

Economy Watchers Survey

March 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in March rose 3.8 points from the previous month to 57.3.

The household activity-related DI rose thanks to the brisk demand for sightseeing and eating out as well as brisk sales of spring clothing and high-priced products in the retail-related sector. The corporate activity-related DI rose as 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 and conditions, in addition to corporations' positive stance toward employment. As a result, the DI for current economic conditions rose for the second consecutive month and remained above 50 for the 11th consecutive month.

The DI for future economic conditions in March fell 0.4 points from the previous month to 56.2.

The DI for future economic conditions fell for the first time in four months, mainly in the manufacturing industry, due to concern that crude oil and raw material prices will remain at high levels, although consumers' willingness to purchase are expected to increase and corporate business investment is expected to remain brisk.

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

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| B | <ul style="list-style-type: none"> • Sales of spring clothing began to pick up in line with a rise in temperature starting in late February. This trend remained unchanged despite a slight recurrence of cold in March. As a result, all sectors have achieved their sales targets. Sales of high-priced items, such as imported brand products, up-market watches, and jewelry, have also picked up. (Tohoku: Department store) • Although we increased prices of some products in March, it did not result in a decrease in the number of customers. On the contrary, it resulted in higher sales thanks to an increase in per-customer transactions. Reservations for higher-priced welcome and farewell parties are increasing. (Chugoku: Standard class restaurant) • Although unit prices are not rising, the number of overnight guests, local parties, and lunch time customers has increased slightly. Although high-priced products are not selling well, customers are showing their willingness to spend. (Shikoku: Tourist hotel) |
| C | <ul style="list-style-type: none"> • Sales of spring suits and coats are brisk. Although the number of customers and items purchased are increasing, unit prices of foods have been continuing their decline. Food makers have come up with many health-conscious products. Such health-conscious products and products related to memorial days, such as White Day, are selling well regardless of their unit prices. (Northern Kanto: Supermarket) • Last-minute demands for travel during spring holidays are increasing. Advanced reservations for family tours, both domestic and overseas travel, during Golden Week holidays are also brisk. (Kinki: Travel agency) |

Corporate activity

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| B | <ul style="list-style-type: none"> • Although demand for short-term working capital has been on the decrease reflecting the improvement of financial positions of corporations with better business conditions, demand for funds for business investment remains brisk from manufacturing industries, such as automobile parts and machine and metal products. (Northern Kanto: Financial) • We asked for revision of the prices of price-negotiated products due to a rise in material costs in the last year and most of our customers have shown their understanding. (Kinki: Electrical machinery equipment manufacturer) |
| C | <ul style="list-style-type: none"> • Although inquiries for communication equipment have become active in some industries, corporations as a whole remain cautious. The decrease in inquiries for high-priced products has slackened, but corporations' interest in low-priced services utilizing the Internet remains as strong as ever. (Chugoku: Telecommunications) • Although orders received and sales remain unchanged from the previous year, we are unable to pass on the rise in gas bill to customers. New products do not sell well unless they are unique and functional. (Kyushu: Ceramic, stone and clay product manufacturer) |
| D | <ul style="list-style-type: none"> • Users are demanding lower prices, while manufacturers are unable to lower prices due to higher material costs. (Shikoku: Ordinary machinery and equipment manufacturer) |

Employment

- B** • When business is in the doldrums, the number of job seekers increases due to corporate downsizing. Recently, however, the number of job seekers is increasing despite improvement in business conditions. In particular, the number of currently employed young workers seeking alternative employment has increased. (Kyushu: Job placement office)
- C** • An increasing number of corporations are offering direct employment of those dispatched temporary workers who are now working for them. There are also many inquiries for dispatched temporary workers concerning mid-career hiring who are to be employed as full-time workers after the term of their dispatch. At the same time, the use of ordinary dispatched temporary workers is increasing, indicating a gradual rise in labor shortage. (Tohoku: Temporary manpower company)
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> • Advanced reservations for both domestic and overseas travels have been brisk. The customer base has been expanding, with family tours rather than senior married-couples' tours increasing. (Hokkaido: Travel agency) • The fashion trend for spring this year is white. The color white has been conventionally shunned in clothing and sundry goods such as white-colored goods soil easily. However, white is widely used this year. The number of people with a sense of fun to enjoy fashion will further increase. (Hokuriku: Department store) • With last-minute demand expected due to a rise in interest rates, we count on receiving orders 2 to 3 months from now. (Shikoku: Housing supplier) |
| C | <ul style="list-style-type: none"> • Customers in the automobile-related industries say they can expect a basic wage hike and bonus increase, but other customers often talk about negative aspects. Economic situation will remain unchanged. (Tokai: Taxi driver) • The competition has further intensified due to the opening of new outlets. Customers go to one store to another, seeking advertised products. They do not buy in bulk at one store. This situation will continue for some time to come. (Okinawa: Supermarket) |

Corporate activity

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| B | <ul style="list-style-type: none"> • There are many inquiries about optical IP phones using optical fiber from small corporations that have been withholding purchase of phones. Business investment-related consumption will increase. (Hokuriku: Telecommunications) • Various business managers have become interested in land, with many of them asking questions about a rise in land prices, etc. They appear to be considering business investment in real earnest. (Shikoku: Certified public accountant) |
| C | <ul style="list-style-type: none"> • In the manufacturing industry, manpower and equipment shortages have become conspicuous in corporations with increased sales, but corporations with no special means for diversification are facing difficulties. We are not sure if the business will pick up on the whole. (Southern Kanto: Financial) • Although prices of packaging and other materials and heavy oil keep rising, we are unable to pass them on to retail prices. With sales volume showing no increase, the situation will remain severe for a while. (Tokai: Foods and related products) |
| D | <ul style="list-style-type: none"> • Although award volume and output have been moving sideways, chances are that the severe condition will intensify due to many destabilizing factors with regard to the future. For one thing, purchase prices of raw materials have remained at a high level. For another, a wage rate revision is in the offing in spring. In addition, the prices at which we get orders are fluid. (Chugoku: Transportation equipment) |

Employment

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| B | <ul style="list-style-type: none"> • Corporations' willingness to offer jobs remain strong, with the number of new job offers having kept rising for 44 consecutive months. Since it is difficult to meet labor requirements with part-timers and dispatched temporary workers, corporations are revising terms and conditions of employment or shifting to the employment of regular workers. (Kinki: Job placement office) |
| C | <ul style="list-style-type: none"> • Although job offers have increased from corporations that had not been using job placement offices for a long time, the situation is not likely to improve as some corporations are planning to cut personnel due to worsening financial conditions. (Northern Kanto: Job placement office) |