

Summary

Prospects DI for the January – March quarter of 2006

- The Sales Current Assessment DI remained high, though it slightly declined. Compared with the Sales Current Assessment DI, the Sales Prospects DI slightly worsened; however, it maintained double-digit growth in all regions except NIEs3. In particular, the decline of the Sales Prospects DI in NIEs3 was notable.
- The Capital Investment Current Assessment DI deteriorated in all regions. The DI in NIEs3 and Europe in particular, slipped to a single-digit level. The Capital Investment Prospects DI showed a slight deterioration in all regions except North America and ASEAN4.
- The Employment Prospects DI sank in North America and NIEs3, while it improved slightly in China.

Actual Results for the July – September quarter of 2005

- Sales registered the eighth straight quarter of double-digit growth on a year-to-year basis. Sales in the transportation equipment sector increased in all regions. Sales in the electrical machinery sector continued to increase marginally, up by 1.4% from the year before. While China rebounded to double-digit growth, NIEs3 suffered a decline.
- Capital investments increased in all regions except North America. In Asia, capital investments in ASEAN4 expanded considerably. Capital investments in Europe showed a strong gain backed by brisk sales in the transportation equipment sector as the primary driver. In contrast, capital investments in the electrical machinery sector in North America showed a continued substantial decrease.
- The number of employees continued to climb in Asia, and the number in China, in particular, grew at a solid rate. However, North America saw a slight decline in the number of employees.

Important points in the survey

*Note: The survey was conducted in the middle of November 2005.

1. **The Sales Prospects DI^{*1} stood at 16.6 percentage points, maintaining double-digit growth, though it was slightly lower compared with the Current Assessment DI for the current quarter. Actual sales continued to grow favorably, increasing 10.8% compared to the same quarter of the previous year, marking the eighth consecutive quarter of double-digit gain.**

The Current Sales Assessment DI was steady at a high level; however, in Asia, particularly in China^{*2}, it deteriorated. The Prospects DI improved in North America and ASEAN4^{*3}, but in China and Europe respectively it marked a slight drop. It is notable that the DI for NIEs3^{*4} fell to a single-digit level. The overall Prospects DI slipped from the previous quarter. The Prospects DI for North America improved, but it deteriorated considerably in Europe. The Prospects DI for Asia continued to decrease, and for NIEs3 and China in particular, it worsened remarkably.

Actual sales continued to rise in all regions. Sales in Asia marked the thirteenth consecutive quarter of double-digit growth. ASEAN4, among others, continued bumper sales on account of the transportation equipment sector's good performance. Although the electrical machinery sector in China recovered to a gain of 10%-plus, the overall growth rate posted an increase of between 10% and 20% for two quarters in a row, mainly because the strongly performing transportation equipment sector registered an increase of at least 30%. Sales in NIEs3 recorded low growth in the order of a single-digit increase due to a decline in the electrical machinery sector, among others. Sales in North America and Europe registered relatively low single-digit growth due to a decline in the electric machinery sector despite favorable conditions in the transportation equipment sector.

2. **The Capital Investment Prospects DI stood at 10.1 percentage points, which was somewhat lower than that of the Capital Investment Current Assessment DI. Actual capital investment was up 9.1% compared to the same quarter of the previous year, marking the eleventh straight quarter of growth.**

The Capital Investment Current Assessment DI deteriorated in all regions but remained positive. The Prospects DI further worsened in NIEs3 and Europe. Compared with the Current Assessment DI for the current quarter, the Prospects DI slightly deteriorated. In Asia, the Prospects DI in ASEAN4 remained unchanged, and that for NIEs3 worsened due to

deterioration of the electrical machinery and transportation equipment sectors. The Prospects DI for Europe worsened marginally though the electrical machinery and the transportation equipment sectors were improving. The Prospects DI for North America improved as the transportation equipment sector deteriorated less.

Actual capital investment expanded in all regions except in North America. Capital investment in Asia continued its sharp increase due to favorable conditions in the transportation equipment sector. In particular, investment in ASEAN4 showed a substantial increase backed by the transportation equipment sector's gain. Capital investment in NIEs3 increased for two quarters in a row due to a substantial gain in the transportation equipment sector despite a decline in the electrical machinery sector. Capital investment in China increased more than 10% but did not reach 11% due to a drop in the electrical machinery sector. Capital investment in Europe continued to increase thanks to favorable conditions in the transportation equipment sector, but capital investment for North America continuously declined because of a sharp decrease in the electrical machinery sector.

