# Japan export plunge an illusion

Japan's worsening export growth is largely illusory and growth rates should soon start to improve

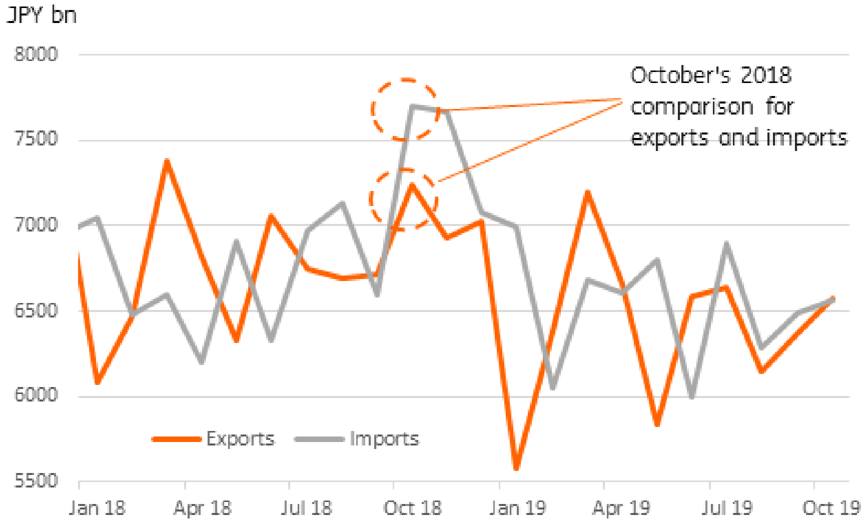
Source: Shutterstock

## The curse of annual growth rates

The popularity of year-on-year growth rates in economic reporting in Asia probably stems from the enormous seasonality of some data, which regular seasonal adjustment seems incapable of adequately adjusting. That, together with very choppy series means that usually, year-on-year growth rates can help to smooth data and make the emergence of trends more obvious.

But sometimes, this process delivers misleading messages. For example, the October export figures from Japan released this morning worsened from -5.2%YoY in September, to -9.2%YoY. It looks as if the trade war and technology slump still has Japan deep in its grips. The reality is much less dramatic and much more optimistic.

## Japan exports and imports (JPY bn)




Source: Bloomberg

Japan exports and imports

## Never mind the percentage growth, feel the levels

When you look at the raw data, unadjusted and in terms of JPY levels, exports rose in October from September (JPY6577bn from 6368bn). The only reason that the year on year growth rate plunged, was that October 2018 exports spiked up to JPY7243, the second-highest reading of that year. And there doesn't seem to be anything particularly seasonal and repetitive about that increase. October 2017 exports were actually a little lower than those in September that year (JPY6692 vs 6810bn), as were October 2016 exports.

In other words,  what is really driving the year-on-year deterioration this time, is series noise. Nothing more.

Take a look at what happened to exports in the immediate aftermath of October 2018 - they managed to eke out a few more months at around JPY7000bn, then plunged. Semiconductors, the main victim of the technology slump, played a big role here. And so assuming that export levels remain fairly steady from here to the end of the year, year-on-year growth rates should improve to about -5%YoY in November and December, and then when January figures are released in February 2020, will shoot up to about +18%YoY. And bear in mind, that is on the assumption of flat export levels in billions of JPY. Things could look considerably better than that.

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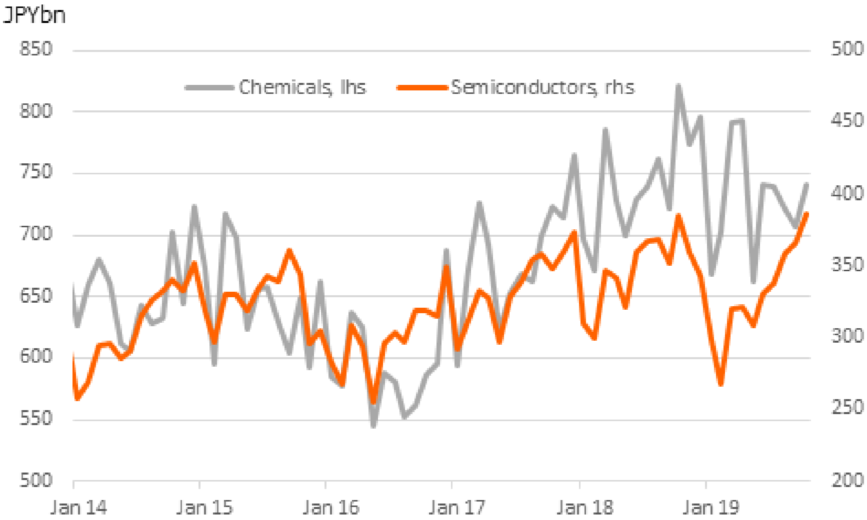
## Japan chemical and semiconductor exports improve




Source: Bloomberg

Japan semiconductor and chemicals exports

## Chips and chemicals

The disappointing trade spat between South Korea and Japan is hard to discern in the breakdown of chemical exports from Japan. Neither the overall chemical figures nor the organic chemicals subset appear to be exhibiting anything other than random fluctuations. So there is neither evidence of an attempt to front-run export embargoes, or of the bans hitting this sector.

And as for semiconductors, exports of these have not been higher since the global financial crisis in 2008, which is not only good news for Japan, but it perhaps shines a positive spotlight on other tech-heavy economies in the region (Korea, Taiwan, Singapore).

## Market implications

The JPY is a little weaker on these trade figures, with their accompanying smaller than expected trade surplus (JPY17.3bn) and the adjusted balance swinging into a small deficit (-JPY34.7bn). The import growth figures at -14.8%YoY down from -1.5% in September also suggest terribly weak domestic demand, whereas in JPY, they were also up slightly (JPY6560 vs 6491bn) and suggest nothing out of the ordinary occurring. The import growth figures for December will likely outpace those of exports in returning to positive annual growth, even if nothing, in reality, is really changing.

What these figures do hint at, is a broad moderation in the cyclical damage caused by the tech slump, together with no further general deterioration stemming from the ongoing trade war. The JPY has been a beneficiary of these global risk events, and if these negative forces are now ebbing, the JPY may see its support beginning to fade, even as its local fundamentals start to improve.

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