

Japan Macro Flash

May customs-clearance trade data: Real exports continue to grow

- **Real exports have continued to grow for the past three months** — May trade data show that real exports have remained in an upward trend. Real exports (the seasonally-adjusted export value divided by seasonally-adjusted export price index) rose 0.6% MoM in May after increasing 1.5% MoM in April and 2.0% MoM in March. As a result, real exports expanded 2.8% in April-May over the first quarter average, making another QoQ gain in the second quarter likely. With April-May real imports standing only 1.0% above the first quarter average, we think net exports are likely to contribute positively to the GDP growth rate (+0.2~+0.3ppt) in the second quarter.
- **By item, auto exports remained in an uptrend while a sign of recovery emerged in high-tech parts** — By item, car exports have continued to increase while a sign of recovery emerged for ICs. The export volume of motor vehicles (our seasonally-adjusted estimate) sustained a moderate upward trend, increasing 3.7% in April-May over the first quarter average (+3.3% QoQ in 1Q). The export volume of ICs in the semiconductor category jumped 27.0% MoM in May after a 9.0% MoM fall in April, leading to a 0.2% gain in the two-month period over the first quarter average (-10.7% QoQ in 1Q). This result seems consistent with the micro-level information suggesting a demand recovery for high-tech parts.
- **A trade balance improvement will likely require more time** — The May trade balance was a ¥993.9bn deficit before seasonal adjustment, deteriorating from a ¥907.9bn gap a year ago. On a seasonally adjusted basis, the balance came to ¥821.0bn in the red, which is worse than a ¥702.8bn deficit in April. The split shows that exports increased 3.2% MoM in May while imports rose 4.7% MoM. As these data show, the increase in the seasonally-adjusted trade gap stemmed from the higher growth in imports than in exports, due partly to yen depreciation against the US dollar. We currently expect the yen to weaken to ¥106/\$ at end-2013 and ¥110/\$ at end-March 2014. If our forecasts are accurate, given the J-curve effect, it will probably take a fairly long time before a cheaper yen-driven real export growth (or a real import fall) helps narrow the red figures in the trade balance.

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Customs-clearance trade balance

	Actual	Citi Research	Market Forecast	Previous
May, customs-clearance trade balance	¥993.9bn NSA	¥1274.2bn NSA	¥1202.8bn NSA	¥881.9bn NSA
			(¥1420.0bn~¥928.7 bn)	
	¥821.0bn SA	¥909.3bn SA	¥892.8bn SA	¥702.8bn SA
			(¥1035.6bn~¥647.2bn)	

Source: Ministry of Finance, Quick, Citi Research.

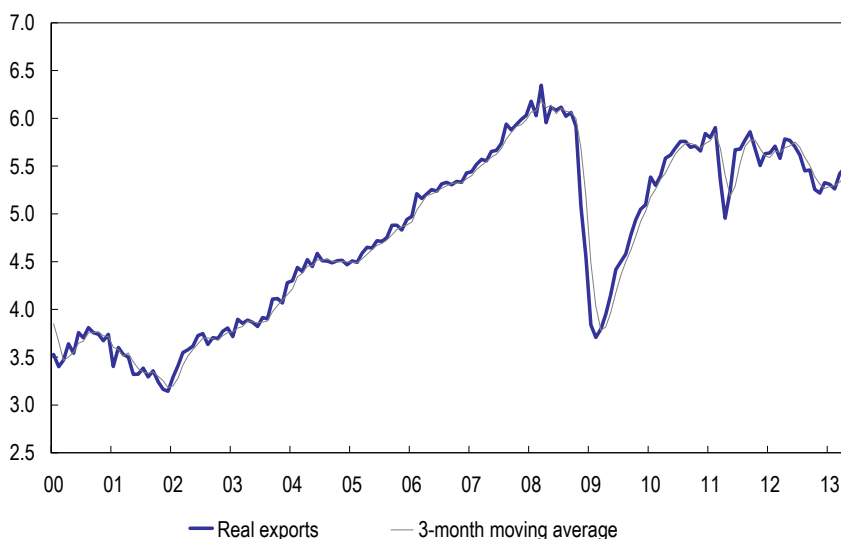
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May customs-clearance trade data: Real exports continued to grow

