

DBJ Capital Spending Survey for FY2005



Uptrend Prevails in Overall Industry

- Utilization of Existing Equipment for Extensive Investment Needs -

Planned capital spending for FY2005 (revised plan) shows the fastest increase since FY1998 for overall industry (up 15.0%), with the third straight year of double-digit increase in the manufacturing sector – for the first time in the post bubble era – and the first double-digit increase in 14 years in the non-manufacturing sector.

Compared with the previous survey (June 2005), planned capital spending was revised upwards in both sectors, with an increased contribution from the non-manufacturing sector. The ratio of capital spending to cash flow is expected to turn up after five years of decline.

DBJ Capital Spending Survey

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

Survey method: Questionnaire

Date of survey: November 10, 2005

Target firms: 3,592 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 76.7% (2,754 firms)

All inquiries should be directed to
the Economic & Industrial Research Department,
Development Bank of Japan.

Takanori Wada, Deputy Director
E-mail: tkwada@dbj.go.jp
Phone: 03-3244-1841

Executive Summary

1. Planned capital spending for FY2005 (revised plan) shows the fastest increase since FY1998 for overall industry (up 15.0%), with the third straight year of double-digit increase in the manufacturing sector – for the first time in the post bubble era – and the first double-digit increase in 14 years in the non-manufacturing sector.

Compared with the previous survey (June 2005), planned capital spending was revised upwards in both sectors, with an increased contribution from the non-manufacturing sector. The ratio of capital spending to cash flow is expected to turn up after five years of decline.

2. Capital spending is slated to increase almost across the board in both manufacturing and non-manufacturing.

In the manufacturing sector (up 22.7%), spending will increase in all industries. Active investment in new products is expected in the processing and assembly sub-sector in order to stimulate demand, led by new models in automobiles. Investment in response to growth markets will lead the spending increase in the materials sub-sector, including functional resins and flat-panel display components in chemicals.

In the non-manufacturing sector (up 10.6%), spending will increase for the first time in five years. An upturn in investment is expected in electric power (to improve supply stability), leasing (computer-related equipment) and transport (railroad safety and logistics). Spending will also increase in telecommunications & information (led by investment in third-generation mobile phones) as well as in wholesale & retail (new outlets of mass home electronics retailers).

3. According to the present survey, capital spending is now characterized by growth in diverse categories of investment including

(1) investment in response to growth markets (e.g. high-grade steel sheet for automobiles in iron & steel);

(2) investment for maintenance of the operating base (e.g. maintenance and replacement investment in electric power and transport);

(3) investment in new products for demand stimulation (e.g. introduction of new models in automobiles); and

(4) investment to curb raw material and fuel costs (e.g. boiler fuel conversion).

Low-cost measures in response to such extensive investment requirements include upgrading the functions of existing facilities (facility sophistication investment), instead of introducing new facilities. Indeed, 42% of the respondent firms report that such investment accounts for at least 25% of total capital spending. Those firms primarily utilize “IT technology” (24%) and “new technology/equipment, etc.” (64%) for investing to improve facilities. The number of firms responding that “the weight of such investment will increase” far exceeds those expecting a “decline.”

4. Ancillary surveys yielded the following results:

(1) research and development expenditure will rise 5.5%, the third consecutive year of increase since the start of the survey. Spending is led by hybrid engines in automobiles, flat-panel displays in electric machinery and new drug development in chemicals;

(2) more than one-third of the firms are interested in acquiring assets/operational departments from other firms (through M&A), of which 60% consider acquiring departments for their core operations.

5. Planned capital spending for FY2006 is largely on a par with the spending planned for the current fiscal year. According to the opinion survey on domestic capital spending next year, the number of firms predicting an “increase” is almost the same as that predicting a “decrease,” which nonetheless indicates an improvement in investor sentiment over the previous opinion survey conducted in November last year.

