

Economy Watchers Survey

February 2008

OVERVIEW OF THE MONTH

The DI for current economic conditions in February increased 1.8 points from the previous month to 33.6. With fewer people evaluating economic conditions as being on the decline and more saying that they remain unchanged, the DI for current conditions rose for the first time in 11 months.

Looking at the breakdown, the household activity-related DI rose amidst the unchanging thrift-oriented mentality of consumers stemming from the rising prices of everyday household goods due to favorable conditions for some winter items thanks to low temperatures as well as for some domestic foodstuffs as a result of increasing consumer awareness about food safety.

The corporate activity-related DI, amidst the continuing impact of rising crude oil and raw material prices, rose due to some corporations having secured their volume of orders received.

Despite ongoing declines in new job offers, the employment-related DI rose due to stable hiring interest among some corporations.

The DI for future economic conditions in February rose 3.7 points from the previous month to 39.5.

The DI for future economic conditions, amidst ongoing concerns regarding weakened consumer confidence etc. stemming from the rising prices of everyday household goods, rose primarily in the household sector for the first time in 10 months due to the anticipation of favorable conditions for video-related products as the public awaits the commencement of the Beijing 2008 Olympic Games.

On the whole, the assessments of the Economy Watchers indicate that the feeling of economic recovery has been extremely weak.

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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

B	<ul style="list-style-type: none"> Due to cooler temperatures than last year, sales of high unit-price items such as hot-pot ingredients have been favorable, and the market price of vegetables has also been high. In addition to excellent sales of domestic products ever since the incident involving pesticide-laced frozen food produced in China, sales of foodstuffs have been brisk due to increased intentions to prepare homemade meals, and this has in turn led to increases in both unit prices and sales figures. (Kinki: Supermarket)
C	<ul style="list-style-type: none"> Although there has been no significant change in the number of customers, the average amount spent by each customer has risen slightly due to the increase in the average amount spent at night by corporate customers. We are concerned, however, that the unit price for private customers is on the decline. (Southern Kanto: High-end restaurant) Despite the fact that new mobile phone models have come out, sales figures have been sluggish. Since prices have risen, customers are being more cautious about replacing their mobile phones. Competition amongst mobile phone companies for new contracts is beginning to intensify. (Hokuriku: Telecommunications company)
D	<ul style="list-style-type: none"> In line with the rising cost of foodstuffs, many restaurants have raised their lunch prices by 100 to 150 yen. Although the majority of salaried workers have accepted this situation with the attitude of “it simply can’t be helped,” there are some who have started buying rice ball sets etc. at convenience stores rather than going out for lunch. (Tohoku: Shopping area) Reservations for accommodations have been brisk, particularly for business guests, and the number of Korean tourist groups has been stable. There has been a significant decline in banquet-type events, particularly weddings, and we are still seeing a declining trend in company meetings that include food and drinks. (Kinki: Urban hotel)
E	<ul style="list-style-type: none"> Consumers are cutting back on expenses for nonessential items such as books due to the current trend of selecting safe food products even if they are comparatively expensive. This is due not only to consumers being more cautious of foods produced in China, but also to increasing grocery prices stemming from the rise in crude oil prices. (Kyushu: Other specialty stores [Books])

Corporate activity

C	<ul style="list-style-type: none"> Despite shipment volumes being down ever so slightly in comparison with those for the same period last year, our workload for the current term has been secured. However, rising costs are slowly beginning to affect our performance. (Tokai: General machinery and equipment manufacturing industry) Demand is still high, particularly in Asia, and we are continuing to operate at full production. (Chugoku: Steel industry)
D	<ul style="list-style-type: none"> No longer able to withstand high raw material prices, retail stores, restaurants and other such establishments have begun to raise their prices. However, since customers seem unwilling to accept these higher prices, customer numbers have slowly begun to decline. (Tohoku: Management consultant) Sales turned sluggish almost immediately for one of our important customers (a bread manufacturer) after it raised its prices, and it appears that the shift to the new selling price has been difficult. Meanwhile, there have also been some rather unusual circumstances that have occurred, such as a shortage of some oils, which led to the temporary inability to

guarantee supply from raw material manufacturers. (Kinki: Chemical industry)

