The New York Times

Japan’s Crises Cut the Bottom Lines at Some Concerns

By CHRISTINE HAUSER April 28, 2011

When the earthquake and tsunami struck Japan in March, economists and corporate leaders knew it was only a matter of time for the financial effects to reach American companies.

That time has come.

With quarterly earnings season in full swing, companies are reporting in hard numbers what analysts and business leaders could only predict after the March 11 disaster: consumer sales were lost; breaks with suppliers have led to output cuts; and earnings weakened.

The corporate reporting, based on statements from more than a dozen American companies over the last few weeks, demonstrates how intertwined global markets are, when a disaster thousands of miles away in a coastal area of northern Japan rippled through to an auto retailer in Fort Lauderdale, Fla. It also shows that a broad spectrum of companies, like jewelers, handbag makers, clothing retailers and technology companies, were affected.

Some companies saw opportunity, like General Electric, where officials say a potential market opened for power turbines after the Japanese nuclear plant failed. Others, like Ford Motor, idled plants briefly to conserve parts.

Over all, economists are starting to gauge the effects on the wider economy, evaluating how any slackening in production by individual companies, especially in the automobile and technology sectors, could affect gross domestic product for the rest of the year.

Economists from Goldman Sachs forecast the risk of a cut of a third to a half percentage point to annualized G.D.P. growth in the second quarter, depending mostly on how vehicle production, supply chains and assembly lines are affected.

On Thursday, the Commerce Department said that G.D.P. slowed to an annual pace of 1.8 percent in the first quarter.

“The issue with the Japan earthquake is that there are certain key components which already have caused slowing in certain industries, most notably autos,” said Andrew Tilton, a senior Goldman Sachs economist and the author of a recent research report on Japan and its effect on economic growth. He added there would be more clarity on the full effect on the economy in the coming weeks.

In fact, some analysts said recent corporate results for the first quarter have not been all that bad, a reflection perhaps of the timing of the earthquake, which happened with just 20 days left in March.

Nearly 80 percent of the 244 companies that have reported first-quarter results so far said sales and operating earnings were better this year than in the first quarter of 2010, according to Howard Silverblatt, Standard & Poor’s senior index analyst.

“We have not seen major damage done in Q1, but given the 20-day run we would not have expected that at this point,” Mr. Silverblatt said. The greater impact could be in the second quarter.

The most immediate effect has been on companies that sell goods in Japan, like Coca-Cola and Gap, which said the events there had lopped off a few cents from earnings per share.

The handbag retailer Coach on Tuesday released its report for the fiscal third quarter ended April 2, estimating the company took a $20 million hit to sales and two and a half cents to earnings per share. It expects a similar blow in the next quarter.

“Obviously consumers in Japan are going to be cutting back on discretionary spending, so U.S. firms of luxury goods will probably find a market that is not as good now as prior to the natural disasters,” said **Bernard Baumohl**, the chief global economist for the Economic Outlook Group.

A main theme during the current quarter has been how companies recovered from cuts or delays in supplies because of the disaster. Many of them avoided serious disruptions because of a diversified network of suppliers.

Ford, for example, said this week that parts shortages cut output at some plants, but it did not expect profitability to be diminished. “We’re pretty diversified throughout our supply base around the world,” Alan R. Mulally, the chief executive, said in a conference call with analysts.

Some of Boeing’s suppliers encountered transportation problems because of the earthquake, but were still able to meet delivery schedules, W. James McNerney, the chief executive, told analysts Wednesday. He said the problems in Japan had not hurt Boeing's operations significantly.

DuPont said it tapped alternative sources on its supply network when its Utsunomiya polymer plant was damaged.

Still, there is much uncertainty about the future. For example, Tiffany & Company reported in late March that for its first quarter, which started in February, sales in Japan would decline 15 percent and earnings per share would be reduced by 5 cents.

"We cannot provide meaningful forecasts about sales in Japan beyond the first quarter and, therefore, have not adjusted our sales or earnings plan for the remaining quarters of 2011," said Michael J. Kowalski, the chief executive.

AutoNation Inc., the auto retailer based in Fort Lauderdale, Fla., said this week that first-quarter profit climbed 26 percent, but it lowered its sales forecast for the entire year because of Japan-related supply constraints.

But other companies said there could be a recovery in the later part of the year.

John P. Surma, the chairman of United States Steel, this week forecast a recovery after some of its customers reduced production because of parts shortages. "We expect reductions in automotive production during the quarter to be made up in 2011 as vehicle inventories, presently low compared to historical levels, will need to be replenished," he said in a statement.

Nick Bunkley and Christopher Drew contributed reporting.