

22 October 2012 (No. of pages: 4)

Japanese report: 22 Oct 12

September Trade Statistics

Impact of Worsening China-Japan Relations Partly Seen

Exports to US slowing, decline in those of transportation equipment to China widening

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Summary

- In the September Trade Statistics (Ministry of Finance), export value declined 10.3% y/y, a wider slide than the market consensus (down 9.9%) and the fourth monthly slide in a row. Meanwhile, although export value increased 0.9% m/m, the first gain in five months on a seasonally adjusted basis, the underlying deterioration continues. Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to Asian trading partners and the EU increased m/m, but that to the US declined. Thus, export volume saw a slide of 0.8% m/m as a whole. In general, while exports to the EU and Asian trading partners have been sluggish, overall exports have been supported by those to the US. However, the latter have also begun to run out of steam recently.
- Amid worsening Japan-China relations since mid-September, trends of exports to China have attracted market attention. Export value to China declined 14.1% y/y, widening the slide from August (down 9.9%). Nevertheless, the y/y decline continued for the fourth consecutive month. Thus, the major factor behind sluggish exports to China is likely the slowdown in the Chinese economy. However, exports of transportation equipment widened the slide from August (down 14.0%) to September (down 32.1%), which may reflect the worsening of Japan-China relations. The relations thus warrant watching.

Trade Statistics								Chart 1
	2012							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Export value (y/y %)	-2.7	5.9	7.9	10.0	-2.3	-8.1	-5.8	-10.3
Market consensus (Bloomberg)								-9.9
DIR estimate								-13.7
Import value (y/y %)	9.3	10.6	8.1	9.4	-2.2	2.2	-5.4	4.1
Export volume (y/y %)	-3.8	3.7	4.7	9.3	-2.3	-10.2	-4.2	-11.1
Export price (y/y %)	1.2	2.1	3.1	0.6	0.1	2.4	-1.6	0.9
Import volume (y/y %)	3.2	3.1	1.9	8.5	-0.7	7.0	-2.1	4.2
Import price (y/y %)	5.9	7.3	6.1	0.9	-1.5	-4.5	-3.3	-0.1
Trade balance (Y100 mil)	254	-871	-5,239	-9,172	592	-5,226	-7,559	-5,586

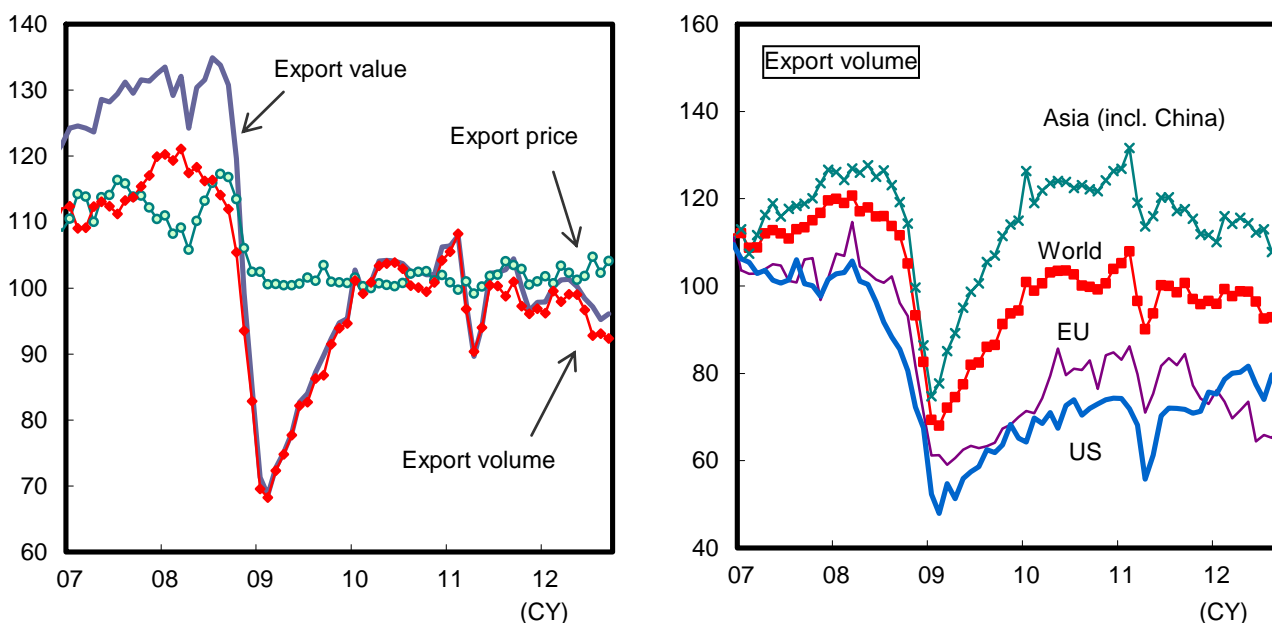
Source: Ministry of Finance, Bloomberg; compiled by DIR.

