

Recent Developments in Japan's Business and Consumer Surveys¹

Economy Watchers Survey

Since January 2000 the Cabinet Office of Japan has been publishing its Economy Watchers Survey, based on interviews of people who feel the effects of changes in the economy directly; people "on the street" like taxi drivers, convenience-store managers, and bar managers. The survey stands between the conventional consumer and business surveys.

1. Purpose of the Survey

The purpose of the survey is to promptly gain an accurate grasp of region-by-region economic trends. By enlisting the cooperation of people holding jobs that enable them to observe activity closely related to the regional economy, these survey results can be used as basic material for assessing economic trends.

2. Scope and Frequency of the Survey

2,050 people were selected from among those engaged in jobs in industries that enable them to observe any development that sensitively reflects economic activities, such as household activity, corporate activity, and employment. The survey covers eleven regions across the country: Hokkaido, Tohoku, Northern Kanto, Southern Kanto, Tokai, Hokuriku, Kinki, Chugoku, Shikoku, Kyushu, and Okinawa. Answers are collected by phone in each region through regional research institutes designated by the Cabinet Office. The survey is conducted on a monthly basis and runs from the 25th of every

¹ More detailed explanations for Consumer Confidence Survey and major business surveys are given in a separate paper. Please refer to it for further clarification.

month to the end of the month.

3. Questions Asked and DI (Diffusion Index) Computation Method

In the survey, the following points are examined: (1) Assessment of current economic conditions (direction). (2) Reasons for (1). (3) Additional explanation of (2) and explanation of specific conditions. (4) Assessment of future economic conditions (direction). (5) Reasons for (4).

Then, the following points are assigned in accordance with the one-to-five scale for each category of response, and the DI is calculated by multiplying the points by the component ratio of each response category.

Table 1 Points Allotted

Assessment	Better	Slightly better	Unchanged	Slightly worse	Worse
Points	1.0	0.75	0.5	0.25	0

4. Performance

With all the short length of the series, the results received strong interest from both inside and outside of the governments. Thanks to the performance of DI and to the vivid descriptions of economic conditions given by the respondents, it has become one of the most-quoted business indicators in the Japanese media.

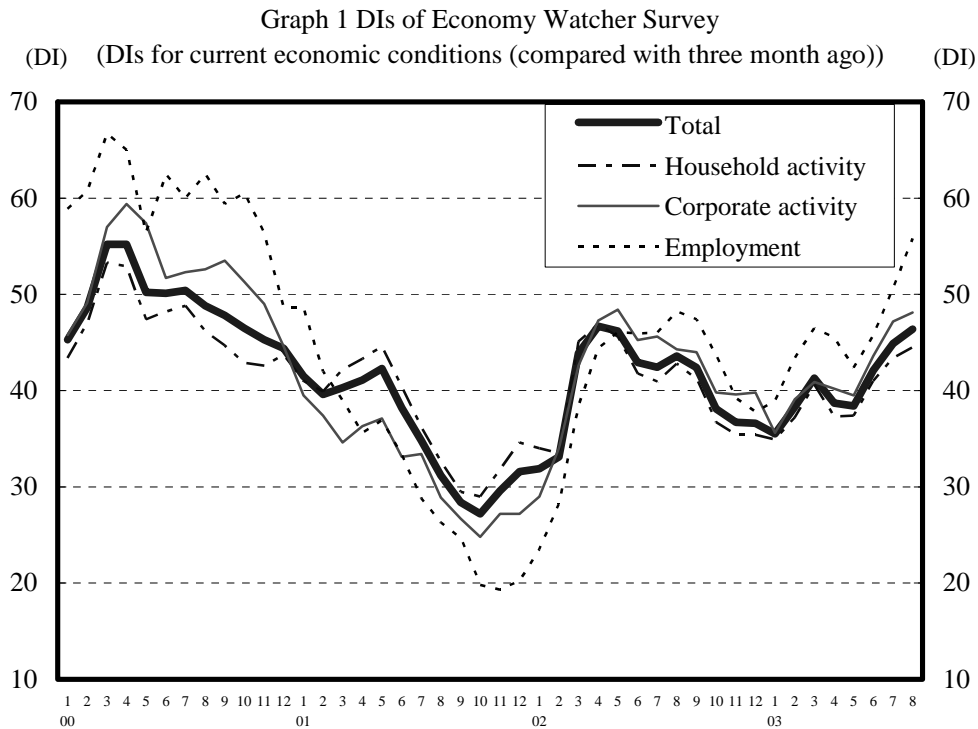


Table 2. Excerpt from the Summary of Characteristic Reasons for the Assessment
(from the August 2003 report)

