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March Trade Statistics

Export value exceeds market consensus

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Summary

- According to March trade statistics, export value grew for the fourth consecutive month at +12.0% y/y, while at the same time exceeding market consensus at +6.2%. Export volume in y/y terms grew less than in the previous month (+6.6% in March as compared to +8.3% in February), but export price grew more than in the previous month (+5.0% in March as compared to +2.8% in February).
- Export value in seasonally adjusted terms suffered a decline for the first time in eight months at -3.5% m/m, while export volume declined for the first time in two months at -2.8% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US were down by -1.4%, while exports to the EU were also suffered a decline for the first time in two months at -1.3%. Exports to Asia were also down for the first time in two months at -7.3%. Exports to Asia were seen as suffering from a reactionary decline in relation to the brisk performance seen in February in association with the Lunar New Year celebrations in the Sinosphere.
- FY2016 trade balance was back in the black for the first time in six years at 4 tril yen due to the decline in import value.
- As for the future of exports, we see moderate growth continuing due to the underlying strength of overseas economies. However, we advise caution as regards risk factors associated with uncertainty regarding the US trade policy under the new Trump administration. If trade friction arises between Japan and the US, Japan's export-driven industries could be hard hit.

Trade Statistics

Chart 1

| | 2016 | | | | | | 2017 | | |
|------------------------------|-------|-------|-------|-------|-------|-------|---------|-------|-------|
| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
| Export value (y/y %) | -14.0 | -9.6 | -6.9 | -10.3 | -0.4 | 5.4 | 1.3 | 11.3 | 12.0 |
| Market consensus (Bloomberg) | | | | | | | | | 6.2 |
| DIR estimate | | | | | | | | | 6.6 |
| Import value (y/y %) | -24.6 | -17.0 | -16.1 | -16.3 | -8.7 | -2.5 | 8.4 | 1.2 | 15.8 |
| Export volume (y/y %) | -2.4 | 0.8 | 4.7 | -1.4 | 7.4 | 8.4 | -0.3 | 8.3 | 6.6 |
| Export price (y/y %) | -11.9 | -10.3 | -11.1 | -9.0 | -7.3 | -2.7 | 1.6 | 2.8 | 5.0 |
| Import volume (y/y %) | -4.0 | 3.8 | -1.6 | -2.5 | 3.6 | 3.6 | 6.3 | -4.3 | 4.1 |
| Import price (y/y %) | -21.4 | -20.1 | -14.8 | -14.1 | -11.9 | -5.9 | 2.0 | 5.7 | 11.2 |
| Trade balance (Y100 mil) | 5,045 | -346 | 4,866 | 4,812 | 1,465 | 6,359 | -10,919 | 8,135 | 6,147 |

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

Trade balance in the black for second consecutive month

According to March trade statistics, export value grew for the fourth consecutive month at +12.0% y/y, while at the same time exceeding market consensus at +6.2%. Export volume in y/y terms grew less than in the previous month (+6.6% in March as compared to +8.3% in February), but export price grew more than in the previous month (+5.0% in March as compared to +2.8% in February).

The foreign exchange market has recently seen the yen generally trending in the upward direction, but there tends to be a three-week lag before this begins to affect trade statistics. Hence the Japan Customs rate in March was at 113.72 yen/dlr, meaning yen depreciation of 0.5% in y/y terms. If the current trend in the exchange rate continues, we believe the yen may move more to the stronger side in relation to the dollar in y/y terms in April.

