

Economy Watchers Survey

May 2004

OVERVIEW OF THE MONTH

The DI for current economic conditions in May fell 2.9 points from the previous month to 52.8.

The household activity-related DI fell as retail-related sectors were hit by more rainy days than in an average year and non-seasonal typhoons. (Incidentally, supermarkets, which felt the impact of the introduction of a tax-inclusive pricing system in the previous month, improved.) The corporate activity-related DI fell due to a rise in raw material prices. The employment-related DI remained at a high level due mainly to a continued increase in the number of job offers and a movement to resume hiring of new graduates. As a result, the DI for current economic conditions fell for the first time in four months, but stayed above the flattening-out level of 50 for four consecutive months.

The DI for future economic conditions in May fell 0.3 points from the previous month to 55.0.

The DI for future economic conditions fell slightly as the corporate activity-related sector felt the impact of a rise in raw material prices, although there were expectations for a rise in sales of digital home electric appliances and a reaction to slow sales in the previous year caused by the cold summer. As a result, the DI for future economic conditions fell for the first time in five months but stayed above 50 for five consecutive months.

On the whole, the assessments of the Economy Watchers show that the economic recovery is expanding in wide areas and sectors, despite the DI decline caused by temporal factors, such as the weather.

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**SUMMARY OF CHARACTERISTIC REASONS FOR THE
ASSESSMENT OF THE ECONOMY**

(Assessments) **A**: Better, **B**: Slightly better, **C**: Unchanged, **D**: Slightly worse, **E**: Worse

1. Current conditions

<i>Household activity</i>	
B	<ul style="list-style-type: none"> • We had a sense of crisis in the beginning of May due to a smaller number of customers, but later in the month the number of customers increased. Customers inquiring about high-priced recreational vehicles (RVs) have increased, though with a condition that purchase would depend on the size of their bonus. This is a trend that was not seen in the previous year. (Tokai: Car dealer) • Horse-race and pachinko magazines and software game are selling slowly. In the past, sales decreased without fail on bad weather days, but recently, sales have not been affected much by weather. (Hokuriku: Convenience store) • This month, there has been almost no impact of the tax inclusive pricing system and sales volume has increased considerably compared with the previous year. Although per-customer transactions are still small, sales are increasing slightly over the previous year thanks to greater sales volume. (Okinawa: Supermarket)
C	<ul style="list-style-type: none"> • As for tour groups from outside of Hokkaido, the decreasing trend in the number of tourists per bus has become conspicuous. Individual customers from outside of Hokkaido are on an increasing trend, but their total number is not as high as we would expect. The number of customers from within Hokkaido has leveled off. (Hokkaido: Tourist hotel) • With the impact of the tax inclusive pricing system calming down for the time being, we are now able to post our reasonable selling prices. With consumers getting used to the pricing system, consumption is returning to the previous level. (Tohoku: Supermarket) • We are struggling in the face of slow sales despite good conditions in that there was one more Saturday, Sunday and national holiday in May than in the previous year. Sales of mainline summer clothing are slow due to many rainy or typhoon days. Sales were brisk during the first half of Golden Week, but both the number of customers and sales decreased sharply in the second half due mainly to bad weather. (Southern Kanto: Department store)
D	<ul style="list-style-type: none"> • We counted on Golden Week, but sales fell nearly 20% from the previous year. After Golden Week, sales of both lunches and dinners were slow reflecting heavy expenditure during the long vacation. (Northern Kanto: High-class restaurant)

Corporate activity

B	<ul style="list-style-type: none"> • The movement of the telecommunications industry has become active, as can be seen from the takeover of a major fixed-line telecom company. Reflecting this, companies planning to revise their in-house information and telecommunication systems are asking several companies to submit estimates in a bid to have them engage in price competition. Companies planning to revise systems during the current fiscal year are asking for bids ahead of schedule. (Southern Kanto: Other service [Information services]) • Procuring electronics parts has become difficult. The short supply has spread from some specific parts to general-purpose parts. (Tokai: Electrical machinery equipment manufacturer)
C	<ul style="list-style-type: none"> • Recently, prices of steel products have been rising sharply in a short term. Prices far exceed our budget. They are also having adverse impact on process control due to material shortages. (Kinki: Construction)
D	<ul style="list-style-type: none"> • Compared with three months ago, prices of raw materials, especially of steel- and molding-related materials, are much higher. Since we cannot pass the price hikes on to our product prices, we are in a severe condition. (Shikoku: Electrical machinery equipment manufacturer)

Employment

B	<ul style="list-style-type: none"> • The number of job offers is increasing, albeit slowly. There are also inquiries not only for new graduates but also for mid-career recruitment. (Hokkaido: School [University])
C	<ul style="list-style-type: none"> • Employment by manufacturers is steady but that by the service industry is not good on the whole. With the employment situation becoming polarized even in the service industry between extremely good and bad, it is difficult to grasp the overall picture of the employment situation. (Chugoku: Newspaper publisher [Help wanted ads])

2. Future conditions***Household activity***

B	<ul style="list-style-type: none"> We expect sales of audio-visual products and seasonal goods to do well due to Olympics demand and in reaction to the cold summer last year. (Southern Kanto: Electric appliance retailer) We had a cold summer last year. According to weather forecasts, we will have a summery summer this year. We expect our business to recover, if sales of summer products, fruits, and drinks come to the same level as the year before last. (Kinki: Supermarket) We sell cable vision related, expect sales of CATV-related goods to continue increasing two to three months ahead, riding on the strength of digitalization. (Kyushu: Telecom company)
C	<ul style="list-style-type: none"> Consumers are trying to keep down extra expenses, as they feel prices have risen after the introduction of the tax inclusive pricing system. With prices of petroleum products showing signs of increasing due to higher crude oil prices, we are concerned about a decline in consumer mind. (Tohoku: Other specialty shop [Gas station]) For retailers, sales will center on summer goods in the days to come. But the volume of merchandise is low on the whole, as manufacturers are reducing production to the same level as last year, when sales were slow due to the cold summer. With hit products nowhere in sight, the current business situation will continue for some time to come. (Hokuriku: Department store) With imports of U.S. beef remaining suspended and the buying prices of beef rising, we are unable to provide beef at affordable prices. Since there is no prospect of the resumption of beef imports, we will remain under severe conditions. (Chugoku: Restaurant)

Corporate activity

B	<ul style="list-style-type: none"> We are examining measures to respond to requests for increased production. The development department is also expected to become overloaded. (Chugoku: Transportation machinery equipment manufacturer)
C	<ul style="list-style-type: none"> Although our manufactures customers receive more orders, severe conditions will continue as raw material prices are rising and as higher crude oil prices are expected to have adverse effects in the near future. (Northern Kanto: Financial)

Employment

B	<ul style="list-style-type: none"> Corporations intending to recruit excellent students are increasing. Few companies say that their conditions are severe. (Southern Kanto: School [Vocational school])
C	<ul style="list-style-type: none"> Although orders for worker dispatch are coming steadily, the business will remain as it now stands, because staff shortage is expected to continue for some time to come. (Tokai: Temporary manpower company)