Exports to US Slowing, Foreign Demand Likely to Contribute Negatively to GDP Growth in Jul-Sep

In the September Trade Statistics (Ministry of Finance), export value declined 10.3% y/y, a wider slide than the market consensus (down 9.9%) and the fourth monthly slide in a row. Meanwhile, although export value increased 0.9% m/m, the first gain in five months on a seasonally adjusted basis, the underlying deterioration continues. Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to Asian trading partners and the EU increased m/m, but that to the US declined. Thus, export volume saw a slide of 0.8% m/m as a whole. In general, while exports to the EU and Asian trading partners have been sluggish, overall exports have been supported by those to the US. However, the latter have also begun to run out of steam recently. On a quarterly basis, export volume declined 5.6% q/q in Jul-Sep, indicating that real exports on a GDP basis are very likely to decline q/q in Jul-Sep. We expect the contribution of foreign demand (net exports) to GDP growth will be minus 0.8 percentage points in the quarter.

On the import front, September import value increased 4.1% y/y, the first gain in two months. Import volume turned to positive growth of 4.2% for the first time in two months, while the decline in import prices narrowed to 0.1% from the previous month. As a result, the trade balance posted a deficit of Y558.6 billion, a negative figure for the third consecutive month. On a seasonally adjusted basis, it posted a deficit of Y980.3 billion, a negative figure for the 19th month in a row.

Export Value, Volume, Price and Export Volume by Trading Partner (2005 = 100; SA basis) **Chart 2**



Source: Ministry of Finance; compiled by DIR.

Note: Export value seasonally adjusted by Ministry of Finance; other by DIR.

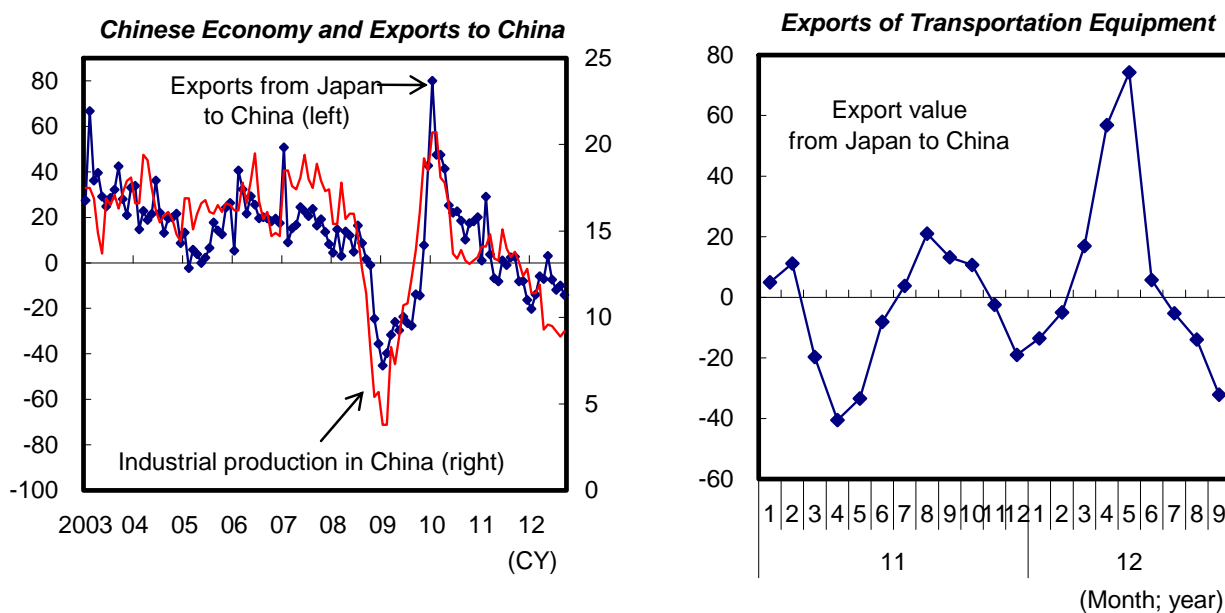
Impact of Worsening of China-Japan Relations Partly Seen

Amid worsening Japan-China relations since mid-September, trends of exports to China have attracted market attention. Export value to China declined 14.1% y/y, widening the slide from August (down 9.9%). Nevertheless, the y/y decline continued for the fourth consecutive month. Thus, the major factor behind sluggish exports to China is likely the slowdown in the Chinese economy. However, exports of transportation equipment widened the slide from August (down 14.0%) to September (down

32.1%), which may reflect the worsening of Japan-China relations. The relations thus warrant watching.

Export Trends From Japan to China (y/y %)

Chart 3



Source: Ministry of Finance; National Bureau of Statistics of China; compiled by DIR.

