

## Will corporate profits take a hit from a deterioration in the terms of trade?

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The impact of soaring prices in international commodity markets, such as oil prices, and the impact of JPY depreciation on corporate profits are drawing attention. The increase in import prices due to rising resource prices and JPY depreciation has led to an increase in input prices. On the other hand, output prices have not increased as much as input prices (not all increases are passed on), which has resulted in a deterioration in the terms of trade.

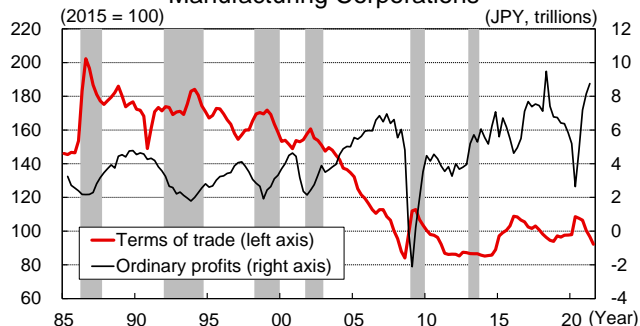
That being said, the terms of trade and Japanese corporate profits have not always moved in tandem in the past. Looking back at the last decade, ordinary profits have been relatively robust despite changes in the terms of trade (Chart 1). The changes in import and output prices due to fluctuations in commodity and FX markets are primarily related to variable costs, whereas fixed costs remain fundamentally unchanged. Therefore, the impact of the volume factor – namely an increase in sales – grows when demand increases. In fact, it is not uncommon for a deterioration in the terms of trade and a turnaround in profits to coexist as an increase in domestic and foreign demand will often occur at times when international commodity prices are rising, regardless of FX markets.

Looking back, there was a period from the latter half of 2007 until 2008 when both the terms of trade and corporate profits worsened. At that time, however, there was both “an economic slump (decrease in sales) owing to the financial crisis” and “a considerable rise in commodity prices due to an influx of speculative funds and a supply shortage in some oil-producing countries”, which means the dominant trend at that time was one of “economic downturn” (Chart 2, upper). Taking this into account, it is important to note the current rise in the price of resources, such as fossil fuels, can be attributed in part to a decrease in investment as the world moves towards decarbonisation, with the main cause being the recovery of the global economy from the COVID-19 pandemic. Meanwhile, a change in the US-Japan interest rate differential owing to expectations of monetary policy normalisation in the US affected the JPY and caused it to depreciate, and the overriding assumption is that the economic recovery in the US will continue (Chart 2, lower).

The current situation surrounding corporations in terms of demand shows the service sector is expected to recover as the COVID-19 pandemic calms, and, although demand for goods is forecast to decline somewhat as a result of a prior increase, such as that caused by pent-up demand, a large fall is very unlikely and the impact from a deterioration in the terms of trade

will be limited. That being said, the shortage of semiconductors and other factors are severely restricting production and sales in some manufacturing industries, and it will be important to continue to keep an eye out for a decline in sales due to supply constraints caused by factors other than these related to demand.

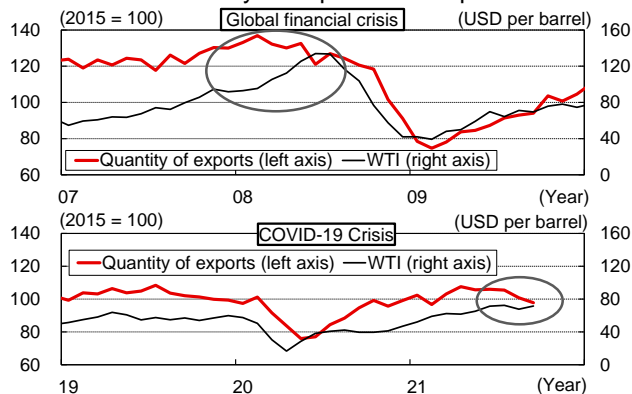
Chart 1: Terms of Trade and Ordinary Profits of Manufacturing Corporations



Note: 1. "Terms of trade" = export prices divided by import prices then indexed  
 2. Shaded areas denote periods of economic recession. The provisional peak for Oct-Dec 2018 has been confirmed, but the trough has not, so it remains unshaded.

