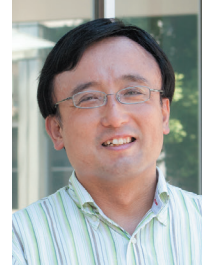


The Early 1980s & the Present – What Is Similar & What Is Not



Author Nobuo Iizuka

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Hanshin Tigers as No. 1, Previously in the Year of the Plaza Accord

In Japanese professional baseball in 2023, the Hanshin Tigers became the number one team for the first time in 38 years. Back in 1985, the yen-dollar exchange rate had been on a weak yen trend since the early 1980s (*Chart 1*). The rate which was 202.19 yen to the dollar in January 1981 weakened to 271.33 yen to the dollar by October 1982. It was a yen depreciation of 34% in just a year and 10 months. After that, the yen turned stronger for a while, but by March 1985 it had weakened to 258.43 yen to the dollar. The rate which was 236.91 yen to the dollar in September 1985 then strengthened to 154.78 yen to the dollar by September 1986, or a yen appreciation of 35%. This was because the G5 finance ministers and central bank governors agreed to correct the strong dollar through coordinated intervention in the currency market. This was the Plaza Accord.

The yen-dollar exchange rate continues to be on a weak yen trend. The rate was 103.70 yen to the dollar in January 2021 and then depreciated by 41.9% to 147.16 yen to the dollar in October 2022. It did revert to a strong yen for a while, but at the time this article was written, it is on a weak trend again of around 150 yen to the dollar.

Looking at the trend of the yen-dollar exchange rate, the early 1980s

and the present can look quite similar. So what about the economic data which is thought to impact the yen-dollar exchange rate?

Yen Depreciating More Than PPP Based on Consumer Price Index Is Similar

Exchange rates fluctuate over the short term due to various factors, but the thinking behind purchasing power parity (PPP) is that in the long term they will converge to a standard whereby the prices of goods and services between two countries (Japan and the United States in this case) are at an equilibrium. If the value of the currency is determined by how many goods and services can be purchased, it is natural to think that currencies with a relatively high rate of rise in prices will be stronger, and low currencies will be weaker.

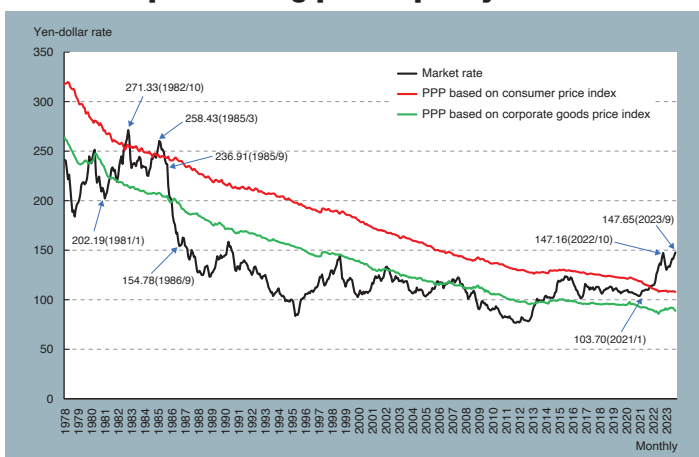
Chart 1 shows a comparison between PPP as calculated by the Institute for International Monetary Affairs and the yen-dollar exchange rate. Assuming that the yen-dollar exchange rate in 1973 was equal to PPP, the values for each month are calculated bearing in mind the difference in rate of rise in prices between Japan and the US. Both the red line and the green line in *Chart 1* are trending towards a strong yen in the long term. It signifies that if the rate of rise in prices in Japan is lower than the rate of rise in prices in the US over the long term, it is natural that the yen will be stronger and the dollar weaker.

PPP based on the consumer price index (red line) and corporate goods price index (green line) is shown as an indicator in *Chart 1*. Generally, the focus is on PPP based on the corporate goods price index which measures price trends in tradeable goods, and looking at past yen-dollar rates, the yen seems to become both stronger and weaker around the green line. On the other hand, PPP based on the consumer price index, which includes prices of non-tradeable services, looks like the cap for the yen depreciation standard, but the yen weakened slightly above this standard during the early 1980s, and has been trending at yen depreciation above the red line since October 2021.

Widening Gap Between US & Japanese Interest Rates Also Similar

The exchange rate is also thought to be impacted by the difference in interest rates between both countries (the

CHART 1
Trends in purchasing power parity & market rate



Source: "Purchasing Power Parity", Institute for International Monetary Affairs

difference in US and Japanese interest rates for the yen-dollar rate). This is because it is natural to sell currencies with relatively low interest rates and buy currencies with high interest rates. This is why there are market economists who forecast a stronger yen if US monetary policy shifts away from tightening.

