Development Bank of Japan Research Report No. 43

Survey on Planned Capital Spending for Fiscal Years 2002, 2003 and 2004 (Conducted in August 2003)

November 2003

Economic and Industrial Research Department
Development Bank of Japan

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Contents

Increase in Capital Spending for the First Time in Three Years, Led by the Manufacturing Sector:

More selective and focused investment targeting consumer demand

I Summary

1. Total industry planned capital spending for FY2003 increased for the first time in three years (up 4.9%), led by that in the manufacturing sector.

2. In the manufacturing sector, planned capital spending increased substantially from the previous fiscal year in most industries, including electric machinery and automobiles, which occupy large proportions, leading to an increase in total for the first time in three years (up 16.2%), but the spending was low in comparison with past years. In electric machinery, positive investments are scheduled for end products such as audio-visual equipment and for devices such as semiconductors and flat panel displays, reflecting increased demand for digital home electronics. Large increases are planned in precision machinery (for semiconductor processing), non-ferrous metals (for 300 mm silicon wafer production equipment), and cement, ceramics & glass (for larger glass substrates for liquid crystal displays), led by investments in sectors related to the processing of electric parts and devices. Pharmaceuticals and electronic materials are major contributors to increases in planned capital investment by the chemicals industry. Replacement investment will increase—including in the automobile industry, for production of new models and improvement of production efficiency; and in the iron & steel industry, for blast furnace refurbishment—in response to steady returns on sales.

In the non-manufacturing sector, planned capital spending decreased both in real estate, due to the completion of a large-scale urban redevelopment project, and in electric power, due to continued restraints on investment, but increased in leasing, where demand is expected to expand; in telecommunications and information for next-generation mobile phones, fiber-optic networks, and terrestrial digital broadcasting; and in retail, due to accelerated establishment of new outlets. The mix of positive and negative growth will result in little change from the previous year in total capital spending in the non-manufacturing sector (up 0.2%).

3. Current profit growth is expected in both the manufacturing sector and the non-manufacturing sector, despite low sales. Planned capital spending, however, is at a level well below projected cash flow. Cash flow will be applied to debt repayment, and capital spending will be carried out with investment efficiency in mind.

4. Research & development expenditure (new survey item) increased in both the manufacturing sector (up 4.9%) and the non-manufacturing sector (up 2.7%), leading to an overall increase (up 4.8%). In the manufacturing sector, electric machinery, which occupies a large proportion, indicated large growth, mainly in devices and IT-related equipment, leading to increased overall research & development expenditure in the sector.

5. Cases of IT-related industries leading others in terms of total capital spending were seen also in the capital spending growth in FY2000, FY1995, and FY1984. However, this time the survey shows that investment is more selective and focused, and that in sectors that are clearly leading in terms of technology, such as devices, processing equipment, and materials, the investment is expanding in line with the individual companies' original strategies. An important point is that not only IT-related sectors, such as digital home electronics, telecommunications and broadcasting, but also other sectors, such as automobiles and supermarkets, are increasing investment to meet rising consumer demand.

Planned capital spending increased in most manufacturing sectors for FY2003, but this is attributed to a cyclical effect, and a deep-seated undercurrent of restraint in domestic investment persists. This point must be considered when estimating the investment trend for the next few years.

II Outline

Objectives

This survey has been conducted biannually (in February and August) since FY1956 by the Development Bank of Japan to assess major trends in the capital spending of Japanese industry.

The Scope of Capital Spending

In this survey, “capital spending” refers to domestic investment in tangible fixed assets of one’s own corporation, such as buildings, structures and equipment (including ships, aircraft, rolling stock, tools and furnishings), as well as the purchase and development of land (excluding the purchase of land for subdivision in the real estate industry). Accordingly, intangible fixed assets are excluded, as are capital spending abroad and investment in subsidiaries/affiliated firms.

However, ancillary surveys on “capital spending abroad,” “information technology investment” and “research & development expenditure” cover a wider range of investment.

Survey Methods

The survey was conducted by means of questionnaire (sent to individual firms and followed up by telephone interviews when necessary).

Capital spending has been calculated based on construction. In general, it is calculated as the sum total of tangible fixed assets, including the construction in progress account (without subtracting resale value, depreciation and loss).

Target Firms

This survey covers all private firms in Japan’s major industries capitalized at ¥1 billion or more, excluding agriculture, forestry, finance and insurance and medicine. The Teito Rapid Transit Authority has been included in the survey despite the fact that it is classified as a (non-financial) public corporation under the System of National Accounts (SNA).

Date of Survey

August 10, 2003. Most of the responses to the questionnaire were obtained in August.

Contents of the Survey

(i) Actual capital spending in FY2002 and planned capital spending for FY2003 and FY2004
(ii) Details of individual construction projects for each of the above years
(iii) Actual revenue and expenditure in FY2002 and estimated revenue and expenditure for FY2003
(iv) Investment motives in FY2002 and FY2003
(v) Land investment in FY2002, FY2003 and FY2004
(vi) Capital spending abroad for FY2002 and FY2003
(vii) Information technology investment in FY2002 and FY2003
(viii) Research & development expenditure in FY2002 and FY2003

Responses

The responses to the survey are shown below. In terms of the number of targeted firms and respondents, the survey is the largest among similar national surveys on capital spending trends.

	No. of Firms Targeted	No. of Firms Giving Valid Responses	Proportion of Valid Responses
Principal Business Classification	3,654	2,966	81.2%
Investment-specific Classification	4,381	3,610	82.4%

On the Totals

Industrial classification

There are two types of industrial classifications: principal business classification and investment-specific classification. The former classifies and totals the companies' responses based on the main business interest of each company, whereas the latter classifies and totals the amount of investment for each business sector in a company's response according to industrial sector.

Although the investment-specific classification is used in principle for the analysis of the amount and motives of capital spending, the principal business classification is adopted in other cases.

Timing of the survey and years covered

The survey is conducted twice a year, in August and in February. Since each fiscal year is surveyed five times until planned investments are materialized, the results reveal business sentiments in detail, for example, through the extent to which planned investments have been modified.

Targeted FY Timing of survey	2000	2001	2002	2003	2004
August 2001	Actual	Modified plan	Plan for next FY		
February 2002		Estimate	Initial plan		
August 2002		Actual	Modified plan	Plan for next FY	
February 2003			Estimate	Initial plan	
August 2003			Actual	Modified plan	Plan for next FY

Note: From 2004, the survey will be conducted in June and in November.

III Survey Results

1. Overall Condition

Capital Spending

	FY2002 (Actual) (2,737 firms)			FY2003（Planned） (2,966 firms)			FY2004（Planned） (1,436 firms)		
	FY2001 Actual	FY2002 Actual	Growth Rate (%) 2002/2001	FY2002 Actual	FY2003 Planned	Growth Rate (%) 2003/2002	FY2003 Planned	FY2004 Planned	Growth Rate (%) 2004/2003
Total	20,851.2	18,713.8	-10.3	19,535.7	20,499.6	4.9	8,144.7	7,645.8	-6.1
Manufacturing	6,662.3	5,586.1	-16.2	5,816.0	6,756.1	16.2	1,352.6	1,203.5	-11.0
Non-manufacturing	14,188.9	13,127.7	-7.5	13,719.7	13,743.5	0.2	6,792.1	6,442.3	-5.1

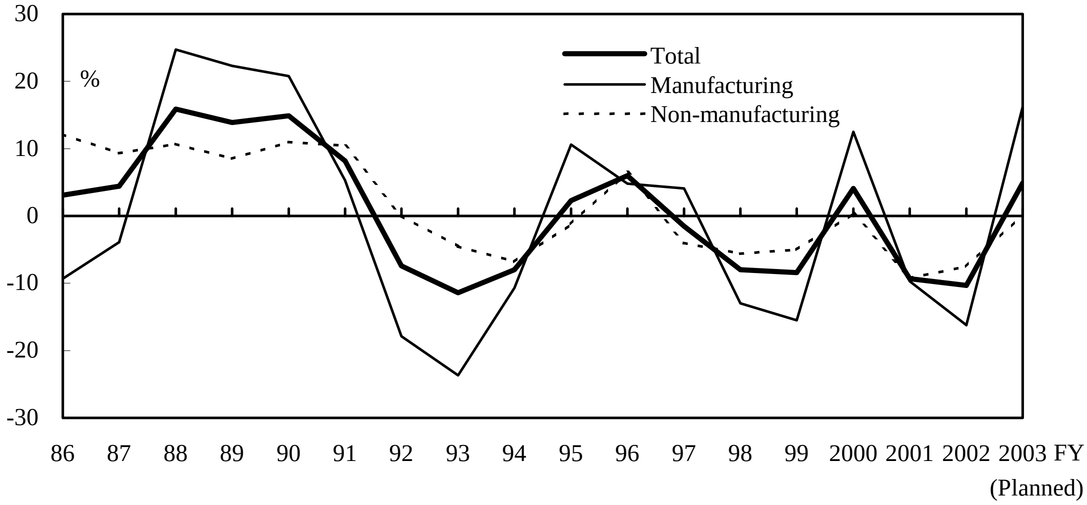
Note: Monetary amounts are in billion yen.

