

Economy Watchers Survey

May 2007

OVERVIEW OF THE MONTH

The DI for current economic conditions in May dropped 2.9 points from the previous month, to 46.8.

The household activity-related DI dropped because of sluggish consumer spending after the long serial holidays, though the demand for leisure travel was fair. The corporate activity-related DI dropped, as many pointed out possible declines in the growth of orders in the manufacturing sector and the impacts of the higher prices of crude oil and raw materials. The employment-related DI dropped because of the slowing of the growth of new job offers. As a result, the current DI dropped for 2 months in a row, falling below the neutral indicator of 50 points for the second consecutive month.

The DI for future economic conditions in May dropped 1.9 points from the previous month, to 50.0.

The DI for future economic conditions dropped for the first time in 2 months, chiefly because of concerns over the impact of the higher prices, such as of crude oil, raw materials, etc. The decline was sharpest in the corporate sector.

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

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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"> The number of overseas travellers increased 1.5-fold compared with the average year, as the serial holidays were long and there were no major concerns over overseas travel. The number of domestic travellers has dropped slightly, as some travellers are switching from domestic to overseas destinations. On the whole, sales volume remains the same, but the unit price has increased. (Tohoku: Travel agency) |
| C | <ul style="list-style-type: none"> No signs of economic decline are reflected in customer behaviour, though tightening purse strings are leading to overall declines in sales and the price per customer. (Northern Kanto: Convenience store) The number of customers during the long serial holidays was just about the same as that in the average year. However, the drop in the number of customers following the long serial holidays was sharper than that in the average year. (Kyushu: General restaurant) |
| D | <ul style="list-style-type: none"> The purchasing power of customers is declining following the long serial holidays. Unit prices are declining conspicuously as products and goods, etc. switch to summer products. (Hokkaido: Shopping mall) There were a large number of visitors during the long serial holidays, but the increased numbers did not lead to increases in successful orders. As a result, the number of successful orders dropped from the level of 3 months ago. (Shikoku: Housing sales company) |

Corporate activity

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|----------|--|
| B | <ul style="list-style-type: none"> Orders placed with auto-related subcontractors, parts manufacturers, precision equipment makers, etc. are holding steady, and capital spending in these industries is robust. Small-sized developments are increasing, and housing areas and towns are showing signs of recovery. (Northern Kanto: Management consultant) |
| C | <ul style="list-style-type: none"> Corporate financial reports for the period ending on March 31 indicate that the status of companies in general is not so bad. The status at the individual level remains static, however. The number of housing starts is small and the number of consultations over multiple debts is large. (Hokuriku: Notary public) Manufacturers of auto parts and other machinery are selling at higher levels, but their profits have been held down by higher prices for raw materials. (Kinki: Financial industry) |
| D | <ul style="list-style-type: none"> We are receiving fewer inquiries from all over Japan and our prospects for success are declining. (Southern Kanto: Electric machinery equipment manufacture) Most of the relevant companies, including suppliers and rival companies, are not busy. Concerns over declining work volumes and extraordinary increases in prices for raw materials such as stainless steel make it impossible for us to foresee any prospect for securing profits. (Tokai: Metal products manufacturer) |

Employment

B	• Job offers are coming constantly from companies in and out of Okinawa. Those from IT companies are increasing at especially high rates. Job offers are increasing not only for engineers, but also for office clerks and salespeople. (Okinawa: School [vocational school])
C	The number of job offers for part timers remains almost flat, but the number of persons seeking part-time jobs is declining. The number of people who can find jobs has declined steadily over the past 3 months, marking three consecutive year-on-year declines. It looks like the situation has returned to normal: people wishing to work are working, rather than being forced into hard straits. (Kyushu: Employment security office)
D	• Many companies are recruiting more employees than expected. Some companies reduced their job offerings after March and April, when they hired intensively to fill job openings. (Southern Kanto: Newspaper [job placement])

2. Future conditions

Household activity

B	<ul style="list-style-type: none"> • Sales of products, mainly air conditioning, will increase as the long-term forecast predicts a hot summer season. The sales of audio-visual appliances (so-called “black electronic appliances”) will also increase, boosting the sales of electronic products as a whole. (Tohoku: Mass retailer of electronic appliances) • The number of golf customers is increasing. Total sales figures remain flat, but the number of new entrants to golf schools is increasing. The number of people with enough spare time and disposable income to begin golf is clearly on the increase. (Southern Kanto: Golf driving range)
C	<ul style="list-style-type: none"> • The number of visitors is increasing, but sales have not been stable for the past few months. Sales are affected heavily by the weather. We see no signs of willingness on the part of consumers to increase their consumption. The current status will continue for a while. (Tokai: Department store) • Some food prices will begin to rise in June. The prices of oil products are also expected to increase in the near future. The sales volume, which has been robust so far, will slow somewhat, but slightly higher unit prices will counterbalance the declines and sustain the general status as is. (Chugoku: Supermarket)
D	<ul style="list-style-type: none"> • Sales will increase if this year’s summer turns out to be very hot. Growth will be limited, however, as inventories of summer products are low. Poor sales in the winter have compelled retailers and makers to hold down the preparation of summer products. (Kinki: Clothing retailer)

Corporate activity

B	<ul style="list-style-type: none"> • Some of the corporate customers are planning to acquire plots for factories and begin construction. (Tokai: Accountant office)
C	<ul style="list-style-type: none"> • The concern over further increases in raw material prices persists, but the volume of orders will keep sales at the current robust levels over the next 3 months. (Chugoku: Metal product manufacturer) • Large-scale projects such as highway expansions and the expansion of Haneda Airport are scheduled in the Tokyo metropolitan area, and construction and power works for the projects are expected to come into full gear in the near future. The capacity utilization of cranes will generally hold steady except in all but a few regions. (Shikoku: General machinery and tools manufacturer)
D	<ul style="list-style-type: none"> • Raw material makers seem to be preparing for their 7th price hike in a row. Makers who have abstained from increasing their prices may increase their prices any time soon. As our users are not ready for accommodating any price increases, our profitability may deteriorate in the near future. (Kinki: Chemical industry)

Employment

B	<ul style="list-style-type: none"> • Many of our client companies are increasing their overtime hours, and overtime hours worked is not declining even this month, in May. Some companies are even increasing the number of dispatched personnel. (Tohoku: Temporary staffing agency)
C	<ul style="list-style-type: none"> • The number of job seekers remains almost unchanged, though the growth in the number of job offers is slowing somewhat. (Southern Kanto: Recruitment magazine publisher)