

Economy Watchers Survey

October 2009

OVERVIEW OF THE MONTH

The DI for current economic conditions in October fell 2.2 points from the previous month to 40.9, posting a fall for the first time in two months.

The household activity-related DI fell, though sales of some products continuously increased due to the effect of “eco points” to be earned for the purchase of green electrical appliances and tax reductions and subsidies for the purchase of environmentally friendly vehicles, because of consumers’ more cautious attitudes towards making purchases, and due to further price reductions following the delivery of products and services offered at increasingly lower prices, in addition to a drop in demand mainly in travel-related sectors following a brief recovery during the five-day holiday period in September. The corporate activity-related DI fell, due to fierce price competition among peer companies in the face of decreases in orders received, in spite of the ongoing recovery in orders received and shipping volumes. The employment-related DI rose due to job offers by some companies, though employers were still cautious about hiring new employees.

The DI for future economic conditions in October fell 1.7 points from the previous month to 42.8.

In the future economic conditions, the household sector dropped, due to concern about effects of a reduced year-end bonus payment on the sales during the year-end holiday shopping season, in spite of expectations that positive effects of “eco points” would continue. The corporate sector also contributed to the fall, due to concern about prolonged price competition and effects of the review of the execution of the supplementary budgets. The employment sector contributed to the fall due to concern about the employment of new graduates.

From the reasons above mentioned, the assessment of the Economy Watchers indicated in this survey can be summarized as “though the economic downward trend has ceased, weak movements are seen recently.”

Released on November 10, 2009 (in Japanese)
by the Director-General for Economic Assessment and Policy Analysis,
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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

C	<ul style="list-style-type: none"> • Though some group customers cancelled reservations due to the new type of influenza, the number of individual customers visiting our restaurant has remained constant, and on weekends, we have a significant number of customers. While previously we were concerned about a potential drop in customer traffic during the period in which major tourist facilities in our neighborhood are closed for regular maintenance for two weeks, thankfully, our business has not been affected by the facilities closure and our sales have reached 104% of the previous year's level, remaining above the last year's level. (Hokkaido: High-end restaurant) • The sales of new vehicles have surpassed the previous year's level. Most of customers, however, have placed orders for low-end environment-friendly vehicles, and this will not increase the overall sales. (Tohoku: Auto dealer)
D	<ul style="list-style-type: none"> • Though there was a sense around the five-day holiday period in September that our sales somewhat improved, since then sales have been sluggish. (Tokai: Travel agency) • The number of visitors was very limited, partly due to an increasing number of school dismissals to prevent the spread of the new type of influenza in school settings. (Kinki: Amusement park)
E	<ul style="list-style-type: none"> • Due to the low price strategy of major distributors, customers increasingly buy lower-end suits, and the average unit price as well as the average number of items purchased by a customer is being kept low. (Tohoku: Clothing store) • Our sales have dropped to 90% of the previous year's level and the average spending per customer has also plummeted from the previous quarter's result. Private labeled products and lower end products are now our bread-and-butter products, and we are running a series of sales. We are entering into a war of attrition against other convenience stores. (Southern Kanto: Convenience store)

Corporate activity

B	<ul style="list-style-type: none"> • Some of our business partners and customers have started to get involved in new projects or have cancelled layoffs. (Kinki: Electric machinery and tool manufacturer)
C	<ul style="list-style-type: none"> • While the amount of orders received has slightly increased, we are now under tougher conditions due to price competition between competitors both in Japan and in China and Southeast Asia. The issue of concern is that placing too much emphasis on short-term cost reduction serves to facilitate the outflow of technologies and to discourage succession planning. (Hokkaido: Other services [Software developer]) • When asked about their conditions, some of our business partners and customers said that, compared to circumstances in April, they were on their ways to recovery, while many said they had no prospect that the operation rates of their facilities would pick up. (Kyushu: Business consultant)
D	<ul style="list-style-type: none"> • Small and medium sized manufactures, of whose bread-and-butter products are lower-end products, have suffered poor sales, because low-end products of industrial giants are now on the market. (Kinki: Food manufacturer)

Employment

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| C | <ul style="list-style-type: none"> • While there are some signs of recovery in employment with some of job seekers reemployed as special term employees or as workers dispatched to manufacturers in the automobile-related sector, the number of new job openings is extremely limited. There are very few job offers, and our job placement sections are crowded with a lot of job seekers. (Tokai: Employment security office) • Though the number of job offers is still increasing slightly, recruitment in manufacturing sectors remains slow. We have observed an increase only in job openings created by Hometown Employment Reactivation Special Subsidy that the national government is providing. (Hokuriku: Employment security office) |
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2. Future conditions

Household activity

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| B | <ul style="list-style-type: none"> • An increasing number of customers make purchases with coupons issued in exchange for “eco points” to be earned for the purchase of green electrical appliances. We expect that more will seek bargain goods or make purchases with the coupons during the year-change period. (Hokuriku: Home electronics retail store) |
| C | <ul style="list-style-type: none"> • Purchasing low-end products is now part of our everyday life, and many supermarketers have launched the management of discount stores. The position in the supermarket industry will depend on the competition for lower prices. (Tokai: Supermarket) • Though the downward trend in sales has seemingly ceased, the situation will not improve due to a significant reduction in year-end bonus payment and prolonged concern about job security. (Kinki: Department store) |
| D | <ul style="list-style-type: none"> • We cannot expect much demand for personal travel by the end of the year, since people already satisfied their desire to travel during the five-day holiday period (Silver Week) in September. We see any significant demand for our hotel because of a reduction in year-end bonus payment and because we have shorter-than-usual successive holidays during this year-end and new-year period. (Okinawa: Tourist hotel) |

Corporate activity

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| B | <ul style="list-style-type: none"> • At present, the quantity of products to be manufactured until December is greater than initially expected. (Kyushu: Transportation machinery and tool manufacturer) |
| C | <ul style="list-style-type: none"> • Competition has been intensifying, in terms of prices, too, because of industry-wide decreases in orders received following a significant overhaul of public work projects, and our prospects are gloomy. (Chugoku: Construction business) • Our major customers are automobile industries, and we have seen an increase in orders received since this spring. The growth of orders received, however, has slowed down, showing signs of levelling off. We have so far enjoyed a considerable amount of benefits of strong yen in importing raw materials, but a further increase in the value of the yen is unlikely. (Shikoku: Steel business) |
| D | <ul style="list-style-type: none"> • Our competitors are selling their stocks at extremely low prices, and price competition is getting fiercer. Due to the increasing appreciation of the yen against the dollar, we are losing price competitiveness. (Tokai: General machinery and tool manufacturer) |

Employment

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| C | <ul style="list-style-type: none"> • Many businesses have been hit by a fall in income and profits, and employers are cautious about hiring new employees, including new graduates. A recovery in employment is unlikely. (Hokuriku: Private-sector job placement service) |
| D | <ul style="list-style-type: none"> • Job openings offered by employers both inside and outside of the prefecture have dropped by 30 percentage points compared to the previous level. Businesses in the prefecture will further narrow down the employment of new graduates. (Okinawa: School [University]) |