Comparison with the February 2003 Survey (Revision Rate)

	FY2002 (Actual)	FY2003 (Planned)
Total	-6.7	0.5
Manufacturing	-5.0	8.2
Non-manufacturing	-7.4	-2.8

Notes: 1. Figures are given as percentages.
2. Revision Rate = {(Aug. 2003 survey)/(Feb. 2003 survey) - 1} × 100

Growth in Capital Spending



Note: Actual data for August until FY2002.

(1) Actual capital spending for FY2002

Actual capital spending continued to decrease substantially in FY2002, in both the manufacturing sector (down 16.2%) and the non-manufacturing sector (down 7.5%), leading to an overall decrease for the second consecutive year (down 10.3%), and double-digit negative growth for the first time in nine years (all figures are based on construction). The level of actual capital spending is normally lower than the level of estimated capital spending, but the size of downward revision in capital spending in FY2002 (down 6.7%) was relatively large, based on firms which responded to the survey in both February 2003 and August 2003.

(2) Planned capital spending for FY2003

Planned capital spending in industry overall for FY2003 increased for the first time in three years (up 4.9%), due almost entirely to increases in the manufacturing sector, as the non-manufacturing sector's planned amounts were relatively unchanged.

Manufacturing sector

In the manufacturing sector, planned capital spending increased substantially from the previous fiscal year in most industries, including electric machinery and automobiles, which occupy large proportions, leading to an increase in total for the first time in three years (up 16.2%), but the spending was low in comparison with past years. In electric machinery, positive investments are scheduled for end products such as audio-visual equipment and for devices such as semiconductors and flat panel displays, reflecting increased demand for digital home electronics. Large increases are planned in precision machinery (for semiconductor processing), non-ferrous metals (for 300 mm silicon wafer production equipment), and cement, ceramics & glass (for larger glass substrates for liquid crystal displays), led by investments in sectors related to the processing of electric parts and devices. Pharmaceuticals and electronic materials are major contributors to increases in planned capital investment by the chemicals industry. Replacement investment will increase—including in the automobile industry, for production of new models and promotion of production efficiency; and in the iron & steel industry, for blast furnace refurbishment—in response to steady returns on sales.

Non-manufacturing sector

In the non-manufacturing sector, planned capital spending decreased both in real estate, due to the completion of a large-scale urban redevelopment project, and in electric power, due to continued restraints on investment, but increased in leasing, where demand is expected to expand; in telecommunications and information for next-generation mobile phones, fiber-optic networks, and terrestrial digital broadcasting; and in retail, due to accelerated establishment of new outlets. The mix of positive and negative growth will result in little change from the previous year in total capital spending in the non-manufacturing sector (up 0.2%).

Comparison with previous survey

Planned capital spending for FY2003 was revised slightly upwards (up 0.5%) since the previous survey (February 2003), based on firms which responded to the survey in both February 2003 and August 2003. Relatively substantial upward revision is seen in the manufacturing sector (up 8.2%), as well as in the period of capital spending recovery, but in the non-manufacturing sector, capital spending was revised downwards, reflecting restrained investment in electric power. However, the growth rate of capital spending for FY2003 improved from –3.0% in the previous survey, to +4.9% in this survey, because the downward revision of capital spending for FY2002 was large.

Capital Spending by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	2,966 firms		1,436 firms					2,966 firms	
	FY2002 Actual	FY2003 Planned	FY2003 Planned	FY2004 Planned	2002/2001	2003/2002	2004/2003	FY2002 Actual	FY2003 Planned
Total	19,535.7	20,499.6	8,144.7	7,645.8	-10.3	4.9	-6.1	100.0	100.0
Manufacturing	5,816.0	6,756.1	1,352.6	1,203.5	-16.2	16.2	-11.0	29.8	33.0
Food and Beverages	383.4	399.5	60.0	57.0	-14.6	4.2	-5.0	2.0	1.9
Textiles	71.5	70.6	16.5	12.3	-13.4	-1.3	-25.7	0.4	0.3
Paper and Pulp	189.8	167.6	34.1	24.9	-19.7	-11.7	-26.8	1.0	0.8
Chemicals	875.4	973.8	163.3	151.4	-19.1	11.2	-7.3	4.5	4.8
Petroleum	158.8	174.4	53.3	61.9	32.3	9.8	16.1	0.8	0.9
Cement, Ceramics and Glass	170.4	201.8	18.6	18.6	-31.7	18.4	-0.2	0.9	1.0
Iron and Steel	332.4	406.3	208.9	158.3	-20.9	22.3	-24.2	1.7	2.0
Non-Ferrous Metals	186.1	230.2	67.4	61.3	-44.6	23.7	-9.0	1.0	1.1
General Machinery	369.7	420.8	62.3	59.9	-18.7	13.8	-3.9	1.9	2.1
Electric Machinery	1,323.6	1,618.5	332.8	290.9	-20.9	22.3	-12.6	6.8	7.9
Electro-Devices, etc.	*875.7*	*1,113.6*	*241.2*	*204.9*	*-20.9*	*27.2*	*-15.0*	*4.5*	*5.4*
Precision Machinery	109.6	143.0	11.3	8.2	-20.2	30.4	-27.2	0.6	0.7
Transport Equipment	1,291.1	1,507.3	216.0	211.2	1.5	16.7	-2.3	6.6	7.4
Automobiles	*1,224.8*	*1,427.4*	*193.9*	*192.6*	*1.2*	*16.5*	*-0.6*	*6.3*	*7.0*
Other Manufacturing	354.2	442.4	108.1	87.7	-17.7	24.9	-18.8	1.8	2.2
Non-Manufacturing	13,719.7	13,743.5	6,792.1	6,442.3	-7.5	0.2	-5.1	70.2	67.0
Construction	155.6	121.7	44.7	35.1	6.0	-21.8	-21.5	0.8	0.6
Wholesale and Retail	1,033.8	1,052.4	330.3	320.1	2.8	1.8	-3.1	5.3	5.1
Retail	*859.8*	*882.8*	*269.7*	*260.5*	*6.3*	*2.7*	*-3.4*	*4.4*	*4.3*
Real Estate	829.0	724.8	387.9	235.7	-0.6	-12.6	-39.2	4.2	3.5
Transportation	1,976.7	2,022.9	874.0	760.1	15.8	2.3	-13.0	10.1	9.9
Electric Power and Gas	2,866.0	2,780.2	2,462.9	2,337.9	-19.0	-3.0	-5.1	14.7	13.6
Electric Power	*2,619.7*	*2,511.6*	*2,231.2*	*2,124.0*	*-19.7*	*-4.1*	*-4.8*	*13.4*	*12.3*
Gas	*246.3*	*268.6*	*231.7*	*214.0*	*-9.6*	*9.1*	*-7.7*	*1.3*	*1.3*
Telecom. and Information	2,744.9	2,802.8	452.7	423.3	-14.2	2.1	-6.5	14.1	13.7
Leasing	3,830.9	3,960.6	2,160.0	2,244.3	-4.4	3.4	3.9	19.6	19.3
Services	232.9	237.1	69.0	74.4	-31.6	1.8	7.7	1.2	1.2
Other Non-Manufacturing	49.9	41.0	10.5	11.5	20.5	-17.8	9.3	0.3	0.2

Notes: 1. Monetary amounts are in billion yen.
2. Other Manufacturing includes Publishing and Printing, Rubber, Metal Products and others.
3. Other Non-manufacturing includes Fishing, Mining and others.

Projection of Profits and Capital Spending Cash Flow Ratio (by Principal Business Sector)

	Revenue Growth (1,846 firms)	Revenue Growth (2,030 firms)	Income (Ordinary) Growth		Capital Spending/Cash Flow Ratio		Capital Spending/Depreciation Expenses Ratio	
	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned
Total	0.0	-0.3	30.6	8.1	90.5	75.8	101.1	109.0
Manufacturing	2.3	-0.4	50.7	9.8	68.8	60.2	86.9	102.4
Non-manufacturing	-1.9	-0.1	14.8	6.0	104.0	86.4	108.4	112.4

Notes: 1. Figures are given as percentages.
2. Capital spending cash flow ratio = {capital spending ÷ (net income + depreciation expenses)} × 100

Trend of Capital Spending Cash Flow Ratio in August Survey

FY	Projected ratio for current fiscal year: Survey month	Total	Manu-facturing	Non-Manufacturing	Actual ratio in previous fiscal year: Survey month	Total	Manu-facturing	Non-manufacturing
1989	89/8	124.0	102.0	146.5	90/8	122.3	100.1	139.4
1990	90/8	130.9	112.9	145.4	91/8	125.9	104.8	143.2
1991	91/8	129.0	102.5	151.6	92/8	131.9	112.8	150.3
1992	92/8	128.1	101.3	152.4	93/8	130.9	105.7	148.5
1993	93/8	115.6	90.5	131.4	94/8	128.5	90.4	155.1
1994	94/8	118.0	80.8	144.2	95/8	120.7	79.9	147.7
1995	95/8	114.1	78.7	138.3	96/8	111.1	77.8	138.8
1996	96/8	112.4	79.1	139.4	97/8	114.4	80.4	139.7
1997	97/8	107.9	78.6	130.1	98/8	114.7	84.4	145.3
1998	98/8	104.0	76.8	129.8	99/8	123.9	95.3	145.0
1999	99/8	91.6	60.6	116.6	2000/8	111.1	77.1	138.1
2000	2000/8	96.4	67.3	120.7	2001/8	111.5	84.0	128.6
2001	2001/8	90.8	75.3	100.2	2002/8	116.6	126.7	112.3
2002	2002/8	83.6	61.6	99.1	2003/8	90.5	68.8	104.0
2003	2003/8	75.8	60.2	86.4				

Notes: 1. Figures are given as percentages.
2. Shaded figures represent results of the present survey.

