

## **What we Know So Far About the Tsunami's Global Impact**

You have undoubtedly heard about the recent tragedy in Japan. The country is doing its best to pull itself out of the chaos created by a massive earthquake and the ensuing tsunami. With tens of thousands left homeless and thousands others presumed dead or missing, it is easy to understand why this has captured the world's attention. If you can bear to look, here is some remarkable footage of the tsunami from a Japanese station:

<http://www.youtube.com/watch?v=TRDpTEjumdo>

Japanese markets have obviously been affected by the disaster. Japanese stocks initially only dropped 1.72% on Friday. This was quickly followed by a 6.2% drop on Monday and a 10.55% drop on Tuesday on fears of meltdowns at nuclear reactors exposing some of the population to intense radiation. The Bank of Japan has injected 21.8 trillion yen (\$266.9 billion) into the Japanese economy in an attempt to ease any financial devastation wreaked by the crisis.

The company that is likely to be most affected is Tokyo Electric Power Company which has had to close power plants and is struggling to fight against three potential core meltdowns at different nuclear facilities. The world's largest car maker, Toyota, has disclosed intentions to close 12 plants throughout the country until at least Wednesday. These closures are estimated to cost the company \$72 million a day in losses.

World markets have also been affected by the tragedy, though not in ways that many may have expected. Crude oil prices actually fell 3% on Friday and fell further on Monday as global demand is expected to be temporarily depressed due to the world's third largest oil consuming economy coming to a grinding halt. Long-term prices will likely be higher as the country may seek more traditional oil and gas alternatives to nuclear energy in the future. Japan currently generates about a third of its power through nuclear facilities and about 20% of those facilities are off-line due to the earthquake. On top of the potential increase in demand for oil, we are still facing lower supplies from Libya as many of their oil fields are no longer exporting.

It is uncertain as to how this disaster will continue to affect the rest of the globe. On Monday, U.S. shares fell by 1% while European shares were 1.5% lower even while several international economists announced that they believed the damage was relatively concentrated and that the traditionally high-saving Japanese people would likely be able to rebuild quickly and efficiently. Currently, Japan holds about 10% of U.S. government debt and any effort to repatriate those funds to pay for the stimulus or clean-up could cause rates to rise here at home.

Some have speculated that the Japanese auto industry may have to stop shipments of the Toyota Yaris, Scion xD, Scion xB, Honda CR-V, Honda Accord, Honda Fit, Acura TSX, and Acura RL temporarily. These shortages may go unnoticed, at least in the short-term, as auto dealers typically carry a month of inventory. The bigger picture is whether these auto makers

will be able to patch the new holes in their supply chain as many parts suppliers' factories were damaged or destroyed. Models constructed in the U.S. may also suffer from the shortage of parts.

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