

TDB Economic Trends Research (Research & Summary for Feb 2010)

Economic DI improves for 2nd straight month to 26.7 while domestic economy remains weak

- Economy is recovering from leveling-off stage due to growing foreign demand and recovering domestic demand, but still lower than levels before the Lehman bankruptcy -

e-mail : keiki@mail.tdb.co.jp

(Respondents 21,750, Valid responses 10,624, Response rate 48.8% Survey started in May 2002)

< Overview of February 2010: Leveling off >

The Economic DI (Economic DI: 0-100, 50 is the assessment threshold) in February 2010 rose 1.6 points from the previous month to 26.7, improving for the second straight month.

- (1) "Manufacturing" was significantly higher than the highest level after the economy began to recover, thanks to an increase in demand from emerging nations.
- (2) "Retail," "Service" and other domestic demand-related industries began to recover, supported by political measures.
- (3) Both the household sector and the corporate sector remain sluggish as the domestic economy remains weak.

The domestic economy is recovering from the leveling-off stage, but remains weak.

< Future outlook: Modest recovery >

The projected DI rose by 0.8 points from the previous month to 27.5 for "one month later," by 2.4 points to 29.1 "3 months later" and by 3.5 points to 30.2 "6 months later." While the domestic economy, lifted up by foreign demand, is expected to modestly recover from the bottom, weak foreign demand will likely prevent the economy from full-scale recovery.

Economic DI	Feb. 2009	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Change from prior month	▲ 0.7	0.8	1.0	0.3	1.6	0.8	1.4	0.2	0.2
Economic DI	Nov	Dec	Jan. 2010	Feb	Projected future DI	After 1 month	After 3 months	After 6 months	After 1 year
Change from prior month	▲ 0.2	▲ 0.8	1.2	1.6	Change from Jan. 2010	0.8	2.4	3.5	3.7

*1: White columns mean an improvement, yellow-shaded columns mean the value was unchanged, and blue-shaded columns mean a decrease.

*2: Economic DIs are calculated based on the structural ARIMA model, in which economic statistics are incorporated to the ARIMA model.

By Industry : "Manufacturing" was significantly higher than the highest level after the economy hit the bottom, exceeding "Retail" for the third straight month.

- Nine industries including "Manufacturing," "Retail" and "Service" improved while "Finance" declined.
- **"Construction" (22.5, up 1.5 from previous month)** Improved for the second straight month while remaining at the lowest of all ten industries (excluding "Other") for the eighth straight month due to capital spending cuts by the private sector and the government slashing public civil projects.
- **"Manufacturing" (28.2, up 1.6)** 'General Machinery,' 'Steel, Nonferrous Metals, Mining' and 'Electrical Machinery' improved, partly supported by strong foreign demand in Asia, such as China and the government's demand stimulus measures. There is growing concern about the impact of the massive recalls by Toyota Motor Corp. on the automobile-related manufacturing industries. 'Transportation Machinery, Equipment' rose 1.9 points. Thus, "Manufacturing" marked a record high for the second straight month, rose to a level significantly higher than the highest level after the economy hit the bottom in early spring of 2009.
- **"Retail" (26.7, up 0.8)** 'Electrical Household Appliances, Information Machinery and Equipment,' 'Various Merchandise' and other sectors improved for the second straight month thanks to household income support measures as well as low-price strategies, which successfully seized demand. 'Electrical Household Appliances, Information Machinery and Equipment,' however, rose only 0.1 point and 'Motor Vehicles, Motor Vehicle Parts' declined by 3.3 points due to sluggish demand for cars other than those eligible for tax breaks for eco-friendly cars and partly due to the massive recalls of Toyota cars. "Retail" improved for the second straight month to almost hit a record high (27.0 in September 2009) after the economy hit the bottom, but remained lower than "Manufacturing" for the third straight month due to the deteriorating employment and earnings environment as well as ongoing deflation.

By Firm Size : DI improves in all sizes, including “large,” “small-to medium” and “micro,” for 2nd straight month

- The DI improved in all firm sizes for the second straight month as large firms’ DI rose by 1.6 points to 27.9, small-to medium firms’ by 1.6 points to 26.3 and micro-enterprises’ by 1.4 points to 24.0. The growth of micro-enterprises’ DI, however, was weak due to an increasing number of large firms pursuing low-price strategies, as well as the impact of cost reduction on suppliers.

