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May Trade Statistics

Weaker yen boosting export value, export volume continues to firm up

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Summary

- In the May 2013 Trade Statistics (Ministry of Finance), export value increased 10.1% y/y and substantially overshot consensus expectations (up 6.4%). Export value saw a y/y advance for the third month in a row and posted a m/m gain for the sixth month in a row (up 3.2%; seasonally adjusted), meaning the ongoing uptrend continues.

- Export Volume Index (seasonally adjusted by DIR) posted the first m/m slide in three months (down 0.6%). However, it advanced for the third consecutive month on a three-month moving average basis, confirming the firming up continues in volume terms.

- We anticipate export value continuing to increase along with export volume growth. 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. 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.

Trade Statistics **Chart 1**

	2012 Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	Apr	May
Export value (y/y %)	-10.3	-6.5	-4.1	-5.8	6.3	-2.9	1.1	3.8	10.1
Market consensus (Bloomberg)									6.4
DIR estimate									8.7
Import value (y/y %)	4.2	-1.5	0.9	1.9	7.1	12.0	5.6	9.5	10.0
Export volume (y/y %)	-11.1	-8.1	-7.5	-12.2	-5.9	-15.8	-9.8	-5.3	-4.8
Export price (y/y %)	0.9	1.7	3.6	7.3	13.0	15.3	12.1	9.6	15.7
Import volume (y/y %)	4.3	-1.0	-0.9	0.0	-1.1	-0.1	-5.5	2.0	-2.4
Import price (y/y %)	-0.0	-0.5	1.8	1.9	8.3	12.1	11.7	7.3	12.8
Trade balance (Y100 mil)	-5,682	-5,562	-9,570	-6,457	-16,335	-7,813	-3,669	-8,819	-9,939

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

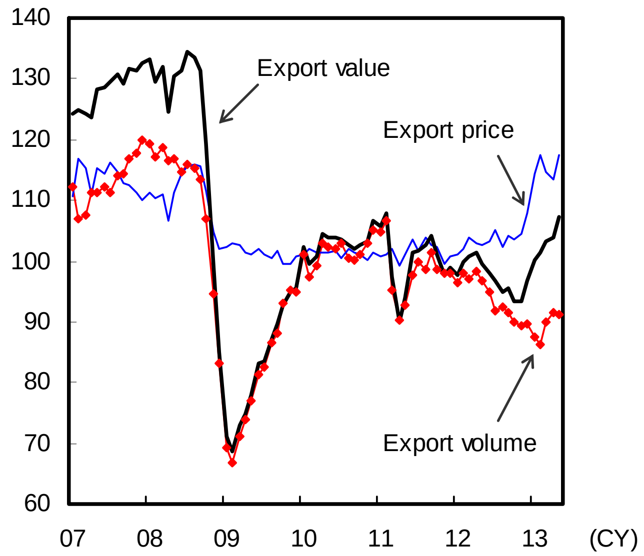
Export volume declined y/y but the margin of decline narrowed

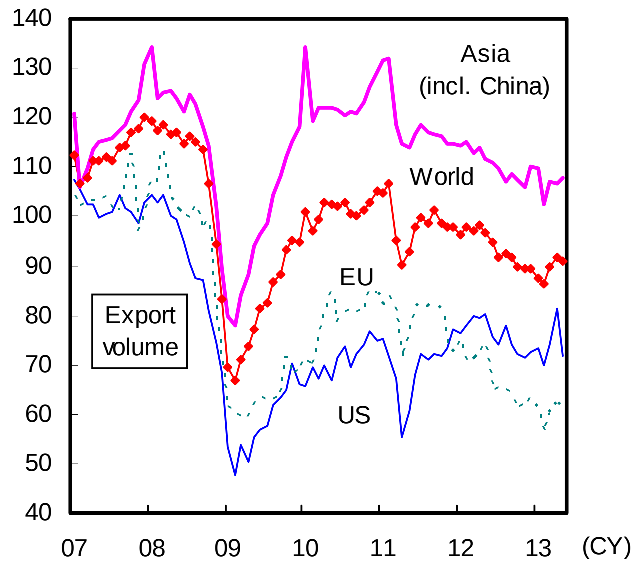
In the May 2013 Trade Statistics (Ministry of Finance), export value increased 10.1% y/y and substantially overshot consensus expectations (up 6.4%). Export value saw a y/y advance for the third month in a row and posted a m/m gain for the sixth month in a row (up 3.2%; seasonally adjusted) meaning the ongoing uptrend continues. Breaking down export value, the substantial advance in export price (up 15.7% y/y), benefiting from the weaker yen effect, has contributed to pushing up export value. Export volume posted a y/y slide for the 12th consecutive month (down 4.8%) but the margin of slide has narrowed.

Export Volume Index (seasonally adjusted by DIR) posted the first m/m slide in three months (down 0.6%). Shipments to the US plunged in reaction to the previous month's surge, dragging down overall export volume. However, overall export volume advanced for the third consecutive month on a three-month moving average basis, confirming the firming up continues in volume terms.

