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Japan effects may run deeper than GDP

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By Emily Kaiser

WASHINGTON (Reuters) - The global economic impact from Japan's earthquake and nuclear crisis may go beyond the modest GDP hit most number crunchers predict.

Macroeconomists have largely concluded that Japan won't shave more than a few tenths of a percentage point off global growth, even though it is the world's third-largest economy and looks likely to slip into a brief recession.

Hung Tran, deputy managing director of the Institute of International Finance, said the direct GDP impact from Japan will most likely be "small and reversible," but the indirect effects may be large and long-lasting.

The IIF's market monitoring group, which includes bank executives and former policymakers, warned last week that Japan might cause investors to factor in a higher "uncertainty premium," which would drive up the price of oil and other assets.

Oil -- already elevated on violence in Libya and fears of unrest spreading in the Middle East -- may get a longer-term boost as Japan's experience prompts a global re-think of nuclear power.

"We were going to have a nuclear renaissance," said Uri Dadush, an economist at the Carnegie Endowment for International Peace and former director of international trade for the World Bank.

"If this stops the nuclear renaissance, then there's going to be an increase in demand for alternatives. Oil is one of them," Dadush added.

The IIF said a sustained rise in energy prices would have "serious consequences for global growth and, notably, for inflation," the IIF said.

Higher inflation compounds emerging market difficulties in containing price pressures and could prompt advanced economy central bankers to consider tightening monetary policy more quickly than planned, the IIF said.

Even before the earthquake, inflation was complicating monetary policy. Minutes from the Bank of England's latest policy-setting meeting, due on Wednesday, are expected to show three of its nine committee members voted for a rate hike.

British inflation data, due on Tuesday, will likely show a big jump in the consumer price index, although those figures are for February, well before the quake.

Indeed, the March 11 Japan disaster has made this month's batch of economic data look even more backward-looking than usual. For example, U.S. durable goods orders for February may look strong in Thursday's report, but that says nothing about what happened in March, when some manufacturers could not get enough parts from Japan.

CHEAP INSURANCE POLICY

Another Japan factor that may not show up as a direct GDP hit is currency volatility. The Group of Seven advanced economies stepped in on Friday to try to cap the yen's rise, marking their first intervention in more than a decade.

On the surface, this may seem like an aggressive response to a problem that is not expected to do more than dent GDP. Eswar Prasad, a Brookings Institution economist who teaches international trade policy at Cornell University, said the worry was that extreme currency moves can curtail trade.

Global shippers have trouble hedging their currency exposure against wild swings, and private trade credit providers also get a bit nervous, he said.

The yen intervention was "a layer of insurance that the G7 leaders are trying to buy, and they can buy it relatively cheaply right now," Prasad said.

Dadush, the Carnegie economist, said the G7's move was a quick and effective way to cool speculation in financial markets.

"Like in tennis, it's a high-percentage play," he said.

(Editing by Dan Grebler)

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