

21 November 2012 (No. of pages: 4)

Japanese report: 21 Nov 12

October Trade Statistics

Exports continued to decline; auto exports to China plunged

Economic Research Dept
Masahiko Hashimoto

Summary

- In the October Trade Statistics (Ministry of Finance), export value declined 6.5% y/y, a wider slide than the market consensus (down 4.9%) and the fifth monthly slide in a row. Export value declined 2.8% m/m, the first slide in two months on a seasonally adjusted basis. Thus, the underlying deterioration continues. 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 slow recently.
- While trends of exports to China have attracted market attention amid worsening Japan-China relations, export value to China declined 11.6% y/y, narrowing the slide from September (down 14.1%). This is attributable for the first gain in 13 months for exports of chemicals (up 3.9%) and narrower declines for those of general machinery (down 20.4%) and electrical machinery (down 2.0%), products with higher weightings among those shipped to China. However, exports of transportation equipment plunged 54.1% and those of finished cars saw a plunge of 82.0%, indicating that the worsening of Japan-China relations had a significant impact on the industry.
- Although the worsening of exports continues, as our main scenario, we expect they will start to recover gradually in 2013 and onward. Exports to the EU will likely remain sluggish for the time being, dragged down by the ongoing EU economic stagnation. In contrast, exports to the US are unlikely to deepen the bottom but should remain firm, supported by the ongoing moderate US economic recovery. Meanwhile, exports to China will likely recover gradually, accompanied by a bottoming out of the Chinese economy. However, the worsening of Japan-China relations is likely to drag down exports from Japan to China, which warrants monitoring.

Trade Statistics										Chart 1
	2012									
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
Export value (y/y %)	-2.7	5.9	7.9	10.0	-2.3	-8.1	-5.8	-10.3	-6.5	
Market consensus (Bloomberg)									-4.9	
DIR estimate									-4.1	
Import value (y/y %)	9.3	10.6	8.1	9.4	-2.2	2.2	-5.3	4.1	-1.6	
Export volume (y/y %)	-3.8	3.7	4.7	9.3	-2.3	-10.2	-4.2	-11.1	-8.2	
Export price (y/y %)	1.2	2.1	3.1	0.6	0.1	2.4	-1.6	0.9	1.8	
Import volume (y/y %)	3.2	3.1	1.9	8.5	-0.7	7.0	-2.1	4.2	-1.1	
Import price (y/y %)	5.9	7.3	6.1	0.9	-1.5	-4.5	-3.3	-0.1	-0.5	
Trade balance (¥100 mil)	254	-871	-5,239	-9,172	592	-5,226	-7,638	-5,617	-5,490	

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

IMPORTANT DISCLOSURES, INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED ON THE LAST TWO PAGES OF THIS REPORT.