Source: Ministry of Finance, Bank of Japan, MUFG Bank Economic Research Office

Chart 2: Quantity of Exports and Import Prices



Note: "Quantity of exports" has been seasonally adjusted by the Economic Research Office

Source: Ministry of Finance, Bloomberg, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Oct. 29, 2021

	Fiscal	Fiscal	2020	2021		2021				
	2019	2020	4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.5	-4.4	11.9 (-0.9)	-4.2 (-1.3)	1.9 (7.6)	***	***	***	***	***
Industrial Production Index	-3.8	-9.5	5.7 (-3.5)	2.9 (-1.0)	1.1 (19.9)	-6.5 (21.1)	6.5 (23.0)	-1.5 (11.6)	-3.6 (8.8)	-5.4 (-2.3)
Production										
Shipments	-3.6	-9.8	5.9 (-3.5)	2.0 (-1.4)	0.7 (18.8)	-5.5 (21.5)	4.8 (19.2)	-0.3 (11.2)	-4.4 (7.2)	-6.2 (-4.6)
Inventory	2.8	-9.8	-1.6 (-8.4)	-1.3 (-9.8)	0.9 (-5.0)	-1.1 (-8.7)	2.1 (-5.0)	-0.7 (-4.5)	-0.1 (-3.7)	3.7 (0.8)
Inventory/Shipments Ratio (2015=100)	112.5	122.9	114.6 [114.6]	109.5 [117.1]	108.2 [142.1]	108.8 [150.5]	108.5 [138.3]	109.6 [127.8]	113.7 [124.7]	120.4 [119.5]
Index of Tertiary Industries Activity	-0.7	-6.9	2.3 (-2.9)	-0.7 (-3.0)	-0.5 (7.5)	-3.0 (10.1)	2.2 (2.9)	-0.6 (2.0)	-1.7 (-0.5)	
Domestic Corporate Goods Price Index	0.1	-1.4	-0.3 (-2.2)	1.6 (-0.3)	2.5 (4.6)	0.7 (4.9)	0.9 (5.2)	1.1 (5.8)	0.1 (5.8)	0.3 (6.3)
Consumer Price Index(SA, total, excl.fresh foods)	0.6	-0.4	-0.2 (-0.9)	0.3 (-0.5)	-0.5 (-0.6)	0.3 (-0.6)	0.1 (-0.5)	0.4 (-0.2)	-0.1 (0.0)	0.1 (0.1)
Index of Capacity Utilization (2015=100)	98.2	87.4	92.6 [95.6]	95.6 [94.6]	96.7 [75.3]	92.5 [70.4]	98.2 [75.3]	94.9 [81.9]	91.2 [84.5]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.3	-8.8	12.9 (1.2)	-5.3 (-2.5)	4.6 (12.6)	7.8 (12.2)	-1.5 (18.6)	0.9 (11.1)	-2.4 (17.0)	
Manufacturing	-8.1	-8.5	11.4 (0.8)	-2.2 (0.8)	12.1 (26.5)	2.8 (37.9)	3.6 (30.2)	6.7 (32.6)	-13.4 (22.4)	
Non-manufacturing Excl.Electric Power & Ship building	6.2	-9.0	15.5 (1.4)	-9.2 (-4.8)	-1.8 (2.2)	10.0 (-4.7)	3.8 (9.8)	-9.5 (-5.3)	7.1 (12.4)	
Shipments of Capital Goods (Excl.Transport Equipment)	-5.5	-6.6	5.2 (-0.4)	7.8 (5.2)	9.9 (22.7)	-3.1 (23.6)	4.6 (23.8)	-0.9 (21.2)	-2.8 (27.4)	-4.7 (16.5)
Construction Orders	-5.9	-0.3								
Private	-8.7	-4.9								
Public	-3.2	29.6								
Public Works Contracts	6.8	2.3								
Housing Starts 10,000 units at Annual Rate, SA	88.4	81.2	80.5	83.0	87.5	87.5	86.6	92.6	85.5	84.5
Total floor	(-7.3)	(-8.1)	(-7.0)	(-1.8)	(8.1)	(9.9)	(7.3)	(9.9)	(7.5)	(4.3)
Sales at Retailers	-0.4	-2.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-0.4	-4.9	4.1 (0.7)	-4.1 (-1.9)	3.6 (7.1)	-2.3 (12.5)	-3.1 (-4.3)	-0.9 (0.7)	-3.9 (-3.0)	
Propensity to Consume (SA, %)	66.9	61.3	65.8 [65.3]	65.2 [64.9]	61.7 [54.9]	62.7 [53.5]	57.0 [51.7]	62.8 [56.9]	59.7 [64.3]	[66.9]
Overtime Hours Worked (All Industries, 5 employees or more)	-2.5	-13.9	2.9 (-9.6)	1.5 (-6.6)	2.8 (19.1)	-3.6 (27.6)	2.1 (18.8)	2.7 (11.4)	-3.4 (7.0)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.0	-1.5								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	96	36	35	33	78	95	80	74	65	
Ratio of Job Offers to Applicants (SA, Times)	1.55	1.10	1.04 [1.57]	1.10 [1.45]	1.10 [1.20]	1.09 [1.18]	1.13 [1.12]	1.15 [1.09]	1.14 [1.05]	1.16 [1.04]
Unemployment Rate (SA, %)	2.4	2.9	3.0	2.8	2.9	3.0	2.9	2.8	2.8	2.8
Economy Watcher Survey (Judgment of the present condition D.I.%)	38.7	37.7	43.7 [37.1]	40.5 [28.2]	41.6 [22.1]	38.1 [17.0]	47.6 [40.0]	48.4 [42.2]	34.7 [43.7]	42.1 [47.8]
Bankruptcies (Number of cases)	8,631 (6.4)	7,163 (-17.0)	1,751 (-20.8)	1,554 (-28.2)	1,490 (-18.9)	472 (50.3)	541 (-30.6)	476 (-39.7)	466 (-30.1)	505 (-10.6)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