3. **The Employment Prospects DI stood at 6.4 percentage points. The number of employees continued its growth, up 6.1% on a year-on-year basis.**

Both the Current Employment Assessment DI and the Employment Prospects DI maintained positive in all regions except Europe. The Employment Prospects DI from the previous quarter fell in all regions except China. In particular, the Prospects DI for NIEs3 dropped significantly, and that for North America also registered a slight deterioration.

Actual number of employees continued to rise in Asia. China continued to experience favorable conditions due to increases in several sectors including electrical machinery and transportation equipment. ASEAN4 showed an increase in employment in the transportation equipment sector. Actual number of employees in NIEs3 increased for the first time in three quarters as the decreasing ratio in the electrical machinery sector narrowed. While the actual number in North America dropped because of a decline in the electrical machinery sector, Europe posted an increase for two consecutive quarters in a row fueled by favorable conditions in the transportation equipment sector.

Notes) *1: The DI survey period was divided into the "current assessment" period and the "prospects" period, each of which is a three-month survey.

- $DI = (\text{Proportion of companies that responded that they expected an increase}) - (\text{Proportion of companies that responded that they expected a decrease})$
- Quarterly Changes in Current Assessment DI = Current Assessment DI for October to December 2005 – Current Assessment DI for July to September 2005
- Quarterly Changes in Prospects DI = Prospects DI for January to March 2006 – Current Assessment DI for October to December 2005

*2: China including Hong Kong.

*3: ASEAN4: Indonesia, Thailand, the Philippines and Malaysia.

*4: NIEs3: Singapore, Taiwan and the Republic of Korea.

1. Sales

The Sales Current Assessment DI (for the quarter from October to December, 2005) maintained double-digit levels in all regions, though it deteriorated by 3.8 percentage points compared with previous quarter. The Sales Prospects DI (for the quarter from January to March, 2006) slightly declined by 1.2 percentage points from the previous three months, still keeping its double-digit gain in all regions except NIEs3.

- The sales Current Assessment DI for North America and Europe improved, maintaining positive and double-digit levels in all regions.
- The Sales Prospects DI for North America and ASEAN4 improved considerably, and that for China still remained at a high level, but slightly worsened. In particular, the Sales Prospects DI for NIEs3 dropped sharply.

Actual sales increased 10.8% for the same period a year ago, marking the eighth consecutive quarterly year-on-year double-digit growth. Actual sales continued to increase in all regions. Sales in Asia registered the thirteenth straight quarter of year-on-year double-digit growth backed by an increase in the transportation equipment sector. China and ASEAN4 continued their double-digit growth. Actual sales for NIEs3 were positive but did not top a single-digit gain because the electrical machinery and the chemical sectors declined. Actual sales for North America and Europe remained at a single-digit level due to a consecutive decline in the electrical machinery sector despite continued brisk sales in the transportation equipment sector.

(Reference) **Overseas economies:** The global economy is steadily recovering. The North American economy is expanding. In Asia, the Chinese economy is continuing to expand. The economies in other Asian regions, such as Taiwan, Singapore, Thailand and Malaysia are expanding. Korea's economy is gradually recovering. The Euro-zone economy is also gradually recovering. The economy in the UK is recovering. (Excerpt from the December issue of *The Monthly Economic Report*.)

- (1) The Sales Current Assessment DI for the current quarter (October to December, 2005) stood at 17.8 percentage points, 3.8 points lower than that for the previous quarter (July – September, 2005).

The Prospects DI for the next quarter (January – March, 2006) stood at 16.6 points, slightly lowered by 1.2 points compared with the Current Assessment DI for the current quarter (October – December, 2005) (see Table 1, Chart 1 and Chart 2).