May trade data suggest that real exports have remained in an upward trend. Real exports (the seasonally-adjusted export value divided by the seasonally-adjusted export price index) rose 0.6% MoM in May after increasing 1.5% MoM in April and 2.0% MoM in March, and falling 0.8% MoM in February (Figures 1 and 2). As a result, real exports expanded 2.8% in April-May over the first quarter average (-4.2% QoQ in 3Q12, -4.8% QoQ in 4Q12 and +1.3% QoQ in 1Q13), making another QoQ gain in the second quarter likely. With April-May real imports standing only 1.0% above the first quarter average, we think net exports are likely to contribute positively to the GDP growth rate in the second quarter. A resilient US economy and a pickup in shipments to Asia have supported the ongoing export growth. However, as Figure 1 illustrates, the export recovery to date has remained modest relative to sharp declines in the second half of 2012, probably reflecting a still slow global economy. Going forward, yen weakness will likely have a positive effect (i.e., price effects), but the lack of notable acceleration in the global economy will probably limit any boost to Japan's exports (i.e., income effects). We therefore expect only moderate export growth relative to a sharp fall in the yen's value.

Figure 1. Real exports, Jan. 2000 – May 2013 (seasonally adjusted, ¥trn)



Source: Ministry of Finance, Bank of Japan, Citi Research.

By country/region, real exports (our estimate) to the US slowed in May while shipments to Asia continued to grow for a third consecutive month (Figure 2). The former moderated to a 0.9% MoM gain in May from a 5.5% MoM advance in April and a 6.1% MoM rise in March, most likely reflecting the inventory cycle at US manufacturing companies. With restocking subsiding, the ISM manufacturing index has been declining for three straight months after hitting a peak in last February. Against this backdrop, we think shipments to the U.S. will grow only moderately for a while, although the April/May average stood 10.2% above the first quarter average (-7.9% QoQ in 3Q12, -2.2% QoQ in 4Q12 and +5.6% QoQ in 1Q13).

Real exports to the EU decreased 3.9% MoM in May after rising 0.3% MoM in April and 3.0% MoM in March with the April-May average 1.6% below the first quarter average (-8.4% QoQ in 3Q12, -3.5% QoQ in 4Q12 and +1.6% QoQ in 1Q13). As tail risks in Europe waned, shipments turned around to positive growth in the first

quarter, but today's data point to the possibility of renewed negative growth in the second quarter. The euro area economy is expected to remain weak in the coming months. Going forward, we will be interested to see how the yen's fall versus the euro impacts Japan's Europe-bound shipments of cars and capital goods, an area in which Japanese exporters compete heavily with European makers.

Meanwhile, real exports to China expanded 3.3% MoM in May after a 1.5% MoM drop in April and a 7.8% MoM gain in March. As the April-May average rose 4.4% over the first quarter average (-4.2% QoQ in 3Q12, -8.5% QoQ in 4Q12 and +1.2% QoQ in 1Q13), chances are that China-bound exports will likely increase for two quarters in a row. In May, a normalization process for transport equipment exports stalled as we will see later, but other areas rebounded.

If we look into China-bound exports by item, transport equipment had a setback in May with the export value falling 14.3% YoY after a 3.4% YoY drop in April (-54.1% YoY in October, -55.4% YoY in November, -47.5% YoY in December, -36.0% YoY in January, -37.3% YoY in February and -17.8% YoY in March). Even so, we believe the normalization process has progressed considerably in this area, which took a major blow from political tensions between Japan and China. In this category, shipments of motor vehicles (finished cars) dropped 27.7% YoY in May after falling 13.7% YoY in April, 31.7% YoY in March, 54.1% YoY in February, and 60.4% YoY in January while those of motor vehicle parts increased 1.3% YoY in May after a 6.6% YoY gain in April, a 4.7% YoY drop in March, a 16.7% YoY fall in February, and a 12.7% YoY decline in January. The latter seems to suggest that local auto production is normalizing, in our view. Elsewhere, manufactured goods increased 4.4% YoY in May after a 5.8% YoY rise in April, a 2.2% YoY gain in March, a 16.5% YoY fall in February, and a 6.5% YoY rise in January, while machinery saw -0.5% YoY, -10.4% YoY, -13.0% YoY, -27.0% YoY and -10.4% YoY in the same period. Electrical machinery shipments increased 5.7% YoY in May after sliding 2.7% YoY in April, 8.7% YoY in March, 20.6% YoY in February and 5.2% YoY in January. It seems to us that exports are generally improving despite a possible increase in export prices due to yen weakness.

