

Japan's economy after the quake

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March 23rd 2011



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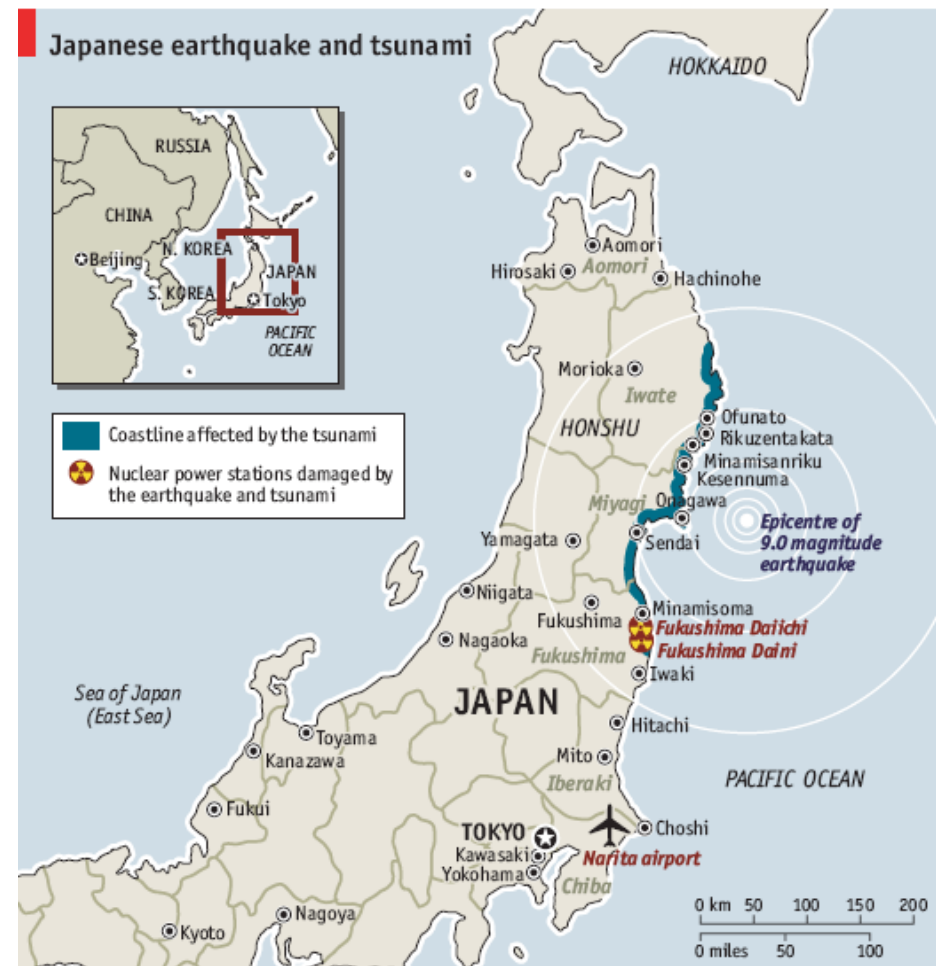
Today's Presenter



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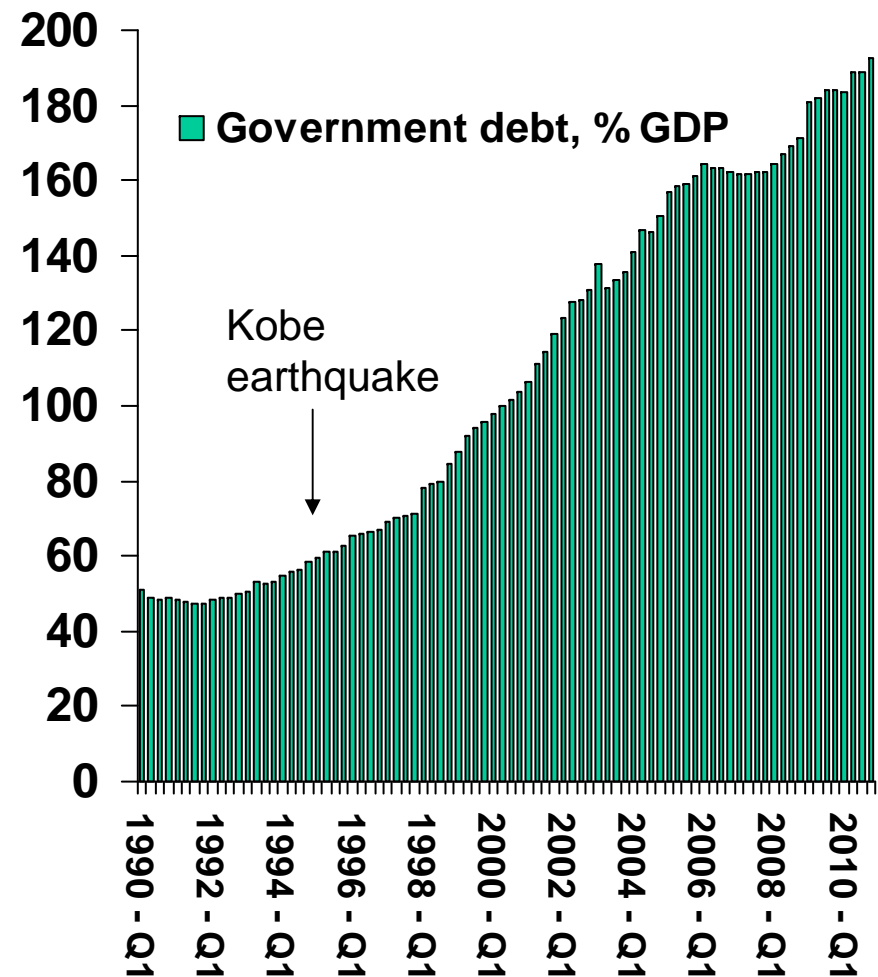
Japan's twin disasters: What we know

