than last month's result of +14.9%. This was due to the fact that export volume in y/y terms grew less than in the previous month (+4.0% in June in comparison to +7.5% in May). Meanwhile, the Japan Customs rate in June was at 110.9 yen/dlr, representing yen depreciation of 2.2% in y/y terms.

- Export value in seasonally adjusted terms declined slightly by -0.3% m/m, while export volume grew for the second consecutive month at +0.2% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US grew by +1.5%, while exports to Asia declined by -0.7%. Meanwhile, exports to the EU suffered a major decline at -4.4%. However, the downturn in exports to the EU is expected to be a temporary one, and there should be no change in the basic tone.

- As for the future of exports, we see steady growth continuing for the overseas economy centering on exports to the EU. However, we advise caution as regards downside risk in the area of overseas demand. In the US, the Fed is expected to implement further interest rate hikes, as well as asset reduction, and this is expected to trigger a downturn in the US economy, while encouraging capital outflows from the emerging nations.

Trade Statistics **Chart 1**

	2016 Oct	Nov	Dec	2017 Jan	Feb	Mar	Apr	May	Jun
Export value (y/y %)	-10.3	-0.4	5.4	1.3	11.3	12.0	7.5	14.9	9.7
Market consensus (Bloomberg)									9.5
DIR estimate									9.0
Import value (y/y %)	-16.3	-8.7	-2.5	8.4	1.3	15.9	15.2	17.8	15.5
Export volume (y/y %)	-1.4	7.4	8.4	-0.3	8.3	6.6	4.1	7.5	4.0
Export price (y/y %)	-9.0	-7.3	-2.7	1.6	2.8	5.0	3.2	6.9	5.5
Import volume (y/y %)	-2.5	3.6	3.6	6.3	-4.3	4.2	4.9	5.4	4.1
Import price (y/y %)	-14.1	-11.9	-5.9	2.0	5.8	11.3	9.8	11.8	11.0
Trade balance (Y100 mil)	4,812	1,465	6,359	-10,919	8,111	6,103	4,792	-2,042	4,399

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

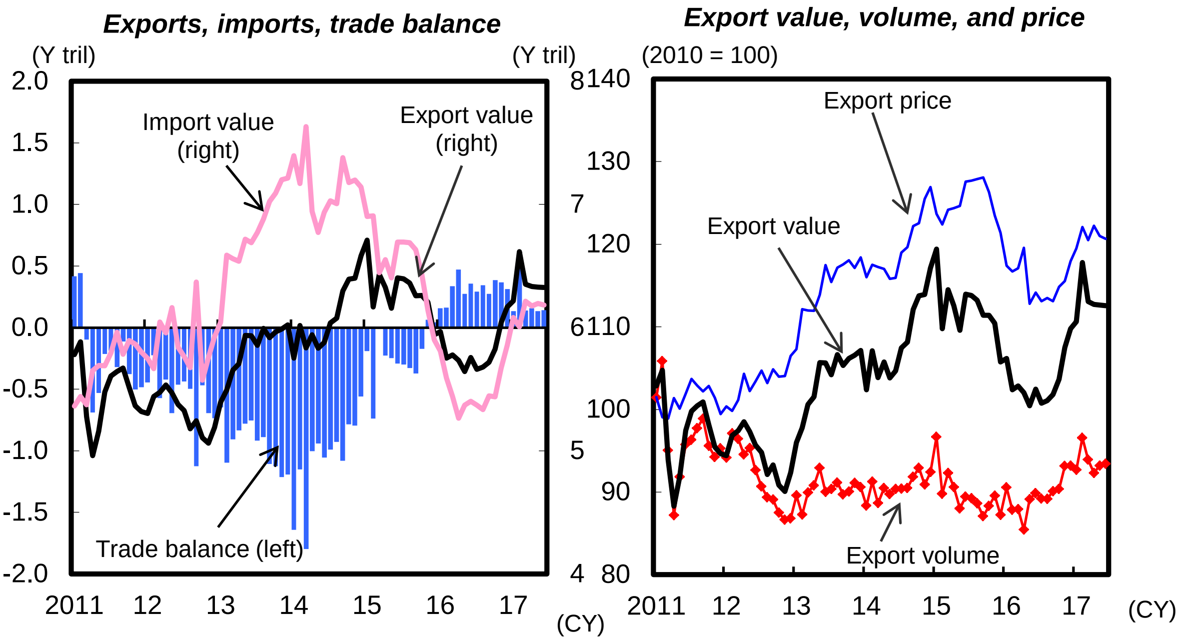
Trade balance back in black for the first time in two months

According to June trade statistics, trade balance was in the black for the first time in two months at +439.9 bil yen. Meanwhile, export value grew by +9.7% y/y, less than last month's result of +14.9%. However, performance exceeded market consensus at +9.5%. Import value also grew less at +15.5% in comparison with the previous month's result of +17.8%.