- The Sales Current Assessment DI for Europe surged considerably, and those for all regions were positive, posting double-digit growth. Though the Prospects DI for NIEs3 deteriorated to a single-digit level, those for North America and ASEAN4 improved, which made the Sales Prospects DI in all regions positive. In particular, the Prospects DI for North America substantially surged to above 20 percentage points.
 - The Prospects DI worsened slightly by 1.2 percentage points from the Current Assessment DI for the current quarter. The overall Prospects DI for Asia fell by 1.9 points from the Current Assessment DI for the current quarter. It was notable that the Prospects DI for ASEAN4 improved, and that for China worsened considerably (7.7 percentage points lower than the Current Assessment DI for the current quarter) and that for NIEs3 deteriorated to a single-digit level as the electrical machinery and the industrial machinery sectors, among others, slumped. The Prospects DI for Europe lost 8.1 percentage points compared with the Current Assessment DI for the current quarter due to the electrical machinery sector's plunge despite the transportation equipment sector's improvement. The Prospects DI for North America improved thanks to the transportation equipment sector's major improvement despite a deterioration in the electrical machinery sector.
- (2) Actual sales (on a US-dollar basis) increased 10.8% from the same quarter in the previous year, for the eighth straight quarter of double-digit year-on-year growth (see Table 1, Chart 1 and Chart 3).
 - Actual sales continued to pick up in all regions. In particular, those in Asia registered the thirteenth consecutive quarter of double-digit growth on a year-on-year basis. In China, actual sales in the electric machinery sector recovered to a gain of at least 10% from the same quarter of the previous year, but the favorable transportation equipment sector recorded a rather modest increase of above 30% year-on-year, thus resulting in a second consecutive quarterly increase of slightly above 10%. Actual sales in ASEAN4 showed a double-digit year-on-year increase. Those in NIEs3 registered single-digit year-on-year growth for two quarters in a row due to a decrease in the electrical machinery and chemical sectors, among others. Actual sales of electrical machinery in North America declined for the second straight quarter. Those in Europe posted a modest single-digit year-on-year increase as the electrical machinery sector dropped while the transportation equipment sector gained.

Table 1 Sales DI and Actual Results (by Region and Main Industries)

Unit (comparison to same quarter of previos year:%, comparison to the previous year:percentage points)

	DI						Actual (comparison to corresponding period of previous year)	
	Survey of previos term		Survey of present term			comparison to the previous quaeter		
	Current Assessment (July.-Sep. 2005)	Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)			
Total	21.6	17.8	16.6	(-3.8)	-1.2	10.8		
North America	9.0	15.0	20.5	(6.0)	5.5	8.1		
Asia	27.8	19.0	17.1	(-8.8)	-1.9	13.4		
ASEAN4	27.3	11.5	17.5	(-15.8)	6.0	14.7		
NIEs3	16.6	14.5	6.2	(-2.1)	-8.3	4.3		
China(including Hong Kong)	31.1	25.8	18.1	(-5.3)	-7.7	14.6		
Europe	1.7	22.9	14.8	(21.2)	-8.1	7.2		

	DI						Actual (comparison to corresponding period of previous year)	
	Survey of previos term		Survey of present term			comparison to the previous quaeter		
	Current Assessment (July.-Sep. 2005)	Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)			
Transportation equipment	21.1	24.5	33.3	(3.4)	8.8	20.3		
Electrical machinery	19.6	15.5	9.4	(-4.1)	-6.1	1.4		
Industrial machinery	26.7	25.8	17.8	(-0.9)	-8.0	8.6		
Chemicals	25.5	22.8	21.6	(-2.7)	-1.2	6.0		
Iron and Steel	0.0	-3.5	13.8	(-3.5)	17.3	-6.1		

Chart1 Sales DI and Actual sales (Dollar bases)

