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April Trade Statistics

Short of expectations but steady overall; export volume firming up

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Summary

- In the April 2013 Trade Statistics (Ministry of Finance), export value increased 3.8% y/y but undershot consensus expectations (up 5.4%). However, it advanced y/y for the second consecutive month and was flat m/m on a seasonally adjusted basis, meaning the ongoing uptrend continues, which does not warrant an overly pessimistic view.

- Export Volume Index (seasonally adjusted by DIR) posted the second consecutive m/m gain (up 1.9%), confirming a firming up in volume terms. While shipments to Asian trading partners declined for the first time in two months, those to the US and EU continued to increase, of which a surge in those to the US pushed up overall export volume.

- We anticipate export value continuing to increase, as export volume will begin to rise from firming up. The forex factor will support export volume as positive effects of the shift to a weaker yen since end-2012 will emerge in full swing going forward—empirically, the shift to a weaker yen will lead to a gain in export volume with around a six-month lag. By trading partner, export volume to the EU is likely to remain sluggish for the time being, dragged down by the ongoing recession there. In contrast, that to the US and Asian trading partners is likely to drive overall export volume, supported by the ongoing moderate economic recovery there. However, overseas economies are signaling a slowdown and warrant a close watch.

Trade Statistics Chart 1

	2012					2013			
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Export value (y/y %)	-5.8	-10.3	-6.5	-4.1	-5.8	6.3	-2.9	1.1	3.8
Market consensus (Bloomberg)									5.4
DIR estimate									6.2
Import value (y/y %)	-5.2	4.2	-1.5	0.9	1.9	7.1	12.0	5.6	9.4
Export volume (y/y %)	-4.3	-11.1	-8.1	-7.5	-12.2	-5.9	-15.8	-9.8	-5.3
Export price (y/y %)	-1.6	0.9	1.7	3.6	7.3	13.0	15.3	12.1	9.6
Import volume (y/y %)	-2.1	4.3	-1.0	-0.9	0.0	-1.1	-0.1	-5.5	2.0
Import price (y/y %)	-3.2	-0.0	-0.5	1.8	1.9	8.3	12.1	11.7	7.3
Trade balance (Y100 mil)	-7,684	-5,682	-5,562	-9,570	-6,457	-16,335	-7,813	-3,640	-8,799

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

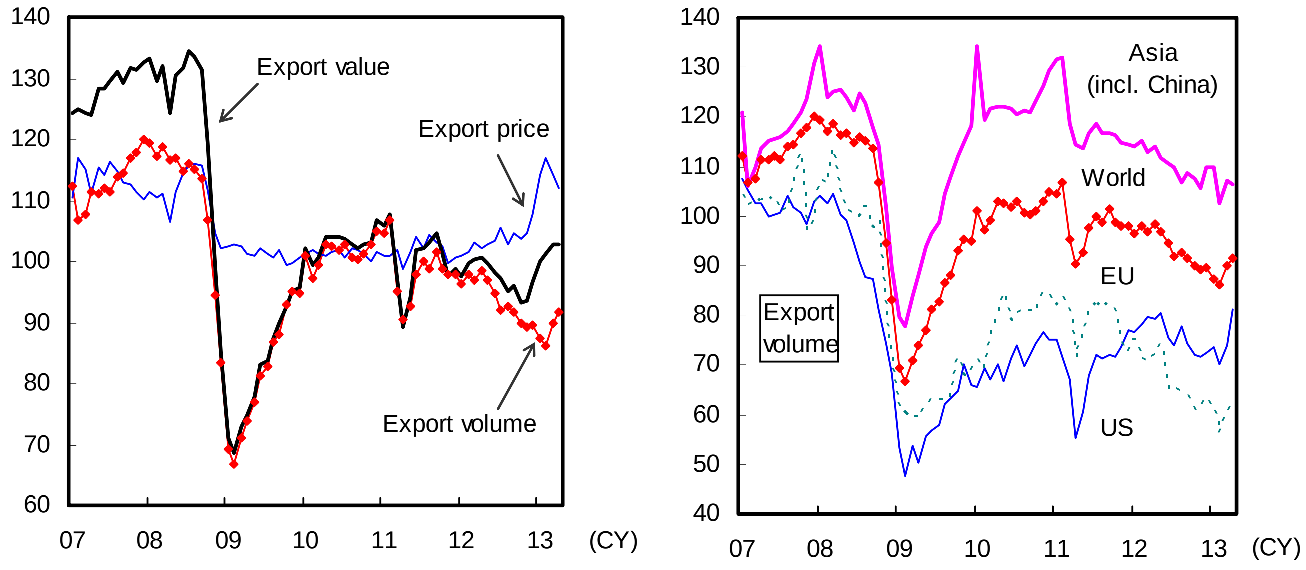
Export volume firming up, reflecting advance in shipments to US

