

Economy Watchers Survey

February 2009

OVERVIEW OF THE MONTH

The DI for current economic conditions in February rose 2.3 points from the previous month to 19.4, marking a rise for the second month in a row.

The household activity-related DI rose, as prices of some products declined due to the yen's appreciation, and consumers showed interest in buying environmentally friendly vehicles and houses, although they remained cautious about making purchases. The corporate activity-related DI rose, reflecting a decline in raw material prices and an increase in sales volume at some corporations, in spite of continued decreases in orders received, the resulting inventory adjustments and output cuts, and funding difficulties. The employment-related DI rose, as fewer people evaluated economic conditions as being on the decline and a growing number said that they are slightly deteriorating, under the conditions of continued decreases in new job offers, increases in the number of displaced workers, and increases in suspension of operations.

The DI for future economic conditions in February rose 4.4 points from the previous month to 26.5.

In the household sector, the DI for future economic conditions rose on expectations of provision of the fixed-sum benefit to households, tax reductions for environmentally friendly vehicles and housing loans, and reductions in expressway tolls, in spite of concerns about the future economy, employment, and stock prices. Although in the midst of severe conditions, the corporate sector added to the rise on expectations of progress in inventory adjustments. The employment sector contributed to the rise as more people forecast that economic conditions would remain unchanged in spite of the severe conditions.

On the whole, the assessment of the Economy Watchers indicates that although the current state of the economy is extremely severe, the pace of deterioration has moderated.

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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"> • Although the number of people coming in has not increased, the close rate is rising. Still, customers are in no hurry to buy. (Kinki: Housing supplier) • Sales of trips overseas are brisk due in part to the yen's appreciation and a decline in fuel surcharges. Sales for domestic travel, in particular air tickets, bullet train and special-express tickets, have declined sharply, as corporations have reduced their business trips. (Kyushu: Travel agency) |
| D | <ul style="list-style-type: none"> • Although the number of customers has continued to increase slightly, per-customer transactions have declined from the levels of the previous year for two consecutive months. With consumers' increasing tendency to buy low-priced products, per-customer transactions are decreasing further. (Hokuriku: Convenience store) • We are having a hard time selling clothing in particular, as the impact of discount sales has decreased due to the bargain campaign implemented ahead of schedule and consumers have become less likely to spend their money on unnecessary goods. However, there has been favorable reaction to our sales campaigns to pass on the benefits of the yen's appreciation and to consecutive cuts in the prices of private label products. (Shikoku: Supermarket) |
| E | <ul style="list-style-type: none"> • Sales of apparel and related goods are still slow. Sales of foods, which had been relatively firm, are also on a decreasing trend. We can expect a large number of customers if we hold large events, such as regional products food-fairs, but they do not lead to an increase in the sales of other products. (Northern Kanto: Department store) • The number of customers on Sundays and holidays has become very small. In particular, families are refraining from eating out. (Chugoku: restaurant) |
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Corporate activity

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| C | <ul style="list-style-type: none"> • Since our business is connected to domestic demand, we have so far not felt the impact of a decline in exports that has been hitting automakers. The fact that we are dealing in products related to energy saving, health, and the environment has also been helping us. (Southern Kanto: Electric machinery equipment) |
| D | <ul style="list-style-type: none"> • Although our sales volume is at the same level as last year amid a rising trend of dining at home, we are under increasing pressure from wholesalers and buyers to reduce the prices of our products in response to price cuts by restaurants and supermarkets. (Hokkaido: Food manufacturer) • Although the volume of orders received has been on a downward trend month after month, our profitability has improved significantly, as the prices of materials, and of steel sheet products in particular, have declined drastically. (Northern Kanto: Metal product manufacturer) |
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E	<ul style="list-style-type: none"> • Our sales have declined 20% from last year and the unit price per orders received is also declining due to intensifying competition. (Tohoku: Publishing, printing & allied industries) • We have implemented overtime for some sections of the company, as we have backlogs of orders for materials for use in large engineering works. However, many of the other companies engaged in the same trade have suspended operations due to production cuts and inventory adjustments by themselves and their customers. (Chugoku: Ceramic, stone and clay product manufacturer)
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Employment

D	<ul style="list-style-type: none"> • The number of corporations holding back on mid-career recruitment has increased. In particular, large corporations are under increasing pressure to adjust employment and many of them are holding off recruitment of mid-career workers for some time. Construction-related small and medium-sized corporations are increasingly feeling they have a surplus of engineers. (Hokkaido: Temporary manpower company)
E	<ul style="list-style-type: none"> • Applications for employment insurance benefits and employment adjustment subsidies have increased. Moreover, the number of job offers has decreased sharply since the beginning of this month. In addition, corporations have changed their stance toward recruitment. In the past, corporations employed job applicants if there were no reasons for not employing them. Now, they will not employ an applicant unless they are sure that the person can fulfil his/her role. (Kinki: Public employment security office)

2. Future conditions

Household activity

C	<ul style="list-style-type: none"> • Although consumer confidence has declined and per-customer transactions are on a downward trend, we expect that sales may pick up somewhat due to the provision of the fixed-sum benefit to households, issuance of premium gift certificates, and sales-promotion events in districts in the city center. (Tohoku: Other specialty shop [Cosmetics]) • Tax breaks for purchases of low-emission vehicles and reductions on expressway tolls will begin. In May, a new hybrid vehicle will hit the market. It is expected that these events will produce a synergistic effect and increase automobile sales. However, this effect is unclear. (Tokai: Auto dealer)
E	<ul style="list-style-type: none"> • Consumption will continue to decline, as no increase in income is expected, with stock prices declining amid growing concerns about the social security system, such as pensions and medical treatment. (Tohoku: General retailer [sundries]) • In industries related to automobile manufacturing, there are serious concerns about a decrease in income due to an increasing number of days off. Consumption will decrease further in the days to come. (Tokai: Supermarket)

Corporate activity

C	<ul style="list-style-type: none"> • Demand for hybrid car parts is expected to increase in two or three months, which will offset the decrease in other workloads. (Northern Kanto: Ordinary machinery and instrument manufacturer)
D	<ul style="list-style-type: none"> • Although review or cancellation of capital investment plans is expected to continue for some time to come, new business spending plans are beginning to emerge in fields related to energy and the environment. (Kinki: General contractor)
E	<ul style="list-style-type: none"> • With the end of our business customers' inventory adjustments nowhere in sight, we don't see any signs of a pickup in our business. (Kinki: Chemicals and allied products) • We are unable to draw a business plan for the upcoming business year due to delays in some of the ongoing construction projects, successive postponements or suspensions of

projects in the planning stages, and a decline in the rate of factory operating at paper manufacturers and steelmakers, etc.(Hokkaido: Forwarding agency)

Employment

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| D | • We don't see any silver lining in this slow economy. With the number of people losing jobs expected to increase due to cancellation of contracts with temporary workers or expiration of the contracts at the end of the current fiscal year, the employment environment will get worse. (Okinawa: School [Professional training college]) |
| E | • There will be a large number of displaced workers due to the decision by semiconductor manufacturers to accept applications for voluntary retirement, the decision by manufacturers of electronic parts and printed circuit boards to close manufacturing plants, and the spill-over effects onto other related industries. (Tohoku: Job placement office) |
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