

DBJ Capital Spending Survey for FY2005



Third Consecutive Year of Double-digit Increase in Manufacturing, and First Increase in Five Years in Non-Manufacturing

– Capital Spending/Cash Flow Ratio to Begin to Rise –

Planned capital spending for FY2005 indicates the first double-digit increase in 15 years for all industries (up 11.6%): three straight years of double-digit growth in the manufacturing sector, the first such increase in the post-bubble period, and the first increase in five years in the non-manufacturing sector.

DBJ Capital Spending Survey

This semi-annual survey has been conducted since 1956 to assess major trends in domestic capital spending of the Japanese private sector. It is known as one of the most reliable surveys in this field, with very broad coverage and deepened analyses.

Survey method: Mailed questionnaire

Date of survey: June 25, 2005

Target firms: 3,625 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 76.9% (2,786 firms)

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Executive Summary

1. Planned capital spending for FY2005 indicates the first double-digit increase in 15 years for all industries (up 11.6%): three straight years of double-digit growth in the manufacturing sector, the first such increase since the bubble burst, and the first increase in five years in the non-manufacturing sector.

2. In the manufacturing sector (up 19.8%), capital spending is expected to increase across the board, led by major industries such as automobiles and electric machinery. In automobiles, active investment is expected in new models and product upgrading, which will have a positive impact on related industries including iron & steel and chemicals. Spending will continue to increase in electric machinery, cement, ceramics & glass and non-ferrous metals, mainly due to large-scale investment in flat-panel displays.

The non-manufacturing sector (up 6.9%) will see capital spending increase for the first time in five years, with an upturn expected in electric power and transport thanks largely to investment to ensure supply stability and safety. Investment in third-generation mobile phones will boost spending in communications & information and leasing.

3. Cash flow remains at a high level. As ordinary profits are expected to stay flat this fiscal year, the ratio of capital spending to cash flow will rise for the first time in five years.

Capital spending is now characterized by growth in the following types of investment, particularly in the manufacturing sector:

- (1) Investment for reducing the costs of raw materials and fuel to cope with high petroleum prices;
- (2) Investment in new products to stimulate demand in view of the flattening domestic market; and

- (3) Investment in existing plant and equipment (e.g., production process, supply equipment) to prevent both degradation of and upgrade their functions, thereby maintaining and enhancing competitiveness.

Regarding motives for investment, the positive contribution of “expansion of production capacity” declined from a year earlier. The shares of “maintenance” and “rationalization and labor saving” increased in the non-manufacturing sector, as well as in the materials sub-sector of manufacturing. In the processing & assembly sub-sector, substantial contributions continue mainly from “product development and upgrading” and “research and development,” for active marketing of new products. The share of “maintenance” also increased.

4. Ancillary surveys yielded the following results:

- (1) Capital spending overseas will continue to increase by double digits, as market expansion is expected in North America and China;
- (2) Investment in information technology continues to grow strongly, partly due to the introduction of inventory management systems for curbing costs; and
- (3) Research and development expenditure will rise for the third consecutive year since the start of the survey.

5. Capital spending in FY2005 centers on maintaining and enhancing sustained competitiveness, rather than on investment to increase production capacity which is susceptible to fluctuations in demand. In the months ahead, however, capital spending may be revised downwards, depending on economic trends both in Japan and overseas, including the Chinese economy and IT-related inventory adjustment.

Capital Spending

	FY2004 Actual (2,522 firms)			FY2005 Planned (2,786 firms)			FY2006 Planned (1,352 firms)		
	FY2003 Actual	FY2004 Actual	Growth Rate (%) 2004/2003	FY2004 Actual	FY2005 Planned	Growth Rate (%) 2005/2004	FY2005 Planned	FY2006 Planned	Growth Rate (%) 2006/2005
Total	18,953.7	19,271.3	1.7	20,044.9	22,363.0	11.6	7,037.0	6,963.2	-1.0
Manufacturing	5,923.2	6,838.1	15.4	7,284.4	8,727.7	19.8	1,851.1	1,885.9	1.9
Non-Manufacturing	13,030.5	12,433.3	-4.6	12,760.5	13,635.3	6.9	5,185.9	5,077.3	-2.1

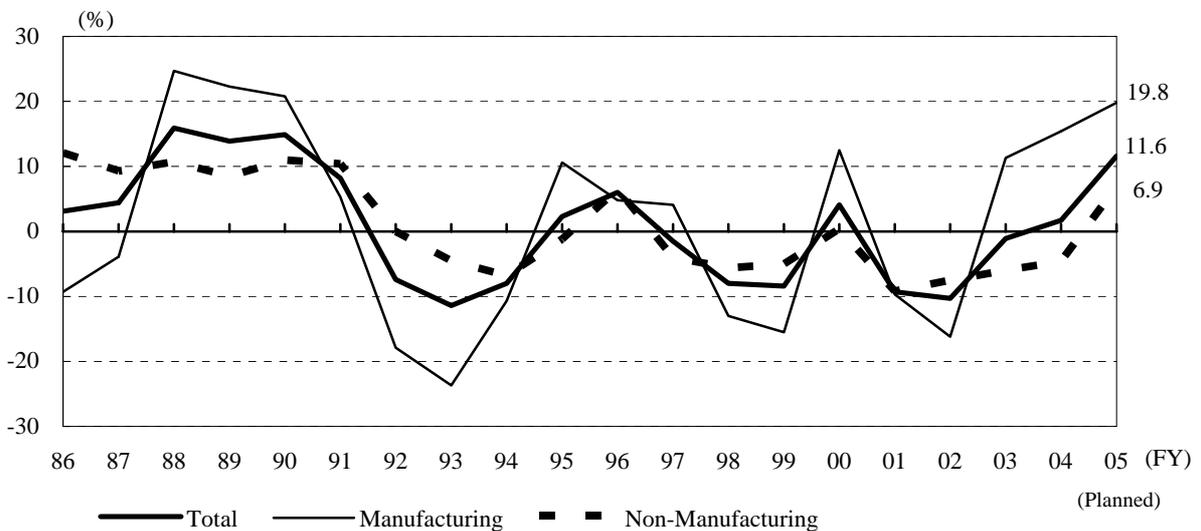
Note: Monetary amounts are in billion yen.

