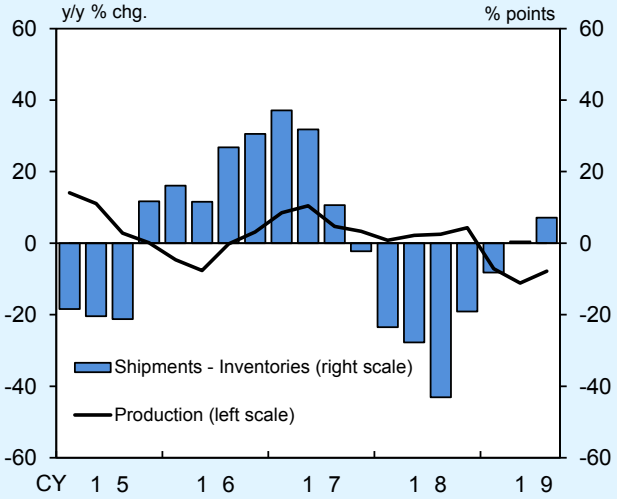
(Box 2) Developments in Exports by Goods

This box examines the current situation of and outlook for exports by goods; namely, (1) IT-related goods, (2) capital goods, and (3) automobile-related goods.

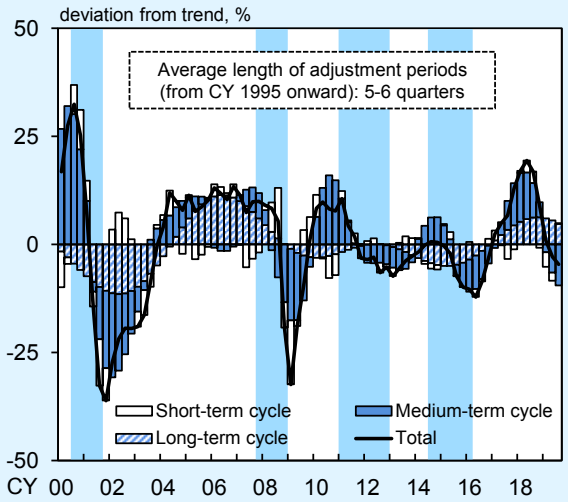
Japan's IT-related exports had continued on a downtrend since the second half of 2018 due to the deterioration in the global cycle for IT-related goods. However, they have increased, albeit slightly, since the April-June quarter of 2019. The global cycle for IT-related goods appears to be bottoming out recently, reflecting progress in inventory adjustments. Looking at the shipments-inventories balance of electronic parts and devices for Japan, the phase of inventory reductions has almost come to an end, and thus an increase in shipments can lead to a rise in production (Chart B2-1). Average patterns in the past show that the cycle for IT-related goods bottoms out and the adjustment phase comes to an end around 5-6 quarters after the peak.[35] Since the most recent peak in its cycle was around the April-June quarter of 2018, it seems consistent with past patterns that the cycle is currently bottoming out (Chart B2-2). As for the outlook, anecdotal evidence suggests that Japan's exports of IT-related goods, especially for smartphones and data centers, are expected to pick up through the year-end, as the cycle for IT-related goods is likely to gradually shift toward a rising phase. Since demand related to the introduction of 5G communication technology is expected to fully take hold after the turn of 2020,

Chart B2-1: Shipments-Inventories Balance of IT-Related Goods



Source: Ministry of Economy, Trade and Industry.
Notes: 1. Figures are for electronic parts and devices.
2. The production figure and the shipments figure for 2019/Q3 are July-August averages. The inventories figure for 2019/Q3 is that for August.

Chart B2-2: Global Cycle for IT-Related Goods: Frequency Spectrum Decomposition



Notes: 1. The cycles are extracted by applying frequency spectrum decomposition to world semiconductor shipment data compiled by WSTS. Based on staff calculations.
2. The estimation period is 1995/Q1-2019/Q3. Figures for 2019/Q3 are July-August averages.
3. Shaded areas indicate adjustment periods in the global cycle for IT-related goods. Adjustment periods are defined as periods that (1) include a point where the total of cycles falls below zero and (2) start at the nearest peak point of the total preceding the zero point and end one quarter prior to the subsequent bottom point.

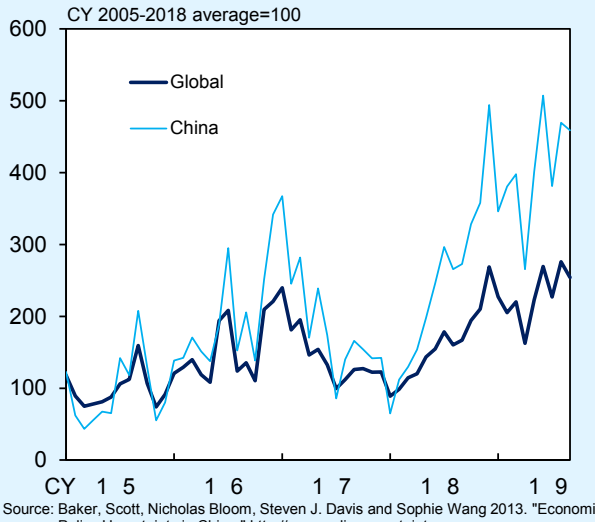
[35] For details, see Box 4 in the April 2019 Outlook Report.

IT-related exports are likely to return to a steady uptrend.