Profits and capital spending cash flow ratio

Projected profits for FY2003 indicate a decline of 0.3% in revenue, which means a slight deterioration from the previous year, when revenue stood almost unchanged from a year earlier. Nonetheless, profits are slated to increase in both manufacturing and non-manufacturing despite the decline in revenue. Profits for all industries will record a healthy increase of 8.1%, although this represents a substantial slowdown from the 30.6% rise in the previous year.

The ratio of capital spending to cash flow (net income plus depreciation expenses) will be substantially lower than 100%: 60.2% in manufacturing and 86.4% in non-manufacturing according to planned investment for FY2003 (68.8% for manufacturing and 104.0% for non-manufacturing in FY2002 based on actual figures). The planned figures tend to move slightly upwards toward materialization. However, the expected ratio for FY2003 is even lower than that for FY2002 calculated in last August. This implies that firms are still curbing capital spending in relation to cash flow.

Investment motives

Looking at the respective shares of different motives for planned investment for FY2003 in the manufacturing sector, “product development and upgrading,” “rationalization and labor saving” and “research and development” will increase their shares in many industries, especially in electric machinery and transport equipment. The share of "others" will decrease, while the shares of "expansion of production capacity" and "maintenance and repair" are expected to stay on a par.

Land investment

Planned land investment for FY2003 is substantially lower in both the manufacturing and non-manufacturing sectors, down a massive 39.2% from the previous year. However, land investment tends to be subject to substantial upward revision after the planning stage.

Capital spending by foreign-affiliated firms

The domestic capital spending by foreign-affiliated firms (121 firms owned one-third or over by foreign capital) is slated to increase 11.6% overall, as declines in retail and telecommunications will be more than offset by increases in manufacturing industries including transport equipment, electric machinery and chemicals. Foreign-affiliated firms now account for 5.6% of total capital spending in Japan.

(3) Ancillary Surveys for FY2003

Capital spending abroad

Capital spending abroad (including subsidiaries and affiliates) in FY2003 is slated to increase 6.1% overall. Investment will rise 4.2% in the manufacturing sector, which accounts for 80% of the total spending. The non-manufacturing sector is expected to see an increase of 13.7%.

By region, investment in the EU will turn to a substantial decrease. Investment in the US is expected to turn down despite a continued increase in manufacturing, due to heavy downward pressure from non-manufacturing industries. Brisk investment in Asia will continue for both manufacturing and non-manufacturing, particularly in China.

Information technology investment

Looking at planned information technology investment for FY2003 on the user side, a healthy increase of 9.3% is expected overall, up 13.4% in manufacturing and 6.4% in non-manufacturing.

Research & development expenditure

Planned research & development expenditure (new survey item) for FY2003 is up from a year earlier in both the manufacturing sector (up 4.9%) and the non-manufacturing sector (up 2.7%), leading to an overall increase of 4.8%. In the manufacturing sector, electric machinery, which occupies a large proportion along with transport equipment, indicates large growth, mainly in electro-devices, parts and IT-related equipment, leading to increased overall research & development expenditure in the sector.

(4) Highlights of This Survey (as regards Planned Capital Spending for FY2003)

Cases of IT-related industries leading others in terms of total capital spending were seen also in the capital spending growth in FY2000, FY1995 and FY1984. However, this time the survey shows that investment is more selective and focused, and that in sectors that are clearly leading in terms of technology, such as devices, processing equipment, and materials, the investment is expanding in line with the individual companies' original strategies. An important point is that not only IT-related sectors, such as digital home electronics, telecommunications and broadcasting, but also other sectors, such as automobiles and supermarkets, are increasing investment to meet rising consumer demand.

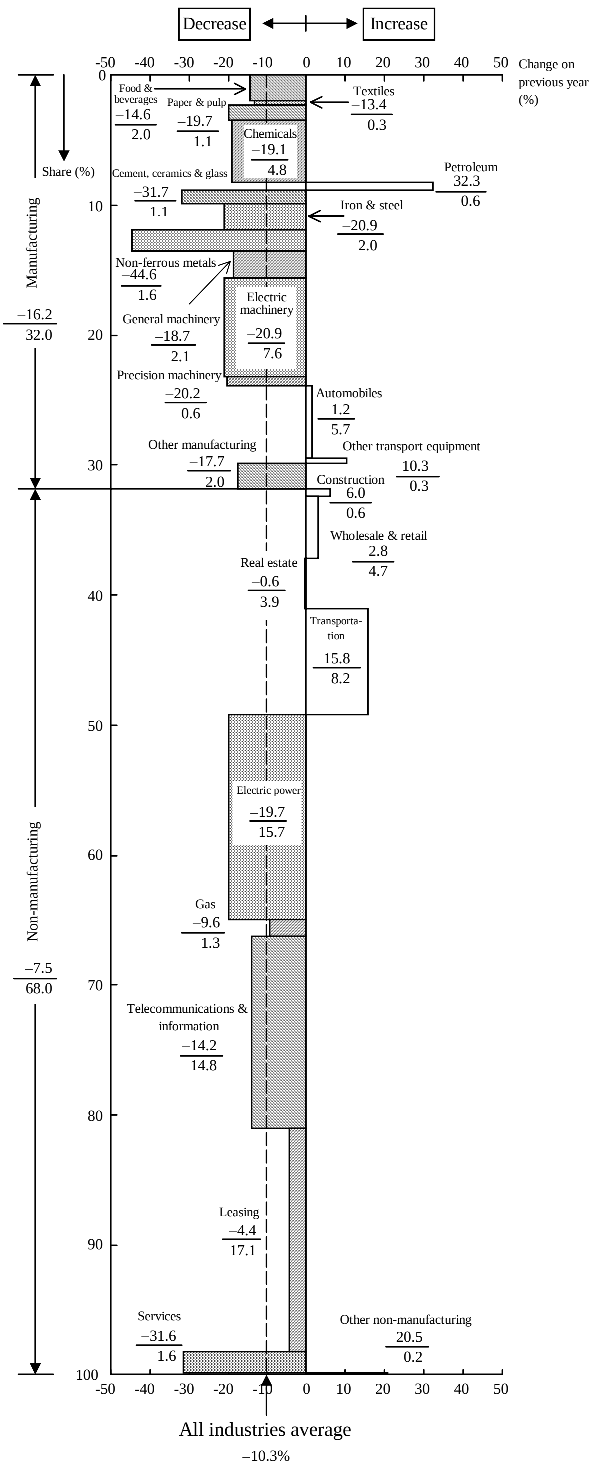
Current profit growth is expected in both the manufacturing sector and the non-manufacturing sector, despite low sales. Planned capital spending, however, is at a level well below projected cash flow. Planned capital spending increased in most manufacturing sectors for FY2003, but this is attributed to a cyclical effect, and a deep-seated undercurrent of restraint in domestic investment persists. This point must be considered when estimating the investment trend for the next few years.

