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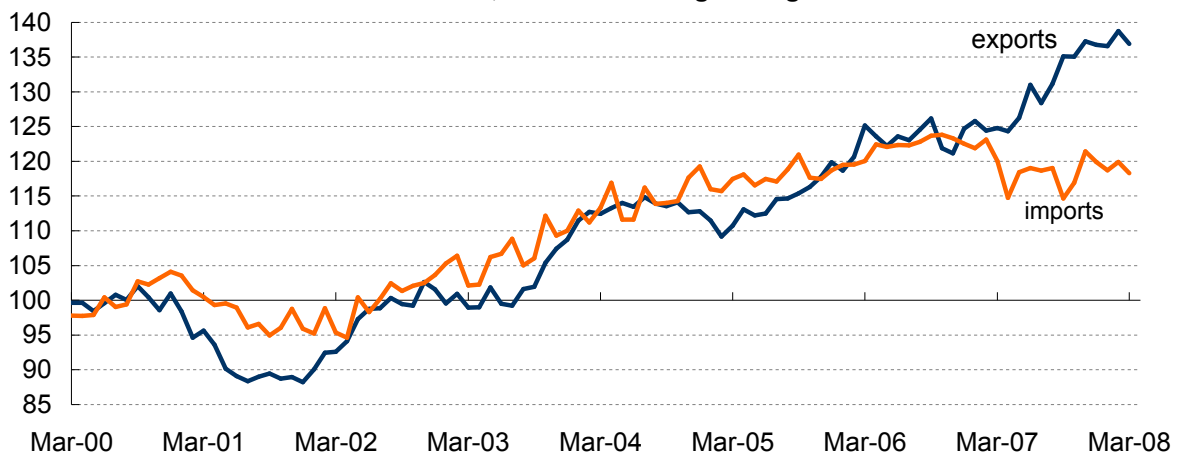
## Japanese export slowdown heralds recession

**WE SUGGEST: Too early for Topix**

**SUMMARY: As exports slow to a crawl, Japan could be entering recession.**

We have detailed many times how ultra-tough budget policies have deflated domestic Japanese demand, while the “offsetting” low interest rates have simply made matters worse by lessening the income of households: they have 2½ times their disposable income in bank deposits. The pay-off for “Japan Inc” has been the cheap yen and huge profits from the world boom – still in action for the Pacific economy as the Chinese domestic demand surge sucks in imports. But the US is now ex-growth, Europe slowing, and China will have to slow in response to overheating and soaring inflation. Meanwhile, the yen is boosted for non-Japanese reasons. Global investors, having used “yen-carry” financing, close out their asset positions and buy back yen to repay the funding – reinforcing the use of the yen as a liquid proxy for a play on the appreciation of the largely unobtainable Chinese yuan.

**Japanese trade, price/seasonally adjusted**  
2000 = 100, 2-month moving averages



New March data show export volume slowing: February was a one-month spike. Import volume is fundamentally depressed, an indication of falling domestic demand. The trade surplus is growing, and net exports remain a help to GDP. But their positive contribution is probably now only a partial offset to falling domestic demand. Ie, Japan is in recession.

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