

Capital Spending Decreased, Mainly in Non-Manufacturing

---Surge in investment in information technology seems to have stopped---

1. Planned capital spending for FY 2001 decreased again in total industries (down 5.2%). It returned to decrease in both the manufacturing sector (down 0.7%) and the non-manufacturing sector (down 7.4%).

2. Capital spending by the manufacturing sector decreased as a whole—largely because of decreases in electric machinery (and for electronic parts, which comprise its largest share), automobiles, thereby afflicting the new car, and iron and steel industries. On the other hand, investment expanded in chemicals that are inputs to high value-added products, and in non-ferrous metals (such as those related to optical cable). General machinery also increased, mainly in office and household machinery, but the tractional force was weak.

Capital spending by the non-manufacturing sector decreased as the investment for construction of new railway in metropolitan areas ceased, investment for construction of wholesale and retail business decreased, a result of there having been heavy store construction in advance of the effective date of the Large-Scale Retail Store Siting Law. Additionally, electric power, which has a large share in the non-manufacturing sector, continues a restrictive investment stance. The decrease in non-manufacturing investment was despite a slight increase in capital spending for telecommunications and information services.

3. Investment in information technology to improve business efficiency continued to increase in both manufacturing and non-manufacturing, despite the overall capital spending decrease. Investment for strengthening business competitiveness through system restructuring and updating is strong.

4. Investment in production of information technology equipment (mainly electric machinery), which surged in the previous year, has passed its peak, as has that in non-manufacturing industry. As a result, such investment decreased as a whole, mainly in non-manufacturing industry.

Among information technology equipment, which was shown to have a ripple effect in the previous survey (August 2000), electric machinery industry will decrease its investment, mainly in electric parts, reflecting the deteriorating market conditions for personal computers and standard memory. Investment in precision machinery for semiconductor manufacturing and glass for liquid crystal displays will also decrease. On the other hand, capital spending for office equipment relating to digital products and optic fiber will increase.

The decline in capital spending by the non-manufacturing sector this year was the largest ever, mainly due to the deceleration in new store openings; and the end of big projects in railways and services, in addition to the spending restraint by electric power. Thus, capital spending on the whole

currently lacks a new tractional force.

(Target Firms and Survey Methods)

Survey Method: Questionnaire

Date of Survey: February 10, 2001

Target Firms: 3,524 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of Valid Responses: 86.9% (3,061 firms)

Industrial Classification for the Totals: Classification by activity base as a rule, Principle Business

Classification in some parts of the analysis

1. Outline

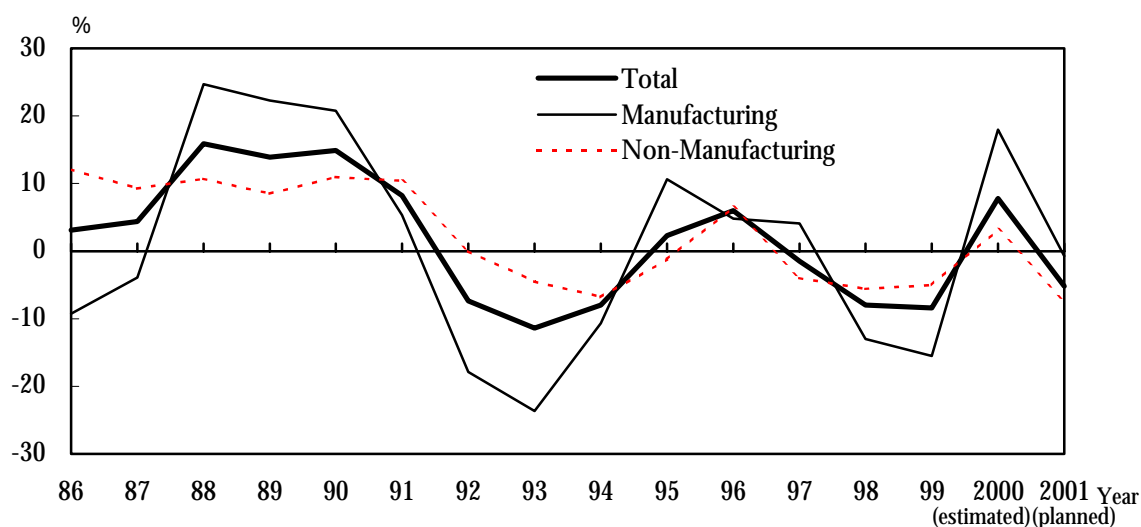
Estimated capital spending in FY2000 (all figures are based on construction; the growth rate is in comparison with the previous year) was up 7.8%, the first increase in four years. Both the manufacturing sector (up 18.0%) and the non-manufacturing sector (up 3.2%) increased. Looking at plans for FY2001, both the manufacturing sector (down 0.7%) and the non-manufacturing sector (down 7.4%) are planning to return to decrease in capital spending, leading to a decrease (down 5.2%) for the entire industrial sector again.