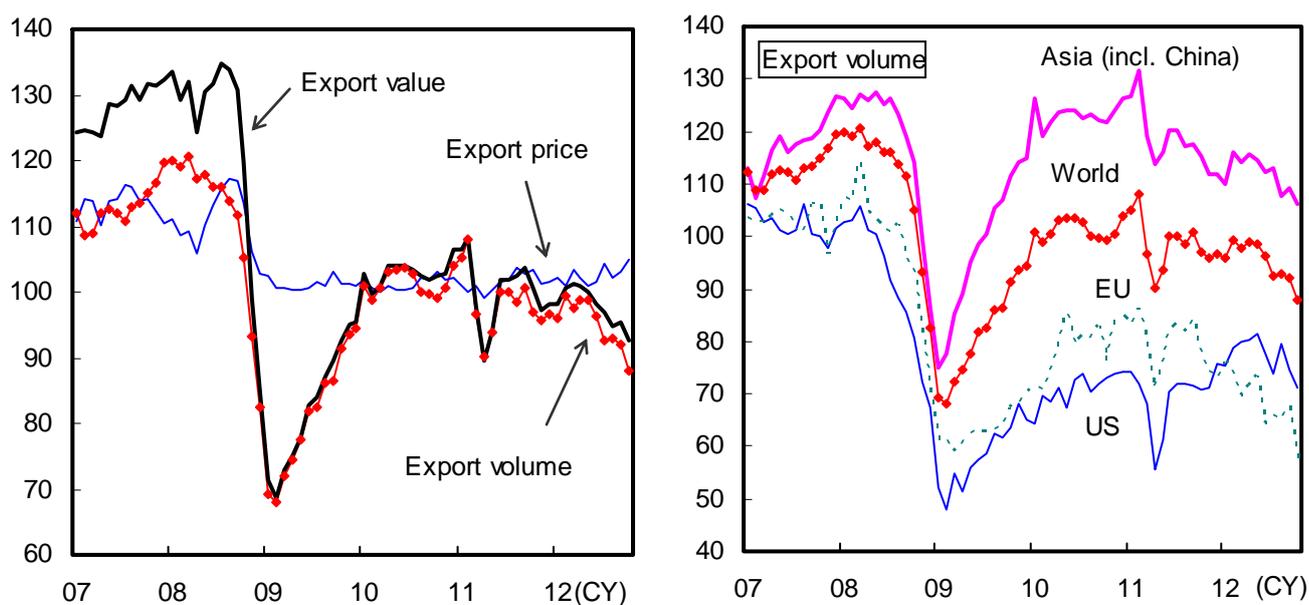
Economic Research

Slowdown in Exports to US Worsening

In the October Trade Statistics (Ministry of Finance), export value declined 6.5% y/y, a wider slide than the market consensus (down 4.9%) and the fifth monthly slide in a row. Export value declined 2.8% m/m, the first slide in two months on a seasonally adjusted basis. Thus, the underlying deterioration continues. Looking at export volume (seasonally adjusted; DIR estimate) by trading partner, that to the US, EU and Asian trading partners declined m/m across the board, resulting in a slide of 4.4% 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 entered the doldrums recently.

On the import front, October import value declined 1.6% y/y, the first slide in two months. Import volume turned to negative growth of 1.1% for the first time in two months, while the decline in import prices widened to 0.5% from the previous month. As a result, the trade balance posted a deficit of ¥549.0 billion, a negative figure for the fourth consecutive month, but narrowed the deficit margin. On a seasonally adjusted basis, it posted a deficit of ¥624.3 billion, a negative figure for the 13th month in a row.

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

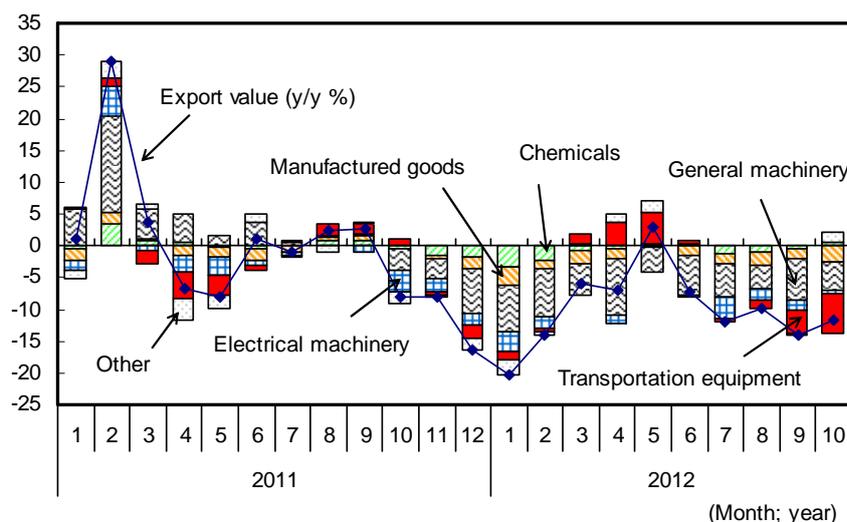


Source: Ministry of Finance; compiled by DIR.

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

Auto Exports to China Plunged as Expected

While trends of exports to China have attracted market attention amid worsening Japan-China relations, export value to China declined 11.6% y/y, narrowing the slide from September (down 14.1%). This is attributable for the first gain in 13 months for those of chemicals (up 3.9%) and narrower declines for those of general machinery (down 20.4%) and electrical machinery (down 2.0%), products with higher weightings among those shipped to China. However, exports of transportation equipment plunged 54.1% and those of finished cars saw a plunge of 82.0%, indicating that the worsening of Japan-China relations had a significant impact on the industry.