(5) Planned Capital Spending for FY2004

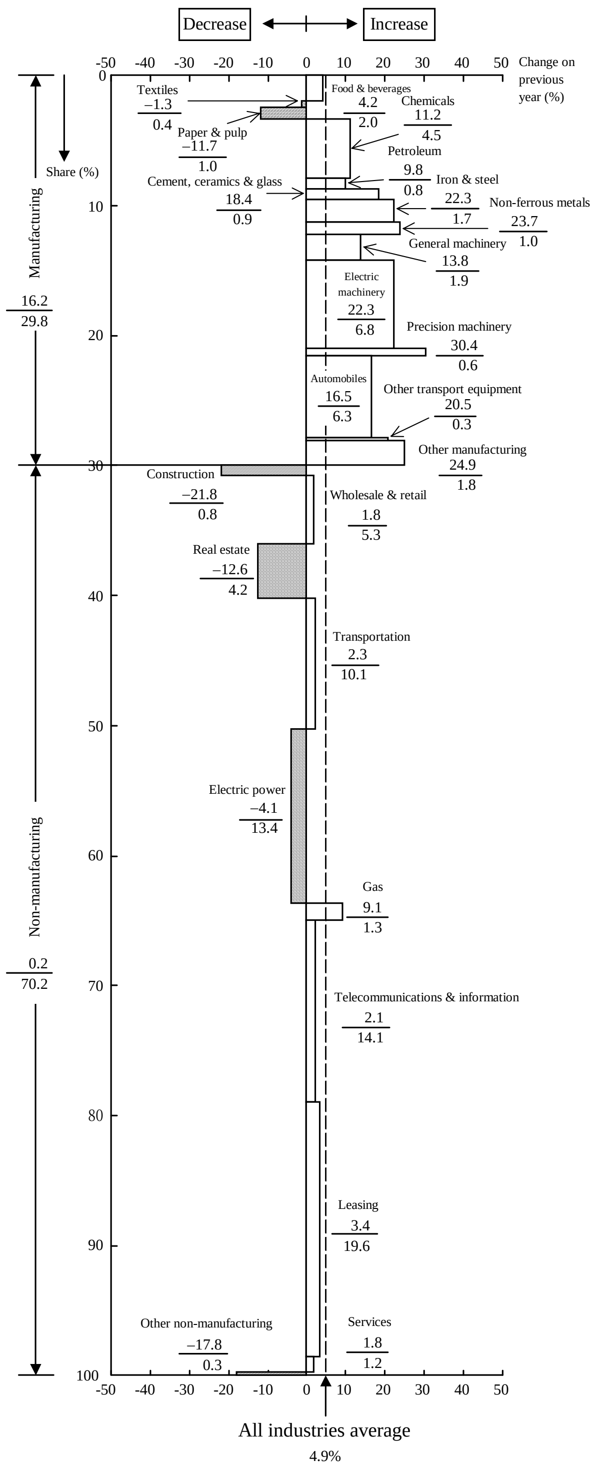
Planned capital spending for FY2004 shows an overall decline of 6.1%, although uncertainty surrounding many investment projects remains in both the manufacturing (down 11.0%) and non-manufacturing sectors (down 5.1%) as fewer firms responded to the questions regarding their plans for the year.

2. Characteristics of Capital Spending by Industry

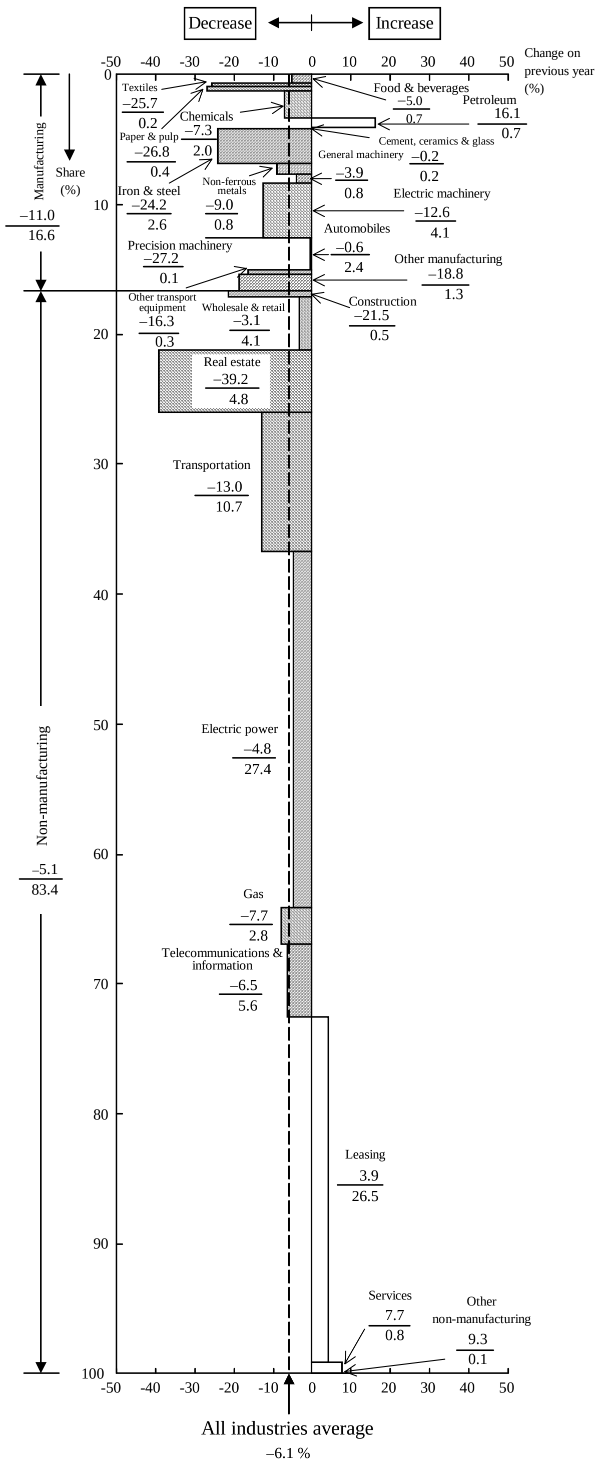
[FY2002] Figures indicate $\frac{\text{Change on previous year in FY2002}}{\text{Share in FY2001 spending}}$



[FY2003] Figures indicate $\frac{\text{Change on previous year in FY2003}}{\text{Share in FY2002 spending}}$



[FY2004] Figures indicate $\frac{\text{Change on previous year in FY2004}}{\text{Share in FY2003 spending}}$



Trends and Features of Capital Spending for FY2003, by Industry

The trends and features of capital spending in main industries are shown below. The figures in parentheses ( ) indicate changes in the rate of growth in capital spending for the industry in question between FY2002 and FY2003. The figures in curly brackets { } show the percentage of total planned spending for FY2003 accounted for by each industry.

Manufacturing

Food & Beverages (-14.6% → 4.2%) {1.9%}
Continued checks on spending related to the production of dairy products will be more than offset by large-scale projects in beverage production and investment in fodder for the prevention of bovine spongiform encephalopathy (BSE), leading to an upturn in capital spending in the industry as a whole.

Paper & Pulp (-19.7% → -11.7%) {0.8%}
Some investments will continue in boilers for power generation using wastes as fuel. However, capital investment is expected to decline for a second consecutive year as investment has peaked in recycled pulp production facilities.

Chemicals (-19.1% → 11.2%) {4.8%}
Investment will turn up in pharmaceuticals, backed by the construction of R&D facilities for product development and plants for new products. Revitalized spending is also expected in general chemicals for capacity buildup, as well as in information processing and electronic materials including mobile phones and flat panel displays. Overall, capital spending in the industry is expected to turn up.

Petroleum (32.3% → 9.8%) {0.9%}
Although a respite in investment is expected in refineries, capital spending in the industry will rise for the third consecutive year, as active investment will continue in distribution facilities such as self-service filling stations.

Cement, Ceramics & Glass (-31.7% → 18.4%) {1.0%}
Curbs on investment are expected to continue in cement. However, capital investment in the industry will turn to a double-digit increase thanks to investments for larger glass substrates for liquid crystal displays, as well as to expected recovery from the severe cutbacks on spending in the previous year.

Iron & Steel (-20.9% → 22.3%) {2.0%}
A substantial increase is on the way as investments continue for the repair of blast furnaces, backed by rising demand in Asia.

Non-ferrous Metals (-44.6% → 23.7%) {1.1%}
Although subdued tone continues in spending related to optical parts and fiber, capital spending in the industry as a whole is expected to turn up with investments for increased production of 300 mm silicon wafers, as well as for capacity expansion and efficiency improvement in refining.

General Machinery (-18.7% → 13.8%) {2.1%}
Some investments in head offices will be completed, but increased spending is expected in office equipment and parts thanks to rising demand. On balance, the industry will see a double-digit increase in capital spending as a whole.

Electric Machinery (-20.9% → 22.3%) {7.9%}
Backed by growing demand for digital home electronics, active investment is expected in end products including audio-visual equipment as well as in devices such as system LSIs, flash memories and flat panel displays. As a result, capital spending in the industry will turn to a substantial increase.

Precision Machinery (-20.2% → 30.4%) {0.7%}
Spending will increase for the first time in three years, led by semiconductor processing and measuring instruments.

Automobiles (1.2% → 16.5%) {7.0%}
On the heels of buoyant sales and profits, carmakers are expected to increase their investment for the production of new models and improvement of production efficiency. Efforts for strengthening management bases will be en-

hanced as some manufacturers are investing in capacity expansion (including the rebuilding of production facilities) and for the consolidation of domestic sales structure.

Non-manufacturing

Construction (6.0% → -21.8%) {0.6%}

As curbs on investment continue particularly among general contractors, capital spending is expected to decline in reaction to the acquisition of assets in the previous year.

Wholesale & Retail (2.8% → 1.8%) {5.1%}

Department stores will curtail their spending, as investments in new outlets and refurbishment have been completed. Spending is also being suppressed in new restaurants. Meanwhile, supermarkets still continue to establish new outlets. On balance, the industry will see an increase in capital spending for a second straight year.

