

## (Box 1) Impact of Uncertainties regarding Overseas Economies including Protectionist Moves

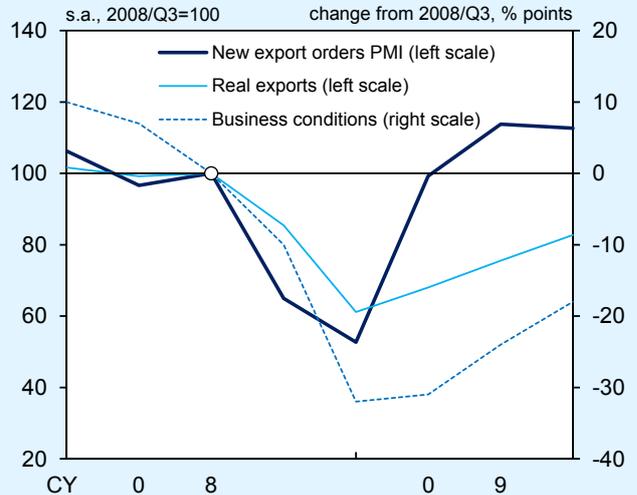
Since the middle of this year, uncertainties regarding overseas economies, including the effects of protectionist moves, have heightened. In order to assess the recent situation, this box looks back at the past episodes when risks concerning overseas economies materialized: (1) the period around the global financial crisis in 2008-2009 and (2) 2015-2016, when emerging economies such as China decelerated.

At the time of the global financial crisis, the new export orders PMI fell sharply first, followed by rapid declines in the business conditions DI in the *Tankan* and real exports (Chart B1-1[1]). Under these circumstances, firms increasingly postponed business fixed investment, and fixed investment plans for fiscal 2008 were substantially revised downward (Chart B1-2).

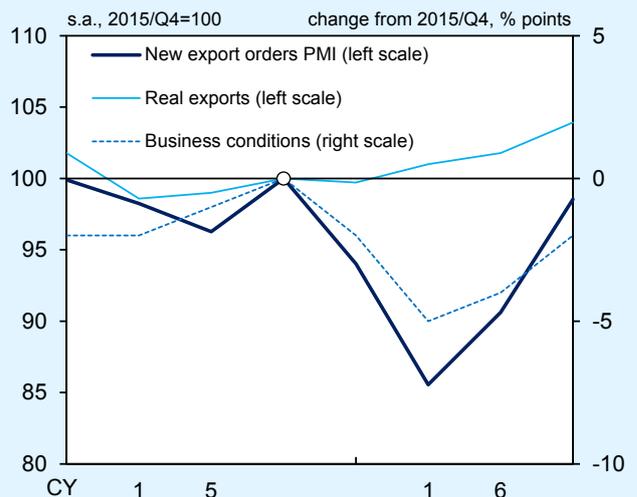
On the other hand, looking at the phase when emerging economies decelerated in 2015-2016, the new export orders PMI and the business conditions DI declined due in part to the yen's appreciation, but real exports were more or less unchanged (Chart B1-1[2]). The reason is that the decrease in exports to emerging economies was compensated for by an increase in exports to advanced economies. Under these circumstances, business fixed investment in fiscal 2015 registered relatively high growth compared to the average pattern in the past (Chart B1-2).

