

Economy Watchers Survey

July 2007

OVERVIEW OF THE MONTH

The DI for current economic conditions in July dropped 1.3 points from the previous month to 44.7.

The household activity-related DI dropped due to rising gasoline prices and voices indicating an increasing sense of tax burden, as well as the influence of weather and natural-disaster related factors including the delay in the end of rainy season, Typhoon No. 4 and the Niigataken Chuetsu-oki Earthquake. The corporate activity-related DI rose slightly due to steadiness in orders received for part of the manufacturing sector, although the impact of rising prices for crude oil and raw materials continued. The employment-related DI has been flat, with variance seen in the strength of willingness to make job offers. As a result, the current DI dropped for the fourth month in a row, falling below the neutral indicator of 50 points for the fourth consecutive month.

The DI for future economic conditions in July dropped 1.7 points from the previous month to 46.7.

The DI for future economic conditions dropped for the third consecutive month due to concerns over the impact of rising prices for some food products and gasoline. The decline in the household sector was the primary factor behind the overall decline.

On the whole, the assessments of the Economy Watchers indicate that the economic recovery has shown weak movements.

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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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| C | <ul style="list-style-type: none"> • Sales dropped sharply due to the impact of the typhoon that hit over the three-day weekend. Bad weather also caused a slump in sales of swimsuits, <i>yukata</i> and other midsummer products. However, sales during the midsummer gift blitz have risen dramatically from the previous year, thus showing that overall sales are not stagnant. (Tokai: Department store) • Due to the impact of minced meat mislabelling incident in Hokkaido and consumer uneasiness about foods produced in China, we have yet to feel a surge in sales despite the fact that we have entered the midsummer gift season. (Kinki: General store [butcher shop]) • Although reservations for July had come in steadily, cancellations for Okinawa, Kyushu and Tokyo tours were higher than expected due to the impact of Typhoon No. 4. (Kyushu: Travel agent) |
| D | <ul style="list-style-type: none"> • As consumer sentiment remains cold due to the abolition of the temporary income tax cut, increase in residential taxes, rise in gasoline prices, national pension issues and more, the Chuetsu-oki Earthquake (Niigataken Chuetsu-oki Earthquake in 2007) has spurred a downturn in the local economy. Although the Earthquake may be special local circumstances, it is by no means a desirable trend. (Tohoku: Supermarket) • Up until last month, both sales figures and amounts were on an upward trend for all products. However, as we entered the month of July with its bad weather, sales of air conditioners went into a slump. The delay in the end of rainy season in comparison with average years has also affected business in general. In addition, although this is not necessarily indicative of a bad trend, business has been stagnant overall. (Chugoku: Mass retailer of consumer electronics) |

Corporate activity

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| B | <ul style="list-style-type: none"> • Although there has been no change in orders received for information-related products such as personal computers and mobile phones, the market for electronic products built into automobiles is expanding and booming. (Tokai: Electrical machinery and apparatus manufacturer) |
| C | <ul style="list-style-type: none"> • Requests for estimates on private construction work are on the rise, and we are meeting this increase in demand by sacrificing our days off. However, in terms of earnings, we have been unable to maintain reasonable prices. (Shikoku: Construction company) • Although the number of consumer electronics products (air conditioners) received and shipped has increased and sales have expanded, the sudden jump in fuel prices has been a burden, and our situation therefore remains unchanged. (Okinawa: Transport company) |
| D | <ul style="list-style-type: none"> • With housing starts beginning to slow down, it is taking time for us to carry out inventory adjustment and our sales volume is down. (Tohoku: Wood and wood products company) |

Employment

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| B | • There is a strong trend in both dispatch employment offers and direct employment. (Tokai: Temporary staffing agency) |
| C | • Amidst variances among companies, poor business performance by some major corporations has caused a decrease in the number of job offers; smaller businesses, which have shown relatively steady performance, are making up for this decrease. (Northern Kanto: Private employment agency) |
| D | • There has been a downward trend in companies wanting to quickly hire employees, and anticipated mid-career recruitment has diminished. (Southern Kanto: Private employment agency) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> Reservations are coming in steadily. (Shikoku: Golf course) |
| C | <ul style="list-style-type: none"> Despite the fact that bonuses have already been handed out, sales volumes, unit prices and customer numbers have not increased, and it appears that we will once again face difficulties two or three months from now. (Southern Kanto: General restaurant) Customers appear to be adjusting the balance between their income and expenditures through their food expenses. With tax, gasoline and rising food price problems, it is highly unlikely that the distribution ratio for food expenses will increase. (Chugoku: Supermarket) |
| D | <ul style="list-style-type: none"> Due to the drastic hike in residential taxes and rising gasoline prices, consumers are purchasing less snack foods, thus causing a slight drop in sales. (Kyushu: Convenience store) |

Corporate activity

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| B | <ul style="list-style-type: none"> We continue to face difficulties due to the fact that we are unable to pass on the sudden price jump in material prices to consumers through product sales prices; however, orders received for casting-related projects are starting to rise and we are beginning to see the light at the end of the tunnel. (Kyushu: Metal manufacturer) |
| C | <ul style="list-style-type: none"> Although an increase in order quantities is anticipated for construction work and construction, there are also concerns about profitability and strong views that the situation will not improve as much as expected. (Hokkaido: Other non-manufacturing industry [steel product wholesaler]) Inventory adjustment has come to a close for some products (e.g. IT-related products) and we have moved on to a production increase; however, there remains to be seen a trend capable of boosting the industry as a whole. (Hokuriku: Electric machinery and apparatus manufacturer) |
| D | <ul style="list-style-type: none"> Personal consumption expenditures are sluggish, and there has been an increase in shops, automobile dealers and game hall-related businesses holding off on advertising. (Tohoku: Advertising agencies association) There are many executives who feel that the slump in the construction industry will continue. Moreover, because the increase in fuel prices has led to a rise in distribution costs, there are some businesses that are increasing material prices and it seems unlikely that the current conditions will make a change for the better. In addition, although the manufacturing industry is firm, it is difficult to know what the outcome will be since it is dependent on automobile manufacturers, and our situation will not necessarily be stable in the future. (Chugoku: Accounting firm) |

Employment

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| B | <ul style="list-style-type: none"> Demand for employment of experienced workers is on par with that for last year, and it is predicted that demand for new graduates will be higher than last year. (Shikoku: Job advertisement magazine production company) |
| C | <ul style="list-style-type: none"> Although the desire of corporations to employ workers is strong, there are few persons capable of fitting the bill. The effect of job advertisements is also weak, and many businesses are having a difficult time securing human resources. This shortage of human resources could dampen the economic climate in the future. (Hokuriku: Temporary staffing agency) |