By Region: “Tokai” rose for 2nd straight month, but concerns about Toyota recalls are growing

- The DI improved in all ten regions for the second straight month.
- **“Minami Kanto” (27.9, up 1.8)** “Manufacturing” showed steady improvement, mainly in the machinery and chemical sectors, thanks to favorable foreign demand. “Retail,” “Service” and other domestic demand-related industries in the region were also more robust than those in other regions. Thus, “Minami Kanto” topped all the other nine regions for the first time since August 2008, when the bankruptcy of Lehman Brothers was yet to hit the economy.
- **“Tokai” (25.6, up 1.3)** The “Transportation Machinery/Equipment sector of “Manufacturing” in the region declined 2.1 points due to the massive recalls of Toyota cars. There is growing concern about the outlook of the industry because the recalls may have an increasing impact on production operations. Meanwhile, ‘Electrical Machinery,’ ‘Steel, Nonferrous Metals, Mining’ and other sectors improved. Although still lower than national average, “Manufacturing,” “Retail” and other domestic demand-related industries also improved. Thus, “Tokai” improved for the second straight month overall.
- **“Kyushu” (27.8, up 0.9)** “Manufacturing” in the region topped all the other nine regions at 30.1 thanks to favorable business in the machinery, chemical, electrical machinery and steel sectors, which were supported by exports to Asia. It was the first time since September 2008 (at 34.0) that it exceeded 30. Domestic demand-related industries such as “Manufacturing” and “Service” exceeded the national average. Thus, “Kyushu” was ranked second highest following “Minami Kanto.”

Economic Diffusion Index (Economic DI)1/2

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Ratio to the Previous Month
Total	18.6	19.4	20.4	20.7	22.3	23.1	24.5	24.7	24.9	24.7	23.9	25.1	26.7	1.6
Large Firms	20.3	21.1	22.4	22.6	24.1	24.8	25.7	25.9	26.0	25.9	25.2	26.3	27.9	1.6
Small to Medium-sized Firms	18.0	18.9	19.8	20.0	21.7	22.6	24.1	24.3	24.5	24.3	23.5	24.7	26.3	1.6
Micro Firms	17.3	18.5	19.3	19.2	21.0	21.6	23.1	23.1	23.0	22.4	21.6	22.6	24.0	1.4

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Ratio to the Previous Month	
Agriculture, Forestry, Fisheries	28.3	24.2	28.3	27.3	28.2	28.8	31.4	30.3	28.9	29.7	26.8	26.8	28.6	1.8	
Finance	22.1	21.9	23.0	25.3	27.1	26.4	27.0	28.2	27.9	28.2	26.2	28.3	28.1	▲ 0.2	
Construction	18.2	19.5	19.6	19.0	20.7	21.5	23.1	22.4	22.3	22.0	20.8	21.0	22.5	1.5	
Real Estate	19.8	21.1	21.4	22.7	24.6	26.1	26.0	27.4	26.9	25.4	23.9	26.2	26.9	0.7	
Manufacturing	Food, Beverages, Livestock Feed	27.3	27.8	30.5	29.8	31.5	31.0	32.5	31.9	30.7	29.9	29.0	28.7	29.2	0.5
	Textile, Textile Products, Clothing	17.2	17.5	19.2	21.8	21.1	23.5	24.1	23.8	22.4	23.1	21.5	23.2	24.0	0.8
	Construction Materials, Furniture, Ceramics, Stone and Clay Products	16.6	16.1	15.9	15.9	18.2	19.7	20.3	19.1	21.2	21.6	20.0	21.3	24.1	2.8
	Pulp, Paper and Paper Products	17.8	19.5	20.8	21.1	22.0	25.4	26.5	26.7	29.0	27.0	26.7	28.0	28.7	0.7
	Publishing, Printing	17.8	19.1	21.0	21.1	20.7	20.4	22.0	22.2	22.1	21.2	21.4	21.4	21.5	0.1
	Chemical	17.9	18.4	20.3	22.1	25.6	26.1	28.5	30.9	31.1	32.9	31.9	32.1	33.6	1.5
	Steel, Nonferrous Metals, Mining	13.3	13.4	14.1	15.1	16.5	18.0	20.9	21.2	21.9	23.1	22.7	25.1	27.3	2.2
	General Machinery	14.5	14.7	15.5	15.6	16.9	18.3	19.7	19.9	20.7	20.4	21.5	24.6	27.0	2.4
	Electrical Machinery	14.0	14.3	15.7	15.9	18.7	21.6	24.0	24.6	26.4	26.7	27.0	29.4	31.1	1.7
	Transportation Machinery, Equipment	14.0	12.1	15.4	15.5	19.0	20.3	22.3	24.6	25.8	26.9	28.0	30.5	32.4	1.9
	Precision Machinery, Medical Instruments and Equipment	16.5	20.1	20.7	20.6	24.1	21.7	25.5	26.9	25.0	28.2	29.5	31.5	34.2	2.7
Other	18.2	20.3	20.9	19.5	20.8	22.1	21.2	21.0	21.6	22.0	19.1	22.7	23.9	1.2	
Total	17.0	17.5	18.7	19.2	21.0	22.2	24.0	24.4	24.9	25.3	25.0	26.6	28.2	1.6	
Wholesale	Food, Beverages	25.5	25.9	27.1	27.7	29.4	28.5	29.8	28.5	28.5	27.0	26.1	25.4	27.3	1.9
	Textile, Textile Products, Clothing	17.0	18.2	18.9	18.4	20.3	20.0	20.9	21.1	21.6	19.4	18.8	20.9	21.8	0.9
	Construction Materials, Furniture, Ceramics, Stone and Clay Products	16.2	17.2	18.3	17.3	18.3	19.5	19.8	20.4	20.9	20.3	18.9	20.0	22.1	2.1
	Paper Products, Stationery, Books	20.8	20.7	21.9	21.6	23.6	22.1	24.2	23.8	23.6	24.8	24.4	24.5	25.6	1.1
	Chemical	19.9	21.0	22.9	24.2	26.6	27.6	28.7	29.4	29.4	28.5	28.3	30.3	31.9	1.6
	Recycled Resources	9.8	11.9	14.9	19.0	23.2	25.4	32.6	31.7	29.7	29.5	28.3	30.4	36.4	6.0
	Steel, Nonferrous Metals, Mining Products	15.4	15.0	15.7	16.9	16.8	19.5	20.8	21.4	21.4	21.6	21.4	23.5	24.9	1.4
	Machinery, Equipment	16.7	17.6	18.4	18.1	20.3	20.8	22.1	22.6	23.5	23.8	23.1	25.1	27.4	2.3
Other	20.1	21.5	23.8	24.4	25.2	26.8	26.8	27.5	27.5	26.8	26.0	25.8	27.0	1.2	
Total	18.4	19.2	20.3	20.5	22.1	22.8	23.9	24.1	24.5	24.1	23.4	24.6	26.4	1.8	