Trends in Capital Spending in FY2000 and 2001

(Billion yen, %)

	FY2000 Survey (2,918 firms)			FY2001 Survey (3,061 firms)		
	FY1999 (Actual)	FY2000 (Estimated)	Growth Rate 2000/99	FY2000 (Estimated)	FY2001 (Planned)	Growth Rate 2001/2000
Total	23,022.4	24,810.6	7.8	25,491.8	24,177.8	-5.2
<i>(except Electric power)</i>	<i>(191,35.6)</i>	<i>(20,854.5)</i>	<i>(9.0)</i>	<i>(21,535.6)</i>	<i>(20,295.3)</i>	<i>(-5.8)</i>
Manufacturing	7,139.5	8,424.1	18.0	8,545.3	8,489.3	-0.7
Non-Manufacturing	15,882.9	16,386.6	3.2	16,946.5	15,688.5	-7.4
<i>(except Electric power)</i>	<i>(11,996.1)</i>	<i>(12,430.5)</i>	<i>(3.6)</i>	<i>(12,990.4)</i>	<i>(11,806.0)</i>	<i>(-9.1)</i>
<i>(Electric power)</i>	<i>(3,886.8)</i>	<i>(3,956.1)</i>	<i>(1.8)</i>	<i>(3,956.1)</i>	<i>(3,882.5)</i>	<i>(-1.9)</i>

