

Economy Watchers Survey

June 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in June fell 2.4 points from the previous month to 49.1.

The household activity-related DI fell due to slightly lower sales of high-priced products, a decrease in the number of customers owing to the soccer 2006 World Cup, and sluggish sales of summer clothing owing to unfavorable weather, although consumers continued looking for better goods. The corporate activity-related DI remained almost unchanged, as the continued negative influence of higher crude oil and raw material prices was felt, while orders received by manufacturers remained stable. 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 third consecutive month, but fell below 50 for the first time in 14 months.

The DI for future economic conditions in June fell 2.0 points from the previous month to 51.8.

The DI for future economic conditions continued to fall for the fourth consecutive month due to concern about the adverse effects of higher crude oil prices, mainly in the household sector.

On the whole, the assessments of the Economy Watchers indicate that the economy is recovering.

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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

B	<ul style="list-style-type: none"> • Inquiries for family tours during the summer holidays began to increase from around the middle of the month. With travel agencies offering discount tour products for early purchasers, sharp-sighted customers are planning and reserving for such tours early, making use of these merits. Tours to Okinawa or Hokkaido and those priced more than 500,000 yen for a family of four are also selling well. (Northern Kanto: Travel agency) • There was special demand for cigarettes before their price hike. Not only that, sales of main products such as packed lunch have also come to sell well. Customers' response to high value-added products, such as specially designed products, is strong. (Tokai: Convenience store)
C	<ul style="list-style-type: none"> • With demand related to the soccer World Cup (hereinafter, W-Cup) coming to a close, sales of TVs and DVD-related equipment have peaked out. Sales of air conditioners are sluggish as the temperature does not rise. (Chugoku: Electric appliance retailer) • Although sales to corporate customers are sluggish, sales of small parties, such as for family celebrations, to consumers are increasing. (Kyushu: High-class restaurant)
D	<ul style="list-style-type: none"> • The strong sales seen until May have lost momentum. Maybe because people watch the W-Cup games at home, restaurants and bars are not busy. We have few days when all the rooms are booked up. (Southern Kanto: City hotel) • Partly due to a decline in stock prices, sales of high-priced items, such as jewelry and watches, are sharply lower than in the previous month. In the absence of any hit products for the summer season, and partly due to unfavorable weather, overall sales are lower than in the previous year. But, the negative impact of the W-Cup is not so strong as with the previous W-Cup. (Kinki: Department store)

Corporate activity

B	<ul style="list-style-type: none"> • Moves to increase equipment and expand plants have picked up steam in this industrial complex. In particular, the increase in orders received by machined parts manufacturers is conspicuous. Inquiries for new orders are on the increase. (Tohoku: Electrical machinery and equipment manufacturer) • Some of my small and medium-sized corporate clients, which had suffered from extremely poor performance, have been improving their performance, just as big corporations have been doing. (Southern Kanto: Tax accountant)
C	<ul style="list-style-type: none"> • Orders received from automobile- and copier-related companies are firm but the momentum is not so strong compared with one or two months ago. Orders from food-related companies are sluggish. (Tokai: Paper products [cardboard] manufacturer) • Movement of goods have become active, albeit slowly. However, due to a greater burden imposed by higher gas oil prices, overall performance remains unchanged. (Hokuriku: Forwarding agency)
D	<ul style="list-style-type: none"> • Although fees under the existing contracts remain unchanged, agency businesses and demanding tasks have increased. We have no choice but to accept new contracts at lower fees. (Northern Kanto: Real estate broker)

Employment

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| B | • The number of job offers, in particular, from manufacturers has increased. Many corporations are seeking both new graduates and mid-career workers. (Shikoku: Private employment agency) |
| C | • Both job-seeking and job-offering activities have been inactive since the beginning of June. Corporations still have a strong interest in hiring highly skilled workers, but the mismatch of employers' needs and those of job seekers remains unresolved. (Tohoku: Temporary manpower company) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> • Thanks to the development of a new menu for head massage called “head spa,” the per-customer transactions will rise. (Kinki: Beauty parlor) • Reservations for overseas tours during the summer holidays, mainly to South Korea, Hawaii, and Guam, are higher than in the previous year. As for domestic travel, reservations for overnight stays in Kansai or nearby accommodations are rising. (Kyushu: Travel agency) |
| C | <ul style="list-style-type: none"> • We should no longer depend on low-price strategies. Rather, we should fundamentally reform our operations in order to increase our ability and knowledge to come up with new programs appealing to consumers’ buying appetite and to enhance our product recommendation activities. (Hokkaido: Other specialty shop [drugs:]) • If the temperature remains low and the end of the rainy season comes late, we won’t be able to recover the lost sales of mid-summer products. We intend to shift to cool-summer products but will be unable to cover all such products. With prices of fruits rising due to slow growth, and the price hikes of such products as tissues and toilet paper forecast, we are concerned that they may put the brakes on consumer spending. (Northern Kanto: Supermarket) |
| D | <ul style="list-style-type: none"> • Lower stock prices and higher crude oil prices are gradually affecting people’s livelihood. An increasing number of consumers will reduce spending due to slightly rising prices. Moreover, the government’s move to promote cool business wear, now in its second year, is not likely to have the same impact as it did last year, when demand for no-necktie cool work clothes prompted economic recovery. (Southern Kanto: Department store) |

Corporate activity

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| B | <ul style="list-style-type: none"> • With the performance of local major automobile manufacturers remaining stable, the work volume of subcontractors will continue to increase for some time to come. (Tokai: Transportation equipment) • Sales of our corporate customers are higher than in the previous year. However, given the fact that the profits of the corporations susceptible to higher crude oil prices tend to be depressed, I would say their performance will get only slightly better at most. (Kyushu: Financial) |
| C | <ul style="list-style-type: none"> • We and other companies in the same trade have begun to expand facilities. According to the experiences of the past economic recovery, orders hit a peak at that time and begin to decrease thereafter. (Hokuriku: General machinery and instrument manufacturer) • Inquiries for the renewal or enhancement of corporate networks are not active. Users are carefully watching the trends of various services centering on the Internet. (Chugoku: Telecommunications) |
| D | <ul style="list-style-type: none"> • Offers have decreased. Consumer confidence in housing has cooled considerably and the situation will remain unchanged for some time to come. (Shikoku: Real estate broker) |

Employment

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| B | <ul style="list-style-type: none"> • Job offers for certified persons have increased, reflecting corporations’ move to expand their businesses or fill the vacancies left by those who left the company and moved to other companies with better conditions. Job seekers are in an advantageous position vis-à-vis companies seeking workers. (Southern Kanto: Job information magazine publisher) |
| C | <ul style="list-style-type: none"> • With job seekers’ movement remaining skewed, small and medium-sized corporations are having difficulties in attracting human resources. Although they have work to be done, they cannot secure enough workers. Therefore, their performance will move horizontally. (Okinawa: Job information magazine publisher) |