

US tariffs doing real damage to Japanese profit margins

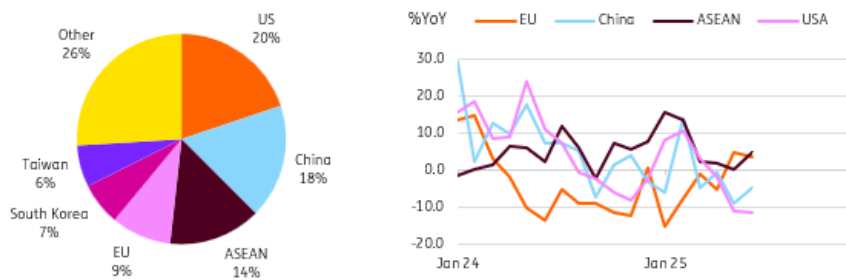
An increase in Japanese exports in the first half of 2025 isn't shielding profit margins from tariff pain. Exports spiked in the first quarter amid front-loading, but it led to a significant technical correction in the second quarter. Cutting prices might have helped absorb some tariff impacts, but it's sacrificing profit margins



Strong exports to EU and ASEAN offset US, China drop

Japanese exports rose modestly in the first half of 2025 amid strong growth in shipments to the EU and Association of Southeast Asian Nations (ASEAN) economies. At the end of 2024, the US (20%), China (18%), ASEAN (14%), and the EU (9%) were Japan's top trading partners. This year, we've seen strong export growth to ASEAN and the EU, while shipments to the US and China declined. By item, chemicals (1.6%), machinery (3.4%), electrical machinery (1.6%), and motor vehicles (1.4%) all rose. Yet, iron, steel and auto part exports dropped quite sharply by 10.2% and 6.3%, respectively.

Exports to the EU and ASEAN rose in 1H25

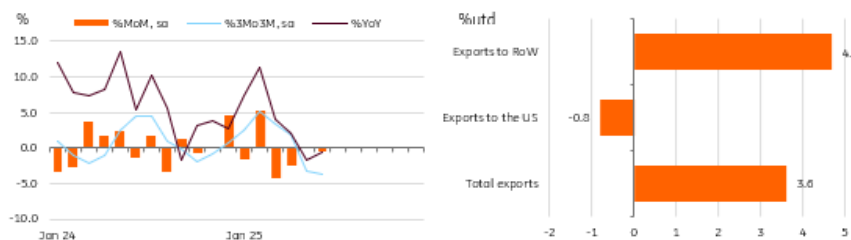


Source: Source: CEIC, ING

Japan exports fluctuating significantly amid tariff-related noise

Exports increased by 3.6% year-to-date in the first half of the year, even as growth rates turned negative towards mid-year. We observe that US tariff-related noise created monthly volatility during the first half. This was somewhat expected, as front-loading boosted first-quarter exports but pulled forward demand that might've shown up in the second quarter. Also, we see clear weakness for exports to the US, which dropped -0.8%.

Japan exports rose in 1H25 but exports to US contracted



Source: Source: CEIC, ING

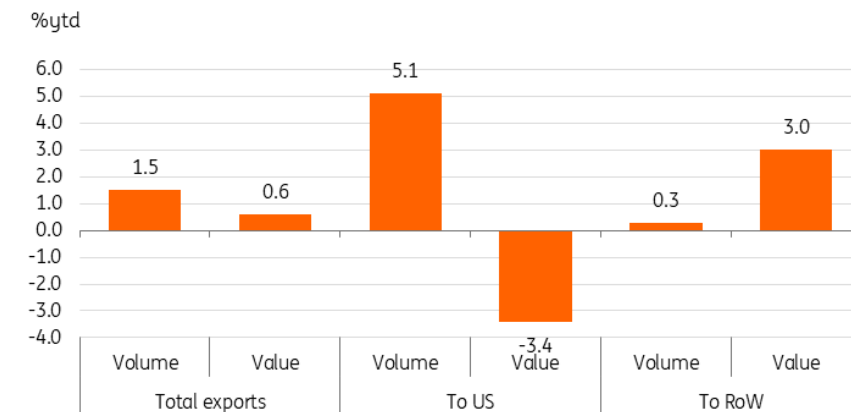
Auto exports rose in volume terms

Japan's primary export is transportation equipment, mainly cars. In 1H25, car exports increased by 0.6% in value and 1.5% in volume. In the US, volumes rose 5.1%, outpacing the rest of the world (0.3%). But values dropped 3.4% compared to a 3.0% rise elsewhere. This suggests that automakers frontloaded their products and lowered prices to offset tariffs.

With the 15% tariff deal, we believe that car exports are likely to stabilise in 2H25. But it's still uncertain whether they will continue to sacrifice profits or pass rising costs onto consumers.

We also find a similar trend of cutting prices on other exports like computers and medical products. We believe that this could threaten wage growth in the coming years. We've seen solid wage growth over the past three years, partly due to strong corporate earnings. Thus, this could cloud Japan's ability to generate sustainable wage growth.

Auto exports: value vs volume



Source: Source: CEIC, ING

Semiconductor-related exports grew strongly

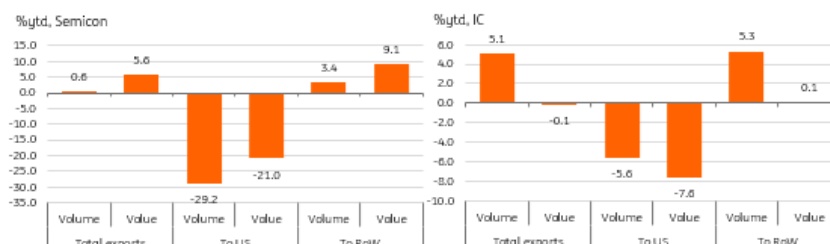
Chip-making equipment and semiconductors rose 4.3% and 5.5%, respectively. These two account for about 10% of total exports. This growth is likely due to tariff exemptions and substantial AI investments. Similar trends are seen in Taiwan, South Korea, and Malaysia.

Despite US onshoring efforts in semiconductors, it seems investment inflows haven't increased. Japan, a leader in device technology, is vital for the health of the global chip-making industry. However, exports to the US declined, while shipments to the rest of the world grew. Semiconductor exports showed a similar pattern: weak exports to the US likely result from supply chains being concentrated in Asia, rather than tariffs.

Also, Japanese exports to Taiwan decreased significantly in the second quarter, primarily because most Japanese chips are designed for general use rather than high-end applications. High-end chips are typically assembled and manufactured in Taiwan. Therefore, export trends may vary by product segment compared to other chip manufacturers.

We believe that tariff exemptions have increased global chip exports in 1H25 as companies seek to avoid possible sectoral tariffs. Today, the US announced 20% tariffs for Taiwan. We don't know the specifics on chips yet. But higher levies on Taiwan will have a broader negative impact on semiconductors globally in 2H25.

Most chip related exports should be inter-regional exports



Source: Source: CEIC, ING

Conclusion: Tariff impact hasn't yet been fully passed on to consumers

Japanese data indicate that US tariffs have had an overall negative effect on exports. The impact was particularly significant for goods facing sector-specific tariffs, such as iron, steel, and automobiles. This may present challenges for pharmaceutical and semiconductor exports if tariffs are imposed on these items in the future. For cars, computers, and medical products, Japanese exporters appeared to have offset some tariff impacts by reducing prices. But they may eventually pass costs on to consumers, potentially causing delayed price pressures in the US.

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