Looking at export and import value in terms of price and volume factors, we see that the extent of growth in export value shrank in comparison to the previous month due to the decrease in the volume factor (more on this in a later section). Meanwhile import value experienced downward pressure on its growth rate in y/y terms due to growth in the level of the price of crude oil last year. However, the price of crude oil has stabilized somewhat recently, hence there was no overall change in the underlying tone. Meanwhile, the Japan Customs rate in June was at 110.9 yen/dlr, representing yen depreciation of 2.2% in y/y terms.

Looking at the seasonally adjusted values, we see export value at -0.3% m/m and import value at +0.4%. The trade balance in seasonally adjusted terms was in the black at +81.4 bil yen. The extent to which the trade balance was in the black shrank somewhat in comparison to last month's result of +122.7 bil yen.

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.

Downturn in export volume to EU expected to be temporary

Export volume (seasonally adjusted by DIR) grew for the second consecutive month at +0.2% m/m, representing a slowdown in the pace of growth in comparison with the previous month, which recorded +1.0%. Looking at export volume by source of demand, exports to the US grew by +1.5%, while exports to Asia declined by -0.7%. Meanwhile, exports to the EU suffered a major decline at -4.4%.

A major factor in growth was exports of automobiles to the US, a mainstay for Japan, which grew by +5.3% m/m, representing the third consecutive month of growth. However, the US automobile market, which remained favorable throughout the 2016 calendar year, has recently begun to slow down due to gasoline prices and rising interest rates, which has brought stricter terms on automobile loans. Japan's exports to the US currently maintain a high level despite these developments, but possibilities are that they could slow down in the future. On the other hand, with the price of crude oil having bottomed out, improvements are being seen in exports of construction and mining equipment, such as excavation and drilling machinery, and steel pipe.

As for exports to Asia, declines in exports of automobile parts and ICs to the ASEAN brought downward pressure on overall performance. A major cornerstone of ASEAN business is Thailand, where automobile sales, which had been in a recovery until recently, have become sluggish due to a recent decline in income, which brought a downturn in consumer confidence. This has brought downward pressure on Japan's exports as well. While exports of automobile parts to China are in a decline, IC exports are maintaining their growth trend. Overall, exports are marking time.

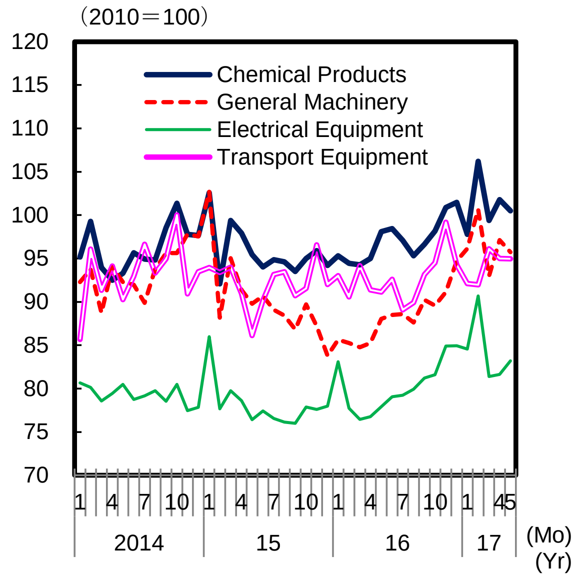
May exports to the EU were given a major uplift by special factors (most likely delivery of a large-sized passenger ship), and as the affect wore off in June, performance took a major turn for the worse. However, the downturn in exports to the EU is expected to be a temporary one. EU production and personal consumption remain favorable, and growth in Japanese exports is continuing, especially for materials such as plastic, and automobiles and automobile parts.

Looking at export volume by types of goods (using data through May 2017) we see that chemicals are maintaining a growth trend while other major goods remain sluggish. Cosmetics products are a leader in exports of chemicals. Exports of cosmetics products have doubled since 2014, with growth in exports to China especially notable, having tripled during that same time. The inbound market shows a special focus on Japanese-made cosmetics products, while growth in EC sales is also notable. These two trends are seen as encouraging growth in Japanese exports of cosmetics products.