Chart 2 obtained 10-year yields for US bonds from the “FRED” database of the Federal Reserve Bank of St. Louis in the US, and compared them with 10-year yields for newly issued government bonds in Japan. The difference in the US and Japanese yields most recently expanded to 3.73% in October 2022, but this is a level not seen since the early part of 2002. The yen-dollar rate appreciated to the 80-yen level in mid-1995, and after that gradually depreciated until the early 2000s, and during this time the difference in US and Japanese interest rates expanded. But the expansion in this difference during this time was due to Japan pushing its low interest rate policy as it struggled with economic stagnation after the burst of its bubble economy. Interest rates in the US were also gradually falling, but the fall in Japanese interest rates was greater.

On the other hand, the early 1980s saw the US, which had been struggling with rising prices after the second oil shock, implementing monetary tightening (long-term interest rates also rising), while Japan did not require a tightening to that extent (as a result, long-term interest rates were on a downward trend). This point is also similar to the present where the difference in Japanese and US interest rates is expanding, with the main reason being the rise in US interest rates (it is also necessary to watch for future changes in the monetary policy of the Bank of Japan).

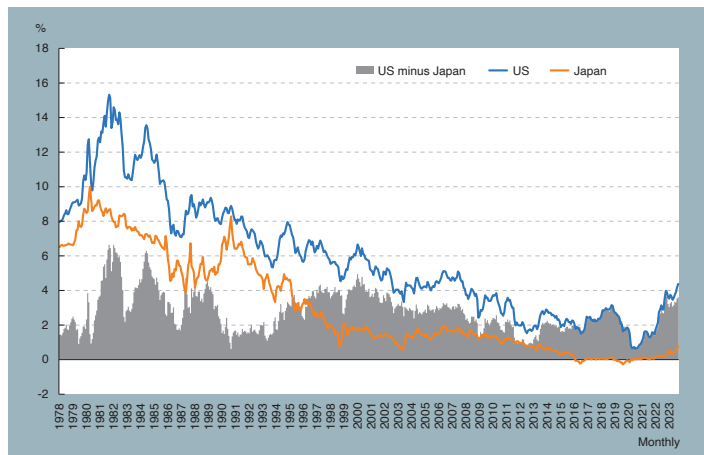
Lack of “Earning Power” of Japan Is Decisive Difference

Theoretically, yen depreciation is expected to expand exports of goods and services. The early 1980s saw just that with Japan’s exports increasing in line with this theory. The surplus of net exports based on GDP statistics (trade and services balance based on balance of payments statistics) expanded to 3.6% of nominal GDP by 1986 (Chart 3). This expansion in Japan’s trade and services surplus (and as a consequence, expansion of the deficit in the US) was behind the progression of the strong yen/weak dollar as a result of the Plaza Accord.

How is it now? On the back of active overseas production by the manufacturing industry and active business expansion of the non-manufacturing industry, net exports continue to be in deficit despite a weak yen. The cumulative amount for January to September 2023 was -8499.3 billion yen and the percentage to nominal GDP was a negative 1.95%. Instead, net income from the rest of the world, such as dividends from overseas subsidiaries, is expanding. While the yen-denominated value has expanded with the weak yen, not all of the foreign currencies earned are exchanged to yen by businesses. The difference between the mid-1980s and the present is the lack of “earning power” of Japan, and this may be behind how a significant

CHART 2

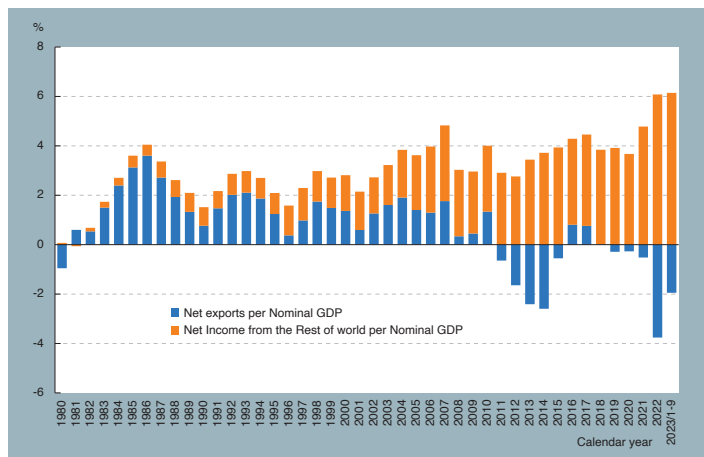
Trends in long-term government bond yields



Source: “FRED”, St. Louis Fed, Ministry of Finance of Japan

CHART 3

Trends in new exports & net income from the rest of the world



Source: Survey of national Accounts (SNA), Japan

weak yen, as viewed by PPP, has been maintained.

Note: This article was written with information obtained as of Dec. 8, 2023.

Article translated from the original Japanese by Mio Uchida.