## 2. Balance of Payments

As of Oct. 29, 2021

	Fiscal	Fiscal	2020	2021		2021				
	2019	2020	4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP
Customs Clearance (Exports in Yen Terms)	-6.0	-8.4	(-0.7)	(6.0)	(45.0)	(49.6)	(48.6)	(37.0)	(26.2)	(13.0)
Value	-1.6	1.1	(1.1)	(1.3)	(7.9)	(8.0)	(8.3)	(9.5)	(11.0)	(9.4)
Volumes	-4.4	-9.4	(-1.8)	(4.6)	(34.4)	(38.5)	(37.2)	(25.2)	(13.7)	(3.3)
Imports (In Yen terms)	-6.3	-11.6	(-11.8)	(1.9)	(23.8)	(28.0)	(32.8)	(28.6)	(44.8)	(38.6)
Value	-4.0	-8.6	(-8.9)	(-3.9)	(17.7)	(19.7)	(22.7)	(26.0)	(26.5)	(28.8)
Volumes	-2.4	-3.4	(-3.2)	(6.0)	(5.2)	(6.9)	(8.2)	(2.1)	(14.5)	(7.6)
Current Account (100 mil. yen)	189,273	182,533	52,848	62,609	42,150	19,814	9,095	19,108	16,656	
Goods (100 mil. yen)	4,839	39,017	25,227	13,742	9,588	181	6,413	6,223	-3,724	
Services (100 mil. yen)	-17,172	-36,636	-8,412	-5,342	-15,824	-2,789	-3,396	-5,849	-1,949	
Financial Account (100 mil. yen)	207,987	155,130	36,951	50,964	16,646	24,067	-6,174	9,619	24,658	
Gold & Foreign Exchange Reserves (\$1mil.)	1,366,177	1,368,465	1,394,680	1,368,465	1,376,478	1,387,508	1,376,478	1,386,504	1,424,284	1,409,309
Exchange Rate (¥/\$)	108.68	106.04	104.49	105.90	109.48	109.19	110.11	110.29	109.84	110.17

