

Economy Watchers Survey

July 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in July fell 0.7 points from the previous month to 48.4.

The household activity-related DI fell due to sluggish sales of summer goods owing to unfavorable weather, although consumers continued looking for better goods. The corporate activity-related DI remained unchanged, as the continued negative influence of higher crude oil and raw material prices was felt, while orders were secured. The employment-related DI fell as vacant posts were not filled due to a shortage of overall manpower as well as a lack of suitable human resources to fill these posts, although corporations' hiring interest remained high. As a result, the DI for current economic conditions fell for the fourth consecutive month, and fell below 50 for the second consecutive month.

The DI for future economic conditions in July fell 2.0 points from the previous month to 49.8.

The DI for future economic conditions continued to fall for the fifth consecutive month due to concern about the adverse effects of higher crude oil prices and the lifting of the zero interest rate policy, and fell below 50 for the first time in 16 months.

On the whole, the assessments of the Economy Watchers indicate that the economic recovery has become moderate.

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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

Household activity

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| B | <ul style="list-style-type: none"> • There were many family and group customers who did not care about the unit price of foods during the two-day local festival and on the Midsummer Day of the Ox. (Northern Kanto: Standard class restaurant) • We began clearance sales from the beginning of the month, and thanks to DM advertisement of the event, sales of women's summer clothing increased about 20% over the previous year. In the second half of the month, we invited customers to a special fair at a hotel, featuring high-priced products, such as furs and watches, in anticipation of the winter season. The fair was fairly successful. (Hokuriku: Department store) |
| C | <ul style="list-style-type: none"> • With customers appearing to be cautious in their shopping, the close rates of thin TVs, refrigerators, washing/drying machines, etc. were lower than expected. (Hokkaido: Electric appliance retailer) • Although sales of ice cream, soft drinks and beer were brisk until the middle of the month thanks to high temperatures, the number of customers decreased and sales of summer goods, such as ice cream and soft drinks slowed down in the second half due to a long spell of rain and low temperatures. With customers holding off on buying cigarettes, and last year's buying binge on agar receding, sales figures dropped sharply. (Kyushu: Supermarket) |
| D | <ul style="list-style-type: none"> • Due to a tax hike on cigarettes, sales plunged to 85% of last year's level. Sales of ice cream, 1-liter-bottle drinks, and beer were also poor due to unfavorable weather. (Tohoku: Convenience store) • In early July, the business was better than in the previous year, but a long spell of rainy weather in the second half of the month had worse-than-expected impact. With a series of disasters caused by rain reported after the start of the summer holiday, people seem to be in no mood to have an outing. (Chugoku: Theme park) |

Corporate activity

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| B | <ul style="list-style-type: none"> • The number of customers planning to switch their telephone circuit to an optical circuit is increasing, expecting its cost-cutting effect. (Hokuriku: Telecommunications) • We've been extremely busy in electronic parts-related business, especially semiconductor-related metal mold, equipment, and precision machining. The business is still on a rising trend. (Kyushu: Electrical machinery equipment manufacturer) |
| C | <ul style="list-style-type: none"> • Our business partner listed on the 1st section of the Tokyo Stock Exchange has received orders for machine tools for up to the middle of next year. Orders for industrial machinery are also brisk. Subcontract factories like us are also enjoying favorable business conditions in terms of award volume and unit price. In the machine tool business, the focus has tended to shift from unit price to quality. (Northern Kanto: Metal product manufacturer) • In information-sharing meetings with other companies in the same trade, I often hear someone say that cargo volume is not picking up. (Tokai: Forwarding agency) |
| D | <ul style="list-style-type: none"> • Despite continuing rises in material prices caused by higher crude oil prices, our customers keep demanding cost cutting with nonchalance. (Southern Kanto: Plastic products) |

Employment

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| B | • With the end of July approaching, the number of students who have informally obtained job offers has increased. There are also many students who have already obtained formal job offers. The situation is much better than in the previous year. (Hokkaido: School [University]) |
| C | • The number of job offers remains firm on the whole. However, corporations are still facing a shortage of skilled manpower despite their job offers for regular employees in marketing and technical jobs. Jobs that do not require skill, such as distribution, service and restaurant-related work, are mostly filled by part-time workers. (Tokai: Newspaper publisher [Help wanted ads]) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> The “bullish” personal spending trend remains firm. We are encouraged by the fact that both unit prices of products and per-customer transactions have been on a rising trend for the past several months, with sales of high-priced products and brand name products beginning to increase. We count on strong sales of heavy clothing in early autumn. (Tohoku: Department store) Although we are concerned about a possible psychological impact from the long spell of rain, per-customer transactions of both domestic and overseas travels are continuing their rising trend. (Kinki: Travel agency) |
| C | <ul style="list-style-type: none"> We have no encouraging news. We count on a pick-up in sales of TVs and recorders that have been sluggish since the end of the soccer World Cup. We fear that sales of air conditioners may come to an end without hitting a peak. (Southern Kanto: Electric appliance retainer) I often hear customers say, “Though my bonus this year is slightly bigger than last year, I intend to save most of the money and not to spend much due to uncertainty about the future,” suggesting that a saving mood is still in place. (Hokuriku: Taxi driver) |
| D | <ul style="list-style-type: none"> Sales of standard-sized cars are getting severe and we may not be able to even keep the status quo. With crude oil prices rising and the recall problem looming large, we don’t see any silver lining. (Tokai: Passenger car dealer) |

Corporate activity

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| B | <ul style="list-style-type: none"> Production of products that can be produced only in Japan and high value-added products that require many processes has been increasing steadily. (Kinki: Metal product manufacturer) |
| C | <ul style="list-style-type: none"> With the impact of the lifting of the zero interest-rate policy not expected to be felt in only two to three months ahead, the current situations will continue. The surge in crude oil prices is a cause for concern. (Tokai: Transportation equipment) The number of business managers concerned about a rise in interest rates has increased. With their business conditions yet to start becoming better, small and tiny companies are worried about a rise in interest rates on their borrowings. I often hear them say that they have no willingness to make business investments. (Shikoku: Certified public accountant) |
| D | <ul style="list-style-type: none"> Our award volume is not increasing from the level of last year even at this time of the annual summer sales season. The order quantity from our business partners is likely to continue decreasing for some time to come. (Okinawa: Advertising agency) |

Employment

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| B | <ul style="list-style-type: none"> Judging from active job offers for marketing and sales posts, and an increase in the number of dispatched temporary workers who are scheduled to be employed as full-time workers after the term of their dispatch, the shortage of manpower will remain unchanged for some time to come. (Shikoku: Temporary manpower company) |
| C | <ul style="list-style-type: none"> Although the number of job offers posted a year-to-year monthly increase for six consecutive months, the growth rate is decreasing. (Northern Kanto: Job placement office) |