

Economy Watchers Survey

May 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in May fell 3.1 points from the previous month to 51.5.

The household activity-related DI fell due to slow sales of summer clothing in the retail-related sector in addition to an overall decrease in the number of customers owing to unfavourable weather, although demand for sightseeing during Golden Week holidays was brisk. The corporate activity-related DI fell due to the continued negative influence of higher crude oil and raw material prices and in part due to unfavourable weather. The employment-related DI fell as vacant posts were not filled due to shortage of overall manpower as well as 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 second consecutive month but remained above 50 for the 13th consecutive month.

The DI for future economic conditions in May fell 1.2 points from the previous month to 53.8.

The DI for future economic conditions continued to fall for the 3rd consecutive month due to concern about adverse effects of higher crude oil prices mainly in the household activity-related 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

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| B | <ul style="list-style-type: none"> • During the Golden Week holidays, we had more customers than in the same period of last year thanks to favorable weather. On the whole, the number of customers was on the increase in May, as the number of customers during mid- to late-May was on a par with last year's although the weather was not good. (Chugoku: Theme park) • With the opening of the World Cup soccer just around the corner, sales of large-screen TVs are brisk and sales of energy saving-related products are increasing steadily. (Kyushu: Electric appliance retailer) |
| C | <ul style="list-style-type: none"> • The number of customers during Golden Week holidays was about the same as in the previous year, but sales were higher as the holidays were longer this year. However, the total number of customers and sales in May were slightly lower than in the previous year, as the decline in the number of customers after the Golden Week holidays was sharper. (Tohoku: Tourist hotel) • Although vegetable prices are usually the most stable in May, prices of fruit and leaf vegetables are higher this year due to slow growth caused by lack of sunshine. Consumers are limiting spending by shifting to half- or quarter-cut vegetables. Sales of no-necktie cool work clothes with various materials and designs are brisk. (Northern Kanto: Supermarket) |
| D | <ul style="list-style-type: none"> • Due to low temperatures and a long spell of rainy weather, sales of midsummer products, such as T-shirts and sandals, are slow. In particular, sluggish sales of men's clothes are conspicuous. There is a marked difference in trend from several months ago, when sales of whole fashion products were brisk. (Tokai: Department store) |

Corporate activity

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| B | <ul style="list-style-type: none"> • Corporations are boosting their ad budgets in the first half of the current business year. They intend to further boost ad budgets in the second half by improving performance in the first half. Orders received for advertisement tools are 20% higher than in the previous year. (Northern Kanto: Advertising agency) • Sales of in-house products, mainly of spring new products, for domestic consumption are brisk. Sales of in-house products for overseas markets, mainly North America, are also brisk. (Chugoku: Ordinary machinery and instrument manufacturer) |
| C | <ul style="list-style-type: none"> • The movement of summer goods is slow due to unfavourable weather. (Tokai: Forwarding agency) • Our corporate customers in the machine manufacturing industry see their orders decreasing slightly, but still have enough order backlogs. Small and medium-sized corporations see their profits decreasing, as they are unable to pass on higher material and fuel costs in the prices of their products. (Hokuriku: Accounting firm) |
| D | <ul style="list-style-type: none"> • The market shows signs of change, with users' movements becoming lethargic. Our business partners are increasingly placing orders overseas. (Kinki: Electrical machinery equipment manufacturer) |

Employment

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| B | <ul style="list-style-type: none">• Reflecting the fact that many regular workers have chosen to take maternity leaves and child-care leaves instead of retiring to their company, dispatches of temporary workers as a stop-gap measure have increased. Meanwhile, more young people are becoming regular employees and the number of dispatched temporary workers who are scheduled to be employed as full-time workers after the term of their dispatch is increasing steadily. But, we are having a hard time with registration due to a lack of well-qualified persons.(Tohoku: Temporary manpower company) |
| C | <ul style="list-style-type: none">• Local food manufacturers want to employ workers, but job seekers are reluctant to do a job requiring effort that many consider as unrewarding. Job seekers are searching for the jobs beyond their ability. (Chugoku: Private employment agency) |
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2. Future conditions

Household activity

B	<ul style="list-style-type: none"> The downtown area is regaining vitality, with more buildings finding new tenants and fewer empty taxis running on the street on weekends. (Tokai: Snack bar) The number of customers increases after the payment of a summer bonus. We may lose customers during the World Cup soccer. But after games are over, customers will begin to visit our shop, seeking to satisfy their needs. (Kinki: Travel agency)
C	<ul style="list-style-type: none"> Customers are responsive to the announcement of a price hike of paper-related products caused by higher crude oil prices. A business pickup is unlikely, as corporations that have so far refrained from raising prices may raise prices of their products after all. (Hokkaido: Supermarket) We don't see any evidence of a business pickup. On the contrary, we fear that consumers' strong willingness to buy TVs and recorders may weaken after the end of the World Cup soccer. We want to boost sales of higher unit-price air conditioners that obviate the need for filter cleaning. (Southern Kanto: Electric appliance retailer)
D	<ul style="list-style-type: none"> If prices go up on the whole due to higher crude oil prices, consumption on goods for pleasure will decline. (Shikoku: Other specialty shop [CD])

Corporate activity

B	<ul style="list-style-type: none"> Requests for construction investment from private customers, albeit on a competitive bidding basis, are increasing. Jobs for security measures, such as surveillance camera and emergency report system, are also increasing, reflecting the response to recent heinous crimes against children. (Southern Kanto: General constructor) Plans to construct stores using capital outside the prefecture were announced one after another. Business will get slightly better if the stores are actually built and start operating, as they are expected to have good impact on the local economy. (Kyushu: Financial)
C	<ul style="list-style-type: none"> Although business of our customers becomes slightly better, the future of the business is unclear, with moves to raise raw material prices remaining in place. (Hokuriku: `Plastic products) Although the price hike triggered by higher raw material prices, etc. has run its course, shipments have decreased, wiping out any gains made by the price hike. If the shipment volume continues to decrease, it may have adverse effects on our business. (Kinki: Chemical & allied products)
D	<ul style="list-style-type: none"> We have received requests for price hikes of whole materials, such as ancillary materials and supplies, due to a continued rise in crude oil prices. Since the requests lead to higher product costs, we have to review our operations and be selective in accepting orders. Therefore, business may decline further for some time to come. (Tokai: Electrical machinery equipment manufacturer)

Employment

B	<ul style="list-style-type: none"> There are signs that corporations' hiring interest is rising, with about 30% of long-term orders are for dispatched temporary workers who are scheduled to be employed as full-time workers after the term of their dispatch. As a general trend, orders for marketing-related jobs have increased. Although orders received are on the increase, the shortage of staff remains unchanged, as the number of registered job seekers decreases. (Kyushu: Temporary manpower company)
C	<ul style="list-style-type: none"> Although we can expect continued job offers mainly from IT-related industries, the outlook for job offers from other industries is unpredictable. Therefore, the number of job offers as a whole will remain unchanged. (Okinawa: School [Vocational school])