Real exports to Asia ex-China increased 2.6% MoM in May after a 3.1% MoM gain in April and a 4.6% MoM rise in March, leading to the April-May average standing 5.8% above the first quarter average (-4.7% QoQ in 3Q12, -0.6% QoQ in 4Q12 and -1.3% QoQ in 1Q13). In addition to resilient economies in the ASEAN nations, a renewed pickup in the US may have started to bolster exports to this region.

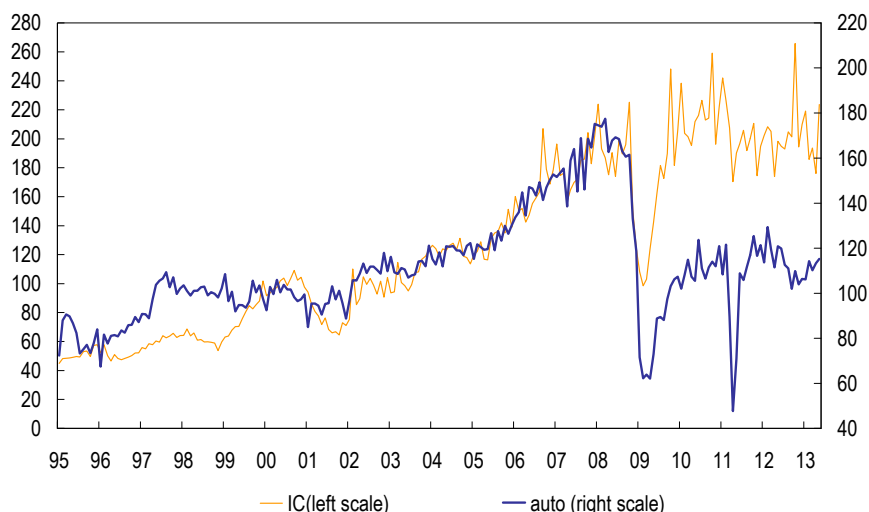
Figure 2. Real exports by destination, 2010 – May 2013 (seasonally adjusted, QoQ/MoM %)

		Total	U.S.	Asia	(China)	(Asia ex China)	EU	Oil Producers countries
(QoQ, %)								
2010	1Q	6.8	4.2	9.9	13.4	8.1	0.1	15.2
	2Q	5.2	5.5	3.1	-0.6	5.1	3.9	9.9
	3Q	1.6	1.8	-0.9	0.2	-1.5	0.6	-8.0
	4Q	-0.1	-0.5	4.7	9.5	2.2	4.8	-3.7
2011	1Q	-0.7	-2.2	-0.6	3.7	-3.0	-1.1	9.6
	2Q	-6.8	-11.8	-6.2	-13.9	-1.7	-5.6	-15.3
	3Q	8.7	15.3	2.9	4.5	2.0	9.3	17.7
	4Q	-3.0	4.9	-2.3	-1.2	-2.9	-6.2	3.1
2012	1Q	1.1	8.2	1.6	-1.9	3.5	-3.4	15.5
	2Q	1.9	3.9	0.5	-1.7	1.6	-4.4	1.2
	3Q	-4.2	-7.9	-4.5	-4.2	-4.7	-8.4	-12.3
	4Q	-4.8	-2.2	-3.2	-8.5	-0.6	-3.5	-2.5
2013	1Q	1.3	5.6	-0.5	1.2	-1.3	1.6	6.1
	Apr/May	2.8	10.2	5.4	4.4	5.8	-1.6	7.9
(MoM, %)								
2012	1	0.3	-2.7	-5.9	-8.8	-4.3	0.7	8.1
	2	1.5	6.5	11.9	16.1	9.8	1.5	13.2
	3	-1.7	2.1	-3.1	-7.6	-0.6	-5.4	-4.6
	4	3.2	-0.5	-1.5	-1.1	-1.8	0.3	0.9
	5	-0.5	3.5	0.7	-1.5	1.9	1.8	5.6
	6	-0.9	-4.3	-0.1	2.7	-1.5	-8.0	-12.2
	7	-1.5	-9.2	-5.2	-5.3	-5.1	-4.4	-0.6
	8	-3.2	8.9	1.7	0.6	2.3	0.7	-3.5
	9	0.2	-7.4	-1.9	-1.3	-2.2	1.0	-9.7
	10	-3.8	-1.1	-1.7	-6.2	0.5	-4.6	6.6
	11	-1.2	2.8	1.1	-1.1	2.1	-0.9	2.2
	12	2.1	-1.8	-4.5	-3.2	-5.2	2.6	-6.4
2013	1	0.2	3.9	3.2	2.8	3.4	3.1	11.4
	2	-0.8	-0.1	-4.0	-2.3	-4.8	-5.6	-1.6
	3	2.0	6.1	5.6	7.8	4.6	3.0	-0.1
	4	1.5	5.5	1.6	-1.5	3.1	0.3	7.9
	5	0.6	0.9	2.8	3.3	2.6	-3.9	1.3

Source: Ministry of Finance, Bank of Japan, Citi Research.

