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August Trade Statistics

Confirmed ongoing deterioration

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Summary

- Exports to US rising, those to EU/Asian trading partners slowing:** In the August Trade Statistics (Ministry of Finance), export value declined 5.8% y/y, a narrower slide than the market consensus (down 7.5%) but the third monthly slide in a row. Meanwhile, export value declined 2.1% m/m, the fourth monthly slide in a row on a seasonally adjusted basis, confirming the ongoing deterioration. Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to Asian trading partners and the EU declined m/m, but that to the US increased, partly in reaction to previous month's slide. Thus, export volume saw a minor gain of 0.3% m/m as a whole. In general, the slowdown in exports to the EU and Asian trading partners has cancelled out gains in those to the US, persistently weakening overall exports.
- Exports to depend on EU economies:** Although the slowdown in exports is continuing, we expect exports will bottom out in Jul-Sep 2012 and recover gradually from Oct-Dec 2012. 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 recover from the period of stagnation that has dragged down Japan's exports, and Asian economies, centering on China, should also turn around. Amid the slowdown in exports, domestic production is likely to stagnate for a while, but if exports begin to recover, a further dip should be averted. However, uncertainty over the EU economic situation persists, and thus, downside risk to Japan's exports remains.

Trade Statistics								Chart 1
	2012							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Export value (y/y %)	-9.2	-2.7	5.9	7.9	10.0	-2.3	-8.1	-5.8
Market consensus (Bloomberg)								-7.5
DIR estimate								-10.2
Import value (y/y %)	9.6	9.3	10.6	8.1	9.4	-2.2	2.1	-5.4
Export volume (y/y %)	-10.1	-3.8	3.7	4.7	9.3	-2.3	-10.2	-4.2
Export price (y/y %)	1.0	1.2	2.1	3.1	0.6	0.1	2.4	-1.6
Import volume (y/y %)	3.1	3.2	3.1	1.9	8.5	-0.7	7.0	-2.1
Import price (y/y %)	6.3	5.9	7.3	6.1	0.9	-1.5	-4.6	-3.4
Trade balance (¥100 mil)	-14,815	254	-871	-5,239	-9,172	592	-5,189	-7,541

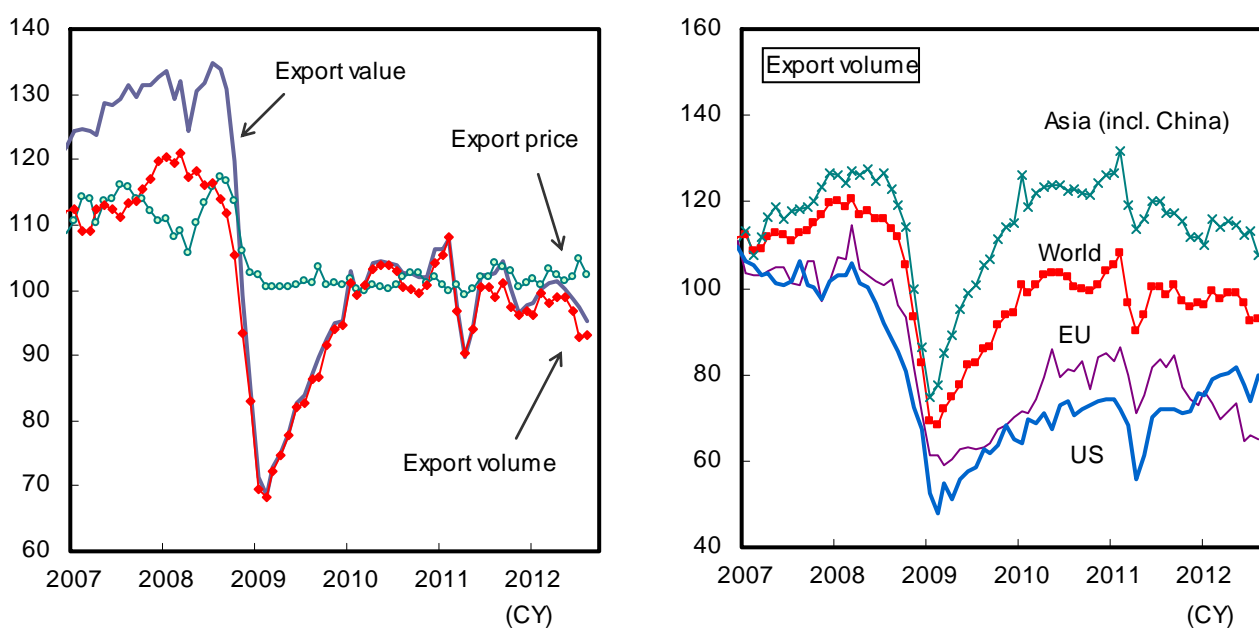
Source: Ministry of Finance, Bloomberg; compiled by DIR.

Exports to US Rising, Those to EU/Asian Trading Partners Slowing

In the August Trade Statistics (Ministry of Finance), export value declined 5.8% y/y, a narrower slide than the market consensus (down 7.5%) but the third monthly slide in a row. Meanwhile, export value declined 2.1% m/m, the fourth monthly slide in a row on a seasonally adjusted basis, confirming the ongoing deterioration. Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to Asian trading partners and the EU declined m/m, but that to the US increased, in part in reaction to previous month's slide. Thus, export volume saw a minor gain of 0.3% m/m as a whole. In general, the slowdown in exports to the EU and Asian trading partners has currently cancelled out gains in those to the US, persistently weakening overall exports. Given the likely slide in export volume from Apr-Jun to Jul-Sep, real exports on a GDP basis are likely to decline q/q in Jul-Sep.