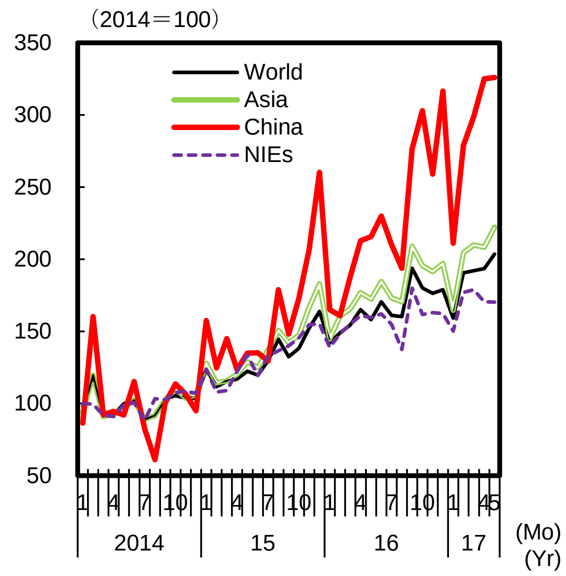
Export volume for the overall Apr-Jun period is expected to decline for the first time in four quarters by -1.5% q/q due to a reactionary decline in response to rapid growth in exports of semiconductor manufacturing equipment and other machinery during the Jan-Mar period. Export volume reflects only the movement of various goods and does not touch upon fluctuations in added value, hence a comparison cannot be made with GDP statistics on exports of goods and services. However, there is a growing possibility that exports of goods may actually bring downward pressure on real GDP.

Exports of Cosmetics Favorable **Chart 3**

Export Volume of Major Goods



Export Volume of Cosmetics Products



Source: Ministry of Finance; compiled by DIR.
Note: Seasonally adjusted by DIR.

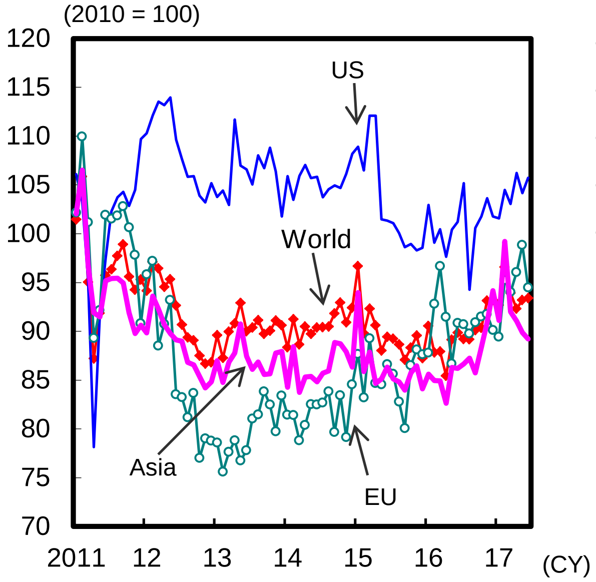
Moderate growth centering on exports to EU seen continuing in future

As for the future of exports, we see steady growth continuing for the overseas economy centering on exports to the EU. As for exports to Asia, exports of electronic parts and semiconductor manufacturing equipment maintained underlying strength due to the global IT cycle, but recently there have been signs of a lull. In addition, there has been a slowdown in automobile sales in some Asian countries. On the other hand, while there is some weakness developing in automobile sales, the US economy appears to be in a recovery phase, and exports to that country are expected to win moderate growth. Meanwhile, though exports to the EU suffered a decline during this most recent month, the EU economy is seen as moving into a balanced growth phase backed by personal consumption and fixed capital formation such as capex.

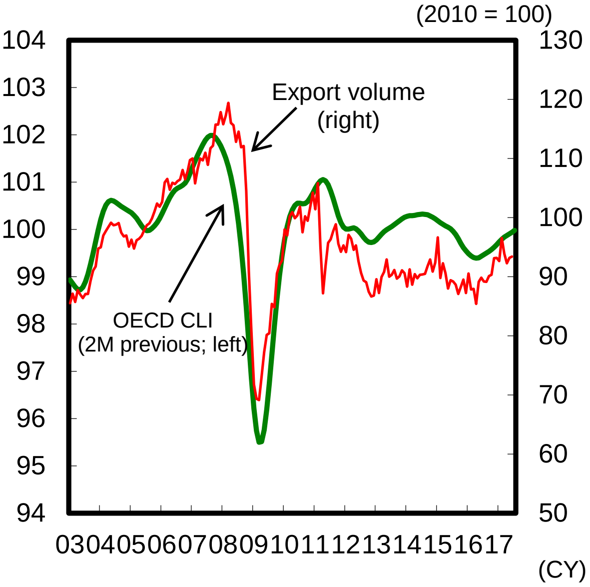
However, we advise caution as regards downside risk in the area of overseas demand. In the US, the Fed implemented an interest rate hike in June, and further interest rate hikes, as well as asset reduction are expected within the year. Rising US interest rates are expected to bring downward pressure on its economy, while at the same time bringing the possibility of capital outflows from the emerging nations. Meanwhile, the EU is expected to begin the tapering process starting next year, with reduction in asset purchases likely to be announced in the near future. This could become a factor bringing downward pressure on the EU economy, and hence caution is advised.

Export Volume by Trade Partner; Global Economy and Japan's Export Volume **Chart 4**

Export volume by trading partner



Global economy and Japan's export volume



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.