

Japan quake's economic impact worse than first feared

REUTERS, Tokyo

The economic damage from Japan's massive earthquake and tsunami last month is likely to be worse than first thought as power shortages curtail factory output and disrupt supply chains, the country's economics minister warned on Tuesday.

The more sober assessment came as Japan raised the severity of its nuclear crisis at the Fukushima Daiichi nuclear plant to a level 7 from 5, putting it on par with the Chernobyl nuclear disaster in 1986.

The Bank of Japan governor said the economy was in a "severe state", while central bankers were uncertain when efforts to rebuild the tsunami-ravaged northeast would boost growth, according to minutes from a meeting held three days after a record earthquake struck Japan on March 11.

The government and main opposition party have agreed to a spending package to get some reconstruction work started, but setting a large additional budget will be difficult due to Japan's heavy debt burden.

"After a natural disaster, people tend to refrain from spending and you get a sense that factory output will shrink," Economics Minister Kaoru Yosano told reporters after a cabinet meeting.

"In some areas, the impact could be very big."

Japan is facing its worst crisis since World War Two after a 9.0 magnitude earthquake and a tsunami towering more than 10 metres battered its northeast coast, leaving nearly 28,000



REUTERS

Police officers in protective suits observe a moment of silence for those who were killed by the March 11 earthquake and tsunami, as they search for bodies at a destroyed area in Minamisoma, Fukushima prefecture, about 18km from the damaged Fukushima nuclear power plant on Monday.

dead or missing and rocking the world's third-largest economy.

The government estimates the material damage alone could top \$300 billion, making it by far the world's costliest natural disaster.

Finance Minister Yoshihiko Noda said on Tuesday that he would explain the Japanese government's efforts on post-quake reconstruction and the nuclear crisis at a Group of 20 meeting in Washington on April 15.

Measuring the impact on consumer sentiment, factory production and the supply chain is proving more difficult, but as the crisis drags on at the nuclear power plant, the damage to the economy

looks to be more severe.

"We were in recession already," said Takuji Okubo, chief economist for Japan at Societe Generale.

"This time it will take longer for industrial production to rebound, because just-in-time delivery systems have become even more complicated."

Japan's economy is likely to grow 1 percent this year, down from 2 percent growth forecast before the earthquake, as private consumption slows to a halt, Okubo said. The economy could then accelerate to 3.9 percent growth next year, he said.

Shortages of key components, including semiconductors, point to the possibility of

deeper and longer-running output disruptions from Japan that could also hobble factories elsewhere in the world which rely on Japanese parts.

Major Japanese automakers are grappling with complications caused by parts factories that have been shuttered or are running with limited power.

Toyota Motor Corp on Monday warned that the uncertain supply of parts from Japan could threaten its output of vehicles through July.

"Our economy is in a severe state," BOJ Governor Masaaki Shirakawa told lawmakers on Tuesday.

Many BOJ members said

power supply constraints are likely to impact the economy on top of the damage from the quake, minutes from a March 14 meeting showed. The BOJ loosened policy at that meeting by doubling its asset-purchase programme to 10 trillion yen (\$118 billion).

At its latest policy meeting last week, the BOJ launched an ultra-cheap loan scheme for banks in the area devastated by the quake, and has signalled its readiness to ease monetary policy further if damage from the quake threatens Japan's return to a moderate recovery.

Japan is set to compile an extra budget worth about 4 trillion yen, focusing on removing debris, building temporary housing and restoring infrastructure such as schools. Japan plans to allocate 1 trillion yen to stem job losses and help the unemployed, the Nikkei business daily reported on Tuesday.

This is likely to be the first of several spending packages, but cabinet ministers, including the finance minister, have said that Japan, which has a huge public debt already twice the size of its \$5 trillion economy, should avoid new bond issuance.

Lending at regional banks rose 1.1 percent year-on-year in March, up from a 0.8 percent rise in February, which may reflect an increase in demand for funding after the quake, a Bank of Japan official told reporters.

