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September Trade Statistics

Export volume for the Jul-Sep period grows by +2.0% q/q despite setback in this month's performance

Economic Research Dept.
Ryohei Kasahara
Shunsuke Kobayashi

Summary

- According to September trade statistics, export value grew by +14.1% y/y, while falling below market consensus at +15.0%. The extent to which export value grew shrank in comparison to the previous month's result of +18.1%. The main factor behind slower growth was a decline in export volume to the US. The Japan Customs rate in September was 109.48 yen/dlr, representing yen depreciation of 7.5% in y/y terms.
- Looking at seasonally adjusted values, we see export value at -0.3% m/m, its first decline in three months, while export volume suffered a decline for the first time in five months at -2.0% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US declined by -1.6%, while exports to the EU declined by -2.7%, and Asia also with a decline of -0.4%. Jul-Sep period export volume came in at +2.0% in comparison to the previous quarter.
- As for the future of exports, we see underlying strength continuing for the overseas economy bringing moderate growth in Japan's exports. 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, and this could lead to a downturn in the US economy, while encouraging capital outflows from the emerging nations.

Trade Statistics

Chart 1

	2017								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Export value (y/y %)	1.3	11.3	12.0	7.4	14.9	9.6	13.4	18.1	14.1
Market consensus (Bloomberg)									15.0
DIR estimate									14.6
Import value (y/y %)	8.4	1.3	15.9	15.2	17.9	15.5	16.3	15.2	12.0
Export volume (y/y %)	-0.3	8.3	6.6	4.2	7.5	4.0	2.6	10.4	4.8
Export price (y/y %)	1.6	2.8	5.0	3.2	6.9	5.5	10.5	7.0	8.9
Import volume (y/y %)	6.3	-4.3	4.2	4.9	5.4	4.2	3.2	2.4	-0.3
Import price (y/y %)	2.0	5.8	11.3	9.8	11.8	10.8	12.6	12.6	12.3
Trade balance (Y100 mil)	-10,919	8,111	6,103	4,792	-2,064	4,414	4,220	1,126	6,702

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

Trade balance in black for fourth consecutive month

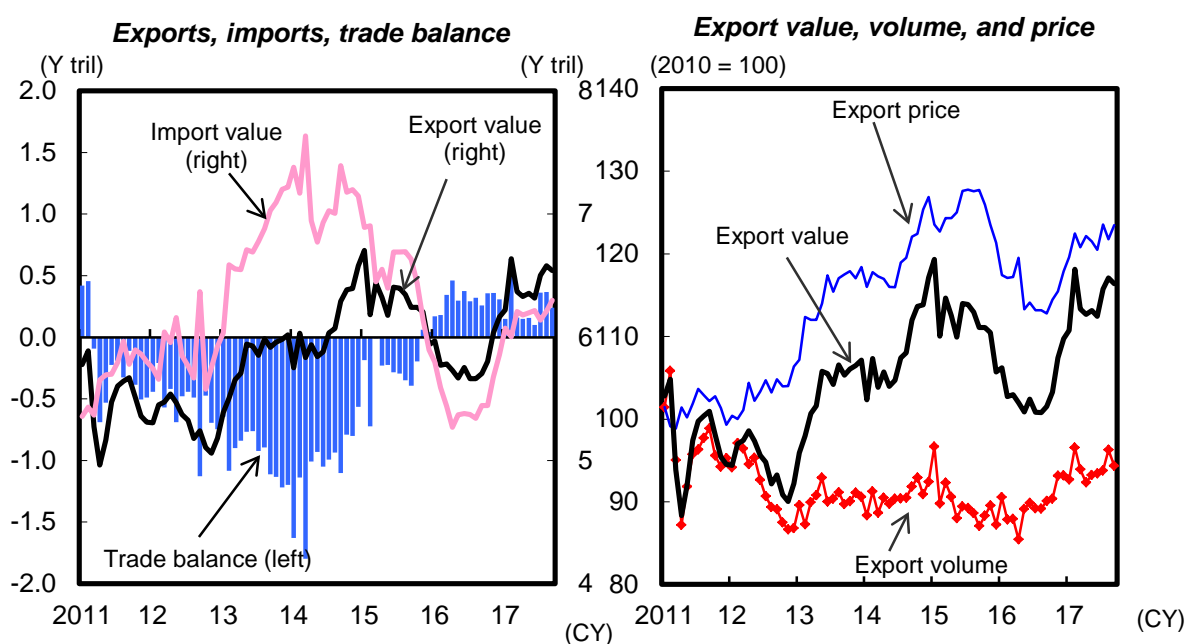
According to September trade statistics, export value grew by +14.1% y/y, while falling below market consensus at +15.0%. The extent to which export value grew shrank in comparison to the previous month's result of +18.1%. Import value grew by +12.0% y/y, also falling back in terms of growth rate in comparison to the previous month's +15.2%. Meanwhile, the trade balance recorded its fourth consecutive month in the black at +670.2 bil yen.