Revision Rate from Previous Survey

	Revision Rate (%)	
	FY2004 Actual	FY2005 Planned
Total	-6.6	5.0
Manufacturing	-6.1	8.6
Non-Manufacturing	-6.8	3.7

Note: Revision Rate (%) = [present survey (Jun. 2005) / previous survey (Nov. 2004) - 1] × 100.

Growth in Capital Spending



Capital Spending by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	2,786 firms		1,352 firms		2004/2003	2005/2004	2006/2005	2,786 firms	
	FY2004 Actual	FY2005 Planned	FY2005 Planned	FY2006 Planned				FY2004 Actual	FY2005 Planned
Total	20,044.9	22,363.0	7,037.0	6,963.2	1.7	11.6	-1.0	100.0	100.0
Manufacturing	7,284.4	8,727.7	1,851.1	1,885.9	15.4	19.8	1.9	36.3	39.0
Food and Beverages	400.6	456.5	98.5	79.3	11.5	14.0	-19.5	2.0	2.0
Textiles	58.1	91.0	19.4	16.0	-18.9	56.7	-17.2	0.3	0.4
Pulp and Paper	173.1	208.9	40.0	40.5	-7.2	20.7	1.2	0.9	0.9
Chemicals	1,056.9	1,171.7	233.2	249.5	17.5	10.9	7.0	5.3	5.2
Petroleum	176.7	239.7	112.7	112.5	28.1	35.7	-0.2	0.9	1.1
Cement, Ceramics and Glass	219.9	299.7	38.9	31.0	29.1	36.3	-20.2	1.1	1.3
Iron and Steel	421.2	539.1	141.0	174.0	6.8	28.0	23.4	2.1	2.4
Non-Ferrous Metals	245.5	288.6	139.2	122.2	16.4	17.5	-12.2	1.2	1.3
General Machinery	563.9	708.7	83.6	68.7	35.9	25.7	-17.8	2.8	3.2
Electric Machinery	1,701.3	1,916.7	479.7	558.0	8.4	12.7	16.3	8.5	8.6
<i>Electric Devices, etc.</i>	<i>1,236.6</i>	<i>1,320.4</i>	<i>338.7</i>	<i>419.9</i>	<i>15.2</i>	<i>6.8</i>	<i>24.0</i>	<i>6.2</i>	<i>5.9</i>
Precision Machinery	174.8	180.6	20.9	15.4	31.0	3.3	-26.4	0.9	0.8
Transportation	1,664.4	2,108.7	356.3	330.7	23.9	26.7	-7.2	8.3	9.4
<i>Automobiles</i>	<i>1,563.7</i>	<i>1,977.1</i>	<i>336.5</i>	<i>309.4</i>	<i>24.4</i>	<i>26.4</i>	<i>-8.1</i>	<i>7.8</i>	<i>8.8</i>
Other Manufacturing	428.1	517.9	87.7	88.0	3.0	21.0	0.3	2.1	2.3
Non-Manufacturing	12,760.5	13,635.3	5,185.9	5,077.3	-4.6	6.9	-2.1	63.7	61.0
Construction	169.1	145.9	32.8	28.3	9.1	-13.8	-13.8	0.8	0.7
Wholesale and Retail	1,185.1	1,148.0	308.2	296.6	9.0	-3.1	-3.8	5.9	5.1
<i>Retail</i>	<i>989.3</i>	<i>989.2</i>	<i>261.4</i>	<i>269.5</i>	<i>9.6</i>	<i>0.0</i>	<i>3.1</i>	<i>4.9</i>	<i>4.4</i>
Real Estate	867.3	850.1	381.4	308.5	2.5	-2.0	-19.1	4.3	3.8
Transportation	1,708.1	1,868.2	498.0	504.1	-6.9	9.4	1.2	8.5	8.4
Electric Power and City Gas	1,983.1	2,349.6	2,020.5	2,002.6	-17.7	18.5	-0.9	9.9	10.5
<i>Electric Power</i>	<i>1,748.0</i>	<i>2,076.2</i>	<i>1,803.5</i>	<i>1,816.9</i>	<i>-18.7</i>	<i>18.8</i>	<i>0.7</i>	<i>8.7</i>	<i>9.3</i>
<i>City Gas</i>	<i>235.2</i>	<i>273.4</i>	<i>217.0</i>	<i>185.7</i>	<i>-9.3</i>	<i>16.3</i>	<i>-14.4</i>	<i>1.2</i>	<i>1.2</i>
Telecom. and Information	2,520.3	2,757.0	356.3	320.5	1.2	9.4	-10.1	12.6	12.3
Leasing	3,983.8	4,205.2	1,510.6	1,555.1	-4.8	5.6	2.9	19.9	18.8
Services	302.4	255.8	68.0	54.7	-0.6	-15.4	-19.5	1.5	1.1
Other Non-Manufacturing	41.2	55.7	10.0	7.0	0.5	35.2	-29.6	0.2	0.2

Notes: 1. Other Manufacturing includes publishing and printing, rubber, metal products and others.
 Other Non-Manufacturing includes fishing, mining and others.
 2. Monetary amounts are in billion yen.