Real Estate (-0.6 → -12.6%) {3.5%}

The industry will experience a double-digit decline in capital spending with the completion of large-scale redevelopment projects in the Tokyo metropolitan area.

Transportation (15.8% → 2.3%) {9.9%}

In railways, the construction of new lines and redoubling works will ease up. Spending will turn down in airlines as restrictive tone continues. In the meantime, airport construction is expected to make headway. Major logistics companies will lead increased spending for the construction of facilities and the replacement of vehicles to comply with emission controls. All in all, capital spending will continue to increase in the industry.

Electric Power (-19.7% → -4.1%) {12.3%}

The nine major electric power companies made substantial downward revisions to investment in distribution facilities and improvement works, while restraining overall investment, particularly in atomic fuels. With substantial cutbacks on other investments related to atomic energy, capital spending in the industry is expected to fall for the tenth consecutive year.

Gas (-9.6% → 9.1%) {1.3%}

Additional heat supply plants will be constructed thanks to the progress of urban development projects and the development of airport facilities. Investment will also increase for the supply of city gas. Thus, capital spending is expected to turn up for the industry as a whole.

Telecommunications & Information (-14.2% → 2.1%) {13.7%}

In telecommunications, investment is planned in 3G (third-generation) mobile phones and the expansion of fiber-optic networks. In information services and broadcasting, investment in new office construction has peaked but spending will increase for terrestrial digital broadcasting. On balance, capital spending in the industry as a whole will turn to a small increase.

Leasing (-4.4% → 3.4%) {19.3%}

In the leasing industry, an increase in capital spending is planned, as demand is expected to rise as IT equipment and commercial equipment, among others, are promoted.

Services (-31.6% → 1.8%) {1.2%}

Despite the completion of new hotels, capital spending is expected to increase for the first time in three years, led by investments in amusement and waste disposal facilities.

3. Investment Motives

Investment Motives for FY2003

Looking at the change from FY2002 in the percentage share of each category of investment motive for all industries, the shares of “expansion of production capacity” and “others” have declined, while those of “product development and upgrading” and “rationalization and labor saving” have increased.

In the manufacturing sector, the shares of “product development and upgrading,” “rationalization and labor saving” and “research and development” have increased in many industries including electric machinery and transport equipment. The decrease in the share of “others” largely makes up for these increases. The shares of “expansion of production capacity” and

Investment Motives

	Total (2,367 firms)		Manufacturing						Non-manufacturing	
					Materials		Processing & Assembly			
	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned	FY2002 Actual	FY2003 Planned
Expansion of Production Capacity	40.5	39.5	23.8	23.6	18.9	19.9	25.6	24.4	48.0	47.7
Product Development and Upgrading	7.9	9.6	18.1	19.5	11.5	11.3	22.3	24.2	3.3	4.4
Rationalization and Labor Saving	7.1	8.1	15.0	15.7	17.8	17.7	13.8	15.2	3.6	4.1
Research and Development	3.6	4.1	8.9	9.6	6.7	7.1	10.4	11.2	1.2	1.3
Maintenance and Repair	18.5	19.0	19.8	19.9	29.2	30.7	14.3	14.2	18.0	18.6
Others	22.4	19.7	14.6	11.8	15.9	13.3	13.6	10.8	25.9	23.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: 1. Figures are given as percentages.
2. "Research and Development" in this chart indicates the share of R&D purposes in total domestic investment in tangible fixed assets, and therefore differs from the R&D expenditure on page 17.

"maintenance and repair" have stayed almost unchanged.

We now look at the share of each category of investment motive within the manufacturing sector, comparing the materials sub-sector with the processing & assembly sub-sector. For the materials sub-sector, the motives "maintenance and repair" and "rationalization and labor saving" are traditionally high, whereas for the processing & assembly sub-sector, "product development and upgrading" is more important.

In the non-manufacturing sector, the share of "expansion of production capacity" still stands at almost 50% despite a slight decline. Elsewhere, slight increases in share can be observed for "product development and upgrading," "maintenance and repair" and "rationalization." The share of "others" has declined.

4. Land Investment, by Principal Business Sector

Actual Land Investment for FY2002

Actual land investment for FY2002 (based on figures for the 1,590 firms that gave responses regarding both FY2001 and FY2002) was down 9.4% compared with the previous year, the sixth consecutive annual decline. In the manufacturing sector, land investment recorded a substantial decline of 28.3% due to the completion of investments related to plant site purchases and business reorganization in chemicals and transport equipment. In non-manufacturing, it dropped 3.8% from the previous year mainly due to reduced investment in electric power, although investments in transportation for airport sites reached their peak. As a result, land investment accounted for 5.9% of total capital spending (4.1% in manufacturing, 6.6% in non-manufacturing).

Planned Land Investment for FY2003

Planned land investment for FY2003 (based on figures for the 2,196 firms that gave responses regarding both FY2002 and FY2003) is down 39.2%, following the peaking of investment in new airport sites in transportation. (Land investment accounts for 3.1% of total capital spending planned for FY2003.)

It should be noted that there is a tendency for large upward revisions in land investment between the planning stage and actual implementation.

Planned Land Investment for FY2004

Planned land investment for FY2004 (based on figures for the 1,237 firms that gave responses regarding both FY2003 and FY2004) is down 54.6% from the previous year. (Land investment accounts for 1.5% of total capital spending planned for FY2004.) Planned land investment for FY2004 is even more subject to revision than is that for FY2003, however.

Trends in Land Investment, by Principal Business Sector

	Investment Amount		Growth Rate (%)	Investment Amount		Growth Rate (%)	Investment Amount		Growth Rate (%)
	FY2001	FY2002	2002/2001	FY2002	FY2003	2003/2002	FY2003	FY2004	2004/2003
	(1,590 firms)			(2,196 firms)			(1,237 firms)		
Total Investment	11,851.7	10,653.1	-10.1	13,146.5	13,864.1	5.5	6,698.4	6,230.8	-7.0
Investment excluding Land	11,152.8	10,019.6	-10.2	12,446.6	13,438.5	8.0	6,499.1	6,140.3	-5.5
Investment in Land	699.0	633.5	-9.4	699.9	425.6	-39.2	199.3	90.5	-54.6
Share of Land (%)	*5.9*	*5.9*		*5.3*	*3.1*		*3.0*	*1.5*	
Manufacturing	3,214.8	2,753.7	-14.3	3,883.4	4,465.7	15.0	1,155.2	1,045.1	-9.5
Investment excluding Land	3,055.9	2,639.9	-13.6	3,741.5	4,379.5	17.1	1,142.0	1,043.8	-8.6
Investment in Land	158.8	113.9	-28.3	141.9	86.2	-39.3	13.2	1.3	-90.3
Share of Land (%)	*4.9*	*4.1*		*3.7*	*1.9*		*1.1*	*0.1*	
Non-manufacturing	8,637.0	7,899.4	-8.5	9,263.1	9,398.4	1.5	5,543.2	5,185.7	-6.4
Investment excluding Land	8,096.8	7,379.7	-8.9	8,705.1	9,058.9	4.1	5,357.1	5,096.5	-4.9
Investment in Land	540.1	519.7	-3.8	558.0	339.5	-39.2	186.1	89.2	-52.1
Share of Land (%)	*6.3*	*6.6*		*6.0*	*3.6*		*3.4*	*1.7*	

Note: Monetary amounts are in billion yen.

5. Capital Spending by Foreign-affiliated Firms, by Principal Business Sector

Out of the 2,966 firms that responded to the survey for both FY2002 and FY2003, 121 are classified as foreign-affiliated firms (more than one-third foreign ownership). They account for 5.6% of planned capital spending for FY2003.

Actual capital spending by foreign-affiliated firms in FY2002 was 16.8% lower than in the previous year. As regards the manufacturing sector, spending increased in transport equipment and petroleum, but declined in electric machinery, chemicals and general machinery, resulting in a decline of 7.1% overall. In the non-manufacturing sector, capital spending fell 23.8% due to a substantial decline in telecommunications.

Planned capital spending for FY2003 shows an increase of 11.6%. In the manufacturing sector, a substantial increase of 29.9% is expected as investment will rise almost across the board, led by transport equipment, electric machinery and chemicals. The non-manufacturing sector will see a 4.2% decline in capital spending with reduced investment in retail and telecommunications.