In the April 2013 Trade Statistics (Ministry of Finance), export value increased 3.8% y/y but undershot consensus expectations (up 5.4%). However, it advanced y/y for the second consecutive month and was flat m/m on a seasonally adjusted basis, meaning the ongoing uptrend continues, which does not warrant an overly pessimistic view. Breaking down export value, in contrast to the 11th consecutive monthly slump in export volume (down 5.3% y/y), the ongoing substantial gain in export price (up 9.6%), reflecting the weaker yen trend, has contributed to pushing up export value.

Export Volume Index (seasonally adjusted by DIR) posted the second consecutive m/m gain (up 1.9%), confirming a firming up in volume terms. While shipments to Asian trading partners declined for the first time in two months, those to the US and EU continued to increase, of which a surge in those to the US pushed up overall export volume.

On the import front, import value advanced y/y for the sixth consecutive month (up 9.4%)—the import price jumped 7.3%, due to the ongoing shift to a weaker yen, and import volume saw the first gain in four months (up 2.0%). As a result, the trade balance posted a deficit of Y879.9 billion, a negative figure for the tenth consecutive month. On a seasonally adjusted basis, the trade balance posted a deficit of Y764.4 billion. Thus, the underlying deficit trend continues, although the margin of deficit narrowed from the previous month.

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.

Material shipments to Asian trading partners pushing up export value

Exports of chemicals, manufactured goods, and electrical machinery pushed up overall exports y/y.

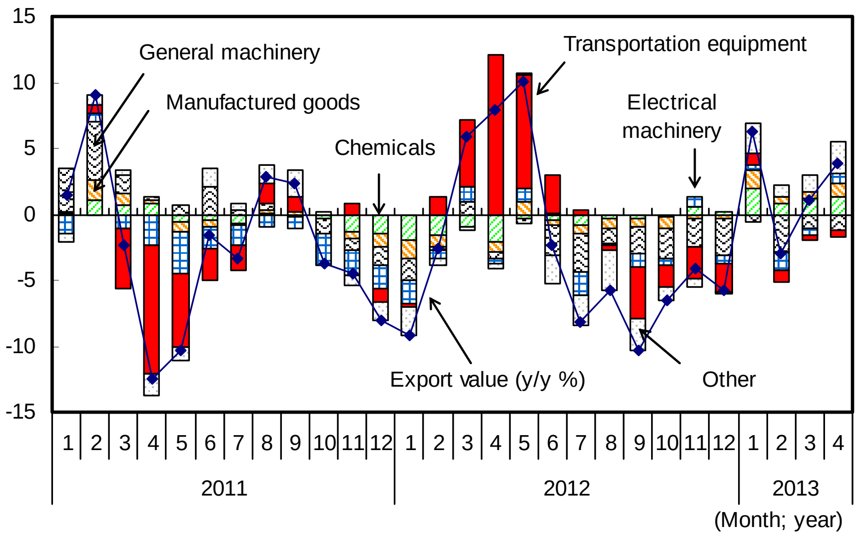
Those of chemicals increased y/y for the sixth consecutive month (up 13.6%). Those to the US, EU, and Asian trading partners increased across the board, maintaining the ongoing firm trend in general. Those to Asian trading partners currently account for more than 70% of such exports, and they posted a double-digit y/y advance for the second consecutive month (up 13.4%), driving such exports overall.

Those to the US increased 30.7%, advancing sharply from the previous month and contributing to pushing up such exports overall as well.

Those of manufactured goods increased y/y for the fourth consecutive month (up 7.8%), accelerating the pace of growth from the previous month (up 3.3%). Those to Asian trading partners were firm, increasing for the fourth month in a row (up 6.4%), supported by higher shipments of iron/steel. Meanwhile, those to the US saw the first gain in two months (up 5.1%), reflecting higher shipments of rubber products.

