

Economy Watchers Survey

August 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in August rose 1.8 points from the previous month to 50.2.

The household activity-related DI picked up as sightseeing demand was firm as well as owing to good weather and strong sales of summer goods. The corporate activity-related DI fell as the continued negative influence of higher crude oil and raw material prices was felt, and orders have begun to show signs of levelling off in some sectors. The employment-related DI rose as corporations' hiring interest remained high. As a result, the DI for current economic conditions rose for the first time in five months, and rose above 50 for the first time in three months.

The DI for future economic conditions in August rose 1.7 points from the previous month to 51.5.

The DI for future economic conditions rose for the first time in 6 months on expectations that consumer confidence will remain stable, although there are especially concerns about the adverse effects of higher crude oil prices on manufacturers.

On the whole, the assessments of the Economy Watchers indicate that the economic recovery has become moderate.

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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"> • Sales of midsummer products are brisk thanks to a rise in temperature, and we are likely to hit the same amount of sales achieved in the same month of the previous year in only 20 days. In particular, sales of drinks, ice cream and other products whose sales are swayed by temperature are strong. (Northern Kanto: Supermarket) • Inquiries about group tours have increased greatly. Telephone inquiries kept coming even during the Bon festival period, when such inquiries usually decrease. (Southern Kanto: Travel agency) • Sales of thin TVs, terrestrial digital broadcasting TVs-related products, and air conditioners are brisk. (Kyushu: Electric appliance retailer)
C	<ul style="list-style-type: none"> • Thanks to good weather, drinks, ice cream, and beer, etc. sold well. Sales increased 5% over the previous year. However, the good weather had adverse effects on some products, with sales of <i>onigiri</i> rice balls, packed lunches and breads which mainly constitute the sales of convenience store expected to decrease from the previous year. (Hokuriku: Convenience store) • Due to a long spell of hot weather, sales of only low-priced women's clothing, such as T-shirts and jersey clothing, were brisk. Perhaps, due to a sharp rise in gasoline prices, consumers tend to buy low-priced products. For instance, sales of separated midsummer gift sets for individual resale hit an all-time high. (Chugoku: Department store)
D	<ul style="list-style-type: none"> • Although we had some customers in the first half of August, customers stopped coming, maybe due to the lingering summer heat. We are open but not doing business. (Kinki: Snack bar)

Corporate activity

B	<ul style="list-style-type: none"> • Although apparel makers had been refraining from placing orders ahead of exhibitions, they began to place orders in order to increase the selection of fast-moving clothing. We are afraid that we may not be able to meet the delivery date. (Tohoku: Textile) • Carmakers are operating at full capacity, backed by strong sales of their leading models mainly for exports. Although raw materials and labor costs are continuing to rise, the carmakers are seeing their profitability improving, as the higher costs are passed on to product prices and their productivity has been enhanced. (Chugoku: Financial)
C	<ul style="list-style-type: none"> • Although crude oil prices remain at a high level, there is no change in the production volume at factories manufacturing paper and pulp, fertilizers, feedstuff, and drinks, etc. (Hokkaido: Forwarding agency) • Although we are extremely busy, our award volume has remained almost unchanged. Corporations are cautious about business investment. (Tokai: Other non-manufacturing [software development])
D	<ul style="list-style-type: none"> • Due to higher oil prices and 20~30% rises in aluminum and metal material prices, our business prospects have been clouded. If we raise our product prices, we cannot clinch contracts. (Southern Kanto: Electric machinery equipment manufacturer)

Employment

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| B | • Job offers for the second half of the fiscal year and for the end of the year have already become active, more than one month earlier than usual. Corporations have strong hiring interest and a positive attitude to secure human resources. (Kyushu: Private placement agency) |
| C | • The number of small enterprises offering jobs for the first time in several years has been increasing. However, job seekers are not enthusiastic about the offers, as wages and working conditions are not attractive to them. (Hokuriku: Job placement office) |
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2. Future conditions

Household activity

B	<ul style="list-style-type: none"> The rising trend that has been continuing since the beginning of this year, though not likely to lead to an extremely good condition, is surprisingly steady. (Southern Kanto: Shopping area) Inquiries about group tours in October and November have been increasing. As for private travel, the elderly have a strong interest in overseas travel and many of them visit our office. (Shikoku: Travel agency)
C	<ul style="list-style-type: none"> Both the number of customers and sales have increased, as the weather has become better. Consumers are not exclusively oriented toward low priced products. Regular beers are selling faster than low-priced “beers,” such as low-malt beers. However, the present pattern would change if the weather becomes unseasonably worse, as consumers are basically seeking low-priced products. (Hokkaido: Convenience store) Since “conscientious” products, such as handmade or homemade products, draw huge reactions from customers, we intend to secure such products in order to increase customers. We also intend to increase sales in the second half by beefing up sales staff and enhancing customer services. (Kinki: Department store)
D	<ul style="list-style-type: none"> Higher fuel costs are having adverse impacts on the regional economy in our fisheries-based district. The use of our hotel by local people is not increasing. We fear that our business may get worse rather than get better. (Tokai: Tourist hotel)

Corporate activity

B	<ul style="list-style-type: none"> We had expected our business to remain unchanged for some time to come. However, our business is relatively good, and other companies around us report better-than-expected increases in orders received. (Hokkaido: Telecommunications)
C	<ul style="list-style-type: none"> Our corporate customers are enjoying their business recovery. They may feel the negative impact of a price hike in the future, but for the time being, the current situation will continue. (Kinki: Chemical products) Many corporations say they will cut or maintain advertisement expenditures. But mobile phone-related companies are expected to increase outlays for advertisement due to changes in regulations. So, sales as a whole will remain unchanged. (Shikoku: Advertising agency)
D	<ul style="list-style-type: none"> With orders for mobile phone-related products, machine tools, and white goods such as air conditioners decreasing, manufacturers and component makers are bearish and taking a wait-and-see stance, a phenomenon not seen in the last one year or so. (Chugoku: Electric machinery equipment manufacturer)

Employment

B	<ul style="list-style-type: none"> We expect the number of dispatched temporary workers to remain steady for some time to come, as requests for temporary workers have increased from a wide range of industries, including one-time users and those who used dispatched temporary workers during the bubble years. (Okinawa: Temporary manpower company)
C	<ul style="list-style-type: none"> Several manufacturers have switched their job offers from non-regular workers to regular workers due to the lack of job applicants. But, the outlook remains uncertain, as more than half of job offers are still for non-regular workers. (Hokuriku: Job placement office)