

Macro Note

Japan: April Exports Falls For 4th Straight Month, Darkens Outlook

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- Japan's exports contracted for a fourth straight month by -2.4% y/y in Mar (from -1.2% in Feb), quite in line with Bloomberg's median forecast of -2.6%. This is the longest stretch of monthly export decline recorded since Dec 2016. Imports rebounded with a 1.1% y/y increase in Mar (from -6.6% y/y in Feb), although the pace was less strong than Bloomberg's median forecast of +2.8%.
- Even though exports came in weak, it was coupled with a benign import rebound, resulting in wider than expected trade surplus of JPY 528.5bn in Mar (from a more modest JPY 334.9bn surplus in Feb and above Bloomberg's median expectations for a smaller surplus of JPY 363.2bn). On a seasonally-adjusted basis, the trade balance turned into a deficit of JPY 177.8bn, from a surplus of JPY 116.1bn in Feb.
- Exports growth to US (4.4% y/y in Mar from 2.0% in Feb) and EU (7.3% in Mar from 2.5% in Feb) accelerated in the latest month but exports to several key destinations slumped further in Asia-Pacific, with significant declines recorded in China (-9.4% y/y) and South Korea (-9.0% y/y). Exports into ASEAN also contracted by -5.7% y/y in Mar (from -5.9% in Feb).
- By product types, export declines were recorded in most of major clusters except chemicals and transport equipment. More pronounced declines were recorded in manufactured goods (-6.8% y/y, -0.8ppt), machinery (-5.4% y/y, -1.2ppt), electrical machinery (-5.2% y/y, -0.9ppt), and others (-4.3% y/y, -0.6ppt).
- Energy (mineral fuels) still accounts for the largest share of Japan's imports (about 23% of total imports in Mar) although it has been recording y/y declines since Jan 2019. (-4.0% y/y in Mar) It is also notable the import of petroleum, LNG and LPG declined further in volume terms in Mar, reflecting easing energy demand. There were some major import clusters that recorded moderate increases like chemicals (2.4% y/y, 0.2ppt), manufactured goods (5.7% y/y, 0.5ppt) and electrical machinery (5.0% y/y, 0.7ppt), giving hope that there is still some domestic demand.

Trade Outlook – Cautious & Still Tracking Another Trade Deficit In 2019

- Japan's Mar export disappointment was in line with weak export picture from other key North Asian exporters like South Korea and Taiwan but it was in sharp contrast to China's strong 14.2% y/y rebound. The continued soft exports print reaffirms our cautious outlook for Japan's trade prospects in 2019. **We maintain our Japan's export growth forecast to slow further to 0% in 2019 (from 4.1% in 2018) while import growth will also moderate to 2.5% (from 9.7% in 2018). Based on these projections, Japan is likely to record another trade deficit, amounting to JPY 3.3 trillion in 2019. A weak export outlook is likely to weigh on economic growth this year which we expect to come in at 0.5%, down from 0.8% in 2018.**
- Other than watching the US-China trade negotiations, Japan has also started the first round of trade talks with the US earlier this week (15-16 Apr). It was reported that Japan included goods and some services as part of the trade talks with US, but has excluded any request for automobile quotas or foreign exchange provisions. Meanwhile, the final report on automobiles under national-security provisions in Section 232 of the Trade Expansion Act of 1962 was submitted to President Trump on 17 Feb (2019) and he has up to 90 days (mid-May) to decide whether to act upon recommendations, which he has so far remained silent on.
- Please click on the link to access Japan's [Mar 2019 Trade report](#) from Japan Customs.

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