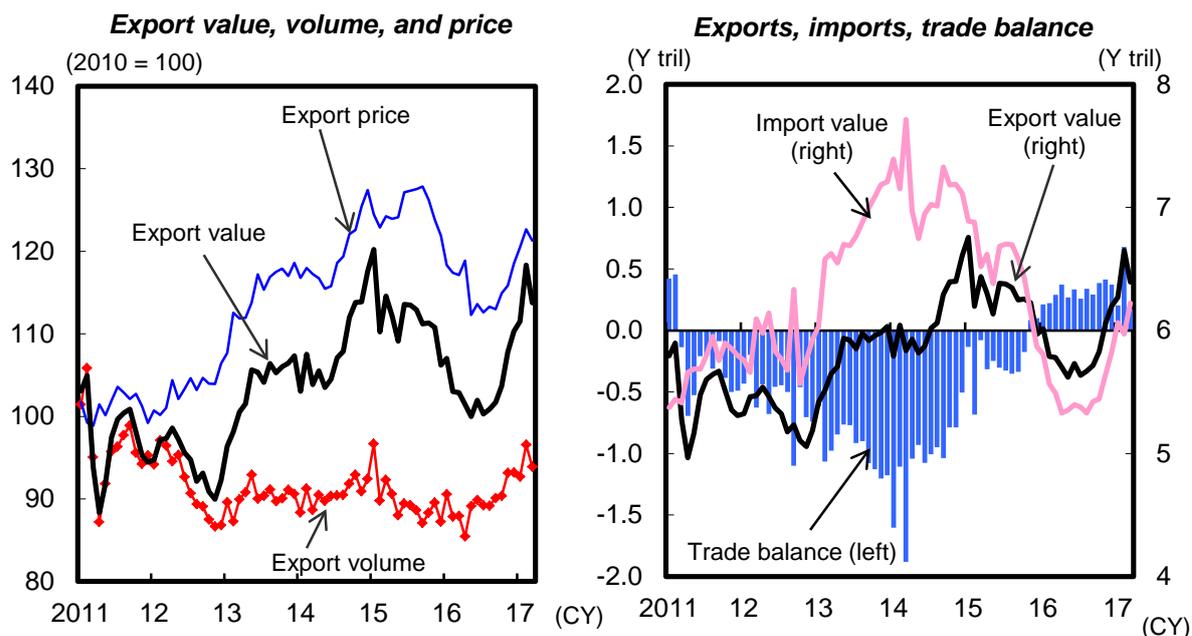
Meanwhile, import value grew for the third consecutive month at +15.8% y/y. Looking at import value in terms of price and volume factors, we see that import volume was up by +4.1%, while import price grew by +11.2%. As a result, the trade balance was in the black for the second consecutive month at +614.7 bil yen.

Basing our estimate on this month's results for trade statistics, we expect that, due to the expansion of exports, overseas demand will make a somewhat positive contribution to Jan-Mar period GDP.

Export volume to US, EU, and Asia declines

Export value in seasonally adjusted terms suffered a decline for the first time in eight months at -3.5% m/m, while export volume declined for the first time in two months at -2.8% (seasonal adjustment by DIR).

Looking at export volume by source of demand, exports to the US were down by -1.4% m/m, while exports to the EU were also suffered a decline for the first time in two months at -1.3%. Exports to Asia were also down for the first time in two months at -7.3%. Exports to Asia were seen as suffering from a reactionary decline in relation to the brisk performance seen in February in association with the Lunar New Year celebrations in the Sinosphere. Meanwhile, exports to the US saw growth in the area of video equipment and storage media, but automobile sales, which had been favorable up to now, appear to have peaked out, bringing a decline in passenger vehicles. Exports of passenger vehicles and auto parts to the EU continued to be favorable due to the comeback for the EU economy, but poor performance in storage media and other items brought overall numbers down. Exports to Asia saw continued favorability for export volume of ICs, but exports of iron & steel, and non-ferrous metals continued their decline.



Source: Ministry of Finance; compiled by DIR.

Note: Export volume and export price seasonally adjusted by DIR.

Import value grows for first time in two months

Looking at import value in seasonally adjusted terms, we see growth for the first time in two months at +3.4% m/m, with import volume also up for the first time in two months at +5.3% (seasonal adjustment by DIR). On the other hand, import price suffered a decline for the first time in five months at -1.1%.

FY2016 trade balance back in black for first time in six years

FY2016 trade balance was back in the black for the first time in six years at 4 tril yen due to the decline in import value.

Export value declined by -3.5% in comparison with the previous fiscal year to a total of 71.5 tril yen. Export volume grew by +2.4% in comparison with the previous fiscal year, but due to the high yen, export price declined by -5.7%, contributing to the decline in export value noted above. Looking at export volume by source of demand, exports to the US declined slightly by -0.1%, but grew elsewhere, with the EU at +4.8% and Asia at +4.5%. Export volume to China grew by +7.6% in comparison with the previous fiscal year.