Capital Spending by Foreign Affiliated Firms, by Principal Business Sector

	Capital Spending									Composition	Share of All Firms
	FY2001 Actual	FY2002 Actual	FY2002 Actual	FY2003 Planned	FY2003 Planned	FY2004 Planned	Growth Rate (%)				
	(110 firms)		(121 firms)		(63 firms)		02/01	03/02	04/03	FY2003 (121 firms)	
Total	1,210.8	1,007.5	1,026.3	1,145.0	230.7	207.1	-16.8	11.6	-10.2	100.0	5.6
Wholly owned foreign firms	*56.1*	*50.6*	*60.0*	*69.8*	*59.4*	*50.7*	*-9.8*	*16.4*	*-14.7*	*6.1*	*0.3*
Manufacturing	507.7	471.7	474.4	616.2	168.7	144.9	-7.1	29.9	-14.1	53.8	9.0
Wholly owned foreign firms	*41.4*	*46.3*	*47.2*	*61.4*	*51.0*	*38.7*	*12.0*	*30.1*	*-24.1*	*10.0*	*0.9*
Non-manufacturing	703.1	535.7	551.9	528.8	62.0	62.2	-23.8	-4.2	0.4	46.2	3.9
Wholly owned foreign firms	*14.7*	*4.3*	*12.8*	*8.4*	*8.4*	*12.0*	*-71.0*	*-34.2*	*42.3*	*1.6*	*0.1*

Notes: 1. Foreign-affiliated firms with over one-third foreign ownership.

2. Monetary amounts are in billion yen.

Among the foreign-affiliated firms, those owned 100% by foreign capital (37 firms, accounting for 0.3% of the targeted firms) decreased their capital spending by 9.8% in FY2002. An increase of 16.4% is planned for FY2003.

6. Capital Spending Abroad, by Principal Business Sector

Capital spending abroad in all industries will rise 6.1%, from ¥1,338.2 billion in FY2002 to ¥1,419.5 billion in FY2003 (based on figures for the 1,448 firms that gave responses regarding both FY2002 and FY2003).

The manufacturing sector accounts for 78.8% of the planned capital spending abroad for FY2003 (up 4.2%). In the materials sub-sector, capital spending abroad will drop 4.6% as investment eases up in the EU for chemicals and in the US and Asia excluding China for chemicals. In the processing & assembly sub-sector, reduced investment in electric machinery in Asia including China will be more than offset by increased spending for capacity buildup and new plants in electric machinery in the US as well as in transport equipment in the US and Asia excluding China. On balance, capital spending abroad will increase 8.2% in the sub-sector as a whole.

In the non-manufacturing sector, capital spending abroad will increase 13.7% thanks to spending for shipbuilding in transportation, although investment in the US is peaking in retail and transportation.

The overseas capital spending ratio (capital

Capital Spending Abroad, by Region

	Region	Amount				Change (%)
		FY2002	Share	FY2003	Share	2003/2002
Capital spending abroad	Manufacturing	1,073.8	80.2	1,118.9	78.8	4.2
	Non-manufacturing	264.4	19.8	300.6	21.2	13.7
	US	519.3	38.8	513.5	36.2	-1.1
	EU	181.9	13.6	144.9	10.2	-20.3
	China	125.7	9.4	150.6	10.6	19.8
	Asia excl. China	305.2	22.8	321.3	22.6	5.3
	Others	206.0	15.4	289.2	20.4	40.4
(1,448 firms)	Total	1,338.2	100.0	1,419.5	100.0	6.1

Notes: 1. Monetary amounts are in billion yen.
2. "Capital spending abroad" by a company refers to capital spending conducted overseas by either the company itself or one of its overseas subsidiaries.
(Here, an "overseas subsidiary" of a company is an overseas firm for which the company holds at least 10% of the shares.)

Overseas Capital Spending Ratio in Manufacturing, by Sub-sector

	FY2001 Actual	FY2002 Actual	FY2003 Planned
Manufacturing	45.1	46.3	42.6
Materials	29.8	30.2	24.7
Processing & Assembly	54.9	53.5	50.7
Responding manufacturers	488 firms	600 firms	
Survey month	Aug. 2002	Aug. 2003	

Notes: 1. Figures are given as percentages.
2. Overseas capital spending ratio = capital spending overseas ÷ domestic capital spending.
3. Materials: textiles, paper & pulp, chemicals, cement, ceramics & glass, iron & steel, non-ferrous metals.
4. Processing & Assembly: food & beverages, general machinery, electric machinery, precision machinery, transport equipment, other manufacturing.

spending abroad/domestic capital spending) has been in the 40% range for the manufacturers investing overseas. This ratio is around 30% in the materials sub-sector, and 50% in the processing & assembly sub-sector.

7. Information Technology Investment, by Principal Business Sector

Actual IT Investment in FY2002

Investment in information technology in FY2002, based on the 1,431 firms that responded to the survey for both FY2001 and FY2002, declined in the manufacturing sector (down 2.6%) but increased slightly in the non-manufacturing sector (up 0.2%). On balance total IT investment declined 0.8%, which is a smaller decrease as compared with total capital spending. In the manufacturing sector, investment increased in food and beverages and iron and steel, but decreased in general machinery, electric machinery, precision machinery and chemicals. In non-manufacturing, a decrease in telecommunications and information was more than offset by increases in electric power and city gas, wholesale and retail, and transportation.

Planned IT Investment for FY2003

Planned investment in information technology for FY2003, based on the 1,752 firms that responded to the survey for both FY2002 and FY2003, is expected to increase faster than total capital spending in both the manufacturing sector (up 13.4%) and the non-manufacturing sector (up 6.4%), leading to an overall increase of 9.3%. By sector, investment in manufacturing is expected to increase in iron and steel, food and beverages and petroleum, led by the introduction of information systems (intangible fixed assets) for production, inventory control and accounting. In the non-manufacturing sector, IT investment will increase in telecommunications and information and electric power and city gas, despite reduced spending in wholesale and retail with the completion of POS-related projects.

8. Research & Development Expenditure

Outline of the Survey

An ancillary survey on R&D expenditure was newly conducted as follows.

- Target firms and date of survey: the same as in the survey on planned capital spending.
- Contents of the survey: actual R&D expenditure in FY2002 and planned R&D expenditure for FY2003 on a non-consolidated basis.
- Definition of R&D expenditure: all costs related to research & development including labor cost, cost of raw materials, depreciation expenses for fixed assets and allocated overhead. (Details are based on the definition used by each firm in its disclosure documents or in-house documents.)

Overview of IT Investment

	FY2002 (Actual)				FY2003 (Planned)			
	Amount of IT Investment		Change in IT Investment (%) 2002/2001	Change in Capital Spending (%) 2002/2001	Amount of IT Investment		Change in IT Investment (%) 2003/2002	Change in Capital Spending (%) 2003/2002
	FY2001 Actual (1,431 firms)	FY2002 Actual			FY2002 Actual (1,752 firms)	FY2003 Planned		
Total	811.8	805.1	-0.8	-12.2	989.1	1,081.2	9.3	4.3
Manufacturing	291.3	283.7	-2.6	-17.3	406.7	461.2	13.4	12.6
Non-manufacturing	520.4	521.4	0.2	-10.5	582.4	620.0	6.4	1.2

Notes: 1. Monetary amounts are in billion yen.
2. IT investment represents spending recognized as such by the responding firms.
3. Change in capital spending in this chart only covers those firms that gave responses regarding IT investment.

A total of 1,952 firms responded to the question on actual R&D expenditure in FY2002, of which 1,094 firms gave a positive response (i.e. a value exceeding zero). Of these, 1,826 companies also responded to the question on planned R&D expenditure for FY2003 (with 999 firms giving a positive response).

Survey Result

Planned R&D expenditure for FY2003 (based on the 999 firms that gave a positive response for both FY2002 and FY2003) shows an increase of 4.8%, from ¥5,808.9 billion in the previous year to ¥6,087.0 billion. By industry, major contributions come from electric machinery (up 7.6% from the previous year), led by electro-devices, digital equipment and IT-related equipment; general machinery (up 5.8%); transport equipment (up 3.8%), mainly for the development of environmentally-sound vehicles and new models; and chemicals (up 2.0%), led by pharmaceuticals. Substantial increases can also be observed in precision machinery (up 7.9%), mainly for semi-conductor processing and display production, as well as in food and beverages (up 9.0%), with pharmaceutical and medical R&D activities derived from existing technologies. Although R&D covers a wide area, some firms are focusing activities in promising fields or areas with comparative advantage, including next-generation displays and digital equipment, environmentally-sound vehicles and manu-facturing equipment, and research on new medicines using biotechnology.

The ratio of R&D expenditure to total capital spending (R&D expenditure/capital spending) stands at 89.4% in FY2002 on an actual basis and 86.2% in FY2003 on a planned basis (data covering the 999 companies that gave responses for both FY2002 and FY2003). In the manufacturing sector, R&D expenditure exceeds capital spending, with the ratio rising to 151.7% in FY2002 and 136.8% in FY2003. This trend is particularly noticeable in pharmaceuticals and machinery industries (general machinery, electric machinery, precision machinery, transport equipment).

890 firms also gave responses concerning profits. Based on this data, the ratio of planned R&D expenditure to sales in FY2003 stands at 4.0% overall: 5.1% in manufacturing and 0.7% in non-manufacturing.

