

Economy Watchers Survey

August 2007

OVERVIEW OF THE MONTH

The DI for current economic conditions in August dropped 0.6 points from the previous month to 44.1.

The household activity-related DI rose due to favorable sales of summer-season products stemming from record-high temperatures despite the influence of continued increases in gasoline prices etc. The corporate activity-related DI dropped due to the continuing impact of rising prices for crude oil and raw materials as well as voices of concern from some regarding the appreciation of the yen. The employment-related DI decreased as a result of sluggishness in the number of employment offers and closures of factories and offices in some areas. As a result, the current DI dropped for the fifth month in a row, falling below the neutral indicator of 50 points for the fifth consecutive month.

The DI for future economic conditions in August dropped 0.2 points from the previous month to 46.5.

The DI for future economic conditions dropped for the fourth consecutive month due to expected sluggishness in the number of employment offers.

On the whole, the assessments of the Economy Watchers indicate that the economic recovery has shown weak movements.

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by the Director-General for Economic Assessment and Policy Analysis,
Cabinet Office
Kasumigaseki 3-1-1, Chiyoda-ku, Tokyo 100-8970
Telephone: 03-3581-1392
Internet: <http://www.cao.go.jp>

**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"> High-ticket items—primarily air conditioners—are selling well and unit prices are rising. (Southern Kanto: Mass retailer of consumer electronics) |
| C | <ul style="list-style-type: none"> The continuing heat wave has even affected customer purchasing behavior characteristics. Although movement was seen in midsummer items—including products for beating the heat, clothing has already been priced for final clearance, and unless there is a big rise in sales volume, the effect of increased sales will be insignificant. While fall items began arriving one after another from the middle of the month onward, the heat has caused customers other than our most loyal customers, who purchase seasonal items in advance, to take a wait-and-see stance. (Hokkaido: Department store) Domestically, although movement for theme parks in Tokyo, Osaka and other areas as well as hot-spring lodging plans in surrounding areas has been slow, that for hotels with pools has been favorable. Sales of airplane tickets have been focused on those for August 20 and after, which is when ticket prices begin to drop. (Kyushu: Travel agent) |
| D | <ul style="list-style-type: none"> Record-high temperatures and perhaps the impact of rising gas prices exceeding those during the summer last fiscal year seem to have led to fewer customers this month. (Chugoku: Theme park) The number of daytime customers has dwindled due to the heat wave, and there has been a slump in sales of summer items, insect killer, food and beverages. The severe heat also caused stagnation during the Bon Festival sales war. (Shikoku: Supermarket) |

Corporate activity

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| B | <ul style="list-style-type: none"> Sales have been strong for not only AV-related products such as flat-screen TVs, which have thus far witnessed favorable sales, but also electrical appliances thanks to the heat wave that led to very brisk shipment of air conditioners. (Kinki: Electrical machinery and apparatus manufacturer) |
| C | <ul style="list-style-type: none"> Although the heat wave led to a significant increase in shipments of drinking water and electrical appliances, the movement of goods is nearly identical to that a few months ago if you subtract this special demand. (Tokai: Transportation company) Order intake is favorable and factories are operating at full production. This situation has continued for the past year. (Chugoku: Metal product manufacturer) |
| D | <ul style="list-style-type: none"> Despite the fact that the production of automobile parts has been relatively steady, the sudden fluctuation in the exchange rate has caused the export environment to deteriorate rapidly. In addition, the production of parts for mobile phones remains at a low level. (Tohoku: General machinery and apparatus manufacturer) The rise in crude oil prices has led to increases in the prices of everything from fabric and thread to everyday miscellaneous goods, and this has had a negative impact on our business. (Kyushu: Textile company) |

Employment

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| B | • Requests for employment offers have been strong for both temporary staffing and personnel referrals, thereby making the depletion of dispatch staff increasingly worse. (Southern Kanto: Temporary staffing company) |
| C | • While there are many employment offers for non-permanent employees, the employment offer decision ratio has not risen. In addition, it appears that the number of mismatches in terms of applicant skills is increasing. (Hokkaido: Job advertisement magazine production company) |
| D | • In this region, in addition to a relatively large-scale manufacturer carrying out a personnel reduction of 100 employees following the transfer of control of part of the company's business to overseas, bankruptcies are being seen here and there in the construction industry. (Tohoku: Public employment security office) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> • There has been moderate participation in travel plans for captivating destinations. It is anticipated that customers will continue to be drawn in for fall excursions. (Tokai: Travel agent) |
| C | <ul style="list-style-type: none"> • Rather than merely showing temporary momentum, business-related lodging has been favorable and remains unchanged from the previous year. Postponement of party reservations and reductions in the scale of such parties stands out, and the number of advance reservations has also recently begun to fall below that of a year ago. (Kinki: Urban hotel) • Two new car models are slated to be unveiled in the fall, but due to the sudden rise in gasoline prices and sense of regional economic stagnancy, this is not expected to revitalize the market. (Shikoku: Automobile dealer) |
| D | <ul style="list-style-type: none"> • Due to rising crude oil prices and increases in the price of raw materials used to produce bioethanol, we have been approached by food manufacturers about price hikes, and are concerned that consumer confidence will once again begin to decline. (Northern Kanto: Supermarket) |

Corporate activity

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| B | <ul style="list-style-type: none"> • It has already been determined that large-scale buildings centered on automobile-related factories, semiconductor factories and distribution centers will be emerging in the near future, and full-blown construction is set to start at the beginning of fall—albeit slightly behind schedule. For this reason, demand for construction materials has increased significantly, and there is concern that supply and demand will be tight. (Kyushu: Steel company) |
| C | <ul style="list-style-type: none"> • Although the volume of orders received has been ensured to a certain extent, we are anxious about the drop in price of facets for cutting. While the exchange rate has of course affected prices, decreases in the price of facets have up until now been an indication of an imminent downturn in the economy, and this has therefore given us a cause for concern. (Southern Kanto: General machinery and apparatus manufacturer) • Having talked with numerous business executives, it appears that financing is not circulating well in many companies. In addition, business conditions remain unchanged as there are very few companies willing to actively invest in, purchase or make capital investment in real estate. (Shikoku: Certified public accountant) |
| D | <ul style="list-style-type: none"> • Our workload has begun to decline after what was only a temporary increase, and we will be extremely free come the end of the year. We are also no longer receiving inquiries related to capital investment, and business has slowed greatly. (Northern Kanto: Electrical machinery and apparatus manufacturer) • There seems to be a declining trend as exemplified by numerous consultations regarding not only individual adjustment of debts but also corporate bankruptcy by civil engineering vendors. (Hokuriku: Judicial clerk) |

Employment

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| B | <ul style="list-style-type: none"> • Company labor shortages have yet to be resolved. Recruitment needs are therefore expected to remain strong for some time. (Chugoku: Job advertisement magazine production company) |
| C | <ul style="list-style-type: none"> • A significant change in the actual number of employment offers has not been seen for the past three months, and it appears that this trend will continue because there are currently no factors that would lead us to believe that there will be an increase in the number of new employment offers in the near future. (Northern Kanto: Public employment security office) |
| D | <ul style="list-style-type: none"> • Job applicant activity seems slow in proportion to the decrease in the number of employment offers. (Okinawa: Job advertisement magazine production company) |