

# Japan's post-disaster economy faces electric shock

AFP, Tokyo

Japan's economy, the world's third-largest, has been in trouble for nearly a generation, but nothing prepared it for the brutal impact of power shortages following the March 11 disaster. The 9.0-magnitude earthquake and subsequent tsunami knocked out a sizable portion of the nation's electricity supply, creating a ripple effect that has spread throughout the economy and leaving Japan with a new kind of problem.

"Over the past twenty years, the primary cause of economic downturns has been deficient aggregate demand," BNP Paribas chief economist Ryutaro Kono said in a research note.

"The economic contraction expected now, however, will be largely due to severe supply constraints."

Put simply, the main challenge now facing Japan is getting companies to produce more, rather than cajoling consumers to spend.

Central to that conundrum lies the power company most severely hit by the disaster, Tokyo Electric Power Co. (TEPCO) -- a key cog in Japan's vast economic machine.

TEPCO is battling an atomic emergency at its Fukushima Daiichi plant where engineers are working to cool overheating nuclear reactors leaking radiation into the atmosphere.

By paralysing sections of TEPCO, the twin disasters have shut down major parts of the economy, according to Hiroshi



**City lights and billboards are turned off at Tokyo's Ginza fashion district. Japan's economy, the world's third-largest, has been in trouble for nearly a generation, but nothing prepared it for the electric shock dealt by the March 11 disaster.**

Watanabe, senior economist at Daiwa Institute of Research.

"The area covered by TEPCO will experience roughly 20-percent electricity shortage this summer. This will put a significant downward pressure on the economy," he told AFP.

"The economy will go through a stagnant period. We believe negative growth will continue until the July-September quarter."

The most serious effect will be felt among electricity-gulping sectors such as paper, cement and metal production, he said.

One of the world's biggest power companies, before the

quake TEPCO's production capacity stood at 64.5 million kilowatts. But the quake and tsunami knocked it down to 31.0 million kw.

The utility has used retired thermal and other plants to bring the total capacity up to around 40.0 million kilowatts.

It hopes to boost the total capacity to 46.5 million kw by the end of July.

But problems may sweep across the economy.

If the auto sector experiences significant slowdown, that could spill over to other sectors, such as machinery, according to Watanabe.

And in a heavily interdependent economy such as Japan's, no region or industry will avoid the shock, not just from reduced power supply, but from a decline in available parts.

"The shutdown of factory activity in Kanto and Tohoku (regions) has greatly disrupted the supply chains for production activity in other parts of the country," said Kono of BNP Paribas.

Sharp Corp. Friday said it was reducing its liquid crystal display output following the earthquake.

"We are adjusting the production flexibly since the earthquake in Japan is affecting the supply and demand for LCDs for televi-

sions," a company spokeswoman told Dow Jones Newswires.

"We would like to determine the reduction of LCD production carefully looking at the length of the earthquake's impact."

Shortages have occurred in unexpected places -- fears over water contamination have pushed up demand for bottled mineral water, leaving the beverage industry scrambling for caps for plastic bottles.

"We haven't been able to get the amount (of caps) we want. This is now having a negative impact on our efforts to boost production," an unnamed official of a major drinks maker told the Yomiuri Shimbun.

Under pressure to prevent the economy seizing up, Japan's government said Friday it will set a target for companies to reduce electricity consumption by up to 25 percent, depending on the size of the business.

The move is designed to help the country avert a programme of rolling blackouts which will be needed to offset expected power shortages during the summer when millions of air conditioners will sap scarce resources.

But the measure has not convinced economists that problems ahead have been surmounted.

"It is hard to say when the power bottleneck affecting the Kanto region, which accounts for 40 percent of the Japanese economy, will be resolved," said Kono.

"The shortage will likely become acute again from mid-June, as demand picks up alongside the onset of summer temperatures."

## Britain's ailing economy wins royal boost

AFP, London

Britons will through pubs, buy gifts and host parties thanks to the royal wedding, and the tourism sector is set to gain, but the extra spending is unlikely to reignite Britain's economy, analysts warn.

Retail analysts estimate up to £620 million (707 million euros, \$1.0 billion) may be spent in Britain as a direct result of Prince William's marriage to girlfriend Kate Middleton at Westminster Abbey on April 29.

Britons are snapping up wedding memorabilia ahead of Britain's biggest royal wedding since 1981, when William's mother Diana married heir-to-the-throne Prince Charles.

When William ties the knot with Middleton, pubs across the nation are expected to be bustling with customers from home and abroad feasting on food and drink as they watch the events unfold on television.

Britain's tourism industry may also win a longer-lasting benefit, as the wedding advertises London to the world via millions of TV sets around the globe.

Some analysts caution that the boost to spending will be both modest and temporary and hardly likely to bring about a change of fortune for Britain's flagging economy, which shrank 0.5 percent in the final quarter of 2010.

And the benefits of wedding-related spending will be offset by the lost production due to the extra public holiday granted by the government for the wedding day.

Howard Archer, chief UK economist at research group IHS Global Insight, said the wedding may provide "some modest feel good factor but it will likely prove a fleeting impact."

"There may also be a modest boost in terms of sales of wedding-related souvenirs and food and alcohol for street parties," he told AFP.

"However, there will be a hit to the economy from the fact that it is an extra day's public holiday."