Trends in R&D Expenditure and Capital Spending

(999 firms)	R&D Expenditure (A)			Capital Spending (B)			(A)/(B)	
	FY2002 Actual	FY2003 Planned	Change (%) 2003/2002	FY2002 Actual	FY2003 Planned	Change (%) 2003/2002	FY2002 Actual	FY2003 Planned
Total	5,808.9	6,087.0	4.8	6,494.8	7,060.8	8.7	89.4	86.2
Manufacturing	5,507.6	5,777.7	4.9	3,630.5	4,222.4	16.3	151.7	136.8
Non-manufacturing	301.2	309.3	2.7	2,864.3	2,838.4	-0.9	10.5	10.9

Notes: 1. Monetary amounts are in billion yen.
2. Data covers the firms that gave responses for both FY2002 and FY2003 regarding R&D expenditures and capital spending and reported positive amounts of R&D expenditure. The same applies to the chart below.

Ratio of R&D Expenditure to Sales

(890 firms)	R&D Expenditure/Sales	
	FY2002 (Actual)	FY2003 (Planned)
Total	3.9	4.0
Manufacturing	5.1	5.1
Non-manufacturing	0.6	0.7

Note: Figures are given as percentages.

Appendix

Actual Capital Spending in FY2002

(1) Overall Condition

Actual capital spending continued to decrease substantially in FY2002, in both the manufacturing sector (down 16.2%) and the non-manufacturing sector (down 7.5%), leading to an overall decrease for the second consecutive year (down 10.3%), and double-digit negative growth for the first time in nine years.

In the manufacturing sector, capital spending increased for a second straight year in automobiles, as companies introduced new models and enhanced their marketing structure. A second consecutive increase was also recorded in petroleum, mainly for environmental protection and self-service filling stations. However, checks on spending continued due to reduced demand in electric machinery and related industries (non-ferrous metals, cement, ceramics and glass, precision machinery). Chemicals, iron & steel, general machinery and food and beverages also experienced substantial cutbacks on spending as major projects were completed.

In the non-manufacturing sector, capital spending turned up in transportation, mainly as a result of the building of new railway lines and extensions, as well as in retail, led by the opening of new supermarket outlets. Other industries, however, saw substantial declines in capital spending. Electric power continued to limit investment in thermal power plants. Telecommunications & information restrained spending in existing mobile and fixed communications. A large amusement park was completed in services.

(2) Trends and Features of Capital Spending in FY2002, by Industry

The trends and features of capital spending in main industries are shown below. The figures in parentheses ( ) indicate changes in the rate of growth in capital spending for the industry in question between FY2001 and FY2002. The figures in curly brackets { } show the percentage of total actual spending in FY2002 accounted for by each industry.

Manufacturing

Food & Beverages (-6.5% → -14.6%) {1.9%}

Investment increased for the diversification of drink containers. However, large investment projects were completed for beverage production, and spending was curtailed for dairy product manufacturing. Overall, the industry recorded a second consecutive decline in capital spending, and the decline was even sharper than in the previous year.

Paper & Pulp (15.1% → -19.7%) {1.0%}

Despite some investments in boilers for power generation using wastes as fuel, as well as in recycled pulp production facilities, capital spending in the industry declined for the first time in three years with the completion of projects for capacity expansion in special paper and the consolidation of production bases.

Chemicals (8.1% → -19.1%) {4.3%}

Despite some investments in product upgrading and capacity expansion, capital spending posted a double-digit decline as large-scale projects for the construction of new facilities peaked in general chemical manufacturers and major pharmaceutical companies.

Petroleum (34.7% → 32.3%) {0.8%}

A substantial increase in capital spending resulted from investment in refineries for the desulfurization of light oil and in distribution facilities, mainly for self-service filling stations.

Cement, Ceramics & Glass (-7.4% → -31.7%) {0.9%}

Capital spending declined for the second consecutive year due to the curtailment and postponement of investment in general, including for flat panel displays and in information technology. The decline was even sharper than in the previous year.

Iron & Steel (7.5% → 20.9%) {1.8%}

As the subdued tone continued, capital spending dropped substantially with the completion of large-scale projects in the previous year.

Non-ferrous Metals (10.2% → -44.6%) {1.0%}
Capacity investment in optical parts and fiber plummeted as large-scale projects related to 300 mm silicon wafers peaked, resulting in the first decline in spending in three years for the industry as a whole.

General Machinery (-3.3% → -18.7%) {1.9%}
Some investments in head offices were more than offset by the completion of plant construction/expansion projects in machine tools and industrial machines. On balance, capital spending posted a double-digit decline.

Electric Machinery (-34.4% → -20.9%) {6.7%}
Spending declined substantially for the second consecutive year, despite some active investments in semiconductors and liquid crystal displays.

Precision Machinery (-5.7% → -20.2%) {0.6%}
Spending decreased for the second consecutive year, mainly for semiconductor processing.

Automobiles (1.1% → 1.2%) {6.5%}
Carmakers and parts manufacturers maintained their investment in new models (new products) at the level of the previous year. With contribution from investment in the enhancement of domestic sales structure by carmakers, capital spending in the industry as a whole recorded a small increase for the second straight year.

Non-manufacturing
Construction (-0.1% → 6.0%) {0.7%}
Domestic investment in construction remained subdued, and curbs on spending continued among general contractors. Nonetheless, capital spending turned up in the industry as a whole, thanks to acquisitions of offices and other assets.

Wholesale & Retail (-19.6% → 2.8%) {5.4%}
In wholesale, some investment projects were completed in office buildings and logistics centers. In retail, convenience stores curtailed investment, whereas supermarkets and do-it-yourself stores accelerated the establishment of outlets under the Large-scale Retail Stores Law. On balance, capital spending in the industry turned up from the substantial decline in the previous year.

Real Estate (-20.5 → -0.6%) {4.3%}
Capital spending decreased slightly as large-scale redevelopment projects peaked in the Tokyo metropolitan area.

Transportation (-7.1% → 15.8%) {10.5%}
Spending in airport facilities was reduced. In marine transport, investment for shipbuilding declined in reaction to the active spending in the previous year. On the other hand, spending continued to rise in railways thanks to new line construction, as well as in airlines, led by active investment in airframe replacement and electronic ticketing systems. All in all, capital spending turned to a double-digit increase in the industry as a whole.

Electric Power (-9.8% → -19.7%) {14.0%}
The nine major electric power companies sharply reduced spending for power source development and substantially curtailed improvement works following the decision of the government to further liberalize the electricity market. Large-scale investment projects were completed in the wholesale power supply business. Thus, capital spending in the industry suffered a substantial decline of almost 20% from a year earlier.

Gas (-15.3% → -9.6%) {1.3%}
Capital spending declined for the seventh consecutive year, as investment in the development of LNG bases fell sharply in city gas.

Telecommunications & Information
(-10.8% → -14.2%) {14.1%}
In telecommunications, investment increased in 3G (third-generation) mobile phones but was curtailed in current-generation (2G) mobile phones and fixed communication. Although active investment was observed in information services and broadcasting for terrestrial digital broadcasting and new offices, capital spending in the industry decreased for the second con-

secutive year.

Leasing (2.8% → -4.4%) {18.2%}
Capital spending declined for the first time in four years largely due to reduced demand for IT equipment.

Services (-35.5% → -31.6%) {1.2%}
Spending decreased substantially for the second consecutive year as a large amusement park in the Tokyo metropolitan area was completed.