Growth Rate of Capital Spending 1986-2001



Capital Spending by Industry for Fiscal Year 2000-2001

	Capital Spending (Billion Yen)				Growth Rate (%)		Component Rate (%)	
	FY1999	FY2000	FY2000	FY2001	2000/99	2001/2000	FY2000	FY2001
	(Actual)	(Estimated)	(Estimated)	(Planned)			(Estimated)	(Planned)
	(2,918 firms)	(3,061 firms)	(3,061 firms)	(3,061 firms)			(3,061 firms)	(3,061 firms)
Total	23,022.4	24,810.6	25,491.8	24,177.8	7.8	-5.2	100.0	100.0
<i>except Electric Power</i>	<i>19,135.6</i>	<i>20,854.5</i>	<i>21,535.6</i>	<i>20,295.3</i>	<i>9.0</i>	<i>-5.8</i>	<i>84.5</i>	<i>83.9</i>
Manufacturing	7,139.5	8,424.1	8,545.3	8,489.3	18.0	-0.7	33.5	35.1
Food and Beverages	572.5	552.1	557.7	540.7	-3.6	-3.1	2.2	2.2
Textiles	80.6	74.2	74.2	77.7	-7.8	4.7	0.3	0.3
Paper and Pulp	172.9	226.1	226.5	243.2	30.8	7.4	0.9	1.0
Chemicals	917.0	1,044.8	1,059.2	1,118.3	13.9	5.6	4.2	4.6
<i>Organic Chemicals</i>	<i>409.7</i>	<i>455.2</i>	<i>465.2</i>	<i>493.1</i>	<i>11.1</i>	<i>6.0</i>	<i>1.8</i>	<i>2.0</i>
<i>Pharmaceuticals</i>	<i>192.2</i>	<i>236.9</i>	<i>237.1</i>	<i>249.1</i>	<i>23.3</i>	<i>5.1</i>	<i>0.9</i>	<i>1.0</i>
Petroleum	147.9	110.8	110.8	130.8	-25.1	18.1	0.4	0.5
Cement, Ceramics and Glass	172.1	243.9	249.2	246.5	41.7	-1.1	1.0	1.0
Iron and Steel	496.6	418.6	419.0	367.8	-15.7	-12.2	1.6	1.5
<i>Ordinary steel</i>	<i>420.7</i>	<i>351.5</i>	<i>351.7</i>	<i>306.8</i>	<i>-16.5</i>	<i>-12.7</i>	<i>1.4</i>	<i>1.3</i>
Non-Ferrous Metals	190.5	313.5	316.6	366.8	64.6	15.9	1.2	1.5
General Machinery	451.4	499.9	504.9	528.7	10.7	4.7	2.0	2.2
Electric Machinery	1,937.0	2,767.3	2,842.3	2,755.0	42.9	-3.1	11.1	11.4
<i>Electric Devices, etc.</i>	<i>1,281.6</i>	<i>2,054.4</i>	<i>2,098.3</i>	<i>2,030.7</i>	<i>60.3</i>	<i>-3.2</i>	<i>8.2</i>	<i>8.4</i>
Precision Machinery	107.8	165.8	170.0	145.8	53.8	-14.3	0.7	0.6
Transportation	1,365.7	1,434.0	1,440.2	1,420.3	5.0	-1.4	5.6	5.9
<i>Automobiles</i>	<i>1,283.5</i>	<i>1,363.2</i>	<i>1,368.6</i>	<i>1,341.5</i>	<i>6.2</i>	<i>-2.0</i>	<i>5.4</i>	<i>5.5</i>
Other Manufacturing	527.8	573.3	574.7	547.7	8.6	-4.7	2.3	2.3
Non-Manufacturing	15,882.9	16,386.6	16,946.5	15,688.5	3.2	-7.4	66.5	64.9
<i>except Electric Power</i>	<i>11,996.1</i>	<i>12,430.5</i>	<i>12,990.4</i>	<i>11,806.0</i>	<i>3.6</i>	<i>-9.1</i>	<i>51.0</i>	<i>48.8</i>
Construction	195.2	183.1	183.1	157.6	-6.2	-13.9	0.7	0.7
Wholesale and Retail	1,227.9	1,293.1	1,323.3	908.8	5.3	-31.3	5.2	3.8
<i>Retail</i>	<i>953.5</i>	<i>1,054.2</i>	<i>1,080.9</i>	<i>727.3</i>	<i>10.6</i>	<i>-32.7</i>	<i>4.2</i>	<i>3.0</i>
Real Estate	966.3	985.2	1,007.7	714.0	2.0	-29.1	4.0	3.0
Transportation	1,844.9	1,938.2	1,965.2	1,613.6	5.1	-17.9	7.7	6.7
<i>Railways</i>	<i>1,256.7</i>	<i>1,454.1</i>	<i>1,464.5</i>	<i>1,045.9</i>	<i>15.7</i>	<i>-28.6</i>	<i>5.7</i>	<i>4.3</i>
<i>Marine Transport</i>	<i>68.8</i>	<i>38.1</i>	<i>48.0</i>	<i>33.9</i>	<i>-44.6</i>	<i>-29.4</i>	<i>0.2</i>	<i>0.1</i>
<i>Airlines</i>	<i>217.5</i>	<i>128.4</i>	<i>128.4</i>	<i>87.5</i>	<i>-41.0</i>	<i>-31.8</i>	<i>0.5</i>	<i>0.4</i>
<i>Warehousing etc.</i>	<i>180.8</i>	<i>184.5</i>	<i>187.5</i>	<i>313.0</i>	<i>2.1</i>	<i>66.9</i>	<i>0.7</i>	<i>1.3</i>
Electric Power and City Gas	4,207.3	4,323.0	4,326.4	4,203.6	2.8	-2.8	17.0	17.4
<i>Electric Power</i>	<i>3,886.8</i>	<i>3,956.1</i>	<i>3,956.1</i>	<i>3,882.5</i>	<i>1.8</i>	<i>-1.9</i>	<i>15.5</i>	<i>16.1</i>
<i>City Gas</i>	<i>320.5</i>	<i>366.9</i>	<i>370.3</i>	<i>321.2</i>	<i>14.5</i>	<i>-13.3</i>	<i>1.5</i>	<i>1.3</i>
Telecom. and Information	3,072.2	3,202.0	3,636.4	3,664.9	4.2	0.8	14.3	15.2
Leasing	3,863.1	3,947.9	3,966.4	4,086.5	2.2	3.0	15.6	16.9
Services	469.6	483.7	507.6	297.0	3.0	-41.5	2.0	1.2
Other non- Manufacturing	36.4	30.4	30.4	42.5	-16.7	39.9	0.1	0.2

