

The Japanese economy: topic of the month

The impact of trade frictions upon capital investment

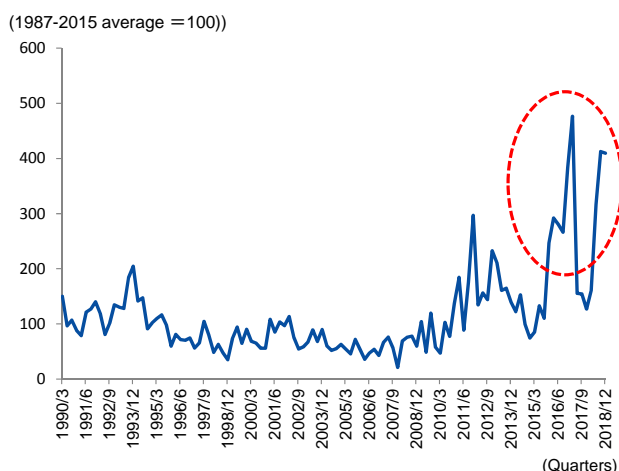
Saisuke Sakai, Senior Economist, Economic Research Department

It appears that there has been a sharp rise of uncertainty regarding US trade policy since the birth of the Trump administration in 2017. In fact, the Trade Policy Uncertainty Index in Japan indicates a rise of uncertainty from 2017 to 2018 (**Chart 1**).

Such rise of uncertainties may serve as downward pressure upon corporate appetite for investment. Estimates based upon the Trade Policy Uncertainty Index and capital investment data in the *Financial Statements Statistics of Corporations by Industry* indicates that the rise of uncertainty in trade policy has a significant negative impact upon capital investment with a lag (**Chart 2**). An estimate of the degree of impact upon current capital investment shows that a trade policy uncertainty shock pushes down the growth of capital investment by an average of approximately 0.9% pt (approximately 0.2% pt in terms of nominal GDP).

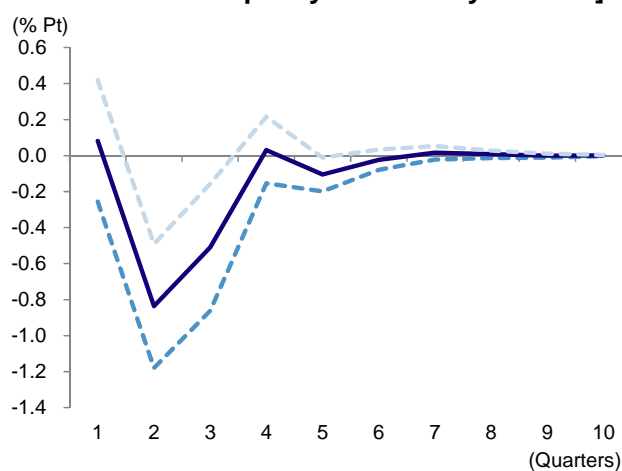
In particular, with respect to the manufacturing sector, China’s economic slowdown due to trade frictions may lead to a slowdown in capital goods shipments to China. Furthermore, in the event of an escalation of trade tensions on a global scale, the possibility of the need to review supply chains may make corporate enterprises cautious about capital investment.

[Chart 1: Trade Policy Uncertainty Index]



Source: Made by MHRI based upon *Arbatli et al.(2017)*

[Chart 2: Impulse responses of capital investment toward trade policy uncertainty shocks]



Note: The graph shows the change in capital investment (q-o-q change) toward a one standard deviation trade policy uncertainty shock. The broken lines indicate the confidence intervals of ± 1 standard deviation.

Source: Made by MHRI

Even though capital investment should follow firm footing for the time being on the back of demand for labor-saving investment, it would be necessary to take note of downside risks stemming from trade frictions. Trade negotiations between the US and China and between Japan and the US must be watched closely.

Mizuho Research Institute Ltd.

This publication is compiled solely for the purpose of providing readers with information on a free-of-charge basis and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice. In the event readers do not wish to receive information free of charge from Mizuho Research Institute, readers are requested to notify their wish to suspend subscription.