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2015	538.1	1.6	538.0	3.7	-1.1	0.5
2016	542.1	0.8	544.4	1.2	-0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	0.6	0.9
2019	552.5	-0.4	557.9	0.2	-2.6	0.6
2020	529.6	-4.1	539.8	-3.2	-10.4	-0.2
2021	543.2	2.6	552.6	2.4	5.4	-0.2
2022	548.4	1.0	559.7	1.3	-0.1	2.3
2022/4th Qtr.	550.7	0.2	567.4	1.7	-1.7	3.8
2023/1st Qtr.	557.4	1.2	580.1	2.2	-1.8	3.5
2nd Qtr.	562.3	0.9	595.1	2.6	1.4	3.2
3rd Qtr.	558.2	-0.7	595.0	0.0	-1.2	3.0
2023/March	—	—	—	—	0.3	3.1
April	—	—	—	—	0.7	3.4
May	—	—	—	—	-2.2	3.2
June	—	—	—	—	2.4	3.3
July	—	—	—	—	-1.8	3.1
Aug.	—	—	—	—	-0.7	3.1
Sep.	—	—	—	—	0.5	2.8
Dec.	—	—	—	—	1.3	2.9
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2022/4th Qtr.	26.6	18.7	32.4	34.4	5.2	28.1	3.2	33.2	2.6	29.0
2023/1st Qtr.	23.0	4.8	28.2	10.8	4.4	11.4	2.9	12.0	2.3	10.5
2nd Qtr.	24.3	1.6	26.1	-8.8	4.8	10.6	2.7	-0.5	2.6	14.3
3rd Qtr.	25.9	1.1	26.9	-16.1	5.3	10.7	2.9	-11.1	2.7	12.7
2023/March	8.8	4.3	9.6	7.1	1.7	9.4	1.0	9.5	0.9	5.1
April	8.3	2.6	8.7	-2.7	1.7	10.5	0.9	0.8	0.9	11.8
May	7.3	0.6	8.7	-10.2	1.4	9.4	0.9	2.1	0.8	16.6
June	8.7	1.5	8.7	-13.1	1.7	11.7	0.9	-4.2	0.9	15.0
July	8.7	-0.3	8.8	-14.1	1.8	13.5	0.9	-11.5	0.9	12.4
Aug.	8.0	-0.8	8.9	-17.6	1.6	5.1	1.0	-9.5	0.8	12.7
Sep.	9.2	4.3	9.1	-16.5	1.9	13.0	0.9	-12.4	0.9	12.9
Dec.	9.1	1.6	9.8	-12.5	1.9	8.5	1.0	-4.4	0.9	8.9
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.7	10.7	131.4
2022/4th Qtr.	2.9	1.35	2.5	3.0	-4.6	1.6	141.4
2023/1st Qtr.	0.9	1.34	2.6	2.6	-4.2	2.4	132.3
2nd Qtr.	2.0	1.31	2.6	2.6	-1.1	5.2	137.4
3rd Qtr.	0.9	1.29	2.6	2.4	-0.3	7.5	144.5
2023/March	1.3	1.32	2.8	2.5	-0.5	2.2	133.9
April	0.8	1.32	2.6	2.6	-0.2	1.9	133.4
May	2.9	1.31	2.6	2.6	-1.2	1.9	137.4
June	2.3	1.30	2.5	2.6	0.3	1.4	141.3
July	1.1	1.29	2.7	2.5	0.1	2.6	141.2
Aug.	0.8	1.29	2.7	2.5	-0.7	2.1	144.7
Sep.	0.6	1.29	2.6	2.4	0.3	2.7	147.7
Dec.	1.5	1.30	2.5	2.4	-0.5	2.6	149.6
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	20.5	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2022/4th Qtr.	3.2	29.2	9.5	16.1	7.8	35.9	5.0	1.4	6.7	20.4
2023/1st Qtr.	2.6	-2.0	8.4	2.9	7.1	14.1	3.8	-11.3	6.0	8.8
2nd Qtr.	2.9	-2.0	8.4	-8.4	6.5	-5.3	4.3	-6.0	5.8	-1.6
3rd Qtr.	2.9	6.9	8.7	-8.1	6.8	-11.7	4.6	-10.2	6.0	-10.3
2023/March	0.9	-6.4	3.1	2.5	2.4	8.7	1.6	-7.7	2.1	12.3
April	1.0	-3.3	2.8	-8.0	2.1	-5.6	1.4	-2.9	1.9	14.8
May	0.9	-3.0	2.6	-10.4	2.1	-7.5	1.3	-3.4	1.9	-5.9
June	0.9	0.4	3.0	-7.0	2.3	-2.8	1.5	-10.9	2.0	-10.2
July	1.0	20.8	2.9	-13.2	2.3	-9.6	1.5	-13.4	1.9	-14.1
Aug.	0.9	9.6	2.7	-7.6	2.3	-13.5	1.4	-11.0	1.9	-12.0
Sep.	1.0	-6.2	3.1	-3.3	2.3	-11.9	1.6	-6.2	2.2	-4.9
Dec.	1.0	-5.6	3.0	-6.1	2.4	-11.2	1.7	-4.0	2.3	-2.9
Sources	"Trade Statistics of Japan", Ministry of Finance									