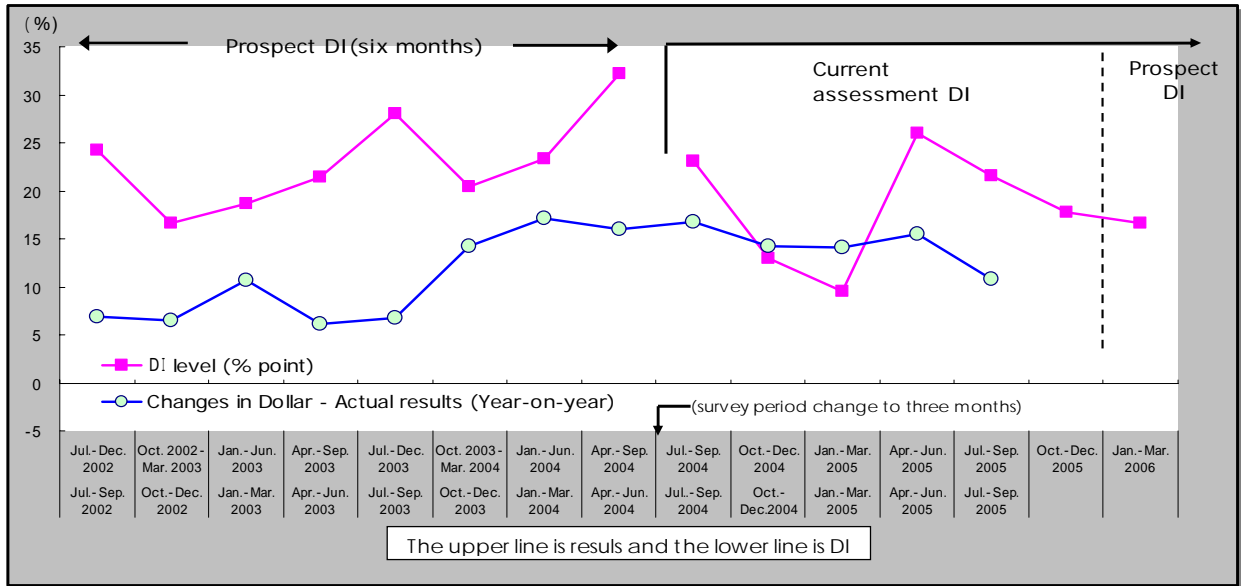


Chart2 Sales DI (By Region)

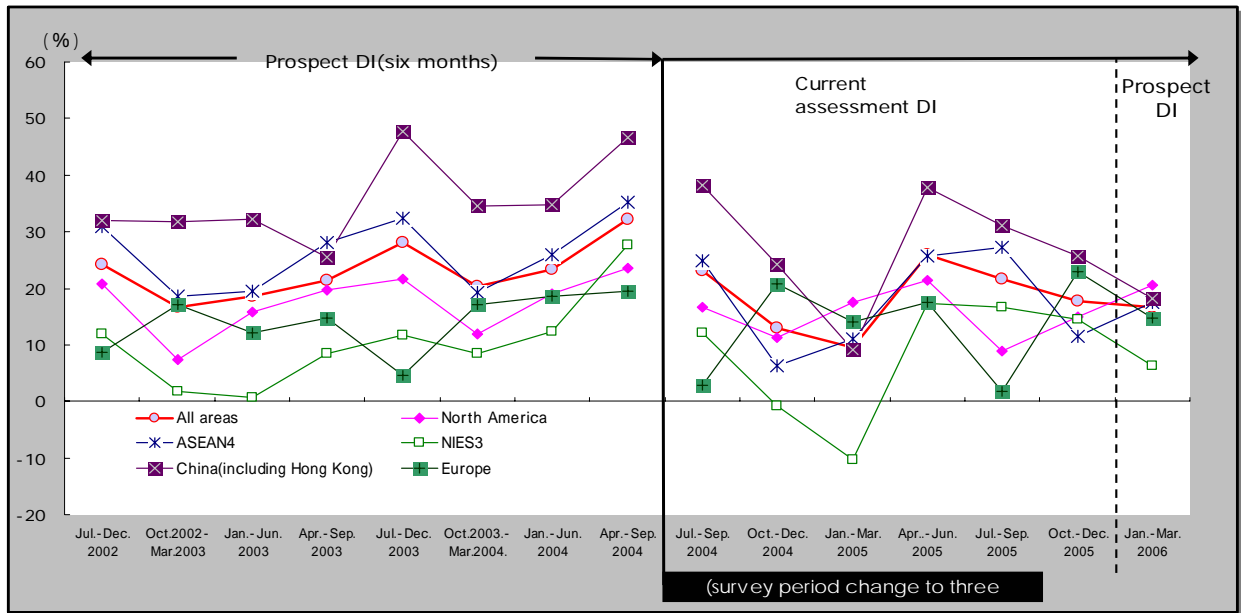
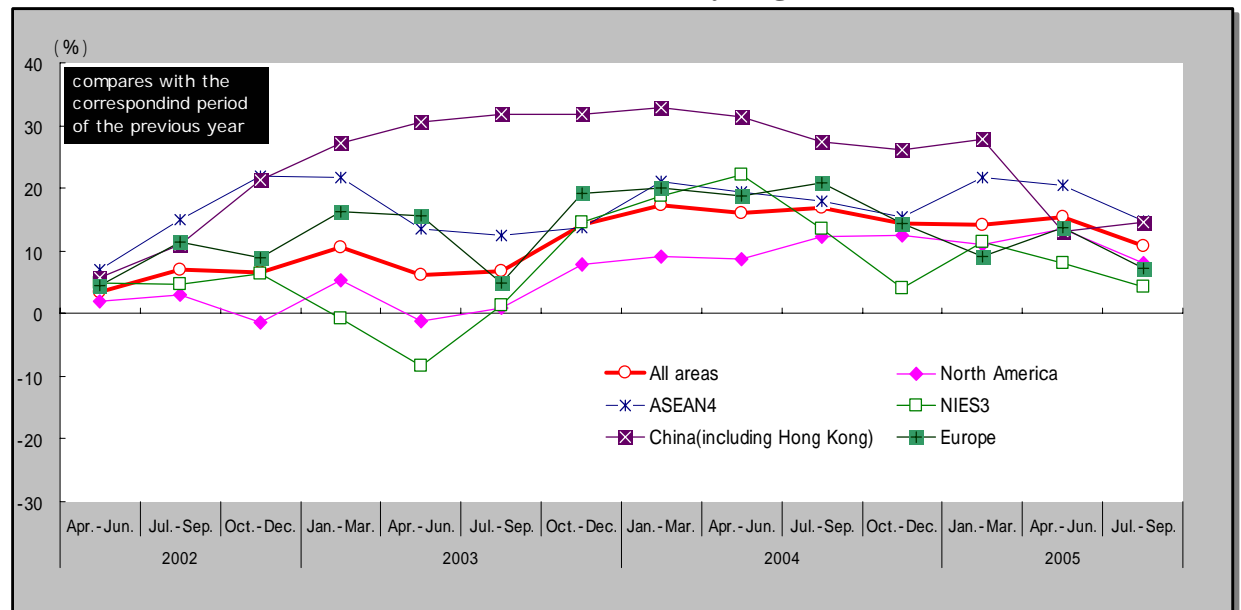