Next, capital goods exports have been relatively weak, amid signs of a further deceleration in business fixed investment in China and neighboring countries. The Global Economic Policy Uncertainty Index recently has risen substantially, mainly led by China, against the background of heightening uncertainties accompanying the intensified and prolonged U.S.-China trade friction (Chart B2-3). This increase in uncertainties has led to postponement of business fixed investment, especially by firms that incorporate Chinese firms into their supply chains, and thus seems to have brought about the recent slowdown in the world trade volume in capital goods. Regarding the outlook, capital goods exports will likely continue showing some weakness for the time being, given that the declining trend in machinery orders from overseas -- a leading indicator of Japan's capital goods exports -- has continued (Chart B2-4). From a somewhat longer-term perspective, it is expected that the trade volume in capital goods will gradually head to a recovery and Japan's capital goods exports also will return to a moderate increasing trend, as protectionist moves are likely to be prevented from being more intensified and global uncertainties are expected to follow a downtrend. However, downside risks to this outlook are large, depending on the outcome of U.S.-China trade negotiations.

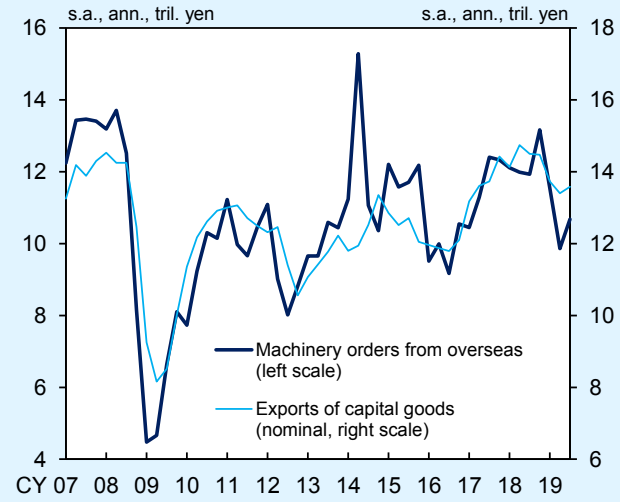
Meanwhile, although Japan's automobile-related exports had continued to increase, mainly on the back of the rising value-added of automobiles and

Chart B2-3: Economic Policy Uncertainty Index



Source: Baker, Scott, Nicholas Bloom, Steven J. Davis and Sophie Wang 2013. "Economic Policy Uncertainty in China." http://www.policyuncertainty.com.
Note: Figures for the global economy are calculated as the weighted averages of the economic policy uncertainty indices of 20 economies using PPP weights.

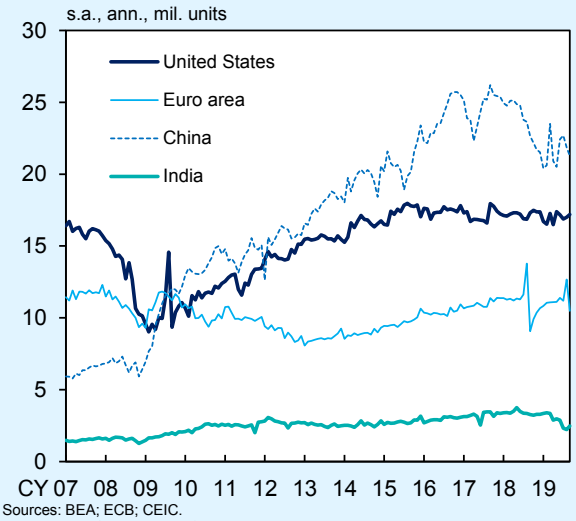
Chart B2-4: Machinery Orders from Overseas and Exports of Capital Goods



Sources: Cabinet Office; Ministry of Finance.
Note: The figure for machinery orders for 2019/Q3 is the July-August average.

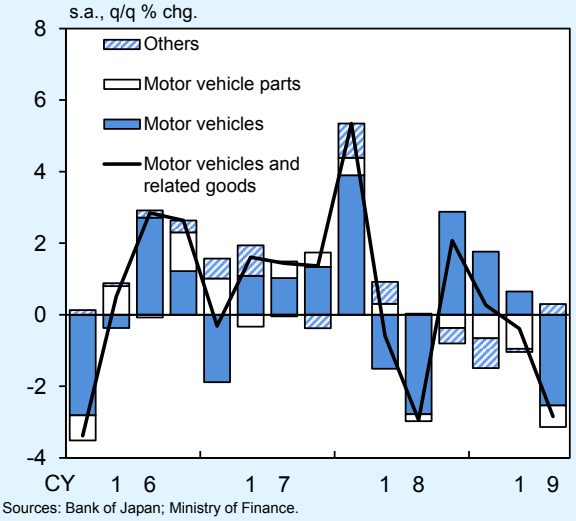
a high environmental performance, they have started to show some weakness recently, affected by the decline in global automobile sales. Global automobile sales, particularly in emerging economies, have been somewhat weak, mainly due to (1) weak corporate demand, (2) the tightening of financial conditions in some emerging economies, and (3) stricter environmental regulations (Chart B2-5). A breakdown of automobile-related exports shows that exports of motor vehicles to advanced economies, which so far had been firm, have shown increasing signs of peaking out, reflecting inventory adjustments by Japanese automakers in the United States; moreover, exports of motor vehicle parts have continued to decline since end-2018, mainly led by those to China, which has been affected by the economic slowdown and environmental regulations (Chart B2-6). As for the outlook, while Japan's automobile-related exports are likely to follow a declining trend for the time being, they are expected to gradually head to a recovery thereafter, as it is projected that corporate demand will pick up along with the global recovery in business fixed investment and progress gradually will be made in responding to environmental regulations.

Chart B2-5: Motor Vehicle Sales in Major Economies



Sources: BEA; ECB; CEIC.
Note: Figures for the United States are based on motor vehicle sales excluding heavy trucks. Figures for the euro area are based on new passenger car registrations. Figures for China and India are based on passenger car sales.

Chart B2-6: Real Exports of Motor Vehicles and Related Goods



Sources: Bank of Japan; Ministry of Finance.