Current Conditions: Household Activity
<p>Assessment :B</p> <p>Reason: Sales of high-priced items have begun to pick up, as can be seen from the 10 percent year-on-year increase in sales of high-priced watches. Business conditions have begun to pick up, albeit slowly. For instance, sales of men's clothing, which are said to be the last to pick up among consumption items, increased over a year earlier. (Southern Kanto: Department store)</p>
<p>Assessment :D</p> <p>Reason: Fruits, vegetables, beverages, beer, and summer gifts are not selling well due to the effect of abnormal weather conditions, especially in the first half of the month. Both the number of visitors and the number of items purchased have decreased. (Northern Kanto: Supermarket)</p>
<p>(Assessments) A: Better, B: Slightly better, C: Unchanged, D: Slightly worse, E: Worse</p>

The Economy Watcher Survey is available from the web site of the following address.

<http://www5.cao.go.jp/keizai3/watcher-e/index-e.html>

Monthly Consumer Confidence Survey

1. Purpose of the Survey

Since November 2001, the Monthly Consumer Confidence Survey on Tokyo has been published to supplement the national quarterly survey. The monthly survey seeks to gain a quick understanding of shifts in consumer perception, as a tool in evaluating the direction of the economy and to fill the absence of data left by the survey carried out just quarterly.

2. Survey Area and Coverage

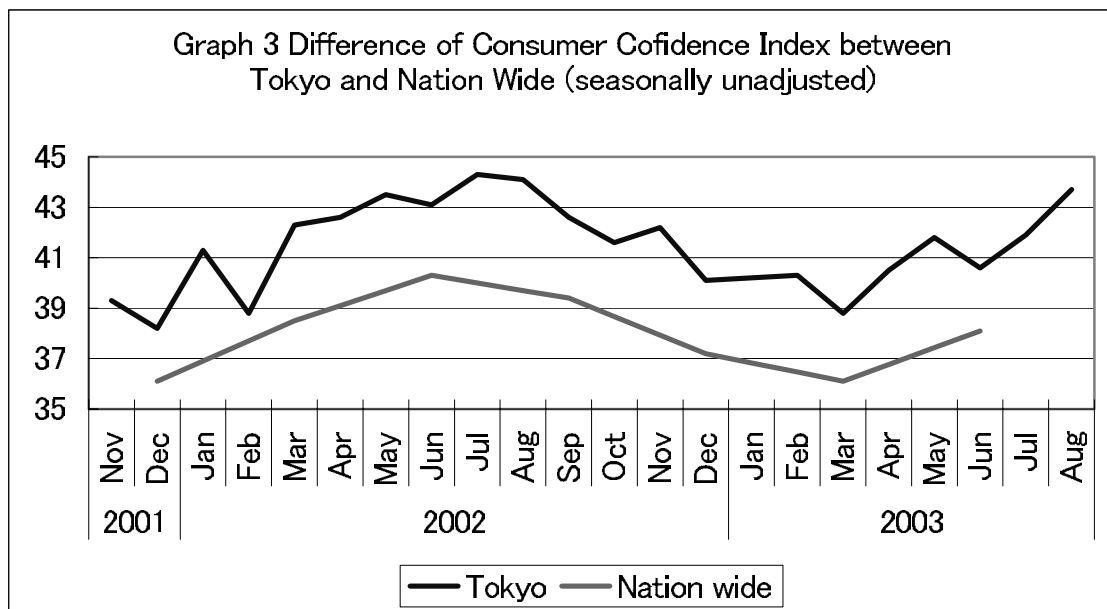
Respondents of the Monthly Survey are sampled from only Tokyo. The total number of samples is 435. They are just a part of the quarterly national survey that covers all households in Japan, not including one-person households or foreigners. The entire sample size of the national survey is 5,040. Respondents are asked to answer their questions as of 15th of each month and most of them are collected by the 25th. Though the Cabinet Office publishes the results, the task of performing the survey is contracted out to the Shin Joho Center. Until last April, the quarterly survey was conducted by all local governments except Tokyo. It is now contracted out to Shin Joho Center as well.

