

Economy Watchers Survey

October 2005

OVERVIEW OF THE MONTH

The DI for current economic conditions in October fell 1.0 points from the previous month to 50.7.

The household activity-related DI fell due to sluggish sales of automobiles in addition to slow sales of autumn and winter apparel in the retail-related sectors caused by high temperatures. The corporate activity-related DI fell slightly mainly in the manufacturing industry as the impact of higher crude oil and raw material prices continued to be felt. The employment-related DI remained high as the number of job offers continued to increase steadily, with the number of regular employees and dispatched temporary workers who are scheduled to be employed as full-time workers after the term of their dispatch increasing, and reflecting a labor shortage. As a result, the DI for current economic conditions remained above 50 for the sixth consecutive month, although it fell for the first time in three months.

The DI for future economic conditions in October rose 0.3 points from the previous month to 53.4.

The DI for future economic conditions rose for the second consecutive month on expectations of an increase in consumers' willingness to purchase, although concerns about higher crude oil and raw material prices remain unabated.

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

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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"> • The number of customers is 5-10% higher than in the previous year. Sales of high-priced products, such as thin TVs for terrestrial digital broadcasting, are increasing toward the end of the year. (Northern Kanto: Electric appliance retailer) • Conditions are good, with the restaurant adjacent to our golf practice range receiving bookings for year-end parties earlier than usual. But sales at the golf practice range remain unchanged. (Southern Kanto: Golf practice range) • There is a bipolarization in the consumption pattern – one pole focused on low-priced products, the other on high-priced ones. Both are selling well. For instance, 100-200 “best bargain” handbags we offer were sold out in a short period of time, while expensive accessories priced 100,000 to 200,000 yen are also selling well. (Hokuriku: Department store)
C	<ul style="list-style-type: none"> • Although sales of autumn clothing got off to a good start, consumer’s willingness to purchase autumn and winter clothing has declined since the beginning of October as the temperature did not fall as much as we expected. (Hokkaido: Shopping area) • Although conditions are definitely better than a year earlier when the Chuetsu earthquake took place or even 2 to 3 months ago, the number of customers is not so increasing as we expected to become. There are many more last-minute cancellations of reservations by groups than last-minute reservations by individuals. Currently, therefore, we are not having as many customers as we originally expected. (Tohoku: Tourist inn)
D	<ul style="list-style-type: none"> • Business conditions, especially for dealers handling large vehicles, are severe due mainly to a rise in gasoline prices. Business negotiations tend to take longer over fuel consumption and due to customers’ concerns about future outlook. (Chugoku: Passenger car dealer)
<i>Corporate activity</i>	
B	<ul style="list-style-type: none"> • Automobile-related firms are enjoying brisk business, and the real estate and service industries are also benefiting. With loans from financial institutions becoming easily available, the financial conditions of small and medium-sized enterprises suffering from low profitability due to overborrowing has become stable to some extent. (Tokai: Certified public accountant) • Business investment by corporations related to electric machinery, chemical, or electrical materials has begun to increase, albeit slowly. In particular, electrical material-related corporations are actively making capital investment in preparation for mass production. (Shikoku: Electrical machinery equipment manufacturer)
C	<ul style="list-style-type: none"> • Our profit margin is decreasing, as we cannot raise freight charges in response to the rising transportation costs caused by higher crude oil prices. (Hokuriku: Forwarding agency) • Although domestic sales are increasing and overseas sales remain firm, we are in a severe situation due to an increase in production costs caused by higher raw material prices. (Chugoku: Ordinary machinery and instrument manufacturer)
D	<ul style="list-style-type: none"> • Orders received have decreased 10% from the previous year and we are required to reduce costs by 5% in October and by 10% annually. With profits declining due to the rising costs caused by higher fuel prices, we are in a very severe business situation. (Northern Kanto: Transportation equipment manufacturer)

<i>Employment</i>	
B	<ul style="list-style-type: none">• Although the number of job offers remains almost unchanged, the percentage of job offers for regular workers in the total number of job offers has been increasing. (Southern Kanto: Job information magazine publisher)
C	<ul style="list-style-type: none">• Corporations, especially those in the financial industry, are actively hiring dispatched temporary workers. In addition to corporations hiring dispatched temporary workers on a regular basis, the number of corporations that have begun to hire dispatched temporary workers has increased. (Tokai: Temporary manpower company)

2. Future conditions

<i>Household activity</i>	
B	<ul style="list-style-type: none"> In line with falling temperatures, sales of products related to the “Warm Biz” campaign that promotes wearing of warm wear are firm and they are likely to increase further toward the end of the year. With orders from corporations showing signs of a pickup, we are counting on better performance in the year-end gift market than in the previous year. (Kyushu: Department store) We see favorable trends ahead of the year-end demand season. With consumers seeing prices of large-screen, thin TVs, such as liquid-crystal TVs, reasonable, sales of 32- to 37-inch TVs have become brisk. (Okinawa: Electric appliance retailer)
C	<ul style="list-style-type: none"> Since customers continue to shop around, we can maintain the current number of customers visiting our outlet, but per-customer transactions may decrease. With a rise in kerosene prices hitting household budget in the coming winter, spending on foods will decrease. (Hokuriku: Supermarket) With no major events scheduled from late autumn to winter, the situation will remain unchanged for the rest of the current business year, except for a brief period when a winter event is scheduled. (Chugoku: Theme park)
D	<ul style="list-style-type: none"> Movement of people will shrink affected by such factors as the terrorism in Bali, Indonesia, the global bird flu epidemic expanding to Europe, decreased number of flights by air carriers, and downsizing of equipment and materials. (Hokkaido: Travel agency)
<i>Corporate activity</i>	
B	<ul style="list-style-type: none"> With production of new parts for four-wheel-drive vehicles starting in earnest, we intend to run our facilities, including those newly expanded, at full capacity. Orders for hydraulic equipment parts have begun to increase gradually. We have also received inquiries for surplus work in the Kansai area. (Northern Kanto: Ordinary machinery and instrument manufacturer) Manufacturers of precision machinery components are doing brisk business thanks to orders from big corporations. Some of them are finding that their existing plants have become overcrowded and are planning to build new plants in the future. (Southern Kanto: Financial)
C	<ul style="list-style-type: none"> Orders received are on a recovery trend. However, production costs are rising due to increases in packing and wrapping costs and fuel costs caused by higher crude oil prices, while we are unable to pass the higher costs on to our products. This has been putting downward pressure on our profits. (Tokai: Food and related products)
D	<ul style="list-style-type: none"> We often hear about cutting salaries of local government workers. The rising kerosene prices destabilize the livelihood of people living in northern Japan. For these reasons, the declines in land transactions and new housing starts this year will be sharper than in usual years. (Hokkaido: Judicial scrivener)
<i>Employment</i>	
B	<ul style="list-style-type: none"> The requests for job placement from corporations will continue to increase for some time to come. Unable to secure a sufficient number of new college graduates next spring, an increasing number of corporations is shifting to hiring dispatched temporary workers and those who are scheduled to be employed as full-time workers after the term of their dispatch. (Kinki: Temporary manpower company)
C	<ul style="list-style-type: none"> Mid-career recruiting by big corporations appears to have decreased. But the number of job offers will not decrease much for some time to come. (Chugoku: Job placement office)