Notes: Other Manufacturing Industries includes publishing and printing, rubber, metal products and others.

Other Non-Manufacturing Industries includes fishing, mining and others.

2. Revision of Planned Capital Spending

In comparison with the previous survey (August 2000), investment for 2000 was revised upwards in the manufacturing sector (up 2.6%), while it was revised downwards in the non-manufacturing sector (down 0.7%). Investment plans for 2001 show increases in both the manufacturing sector (up 7.9%) and the non-manufacturing sector (up 2.8%). This leads to an overall increase of 3.8%.

Comparison with the August 2000 Survey

(Billion, %)

	FY2000 Survey (2,918 firms)			FY2001 Survey (1,524 firms)		
	Capital Spending		Revision Rates	Capital Spending		Revision Rates
	Aug.00 (Planned)	Feb.01 (Estimated)	Feb.01/Aug. 00	Aug.00 (Planned)	Feb.01 (Planned)	Feb.01/Aug. 00
Total	24,706.3	24,810.6	0.4	9,396.8	9,751.8	3.8
<i>(except Electric Power)</i>	20,705.0	20,854.5	(0.7)	6,396.4	6,761.1	(5.7)
Manufacturing	8,212.4	8,424.1	2.6	1,757.3	1,895.8	7.9
Non-Manufacturing	16,493.9	16,386.6	-0.7	7,639.5	7,856.0	2.8
<i>(except Electric Power)</i>	12,492.6	12,430.5	(-0.5)	4,639.1	4,865.2	(4.9)
<i>(Electric Power)</i>	4,001.3	3,956.1	(-1.1)	3,000.4	2,990.7	(-0.3)

Notes: Revision rates = {This survey (Feb. 2001)/Previous survey (Aug. 2000)-1} × 100

4. Investments in Information technology (Industry Classified According to Principal Business Area)

1. Investment in information technology for 2000 (based on 1,500 firms which responded to the survey in both 1999 and 2000) is expected to increase by double digits in both the manufacturing sector (up 22.7%) and the non-manufacturing sector (up 10.6%). This results in a 14.7% all-industry increase, which is in excess of the expected growth rate for capital spending (7.4%). IT investments both in the manufacturing sector (in advanced automobile design functions) and in the non-manufacturing sector (electric power and retail providers investment increases in multimedia terminals and point of sale terminals) were major contributors to the increase.

Looking at the revision from the previous survey, IT investment remained unchanged as a whole—revision upwards in the manufacturing sector offset revision downwards in energy. As for the components of IT investment, tangible fixed assets was the biggest (31.4%), followed by intangible fixed assets (28.3%), lease contracts (26.4%), and other expenses (13.9%).

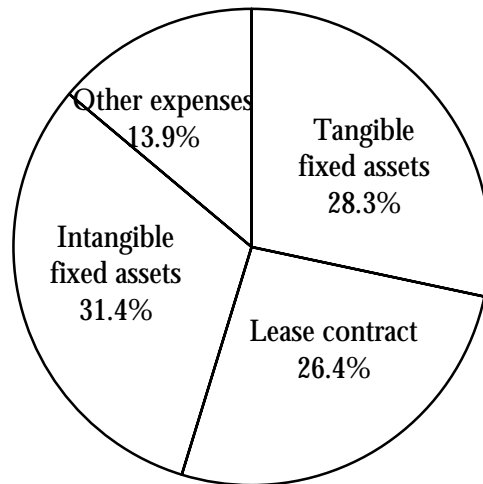
Investment in Information Technology (estimated FY2000)