Economic Diffusion Index (Economic DI)2/2

		Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Ratio to the Previous Month
Retail	Food,Beverages	24.5	24.4	26.4	26.6	25.5	29.1	30.3	29.2	28.2	28.5	25.5	26.8	27.5	0.7
	Textile,Textile Products,Clothing	16.7	18.3	19.2	22.2	21.4	22.9	24.3	25.2	21.9	20.3	20.8	19.5	21.8	2.3
	Drugs,Sundries	27.8	32.0	32.7	37.3	31.8	33.3	34.7	40.2	37.1	38.6	34.2	36.5	30.8	▲ 5.7
	Furniture	18.2	21.2	16.7	19.4	16.7	18.1	17.9	20.8	20.4	16.7	16.7	18.1	21.2	3.1
	Electrical Household Appliances, Information Machinery and Equipment	23.3	25.0	27.9	25.0	27.5	26.9	25.8	28.2	27.5	27.3	25.8	28.1	28.2	0.1
	Motor Vehicles,Motor Vehicle Parts	12.9	15.8	19.9	19.6	25.6	23.3	24.4	28.2	27.1	29.2	26.5	31.2	27.9	▲ 3.3
	Special Merchandise	17.4	21.2	22.1	22.0	23.9	25.1	25.7	24.5	24.7	24.3	23.1	23.8	26.2	2.4
	Various Merchandise	26.8	25.5	26.2	27.0	27.3	26.3	26.1	25.8	26.2	27.0	24.1	27.5	28.2	0.7
	Other	18.8	24.1	21.4	19.0	22.9	26.2	23.8	22.9	26.2	16.7	19.4	14.3	25.0	10.7
	Total	20.5	22.4	23.7	24.0	25.1	25.9	26.4	27.0	26.3	26.5	24.4	25.9	26.7	0.8
Transportation,Warehousing		15.9	17.6	19.0	20.1	20.6	22.1	23.2	24.5	26.0	26.0	24.8	25.8	27.4	1.6
Service	Restaurants	23.2	28.1	28.7	29.2	31.9	28.1	29.9	29.5	26.7	21.6	20.3	22.0	23.2	1.2
	Postal,Telecommunications	38.5	34.7	37.5	33.3	42.6	43.9	44.4	43.3	43.3	47.9	42.4	48.6	42.4	▲ 6.2
	Electricity,Gas,Water,Heat	26.2	28.6	31.3	31.3	33.3	33.3	31.3	35.7	31.3	35.4	37.5	33.3	31.7	▲ 1.6
	Leasing,Rentals	24.2	25.7	25.4	25.3	25.6	27.2	28.6	27.4	27.2	26.0	26.2	28.4	30.7	2.3
	Lodging, Hotels	16.7	19.8	20.5	15.9	18.2	22.4	26.3	22.5	21.8	21.0	20.9	21.5	22.5	1.0
	Recreation	21.7	24.0	26.1	24.5	29.7	28.9	27.3	28.0	25.2	28.8	25.2	26.1	30.1	4.0
	Broadcasting	18.5	21.6	23.1	25.6	25.5	23.8	27.1	25.0	27.8	22.6	24.4	25.0	26.7	1.7
	Maintenance,Guarding,Testing	26.1	25.7	25.9	25.8	27.0	27.2	27.8	28.8	28.3	28.6	27.6	27.9	29.0	1.1
	Advertising	17.8	16.7	18.2	18.4	20.0	19.3	22.1	19.8	19.6	20.0	17.9	20.1	21.3	1.2
	Information	23.7	23.1	23.1	23.6	24.4	25.0	26.6	26.8	26.6	25.8	25.7	27.1	28.6	1.5
	Labor Dispatching	13.8	16.0	13.6	14.6	19.0	19.7	19.0	22.2	21.3	19.7	22.8	23.2	23.9	0.7
	Special Services	20.0	21.0	23.6	24.6	27.3	28.5	30.3	29.9	28.2	26.8	26.4	26.1	28.8	2.7
	Medical,Welfare,Public Health	23.1	23.7	27.6	26.4	26.5	27.0	28.1	29.5	29.0	27.9	25.8	27.8	27.4	▲ 0.4
	Education	30.0	30.8	27.5	32.4	31.5	26.3	29.2	32.4	28.7	31.5	26.0	28.4	32.2	3.8
	Other	25.1	27.8	28.8	27.7	29.0	29.6	30.8	31.0	31.1	30.6	30.5	29.7	30.4	0.7
Total	22.6	23.1	24.0	24.0	25.5	26.0	27.5	27.3	26.7	26.1	25.6	26.6	28.0	1.4	
Other	14.7	13.6	16.7	14.9	17.3	18.4	18.1	17.2	19.3	19.9	13.7	19.5	17.8	▲ 1.7	

		Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Ratio to the Previous Month
Hokkaido		18.4	19.5	20.6	20.8	21.8	23.1	24.6	25.4	25.8	25.3	23.9	24.2	24.4	0.2
Tohoku		16.6	17.6	19.5	18.6	20.8	21.8	24.0	23.7	24.1	23.8	22.5	22.7	23.9	1.2
kitakanto		16.6	17.1	18.2	18.5	19.9	21.3	22.3	23.5	23.6	24.1	23.5	24.4	26.5	2.1
minamikanto		19.6	20.5	21.8	22.1	23.4	24.5	25.4	25.8	25.5	25.6	24.7	26.1	27.9	1.8
Hokuriku		16.6	16.5	16.7	17.7	20.1	19.8	22.0	22.2	22.6	22.4	20.9	22.0	23.8	1.8
Tokai		16.9	17.1	17.6	18.6	20.2	21.1	22.6	22.7	23.6	23.0	22.7	24.3	25.6	1.3
Kinki		18.4	19.5	20.2	19.9	22.2	22.7	24.4	24.4	24.8	24.4	23.8	25.3	27.0	1.7
Chugoku		18.3	19.8	20.9	21.0	22.2	23.0	23.8	24.0	24.1	24.2	22.9	24.6	25.9	1.3
Shikoku		21.7	21.5	21.5	23.2	24.3	25.8	28.2	27.3	27.8	26.4	26.0	26.5	27.3	0.8
Kyushu		21.1	22.3	22.9	22.7	24.1	24.7	25.7	25.7	26.1	25.8	25.9	26.9	27.8	0.9

Appendix

1. Research Subjects(Corporations:21,750

Valid responses:10,624,Response rate:48.8%)

1.Region

Hokkaido	534	Tokai	1,145
Tohoku	669	Kinki	1,747
kitaKanto	682	Chugoku	678
minamikanto	3,518	Shikoku	341
Hokuriku	522	Kyushu	788
		Total	10,624

2.Industry (10 Industries 51 Lines of business)