- The human cost
- Many companies (Sony, Toyota) have shut factories in affected area
- As much as 10% of national power production temporarily down
- Rolling blackouts will continue until end-April



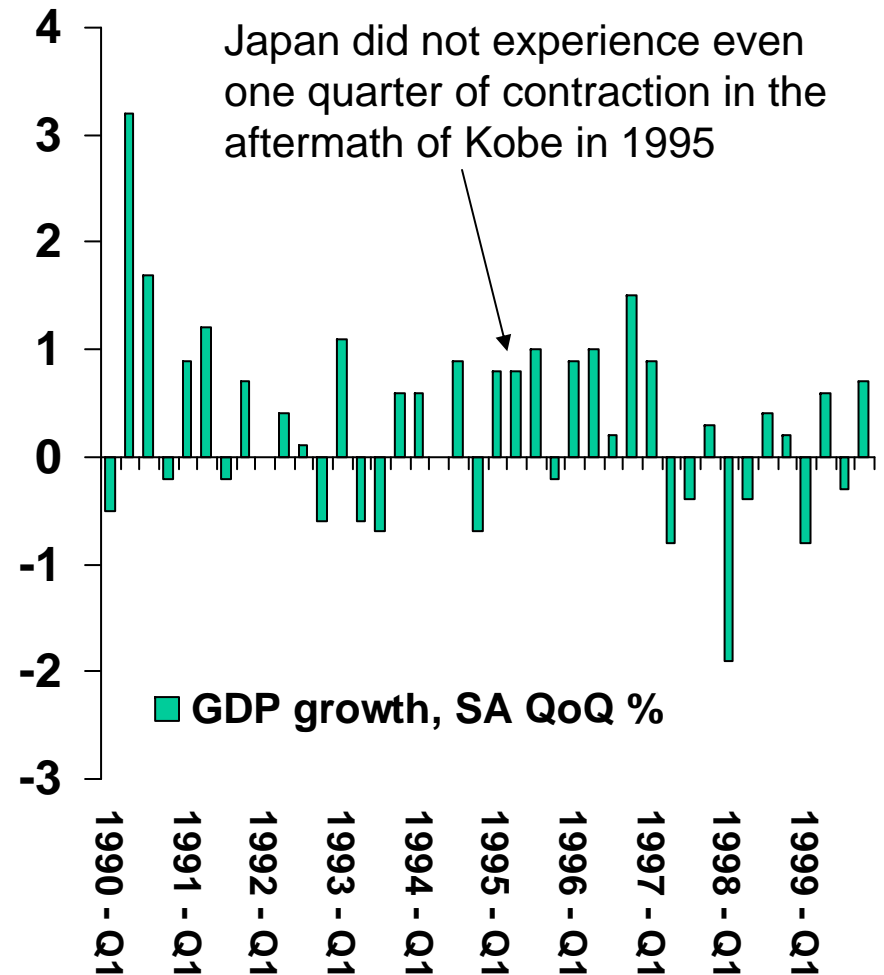
Japan's twin disasters: What we know

- Sendai accounts for half as much economic activity as area affected by Kobe in 1995
- Supply chains nationwide disrupted
- Government debt position (200% of GDP) worse now than in '95 (79%)
- Volatility in global financial markets