## Australia flags tough budget due to floods

AFP, Sydney

Massive floods that hit Australia this year helped slash US\$4.75 billion from national revenues, Treasurer Wayne Swan said Sunday as the government promised a tough and potentially unpopular budget.

The centre-left Labor government of Prime Minister Julia Gillard has already signalled spending cuts in the May 10 budget, in part due to the unprecedented floods that hit coal exports and destroyed key transport infrastructure.

Swan said the deluge which flooded much of coal-producing Queensland state and swamped farmland in Victoria, had combined with muted consumer sentiment, a strong Australian dollar and a weaker-than-expected share market recovery to force officials to revise the revenue forecasts announced in November.

"Besides the terrible hit to our communities, the floods and cyclone have

had a substantial impact on our economy and government tax receipts," Swan said in his weekly economic note.

"The summer's natural disasters, continued consumer caution, the subdued recovery in household wealth, and the higher dollar are all weighing heavily on government revenues."

Figures revealed Sunday showed that national tax collections for the first eight months of the financial year -- which begins in on July 1 in Australia -- were down some Aus\$4.5 billion (\$4.75 billion) on forecasts.

Personal income tax collections were about Aus\$1 billion lower and business tax collections some Aus\$3 billion lower than expected, Swan said.

Swan made no mention of where cuts might fall when he delivers the budget, but Finance Minister Penny Wong said the "hit on revenue" would have an impact on how the government drew up its fiscal plans.

## Most Germans in favour of Portugal bailout: poll

AFP, Berlin

A narrow majority of Germans is in favour of the EU's multi-billion-euro bailout package for crisis-hit Portugal, a poll suggested Sunday, with 90 percent believing it would not be the last.

The Emnid poll for the Bild am Sonntag weekly showed 50 percent agreed with the European Union's decision to bail out debt-ravaged Portugal to the tune of around 80 billion euros (\$115 billion).

According to the survey, 45 percent believed it was the wrong decision.

However, nine out of 10 of those polled thought that Portugal would not be the last eurozone country to fall, as speculation mounts that Spain could be the next country to need a bailout from Brussels.

Portugal last week became the third eurozone country to go cap-in-hand to European authorities after Ireland and Greece.

The latter bailout in particular was extremely unpopular in Germany, which, as the continent's top economy, pays the most into the bailout pot.

Polls at the time showed Germans were strongly opposed to helping out the Greeks and a media campaign in the tabloids aroused diplomatic tensions between Berlin and Athens.

Bild, the mass-circulation daily, carried the front-page headline: "Why should we pay for

## China runs a trade surplus of \$140 million



**Shoppers browse through racks of clothing for sale at a store in Beijing yesterday. China said on April 10 it had returned a trade surplus in March after the world's number two economy posted its first trade deficit in nearly a year in February.**

AFP, Shanghai

China said Sunday it had returned a trade surplus in March after the world's number two economy posted its first trade deficit in nearly a year in February.

Customs data showed a surplus of \$140 million last month after February's deficit of \$7.3 billion -- the country's first since March 2010.

Exports in March rose 35.8 percent from the same month a year earlier, up from February's 2.4 percent rise.

Imports rose 27.3 percent, up from 19.4 percent in February. Rising prices for raw materials helped push up the value of imports.

A Dow Jones poll of 13 economists had forecast a median monthly deficit of \$4.0 billion for March.

For the first quarter, China posted a small deficit of \$1.02 billion, its first quarterly trade deficit since the first quarter of 2004.

"China's demand is strong and the prices of bulk commodities are high currently, but the situation won't last as China's exports usually

go up in the second half of each year," UBS economist Wang Tao told Dow Jones.

February's slowdown was typical of China's festive season, when factories ease off -- and in most cases close -- after cranking up production before the Lunar New Year holiday.

For the first quarter, China's exports rose 26.5 percent on year and imports were up 32.6 percent on year.

The quarter's trade deficit was due to the strong rise in imports, the General Administration of Customs said in a statement.

"The value of imports in the first quarter hit a record high for the first time of more than \$400 billion," the customs administration said.

China is expected to post a large trade surplus for the full year, as its foreign trade tends to go through a seasonal cycle with monthly trade surpluses later in the year.

In 2010, China posted a \$7.24 billion deficit in March, as companies stocked up on imported raw materials, many of which were later processed into goods for export. For

the full year, China posted a \$183.1 billion surplus.

Washington, one of the harshest critics of Beijing's trade policy, acknowledged in March that China was taking steps to boost imports.

US Treasury Secretary Timothy Geithner said last month that China had no alternative but to shift its growth strategy toward relying more on domestic growth as demand weakens in the US and Europe -- but added it needed to do more.

"The rebalancing is happening. It's only a matter of time," BNP Paribas economist Isaac Meng told Dow Jones, adding rising import prices were eroding the surplus while domestic inflation was raising export prices.

China is planning to cut tariffs on imports as it seeks to boost domestic demand, state media has reported.

The state-run China Daily quoted Vice-Commerce Minister Zhong Shan last month as saying not only would the government cut tariffs, but it would also relax some restrictions on importers.



**Japanese Economy, Trade and Industry Minister Banri Kaieda (C) speaks to Tokyo Electric Power Company (TEPCO) workers and disaster relief team leaders at the troubled TEPCO No.1 Daiichi nuclear power plant in Okuma town, Fukushima prefecture. The country's top nuclear officials called for a sweeping review of safety standards in the industry and Tokyo warned the crisis at the plant was far from over.**