Meanwhile, import value suffered a decline of -10.2% in comparison with the previous fiscal year to a total of 67.5 tril yen, while import volume grew by +0.5%, with the import price declining by -10.7%. The major decline in import value is thought to be associated with yen appreciation and the low price of crude oil. The import value of fossil fuels declined by -18.2% in comparison with the previous fiscal year, a decline in approximately 3 tril yen in monetary terms.

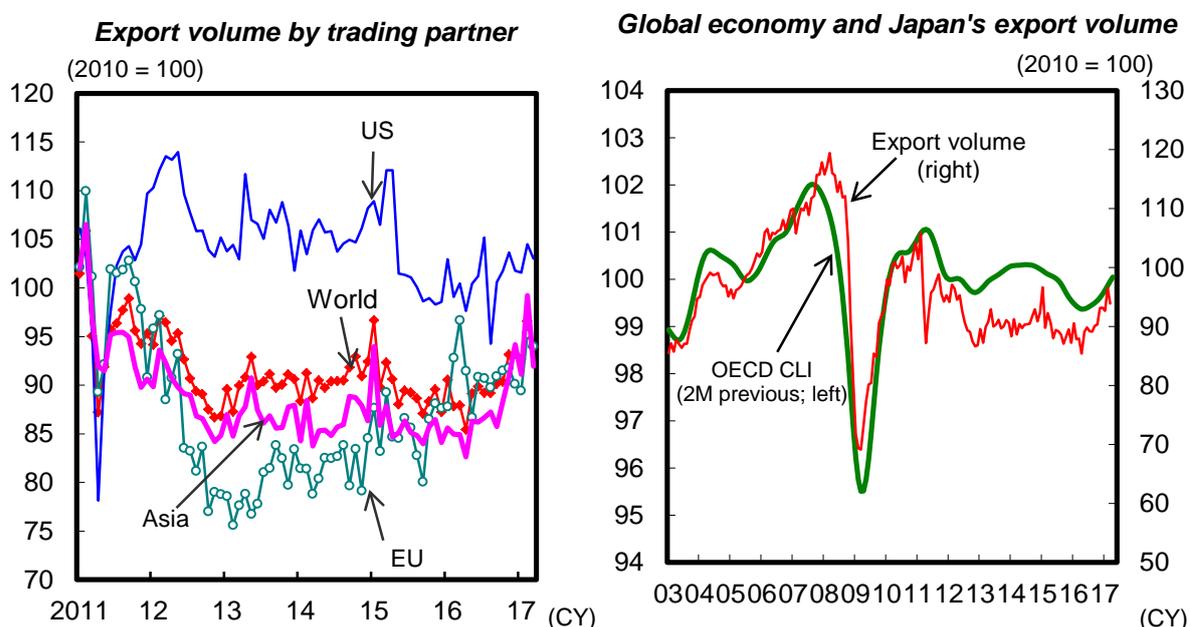
Moderate growth trend seen continuing in future, but caution recommended due to Trump risk

As for the future of exports, we see moderate growth continuing due to the underlying strength of overseas economies. Though exports of automobiles to the US appear to be about to peak out, exports of consumer goods and other products are expected to maintain underlying strength backed by

improvements in the US employment environment. Meanwhile, the effects of quantitative easing by the ECB are expected to help the EU economy to continue its comeback. Exports to the EU are expected to continue in a recovery trend in the future, focusing on consumer goods. As for the Asian economy, both upside and downside risk are possible depending on what direction economics and finance take in the advanced nations, especially the US. In either case, the Asian economies are seen as having already bottomed out.

However, we advise caution as regards risk factors associated with uncertainty regarding the US trade policy brought on by President Trump’s statements regarding the decision to withdraw from TPP and to renegotiate NAFTA, possibly even withdrawing from that agreement. President Trump’s statements regarding the “unfairness” of automobile trade with Japan are especially causing fear in that industry. If trade friction arises between Japan and the US, Japan’s export-driven industries could be hard hit.

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.