Transportation Equipment Dragged Down Exports

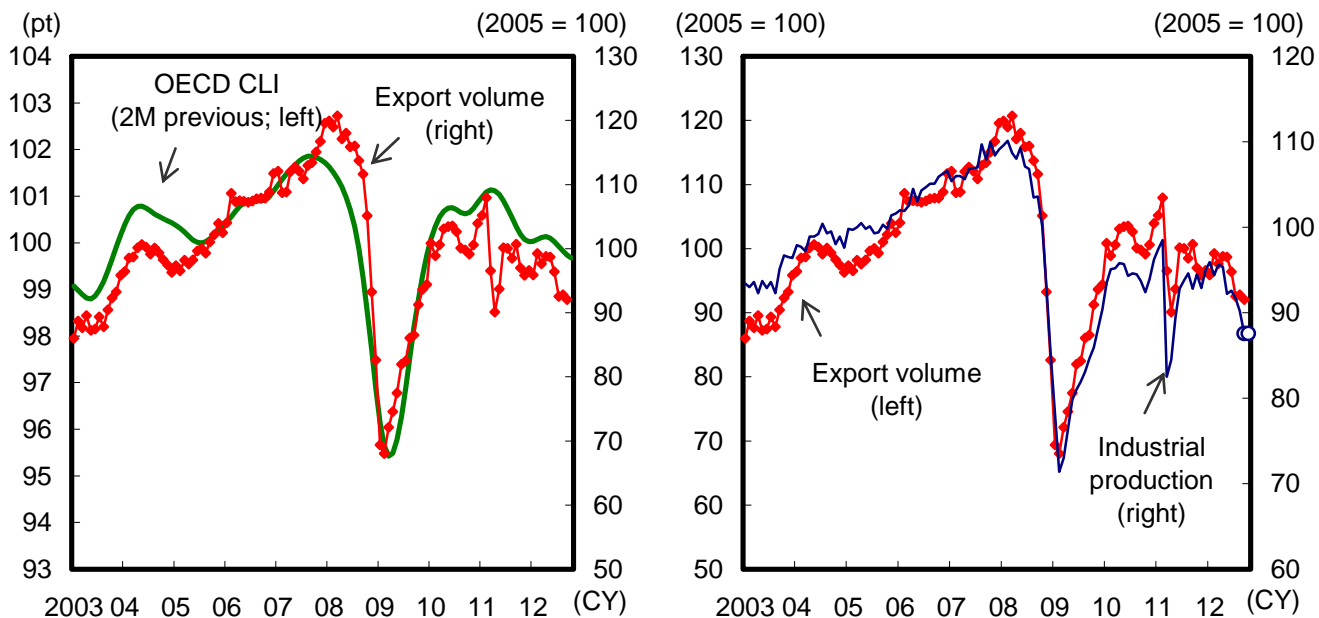
Exports of transportation equipment, general machinery, and electrical machinery, dragged down overall export value. Those of transportation equipment posted the second monthly slide in a row, widening the decline to down 16.6% y/y from August (down 2.2%). Behind this were slides in such exports to China (as mentioned above) and the US (down 4.8%; first slide in eleven months). Meanwhile, those of general machinery fell 10.5% y/y, widening the slide from August (down 5.1%) and posting the sixth consecutive monthly slide. Behind this were stagnation in such exports to the EU (down 20.2%) and persistent slides in such exports to Asian trading partners (down 12.8%), regions that account for large shares in such exports. However, among such exports to Asian trading partners, those to ASEAN have continued to increase, centering on metal processing machinery. Those to the US saw a plunge due to a slowdown in engines/turbines. In the meantime, exports of electrical machinery declined 5.3%, the third monthly slide in a row, driven by a slide of 14.7% in those to the EU, a region seeing persistent economic stagnation. At the same time, among such exports, those of electronic components/devices to ASEAN declined 2.2%, the first slide in eight months of a relatively steady period.

Recovery in Exports Unlikely Before 2013

Although the worsening of exports continues, we expect they will start to recover gradually in 2013 and onward. This is because exports to the US are likely to remain firm, supported by the ongoing moderate US economic recovery. At the same time, EU economies will likely continue to stagnate through end-2012 and will not bottom out before 2013. The Chinese economy is showing signs of recovery but the worsening of Japan-China relations will likely drag down exports from Japan to China, which warrants monitoring.

Meanwhile, import volume growth has plateaued recently, but given the ongoing stagnation in industrial production, it is unlikely to gain momentum. At the same time, resources prices have been on an uptrend, meaning import prices are likely to remain high, resulting in import value remaining flat. Thus, the ongoing deficit in the trade balance is likely to continue for the time being.

Global Economy and Japan's Export Volume and Production **Chart 4**



Source: Ministry of Finance; Ministry of Economy, Trade, and Industry (METI); OECD; compiled by DIR.

Notes: 1) OECD CLI (Composite Leading Indicator): OECD member and six non-member countries.

2) Latest two months for industrial production: METI survey basis.