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July Trade Statistics

Export volume to US wins sharp growth, but overall results are sluggish

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Summary

- According to July trade statistics, export value grew by +13.4% y/y, exceeding last month's result of +9.6%. The influential factor here was an increase in the growth rate of export price in y/y terms (+5.5% in June to +10.5% in July). Meanwhile, the Japan Customs rate in July was at 112.41 yen/dlr, representing yen depreciation of 9.0% in y/y terms.
- Looking at the seasonally adjusted values, we see export value at +2.8% m/m, and export volume increasing for the third consecutive month at +0.4% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US were up by +5.3%, while exports to Asia grew by +1.1%. On the other hand, exports to the EU declined by -1.7%.
- 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		2017						
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Export value (y/y %)	-0.4	5.4	1.3	11.3	12.0	7.4	14.9	9.6	13.4
Market consensus (Bloomberg)									13.2
DIR estimate									10.0
Import value (y/y %)	-8.7	-2.5	8.4	1.3	15.9	15.2	17.9	15.5	16.3
Export volume (y/y %)	7.4	8.4	-0.3	8.3	6.6	4.1	7.5	4.0	2.6
Export price (y/y %)	-7.3	-2.7	1.6	2.8	5.0	3.2	6.9	5.5	10.5
Import volume (y/y %)	3.6	3.6	6.3	-4.3	4.2	4.9	5.4	4.2	3.2
Import price (y/y %)	-11.9	-5.9	2.0	5.8	11.3	9.8	11.8	10.9	12.7
Trade balance (Y100 mil)	1,465	6,359	-10,919	8,111	6,103	4,792	-2,064	4,398	4,188

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

Trade balance in black for second consecutive month

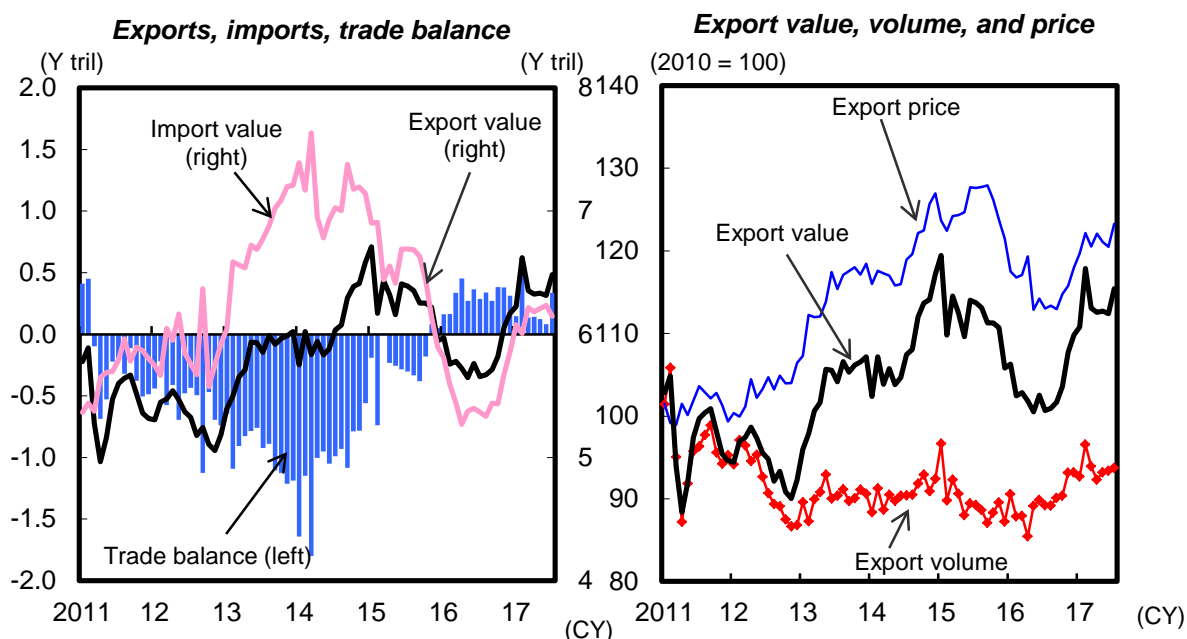
According to July trade statistics, the trade balance was in the black for the second consecutive month at +418.8 bil yen. Export value grew by +13.4% y/y, exceeding last month's result of +9.6%, while at the same time exceeding market consensus at +13.2%. Import value also grew by +16.3% y/y, exceeding last month's result of +15.5%.

Looking at export and import value in terms of price and volume factors, we see that exports to the US led growth in export value, helping this component to maintain its growth trend if only by a small amount. The main factor behind expansion in export value was price. Import value also grew slightly due to the volume factor, while growth in the import price brought upward pressure on import value overall. Meanwhile, the Japan Customs rate in July was at 112.41 yen/dlr, representing yen depreciation of 9.0% in y/y terms. This is thought to have been the major factor behind growth in both import and export prices.

Looking at the seasonally adjusted values, we see export value at +2.8% m/m and import value at -1.2%. As a result, the trade balance in seasonally adjusted terms was in the black at +337.4 bil yen. The extent to which the trade balance was in the black grew in comparison to last month's result of +87.3 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.