	(Billion, %)							
	Investment in Information technology		Growth Rate (%)		Share in IT investment(%)		IT/Capital Spending (%)	
	FY1999 (Actual)	FY2000 (Estimated)	2000/99	2000/99	FY1999 (Actual)	FY2000 (Estimated)	FY1999 (Actual)	FY2000 (Estimated)
	(1,500 Firms)		(1,500 Firms)					
Total	783.9	899.2	14.7	7.4	100.0	100.0	7.3	7.8
Manufacturing	267.5	328.1	22.7	20.2	34.1	36.5	11.6	11.8
Non-manufacturing	516.4	571.1	10.6	3.8	65.9	63.5	6.1	6.5
By sector								
Material Processing	75.5	87.6	16.1	20.3	9.6	9.7	8.7	8.4
Processing and Assembly	181.6	222.5	22.5	22.9	23.2	24.7	13.6	13.5
Energy Related	164.1	201.1	22.6	1.4	20.9	22.4	4.7	5.7
Non-manufacturing	362.7	388.0	7.0	5.1	46.3	43.2	7.2	7.4

Information Technology Investment (revision)

	(Billion, %)							
	Investment in Information Technology		IT investment (revision)	Share in IT investment (Feb. 2001)				
	Aug. 2000	Feb. 2001		Tangible fixed assets	Intangible fixed assets	Lease contracts	Other	Total
	(1,456 Firms)		(1,456 Firms)					
Total	885.7	886.3	0.1	28.3	31.4	26.4	13.9	100.0
Manufacturing	306.5	321.1	4.8	16.9	35.9	30.7	16.5	100.0
Non-Manufacturing	579.2	565.1	-2.4	34.8	28.8	23.9	12.5	100.0
By sector								
Material Processing	83.2	84.5	1.6	19.6	38.2	27.0	15.2	100.0
Processing and Assembly	213.4	218.7	2.5	16.6	32.8	33.7	16.9	100.0
Energy Related	207.9	201.0	-3.3	28.6	18.8	29.7	22.9	100.0
Non-manufacturing	381.1	382.0	0.2	36.8	35.6	20.3	7.2	100.0

Components of IT investment (estimated FY2000)



Definition of investment in information technology:

Investment in information technology is based on the respondents' self-assessment of

1. Tangible fixed assets
2. Lease contracts
3. Intangible fixed assets
4. Other expenses

2. Overall planned investment in information technology for 2001 (based on 1,525 firms which responded to the survey in both 2000 and 2001) is expected to maintain its double digit increase (12.2%) despite a decrease in capital spending. Increases are planned in both the manufacturing sector (16.4%) and the non-manufacturing sector (10.5%). The integration of systems in line with business restructuring in electric power and petroleum, and system upgrading in airlines are large contributors to the planned increase in IT investment. This results in an increase in the share of IT investment in capital spending.

Investment in Information Technology (planned FY2001)

	(Billion, %)							
	Investment in		Growth Rate (%)		Share in		IT/Capital Spending	
	Information technology		IT	Capital Spending	IT investment(%)			
	FY2000	FY2001	2001/00	2001/00	FY2000	FY2001	FY2000	FY2001
(Estimated)	(Planned)			(Estimated)	(Planned)	(Estimated)	(Planned)	
(1,525 Firms)		(1,525 Firms)						
Total	642.7	721.3	12.2	-8.9	100.0	100.0	7.6	9.3
Manufacturing	187.7	218.6	16.4	-0.1	29.2	30.3	10.0	11.7
Non-manufacturing	455.0	502.7	10.5	-11.4	70.8	69.7	6.9	8.6
By sector								
Materials	52.5	61.2	16.5	2.8	8.2	8.5	7.7	8.8
Processing and Assembly	117.0	132.9	13.6	-5.6	18.2	18.4	10.7	12.8
Energy Related	157.8	185.7	17.7	-1.3	24.6	25.7	6.5	7.7
Non-manufacturing	315.4	341.5	8.3	-16.0	49.1	47.3	7.4	9.6