

Economics in Brief



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Yen depreciation slows German exports

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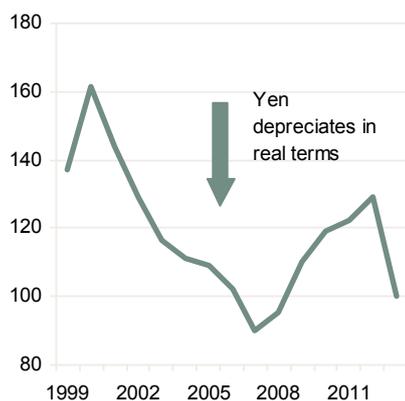
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The subsiding concerns over a possible breakup of the eurozone, combined with a shift in Japan's monetary policy, have led to a noticeable depreciation of the yen against the euro. The market turbulence of recent weeks has done nothing to change this either. Is this cause for concern for Germany as one of the world's leading export nations?

Japanese products regain price competitiveness

Since October 2012 the yen has depreciated against the euro by almost 25 % in real terms (30 % in nominal terms).

Figure 1: Real YEN/EUR exchange rate (100 = same price level)



Source: OECD, own calculations

This trend has corrected most of the appreciation which Japan had to suffer since the outbreak of the financial crisis. This is a reason to stay calm – especially since the current exchange rate is roughly on the level of purchasing power parity. This means Japanese and German goods now cost roughly the same. What is worrying, however, is the fast pace of the most recent exchange rate correction. German enterprises must

quickly find an answer to the now more attractive prices of their Japanese competitors' products.

German and Japanese exporters have a different geographical focus, ...

The yen depreciation should hardly impact on direct trade relations as bilateral trade is rather modest. In 2012 Japan's share of German exports was only 1.5 % and imports from Japan accounted for close to 2 %.

Where the depreciation has a greater impact is in the competition between German and Japanese enterprises on third markets. It is true that both countries have very distinct sales markets (see Figure 2). Most of Japan's exports go to the Asian region (share of 55 % in 2012). Germany's main sales markets, on the other hand, are in Europe, which accounted for a share of 71 % in 2012. This mitigates the impact of a weaker yen on German exports.

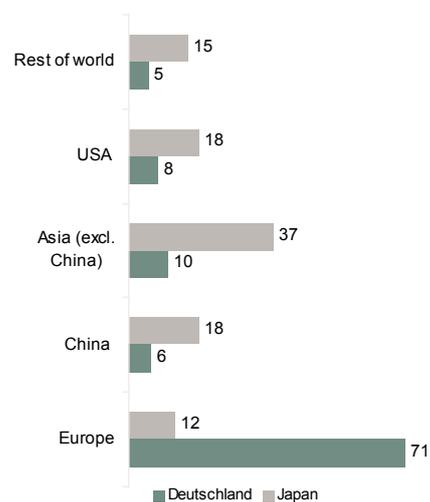
... but are competitors on important growth markets

However, the export shares obscure the fact that in recent times export *growth* did not come from Europe. Instead, German exporters benefited primarily from increasing demand from the USA and China. Since 2009, nominal exports to these countries have risen by 60 and 80 %, respectively. In 2012 more than 40 % of Germany's export growth was generated in these two countries.

The appreciation of the yen from 2008 to 2012 noticeably bolstered the sale of German products in these two important markets. Since 2008 German exports to China grew five times faster than those

from Japan. A simple econometric analysis also confirms this first impression. Thus, more than 50 % of the differences in growth between German and Japanese exports to China can be explained by the development of the real exchange rate. The same applies in lesser form to both countries' exports to the USA.

Figure 2: Geographic structure of exports (export shares in 2012 in percent)



Source: Feri, Ministry of Finance of Japan

The yen depreciation will slow German exports on individual markets

This means that over the next 12 months the significantly improved price competitiveness of Japanese products can be expected to result in Japanese exports to China growing at a rate that will be around 10 percentage points faster than German exports (USA: 3.5 percentage points). Regarding the export shares of both countries, the impact on total German exports will still be limited. In addition, German export growth may be supported by the expected gradual economic recovery in Europe. If the yen stabilizes soon, the adjustment process should be unique and temporary anyway. To end deflation and stagnation in Japan, the ultra-loose monetary policy is in any case a vital element and can be expected to continue. ■