

Economy Watchers Survey

August 2008

OVERVIEW OF THE MONTH

The DI for current economic conditions in August fell 1.0 points from the previous month to 28.3, posting a fall for the fifth consecutive month.

The household activity-related DI dropped, due mainly to a preference for staying indoors watching the Olympics Games on TV and frequent heavy rains followed by local thunderstorms, in addition to a continuously prevalent thrift-oriented mentality of consumers stemming from the further rises in prices of everyday household goods. The corporate activity-related DI moved almost sideways partly due to signs of a plateau in rising crude oil prices, despite the continuing impact of higher raw material prices. The employment-related DI rose, with fewer people evaluating employment conditions as being deteriorating and more saying that they remain unchanged, although new job offers have continued to decline.

The DI for future economic conditions in August rose 1.2 points from the previous month to 32.0, posting a rise for the first time in six months.

The DI for future economic conditions rose, primarily in the household sector, due to some expectation for a preferable influence of declining gasoline prices, although weak consumer confidence stemming from the rising prices of everyday household goods is likely to continue.

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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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| C | <ul style="list-style-type: none"> • Due partly to the dry, hot weather, the market price of vegetables remarkably dropped this month. As the drop backed the increase of home cooking amid rising food prices, etc., sales figures have been increasing. Sales also increased during the Bon festival period. Thanks to low temperatures in late August, higher unit priced products including hot-pot ingredients have been selling well. (Kinki: Supermarket) • Since the weather this summer has suddenly become cool earlier than usual, sales of summer clothing have struggled. On the other hand, sales of autumn clothing have been favorable. In particular, sales of boots for early autumn have been brisk. (Chugoku: Clothing shop) |
| D | <ul style="list-style-type: none"> • Sales of clothing remain severe overall. The sudden temperature drop in late August has especially had a negative impact on summer clearance sales. In addition, the start of the autumn clothing season has yet to create real demand. Sales of foods have been firm due to increased demand for ready-to-eat foods and rising unit prices, which were backed by people's tendency to hold off on making outings. Meanwhile, restaurants as a whole are in severe conditions due to the Olympics influence — the number of customers is lower than that of the previous year. (Southern Kanto: Department store) • Sales of TVs, which have thus far been favorable, started to decline with the end of the Beijing Olympic Games. Sales of air conditioners, which sold to an excessive degree last August, were considerably fewer than last year. Other products have been as sluggish as ever. (Hokuriku: Electric appliance retailer) |
| E | <ul style="list-style-type: none"> • The sales volume of cars for August was 90% of that of the previous year. There was a sense of lack of excitement at dealerships even on Saturdays and Sundays, despite a two-week exhibition of minor-changed new cars being held after the Bon holiday. (Tokai: Auto dealer) • The number of customers visiting shops for the first half of August was smaller than usual. The number of customers visiting shops in city centers picked up after the lunar Bon holiday season with the ratio reaching 95% of last year's level. However, the number of customers visiting suburban shops by car was around 60% compared with the average year. As such, we have been unable to secure the required number of customers at all. (Okinawa: Other restaurant [Pub]) |
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Corporate activity

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| C | <ul style="list-style-type: none"> • Demands in iron and steel products mainly for exports have been enjoying steady sales (Chugoku: Iron & steel) • Delivery for food-processing companies has been favourable as usual, thanks to increasing domestic product-oriented movements stemming from problems with food made in China. However, delivery for supermarkets, etc., has not grown much since consumers have been strongly defensive due to price hikes in various products (Kyushu: Agriculture, forestry and fishing) |
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D	<ul style="list-style-type: none"> Although the volume of goods has been at the same level as in the previous year, continuous high fuel prices are making it difficult to secure profits. Although we are negotiating with shippers over raising transportation prices, they are also under severe conditions due to higher raw material prices. As there is no legal standard for fuel surcharges, we can do almost nothing about that. (Northern Kanto: Transport industry) Bankruptcies of local civil engineers and building constructors have continued in western Japan. The construction industry has been seeing a continuing decline in profits. As a result, we have seen a rash of small- and medium-sized crane vendors and transportation companies quitting their businesses. As such, our customer bases are shrinking. (Shikoku: General machinery and tools manufacturer)
E	<ul style="list-style-type: none"> Poor performance of the condominium market has caused continuous cancellations of construction plans from real-estate agents, and caused a substantial deterioration of the environment of orders received. (Hokuriku: General contractor)

Employment

C	<ul style="list-style-type: none"> Although sales-related job offers stood out, job offers from automobile-related sectors in the manufacturing industry, and sectors related to electronics, oil products, and housing, have stalled partly due to the Bon holiday. (Northern Kanto: Temporary manpower company)
D	<ul style="list-style-type: none"> The number of dismissed workers has grown mainly in the construction industry, which has been greatly affected by the scaling down of public works projects and hikes in crude oil and raw material prices. The number has more than doubled compared to the previous year. (Tohoku: Job placement office)

2. Future conditions

Household activity

C	<ul style="list-style-type: none"> Diffusion of digital TVs is a positive factor; whereas the end of the Olympics Games is a negative one. (Southern Kanto: Telecommunications company) Consumption can remain flat or increase slowly, since gasoline prices are expected to fall slightly. (Tokai: General retailer [souvenirs])
D	<ul style="list-style-type: none"> Although prices of some products and gasoline have continued to decline, fisheries and other primary industries have taken measures including cessation of operations, which is promoting an overall sense of consumer anxiety. (Hokkaido: Convenience store) Supplies of autumn clothing have been tight, and this trend will be a cause of concern in winter as well. Makers witnessed a downturn in orders received for this year's autumn clothing, and apparently hastened the time of switch-over to spring and summer clothing for next year. Without items for sale, a decrease in sales is inevitable. (Hokuriku: Shopping area)

Corporate activity

C	<ul style="list-style-type: none"> While sales of construction machinery parts have somewhat increased, automobile parts have seen a slight decrease. (Northern Kanto: General machinery and apparatus manufacturer) Although we expected that lower crude oil prices and the low-valued yen trend would become a positive factor, the number of immediate orders received seems unfavourable. This month's low sales levels are likely to continue for some time to come. (Kinki: Chemical industry)
D	<ul style="list-style-type: none"> Against the backdrop of decreasing orders from finished car manufacturers, there is no doubt that parts manufacturers will further hold off on their capital investment. This is likely to have a wide-reaching impact on related industries. (Tokai: Transportation equipment maker)

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- We have witnessed a spate of requests for raising material prices and increasing subcontract processing charges. In addition, as we have imported parts from China, an increase in the purchase prices will increase, along with price hikes in that country, causing a large increase in cost burden. (Chugoku: Other manufacturer [Sporting goods])
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Employment

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| C | • The trends have remained unchanged compared to the previous three months. Job offers were down 20% from the same month last year and have been scraping along the bottom as they did last month. These trends are unlikely to change. (Hokkaido: Job information magazine publisher) |
| D | • The number of part-time job seekers has jumped, due to pressure on household economies by the hike in prices. There is a growing number of cases in which people, who are employed but have not yet expressed their intentions to quit their jobs, search for better jobs due to worries over their futures. These trends will continue for some time. (Kinki: Job placement office) |
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