Outstanding commercial paper held by banks rose 0.2 percent in March, marking the first rise since September 2008, also likely reflecting the impact of the quake, the official said.

Microsoft launches new assault on business apps

REUTERS, Seattle

Microsoft Corp is making its strongest push yet into the steadily growing business software market in the hope that it can create another multibillion-dollar business.

The world's biggest software company, which still gets the majority of its sales from its Windows and Office franchises, is hoping it can wrestle market share from heavyweights SAP AG and Oracle Corp, and upstart online vendor Salesforce.com Inc.

"The opportunities to make a good business economically are wonderful," said Microsoft Chief Executive Steve Ballmer in a telephone interview on Monday. "We're pretty pumped up."

Research firm IDC predicts that companies will spend \$118 billion a year worldwide on "enterprise applications" by 2014, referring to the software they use to automate accounting, human resources, sales, supply chains and other operations.

Ballmer declined to target a percentage figure his company hopes to win, but thinks it can outpace the leaders.

"If we don't dramatically outgrow Oracle and SAP I'd be disappointed," Ballmer said.

Earlier in the day, Ballmer unveiled the company's latest plans at Microsoft's business software conference in Atlanta, attended by about 9,000 users.

He gave a preview of the company's new enterprise resource planning (ERP) software -- the flagship of its business applications efforts -- which will soon be accessible online or "in the cloud" for the first time.

Worldwide businesses spent about \$21 billion on ERP software last year, according to tech research firm Gartner, and that figure is set to grow about 5 percent a year over the next few years.

Microsoft is currently a distant fifth in the market, behind SAP, Oracle, Sage Group Plc and Infor Global Solutions.

Indian IT firms set for robust outlook as tech spending rises



REUTERS

Employees at a call centre provide service support to customers, in Bangalore.

REUTERS, Bangalore

India's top three technology firms are likely to post strong quarterly profit and indicate robust revenue growth for the year ending March 2012 as overseas clients boost technology spending in an improving global economy.

However, salary increases and currency volatility could put pressure on margins for the country's top software service exporters, Tata Consultancy Services Ltd, Infosys Technologies Ltd and Wipro Ltd.

"On the whole, this year will be better than last year. There may be some improvement in pricing and the business outlook will be slightly better than last year as the US market is improving," said K. K. Mital, head of portfolio management services at Globe Capital in New Delhi.

"Wage inflation and the rupee's appreciation will limit profit improvement."

Companies could raise salaries by 10 percent to 15 percent on average this fiscal year, analysts said. However, some of them expect higher billing rates to offset the effect of salary increases on margins.

In April, research firm Forrester forecast the US technology market to expand 8 percent in 2011, up from 7.4 percent projected previously, with software, IT consulting services and technology outsourcing growing faster than last year.

The United States is the largest mar-

ket for the Indian technology firms, contributing more than 50 percent of their revenue.

Investors will await management comments on the pipeline for deals, hiring targets and salary rises as Indian firms battle for contracts and employees with larger global rivals such as IBM, Accenture and Hewlett-Packard.

"We will have to see how these companies manage their margins this year," said Srividhya Rajesh, vice president-equity at Sundaram Mutual. "We have to see if Infosys is willing to give up margin expansion for growth."

The country's top three technology firms, who manage computer networks and maintain IT operations for several Fortune 500 companies, are expected to see profit growth of 14 percent to 22 percent for the fourth-quarter ending March, according to a Reuters poll of analysts.

Revenue is seen rising 18 percent to 31 percent this fiscal.

Infosys, which sets the tone for the near-\$60 billion outsourcing sector, opens the earnings parade on Friday and analysts expect India's No. 2 software services exporter to forecast dollar revenue growth of 19 percent to 20 percent for fiscal 2011/12.

"The demand environment seems to be pretty good with the trend for offshoring continuing," said Srividhya. "We are looking at pretty strong growth this year. It will be volume driven. We do expect to see some price increases this year."

