

Shaky Recovery: Japan's Growth Depends On Demand from Asia

Japan has posted quarter-to-quarter GDP growth in two consecutive quarters this year. In the second quarter (April-June), Japan posted 0.6 percent growth. But some argue that it's too early to conclude that Japan's economy has gotten back on track. Juan Inoue, a researcher at Mizuho Research Institute, is not the only one arguing that Japan's recover so far has been led by strong exports. He says the future is still shaky.

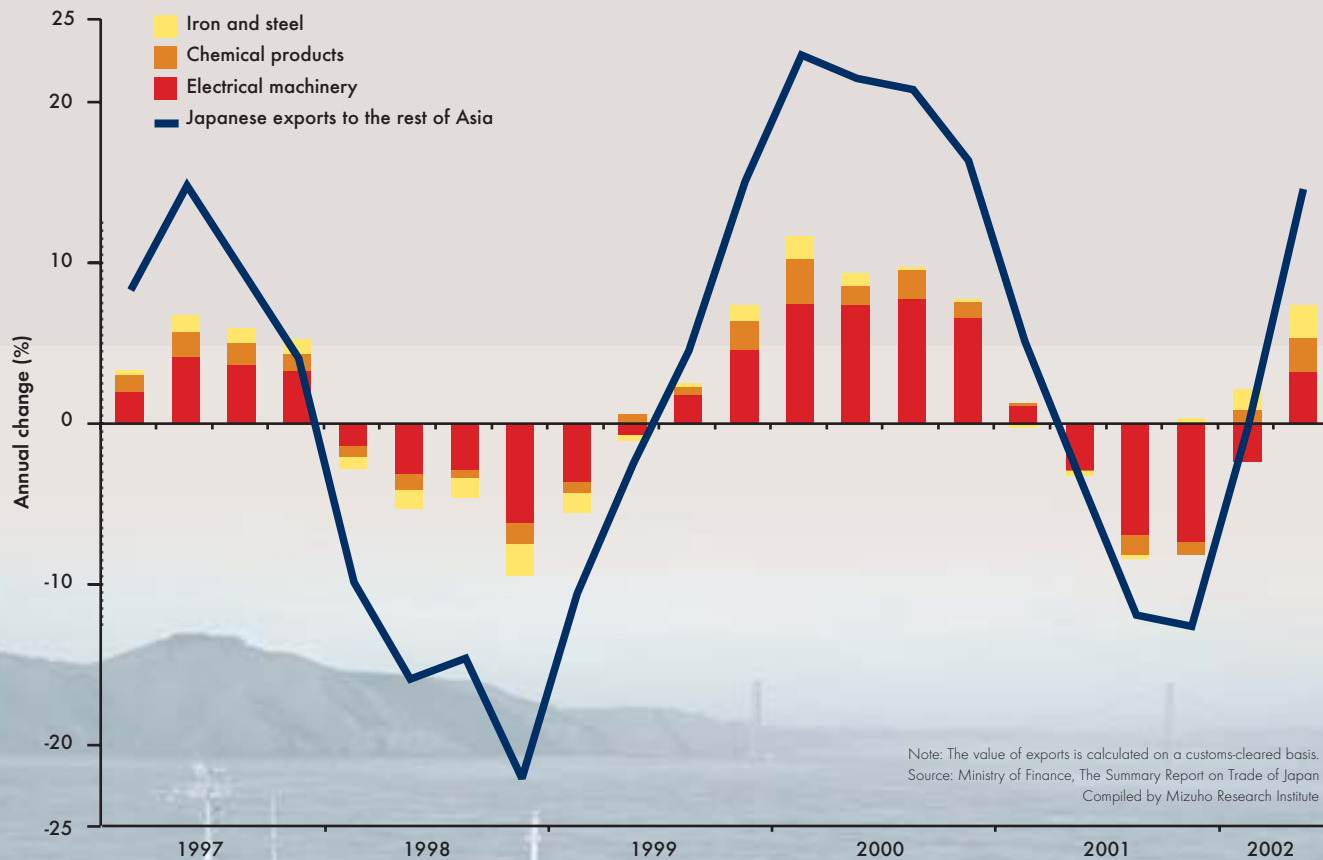
In the second quarter, Japan's exports rose 7.4 percent from the previous quarter. According to Inoue, Japan's strength depends on exports to other Asian nations. Exports to Asia are recovering quickly this year especially in the fields of electronics (up 12.1 percent from the previous year), chemical products (up 15.8 percent), steel (up 36.4 percent) and semiconductor-related products. Inoue argues that the strong demand in Asia is led by a recovery of the US PC market.

Although US IT investment still remains sluggish, investment in PCs is recovering more quickly, rising 7.7 percent from the previous quarter in the first quarter of this year.

The US PC market depends heavily on the electronics manufacturing services (EMS) offered by Taiwanese and Chinese players. These firms produce and export their products to the US but rely on Japan for their materials. Growing US dependency on Asian EMS may boost Japanese exports to Asia, argues Inoue.