On the import front, August import value declined 5.4% y/y, the first slide in two months. The decline in import prices narrowed to 3.4% from the previous month, while import volume turned to negative growth of 2.1%. As a result, the trade balance posted a deficit of Y754.1 billion, a negative figure for the second consecutive month. On a seasonally adjusted basis, it posted a deficit of Y472.8 billion, a negative figure for the 18th 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.

General Machinery, Electrical Machinery, Transportation Equipment Dragged Down Exports

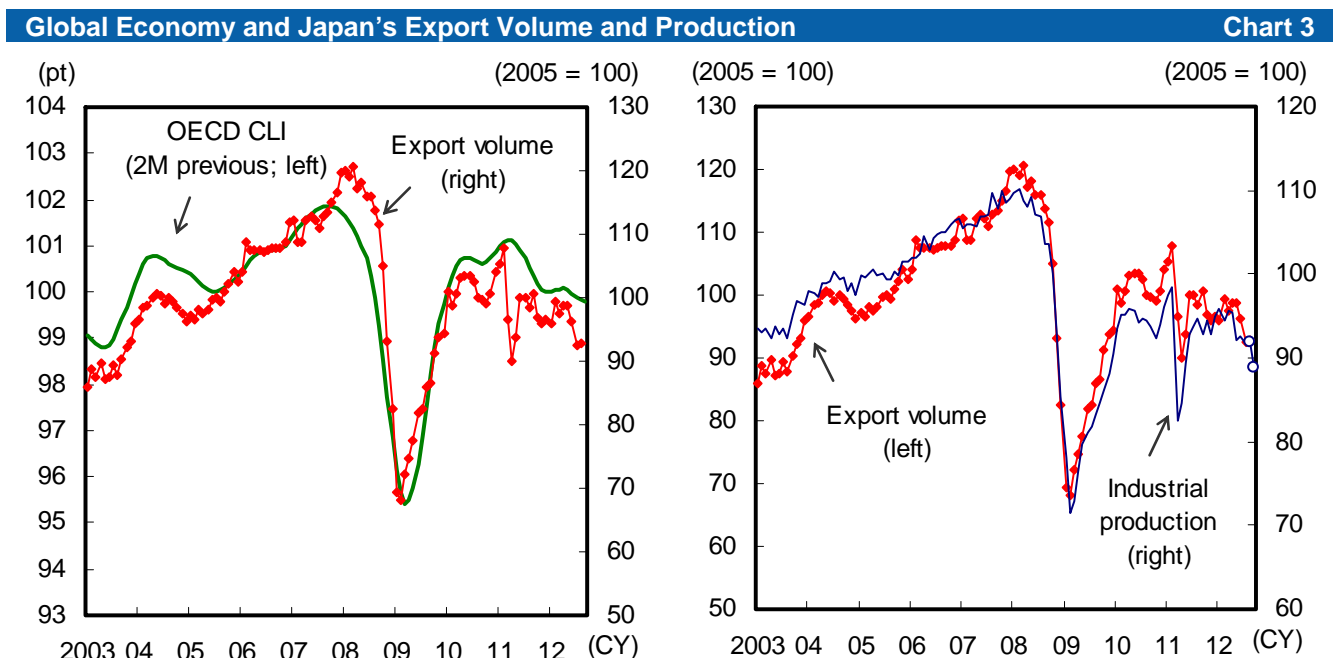
Exports of general machinery, electrical machinery, and transport equipment dragged down overall exports. Those of general machinery fell 5.1% y/y, narrowing the slide from the previous month, but posting the fifth consecutive monthly slide. Behind this were slowdowns in such exports to the EU (down 20.5%) and China (down 16.7%), regions that account for large shares in such exports. In contrast, those of general machinery to the US increased (up 18.4%) after a slide in July. Nevertheless, breaking down those of general machinery, those of metal processing machinery, major products for shipments to China, advanced 28.1%, remaining firm. Meanwhile, those of electrical machinery

declined 0.8%, the second consecutive monthly slide. A major factor behind this was the slide in those of electronic components/devices to the EU, pulling down those of electronic machinery to the EU (down 15.5%). In contrast, those to Asian trading partners remained flat—those to China stagnated (down 8.0%), while those to ASEAN were firm (up 6.1%), partly in reaction to the year-ago level. On the transportation equipment front, exports declined 2.2%, the first slide in seven months. Although those to the US, the major destination, continued to grow (up 7.6%), supported by an advance in those of auto parts, those to the EU (down 33.6%) and Asian trading partners (down 7.0%) saw wider slides than the previous month, pulling down those of transportation equipment.

Exports to Depend on EU Economies

Although the slowdown in exports continues, we expect they will bottom out in Jul-Sep 2012 and start to recover gradually from Oct-Dec 2012. 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 recover from the stagnation that has dragged down Japan's exports, and Asian economies, centering on China, will also likely to recover. Amid the slowdown in exports, domestic production is likely to stagnate for a while, but if exports begin to recover, a further dip should be averted. However, uncertainty over the EU economic situation persists, and thus, downside risk to Japan's exports remains.

Meanwhile, import volume remained flat, a rather strong trend compared to that of domestic production, which has seen a slowdown. Therefore, import volume is unlikely to gain momentum going forward. At the same time, resources prices have been on an uptrend, meaning import prices are likely to remain high, resulting in import value staying high. Thus, the ongoing deficit in the trade balance is likely to continue for the time being.



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.