Those of electrical machinery increased 4.0% y/y, first advance in three months. Those to the US posted the first gain in two months (up 9.5%), reflecting higher shipments of batteries and heavy electrical machinery. Those to Asian NIEs widened the margin of gain (up 14.4%), mainly supported by higher shipments of semiconductors/other electronic components.

Breakdown of Exports (% pt) **Chart 3**



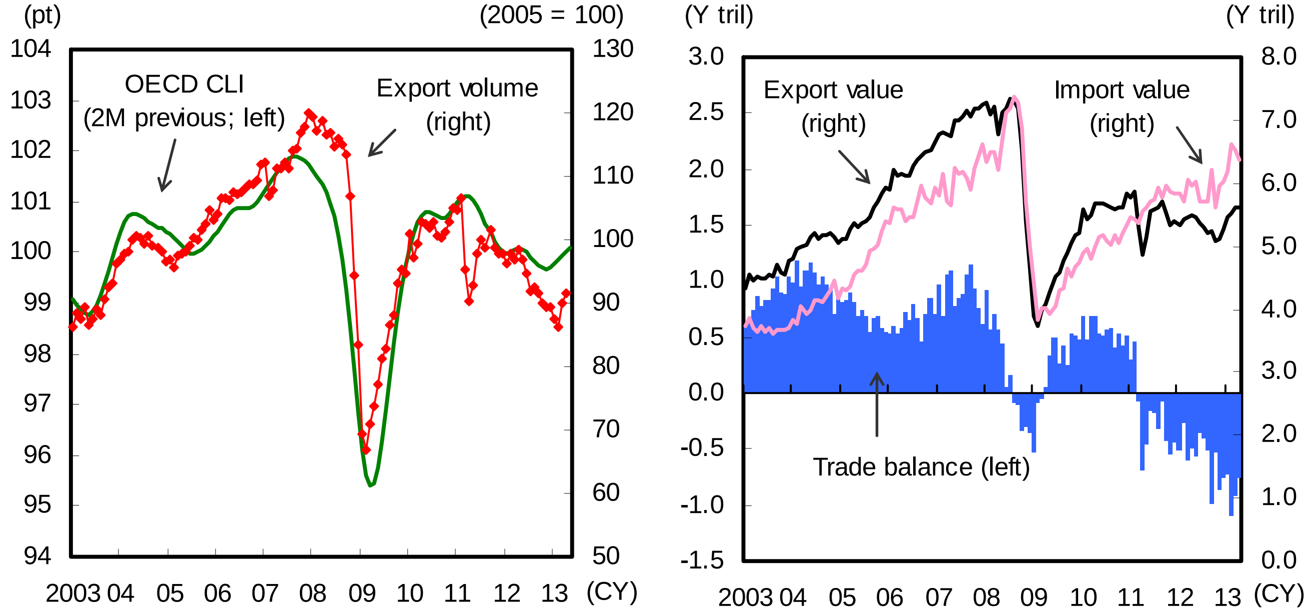
Source: Ministry of Finance; compiled by DIR.
Note: Other=sum of foods, mineral fuels, raw materials, and “other”.

Weaker yen effects to emerge in full swing, spurring export volume

We anticipate export value continuing to increase, as export volume will begin to rise from a firming up. The forex factor will support export volume as positive effects of the shift to a weaker yen since end-2012 will emerge in full swing going forward—empirically, the shift to a weaker yen will lead to a gain in export volume with around a six-month lag. By trading partner, export volume to the EU is likely to remain sluggish for the time being, dragged down by the ongoing recession there. In contrast, that to the US and Asian trading partners is likely to drive overall export volume, supported by the ongoing moderate economic recovery there. However, overseas economies are signaling a slowdown and warrant a close watch.

We expect import value to continue to remain at a high level, reflecting higher import prices due to a weaker yen and the persistently high volume of LNG and other sources of energy. Thus, the trade balance is unlikely to turn to a surplus for the time being. However, the margin of trade deficit will likely narrow, accompanied by higher export volume.

Global Economy and Japan's Export Volume and Trade Balance — 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.