Chart3 Actual sales (By Region)



2. Capital Investment (acquisition costs of fixed assets except land)

The Current Capital Investment Assessment DI (for the quarter from October to December, 2005) was down from the previous quarter in all regions. Compared with the Current Capital Investment Assessment DI, the Capital Investment Prospects DI (for the quarter from January to March, 2006) worsened in all regions except North America and ASEAN4.

- The Current Assessment DI remained positive in all regions; however, those for NIEs3 and Europe slipped to single-digit growth.
- The Prospects DI for North America grew slightly, though deterioration was seen in the transportation equipment sector, among others. The Prospects DI for ASEAN4 remained unchanged, and those for the other regions all worsened. In particular, those for NIEs3 plunged.

Actual capital investment increased 9.1% from the same quarter a year earlier, for the eleventh consecutive quarter of growth on a year-on-year basis. Capital investment expanded in all regions except North America. Capital investment in Asia continued to surge. In particular, ASEAN4 showed a considerable increase in the transportation equipment sector. Investment in China showed a relatively modest growth of at least 10% triggered by the first decrease in the electrical machinery sector in five quarters. Investment in Europe registered the fifth consecutive substantial increase due to continuing favorable conditions in the transportation machinery sector despite the sluggish electrical machinery sector. Capital investment in North America declined considerably for two quarters in a row owing to declines in the electrical machinery and transportation equipment sectors.

- (1) The Capital Investment Current Assessment DI for the current quarter (October to December, 2005) stood at 11.1 percentage points, 4.7 points lower than that for the previous quarter (July to September, 2005). The Capital Investment Current Assessment DI worsened in all regions, and that for NIEs3 and Europe, in particular, slipped to a single-digit growth level.

The Capital Investment Prospects DI for the next quarter (January to March, 2006) stood at 10.1 percentage points. However, those for NIEs3 and Europe continued to remain in single-digit growth. The other regions maintained double-digit growth (see Table 2 and Chart 4).

