

Global Economy Grapples With Japan Earthquake Fallout

By Anna Reitman

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Japan's economy faces a severe, but temporary, stress test while the country struggles to deal with the damage of the Tohoku earthquake.

Japan's economy is expected to return to a moderate recovery after a drop in production as a result of the Tohoku earthquake, according to the Bank of Japan's (BoJ) monthly report of recent economic and financial developments released today.

"The damage of the earthquake has been geographically widespread, and thus, for the time being, production is likely to decline and there is also concern that the sentiment of firms and households might deteriorate," the BoJ said in the English translation of the report.

Heartbreaking stories of dignified human perseverance and survival continue to pour out of Japan since the 9.0 magnitude earthquake last Friday. The number of confirmed dead and missing now stands at nearly 13,000.

In the five days since, a tired population faces aftershocks, a volcanic eruption, and scarce food and fuel supplies in the most affected areas along the Pacific Coast. And snow and freezing weather is worsening conditions for the 450,000 people sleeping in temporary shelters after the devastating disaster.

Severe electricity disruptions have prompted the Japanese Ministry of Economy, Trade and Industry (METI) to request industries in affected areas to save energy amid scheduled blackouts.

Nuclear Energy Supply Disruptions Will Require Alternative Fuels

Nuclear technicians are still struggling to contain the damage of radiation leaks after reactor explosions and fires at the Fukushima nuclear complex around 200 kilometres north of the capital Tokyo.

Severe disruptions as a result of crippled nuclear plants - estimated to have affected 25 percent of Japan's total nuclear generation - are expected to drive a lasting increase in alternative fuel imports, particularly natural gas, said investment bank Goldman Sachs today in its *Natural Gas Weekly* report.

"These plants will need a significant amount of time for repairs, testing, and permitting before they can return to full commercial service. This implies a long-term effect on demand for alternative fuels, namely natural gas, fuel oil, and coal," writes Goldman Sachs' analysts in the report.

Bank of Japan Increases Asset Purchasing Programme

To stabilise money markets during the continuing crisis, the Bank of Japan injected 26.5 trillion yen (\$325.8 bn) over the last three days.

Japan's economy was hit especially hard by the global recession, but recovered quickly with growth at 4.5 percent in 2010. Fiscal stimulus - at about one percent of the country's \$4.3 trillion GDP - was introduced by the government late last year in response to the country's appreciating currency, according to a release from the London-based think tank National Institute of Economic and Social Research.

Japan's GDP to debt ratio is at just over 200 and the central bank has held interest rates at near zero percent for years, prompting speculation over how much room there is to further loosen monetary policy.

Meanwhile, panic selling on the Tokyo Stock Exchange (TSE) this week prompted President Atsushi Saito to release a statement pleading for calm today.

"Overseas media still appreciate the potential power of the Japanese economy, even after the recent earthquake," he writes, adding that the trend in the stock market over the last two days showed foreign investors were net buyers.

TSE's market cap for the largest companies rose \$222 billion today after a two-day plunge wiped out \$626 billion, according to Reuters, however, recent updates show that Wednesday's gains may retreat over Japan's nuclear crisis and a rising yen.

Early Reports of Damage to Japanese Steelmaking Industry “Exaggerated”

Industry participants expect impact on steel producers' operations, but the disruption may be minimal, says global editor Roger Manser of Steel Business Briefing in a phone interview on March 15.

Japan produced around eight percent of global steel at 110 million tonnes in 2010. The country exports around 40 percent of finished product and imports all of its raw materials.

Hardest hit are construction-grade steelmakers in Northern Japan - producers that use electricity and mostly serve the Japanese domestic market. However, Manser notes that any slack can easily be picked up by spare capacity in South Korea, already a significant exporter to Japan and China.

"It is not just a number's game," says Manser. "You have to think about the kind of products. There will be an impact, but early reports are exaggerated."

Integrated mills – those that use iron ore and coking coal for steel production and account for two-thirds of the industry – have been spared major direct impact, according to investigations by Steel Business Briefing.

Japanese integrated mills make high quality flat products largely used in the automotive sector, and although port closures are sure to disrupt exports to plants in other countries, substitution is not necessarily an option for car manufacturers, explains Manser.

Toyota is in the process of thoroughly assessing operations and confirmed that its 12 wholly-owned corporation plants in Japan have not been damaged, although subsidiary companies producing parts in some models have had minimal damage, according to spokesman Javier Moreno in a phone interview on March 15.

"We are still trying to grasp how big of an impact it will have on our operations, we understand the earthquake and tsunami will have an impact – what we don't know yet is what that will look like globally. We remain cautiously optimistic that it will remain limited," he said, adding that the company's priority remains relief efforts in the affected regions.

Looking past the near-term, some analysts predict that Japan will have a higher demand for world steel as a result of impending reconstruction efforts.

New-York based steel analyst **Michael Locker of Locker Associates** explains that in the medium-term, there will be a demand increase to rebuild. "An economy has to be rebuilt - infrastructure, housing, that consumes a lot of steel," he said in a phone interview on March 15.