Japan's twin disasters: What we think we know

- Economy will likely contract in Q2
- Reconstruction (est US\$200bn) could start quickly
- Slowdown could be reversed before end of the year
- Our current forecast? GDP +1.4%, down from 1.6%; better result in '12
- Commodity prices? Yen? To come

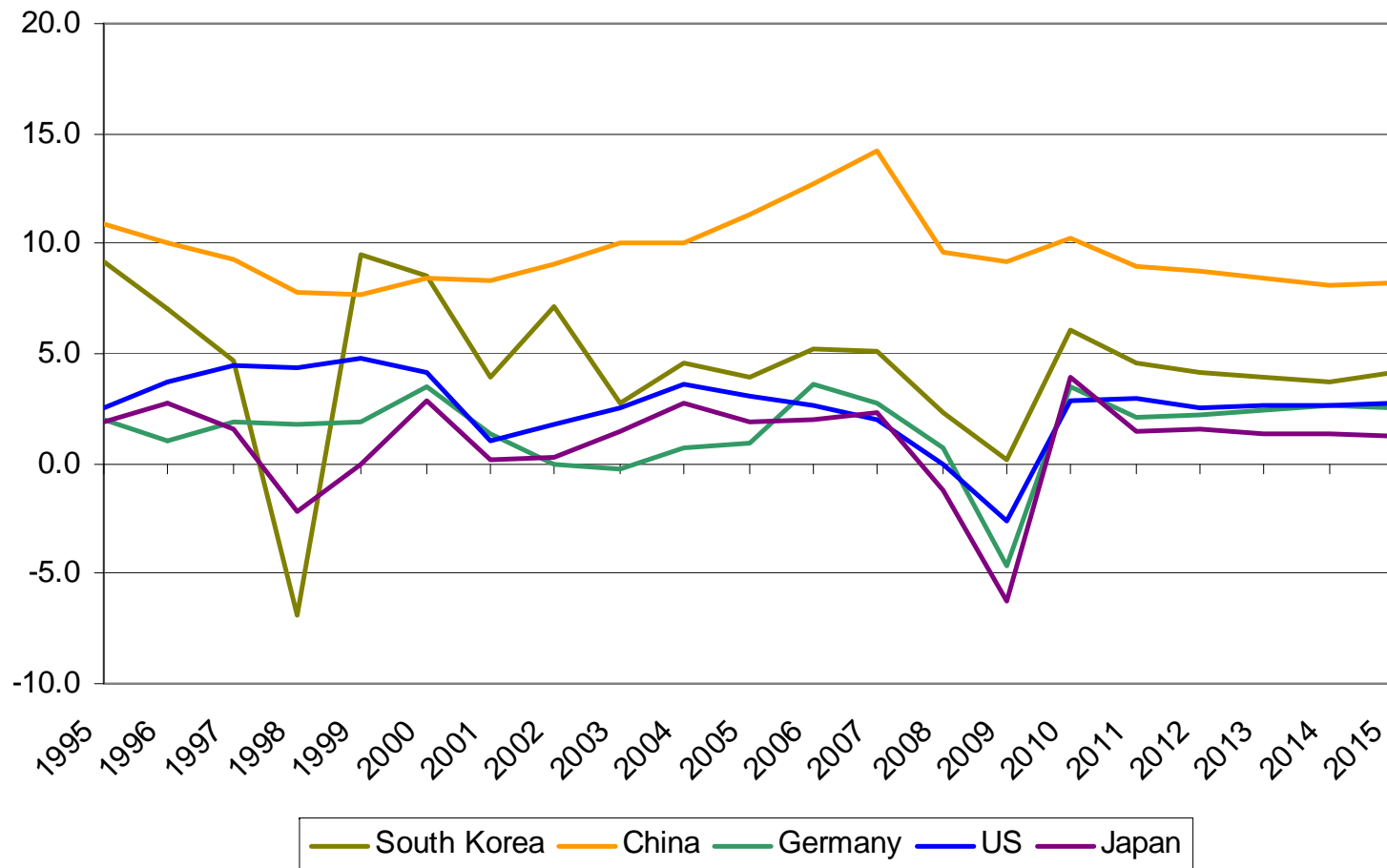


Japan's twin disasters: What we think we know

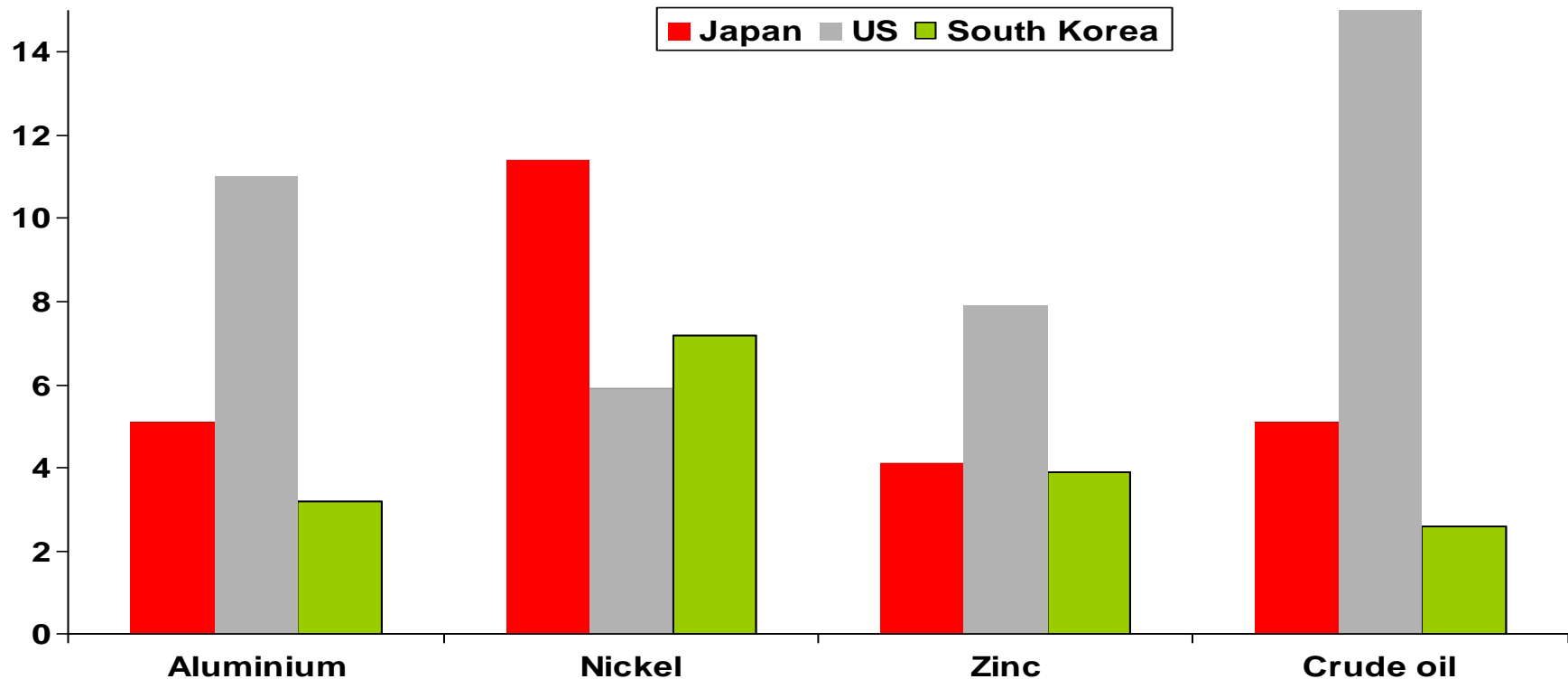
- Exports to China, US, Southeast Asia could be affected
- Imports from same places at risk
- Replacement suppliers may jump-in
- Japan may repatriate capital
- Less demand for oil, commodities?
- Commodity prices? Yen? To come



Japan's growth vs. other major economies



Japan is a major consumer of commodities



% of global consumption (2009)

Source: Economist Intelligence Unit.

Japan's twin disasters: What we know we don't know

- Will the nuclear crisis be contained?
 - If it is not, or if Tokyo is drawn in, all bets on economic impact are off



Scenarios for the Fukushima Daiichi nuclear plant: Benign

- **Benign scenario: 70%**
- Worries about radiation poisoning have triggered panic-buying of supplies, prolonged office closures
- Economic activity in areas of Japan that did not sustain serious physical damage could return to normal fairly



* Assigned EIU probability is subject to change as events continue to unfold.

Scenarios for the Fukushima Daiichi nuclear plant: Persistent uncertainty

- **Persistent uncertainty scenario: 27%**
- Even if the latest emergency measures succeed, as yet unforeseen problems could surface in the other reactors
- This, in turn, would delay the reconstruction-driven up-tick in the rate of economic growth



* Assigned EIU probability is subject to change as events continue to unfold.

Scenarios for the Fukushima Daiichi nuclear plant: Worse-case

- **Worse-case scenario: 3%**
- The outlook would deteriorate dramatically in the worst-case scenario of a nuclear meltdown accompanied by widespread contamination
- The economic costs of the disaster would multiply accordingly

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Thank you.

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