- The Capital Investment Prospects DI slightly declined by 1.0 percentage points compared with the Current Assessment DI for the current quarter. The Prospects DI deteriorated in all regions except North America and ASEAN4. The Prospects DI for Asia worsened by 1.8 percentage points from the Current Assessment DI for the current quarter. In Asia, the Prospects DI for ASEAN4 remained flat, for NIEs3 it fell by 6.2 percentage points, and for China it slightly deteriorated owing to deterioration in the electrical machinery sector. The Prospects DI for North America showed a slight recovery (1.4 percentage points higher than the Current Assessment DI for the current quarter) thanks to an improvement in the ceramic and soil and stone sectors, among others, in spite of declines in the transportation equipment and electrical machinery sectors. The Prospects DI for Europe slightly worsened (0.9 percentage points lower than the Current Assessment DI for the current quarter) as the industrial machinery and chemical sectors declined.
- (2) Actual capital investment (on a US-dollar basis) increased by 9.1% from the same quarter a year earlier, for the eleventh consecutive quarter of growth (see Table 2 and Chart 5).
 - Actual capital investment expanded in all regions except North America, which marked a second straight quarterly decline. In Asia, ASEAN4 showed a substantial gain backed by favorable conditions in the transportation equipment sector. Actual capital investment for China recorded an increase of less than 11% because the electrical machinery sector posted its first decline in five quarters, and that for NIEs3 increased for the second consecutive quarter thanks to a continuing favorable wind helping the transportation equipment sector. Investment in Europe continued to climb significantly, marking the fifth consecutive significant quarterly increase supported by a robust gain in the transportation equipment sector despite single-digit growth in the electrical machinery sector. In the Eastern European region, actual capital investment continued its steady growth in the transportation equipment sector. On the other hand, actual capital investment for North America declined 17.0% year-on-year, marking a second consecutive quarterly decline. In particular, the electrical machinery sector in North America declined considerably, by 70.8% year-on-year, and the transportation equipment sector also declined 9.0% from the year earlier.

Table 2 Capital Investment DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previos year:%, comparison to the previous year:percentage points)

	DI						Actual (comparison to corresponding period of previous year)		DI						Actual (comparison to corresponding period of previous year)		
	Survey of previous term		Survey of present term			comparison to the previous quaeter			Survey of previous term		Survey of present term			comparison to the previous quaeter			
	Current Assessment (July.-Sep. 2005)	Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)	Current Assessment (July.-Sep. 2005)			Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)					
Total	15.8	11.1	10.1	(-4.7)	-1.0	9.1	Transportation equipment	22.5	14.2	13.5	(-8.3)	-0.7	17.7				
North America	14.9	11.9	13.3	(-3.0)	1.4	-17.0	Electrical machinery	13.5	8.7	5.7	(-4.8)	-3.0	-23.9				
Asia	16.7	12.4	10.6	(-4.3)	-1.8	25.9	Industrial machinery	8.9	17.9	11.2	(9.0)	-6.7	15.7				
ASEAN4	15.9	12.7	12.7	(-3.2)	0.0	43.8	Chemicals	13.4	13.0	8.9	(-0.4)	-4.1	-18.9				
NIEs3	10.3	6.7	0.5	(-3.6)	-6.2	14.5	Iron and Steel	6.6	4.0	14.6	(-2.6)	10.6	63.4				
China(including Hong Kong)	19.7	12.5	11.9	(-7.2)	-0.6	10.9											
Europe	12.3	3.6	2.7	(-8.7)	-0.9	22.9											