Agriculture,Forestry,Fisheries		39
Finance		130
Construction		1,520
Real Estate		274
Manufacturing 3,223	Food,Beverages,Livestock Feed	345
	Textile,Textile Products,Clothing	125
	Construction Materials,Furniture,Ceramics,Stone and Clay Products	245
	Pulp, Paper and Paper Products	115
	Publishing,Printing	208
	Chemical	393
	Steel,Nonferrous Metals,Mining	490
	General Machinery	454
	Electrical Machinery	356
	Transportation Machinery,Equipment	91
Wholesale 3,959	Food,Beverages	387
	Textile,Textile Products,Clothing	219
	Construction Materials,Furniture,Ceramics,Stone and Clay Products	412
	Paper Products,Stationery,Books	118
	Chemical	315
	Recycled Resources	22
	Steel,Nonferrous Metals,Mining Products	378
	Machinery,Equipment	1,070
	Others	420

Retail 480	Food,Beverages	80
	Textile,Textile Products,Clothing	39
	Drugs,Sundries	20
	Furniture	11
	Electrical Household Appliances,Information Machinery and Equipment	36
	Motor Vehicles,Motor Vehicle Parts	49
	Special Merchandise	137
	Various Merchandise	59
Others		6
Transportation,Warehousing		392
Service 1,384	Restaurants	33
	Postal, Telecommunications	11
	Electricity,Gas,Water,Heat	10
	Leasing,Rentals	144
	Lodging, Hotels	37
	Recreation	51
	Broadcasting	15
	Maintenance,Guarding,Testing	135
	Advertising	141
	Information	380
	Labor Dispatching	53
	Special Services	208
	Medical,Welfare,Public Health	87
Education	15	
Others		141
Others		29
Total		10,624

3.Size

Large Firms	2,545	24.0%
Small to Medium-sized Firms	8,079	76.0%
micro Firms	2,216	20.9%
Total	10,624	44.8%

2. Research Items

- *Business Confidence (current, in 3 months, in 6 months, in 1 year)
- *Business Conditions (sales, purchasing and selling unit price, inventory, capacity utilization ratio, number of employees, overtime work hours)
- * Survey on corporate attitudes towards employment trends for fiscal 2010

3. Research Period and Methodology

Internet-based survey conducted December 17, 2009 through January 5, 2010.

The explanation of the Economic Diffusion Index

Research Purpose/Researched Terms

TDB Economic Trend Research (started from May 2002) is a monthly statistical survey conducted for over 20,000 nationwide corporations on their general business activities including the current condition and future outlook of the industry business performance and operating climate. The primary purpose of such a survey is to assess the current state of Japan's economy.

Selection of the Subject Corporations

Companies of all sizes in all domestic industries are eligible to participate in the survey.

DI Formula

The DI (Diffusion Index) is calculated by attaching a number (in parenthesis in the diagram below) to each of seven possible responses. Then multiplying the percentage of each response by the appropriate number, and adding the results.

Very Bad	Bad	Moderately Bad	Neither Good or Bad	Moderately Good	Good	Very Good
(0)	(1/6)	(2/6)	(3/6)	(4/6)	(5/6)	(6/6)
0	16.7	33.3	DI=50 Dividing point	66.7	83.3	100

A DI over 50 is in the range of "Good." A score under 50 is "Bad." The number 50 is the dividing point ("Neither Good or Bad"). All numbers are rounded off to the hundredth. It should be noted that no weight is given to a company's responses based on its size. Calculations are made according to a "one company, one vote" rule.

For example, all corporations rated 'Very Good'.

$$DI=6/6 \times 100(\%)=100$$

All corporations rated 'Neither Good nor Bad'.

$$DI=3/6 \times 100(\%)=50$$

Size Classification

Industry	Large Firms	Small to Medium-Sized Firms (Micro Firms included)	Micro Firms
Manufacturing and Other Industries*	Capital: More than 300 million yen and No. of Employee: Over 300	Capital: Below 300 million yen or No. of Employee: Below 300	No. of Employee: Below 20
Wholesale Trade	Capital: More than 100 million yen and No. of Employee: Over 100	Capital: Below 100 million yen or No. of Employee: Below 100	No. of Employee: Below 5
Retail Trade	Capital: More than 50 million yen and No. of Employee: Over 50	Capital: Below 50 million yen or No. of Employee: Below 50	No. of Employee: Below 5
Service**	Capital: More than 50 million yen and No. of Employee: Over 100	Capital: Below 50 million yen or No. of Employee: Below 100	No. of Employee: Below 5

Note1: Large Firms refer to companies that rank in the top 3% in terms of sales volume according to the type of business, among small to medium-sized corporations excluding micro firms, which are defined in Small and Medium Enterprises Basic Act.

Note2: Small to Medium-Sized Firms refer to companies that rank in the bottom 50% in terms of sales volume according to the type of business, among those not categorized as small to medium-sized corporations in Small to Medium-Sized Enterprises Basic Act.