

Economy Watchers Survey

August 2010

OVERVIEW OF THE MONTH

The DI for current economic conditions in August fell 4.7 points from the previous month to 45.1, posting a fall for the first time in two months.

The household activity-related DI fell mainly because of customer traffic decreases and poor sales of autumn clothing, most remarkably in the high street, despite strong sales of summer goods, including beverages and air conditioners, boosted by record-breaking hot weather this summer. The corporate activity-related DI fell allegedly due to, among others, a rapid deterioration of export conditions along with a sharp appreciation of the yen. The employment-related DI fell mainly because employers remained cautious about hiring new employees, especially regular employees, though there were some job offers from manufacturers, such as electrical machinery- and automobile-related companies.

The DI for future economic conditions in August fell 6.6 points from the previous month to 40.0.

The DI for future economic conditions fell in all the household activity-related, corporate activity-related and employment-related DIs, mainly due to concerns about the effects of the termination of the subsidies program for the purchase of environmentally friendly vehicles on sales and production of automobiles and on employment, as well as concerns about impacts of the rising yen and weak stock prices on the entire economy.

From the reasons mentioned above, the assessment of Economy Watchers indicated in this survey can be summarized as “the economy continues to be in a difficult situation, recently slowing down in its movements of picking up.”

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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

| <i>Household activity</i> | |
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| B | <ul style="list-style-type: none"> • In this unusually hot summer, summer-season home electrical appliances, such as air-conditioners and electric fans, are selling well, raising the overall level of sales. (Hokkaido: Home electric appliance retailer) • With the fierce heat this month, ice cream and sports drinks, among others, are selling quite well, and sales, which had been below last year's level, are now improving. (Chugoku: Convenience store) |
| C | <ul style="list-style-type: none"> • Last year travel orders received for the summer vacation declined due to the new strain of influenza. We expected orders to increase this year, but in fact there has been little growth so far compared with those we received two years ago. However, there has been a positive move resulting from the rising yen, as we have received some last-minute orders for August. (Kinki: Travel agency) |
| D | <ul style="list-style-type: none"> • Probably because of fierce heat this summer there are few people walking on the streets, leading to poor sales. There was no good economic news as bargain weeks also ended with poor results, and autumn goods sales are sluggish. (Northern Kanto: Shopping street) • Fierce heat this summer should encourage people to take a taxi even when going somewhere a few blocks away, but in fact there are few who do so. This must be a demonstration of how bad the economy is. There are also few people going out to drink at night. I feel business is getting worse. (Shikoku: Taxi driver) |
| <i>Corporate activity</i> | |
| B | <ul style="list-style-type: none"> • We have received an increasing number of inquiries about ways to improve internet environments in preparation for the shift to digital terrestrial broadcasting. The increase of inquiries has not yet been reflected by the number of orders received, but prospects are bright with ever increasing inquiries. (Southern Kanto: Other services [Information service]) |
| C | <ul style="list-style-type: none"> • With the fierce heat, beverages and home electrical appliances are showing a considerable growth in sales this summer compared to last year. On the other hand, little growth has been seen in food sales, as people have less appetite in the hot weather. There remains a polarization between goods that sell well and poorly. (Kyushu: Transport) |
| D | <ul style="list-style-type: none"> • The automobile parts sector is seeing a rapid deterioration of export conditions amid a sharp rise of the yen, causing a harmful impact on its performance. (Tohoku: Machinery & equipment) • Requests for price cuts are coming in continually from clients. We are happy to see a modest level of work received, but are worried about whether that will earn profits. (Tokai: Metal products manufacturer) |
| E | <ul style="list-style-type: none"> • An extraordinary level of fierce competition is continuing for acquiring orders, there still being few opportunities to receive orders with any profit secured. (Hokuriku: Construction business) |
| <i>Employment</i> | |
| B | <ul style="list-style-type: none"> • Job offers continue to increase with a recovery of orders mainly in the manufacturing sector. But the increase is seen mainly in non-regular jobs, such as part-timers and contract employees, while demand for regular workers remains weak. (Kinki: Employment) |

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| | security office) |
| C | <ul style="list-style-type: none"> There is no major change in circumstances from three months ago. The number of job offers indicates that, manufacturers, especially automobile and semiconductor makers, have started hiring new workers for their factories to increase production, while retailers and service businesses remain hesitant to hire, with little change overall. (Southern Kanto: Temporary manpower service) |

2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> Now it is the season when accrual demand for autumn and winter goods should emerge, but in fact consumer confidence is deteriorating as the Japanese economy remains sluggish amid a rising yen and falling stock prices. Business seems unlikely to pick up. (Northern Kanto: Clothing store) If the extended period of the “housing eco points” program and that of preferential mortgage rates successfully maintain a sense of advantage among consumers, business will turn to a positive direction. But the best thing we can expect now is current conditions being maintained. (Kinki: Housing dealer) |
| D | <ul style="list-style-type: none"> With the price rise of tobacco due in October, as a result of a tobacco tax increase, cigarette consumption should show a great decline, and smokers will visit convenience stores less often. That should lead to a decrease in sales of other goods there. We are expecting poor sales. (Hokkaido: Convenience store) Now the Japanese economy is in a difficult situation with the rising yen. The severe condition will continue as, for instance, the subsidies program for the purchase of environmentally friendly vehicles expires. Harsh environments are expected for tourism in Okinawa as it depends largely on tourists coming from outside the prefecture. (Okinawa: Tourist spot) |

Corporate activity

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| C | <ul style="list-style-type: none"> The appreciation of the yen and the termination of the subsidies program for the purchase of environmentally friendly vehicles have left the future of the economy more unpredictable. (Hokuriku: Electrical machinery, equipment & supplies) The eradication of foot-and-mouth disease has been declared, but it should take a long time before movement of people returns to the level before the epidemic. As there is no major event before the Kyushu Shikansen Line goes into full service in March next year, the status of the economy is unlikely to change for some time. The food industry will also remain unchanged as it is now. (Kyushu: Food industry) |
| D | <ul style="list-style-type: none"> Our company has not yet felt any direct impact of the rising yen or falling stock prices. But we expect a higher yen and weak stock prices will make a dent in our performance as we produce a great deal of goods for overseas markets. (Tohoku: Electrical machinery, equipment & supplies) We expect orders from our clients to fall from September, when the subsidies program for the purchase of environmentally friendly vehicles is due to terminate. The strengthening of the yen depresses sentiment all around the manufacturing sector, hampering capital investment. (Tokai: Steel industry) |

Employment

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| C | <ul style="list-style-type: none"> As business performance is now under threat with the impact of the rapidly appreciating yen and sharply falling stock prices, the future of employment is unpredictable. (Kyushu: Newspaper company [Job placement ads]) |
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