Capital Spending

| | FY2005 Planned (2,602 firms) | | | FY2006 Planned (1,560 firms) | | |
|-------------------|---------------------------------|-------------------|------------------------------|---------------------------------|-------------------|------------------------------|
| | FY2004 Actual | FY2005 Planned | Growth Rate (%) 2005/2004 | FY2005 Planned | FY2006 Planned | Growth Rate (%) 2006/2005 |
| Total | 19,445.1 | 22,368.4 | 15.0 | 9,736.4 | 9,711.3 | -0.3 |
| Manufacturing | 7,052.4 | 8,656.6 | 22.7 | 2,542.6 | 2,586.5 | 1.7 |
| Non-Manufacturing | 12,392.7 | 13,711.8 | 10.6 | 7,193.8 | 7,124.8 | -1.0 |

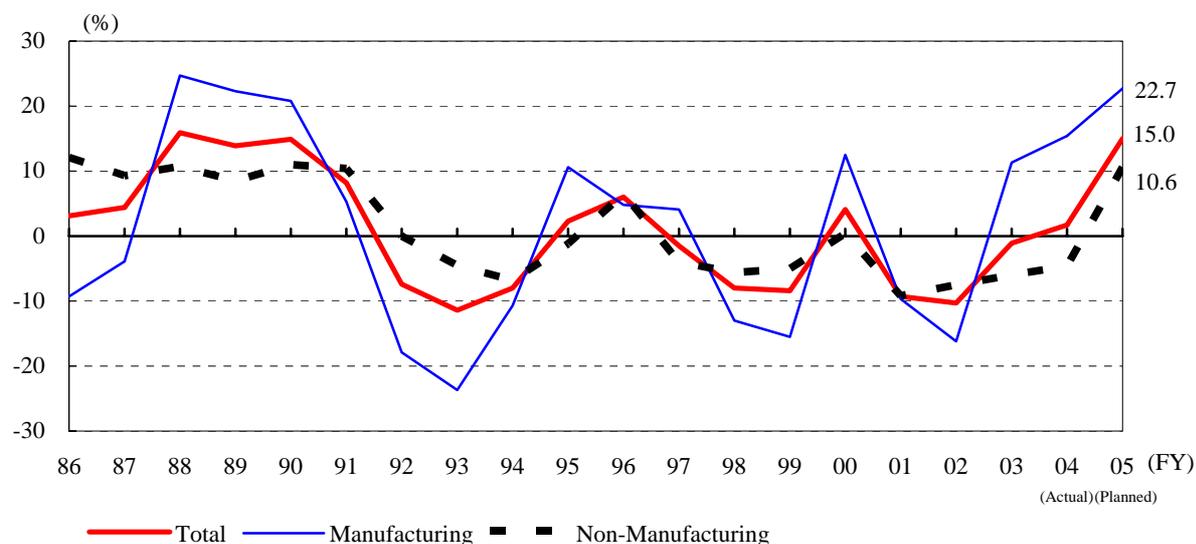
Note: Monetary amounts are in billion yen.

Revision Rate from Previous Survey (June 2005)

| | Revision Rate (%) | |
|-------------------|-------------------|----------------|
| | FY2005 Planned | FY2006 Planned |
| Total | 3.2 | 3.4 |
| Manufacturing | 2.4 | 3.0 |
| Non-Manufacturing | 3.8 | 3.5 |