Chart4 Capital Investment DI by Region

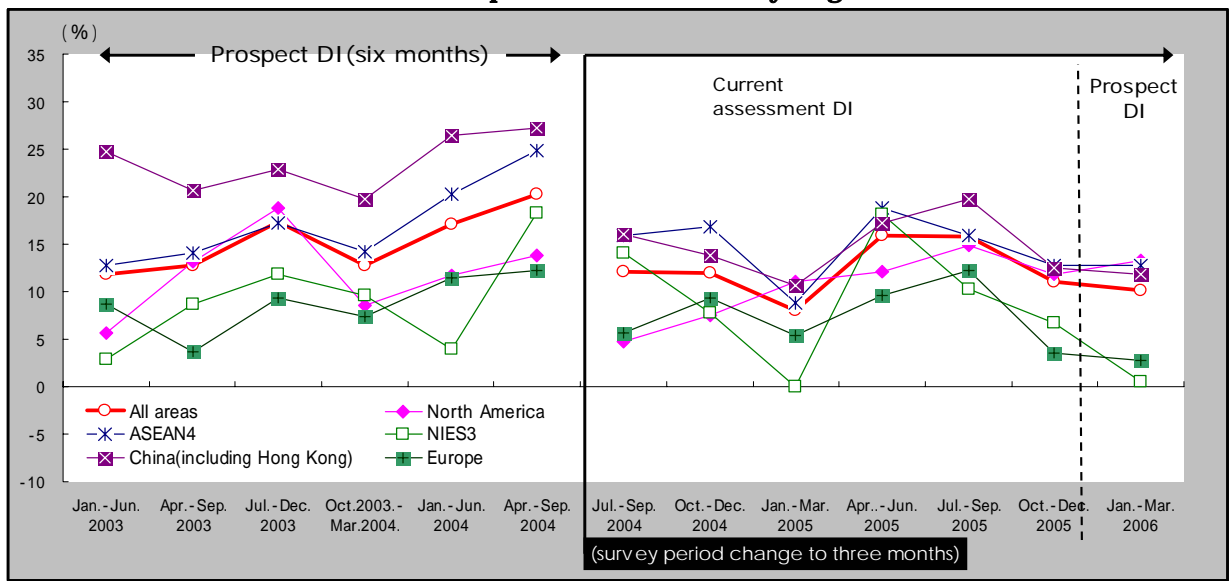
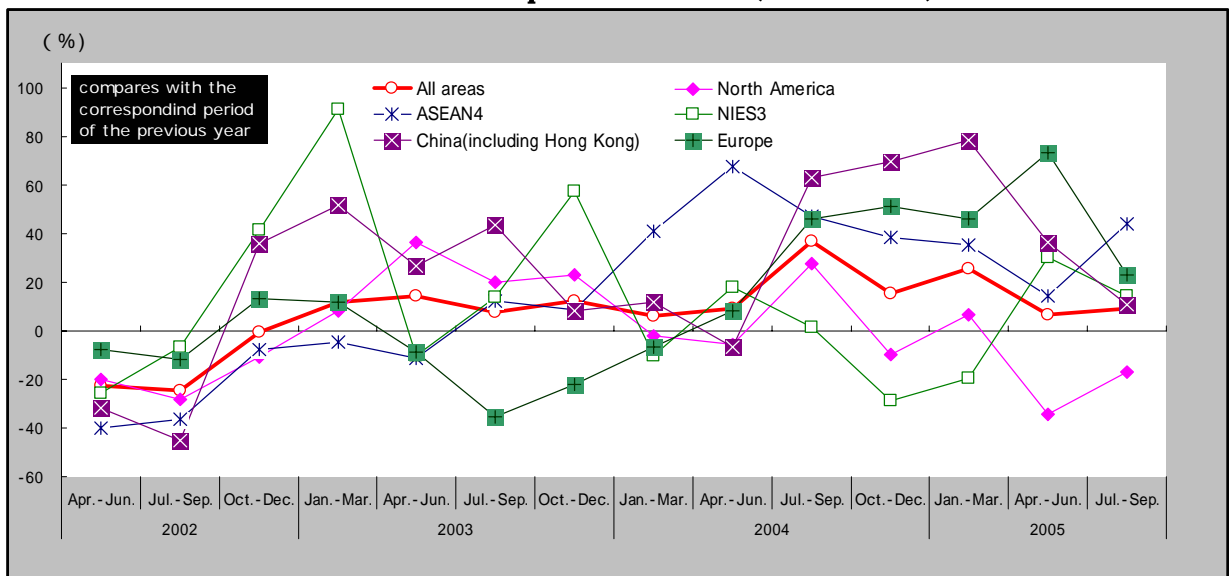


Chart5 Actual Capital Investment (Dollar Bases)



3. Employment

The Employment Prospects DI (for the quarter of January to March, 2006) stood at 6.4 percentage points. The Prospects DI was positive for all regions except Europe. However, compared with the Current Assessment DI for the current quarter, the Prospects DI worsened for all regions except China.

