

Economy Watchers Survey

February 2007

OVERVIEW OF THE MONTH

The DI for current economic conditions in February rose 2.0 points from the previous month to 49.2.

The household activity-related DI rose as consumers have come to buy slightly better goods in addition to the fact that sales of spring clothing were brisk thanks to the warm winter. The corporate activity-related DI rose, as both manufacturers and non-manufacturers saw their orders received and sales increase, although it was difficult for them to acquire a profit. The employment-related DI remained almost unchanged at a high level, as corporations' hiring interest, mostly of new graduates, was brisk. As a result, the DI for current economic conditions rose for the first time in five months, but was below 50 for four consecutive months.

The DI for future economic conditions in February rose 1.2 points from the previous month to 52.1.

The DI for future economic conditions rose for two consecutive months, mainly in the household sector, on expectations of a rise in sightseeing or travel demand following the mandatory retirement of baby boomers, in addition to the fact that consumers have come to buy slightly better goods. There were also comments on the recent BOJ rate hike indicating a concern for the possible increase in burdens attributable to the rate hike.

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

Released on March 8, 2007 (in Japanese)
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
Email: chiiki.dc@cao.go.jp
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

B	<ul style="list-style-type: none"> • Year-on-year monthly sales have been increasing steadily. An increasing number of customers are buying slightly higher-priced products. (Southern Kanto: Supermarket) • Sales of spring clothing are 70-80% higher than in the previous year thanks to the warm winter. The movement of ceremony- and travel-related goods is brisk. With regard to ceremony-related goods, customers' interest has shifted from clothing that can be worn on various occasions to clothing specifically for dressing up on special occasions. Spring apparel led increases in overall sales. (Hokuriku: Department store)
C	<ul style="list-style-type: none"> • Sales of thin TVs are increasing over the previous year. Although per-customer transactions are slightly lower than in the previous year, the number of customers remains unchanged. Customers are responsive to events. (Hokkaido: Electric appliance retailer) • Although sales of ski trips have decreased due to the warm winter, sales of overnight trips have increased. (Tokai: Travel agency)
D	<ul style="list-style-type: none"> • Despite the warm winter, the number of customers visiting our shopping area is about 10% smaller than in the previous year, when we experienced heavy snowfall. Customers are being drawn to large suburban stores that opened in the autumn of last year. (Tohoku: Shopping area) • The downtrend in the number of customers visiting our shop remains unchanged from the three months before. Although sales of ice cream and the like are better than in the previous year thanks perhaps to warm temperature, our overall sales are decreasing due to a plunge in sales of winter goods, such as <i>chukaman</i> (steamed buns), <i>oden</i> (Japanese hotchpotch served on bamboo skewers), and hot drinks. (Okinawa: Convenience store)

Corporate activity

B	<ul style="list-style-type: none"> • Goods are moving actively as they were in the previous month. Thanks to the warm winter, we could hold down fuel costs and no major accidents caused by snowfall were reported. (Hokuriku: Forwarding agency) • Manufacturing industries, such as machinery parts platers, automobile parts producers, various machine manufacturers, and metal processing firms, are enjoying brisk business. Moreover, an increasing number of small firms are reporting increases in orders received. (Kinki: Financial)
C	<ul style="list-style-type: none"> • Although we managed to clinch orders, it is difficult for us to make profits as we are still under pressure to take orders at low prices and as production costs stay at a high level. (Southern Kanto: General constructor) • Although inquiries have increased considerably, we remain under severe conditions due to high material prices and the requirement of delivery on short notice. Overtime work has increased due to shorter delivery time. (Kyushu: Electric machinery equipment manufacturer)
D	<ul style="list-style-type: none"> • Although sales volume remains the same, some products have become unprofitable as their unit sales prices have declined. (Chugoku: Foods and related products)

Employment

- | | |
|----------|--|
| B | • Although job-hunting by students graduating in March this year is at its final stage, small and tiny companies are continuing their recruitment activities. They are making additional job offers and asking placement officers at universities to introduce students who have yet to land a job. (Kinki: School [University]) |
| C | • Although the number of job offers has been on a slight downward trend in the last several months, it remains almost at the same level. The job offers-to-seekers ratio is also stable. (Northern Kanto: Job placement office) |
-

2. Future conditions

Household activity

B	<ul style="list-style-type: none"> Although customers have come to loosen their purse strings, they are particular about quality goods and those they want to buy. We can count on strong sales if we transmit new spring trends earlier and present products that meet the needs of customers. (Southern Kanto: Department store) Inquiries about group tours in April and May have increased. Inquiries about overseas and domestic tours from families and groups have also increased. With a large number of baby boomers coming to mandatory retirement age, demand for travel will increase in the coming tourist season. (Shikoku: Travel agency)
C	<ul style="list-style-type: none"> A slight rise in interest rates will have no major impact, as customers are in a wait-and-see mood. (Tokai: Housing sale company) Business usually picks up from winter to spring. Since we are already enjoying brisk business this year, the good condition will remain unchanged. We see signs of a business pickup in various aspects, not to mention good weather. (Chugoku: Theme park)
D	<ul style="list-style-type: none"> If the current warm winter continues, the spring apparel season will fly past, moving on to the season for short-sleeved clothing. Then, we may have a hard time in selling light clothing. (Northern Kanto: Clothing shop)

Corporate activity

B	<ul style="list-style-type: none"> Although we have yet to receive specific orders for April and May, advertisers show signs of loosening their purse strings, making additional orders for newspaper ads for late March. (Tohoku: Advertising agency)
C	<ul style="list-style-type: none"> Although some of our corporate customers have increased orders received, some others are seeing a slight decline for the fiscal year end. Business is not improving on a broad front. (Chugoku: Transportation equipment) Corporate managers say that real-estate prices are rising gradually, but few talk about positive business investment. It will take a little more time before the business picks up. They are cautious about the future movement of interest rates. (Shikoku: Certified public accountant)
D	<ul style="list-style-type: none"> With customers remaining concerned about interest rates, our business would become slightly worse as fund demand may stall depending on the future movement of interest rates. (Kyushu: Financial) We expect further production adjustment in March through April. The gap between corporations in good conditions and those in bad conditions is widening. We even find it financially difficult to receive orders considering the costs involved. (Northern Kanto: Electrical machinery equipment manufacturer)

Employment

B	<ul style="list-style-type: none"> Manpower is in short supply, especially in the manufacturing industry. Some of the manufacturers cannot keep up with orders. The situation will continue for some time to come. (Shikoku: Private employment agency)
C	<ul style="list-style-type: none"> Judging from the number of help-wanted ads, etc., job offers appear to have peaked. However, the number will remain at a high level for some time due to the absence of any factors decreasing job offers. (Tokai: Job information magazine publisher)