



# The Life Financial Group, Inc.

978 Ben Franklin Hwy. (Route 422 east) Douglassville, PA 19518  
(610) 385-4500 FAX (610) 385-6868 (800) 688-5800

*Wealth Management from a Biblical World View since 1978*

[www.TheLIFEGroup.org](http://www.TheLIFEGroup.org)

Roy L. Russell, Certified Financial Planner  
J Jeremy Ehst, Timothy Russell and Mark Magruder, Advisors



## THE GLOBAL IMPACT OF JAPAN'S CRISIS *How hard will this hit the world economy?*

The task of rebuilding will soon begin. Recently, power was partly restored to the troubled Fukushima Daiichi nuclear power plant and the outlook in Japan became slightly less negative, with prospects for stabilization improving. Its devastated northeastern coastal region (and by extension, the country) are now focusing on the long, slow recovery from this triple crisis.

The World Bank estimates the loss to Japan's economy at \$235 billion; Japan's economy minister Kaoru Yosano believes the cost of rebuilding could surpass \$250 billion. While Nissan, Honda and Toyota plants are restarting operations, it will likely be several weeks before the nation's energy and transportation grids are up to speed, which will hinder Japan's exports and some of our imports (as an example, Japan eats 30% of the pork products we ship overseas).<sup>1,2,3</sup>

**What will the near-term impact be for the world economy?** While some analysts are quite pessimistic (Morgan Stanley now tracks U.S. first quarter GDP at an estimate of 2.9% rather than the previous 4.5%), others beg to differ. As Moody's Analytics chief economist Mark Zandi noted recently, "Japan is still important but it's a much smaller piece of the global economic pie and much less important to the global supply chain than it has been historically."<sup>3,4</sup>

According to Moody's, Japan's economy contributed virtually nothing to Asia's growth during 2005-2010. UBS research indicates that China now accounts for more than 20% of the world's growth, and that American consumers currently have twice the global economic clout of Japan.<sup>4</sup>

Wells Fargo senior economist Mark Vitner forecast only mild impact to America at a March 21 Florida chapter meeting of the Association for Corporate Growth; he commented that U.S. GDP might simply be reduced by .1% in 2Q 2011 and .2% in 3Q 2011. The World Bank sees growth necessarily accelerating in Japan and neighboring East Asia nations in the second half of 2012.<sup>3,5</sup>

While Moody's noted increasing downside risks to Japan's economy in late March, it did not see an immediate reason to adjust the nation's Aa2 credit rating, citing that the country possessed "the fiscal wherewithal and creditworthiness" to ride out the

effect of the disasters. This show of confidence comes even though Japan has a public debt of \$10 trillion (twice the size of its economy). Japan's GDP was -1.3% in 4Q 2010.<sup>6</sup>

**The G7 step up.** On March 18, the central banks of the Group of Seven leading world economies agreed to an unusual move: they weakened the yen, which had been trading at an all-time high versus the dollar (Y76.25 on March 16). By March 21, the dollar was trading at Y81.02. The move was designed to aid Japanese stocks and ease the pressure on Japan's manufacturers, so that Japan's exported goods and services can remain affordable and competitive in the near term.<sup>7</sup>

**Beyond the second quarter, what might the future hold?** We have seen a fairly consistent pattern after economically crippling disasters. Following a short-term drop in output resulting from disrupted and destructed factories and transportation networks, there comes a wave of reconstruction that functions like an economic stimulus. This lessens the hit to the world economy as it boosts the home economy. Assuming the nuclear threat is greatly reduced in Japan in the next few weeks, we could see this economic pattern prove true again.

Berkshire Hathaway CEO Warren Buffett sees a "buying opportunity" emerging from the crisis: "It'll take some time to rebuild, but it will not change the [economic] future of Japan," he told reporters in South Korea. Buffett said that if he owned Japanese equities, he wouldn't sell them. Let's hope the rest of the world shares his optimism.<sup>8</sup>

#### Citations.

- 1 - [online.wsj.com/article/SB10001424052748703858404576214271676234818.html](http://online.wsj.com/article/SB10001424052748703858404576214271676234818.html) [3/21/11]
- 2 - [reuters.com/article/2011/03/21/japan-economy-budget-idUSL3E7EG1SG20110321](http://reuters.com/article/2011/03/21/japan-economy-budget-idUSL3E7EG1SG20110321) [3/21/11]
- 3 - [nytimes.com/2011/03/21/business/global/21econ.html](http://nytimes.com/2011/03/21/business/global/21econ.html) [3/21/11]
- 4 - [seattletimes.nwsourc.com/html/business/technology/2014548741\\_apasjapanearthquakeasiaeconomy.html](http://seattletimes.nwsourc.com/html/business/technology/2014548741_apasjapanearthquakeasiaeconomy.html) [3/20/11]
- 5 - [bizjournals.com/jacksonville/news/2011/03/18/vitner-japan-disasters-wont-hurt.html](http://bizjournals.com/jacksonville/news/2011/03/18/vitner-japan-disasters-wont-hurt.html) [3/18/11]
- 6 - [reuters.com/article/2011/03/21/us-japan-moodys-idUSTRE72K13K20110321/](http://reuters.com/article/2011/03/21/us-japan-moodys-idUSTRE72K13K20110321/) [3/21/11]
- 7 - [online.wsj.com/article/BT-CO-20110321-711466.html](http://online.wsj.com/article/BT-CO-20110321-711466.html) [3/21/11]
- 8 - [bloomberg.com/news/2011-03-21/buffett-won-t-sell-japan-shares-as-earthquake-creates-buying-opportunity-.html](http://bloomberg.com/news/2011-03-21/buffett-won-t-sell-japan-shares-as-earthquake-creates-buying-opportunity-.html) [3/21/11]

This material was prepared and written by Peter Montoya Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information should not be construed as investment, tax or legal advice. The publisher is not engaged in rendering legal, accounting or other professional services. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. If assistance or further information is needed, the reader is advised to engage the services of a competent professional.