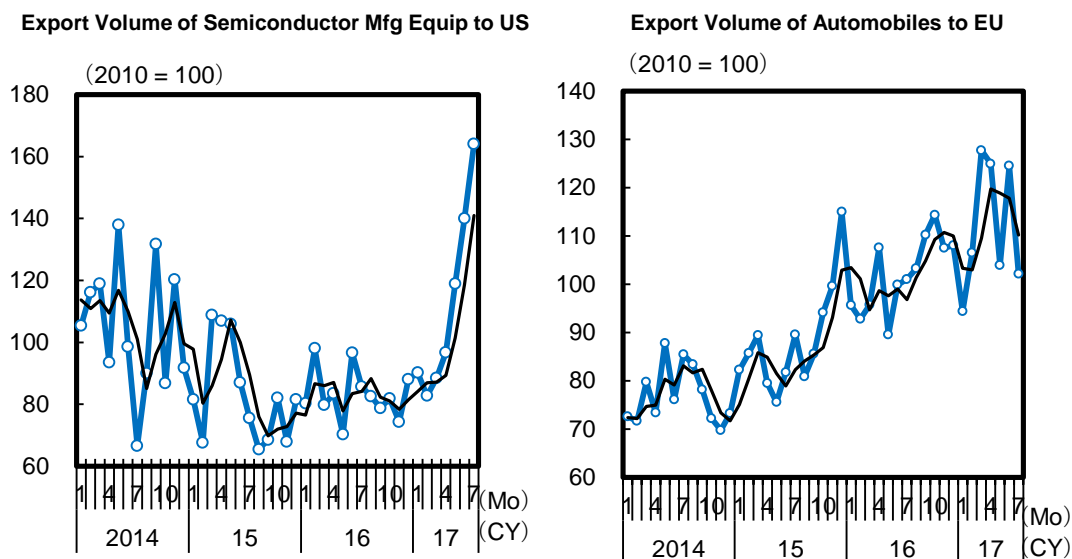
Exports to US continue to be favorable, but there are doubts that this can be maintained in the future

Export volume (seasonally adjusted by DIR) grew for the third consecutive month at +0.4% m/m, representing a continuation of last month's slow growth, which recorded +0.2%. Looking at export volume by source of demand, exports of automobiles to the US declined somewhat, but maintained their high level despite the sluggishness of the US automobile sales. In addition, there was growth in automobile parts and accessories, as well as semiconductor manufacturing equipment, helping overall exports to the US to achieve major growth of +5.3%. However, it is difficult to imagine a continuation of high growth in exports to the US, as a divergence has appeared in exports of automobiles to the US and the actual trend in the US automobile sales. Moreover, the rapid growth in exports of

semiconductor manufacturing equipment is only a temporary one (Chart 3 left side). Meanwhile, exports of automobiles and automobile parts to Asia brought overall growth in exports to that region to +1.1%. On the other hand, exports to the EU decline for the second consecutive month at -1.7% due to a reactionary decline in response to the previous month's major growth in automobile exports. Fluctuations in exports of automobiles to the EU have become large recently (Chart 3 right side). However, the level of exports remains high, and the general trend is not slowing down, hence there is no need for pessimism.

Distinctive Features of Trends in Export Volume

Chart 3



Source: Ministry of Finance; compiled by DIR.

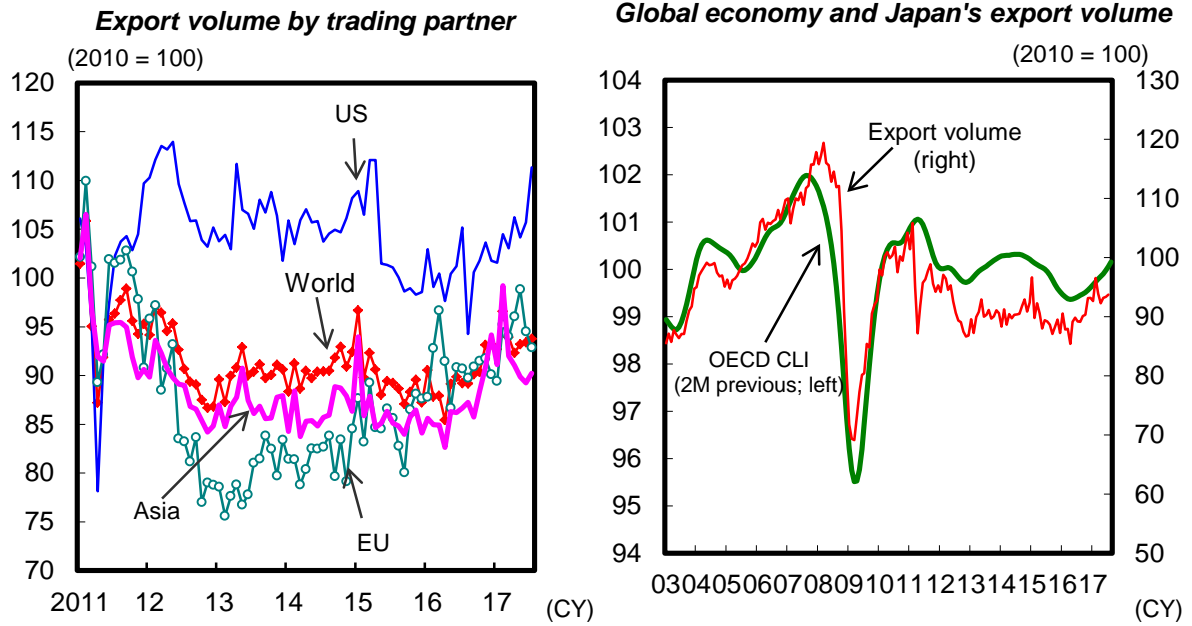
Notes: 1) Black lines represent the 3-month backward moving average.
2) Seasonal adjustment by DIR.

Moderate growth seen for export volume

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. 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. In addition, geopolitical risk is also increasing with the recent developments surrounding North Korea bringing fears of possible fluctuations in the foreign exchange market.

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



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.