

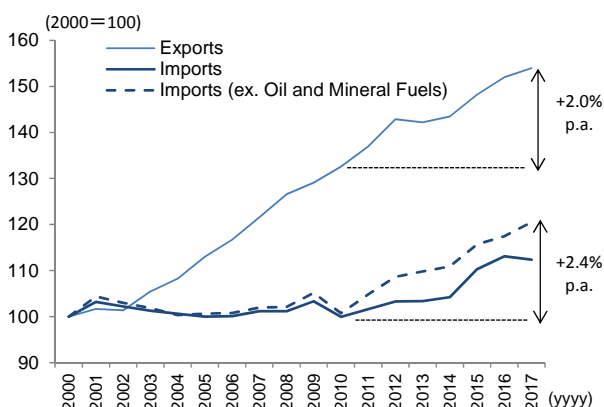
The Japanese economy: topic of the month

Rising quality of imported goods – it’s not only about exports

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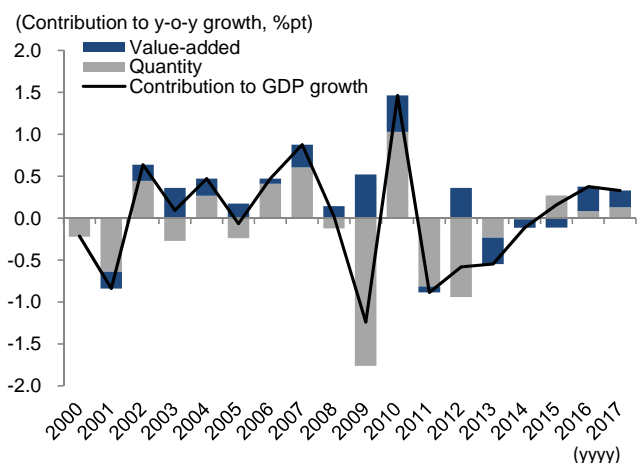
It has been pointed out that Japan’s exports - the current driver of the Japanese economy - are rising in value-added. This stems from the fact that the growth of “export quantity”, derived by converting the value of exports into real terms by the unit value, continuously lags behind the growth of “real exports,” which is deflated by the quality-adjusted export prices (representing pure price changes excluding changes in quality). A similar trend is also progressing with respect to imports, although this is frequently overlooked in the shadow of exports. Looking at the degree of change in quality by taking the ratio of the real index and the quantity index, it appears that there was virtually no change in the quality of imported goods in the 2000s. However, from around 2010, the value-added of imports have been on an upward trend (**Chart 1**). Furthermore, if we exclude mineral fuels such as crude oil which has little room for qualitative improvement, the change in quality would be higher than that of exports. Among the plausible background factors is the increase in imports (mainly electronic parts and devices) from Asian countries where technological levels have risen.

[Chart 1: Value-added index of exports and imports]



Note: Export (import) unit price index / Export (import) price Index (base year 2010 for both indexes). Figures for 2017 are extrapolated using the y-o-y growth rate for Jan to Sep
 Source: Made by MHRI based upon the Ministry of Finance and the Bank of Japan

[Chart 2: Decomposition of the contribution of external demand to GDP growth]



Note: Contribution of Net Exports = $\Delta(\text{Real Exports} - \text{Real Imports}) / \text{GDP}$
 $= \Delta(\text{Export quantity} \times \text{Export value-added} - \text{Import quantity} \times \text{Import value-added}) / \text{GDP}$.
 Figures for 2017 are based on data for Jan-Jun.
 Source: Made by MHRI based upon the Cabinet Office and the Ministry of Finance

Higher quality of imports works in pushing down the contribution of external demand (=exports minus imports) upon the rate of economic growth. When we decompose the contribution by external demand into the quantity effect (the gap in the quantitative change of exports and imports) and the value-added effect (the gap in the qualitative change of exports and imports), we see that in a sharp contrast to the 2000s, the value-added effect has dipped into negative territory repeatedly from 2010 onwards (**Chart 2**). With the improvement in the quality of exports, the “earning power” among Japanese manufacturers is continuing to rise. Yet, from a macroeconomic point of view, the positive effect of external demand upon economic growth is expected to contract in the medium-term.

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