**Chart B1-1: Corporate Indicators**

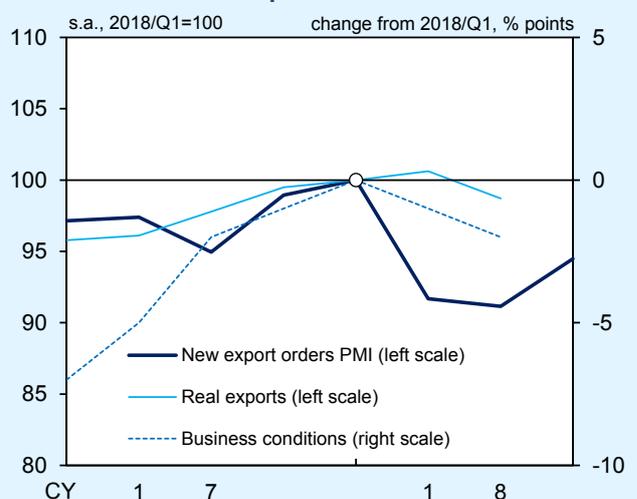
**1. CY 2008-2009**



**2. CY 2015-2016**



**3. Most Recent Developments**



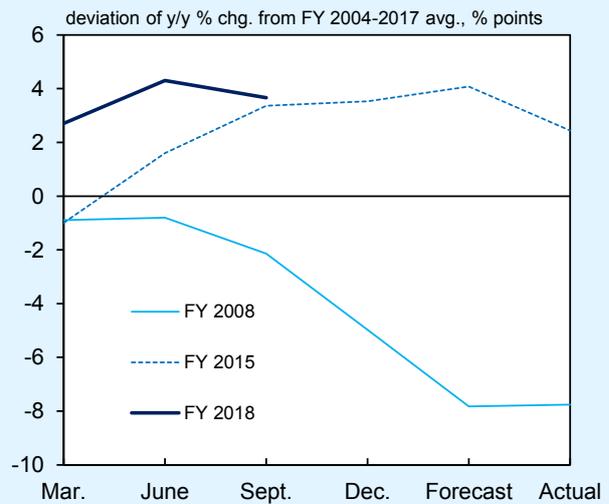
Sources: Bank of Japan; Ministry of Finance; IHS Markit (© and database right IHS Markit Ltd 2018. All rights reserved.)  
 Notes: 1. Business conditions are measured in terms of the diffusion index ("favorable" - "unfavorable") for all industries and enterprises in the *Tankan*.  
 2. The new export orders PMI is the new export orders index in the Nikkei Japan Manufacturing PMI. The figure for 2018/Q4 is that for October.

These experiences suggest that a useful first point to check when assessing whether risk scenarios originating from overseas economies have materialized is to see if there have been any trend changes in the indices of corporate surveys, such as the new export orders PMI and the business conditions DI, which are released without much lag. However, even if these corporate survey indices worsen, this does not necessarily mean that there will be a serious impact on the real economy. Therefore, an important second point to check is developments in real exports. That is, if real exports decrease significantly, this potentially has a large negative impact on the real economy, including spillover effects such as on business fixed investment, and thus more vigilance is needed.

Looking at the current phase, the business conditions DI has remained at a favorable level, although its improving trend seems to have come to a halt recently. On the other hand, the new export orders PMI has declined somewhat and real exports have been sluggish lately (Chart B1-1[3]). However, such sluggishness in real exports largely reflects supply-side constraints stemming from natural disasters. In addition, business fixed investment plans for fiscal 2018 have maintained high growth, and no particular postponements of planned investments have been observed (Chart B1-2).

This assessment of the current phase is consistent with recent interviews on firms conducted by the Bank's Head Office, branches, and local offices (Chart B1-3). That is, at this point, not many firms have been affected by the growing

**Chart B1-2: Comparison of Developments in Business Fixed Investment Plans**



Source: Bank of Japan.  
 Notes: 1. Based on the *Tanken*. All industries including financial institutions.  
 2. Including software and R&D investment and excluding land purchasing expenses (R&D investment is not included up through fiscal 2015).

trade friction between the United States and China, and even a large number of those that actually have been affected say that the extent has been limited.

Nevertheless, many firms have voiced growing concerns regarding the outlook. Quite a few firms have pointed out that it is difficult to gauge the potential impact of trade friction because supply chains are complex. This suggests that firms themselves may not grasp the channels and scale of the impact of trade friction until their orders are actually affected.

### Chart B1-3: Interview Responses by Firms (The Bank's *Regional Economic Report*)

#### [Current situation]

- Although we are concerned about the effects of trade friction between the United States and China on customers' sentiment on business fixed investment, we do not see postponements of investment at this point (an electrical machinery company interviewed by the Head Office).
- Although discussions surrounding the U.S. trade policy are in progress, we do not think we need to drastically revise the global production plans at this point (an automobile-related company in Nagoya).
- Since the tariffs on parts exported from China to the United States have been raised, we will change the way of supplying them; specifically, we will produce them in Japan or Thailand for the time being (a production machinery company in Hiroshima).

#### [Concern or cautiousness about the outlook]

- Given that supply chains have become complex, in that they arch over many countries, the effects of trade friction between the United States and China are hard to figure out. Although we have not seen a decline in orders to date, including from China, we are concerned that this could happen going forward (an electrical machinery company in Osaka).
- We see almost no effects of trade friction between the United States and China on our high value-added products. However, we are concerned about whether the inflow of low-price Chinese products has an effect on the domestic commodity market (an iron and steel company in Shimonoseki).
- If the negotiations between the United States and Japan do not end in an agreement and additional tariffs are imposed by the United States on motor vehicles and related parts, it is highly likely that we will be forced to take some burden by our clients. If this leads to our profits falling below the break-even level, we will have to shrink our business or revise the production structure (an electrical machinery company in Maebashi).

Source: Bank of Japan.

Notes: 1. Extracted from the October 2018 *Regional Economic Report*.

2. The parentheses show the industry of the interviewee and the Bank office/branch.