

The Japanese economy: topic of the month

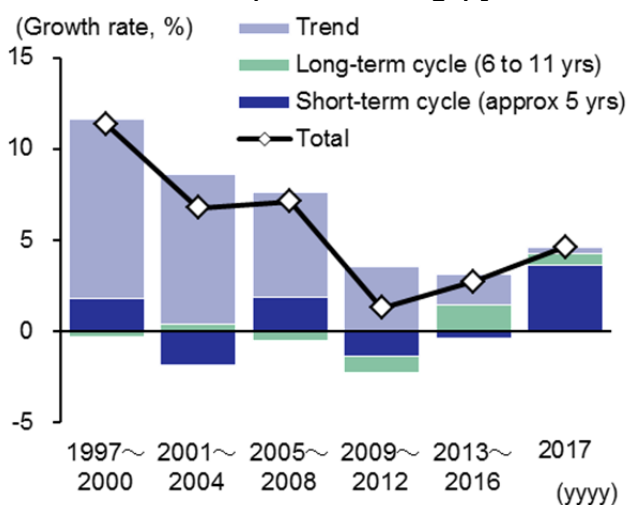
Are we seeing signs of an end to the Global Trade Slowdown?

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Since the global financial crisis of 2008, world trade growth has been slowing down, giving rise to references to the age of a “Global Trade Slowdown”. However, global trade has started to pick up in 2017. In fact, the global import volume index rose +4.6% y-o-y in 2017, recovering to the +4%-level for the first time in seven years since 2011 (+4.2%).

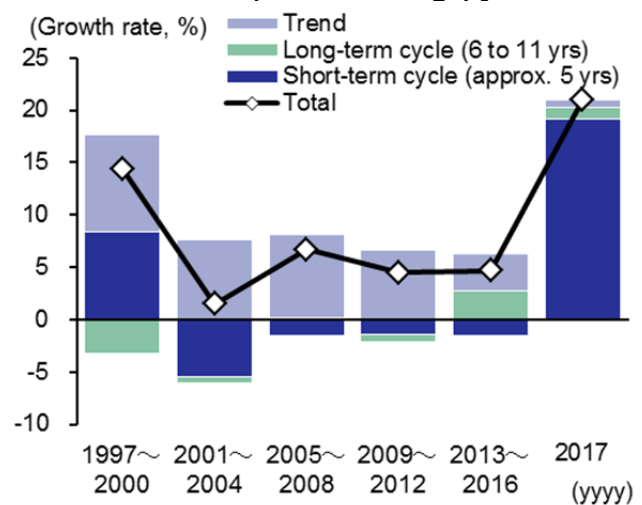
In a bid to shed light upon the factors behind the recovery, I conducted a wavelet-based time-frequency analysis of global import volume (**Chart 1**). The results reveal the characteristic that short-term cyclical factors significantly lifted global import volume in 2017. In addition to the rise of capital investment stemming from the global economic recovery, the semiconductor boom is also thought to be a major background factor. In fact, the wavelet-based time-frequency analysis of global semiconductor sales (**Chart 2**) reveals that the contribution by short-term cyclical factors upon sales is extremely large (approximately 91%). It appears that the expansion of new uses for semiconductors such as IoT, self-driving cars and data centers is contributing to the semiconductor boom.

[Chart 1: Factor analysis of global import volume (annual average)]



Note: Wavelet-based time-frequency analysis
Source: Made by MHRI based upon Datastream

[Chart 2: Factor analysis of global semiconductor sales (annual average)]



Note: Wavelet-based time-frequency analysis
Source: Made by MHRI based upon Datastream

While it is easy to be captivated by short-term factors, the trend factors in global import volume index indicates that its positive contribution of trend factors is smaller than in the past. Structural shifts such as the progress of import substitutes in China and other emerging market countries may be leading to the fading impact of trend factors in lifting trade.

In addition to the decline of trend factors, the significant upward pressure stemming from short-term cyclical factors serves as reason to believe that the rate of growth of semiconductor sales should peak out and that its positive effect upon global grade will start to contract.

In view of the foregoing, it appears premature to conclude that the current boom in global trade indicates an end to the Global Trade Slowdown.

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