- The Current Employment Assessment DI (for the quarter of October to December, 2005) was positive for all regions except Europe, but it fell in all regions except NIEs3 compared with the previous quarter.
- The Employment Prospects DI worsened in all regions except China from the previous quarter. In particular, the Prospects DI for NIEs3 dropped significantly compared to the previous quarter.

The number of employees (as of the end of September, 2005) continued to increase, up by 6.1% from the same quarter of the previous year. Employment in Asia continued to climb. The number of employees in China continued to pick up, with an increase of 11.5% compared with the same quarter last year, marking the second consecutive quarterly double-digit growth. Employment in ASEAN4 registered an increase of 6.0% to the previous year, and that in NIEs3 also picked up, with a modest increase of 1.0% compared with the same quarter last year. Employment in Europe and in North America registered a gain of 2.7% and a drop of 0.9% respectively, both on a year-over-year basis.

- (1) The Employment Current Assessment DI for the current quarter (October to December, 2005) stood at 7.3 percentage points, 2.3 points lower than that for the previous quarter (July to September, 2005).

The Employment Prospects DI for the following quarter (January to March, 2006) worsened slightly, reaching 6.4 percentage points, which was 0.9 points lower than the Current Assessment DI for the current quarter (October to December, 2005) (see Table 3).

- Compared with the Current Assessment DI for the current quarter, the Prospects DI registered a decline of 0.9 percentage points, posting a decline in all regions except China. In Asia, the negative figure in the Prospects DI for NIEs3 was particularly noticeable. The Prospects DI for North America deteriorated slightly. The Prospects DI for Europe showed a slight decline of 0.9 percentage points compared with the Current Assessment DI for the current quarter, hence, not only the Current Assessment DI for the current quarter but also the Prospects DI against the previous quarter fell into negative territory.
- (2) The number of employees stood at 2.78 million as of the end of September 2005, continuing its upward trend, up 6.1% from the previous year (see Table 3).
- Employment in Asia continued its upward trend. In China, it registered its second consecutive double-digit increase thanks to improvements in the transportation equipment and electrical machinery sectors. The number of employees in ASEAN4 increased 6.0% from the year earlier thanks to the transportation equipment sector's expansion, and that for NIEs3 slightly increased 1.0% as the electrical machinery sector decreased less. Employment in Europe increased 2.7% backed by the transportation equipment sector's good performance, which enjoyed a double-digit expansion. In contrast, the number of employees in North America recorded a slight decline of 0.9% compared to the year earlier due to a continuous decline in the electrical machinery sector despite a gain in the transportation equipment sector.

Table 3 Employment Numbers DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previous year:%, comparison to the previous year:percentage points)

	DI					Actual (comparison to corresponding period of previous year)		DI					Actual (comparison to corresponding period of previous year)				
	Survey of previous term		Survey of present term					comparison to the previous quarter		Survey of previous term		Survey of present term			comparison to the previous quarter		
	Current Assessment (July.-Sep. 2005)	Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)			Current Assessment (July.-Sep. 2005)	Current Assessment (Oct.-Dec. 2005)	Prospect (Jan.-Mar. 2006)	Current Assessment (-)	Prospect (-)					
Total	9.6	7.3	6.4	(-2.3)	-0.9	6.1	Transportation equipment	16.1	12.4	11.4	(-3.7)	-1.0	12.4				
North America	7.3	5.0	3.6	(-2.3)	-1.4	-0.9	Electrical machinery	7.4	7.4	6.6	(0.0)	-0.8	5.1				
Asia	12.2	10.3	9.3	(-1.9)	-1.0	8.6	Industrial machinery	14.4	11.8	6.5	(-2.6)	-5.3	6.2				
ASEAN4	12.6	9.1	8.4	(-3.5)	-0.7	6.0	Chemicals	8.5	5.4	6.3	(-3.1)	0.9	-0.5				
NIEs3	0.7	6.4	0.4	(5.7)	-6.0	1.0	Iron and Steel	1.4	0.0	10.2	(-1.4)	10.2	0.8				
China(including Hong Kong)	15.2	12.3	12.8	(-2.9)	0.5	11.5											
Europe	1.5	-3.9	-4.8	(-5.4)	-0.9	2.7											