World's major emerging powers to meet in China

AFP, Beijing

The world's major emerging powers -- Brazil, Russia, India and China -- welcome South Africa into their fold this week at a summit in China that will seek to give developing nations greater global clout.

Leaders of the BRICS nations will tackle a host of issues including the conflict in Libya on Thursday in Sanya on southern Hainan island, though China's exchange rate regime will be off-limits, experts and officials say.

The summit could also offer China an opportunity to position itself as the leader of the world's emerging economies, and as a powerful counterpoint to the West, they add.

Chinese President Hu Jintao will chair the talks with his Brazilian, South African and Russian counterparts Dilma Rousseff, Jacob Zuma and Dmitry Medvedev, and Indian Prime Minister Manmohan Singh.

Goldman Sachs first coined the term BRIC in 2001 to describe the growing influence of the world's four largest emerging economies. China invited South Africa to join the group at the end of last year.

Together, the five countries represent more than 40 percent of the world's population. The International Monetary Fund has said the group will account for 61 percent of global growth in 2014.

"The one thing on which BRICS will be able to work together is to raise the profile and influence of emerging powers," Andrew Kenningham, a London-based economist at Capital Economics, told AFP.

IEA warns oil price rally may lead to global slowdown



REUTERS

An employee holds a gas pump to refill a car at a petrol station in central Seoul on April 6.

REUTERS, London

Sky-high oil prices are beginning to dent oil demand growth, the International Energy Agency said on Tuesday, adding prices could ultimately moderate through a global economic slowdown.

"Most analysts see a more formal OPEC policy response as unlikely... That leaves a less palatable route to price moderation -- namely economic slow-down and weaker demand growth," the agency, which advises 28 industrialised countries on energy policy, said in its monthly report.

"There are real risks however that a sustained, \$100 per barrel plus price environment will prove incompatible with the currently expected pace of economic recovery," it added.

The agency said data for January and February suggested that high oil prices may have started to dent demand growth. It however kept its 2011 global oil demand growth forecast unchanged at 1.4 million barrels per day or 1.6 percent.

The head of the IEA's oil industry and markets division David Fyfe

said the agency had noticed slowing demand trends in the United States and Asia Pacific in the past months.

"There's been a marked slowdown since autumn last year. China is looking a bit slower. Thailand and Malaysia have seen a bit of a slowdown," he said.

"We are quite early in the cycle, we have only been above \$100 a barrel for the first quarter. We would expect sustained economic effect from prices to take 6 to 12 months to feed through," he added.

He said that slower demand in some Asian countries could be offset by stronger demand from Japan which may have to ramp up its oil use by about 150,000 barrels per day to compensate for lost nuclear power generation after a devastating quake.

Fyfe also said that despite early signs of demand destruction because of high oil prices, it was too early to predict the end of the rally.

"It's difficult to see where is the high water mark for political unrest. Arguably some of this uncertainty in the MENA (Middle East-North Africa) region has a while further to run," he said.

The IEA said tight supply was a

further concern. Global oil output fell by around 0.7 million barrels per day in March to 88.27 million bpd due to civil war in Libya.

"Hypothetically, if global supply were to chug along at March levels for the rest of 2011, OECD inventory could slip to near five-year lows by December," it said.

The IEA said OPEC March production was 0.6 million bpd below what it sees as average demand for OPEC oil in 2011.

However, the IEA said it believed OPEC spare capacity stood at a comfortable level of 3.91 million bpd, with Saudi Arabia accounting for 3.2 million alone, countering industry concerns OPEC's spare supply cushion was much smaller.

"The response from OPEC to the loss of Libyan crude has been quite modest. We are still waiting to see much sign of a pickup in terms of rising OPEC supplies," said David Fyfe, head of IEA's oil industry and markets division.

The IEA also said non-OPEC output was up 0.2 million bpd in March to 53.3 million despite unrest and strikes in Yemen, Oman, Gabon and Ivory Coast.