

Economy Watchers Survey

May 2010

OVERVIEW OF THE MONTH

The DI for current economic conditions in May fell 2.1 points from the previous month to 47.7, posting a fall for the first time in six months.

The household activity-related DI fell, despite continuing effects of tax reductions and subsidies for the purchase of environmentally friendly vehicles, mainly due to a decline in the number of shoppers and poor sales of seasonal goods, both resulting from low temperatures and heavy rainfall from the middle of the month, as well as to slowing growth of home electric appliances sales, a reaction to the last-minute rise in demand just before the change in flat screen televisions to be covered by the “eco points” program. The corporate activity-related DI fell, in spite of a recovery of orders received and shipping volumes, mainly because sales prices were difficult to raise, while prices of some raw materials were rising. The employment-related DI fell, despite an increase in job offers by some companies, mainly because employers remained cautious about hiring new employees, especially regular ones.

The DI for future economic conditions in May fell 1.2 points from the previous month to 48.7.

In future economic conditions, the household activity-related DI fell, despite expectations of the effect of payment of child allowances and tax reductions and subsidies for the purchase of environmentally friendly vehicles, mainly due to concerns about a decline in consumer confidence resulting from weak share prices and worries about sales of summer goods in the northern part of Japan, where weather forecasters predict a cold summer. The corporate activity-related DI fell, despite expectations of an increase in orders, mainly due to concerns about the appreciating yen and the economy in Europe. The employment-related DI showed a slight decline mainly because employers were likely to remain cautious about hiring new employees.

From the reasons mentioned above, the assessment of the Economy Watchers indicated in this survey can be summarized as “while in a difficult situation, the economy is showing movements of picking up.”

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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"> · With the expiration of the subsidy program for purchasers of new cars in September approaching, we see customers becoming more active. More people visit us, and we have successfully concluded contracts with a larger percentage of them than before. Profits are weighed down by severe competition from other dealers, but we have achieved almost the highest rate of successful contract conclusions for the month of May in recent years. (Tokai: Auto dealer) · We received more guests during Golden Week than in the same period last year. Now that spring events are under way, the number of holidaymakers visiting us is steadily growing, also with the help of a run of fine days. (Chugoku: Theme park)
C	<ul style="list-style-type: none"> · The number of guests is showing movements of increasing, as impacts from the new type of influenza last year disappear. But unit prices of tours remain low, whether sold through travel agencies or on the internet. (Hokkaido: Tourist hotel) · We have some orders for renovation, but those for new detached houses remain at a low level. (Tohoku: Architectural design office)
D	<ul style="list-style-type: none"> · A run of cold days, along with consumers' orientation towards thrift is pushing down sales of seasonal goods below last year's level. (Tohoku: General retailer [sundries]) · With alternating periods of hot and cold days coming at unpredictable intervals, our efforts to achieve growth in air conditioners sales have been thwarted again and again. Television sales are also in a lull. (Tokai: Electric appliance retailer)
E	<ul style="list-style-type: none"> · The issue of foot-and-mouth disease has significantly undermined consumers' sentiment. Especially since a state of emergency was declared on May 18, the number of customers visiting and per-customer spending have both been falling at a terrific pace. (Kyushu: Department store)

Corporate activity

B	<ul style="list-style-type: none"> · We have more orders than three months ago, and our employees are working overtime and on holidays to deal with the backlog. (Chugoku: Transportation equipment)
C	<ul style="list-style-type: none"> · Unseasonable weather nationwide and foot-and-mouth disease now rampant among cattle have added to destabilizing elements in the fresh food market. (Hokkaido: Food and kindred products) · Manufacturers and constructors fail to see as much briskness as usual in orders they have received, which may be merely because the busy days at the end of the business year have just passed. The lack of briskness does not mean their orders have fallen in number, but that the estimated value of the orders remains at a lower level than in ordinary years. (Chugoku: Accounting firm)
D	<ul style="list-style-type: none"> · Our profitability is deteriorating as the price of cotton yarn, is stuck at a high level after a substantial rise, while our sales prices are falling. (Kinki: Textile industry)

Employment

B	<ul style="list-style-type: none"> · Companies in sectors with a close link to business overseas, such as major trading firms and manufacturers, are showing signs of increasing staff. (Tokai: Temporary manpower company)
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C	<ul style="list-style-type: none"> • A larger number of jobs are on offer than a year earlier but the effective ratio of job vacancies remains low because more people have quitted their jobs involuntarily due to circumstances of employers and number of housewives seeking work has increased. (Tohoku: Employment security office)
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2. Future conditions

Household activity

B	<ul style="list-style-type: none"> • Conditions have not yet completely improved, but the recent trend implies that consumers will show more positive attitudes than a year earlier if they are given any motive to buy. We have high expectations for June and the following months, when new products are put on the market, payment of child allowances starts and expressway charges are removed in Okinawa. (Okinawa: Telecommunication business)
C	<ul style="list-style-type: none"> • Sales of summer goods are sluggish with the long spell of cold days. Those of carbonated drinks and dried noodles remain around 90% of the level a year earlier. We also have bleak prospects for summer goods sales from now onward as weather forecasters predict a cold summer. (Hokkaido: Supermarket) • Payment of child allowances, due to start in June, is a favorable factor, a good stimulant for demand in tourism. We also see unfavorable conditions, such as the deteriorating situation in the Korean Peninsula and weak share prices, which makes our future unpredictable. (Shikoku: Travel agency)
D	<ul style="list-style-type: none"> • Here in our area, no element that may turn things around for the better can be found except in tourism-related sectors. Not a few of our major customers, wealthy people, have suffered unrealized losses due to falling share prices, another cause of worry regarding the sales of luxury goods. (Kyushu: Clothing store)

Corporate activity

B	<ul style="list-style-type: none"> • Exports to the United States, in addition to those to China, are on an upward trend. Sales are sure to recover to the level immediately before the Lehman Brothers crisis. (Tokai: Electrical machinery, equipment & supplies)
C	<ul style="list-style-type: none"> • There is some worry about deterioration of the economy in Europe, which should be countered by better conditions in China and other emerging economies and recovery in the United States, with no change to be seen in the overall situation. (Tokai: Chemical industry) • We expect a certain level of demand for the transportation of goods from now through the summer, but after the period, when there is slack, we will receive more pressure from our clients for cost cuts in logistics. Indeed, some of them have already requested a reduction in freight charges. (Kinki: Transport)
D	<ul style="list-style-type: none"> • With the appreciated yen trend both against the dollar and the euro, we expect a decline in inquiries from customers overseas. Reliant heavily on exports, we are running into severe conditions. (Hokuriku: Machinery & equipment)

Employment

C	<ul style="list-style-type: none"> • Probably seeing orders they receive trend toward recovery, manufacturers are offering more jobs to temporary workers. But they have not yet gone further to start hiring regular employees, so prospects are still uncertain. (Northern Kanto: Employment security office)
	<ul style="list-style-type: none"> • Financial results released by companies in terms of the business year ended March 31 seem to have shown signs of recovery in their performance, but whether effects of the turnaround will be directly reflected in the staffing industry is uncertain. Some companies have set out a policy that they should maintain the current number of employees during the first half of this business year. (Southern Kanto: Temporary manpower company)