

Economy Watchers Survey

June 2004

OVERVIEW OF THE MONTH

The DI for current economic conditions in June fell 1.4 points from the previous month to 51.4.

The household activity-related DI dropped. In detail, retail sales levelled off as consumers waited for bargain sales at department and other stores even amid brisk sales of digital home electric appliances ahead of the Athens Olympics and steady sales of air conditioners. In the services sector, the services sector DI dropped as tourism felt the ill-effects of typhoons. The corporate activity-related DI also levelled off as the impact of rising raw materials prices was offset by that of a high capacity utilization rate. The employment-related DI remained at a high level due mainly to a continued increase in the number of job offers and a movement to resume hiring of new graduates. As a result, the DI for current economic conditions decreased for the second consecutive month, while remaining above 50 indicating a levelling-off for five consecutive months.

The DI for future economic conditions in June fell 0.9 point from the previous month to 54.1.

Anticipation of a hot summer triggered concerns over slow sales of autumn wear and rising prices of raw materials are expected to affect corporate production and profits. These adverse factors outweighed expectations of rising summer bonuses as well as a favorable reaction to last summer's unusually cool weather, leading the DI to drop slightly. As a result, the DI for future economic conditions decreased for the second consecutive month, while remaining above 50 for six consecutive months.

On the whole, the assessments of the Economy Watchers remained almost unchanged from three months earlier, indicating a continued economic recovery.

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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>	
B	<ul style="list-style-type: none"> • This month, consumers are refraining from buying summer wear and waiting for bargain sales. But luxury brand goods, which are not subject to any bargain sales, are selling well irrespective of the season. Courtesy gift sales like summer gifts are recovering after a decline amid recession. (Tokai: Department store) • Thin TV set sales remain steady. In addition, air conditioners and refrigerators are selling well as hot humid weather continues. (Shikoku: Large electric home appliance store)
C	<ul style="list-style-type: none"> • Orders for various general social occasions are normal and revenues from other social occasions are falling slightly. But revenues from wedding ceremonies and parties have suffered a substantial decline. Some booming industries like the cellular phone sector use hotels increasingly. But hotel users from the public sector, contractors and real estate firms have declined and failed to recover. We do not share the same sense of economic recovery as reported. (Tohoku: Urban hotel) • June has one fewer Sunday than last year and the rainy season started earlier than usual, increasing the amount of bad weather. These factors lead to generally sluggish sales growth. Among women's wear products, autumn goods have begun to sell. But women consumers now refrain from buying summer wear ahead of bargain sales. Women's wear sales are thus generally sluggish. Men's wear sales are steady thanks to demand toward the Father's Day. Sales of food and household goods have slipped below the year-before levels as summer gift sales remains slow. (Southern Kanto: Department store) • Gaps between bonus-paying and other companies are wider than a year before. (Kinki: Taxi driver)
D	<ul style="list-style-type: none"> • Sales are declining as typhoons brought about cancellation of reservations for school and other group tours and a decline in the number of marine leisure lodgers. (Okinawa: Tourist hotel)
<i>Corporate activity</i>	
B	<ul style="list-style-type: none"> • Production remains at high levels on account of robust sales of new vehicles centering around exports. Although requests have grown for cutting unit prices, producers have taken advantage of volume efficiency to boost profits. Many corporate clients are planning to increase business investment from the previous year. (Chugoku: Bank) • Order receipts indicate economic recovery, allowing us to positively consider business investment and job offers. (Kyushu: Ordinary machinery and instrument manufacturer)
C	<ul style="list-style-type: none"> • The impact of rising steel prices is prevalent. On top of price hikes, there are an increasing number of cases where deliveries fail to meet deadlines due to tight supply. (Kinki: Ordinary machinery and instrument manufacturer)
D	<ul style="list-style-type: none"> • No change is seen in the pace of order receipts. In some cases, however, we had to give up deals amid an excessive price-cutting race. (Hokuriku: Chemical manufacturer)

Employment

B	• In June, additional job offers emerged suddenly for new graduates. These offers predominantly took the form of seminar notices. Although planned seminars are not necessarily large in financial terms, they could lead to an increase in employment of new graduates next year. (Southern Kanto: Job magazine producer)
C	• The number of job offers has not changed significantly. Job offers are still abundant for part-time and temporary workers. Some manufacturers have slightly expanded job offers for regular employees. (Northern Kanto: Job magazine producer)

2. Future conditions

Household activity

B	<ul style="list-style-type: none"> • If media reports of economic recovery are coupled with increased bonus payments to allow consumers to really feel an economic pickup, new car sales may achieve year-on-year growth in the July-September quarter when demand usually expands due to replacements of cars. As automakers launch new models from late summer to autumn, demand will grow to some extent. (Tohoku: Car dealer) • As a severer-than-normal heat wave is forecast later this summer, robust demand can be expected for new-model air conditioners that can clean air, large-screen TV sets and other home appliances. (Hokuriku: Large electric home appliance store)
C	<ul style="list-style-type: none"> • We have little expectation of economic recovery as the continued absence of bonuses is noted in addition to sluggish performances of Hokkaido companies. (Hokkaido: Supermarket store) • Although bright signs emerged in early spring, visitor players have recently declined. Reservations for the next three months have slipped below year-before levels. No optimism can be warranted. (Tokai: Golf club) • While luxury menswear sales are likely to increase in the future, present inquiry circumstances indicate slow demand for arts and jewelry. Unless new appealing products emerge, no change for the better can be expected. (Kinki: Department store)
D	<ul style="list-style-type: none"> • Spring wear sales were weak. A severer-than-normal heat wave is forecast later this summer indicates a tough fight for sales in August and early September. (Southern Kanto: Apparel store)

Corporate activity

B	<ul style="list-style-type: none"> • Some improvements can be expected as land prices have stopped declining in some residential and industrial zones and inquiries have increased for land in the commercial zone. (Southern Kanto: Real estate broker)
C	<ul style="list-style-type: none"> • In the metal and related products industry, rising prices of raw materials may be capping progress. (Hokkaido: Metal products manufacturer)

Employment

B	<ul style="list-style-type: none"> • We expect a change for the better since an increasing number of companies in every industry are willing to invest more money and effort for recruiting candidates for executive positions though they had been refraining from such acts. (Tohoku: Temporary manpower company)
C	<ul style="list-style-type: none"> • In some parts of the manufacturing sector, fears of small bubbles have prompted managers to become prudent (Northern Kanto: Private job placement agency)