

DBJ Capital Spending Survey for FY2006



Spending in Manufacturing to Record First Four-Straight-Years of Double-Digit Increase since Izanagi Boom, while Investment Continues to Grow in Non-Manufacturing

- Growth of Domestic Spending Outpaces Investment Overseas -

Planned capital spending for FY2006 shows the first double-digit increase since FY1990 overall (up 12.9%): the manufacturing sector will record a fourth consecutive double-digit increase for the first time since the Izanagi boom, while spending will rise strongly in a wide range of non-manufacturing industries.

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 Japanese private sector. 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: June 23, 2006

Target firms: 3,576 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 75.9% (2,715 firms)

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Executive Summary

1. Planned capital spending for FY2006 shows the first double-digit increase since FY1990 overall (up 12.9%): the manufacturing sector will record a fourth consecutive double-digit increase for the first time since the Izanagi boom, while spending will rise strongly in a wide range of non-manufacturing industries.

2. In the manufacturing sector (up 21.8%), electric machinery leads the overall growth and will grow substantially, particularly in flat-panel displays and electronic components. This surge in investment is expected to benefit related industries such as non-ferrous metals and cement, ceramics & glass. Significant increases in spending are also planned in iron & steel and chemicals, mainly on products for automobiles to meet rising global demand. Higher spending is also planned in petroleum and chemicals on projects to cope with rising resource prices. In the non-manufacturing sector (up 7.4%), a back-to-back increase in capital spending is expected, as investment will rise almost across the board. Spending in transportation and electric power will be led by investment for safety measures and stable supply. Considerable increases are also expected in telecommunications & information and leasing, thanks largely to investment in third-generation mobile phones.

As regards investment motives, the share of “expansion of production capacity” will increase from the previous year in industries such as electric machinery, iron & steel and chemicals. In the manufacturing sector, the share of “expansion of production capacity” is now the largest (35.5%) since FY1986, when the survey introduced the current classification of investment motives. The share of “maintenance and repair” is also expected to increase in both manufacturing and non-manufacturing.

3. According to the present survey, capital spending is now characterized by four developments:

(1) expansion of growth upstream from flat-panel displays and automobiles to components and manufacturing equipment;

(2) response to rising resource prices in chemicals and other industries through diversification of materials and fuels and introduction of energy-saving equipment;

(3) increased attention to environmental problems and security/safety issues (CSR-related investment); and

(4) sophistication of existing facilities, including through blast furnace repairs in iron & steel and mixed-flow production in automobiles.

4. Ancillary surveys gave the following results:

(1) Capital investment overseas will increase particularly in automobiles, electric machinery and chemicals. In the manufacturing sector as a whole, however, domestic capital spending will grow even faster than investment overseas.

(2) Investment in information technology is expected to rise with the introduction of product development systems and IC card systems.

(3) Research and development expenditure will continue to grow, led by transport equipment and chemicals, resulting in the fourth consecutive increase since this survey item was introduced.

5. Planned capital spending for FY2006 reflects improved investor sentiment on the back of the current recovery in corporate profits. Although spending remains within cash flow, the former is growing faster than the latter. Consequently, the ratio of capital spending to cash flow is expected to rise for the second straight year. In forecasting future movements in capital spending, close attention should be paid to the impact of national and international economic factors – the trend of the U.S. economy in particular – on corporate performance, in the context of rising resource prices.

Capital Spending

	FY2005 Actual (2,463 firms)			FY2006 Planned (2,715 firms)			FY2007 Planned (1,296 firms)		
	FY2004 Actual	FY2005 Actual	Growth Rate (%) 2005/2004	FY2005 Actual	FY2006 Planned	Growth Rate (%) 2006/2005	FY2006 Planned	FY2007 Planned	Growth Rate (%) 2007/2006
Total	18,930.7	20,545.9	8.5	21,947.7	24,777.1	12.9	7,206.4	7,102.7	-1.4
Manufacturing	6,838.7	7,884.7	15.3	8,335.0	10,152.3	21.8	2,303.4	2,204.2	-4.3
Non-Manufacturing	12,092.0	12,661.2	4.7	13,612.7	14,624.8	7.4	4,903.1	4,898.5	-0.1

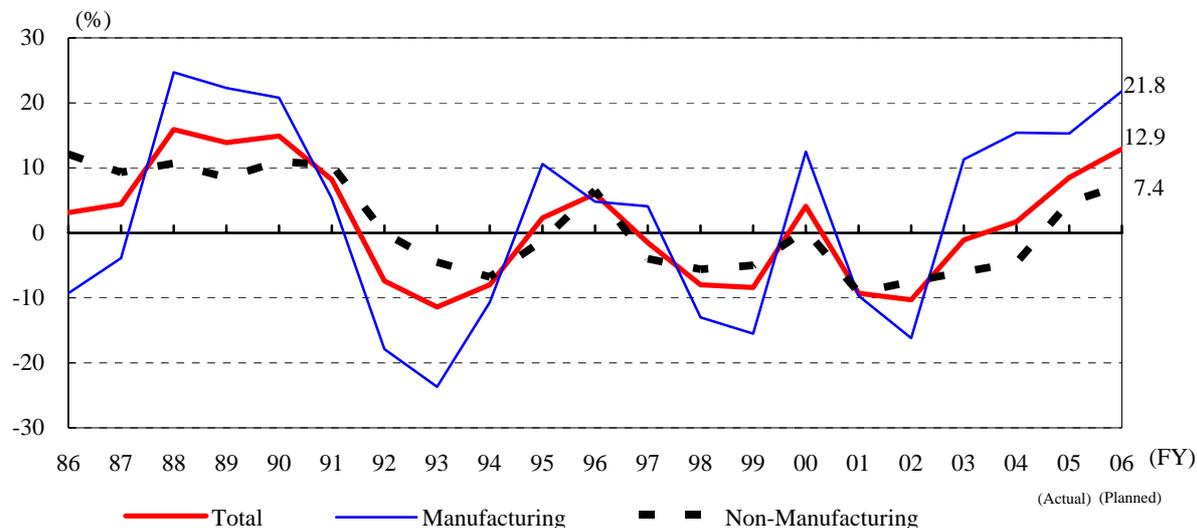
Note: Monetary amounts are in billion yen.