Turning to separate export items (see Figure 3), car exports have continued to increase moderately while signs of recovery emerged for ICs. The export volume of motor vehicles (our seasonally-adjusted estimate) has maintained positive growth at a moderate pace, increasing 1.7% MoM in May after a 2.8% MoM advance in April, and a 3.5% MoM drop in March. As a result, the April-May period saw a 3.7% increase over the first quarter average (-7.6% QoQ in 3Q12, -1.7% QoQ in 4Q12 and +3.3% QoQ in 1Q). We expect a continued recovery in the coming months thanks partly to the positive currency impact. The export volume of ICs in the semiconductor category jumped 27.0% MoM in May after a 9.0% MoM fall in April and a 4.2% MoM gain in March, leading to a 0.2% gain in the two-month period from the first quarter average (+5.7% QoQ in 3Q12, +11.8% QoQ in 4Q12, and -10.7% QoQ in 1Q). The result seems consistent with the micro-level information suggesting a demand recovery for high-tech parts. We expect IC shipments to turn around clearly in the third quarter.

Figure 3. Export volume of principal items, Jan 1995 – May 2013 (seasonally adjusted, CY2000=100)



Source: Ministry of Finance, Citi Research.

Meanwhile, real imports posted a strong 3.0% MoM gain in May after a 0.9% MoM fall in April, a 1.1% MoM dip in March and a 3.6% MoM rise in February. As a result, the April/May period saw a 1.0% increase from the first quarter average (+1.1% QoQ in 3Q12, -5.1% QoQ in 4Q12, and +1.2% QoQ in 1Q13). We expect real imports will likely expand gradually as a result of a tug-of-war between a domestic economic recovery and the effect of yen weakness. We expect a positive contribution from net exports to the QoQ growth rate of the second quarter GDP to the tune of +0.2ppt~+0.3ppt.

The May trade balance was a ¥993.9bn deficit before seasonal adjustment, deteriorating from a ¥907.9bn gap a year ago. On a seasonally adjusted basis, the balance came to ¥821.0bn in the red, which is worse than a ¥702.8bn deficit in April. The split shows that exports increased 3.2% MoM in May (+0.6% MoM in April) while imports rose 4.7% MoM (-2.4% MoM). As these data show, the increase in the seasonally adjusted trade gap stemmed from the higher growth in imports than in exports, due partly to the yen depreciation against the US dollar. We currently expect the yen to weaken to ¥106/\$ at end-2013 and ¥110/\$ at end-March 2014. If our forecasts are accurate, given the J-curve effect, it will probably take a fairly long time before a cheaper yen-driven real export growth (or a real import fall) helps narrow the red figures in the trade balance.

Going forward, we expect real exports to continue growing at a moderate pace on the back of an overseas economic expansion, especially in the US, and enhanced price competitiveness due to yen weakness against the US dollar. At the same time, the wealth effect driven by an overseas economic recovery is unlikely to increase because: 1) China's economic growth remains moderate (fixed asset investment is likely to decelerate in the coming months), 2) inventory rebuilding, which tends to increase imports, appears has run its course in the US, and 3) the European economy remains stagnant. As a result, we expect Japan's real export growth to remain relatively moderate.

Figure 4. Customs-Clearance Trade Balance Data for May 2013

(¥bn, %)	May 12 (1yr. Ago)	Apr 13 (a month Ago)	May 13(p) (latest)
Trade Balance SA, ¥	-575.7	-702.8	-821.0
Trade Balance NSA, ¥	-907.9	-881.9	-993.9
Exports, YoY%	10.0	3.8	10.1
Imports, YoY%	9.3	9.5	10.0
Real Exports, SA MoM%	na	1.5	0.6
Export Volume to USA, YoY%	39.6	4.5	-8.7
Export Volume to Asia, YoY%	2.7	-5.0	-1.7
Real Imports, SA MoM%	na	-0.9	3.0
Balance with US NSA, ¥	338.2	562.5	427.1

Note: p: preliminary.

Source: Ministry of Finance, Citi Research.

Appendix A-1

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