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

Growth in Capital Spending



Capital Spending by Industry

| | Capital Spending | | | | Growth Rate (%) | | Component Rate (%) | |
|-------------------------------|------------------|-------------------|-------------------|-------------------|-----------------|--------------|--------------------|-------------------|
| | 2,602 firms | | 1,560 firms | | 2005/2004 | 2006/2005 | 2,602 firms | 1,560 firms |
| | FY2004 Actual | FY2005 Planned | FY2005 Planned | FY2006 Planned | | | FY2005 Planned | FY2006 Planned |
| Total | 19,445.1 | 22,368.4 | 9,736.4 | 9,711.3 | 15.0 | -0.3 | 100.0 | 100.0 |
| Manufacturing | 7,052.4 | 8,656.6 | 2,542.6 | 2,586.5 | 22.7 | 1.7 | 38.7 | 26.6 |
| Food & Beverages | 374.0 | 420.5 | 103.3 | 92.1 | 12.4 | -10.8 | 1.9 | 0.9 |
| Textiles | 48.5 | 87.3 | 25.7 | 21.1 | 80.0 | -17.7 | 0.4 | 0.2 |
| Pulp & Paper | 169.3 | 218.5 | 45.2 | 50.0 | 29.0 | 10.5 | 1.0 | 0.5 |
| Chemicals | 1,010.6 | 1,136.0 | 317.8 | 340.0 | 12.4 | 7.0 | 5.1 | 3.5 |
| Petroleum | 176.1 | 253.5 | 146.8 | 164.5 | 44.0 | 12.1 | 1.1 | 1.7 |
| Cement, Ceramics & Glass | 228.6 | 320.1 | 112.8 | 75.5 | 40.0 | -33.1 | 1.4 | 0.8 |
| Iron & Steel | 415.5 | 560.2 | 246.9 | 309.7 | 34.8 | 25.5 | 2.5 | 3.2 |
| Non-Ferrous Metals | 244.7 | 299.1 | 138.4 | 133.6 | 22.2 | -3.5 | 1.3 | 1.4 |
| General Machinery | 546.0 | 738.6 | 237.8 | 219.0 | 35.3 | -7.9 | 3.3 | 2.3 |
| Electric Machinery | 1,640.0 | 1,802.4 | 495.0 | 552.8 | 9.9 | 11.7 | 8.1 | 5.7 |
| <i>Electric Devices, etc.</i> | <i>1,197.2</i> | <i>1,242.9</i> | <i>347.7</i> | <i>413.3</i> | <i>3.8</i> | <i>18.9</i> | <i>5.6</i> | <i>4.3</i> |
| Precision Machinery | 173.5 | 197.6 | 36.4 | 30.6 | 13.9 | -16.1 | 0.9 | 0.3 |
| Transportation | 1,635.6 | 2,131.3 | 501.4 | 491.5 | 30.3 | -2.0 | 9.5 | 5.1 |
| <i>Automobiles</i> | <i>1,550.4</i> | <i>2,019.5</i> | <i>472.3</i> | <i>453.6</i> | <i>30.3</i> | <i>-3.9</i> | <i>9.0</i> | <i>4.7</i> |
| Other Manufacturing | 390.0 | 491.6 | 135.0 | 106.0 | 26.0 | -21.5 | 2.2 | 1.1 |
| Non-Manufacturing | 12,392.7 | 13,711.8 | 7,193.8 | 7,124.8 | 10.6 | -1.0 | 61.3 | 73.4 |
| Construction | 157.3 | 138.5 | 47.0 | 43.6 | -12.0 | -7.1 | 0.6 | 0.4 |
| Wholesale & Retail | 1,093.1 | 1,119.7 | 365.9 | 372.7 | 2.4 | 1.9 | 5.0 | 3.8 |
| <i>Retail</i> | <i>908.7</i> | <i>963.0</i> | <i>314.2</i> | <i>338.2</i> | <i>6.0</i> | <i>7.6</i> | <i>4.3</i> | <i>3.5</i> |
| Real Estate | 855.4 | 1,049.9 | 645.9 | 478.8 | 22.7 | -25.9 | 4.7 | 4.9 |
| Transportation | 1,699.4 | 1,886.1 | 647.5 | 641.5 | 11.0 | -0.9 | 8.4 | 6.6 |
| Electric Power & City Gas | 1,983.6 | 2,350.6 | 2,044.4 | 2,029.1 | 18.5 | -0.7 | 10.5 | 20.9 |
| <i>Electric Power</i> | <i>1,748.4</i> | <i>2,077.0</i> | <i>1,814.6</i> | <i>1,827.5</i> | <i>18.8</i> | <i>0.7</i> | <i>9.3</i> | <i>18.8</i> |
| <i>City Gas</i> | <i>235.2</i> | <i>273.5</i> | <i>229.9</i> | <i>201.7</i> | <i>16.3</i> | <i>-12.3</i> | <i>1.2</i> | <i>2.1</i> |
| Telecom. & Information | 2,518.2 | 2,845.8 | 777.5 | 805.0 | 13.0 | 3.5 | 12.7 | 8.3 |
| Leasing | 3,786.8 | 4,053.8 | 2,576.3 | 2,655.2 | 7.1 | 3.1 | 18.1 | 27.3 |
| Services | 257.7 | 214.5 | 82.5 | 93.5 | -16.8 | 13.3 | 1.0 | 1.0 |
| Other Non-Manufacturing | 41.2 | 52.9 | 6.9 | 5.4 | 28.6 | -21.3 | 0.2 | 0.1 |

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.