

Economy Watchers Survey

May 2008

OVERVIEW OF THE MONTH

The DI for current economic conditions in May fell 3.4 points from the previous month to 32.1, posting a fall for the second consecutive month.

The household activity-related DI dropped due to unfavorable weather as well as a growing emphasis on thrift on the part of consumers stemming from further rises in prices of gasoline and everyday household goods. The corporate activity-related DI dropped due to a move to hold off capital spending and a decline in orders received seen at some firms, in addition to the continuing impact of higher crude oil and raw material prices. The employment-related DI fell due to ongoing declines in new job offers.

The DI for future economic conditions in May fell 1.0 point from the previous month to 35.1, posting a decline for the third consecutive month.

The DI for future economic conditions fell, primarily in the household and corporate sectors, due to the continuing impact of higher crude oil and raw materials prices, in addition to weakened consumer confidence stemming from the rising prices of everyday household goods as well as the impact of gasoline price hikes.

On the whole, the assessments of the Economy Watchers indicate that the feeling of economic recovery has been extremely weak.

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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 are increasing as the number of customers visiting convenience stores has increased thanks to the introduction of the “taspo” age-verification card for the purchase of cigarettes from vending machines. Many customers buy goods of one sort or another when they visit convenience stores to buy cigarettes with a “taspo” card. (Tohoku: Convenience store)
C	<ul style="list-style-type: none"> Amid a full-scale hike in food prices, the number of customers visiting supermarkets dealing mainly in low-price goods has been steadily increasing. Our sales have been brisk as we sell safe and secure goods at low prices, not resorting to mere bargain sales of cheap and inferior goods. Rise in selling prices has been gradually moving into place (Kinki: Supermarket) Although people are increasingly refraining from making outings due to higher prices of commodities such as gasoline, the number of visitors to our park was nearly the same as in the previous year, perhaps because in the case of our facilities, the number of people who refrained from visiting on the ground that they are far and chose a visit on the ground they are near was in balance. (Chugoku: Theme park)
D	<ul style="list-style-type: none"> Reservations for overseas travel have been sluggish. Due to the impacts of a further hike in fuel surcharges prompted by higher crude oil prices and the severe earthquake in Sichuan, China, the number of customers refraining from long-distance trips to Europe and China has been increasing (Tokai: Travel agency) After the Golden Week holidays, our business was sluggish with slower Mother’s Day sales. We are faced with the double whammy of slow growth in the average amount purchased per customer and a decrease in the number of visitors. Sales of women’s apparel, in particular, have been sluggish. (Okinawa Department store)
E	<ul style="list-style-type: none"> With prices of kerosene and other products edging ever higher, consumers’ urge to economize has been increasing. Sales of spring clothing dropped due to a temporary rise in temperature and sales of summer clothing were slow despite a subsequent recurrence of cold. The number of visitors to the store has been decreasing surprisingly, as customers apparently feel they no longer need spring clothing. (Tohoku: Clothing shop)

Corporate activity

C	<ul style="list-style-type: none"> Following a sharp rise in steel product prices in April, we held price-hike negotiations with customers and were able to pass higher costs on to our selling prices. Although sales have been decreasing slightly, profits remain unchanged. (Tokai: Electrical machinery and apparatus manufacturing industry) Although we cannot expect any revitalization of the market due to the absence of any factors that might put the brakes on the rising prices of crude oil, we have not been feeling sluggish as the telecommunication industry is capable of making cost-cutting proposals should there be no active capital investment. (Chugoku: Telecommunications)
D	<ul style="list-style-type: none"> We cannot expect any increase in business investment by major corporations closing their annual books in March for some time in the immediate future. With consumers hit hard by sharp rises in the prices of crude oil, wheat, etc., there are no positive factors for the restaurant and apparel industries. (Southern Kanto: Tax accountant) Due to a decrease in award volume caused by slower sales during special sales events held by our clients, we have been unable to pass higher costs, such as processing charges, on to our selling prices. (Kinki: Textile company)
E	<ul style="list-style-type: none"> While we were initially glad to have clinched contracts at fair prices for the first time in a long while, we were unable to turn a profit, as material prices had surged during a delay in the approval of building certification documents. (Shikoku: General constructor)

Employment

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| C | <ul style="list-style-type: none"> We often hear people say that they want manpower but cannot make employment decisions lightly in view of the business uncertainties ahead. (Southern Kanto: Job information magazine publisher) |
| D | <ul style="list-style-type: none"> Classified ads aimed at job-seekers who quit their jobs two or three years after graduation have decreased. Classified ads placed by major manufacturers have also decreased due to the yen's appreciation. The number of classified ads for career changers has been tight in all advertising media. There are no "winners." (Kyushu: Newspaper publisher [Held wanted ads]) |

2. Future conditions***Household activity***

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| C | <ul style="list-style-type: none"> Although further rises in food and gasoline prices have caused negative impacts, sales as a whole are expected to remain unchanged, as we can expect sales to continue to increase thanks to the introduction of the "taspo" card for cigarette purchases. (Hokkaido: Convenience store) Although sales of flat-screen TVs are expected to remain brisk in view of the coming Beijing 2008 Olympic Games, we cannot expect a rise in demand for other big-ticket items due to the steep rise in the prices of gasoline and various other commodities. (Chugoku: Mass retailer of consumer electronics) |
| D | <ul style="list-style-type: none"> With data held by other companies in the industry showing a decrease in the number of people newly visiting housing showrooms and participating in on-spot tours of houses built for sale, a decline in sales volume seems to be inevitable. (Northern Kanto: Housing sales company) Carmakers are expected to launch their leading wagon models ahead of the summer bonus season. However, conversations with customers have left us with the impression that they do not have excess cash. (Tokai: Autodealer) |

Corporate activity

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| C | <ul style="list-style-type: none"> In the construction industry, initiation of public works projects has been behind schedule due to problems related to tax revenue earmarked for road construction. Business investment at some companies has come to a standstill. Difficult conditions are expected to continue for some time to come. (Hokuriku: Tax accountant) Backed by extremely brisk global demand, especially from Asian countries, crude steel production is expected to remain firm. However, with an unprecedentedly sharp rise in material prices expected, it is possible that our profitability will be affected, depending on the outcome of price revisions for steel products. (Chugoku: Iron & steel) |
| D | <ul style="list-style-type: none"> We have no choice but to raise our printing fees, as printing paper prices will rise again in June due to higher crude oil prices. However, if we do so, it is certain to have an adverse effect on the volume of orders received, as a scaling down of clients' orders can be expected. (Tohoku: Publishing, printing & allied industries) We are increasingly under pressure from material price hike requests, mainly for steel products. We may also be compelled to accept fare hikes. (Kyushu: Metal product manufacturer) |

Employment

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| C | <ul style="list-style-type: none"> Due to the rise in prices of gasoline, foodstuffs and other commodities, production-related companies are expected to reduce job offers slightly. Wages are showing little increase, with some companies keeping wages for subcontract and part-time jobs unchanged. (Northern Kanto: Temporary manpower company) |
| D | <ul style="list-style-type: none"> Although corporations are continuing job recruitment, they are doing so more cautiously than before by setting higher recruitment standards. While we are unsure as to whether or not this situation is temporary, in many instances in the past the number of job offers decreased sharply after situations like the one we currently face continued for several months. (Kinki: Public employment security office) |