

Economy Watchers Survey

June 2009

OVERVIEW OF THE MONTH

The DI for current economic conditions in June rose 5.5 points from the previous month to 42.2, marking a rise for the sixth month in a row.

The household activity-related DI rose, as demand for some products and services increased due to “eco points” to be earned for the purchase of green electrical appliances, tax reductions and subsidies for the purchase of environmentally friendly vehicles, provision of the fixed-sum benefits to households, the issuance of gift certificates which offer premium discounts and reductions in expressway tolls. The corporate activity-related DI rose, since the downward slide slowed its pace in orders received and shipping volumes. The employment-related DI rose, due to job offers by some companies, though the number of new job offers was still small.

The DI for future economic conditions in June rose 2.3 points from the previous month to 45.6.

In the household sector, the DI for future economic conditions rose on expectations that the sales of the travel industry and the restaurant business would recover as the new type of influenza was brought under control. The corporate sector added to the rise on expectations that improvement in orders received and shipping volumes would take place. The employment sector contributed to the rise, due to declining concern about a sharp rise in the number of displaced workers and about a radical drop in new job offers.

On the whole, the assessment of the Economy Watchers indicates that although the current state of the economy is severe, the economic downward trend has ceased.

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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"> • Customers visiting our store are more likely to make decisions to buy. In addition, due to effects of “eco points” to be earned for the purchase of green electrical appliances, purchases have shifted to items with higher unit prices. (Southern Kanto: Home electric appliance retail store) • Until now, it seemed that customers had no motivation to buy. Today, thanks to provision of the fixed-sum benefits to households, we can now feel their willingness to buy. When we slight cut the unit price, customers happily make purchases. (Kyushu: Shopping street) |
| C | <ul style="list-style-type: none"> • Due to concern over the new type of influenza, the number of tourists visiting our district remained small. Yet finally, last week, we saw elementary students on school trips in this neighborhood. However, apart from kids on school trips, only a small number of sightseers are visiting our district. The number of tourists from overseas has decreased sharply. (Hokkaido: General retailer [Souvenirs]) • In these days, each lunch box costs only 500 yen or less. Customers wisely choose restaurants. They are now very conscious of the cost-effectiveness. (Southern Kanto: General restaurant) |
| D | <ul style="list-style-type: none"> • At present, banks more strictly screen potential borrowers seeking housing loans, and the number of newly constructed dwellings is on the decline. Accordingly, our sales have decreased. (Tohoku: Housing-related speciality store) • The unit price of items has decreased by around 5%, compared to last year, and our sales fall below the previous year. Our competitors increasingly sell their national brands at special prices, and in order to compete on price, we have to reduce prices of sale items. However, such efforts neither increase the number of items purchased nor attract more customers. (Hokuriku: Supermarket) |

Corporate activity

- | | |
|---|---|
| B | <ul style="list-style-type: none"> • Inventory adjustment in vehicle-related industries has slowed down, and production arising from real demand is expected to begin. Regarding demand for clothing materials, our production lines keep going solely to supply clothing items for practical use for autumn and winter using functional material. (Hokuriku: Fiber industry) • There are some signs of recovery in orders received from vehicle-related products, and the operating rate of our facilities tends to somewhat improve. (Shikoku: Iron and steel industry) |
| C | <ul style="list-style-type: none"> • As they have placed orders for public works projects ahead of schedule, we have recently received requests for quotation, and we see some promising signs. (Northern Kanto: Ceramic engineering and soil/stone product manufacturer) • After remaining inactive for some time, the demand related to civil engineering works associated with public works is now continuously strong, thanks to the supplementary budgets. The demand related to construction works is higher than expected for school-related works. There is also some private sector demand, including demand for hospital-related works. (Okinawa: Transport business) |
| D | <ul style="list-style-type: none"> • Parts-manufacturing subcontractors still have difficulties in winning orders. Sales of some businesses drop by as much as 50 to 70% compared to the same month of the previous year. Though many businesses borrow money by making use of Safety-Net Guarantee Systems, they still experience funding difficulties. Some of our client companies have |

asked us to reduce the amount to be repaid, and more and more businesses facing devastating financial conditions have failed to make scheduled repayments. (Southern Kanto: Finance business)

Employment

- C • It seems that the downward trend has ceased in the business dispatching workers to manufacturing industries. Small and medium-sized enterprises are struggling to survive the current economic downturn, by receiving Emergency Employment Stabilization Subsidy. (Tokai: Outsourcing business)
- Both the number of job offers and the number of workers newly hired hit the bottom in February, and their downward trend has ceased. However, we still cannot say that they are on a track to recovery. (Kinki: Private-sector job placement service)

2. Future conditions

Household activity

- B • With increasing publicity among consumers of tax reductions and subsidies for green vehicles, our sales will increase. (Tohoku: Auto dealer)
- C • A gradual expansion of our trading zone thanks to reductions in expressway tolls can be considered as a positive factor. However, due to reduced income levels, ordinary households now choose to spend less money on leisure activities, and this will significantly affect our business. We cannot expect for a while, a significant growth in the average spending per visitor. (Northern Kanto: Amusement park)
- Though the pace of cancellations due to concern over the new type of influenza has abated, in our area, every business suffers from price decline. Hotels and Japanese-style inns in our city all together started to offer their rooms at rock-bottom prices, and travel agencies have asked us to provide accommodations at real bargain prices. So we expect further price destruction to come. (Kinki: Hotel for tourists)
- D • People spend less and less money on things other than daily necessities and on low-priority things. (Southern Kanto: Other services, "Fitness club")

Corporate activity

- B • According to production planning informally announced by automakers, vehicle production will increase in three months. Accordingly, demand for our products will increase. (Tokai: Transportation machinery and tool manufacturer)
- C • While we can expect an increase in orders received resulting from a rebound after inventory adjustment, there is no sign of real increase in demand. (Chugoku: Nonferrous metal manufacturer)
- While municipalities are going to place a significant number of orders for public works projects that make elementary and junior high school buildings more resistant to earthquakes, fierce competition will continue and we will continuously find it difficult to win public work contracts. (Shikoku: Construction business)
- D • Our clients have frozen new projects or have transferred their manufacturing operations to overseas locations to cut costs. Future demand for our products is still unclear. (Southern Kanto: Plastic product manufacturer)

Employment

- C • The number of new job-seekers has started to stabilize. There is, however, nothing that may increase new job offers, and accordingly, those seeking reemployment will continuously have a tough time. (Tohoku: Employment security office)
- We have still received many inquiries from small and medium-sized enterprises concerning Employment Adjustment Subsidy.(Tokai: Employment security office)