Revision Rate from Previous Survey (November 2005)

	Revision Rate (%)	
	FY2005	FY2006
Total	-5.5	3.4
Manufacturing	-6.8	17.1
Non-Manufacturing	-4.6	-1.4

Note: Revision Rate (%) = [present survey (Jun. 2006) / previous survey (Nov. 2005) - 1] × 100.

Growth in Capital Spending



Capital Spending by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	2,715 firms		1,296 firms		2005/2004	2006/2005	2007/2006	2,715 firms	
	FY2005 Actual	FY2006 Planned	FY2006 Planned	FY2007 Planned				FY2005 Actual	FY2006 Planned
Total	21,947.7	24,777.1	7,206.4	7,102.7	8.5	12.9	-1.4	100.0	100.0
Manufacturing	8,335.0	10,152.3	2,303.4	2,204.2	15.3	21.8	-4.3	38.0	41.0
Food & Beverages	456.7	440.8	70.0	64.1	7.7	-3.5	-8.5	2.1	1.8
Textiles	82.2	86.2	20.1	12.4	69.9	4.9	-38.1	0.4	0.3
Pulp & Paper	218.9	263.9	37.4	87.4	25.6	20.5	133.6	1.0	1.1
Chemicals	1,068.7	1,302.5	313.7	253.2	5.3	21.9	-19.3	4.9	5.3
Petroleum	180.8	314.7	113.3	61.1	2.3	74.1	-46.1	0.8	1.3
Cement, Ceramics & Glass	301.8	391.5	92.4	57.1	30.9	29.7	-38.2	1.4	1.6
Iron & Steel	565.0	831.4	430.8	383.9	36.9	47.1	-10.9	2.6	3.4
Non-Ferrous Metals	286.2	349.9	152.8	152.2	14.8	22.3	-0.4	1.3	1.4
General Machinery	808.8	959.3	107.1	96.9	30.3	18.6	-9.4	3.7	3.9
Electric Machinery	1,726.7	2,197.6	482.6	587.6	3.2	27.3	21.8	7.9	8.9
<i>Electric Devices, etc.</i>	<i>1,217.7</i>	<i>1,571.0</i>	<i>334.1</i>	<i>415.7</i>	<i>1.4</i>	<i>29.0</i>	<i>24.4</i>	<i>5.5</i>	<i>6.3</i>
Precision Machinery	194.2	225.5	32.6	29.7	5.4	16.2	-9.0	0.9	0.9
Transport Equipment	1,992.7	2,189.4	332.2	303.0	23.6	9.9	-8.8	9.1	8.8
<i>Automobiles</i>	<i>1,876.3</i>	<i>2,024.0</i>	<i>312.7</i>	<i>285.5</i>	<i>23.4</i>	<i>7.9</i>	<i>-8.7</i>	<i>8.5</i>	<i>8.2</i>
Other Manufacturing	452.3	599.7	118.6	115.7	8.8	32.6	-2.4	2.1	2.4
Non-Manufacturing	13,612.7	14,624.8	4,903.1	4,898.5	4.7	7.4	-0.1	62.0	59.0
Construction	171.4	208.4	51.2	48.9	-2.1	21.6	-4.5	0.8	0.8
Wholesale & Retail	1,053.7	1,085.4	240.3	238.0	-1.9	3.0	-0.9	4.8	4.4
<i>Retail</i>	<i>885.6</i>	<i>919.3</i>	<i>195.6</i>	<i>201.0</i>	<i>1.6</i>	<i>3.8</i>	<i>2.8</i>	<i>4.0</i>	<i>3.7</i>
Real Estate	1,186.4	1,185.8	433.6	312.0	29.2	-0.1	-28.0	5.4	4.8
Transportation	1,743.5	2,129.4	625.7	607.2	1.8	22.1	-3.0	7.9	8.6
Electric Power & City Gas	2,066.1	2,299.6	2,074.8	2,248.1	3.2	11.3	8.4	9.4	9.3
<i>Electric Power</i>	<i>1,811.0</i>	<i>2,008.6</i>	<i>1,832.8</i>	<i>2,019.8</i>	<i>2.7</i>	<i>10.9</i>	<i>10.2</i>	<i>8.3</i>	<i>8.1</i>
<i>City Gas</i>	<i>255.1</i>	<i>291.1</i>	<i>241.9</i>	<i>228.4</i>	<i>7.2</i>	<i>14.1</i>	<i>-5.6</i>	<i>1.2</i>	<i>1.2</i>
Telecom. & Information	2,573.5	2,680.1	307.4	273.0	9.5	4.1	-11.2	11.7	10.8
Leasing	4,542.9	4,681.4	1,087.4	1,116.1	1.5	3.0	2.6	20.7	18.9
Services	221.8	278.5	73.4	47.5	-18.4	25.5	-35.3	1.0	1.1
Other Non-Manufacturing	53.4	76.2	9.4	7.6	29.3	42.6	-19.0	0.2	0.3

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.