Employment

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| C | <ul style="list-style-type: none"> We have entered the season in which interest in job offers really takes off, and vigorous job offer and job hunting activities are being expanded. However, we have not seen a significant change in the height of interest in job offers for the past three months. (Kyushu: School [University]) |
| D | <ul style="list-style-type: none"> Manufacturing industry job offers are witnessing a downward trend in terms of recruitment. There are still job offers remaining for cleaning and sales positions. According to a periphery firm, there is currently a trend towards a human resources shortage. (Northern Kanto: Temporary staffing company) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> Environmental problems raised by the G8 Hokkaido Toyako Summit have led consumers to an increased awareness of environmentally friendly products, and an increase in sales of value-added products can be anticipated. The demand for video-related products increases during an Olympic year. (Southern Kanto: Consumer electronics retailer) |
| C | <ul style="list-style-type: none"> There has been a decline in the frequency with which customers visit our store, i.e. customers who once came on a daily basis are now coming in just two or three days a week. In addition, the days with the most visitors are Triple-Point Day or other such special promotion days. This type of trend in which consumers are attempting to defend their livelihoods will continue. (Tohoku: Supermarket) As a result of the incident involving pesticide-laced frozen dumplings, reservations for travel to China have decreased, and the fuel surcharge has also had an impact on reservations for travel to countries other than China. Domestic reservations have been high, particularly for one-night stays. (Tokai: Travel agency) |
| D | <ul style="list-style-type: none"> The majority of customers recognize price hikes for foods such as cheese and butter as price inflation. This has in turn led to a trend towards cutting back on beauty-related expenses, and the situation will continue to worsen. (Hokkaido: Beauty salon) The feeling of the need to defend one's livelihood is mounting due to the sudden jump in crude oil prices and rising wheat prices. However, sales of food as a whole have been favorable, and motivating factors such as Valentine's Day etc. have led to a significant year-on-year increase of 20%, thus sales of food and gifts have remained strong. Sales of clothing have been a struggle due to the impact of seasonal conditions. (Okinawa: Department store) |
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Corporate activity

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| B | <ul style="list-style-type: none"> Looking ahead to the Beijing 2008 Olympic Games, movement of goods such as flat-screen TVs, high-vision recorders and other AV-related products has started to become even more active. (Kinki: Electrical machinery and equipment manufacturing industry) |
| C | <ul style="list-style-type: none"> It has already been decided that there will be a price hike in raw materials starting in April, and since the effect this price hike will have on our company will be quite severe, we will have no choice but to shift these prices or otherwise face worsening profits. Even if not the full amount, we expect our customers to consider a price increase to some extent. (Chugoku: Metal product manufacturing industry) Economic conditions will remain unchanged. Since we have been able to slowly begin selling new products, we are covered to a certain extent. (Shikoku: Pulp, paper and paper-processed products manufacturing industry) |
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| D | <ul style="list-style-type: none">• To prepare for the worsening of the economy, a growing number of companies around us are reducing expenses and lowering sales projections, thus leading us to believe that conditions will begin to worsen slightly hereafter. (Hokkaido: Communications industry)• The impact of not only oil-related raw materials but also imported iron and steel, coke, etc. will definitely begin to surface in April and onward. It takes a great deal of energy to take the plunge and actually raise product prices, and if we take into consideration the fact that there will be pullbacks in spending for a while following these price hikes, it can be assumed that we will be facing difficult times up until summer. (Northern Kanto: Chemical industry) |
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Employment

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| C | <ul style="list-style-type: none">• Since the number of outlet tenants will grow by as many as 20 shops, we plan on conducting joint interviews at the end of March. In addition, we are anticipating a hiring increase in the future due to the commencement of construction of a 66,100-square-meter home center slated for opening in early summer and for which applications are currently being taken for tenants. (Northern Kanto: Job advertisement magazine production company) |
| D | <ul style="list-style-type: none">• The number of job-seeking registrants for construction and public works related jobs has increased and a chill is being felt throughout the industry as a whole. The number of people considering retirement due to a feeling of insecurity about the future of their companies is increasing. (Shikoku: Private employment agency) |
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