

(Box 1) Slowdowns in Overseas Economies and Their Impact on Japan's Economy

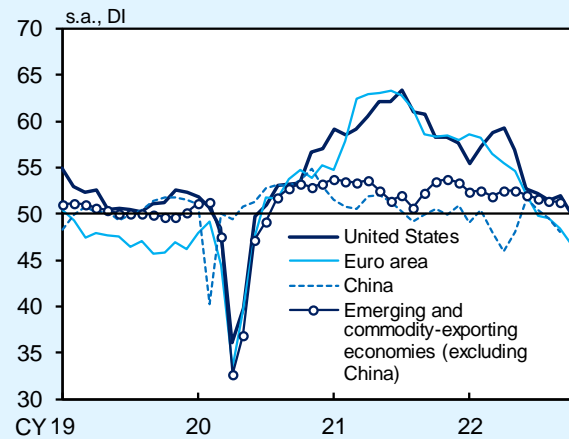
This box outlines the impact of slowdowns in overseas economies on Japan's economy.

An examination of business sentiment in the manufacturing industry to gauge global production activity shows slowdowns in advanced economies, particularly in the euro area. Looking at emerging economies, business sentiment has deteriorated in China due to the remaining impact of the spread of COVID-19 and a slowdown in export orders, while the pace of improvement in such sentiment in other emerging economies has decelerated somewhat, reflecting developments in advanced economies and the Chinese economy (Chart B1-1).

Two main reasons behind such developments are continued inflationary pressure in many economies, particularly on energy and food prices, which is partly attributable to the situation surrounding Ukraine, and the accompanying policy interest rate hikes (Chart B1-2). These factors gradually push down demand and production, mainly in advanced economies, and thereby trigger slowdowns in overseas economies. In fact, the latest economic outlooks by the International Monetary Fund (IMF) and by the Organisation for Economic Co-operation and Development (OECD) show that global economic growth is expected to slow next year.

Such slowdowns in overseas economies put downward pressure on Japan's exports and

Chart B1-1: Manufacturing PMI

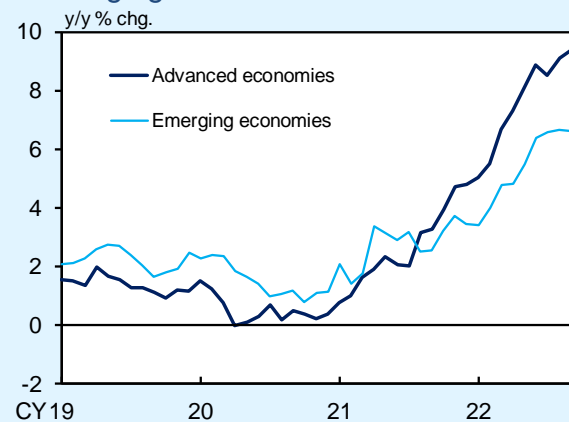


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Notes: 1. Figures for China are the Caixin China PMI.

2. Figures for emerging and commodity-exporting economies (excluding China) are the weighted averages of the PMIs for 20 economies using their shares in global GDP obtained from the IMF as weights.

Chart B1-2: Inflation in Advanced and Emerging Economies



Sources: Haver; CEIC.

Note: Figures for advanced economies are the median year-on-year rates of change in consumer prices for 17 economies, including the United States and European countries. Figures for emerging economies are the median year-on-year rates of change in consumer prices for 12 economies in Asia (excluding China) and Latin America.

production. That said, for the time being, they are expected to follow an uptrend, especially for automobiles and capital goods. Sales of automobiles have been held back globally by shortages of semiconductors and other parts; if supply-side constraints wane, this is likely to boost such sales (Chart B1-3). Against this background, inventories of automobiles, which have been at low levels, particularly in the United States, are expected to recover (Chart B1-4). In addition, orders of capital goods have continued to considerably exceed their shipments, particularly for semiconductor production equipment, and order backlogs at Japanese firms have been at high levels (Chart B1-5). Such waning of supply-side constraints and the high levels of such order backlogs are likely to alleviate downward pressure on Japan's exports and production associated with the slowdowns in overseas economies.

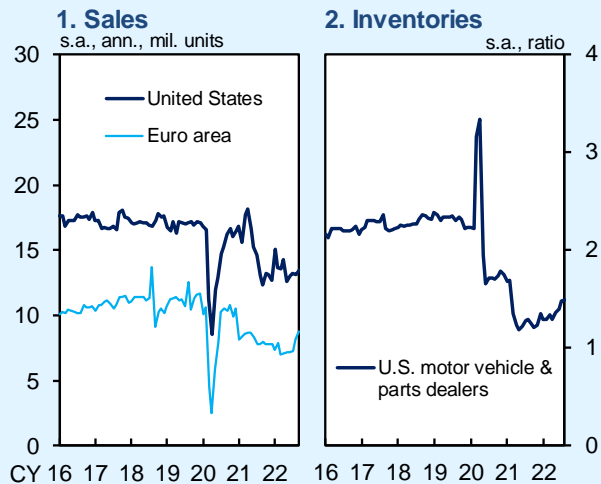
However, uncertainties regarding overseas economies are extremely high, and the risks surrounding Japan's exports and production are skewed to the downside for the time being. If the slowdowns in overseas economies intensify or the timing of their pick-up is delayed significantly, exports of automobiles and capital goods, both of which are currently firm, may decline rapidly due to such factors as order cancellations, and adjustments in IT-related goods, currently seen only in part, may become more widespread. Moreover, attention continues to be warranted on the possibility that, depending on the course of COVID-19 and developments in geopolitical risks, global supply-chain disruptions could intensify again and push down Japan's exports and production.

Chart B1-3: Suppliers' Delivery Times PMI



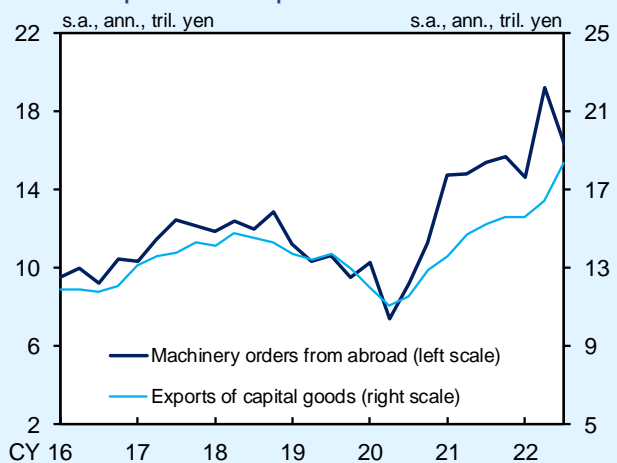
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 Note: The suppliers' delivery times PMI is the suppliers' delivery times index in the J.P.Morgan Global Manufacturing PMI.

Chart B1-4: Global Demand for Motor Vehicles



Sources: BEA; ECB; CEIC.
 Notes: 1. Figures for sales in the United States are based on motor vehicle sales excluding heavy trucks. Those for sales in the euro area are based on new passenger car registrations.
 2. Figures for inventories are the ratio to sales.

Chart B1-5: Machinery Orders from Abroad and Exports of Capital Goods



Sources: Cabinet Office; Ministry of Finance.
 Note: Figures are nominal values. The figure for machinery orders for 2022/Q3 is the July-August average.