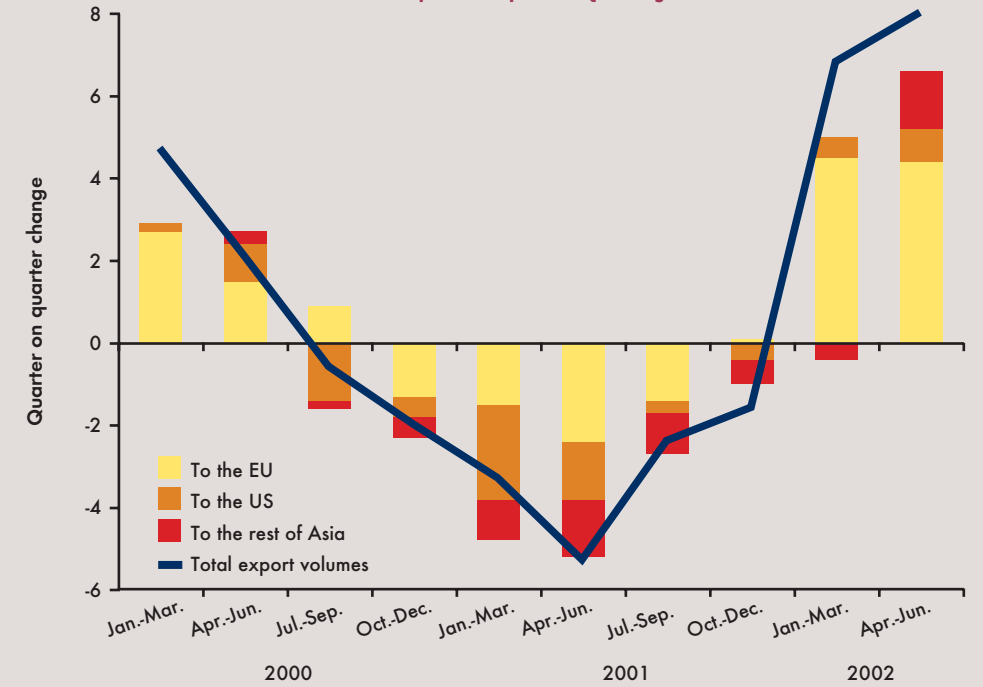
But the current recovery of Asian demand may be a temporary reaction to the crash of the global IT industry. After that crash, Asian firms had reduced the level of inventory significantly and therefore had to produce quickly to catch up with the growth. Once this catch-up phase is over, they may again reduce production levels, Inoue says. @

Japanese Exports to Asia by Item



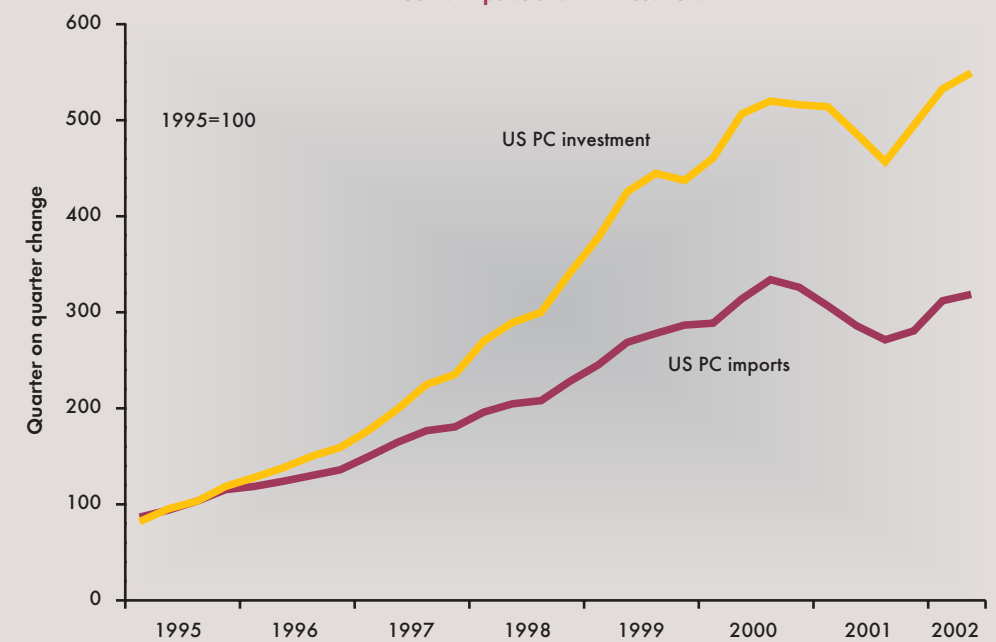
Note: The value of exports is calculated on a customs-cleared basis.
Source: Ministry of Finance, The Summary Report on Trade of Japan
Compiled by Mizuho Research Institute

Japanese Exports in Quantity



Note: The value of exports is calculated on a customs-cleared basis.
Source: Ministry of Finance, The Summary Report on Trade of Japan
Compiled by Mizuho Research Institute

US PC Imports and PC Investment



Note: In seasonally adjusted real terms including peripherals.
Source: Datastream

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Note: All statistics apply to Japan unless otherwise noted.