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FINANCIAL MANAGEMENT



Japan's Crisis... Global Outlook

In the recent past, the world's economy has seen crisis after severe crisis. Yet, investors and money managers are "bullish" and anticipate economic growth with only minor pull backs – a healthy sign for a bull market.

Already in 2011, we have witnessed riots and revolts in the Middle East and North Africa, a war-like situation in Libya and devastating earthquakes and tsunamis in Japan. Through it all, world markets have largely held steady.

So is all this too much of a strain for global markets, or can they absorb these shocks and continue higher?

I wish I had a crystal ball... but, alas, I don't.

I do, however, have the next best thing... numbers!

Numbers are a market lover's best friend because they never lie! And numbers tell me that the global economy will likely continue to grow, though at a slightly slower pace.

[Global Economic Impact of Japan's Crisis](#)

Let's look at how the Japanese crisis might impact global economic growth.

[Supply Affected... Not Demand](#)

Japan's economy is export driven. It produces many goods that the rest of the world consumes. Therefore, Japan's crisis will impact supply... but not global demand.

For example, GM recently announced plant closings due to a shortage of parts from Japan. Similarly, availability of Apple's iPad could be hurt because it sources components from Japan.

So, supply disruptions impact some sectors of the economy... but are less of a worry than disruptions in demand. A drop in demand, especially from a large consumer like the U.S., will seriously threaten global economic growth.

[Japan and Global GDP Growth](#)

At its peak in the mid-90s, the Japanese economy contributed to more than 19% of global GDP. Now, Japan's contribution is down to 8.5%, less than half its peak.

But let's focus on economic growth.

Japan contributed only a tiny fraction to global GDP growth in 2010. And analysts expect that Japan's crisis will reduce global growth by only 0.1% - a pretty insignificant number.

So the good news for the rest of us is that the crisis in Japan will not derail global economic growth.

[Near Term Yen Appreciation](#)

In the near term, Japanese insurance companies will liquidate their local and global assets and convert that money into Yen (Japan's local currency). This rush to convert billions of Dollars and Euros into Yen will spike demand for the Yen and cause it to go up.

In addition, the Bank of Japan plans to pump in \$180 billion (¥16 trillion) to mitigate the crisis (much as the Fed did with its Quantitative Easing... except, Japan's QE is less than a third of what we had in the U.S., just to put things in perspective.)

This influx of cash into rebuilding Japan's economy will help offset some of the economic damage due to the crisis.

[Impact on U.S. Consumers and Investors](#)

Now I'm sure many of you are thinking, "now that we've gotten the global market taken care of, what about us?"

Thankfully, the crisis in Japan should not have much of an impact on your retirement or pension portfolios unless you've made indirect investments in Japanese companies.

However, Japan is one of the largest buyers and holders of U.S. government debt. This crisis may cause them to liquidate some of their Treasury holdings and pull-back on future purchases. Both these actions could in turn push U.S. interest rates higher, and increase borrowing costs for personal, business and home loans.

As Japan re-builds, demand for cement, copper, steel and other commodities could go up and drive prices higher. If Japan's farms have been hit, prices on rice and produce could also rise... something to keep an eye on.

The crisis in Japan's nuclear plants may cause a re-think away from nuclear fuel back to conventional oil and natural gas and that could be bullish for oil companies. It could take the cost of oil higher, and that could impact us all.

However, the overall tone from most analysts is positive. However, as always continue to exercise caution and analyze the exposure of your investments to various crises before making your investment decisions.