## 3. Financial Market Indicators

	Fiscal	Fiscal	2020	2021		2021					
	2019	2020	4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP	
Uncollateralized Overnight Call Rates	-0.046	-0.031	-0.026	-0.017	-0.019	-0.017	-0.029	-0.036	-0.034	-0.022	
			[-0.034]	[-0.032]	[-0.044]	[-0.047]	[-0.048]	[-0.028]	[-0.035]	[-0.054]	
Euro Yen TIBOR (3 Months)	0.026	-0.054	-0.055	-0.058	-0.067	-0.065	-0.072	-0.072	-0.072	-0.072	
			[0.016]	[0.016]	[-0.041]	[-0.042]	[-0.042]	[-0.065]	[-0.065]	[-0.055]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.005	0.120	0.020	0.120	0.050	0.080	0.050	0.015	0.020	0.065	
			[-0.025]	[0.005]	[0.030]	[0.000]	[0.030]	[0.010]	[0.045]	[0.015]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.720	0.686	0.684	0.686	0.687	0.691	0.687	0.688	0.688		
			(0.004)	(0.002)	(0.001)	(0.003)	(-0.004)	(0.001)	(0.000)		
The Nikkei Stock Average (TSE 225 Issues)	18,917	29,179	27,444	29,179	28,792	28,860	28,792	27,284	28,090	29,453	
			[23,657]	[18,917]	[22,288]	[21,878]	[22,288]	[21,710]	[23,140]	[23,185]	
M2(Average)	(2.5)	(8.1)	(9.1)	(9.5)	(7.7)	(8.0)	(5.9)	(5.3)	(4.7)	(4.2)	
Broadly-defined Liquidity(Average)	(1.8)	(4.9)	(5.5)	(5.8)	(6.7)	(7.2)	(5.9)	(5.5)	(5.2)	(5.0)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.1)	(5.9)	(6.2)	(6.2)	(3.0)	(2.8)	(1.4)	(0.9)	(0.6)	(0.6)
	Banks	(2.2)	(5.8)	(5.9)	(5.8)	(2.4)	(2.2)	(0.7)	(0.5)	(0.3)	(0.4)
	City Banks etc.	(1.9)	(6.9)	(6.9)	(6.6)	(0.8)	(0.2)	(-1.6)	(-1.5)	(-1.6)	(-1.1)
	Regional Banks	(4.5)	(4.5)	(4.7)	(4.8)	(3.8)	(4.1)	(3.2)	(2.7)	(2.4)	(2.3)
	Regional Banks II	(-5.9)	(6.1)	(6.9)	(6.5)	(3.6)	(3.0)	(1.4)	(0.4)	(-0.0)	(-0.2)
	Shinkin	(1.1)	(6.7)	(8.2)	(8.5)	(7.1)	(7.5)	(5.6)	(3.7)	(2.4)	(1.7)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.6)	(8.5)	(9.1)	(9.9)	(7.8)	(8.0)	(6.1)	(5.7)	(5.1)	(4.6)
	City Banks	(3.6)	(9.9)	(10.0)	(10.9)	(7.9)	(8.0)	(6.1)	(5.8)	(5.2)	(4.7)
	Regional Banks	(3.4)	(7.0)	(8.0)	(8.7)	(8.2)	(8.6)	(6.8)	(6.4)	(6.0)	(5.3)
	Regional Banks II	(-5.5)	(6.7)	(8.1)	(8.7)	(5.4)	(4.9)	(3.0)	(1.4)	(0.7)	(0.2)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in ( ) indicate % changes from previous year. [ ] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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