Breakdown of Exports to China (% pt) Chart 3

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

General Machinery to Asia and EU Dragged Down Exports

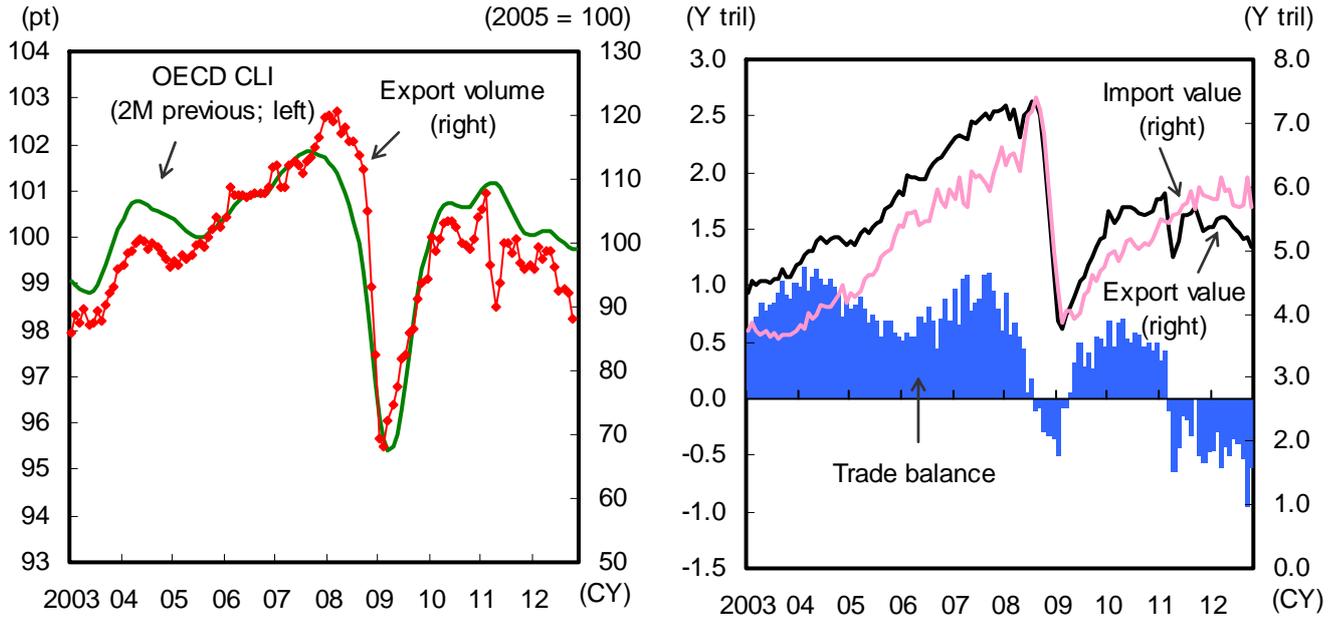
Exports of general machinery, transportation equipment, and manufactured goods dragged down overall export value. Those of general machinery declined 11.3% y/y, the seventh monthly slide in a row. Behind this were stagnation in such exports to the EU (down 14.8%) and the ongoing decline in those to Asian trading partners (down 12.1%). Among the latter, which accounts for a large proportion of such exports, those to ASEAN continued to increase, centering on metalworking machinery, but those to China (down 20.4%) and Asian NIEs (down 20.2%) continued to decline. Meanwhile, exports of transportation equipment declined 7.2%, the third monthly slide in a row. Despite a turnaround (up 7.9%) in such exports to the US (major export destination), those to the EU continued to decline due to persistent economic stagnation there, and as mentioned, those to China plunged. In the meantime, exports of manufactured goods declined 7.2%, the fifth consecutive monthly slide. Behind this were lower exports of iron/steel to China and NIEs and non-ferrous metals to China.

Exports to Recover from 2013; Trade Deficit to Narrow Gradually

Although the worsening of exports continues, as our main scenario, we expect they will start to recover gradually in 2013 and onward. Exports to the EU will likely remain sluggish for the time being, dragged down by the ongoing EU economic stagnation. In contrast, exports to the US are unlikely to deepen the bottom and should remain firm, supported by the ongoing moderate US economic recovery. Meanwhile, exports to China will likely recover gradually, accompanied by a bottoming out of the Chinese economy. However, the worsening of Japan-China relations is likely to drag down exports from Japan to China, which warrants monitoring.

Meanwhile, given the ongoing stagnation in Japan's economy, import volume is unlikely to gain momentum. Thus, import value is likely to remain flat. Accordingly, the ongoing deficit in the trade balance is likely to continue for the time being, but the deficit margin is likely to narrow moderately from 2013 onward, accompanied by increases in exports.

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.