

Economy Watchers Survey

July 2008

OVERVIEW OF THE MONTH

The DI for current economic conditions in July fell 0.2 points from the previous month to 29.3, posting a fall for the fourth consecutive month.

The household activity-related DI rose due mainly to brisk sales of summer goods prompted by the heat wave in eastern and western Japan, although a thrift-oriented mentality of consumers stemming from the further rises in prices of gasoline and everyday household goods became more prevalent.

The corporate activity-related DI dropped due to a decline in orders received in some sectors, in addition to the continuing impact of higher crude oil and raw material prices. The employment-related DI fell due mainly to continuing declines in new job offers.

The DI for future economic conditions in July fell 1.3 points from the previous month to 30.8, posting a decline for the fifth consecutive month.

The DI for future economic conditions fell, primarily in the household and employment sectors, due to continuing declines in new job offers and concerns about employment adjustments and bankruptcy, in addition to weakened consumer confidence stemming from the rising prices of everyday household goods and gasoline.

On the whole, the assessments of the Economy Watchers indicate that the current state of the economy is severe.

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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

C	<ul style="list-style-type: none"> • Although sales of air conditioners, in particular, are brisk thanks to the heat wave, those of products not affected by changes in temperature are seeing slower growth. In particular, sales of minor electric appliances are sluggish, resulting in a decrease in the number of customers visiting our stores. We are also having difficulties in selling PCs. (Southern Kanto: Mass retailer of consumer electronics) • Sales of swimsuits are firm thanks to the hot, dry weather. Sales were firm particularly because we faced an uphill battle in normal shopping seasons, but the volume of sales remained unchanged from the previous year. We don't feel that business has turned for the better. (Chugoku: Department store)
D	<ul style="list-style-type: none"> • Although the number of visitors to our morning-glory fair held here recently was higher than in the previous year, the visitors are keeping a tight hold on their purse strings. In previous fairs, many visitors purchased two or three pots of flowers, but this year most are buying only one pot. As a result, sales decreased 20% from the previous year. (Southern Kanto: Shopping mall) • When selling a car, we now have to spend a considerable time to explain fuel efficiency. Besides, an increasing number of customers are refraining from purchasing a car. Moreover, demand for car maintenance before the Bon holiday season has decreased sharply. (Kinki: Passenger car dealer)
E	<ul style="list-style-type: none"> • People's interest in traveling in the Tohoku region is decreasing again, following an earthquake in the northern part of Iwate Prefecture. The quake came just as reservations for overnight stay during the Bon holiday season began to increase, after the Iwate-Miyagi Inland Earthquake led to a sharp decrease in the number of guests. Also hard hit by higher gasoline prices, we are in a severe situation. (Tohoku: Japanese inn for tourists) • Due to a rise in gasoline prices, the number of customers visiting suburban stores by car has decreased drastically. Since customers give priority to daily necessities, the number of customers refraining from making book purchases is increasing. (Shikoku: General retail shop [book])

Corporate activity

C	<ul style="list-style-type: none"> • Sales of resin for use in construction have begun to pick up after remaining stagnant for several months, while sales of encapsulating resin for exports to China have kept brisk. It had been feared that stricter regulations in China, in connection with the 2008 Beijing Olympic Games, may adversely affect physical distribution and customs procedures in China. But, we don't see any major impact. (Kinki: Chemical industry)
D	<ul style="list-style-type: none"> • In many cases, small businesses with annual sales of about 100 million yen, and sole proprietors come to our offices to request refinancing of their existing loans to low-interest financial instruments, instead of making additional loan applications. (Kyushu: Financial) • Bankruptcies of our corporate customers caused by rises in production costs and purchase prices or the sluggish performance of the construction industry, and pressure to reduce physical distribution costs are continuing. (Okinawa: Transport industry)

E	<ul style="list-style-type: none"> • Until around spring, we were recruiting personnel due to a shortage of manpower, but since we have little work in July and August, we are dealing with the situation by shortening the work hours of part-timers and increasing days-off. The situation is considerably severe. (Northern Kanto: Electrical machinery equipment manufacturer) • Bankruptcies of major time-honored manufacturers are continuing due to an increase in exports, a rise in fuel prices and a decrease in new home construction. (Tokai: Ceramics, earth and clay product manufacturer)
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Employment

D	<ul style="list-style-type: none"> • The number of new job offers has decreased 24.8% from the same month of last year. Job offers by the manufacturing industry as a whole have decreased 32.7%. In particular, offers by the transport machinery industry posted a sharp 70.7% decline. (Tokai: Public employment security office)
E	<ul style="list-style-type: none"> • Some excellent people have received informal employment offers from more than one company, but those who have not are not given even a chance for a job interview. Demand for experienced workers who can offer immediate benefits is increasing, and companies that had eased their job requirements are now beginning to set higher requirements. (Chugoku: Private employment agency)

2. Future conditions

Household activity

C	<ul style="list-style-type: none"> • Although the restaurant division is on an upward trend, with sales of drinks increasing thanks to the hot summer, sales of high-priced massage services have decreased sharply. The situation is likely to remain unchanged for some time to come. (Hokuriku: Other leisure facilities) • Customers have firsthand knowledge that the unit prices of products are rising slowly on the whole. Customers have become less likely to buy extra things. This trend is likely to continue for a while. (Kyushu: Convenience store)
D	<ul style="list-style-type: none"> • Conversations with customers have left us with the impression that they are feeling very cautious due to the rising prices of various commodities, in particular, kerosene. With the kerosene consumption season coming in two to three months' time, we fear that customers may visit our store less often and buy less, out of consideration for their household budgets. (Hokkaido: Beauty salon) • With consumers increasingly shifting away from foodstuffs produced in China to those produced in Japan, if the prices of domestically produced foodstuffs remain high due to demand-and-supply balance, it is expected to further depress consumer spending. (Shikoku: Supermarket)

Corporate activity

C	<ul style="list-style-type: none"> • Although the level of orders received for products for use in Japan is lower than before, the volume of orders for low-priced products is increasing. On the whole, the situation will remain unchanged for the time being. (Hokuriku: Precision machine equipment manufacturer) • We have come to receive some inquiries about hybrid cars. However, no optimism is warranted, as companies in other types of businesses may enter the market and intensify cost-cutting competition. (Kyushu: Ordinary machinery and instrument manufacturer)
D	<ul style="list-style-type: none"> • Since there are few moves to develop new car models by finished car manufacturers, we have no auto part design or development jobs to do for new models. (Tokai: Transportation equipment maker) • Although the summer sales season is now in its final stage, the outlook for the coming autumn is bleak, with our award volume standing 30% lower than the level of last year. (Kinki: Textile)

Employment

- C** • While many companies are struggling with higher raw material prices, agriculture, which is one of the basic industries here, is bracing itself and farmers are striving to secure manpower ahead of the harvest season. (Hokkaido: Job information magazine publisher)
- D** • When we inquired as to the reason for not placing orders for replacement workers, many of our client companies responded that they want to have replacements but that their personnel departments would not give approval. This trend has just started but is likely to continue for some time to come. (Southern Kanto: Temporary manpower company)
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