On the import front, import value advanced y/y for the seventh consecutive month (up 10.0%). Import volume saw the first slide in two months (down 2.4%) but import prices jumped (up 12.8%). The shift to a weaker yen in end-2012 continued to push up import value. As a result, the trade balance posted a deficit of Y993.9 billion, a negative figure for the 11th consecutive 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

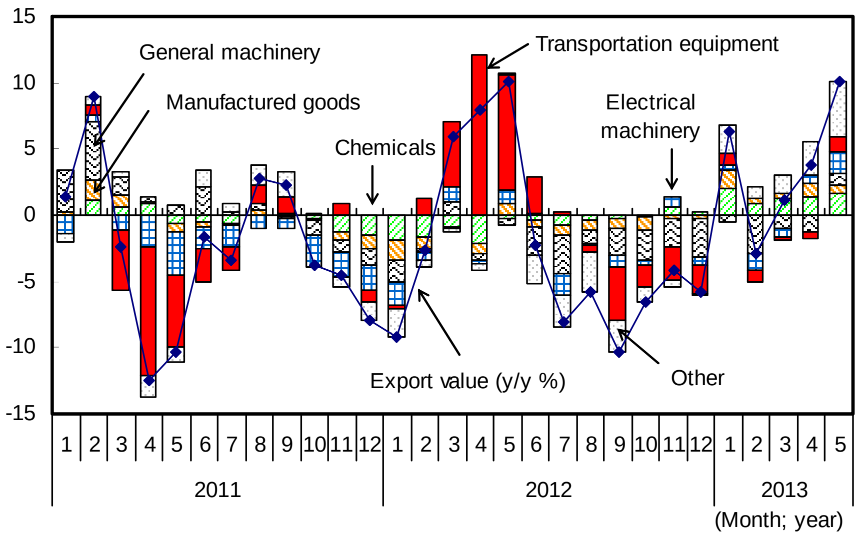
Export value increased y/y across the board, indicating exports are firming up as a whole—chemicals, electrical machinery, and general machinery pushed up overall export value.

Export value of chemicals increased y/y for the seventh consecutive month (up 16.9%). Exports to the US, EU, and Asian trading partners increased across the board, maintaining the ongoing firm trend in general. Especially in May, those of organic compounds to China and Asian NIEs saw prominent gains, boosting overall export value of chemicals.

Export value of electrical machinery increased y/y for the second month in a row (up 9.6%), reflecting higher exports of semiconductors/other components to China and Asian NIEs. Exports of electrical machinery to China posted the first gain in 11 months as those of heavy electrical machinery sharply narrowed the margin of decline from the persistent plunge up until then. Exports of electrical machinery to the US increased y/y for the second month in a row, reflecting higher shipments of batteries and electrical apparatus.

Export value of general machinery saw the first y/y gain in 14 months (up 4.5%). Behind this were shipments to the US accelerating the steady uptrend (up 19.1%) and those to Asian trading partners breaking out of persistent stagnation and posting the first gain in 14 months. In relation to the latter, those of construction/mining machinery to Asian NIEs posted the third consecutive monthly gain, confirming a firm trend. In contrast, those of general machinery to China and ASEAN economies have been on a downtrend but have narrowed the margin of decline, indicating such exports are firming up.

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



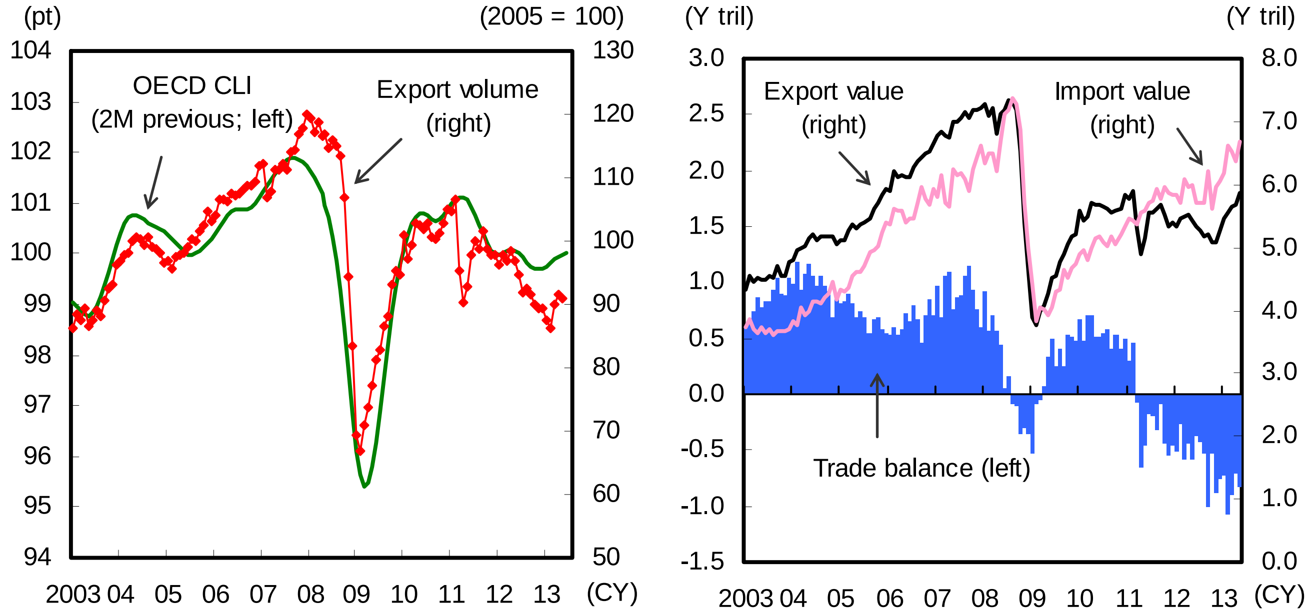
Source: Ministry of Finance; compiled by DIR.
Note: Other=sum of foods, mineral fuels, raw materials, and "other".

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

We anticipate export value continuing to increase, as export volume will intensify growing pace. 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.