

Economy Watchers Survey

June 2014

OVERVIEW OF THE MONTH

The DI for current economic conditions in June rose 2.6 points from the previous month to 47.7 for the second straight increase.

The household activity- and corporate activity-related DIs rose due mainly to a slowdown in a demand drop as a reaction to a last-minute rise before the consumption tax increase in a wide range of sectors.

The employment-related DI dropped, due primarily to a pause in job offer growth in some sectors.

The DI for future economic conditions in June fell 0.5 points from the previous month to 53.3 for the first decline in three months, though standing still at a high level.

Regarding future economic conditions, the corporate activity- and employment-related DIs rose mainly due to expectations that the impact of a demand fall as a reaction to the last-minute rise before the consumption tax increase will fade away, with summer bonuses expanding. But the household activity-related DI fell due primarily to a slower recovery expected in some sectors from a demand decline as a reaction to the last-minute rise before the consumption tax increase.

For the reasons mentioned above, the assessment of Economy Watchers indicated in this survey can be summarized as follows: The economy is continuing to recover at a moderate pace, while the impact of a demand fall as a reaction to the last-minute rise before the consumption tax increase is fading away.

Released on July 8, 2014 (in Japanese)
by the Director-General for Economic Assessment and Policy Analysis, Cabinet Office
Kasumigaseki 3-1-1, Chiyoda-ku, Tokyo 100-8970
Telephone: 03-3581-1392
Internet: <http://www.cao.go.jp>

III. SUMMARY OF CHARACTERISTIC REASONS FOR THE ASSESSMENT OF THE ECONOMY

National

(Assessments) **A**, Better; **B**, Slightly better; **C**, Unchanged; **D**, Slightly worse; **E**, Worse

1. Current conditions

<i>Household activity</i>	
B	<ul style="list-style-type: none"> • Cosmetics sales recovered from 70-80% of the year-before level in April to 80-90% in May. In June, some stores recovered cosmetics sales further by about 10% to 90-100% of the year-before level. Sales of luxury goods such as jewelry have also recovered. Customers have gradually become less reluctant to buy. (Kinki Department store) • After the impact of a reaction to a last-minute demand rise just before the consumption tax increase remained great until May, some recovery was seen in June. Demand for air conditioners has been increasing thanks to unusually warm weather in late May and one of the longest spells of rain since early June. (Hokkaido: Electric appliance retailer) • As the impact of the consumption tax increase has almost disappeared, sales of liquor, confectionery and other amenities as well as daily necessities have exceeded year-before levels. (Hokuriku: Supermarket)
C	<ul style="list-style-type: none"> • As the impact of the consumption tax increase in April has declined gradually, the number of business negotiations has recovered. As gasoline price hikes have discouraged consumers from spending money on driving, however, revenues from check-up, maintenance, accident repair and other services have failed to grow. (Northern Kanto: Auto dealer) • As housing loan interest rates and other conditions are favorable at present, customers are moving to buy housing. But they are rather prudent, taking time before deciding to buy. (Chugoku: Housing dealer).
D	<ul style="list-style-type: none"> • Due to spillover effects of unseasonable weather and the consumption tax increase, goods have failed to sell well, with sales declining about 20%. (Southern Kanto: Shopping street) • Although we expected that any reaction to the consumption tax increase would calm down in June, our sales in the month are slipping below the year-before level. While food sales and sales at large specialized stores are brisk, orders for luxury goods are declining. Under the impact of unusually cold summer weather, clothing sales are failing to grow. (Shikoku: Department store)
<i>Corporate activity</i>	
C	<ul style="list-style-type: none"> • A slowdown through the consumption tax increase in our sales for transportation machinery in Japan fell within expectations and our global sales remain firm. Those for electronics are also robust, with the 4K television and monitor market expected to expand. (Chugoku: Nonferrous metal producer)
D	<ul style="list-style-type: none"> • While the sales volume is rather satisfactory, raw material, transportation, electricity and other costs have increased. We have failed to pass the cost hikes on to product prices. (Tokai: Chemical industry)
<i>Employment</i>	
C	<ul style="list-style-type: none"> • New job offers increased 7.1% year on year. They expanded in such industries as construction, manufacturing and temporary staffing while declining in wholesale, retail, restaurant, hotel and some other sectors. The employment situation differs from industry to industry. (Kinki: Employment security office) • We sponsor study meetings for job-seeking students. At the end of June last year, 20-30% of students attending these meetings had received tentative job offers. This month, more than half of the students received tentative job offers. (Tohoku: Temporary staffing)

	company)
--	----------

2. Future conditions

Household activity

B	<ul style="list-style-type: none"> Customers tell us the economy is gradually picking up, as indicated by such changes as wage hikes since this year's spring. Overall, the demand decline as a reaction to the last-minute increase just before the consumption tax increase has come to a pause. Sales are recovering for summer bonus sales campaigns. We believe that sales have bottomed out and will recover year-before levels from July or August. (Tohoku: Electric appliance retailer) The impact of the consumption tax increase might have almost disappeared. We expect to continue the present conditions with the backup of stores' planning capabilities and a growing number of foreign travelers. (Okinawa: Department store)
C	<ul style="list-style-type: none"> While a moderate recovery is expected, disposable income cannot be expected to increase in rural cities where there is little talk of summer bonus hikes. Therefore, we expect that consumers will remain prudent. (Northern Kanto: Department Store) While sales are expected to recover year-before levels in the summer bonus season after a plunge caused by the consumption tax increase, we now see no sign of such recovery. If the consumption recovery is delayed until September or later, the first half's earnings performance may be bad. (Shikoku: Auto dealer)
D	<ul style="list-style-type: none"> Salaried people are receiving summer bonuses. But their consumption is unlikely to increase so much due to electricity rate hikes and the consumption tax increase. (Kyushu: Shopping street)

Corporate activity

A	<ul style="list-style-type: none"> Although small and medium-sized enterprise owners among our trading partners had never publicly talked about basic wage hikes, this time, they have frequently been making positive remarks. (Shikoku: Food manufacturer)
C	<ul style="list-style-type: none"> Steel procurement will be vitalized after a temporary adjustment. Although the auto industry may reduce operations due to summer vacations, overall demand is likely to remain steady. (Chugoku: Iron and steel industry)
D	<ul style="list-style-type: none"> Costs are likely to increase for main and auxiliary materials, fuels and transportation. We will take countermeasures. But these cost hikes are expected to gradually strain earnings. (Hokuriku: Food manufacturer)

Employment

B	<ul style="list-style-type: none"> As the impact of the consumption tax increase has been less serious than earlier expected, companies are expected to grow positive about capital investment. As new job offers are increasing further, we see moves to improve wages and other working conditions in anticipation of labor shortages. (Kyushu: Employment security office)
----------	--