Looking at export and import value in terms of price and volume factors, we see that the volume factor in export value fell in the area of exports to the US, and this caused the extent of growth to shrink. As for import value, the volume factor declined just slightly, while the import price remained at a high level, causing the extent of growth in import value overall to decrease a small amount. The Japan Customs rate in September was 109.48 yen/dlr, representing yen depreciation of 7.5% in y/y terms.

Looking at the seasonally adjusted values, we see export value at -0.3% m/m and import value at +0.7%. As a result, the trade balance in seasonally adjusted terms was in the black at +240.3 bil yen. The extent to which the trade balance was in the black decreased in comparison to last month's result of +308.3 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.

Overall export volume declined for the first time in five months due to the decline in export volume to the US

Export volume (seasonally adjusted by DIR) suffered a decline for the first time in five months at -2.0% m/m.

Looking at export volume by source of demand, overall performance incurred downward pressure from the continued decline in exports to the US, which suffered a setback of -1.6% m/m. The decline in automobile exports was especially large, and may possibly have been influenced by the hurricanes experienced between end August and beginning of September. On the other hand, sales volume of automobiles in the US began to grow sharply in September due to replacement demand. Therefore we should keep in mind the possibility that Japan's exports to the US may also get a temporary lift. As for

exports to Asia, a decline (though small) was suffered for the first time in three months at -0.4%. ICs suffered a minor setback, but exports still maintain a high level, so no major concern here. Exports to the EU declined for the fourth consecutive month at -2.7%. Exports to the EU are thought to have been influenced greatly by the downturn in automobile sales. Automobile sales have been especially suppressed in the UK, indicating concerns regarding Brexit.

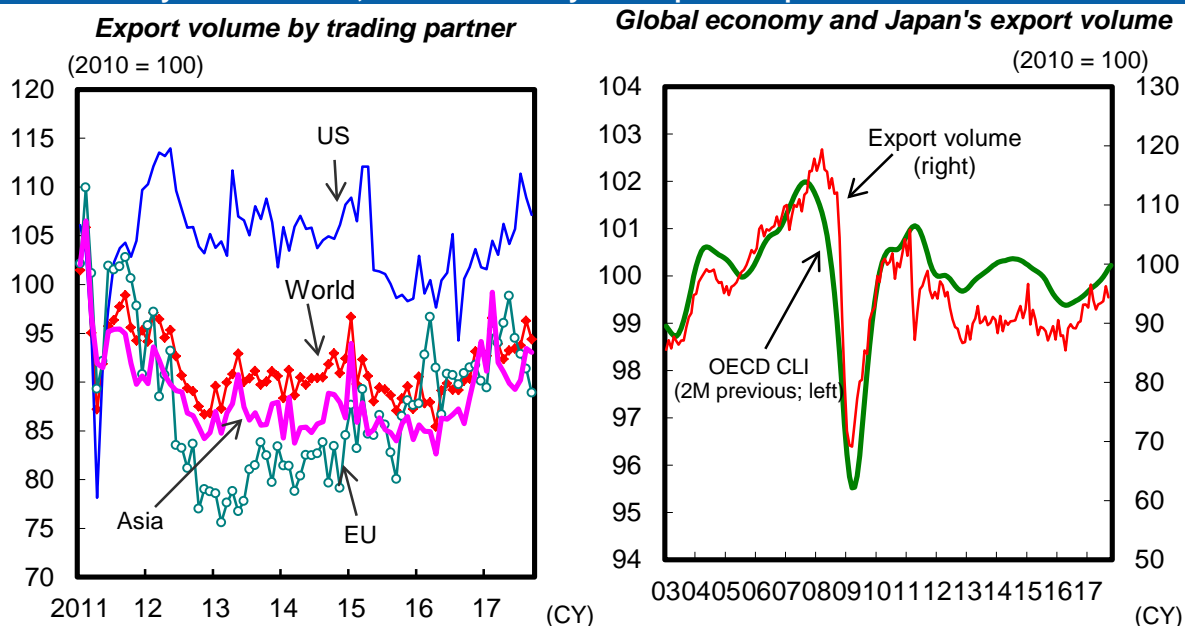
Jul-Sep period export volume came in at +2.0% in comparison to the previous quarter, achieving growth for the first time in two quarters. Export volume statistics make use only of data on goods and do not take into account fluctuations in added value. Hence these results cannot be compared in simple terms to exports of goods & services appearing in the GDP statistics. In any case, possibilities are growing that exports of goods may help pushup real GDP results in the near future.

Moderate growth seen for export volume

As for the future of exports, we see underlying strength continuing for the overseas economy bringing moderate growth in Japan's exports. With global demand for semiconductors on the rise, exports of semiconductors and semiconductor manufacturing equipment to the US and Asia are expected to see a growth trend despite fluctuations. While there is some weakness developing in automobile sales, the US economy is in a recovery phase, and exports to that country are expected to win moderate growth. Meanwhile, exports to the EU are expected to expand with the EU economy shifting into a balanced growth phase backed by personal consumption, which has been the leader in growth in the past, and recent growth in 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 raised the interest rate in June this year, and is expected to implement further interest rate hikes within the year. If interest rates rise, it could lead to a downturn in the US economy, while encouraging capital outflows from the emerging nations. Meanwhile, the ECB 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 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.