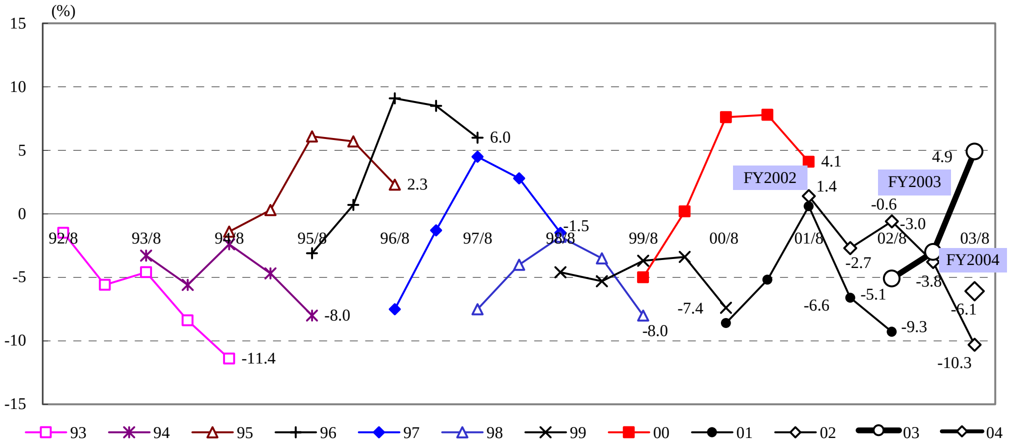
Charts

Long-term Trend of Capital Spending, by Date of Survey

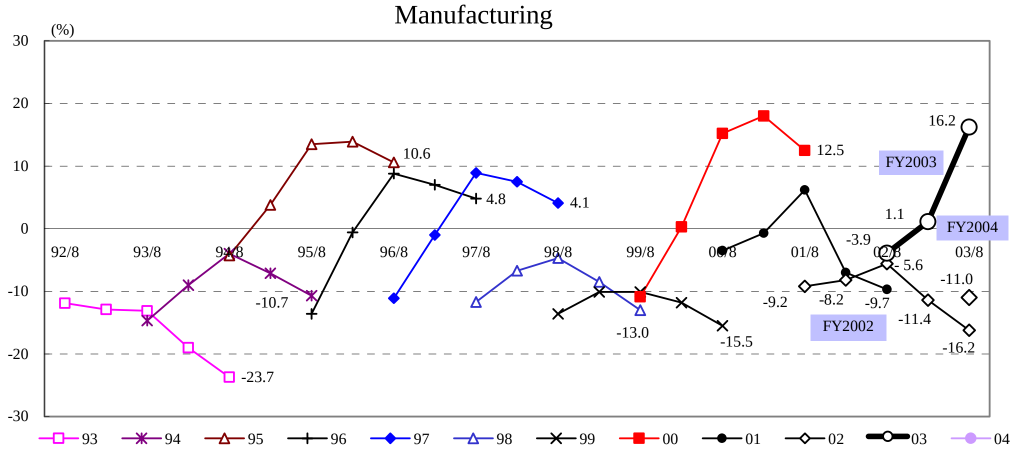
Year Surveyed	Total					Manufacturing					Non-manufacturing				
	August of Previous Yr.	February of Current Yr.	August of Current Yr.	Estimate for February	Actual for August	August of Previous Yr.	February of Current Yr.	August of Current Yr.	Estimate for February	Actual for August	August of Previous Yr.	February of Current Yr.	August of Current Yr.	Estimate for February	Actual for August
1973	2.1	14.8	25.9	20.6	18.6	-6.8	14.7	33.4	26.2	25.7	8.9	14.9	18.3	15.0	11.5
1974	0.6	18.3	23.4	15.3	12.0	-6.9	27.4	35.1	26.6	22.9	7.0	9.7	10.3	2.7	-0.3
1975	21.6	9.7	5.5	-4.9	-10.3	12.9	3.8	0.3	-10.0	-16.1	30.4	17.5	12.9	2.2	-2.3
1976	14.0	9.9	16.3	12.2	5.9	8.5	-2.1	6.4	1.9	-3.5	19.1	24.5	27.7	24.0	16.4
1977	-1.5	2.1	5.7	0.8	-3.4	-11.1	-6.9	-3.1	-8.2	-11.2	7.0	10.7	14.1	9.5	4.0
1978	10.3	7.3	15.1	15.2	10.1	-0.9	-6.9	0.0	-2.2	-4.4	17.6	19.3	27.5	28.6	21.8
1979	-2.6	0.3	13.0	12.8	9.3	-6.1	4.5	19.1	21.9	18.9	-1.0	-2.2	9.1	7.0	3.3
1980	0.7	13.1	23.5	23.9	20.6	-16.0	5.2	23.3	25.8	24.8	7.8	18.8	23.7	22.6	17.5
1981	5.8	9.9	12.3	12.0	8.8	-8.2	6.7	14.5	13.0	10.4	13.2	12.4	10.5	11.1	7.5
1982	10.0	11.2	10.2	8.4	2.8	-1.8	7.2	10.3	6.6	3.8	16.3	14.5	10.1	9.9	2.0
1983	5.5	1.8	1.8	2.7	-2.1	-6.7	-5.3	-1.5	-2.6	-8.6	13.3	7.9	4.6	7.2	3.4
1984	0.7	2.6	10.5	11.3	7.6	-10.2	2.7	17.1	20.3	17.1	7.1	2.6	5.6	4.2	0.2
1985	-2.6	5.3	10.6	9.2	7.6	-9.6	5.1	12.6	9.7	8.6	0.9	5.6	9.1	8.8	6.9
1986	0.2	1.6	5.4	3.1	3.1	-9.1	-4.1	-3.6	-7.1	-9.3	5.0	5.7	12.0	10.3	12.1
1987	-0.7	0.1	3.5	6.0	4.4	-10.6	-5.6	-2.2	-0.2	-3.9	2.1	4.0	7.0	9.7	9.3
1988	-2.6	6.7	15.7	18.8	15.9	-7.1	9.3	25.3	27.5	24.7	-1.4	5.2	10.8	13.0	10.7
1989	-0.7	6.4	17.5	17.4	13.9	-4.0	9.4	26.3	26.7	22.3	0.9	4.4	11.8	11.5	8.5
1990	-1.8	8.6	17.0	16.2	14.9	-7.9	10.1	23.6	22.8	20.8	1.4	7.6	12.5	11.9	11.0
1991	0.6	4.4	10.7	8.9	8.2	-7.1	1.7	7.9	5.2	5.3	3.7	6.1	12.8	11.5	10.4
1992	0.3	-0.8	-0.9	-4.7	-7.4	-2.8	-6.4	-10.5	-15.5	-17.9	1.4	3.2	6.0	2.7	- 0.0
1993	-1.5	-5.6	-4.6	-8.4	-11.4	-11.9	-12.9	-13.1	-19.0	-23.7	2.0	-1.6	0.3	-2.3	-4.5
1994	-3.3	-5.6	-2.4	-4.7	-8.0	-14.7	-9.0	-4.0	-7.1	-10.7	-0.1	-4.0	-1.6	-3.7	-6.8
1995	-1.4	0.3	6.1	5.7	2.3	-4.3	3.8	13.5	13.9	10.6	-0.7	-1.3	3.0	2.4	-1.2
1996	-3.1	0.7	9.1	8.5	6.0	-13.6	-0.6	8.8	7.0	4.8	-1.2	1.3	9.2	9.2	6.5
1997	-7.5	-1.3	4.5	2.8	-1.5	-11.1	-1.0	8.9	7.5	4.1	-6.8	-1.5	2.5	0.7	-4.0
1998	-7.5	-4.0	-1.8	-3.5	-8.0	-11.7	-6.7	-4.7	-8.5	-13.0	-6.8	-2.7	-0.3	-1.1	-5.6
1999	-4.6	-5.3	-3.7	-3.4	-8.4	-13.6	-10.1	-10.1	-11.8	-15.5	-3.1	-3.2	-0.7	0.8	-5.0
2000	-5.0	0.2	7.6	7.8	4.1	-10.9	0.3	15.2	18.0	12.5	-4.0	0.2	4.4	3.2	0.4
2001	-8.6	-5.2	0.6	-6.6	-9.3	-3.5	-0.7	6.2	-7.0	-9.7	-9.6	-7.4	-2.0	-6.3	-9.2
2002	1.4	-2.7	-0.6	-3.8	-10.3	-9.2	-8.2	-5.6	-11.4	-16.2	3.4	0.0	1.7	-0.2	-7.5
2003	-5.1	-3.0	4.9			-3.9	1.1	16.2			-5.3	-4.8	0.2		
2004	-6.1					-11.0					-5.1				

Note: Figures are given as percentages.

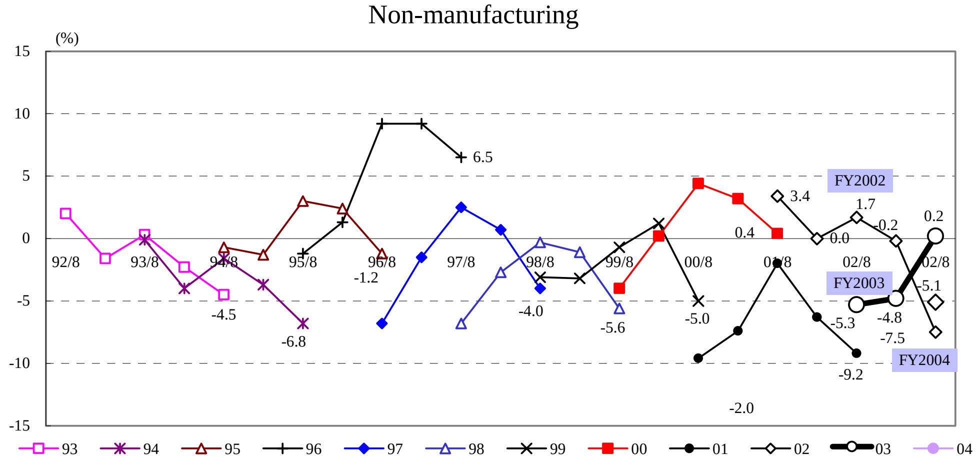
Total



Manufacturing



Non-manufacturing



Notes: 1. The charts are based on data in the left page.

2. Each fiscal year is surveyed five times until planned investments are materialized (see page 4 for details). Typically, planned capital spending is revised upwards from the initial survey (in August of the previous year) to the third survey (in August of the current year), followed by downward revisions toward the publication of actual figures (the fifth survey, in August of the following year). Thus, capital spending in most cases is represented by a reversed V-shaped line on the charts, peaking in August of the current year.

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