

## WORLD'S 3RD LARGEST ECONOMY HIT HARD

by [Steve Brown](#)

A magnitude 8.9 earthquake struck Japan, unleashing a 30 foot tsunami wave that swept away buildings and vehicles along the coast. This was the worst earthquake in 140Ys, far surpassing the 7.9- magnitude Great Kanto Quake of 1923 that destroyed 576,262 structures and killed an estimated 140,000. According to the US Geological Service, the quake struck at 2:46pm local time, 81 miles off the coast of Sendai, north of Tokyo. The first quake was followed by a 7.1 magnitude aftershock at 4:25 p.m.

The Japan earthquakes add yet another level of uncertainty to an already tumultuous global situation in the Middle East and concerns over European debt. This confluence of events has pushed oil sharply lower, hit the stock of insurance companies and pushed bond yields lower.

Investors are also worried about the potential impact on global recovery this event could produce. Japan is the world's 3rd largest economy, the 4th largest exporter, 3rd largest importer of oil and 5th largest importer overall, so concerns are running high. Even before the earthquake, Japan's economy had been struggling to recover from deflationary pressures and investors are concerned the government has little room to borrow the funds needed to support massive rebuilding efforts. While the rebuilding projects should be supportive to economic growth, Japan is already carrying the highest debt in the industrialized world, at 200% of GDP. Economists project the Bank of Japan will announce measures to loosen monetary policy at its meeting on Monday, as it seeks to support financial markets. Look for central banks worldwide to keep liquidity flowing into the system, as they work together to ensure economic growth and Japan are supported.

It there is any small silver lining whatsoever, of all the areas of the world for this to happen, Japan is probably the very best in responding and preparing for such an event. The country has been preparing for decades and their automatic early warning system worked. It immediately sent warning messages through television, radio and mobile phones; telling people what to do and to prepare. The system worked so well in fact, that people in Tokyo actually received warning messages before quake jolts even reached the city. Meanwhile, utilities, railway and industrial systems were automatically shut down throughout the country, as soon as they received the automated warning messages.

While the US prepares to send support and is on standby with our own tsunami warnings, this is a good time for all banks to double check their contingency plans. Make sure your phone and text trees are up to date and that you have radios and other supplies just in case. Know where to get access to the internet, what Twitter and web-based news sources to monitor and have messages ready to send out to customers. In short, have a crisis leadership structure in place and ready to go. These are just some of the items that can make a difference in a natural disaster. While you double check your plans, we know you are with us when we say our hearts go out to all of those living in Japan and suffering, as we ponder what else may happen.

## BANK NEWS

### **Shorebank**

The FDIC's inspector general issued a report finding no "undue political influence" in connection with the rescue attempt of the \$2.2B Chicago-based bank.

## **Citi**

In a letter to shareholders, CEO Pandit said the Company is the "world's best-positioned bank" to take advantage of emerging market growth, consumer demands for improved technology and the needs of the poor.

## **White House**

President Obama has scheduled a conference to discuss the impact of higher energy prices, but he is not expected to call for the release of oil from the nation's Strategic Reserve. Bankers are keeping an eye on the conference, as energy inflation might make it into the FOMC policy statement.

## **Mortgage Mods**

Wells and BofA has been publicly outspoken regarding the current regulator pressure for banks to focus on principal reduction. Off the record, BofA is said to be open to only "limited" principal forgiveness.

## **Household Debt**

Outstanding balances dropped for a consecutive year in 2010 to \$13.4T. As a proportion of disposable income, 2010 marked the lowest level in 6 years at 1.16X disposable income vs 1.30X in 2007.

## **Top States**

Some trivia in case you were wondering: UT, NE and MA are the top 3 states, in order, for bank ROE, with all around 10%. Finally, VT, ND and NH have the lowest amount of credit issues, while IA and MS have the highest average CD rate offerings in the country.

## **Paperless**

US Bank is playing up a recent study by the Accounts Payable Association that projected in the next 3Ys businesses, municipalities and non-profits will double their use of paperless payment technologies. US Bank is using the study to promote its online bill pay and check imaging applications.

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