

Economy Watchers Survey

January 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in January fell 3.6 points from the previous month to 52.1.

The household activity-related DI fell due partly to opportunity losses caused by merchandise shortages, the impact of the reactionary fall from the brisk sales in the previous month and partly to the smaller number of customers caused by the heavy snow, although the New Year sales and winter clearance sales were mostly brisk. The corporate activity-related DI fell as the impact of the reactionary fall and the bad effects of heavy snow were felt in some sectors, although activities of both the manufacturing and non-manufacturing industries gained momentum. The employment-related DI remained high, reflecting an increase in the number of job seekers looking for employment with better terms, in addition to corporations' positive stance toward employment. As a result, the DI for current economic conditions fell for the first time in three months but remained above 50 for the ninth consecutive month.

The DI for future economic conditions in January rose 2.8 points from the previous month to 56.4.

The DI for future economic conditions rose for the second consecutive month as recovery of sightseeing demand and consumers' willingness to purchase are expected to increase.

On the whole, the assessments of the Economy Watchers indicate that the economy is recovering.

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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"> • The New Year sales recorded all-time single-day highs at every store. Clearance sales were also higher than in the previous year thanks to the severe winter, with per-customer transactions rising on the strength of brisk sales of winter clothing and merchandise. Sales of coats both at list price and on sale were brisk, and many brands did not discount their list prices. Sales of spring clothing began to increase on and after January 11. (Southern Kanto: Department store) • The number of visitors to newly built condominiums shows no major decrease in the Kinki area despite the scandal over fabricated structural calculation reports and sales of new condominium units, mainly large units, are rising smoothly. With unit prices beginning to reflect higher land prices, customers sensitive to interest rates seem to be in a hurry to purchase condos. (Kinki: Other housing [Magazine])
C	<ul style="list-style-type: none"> • Sales are lower than in the previous year due to the effects on attracting customers caused by the need to remove snow and opportunity losses caused by underproduction of women's coats, although there is demand for winter clothing and merchandise. (Tohoku: Department store) • We put 5% more fortune bags on the market this year, but they sold out faster than in the previous year. Sales of winter clothing and heating appliances remain brisk. A steep rise in vegetable prices caused a drop in consumer confidence, a rise in unit prices and a drop in the number of items purchased. Consumers spend freely on entertainment activities but they are frugal on normal days. (Northern Kanto: Supermarket) • The number of customers visiting our store for the purpose of buying digital home electric appliances, such as TVs, is decreasing. As a result, the number of visitors has decreased by about 10% from the previous year. (Shikoku: Electrical appliance retailer)
D	<ul style="list-style-type: none"> • Our sales are decreasing due to the effects of this year's snow, such as suspension of air and railway services and cancellation of reservations as a result. (Southern Kanto: Travel agency)

<i>Corporate activity</i>	
B	<ul style="list-style-type: none"> We have come to hear encouraging news from small and medium-sized corporations as well as big corporations. They are increasing investment in disaster prevention and security, showing that they have become careful about their production environments. (Kinki: Electrical machinery equipment manufacturer) There are capital investment requirements from manufacturers, especially from semiconductor-related smaller subcontractors and retailers, and buying offers etc. have been evident in response to such requirements. (Kyushu: Financial)
C	<ul style="list-style-type: none"> Business is slow this month, with total orders showing no increase. As for the condominium-related business, we had been concerned about adverse effects of the problem of falsified earthquake-resistance strength, but orders from major developers have increased. (Tohoku: Advertising agency) Although our prices fluctuated due to higher raw material prices, the prices at which we take orders are stable at the present moment. (Hokuriku: Plastic products)
D	<ul style="list-style-type: none"> Hard hit by a cold wave, we had large orders for forwarding heating appliances and related products, including oil heaters, electric heaters and humidifiers late last year, but this month's sales are sharply lower than in the previous year, apparently in reaction to the strong performance. (Northern Kanto: Forwarding agency)
<i>Employment</i>	
B	<ul style="list-style-type: none"> The number of currently employed workers looking for different jobs has increased by about 50% over the last five months. They are mostly looking for employment with better terms. The number of people completely out of work has decreased. (Hokuriku: Job placement office)
C	<ul style="list-style-type: none"> The shortage of engineers has resulted in increased overtime work, impairing the sound development of the industry. Corporations have begun to employ Indian engineers but systems to deal with language problems, etc. have yet to be put in place. (Tokai: Temporary manpower company)

2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> High-priced new cars are selling extremely well. The fact that high-priced products are selling well is a sign that the business will get better. (Tokai: Passenger car dealer) With media reports on the Turin Winter Olympics and the FIFA World Cup expected and thanks to longer-than-usual successive holidays in early May, business will improve in the months to come, as demand for travels heavily depends on customers' mood. (Kinki: Travel agency) Although sales actually dropped in January in reaction to the strong year-end sales last year, we expect sales of digital home electrical appliances, such as flat-screen TVs, will continue to be brisk as various sales-boosting events are scheduled for the months to come, including personnel reshuffles in spring, the start of terrestrial digital broadcasting, the Winter Olympics, and the FIFA World Cup. (Okinawa: Electrical appliance retailer) |
| C | <ul style="list-style-type: none"> It seems that, still, few people are going out drinking at night. But judging from customers' attitude, I don't think things will get any worse. The situation will continue unchanged for some time to come. (Chugoku: Taxi driver) There is a bipolarization in buying behaviour, where people buy either high-priced products or low-priced ones. Merchandise priced somewhere in between is not selling well. This trend will continue for some time. (Shikoku: Department store) |

Corporate activity

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| B | <ul style="list-style-type: none"> From what our corporate customer told me about the company's new fiscal year budget, we can expect to receive new business investment projects which we didn't have in several years, so expectations for the future are high. (Hokkaido: Telecommunications) With inquiries becoming relatively brisk and the contracted rate is reaching a figure close to 50%, our sales are increasing slightly on a year-to-year basis. (Southern Kanto: Electrical machinery equipment manufacturer) |
| C | <ul style="list-style-type: none"> The U.S. automobile industry is negative about business investment. Although Japanese automakers are thriving, they are not likely to spend as much on capital investment as they did last year. Orders will remain flat or decrease slightly overall. (Tokai: Ordinary machinery and instrument manufacturer) Hard hit by the heaviest snow in 20 years, a lot of construction work scheduled to be completed by the end of December has seen deadlines extended until the end of March. Therefore, we can manage in terms of having work until March. But with local governments slashing their fiscal 2006 budgets almost across the board, we have absolutely no prospects for receiving orders in and after April. (Hokuriku: General contractor) |

Employment

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| B | <ul style="list-style-type: none"> The employment situation of regular employees continues to improve, suggesting that corporations are confident about their future business. The trend is conspicuous in the manufacturing industry, in particular. (Kinki: Temporary manpower company) |
| C | <ul style="list-style-type: none"> An electrical machinery equipment manufacturer is planning to cut 30 or more jobs due to a decline in orders received. However, the number of new job offers for full-time workers has been increasing more than that for part-timers, broadening the choices available to those seeking a steady job. The number of people who have actually landed a job has increased from the previous year. (Chugoku: Job placement office) |