

Economy Watchers Survey

September 2006

OVERVIEW OF THE MONTH

The DI for current economic conditions in September rose 0.8 points from the previous month to 51.0.

The household activity-related DI remained almost flat as goods sales in coats, boots and other seasonal goods ahead of winter were not strong enough to boost overall sales. The corporate activity-related DI rose as orders received by manufacturers picked up, although higher crude oil and raw material prices continued to have a negative influence. The employment-related DI rose as corporations' emphasis on hiring remained strong. As a result, the DI for current economic conditions rose for the second consecutive month and remained above 50 for the second consecutive month.

The DI for future economic conditions in September rose 1.3 points from the previous month to 52.8.

The DI for future economic conditions rose for the second consecutive month as the negative impact of higher crude oil prices has subsided slightly and influenced by expectations that corporations' business investment intention is high and that consumer confidence is firm.

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">• Although it has become difficult to make reservations for trips due to the tourist season, customers come to our office to apply for reservations at slightly higher than average rates, ready to pay in cash. (Tohoku: Travel agency)• Sales are increasing smoothly in September thanks to fine weather and mild temperatures. Due to a sharp drop in temperature in mid-September, leather, mouton, cashmere goods, and coats are selling well ahead of schedule. Sales in high-priced goods, which hit bottom in June due to sluggish stock price movements and remained at levels lower than those of a year previous for the next three consecutive months, began to show signs of recovery in August and September. (Southern Kanto: Department store)• The number of customers visiting our store has increased by about 10% over the previous year. An increasing number of customers come to deliberate over the choosing of products and they listen to our descriptions of products. (Shikoku: Electric appliance retailer) |
| C | <ul style="list-style-type: none">• Although our business has been steady thanks to the opening of a new attraction, we do not feel that our business and that of neighboring tourist facilities has gotten better due to unfavorable weather conditions, such as typhoons. (Northern Kanto: Amusement park)• Although customers are positive about purchasing, they are very cautious. The number of customers at the early stage of conducting research into purchasing has increased noticeably. (Chugoku: Housing-related shop) |
| D | <ul style="list-style-type: none">• Although the number of customers visiting our store has remained unchanged, sales have decreased due to a drop in per-customer transactions caused by a decrease in the number of items purchased. In September, customers usually buy goods as they are in summer. However, this year, their interest to purchase dwindled rapidly. (Hokuriku: Convenience store) |
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Corporate activity

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| B | <ul style="list-style-type: none">• With weather being stable and the prices of fuel, such as gasoline, declining, our sense of insecurity has eased. Orders received by building contractors remain almost as brisk as they were in the previous month. (Tokai: Accounting firm)• Mobile phone-related manufacturers are bullish about their order receipts and overall sales conditions ahead of the inauguration of the mobile number portability system in October. Automobile-related manufacturers are also operating at full capacity and they see no signs of decline in their orders received thanks to brisk performance in domestics and foreign countries, such as United States, European countries and Asia. (Chugoku: Electrical machinery and equipment manufacturer) |
| C | <ul style="list-style-type: none">• Orders received by automotive parts and semiconductor manufacturers are brisk. As for the impact of higher crude oil prices, although sales are not decreasing, the higher crude oil prices are having an impact on profits. Some of our corporate customers involved in forwarding business have raised their commissions by 10-20%. (Northern Kanto: Financial)• Although orders received have been slowing due in part to the revision of the subcontract system, our orders received have been unexpectedly steady as the price adjustment caused by higher material prices has run its course. (Shikoku: Ordinary machinery and instrument manufacturer) |
| D | <ul style="list-style-type: none">• Orders in the automotive sector, which has been serving as an engine of our business, began to decrease. (Kinki: Metal product manufacturer) |

Employment

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| B | <ul style="list-style-type: none">• Autumn recruitment of employees by major corporations is in its final stage, while small and medium-sized enterprises are actively visiting universities to secure their planned number of employees. (Kinki: School [University]) |
| C | <ul style="list-style-type: none">• Corporations' willingness to employ regular workers is as strong as ever. They are willing to employ workers in order to expand their businesses rather than to fill the posts vacated by retired employees. (Chugoku: Temporary manpower company) |

2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> • Since this year's holiday shopping season in December is the first since the opening of terrestrial digital broadcasting in the Sapporo area, we are counting on added momentum in customer purchases in digital equipment such as thin-screen TVs and DVD recorders. (Hokkaido: Electric appliance retailer) • Reservations for domestic tours in and after October are 10% higher than in the previous year and those for overseas travels are 50% higher. High unit-price tours are popular, such as those to Hokkaido in the case of domestic tours and to European countries in the case of overseas tours. (Kyushu: Travel agency) |
| C | <ul style="list-style-type: none"> • We are counting on sustained strong sales as sales of T-shirts, pants and jackets have already been brisk after the autumn clothing season got under way in full swing. Bright, florid color clothing is selling well. Middle-aged customers have shown a strong interest in buying such clothing. (Southern Kanto: General retailer [Clothing • sundries]) • Judging from the current conditions, higher crude oil prices are not likely to raise commodity prices as much as we had feared. However, if unit prices for commodities fall in relation to imported beef toward the end of the year, our sales may fall below the previous year's level. (Hokuriku: Supermarket) |
| D | <ul style="list-style-type: none"> • The closing of a supermarket in our shopping area in mid-October will have a major impact on grocery stores in the district. Many of the shop owners and managers in the area are worried about their future. (Shikoku: Shopping area) |

Corporate activity

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| B | <ul style="list-style-type: none"> • We have secured orders from electrical equipment production lines and food-related plants. We have also received inquiries from similar production lines and plants. Therefore, our outlook for the future is optimistic. (Shikoku: Electrical machinery equipment manufacturer) |
| C | <ul style="list-style-type: none"> • We have a high level of order backlogs equivalent to about seven to eight months of production. At the same time, however, we are slightly concerned about the news that manufacturers of blade machine tools, that which are sensitive to the operational status of the machinery industry, may carry out production adjustments. (Hokuriku: Ordinary machinery equipment manufacturer) • Although their current business conditions are not bad, many of our corporate customers say they are uncertain about their future. There is a bipolarisation in their business outlook, with some industries and small enterprises saying their business is deteriorating. (Kyushu: Financial) |
| D | <ul style="list-style-type: none"> • Although we have enough volume of work right now, there are no major projects ahead. (Southern Kanto: General contractor) |

Employment

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| B | <ul style="list-style-type: none"> • There is no denying that manpower is in short supply. The number of corporation recruiting workers ahead of the year-end busy season will increase. (Okinawa: School [Vocational school]) |
| C | <ul style="list-style-type: none"> • There has been both gloomy and bright news recently. A new distribution center and an amusement facility are scheduled to open in the second half of the year. On the other hand, we have heard news of closings or failures among time-honored local businesses. (Tohoku: Newspaper publisher [Help wanted ads]) |