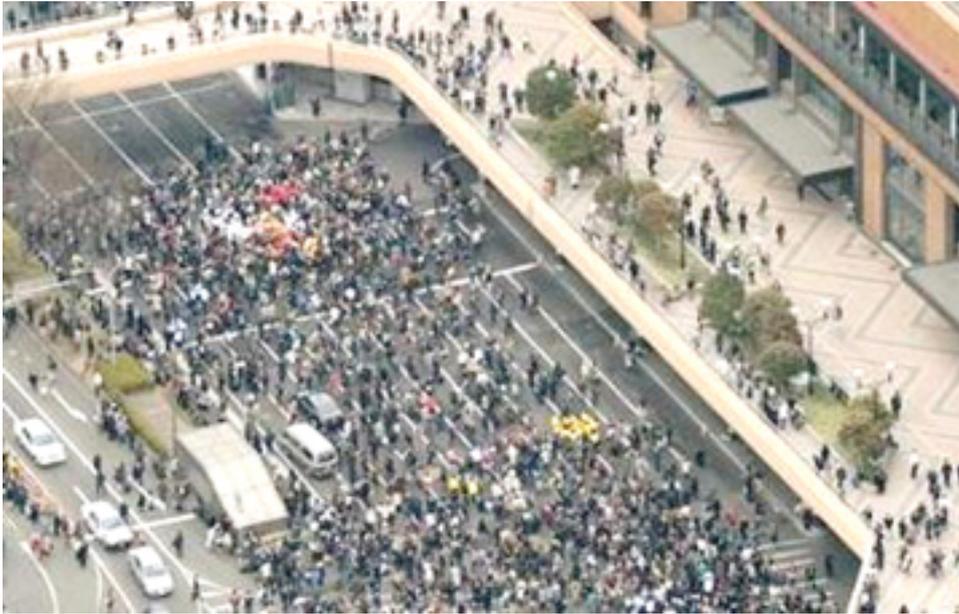


Japan tsunami spares major economic zones

Written by Howard Schneider
Friday, 11 March 2011 19:31



People evacuate to a street following an earthquake in Sendai, northeastern Japan March 11, 2011. A massive 8.9 magnitude quake hit northeast Japan on Friday, causing many injuries, fires and a ten-metre (33-ft) tsunami along parts of the country's coastline. There were several strong aftershocks and a warning of a 10-metre tsunami following the quake, which also caused buildings to shake violently in the capital Tokyo. A tsunami warning has been issued for the entire Pacific basin except for the mainland United States and Canada following a huge earthquake that hit Japan on Friday, the Pacific Tsunami Warning Center said. (Reuters/KYODO)

The earthquake and tsunami in Japan on Friday struck an area that accounts for only a small fraction of the country's economic activity, but damage could still run into the tens of billions of dollars, according to analysts trying to assess the impact of the disaster.

Hard-hit Miyagi Prefecture is the source of only 1.7 percent of Japan's gross domestic product, and damage to industrial and commercial facilities in the area appeared to be limited.

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Still, the earthquake and subsequent flood struck at a time when Japan is struggling to pull itself out of recession and facing pressure to curb the heaviest public debt load in the world.

Any downturn in economic activity resulting from the disaster, at least in the short term, could undercut Japan's tentative recovery, analysts said, and could force the country to delay efforts to reduce its debt and annual deficits while it rebuilds.

"The timing of the disaster could not have been much worse," according to an analysis written by Japanese and other international economists at London-based Capital Economics.

The Japanese government is already divided over how to tame Japan's debt.

So, the economists warned, "the greater the social and economic damage, the larger the threat to the government's ability and willingness to ward off a fiscal crisis."

The Bank of Japan announced Friday that it would accelerate a meeting scheduled for next week and ensure that banks and the financial system have the funds needed to conduct business.

The human toll and the amount of property destruction are so far unknown, and damage at a nuclear power plant remained a concern.

Millions of homes were without power, and public transportation systems in major cities including Tokyo were shut down.

A host of global companies — Honda, Toyota, Canon, Panasonic and others — suspended at least some operations while they assessed damage to plants in the northeastern parts of the country.

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An extended shutdown could be devastating for Japan's export-oriented economy.

But unlike with the earthquake that struck heavily industrialized Kobe, Japan, in 1995, analysts said they did not expect Friday's events to dramatically undercut Japan's industrial output or cause damage approaching the \$100 billion in destruction Kobe suffered.

Damage to manufacturing facilities and offices "appears limited" at this point, wrote Dan Ryan, an analyst with the consulting firm IHS Global Insight.

European-based analysts with Japan's Nomura bank noted in a conference call that the extensive damage caused by the Kobe earthquake, which knocked out an equivalent of 2.5 percent of Japan's gross domestic product, closed major ports and undercut manufacturing.

"This has not been concentrated in urban areas," said Nomura economist Peter Westaway.

Chris Scicluna, deputy head of economics for Japan's Daiwa Capital Markets, wrote: "The key ports for Japanese trade are all further south from the most affected area. The overall disruption to Japan's external trade should be smaller" than the Kobe disaster.

The hardest-hit urban area was Sendai, home to about 1 million people.

The region hosts an extensive agriculture and fishing industry, and television images of homes being inundated and commercial boats being washed ashore suggest that major reconstruction will be needed.

But agricultural markets took the event in stride.

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Prices of many major commodities, including rice, actually fell, indicating that investors did not think Japanese agricultural production would be significantly disrupted.

Tokyo's main Nikkei index lost 1.7 percent Friday, but the earthquake struck with only a half-hour left in the trading day and analysts said steeper losses are likely when trading resumes at the start of the week.

As with most natural disasters, analysts noted that any immediate downturn is likely to be more than offset by new investment and construction as people rebuild.

Nomura economist Takuma Ikeda said earthquake-related government investment in the Kobe region was ultimately more than the estimated damage, helping provide a long-run economic boost.

Global insurance companies will also contribute to the rebuilding.

While the amount of their exposure is not known, Nomura analysts pointed to the sharp drop in major insurance company stocks Friday and an estimated \$5 billion loss in their market capital.