3. Questions and the calculation of the Consumer Confidence Index

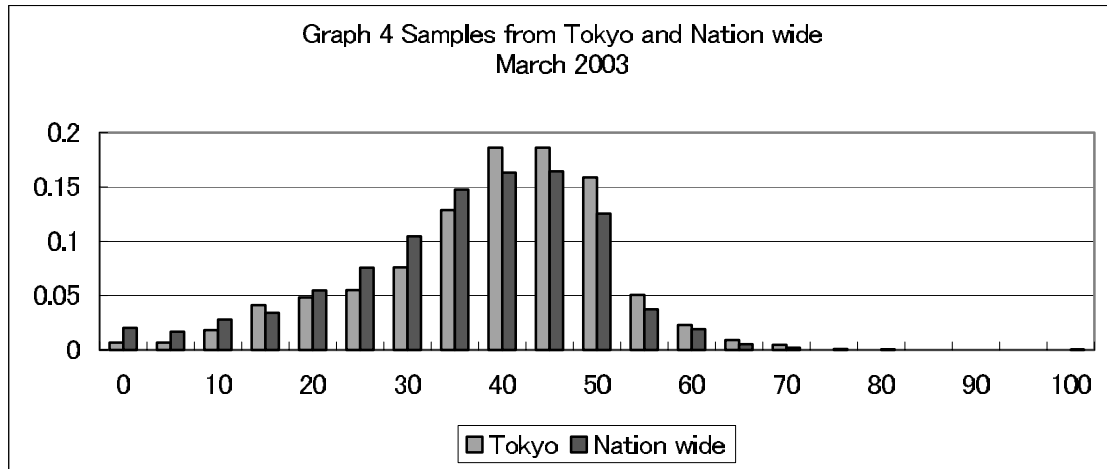
Only questions on consumer perception are asked in the monthly survey. They are: (1) overall livelihood; (2) income growth; (3) prices; (4) employment; and (5) willingness to buy durable goods. Respondents are asked to evaluate on a scale of one to five what they consider the prospects for the five subjects over the next six months. Points are then allotted in accordance with the one-to-five scale for each category. Then, Consumer Perception Indexes are calculated by computing the weighted average of the points of the results in the same manner as the quarterly survey and the Economy Watchers Survey mentioned above. Finally, taking the simple average of Consumer Perception Indexes, the Consumer Confidence Index (CCI) is calculated. Since the monthly series is still too short, we cannot get a seasonally adjusted series.

4. Performance

Graph 3 shows some recent movements of the CCI of monthly and quarterly surveys. The move of monthly surveys seemed to follow that of the quarterly data. The dip of monthly CCI in March and the surge of it in April of this year shows the impact of the War in Iraq on consumer confidence very clearly. A quarterly graph shows the same pattern, but we cannot identify the exact impact given many events occurred during March and June, including the surge in share prices. Monthly CCI, extended by the quarterly data backward, is already a part of the leading series of the Indexes of Business Conditions.



There is a clear gap between them. Graph 4 shows that the distributions of the consumer confidence of Tokyo respondents and those of the whole country differ substantially. Thus, the data from the monthly survey should be treated with care.



New Business Survey

1. Merger of the Two Major Business Surveys

Business and Investment Survey of Incorporated Enterprises, and Business Outlook Survey of the Ministry of Finance, two of the major business surveys of Japan, will be merged from next April. The exact name of the new business survey has not yet been decided. For convenience, it will be referred hereafter as the new business survey.

2. Purpose

There are two main driving forces behind the merger. One is to reduce the burden of the respondents. The two business surveys share several questionnaires and respondents. As a result the government has received complaints from the business community. The second one is the necessity to compile earlier and more precise statistics on private investments for the National Accounts. Movements in the preliminary estimate of GDP(QE) of Japan play a very important role in economic policymaking and thus all the more precise statistics are required given the economic stagnation during the last decades. By merging the two statistics, we can increase the sample size without putting the burden on the government budget.

3. Outline

The new business survey will have about 15,000 samples, while those of the two surveys are approximately 4,500 and 12,000. It will collect the results around the end of May, August, November, and February. The results will be published around the end of June, September, December, and March. For each quarter, a quick estimate of the current investment, sales, and profits of the corporations will be published as well as the business leaders' assessments of and forecasts for the economy, summarized as BSIs. The first preliminary estimate of GDP can use the data to make estimates of private investment. The samples are taken from those of the Financial Statements Statistics of Corporations by Industry. As the second preliminary estimate of GDP uses the data from the Financial Statements Statistics of Corporations by Industry, it is supposed that the revision of the private investment estimate will decrease.