

## **Capital Spending Faces an Adjustment Phase**

### **---Steady investment in IT on the user side, and in research and development---**

1. Planned capital spending for FY 2001 will rise a slim 0.6% in total industries. It will increase 6.2% in the manufacturing sector, but will decrease 2.0% in the non-manufacturing sector.

2. In the manufacturing sector, capital spending is scheduled to decrease by double digit in electronic parts industry. However, increase is planned in chemicals for high value-added products, in automobiles for new models and in non-ferrous metals for optical cable. General machinery will also increase, mainly in office machinery for digital machinery.

In the non-manufacturing sector, capital spending is planned to increase in telecommunications and information services, and in electric power due to wholesale electric power supply business (Independent Power Plant), despite being in a restrictive investment stance. On the other hand, investment will decline in wholesale and retail business relating to the application of the Large-Scale Retail Store Siting Law. Real estate will decrease mainly in local projects and retail projects, and railways will also decrease reflecting the completion of new lines and expansion of existing lines in the Tokyo metropolitan area.

3. Investment in IT equipment industry will show a further downturn in electric parts in the future because of unfavorable conditions in DRAM, which could then spread to related sectors.

On the other side, investment in IT service industry will increase in telecommunications and information services—for next-generation mobile phones and high-speed data communications. Investment in information technology to improve business efficiency on the user side will continue to increase in both the manufacturing sector and the non-manufacturing sector. Investment confidence is well maintained: production management systems in the manufacturing sector, and multifunctional terminals in retail business and meter systems in electronic power in the non-manufacturing sector.

4. Looking at investment intent, resilience is seen in the investment facing up to the future. Ratio increases for research and development are led by electrical machinery and precision machinery, while ratio decreases for expansion of production capacity are seen. The share of research and development will also rise in automobiles and in chemicals related to pharmaceutical products.

5. Investment related to business reorganization, such as integration of plants (observed in automobiles and chemicals) and distribution facilities (observed in petroleum), seems to be expanding, reflecting both steep competition and management globalization.

**(Target Firms and Survey Methods)**

Survey Method: Questionnaire

Date of Survey: August 10, 2001

Target Firms: 3,539 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of Valid Responses: 87.5% (3,096 firms)

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

Classification in some parts of the analysis

## Outline

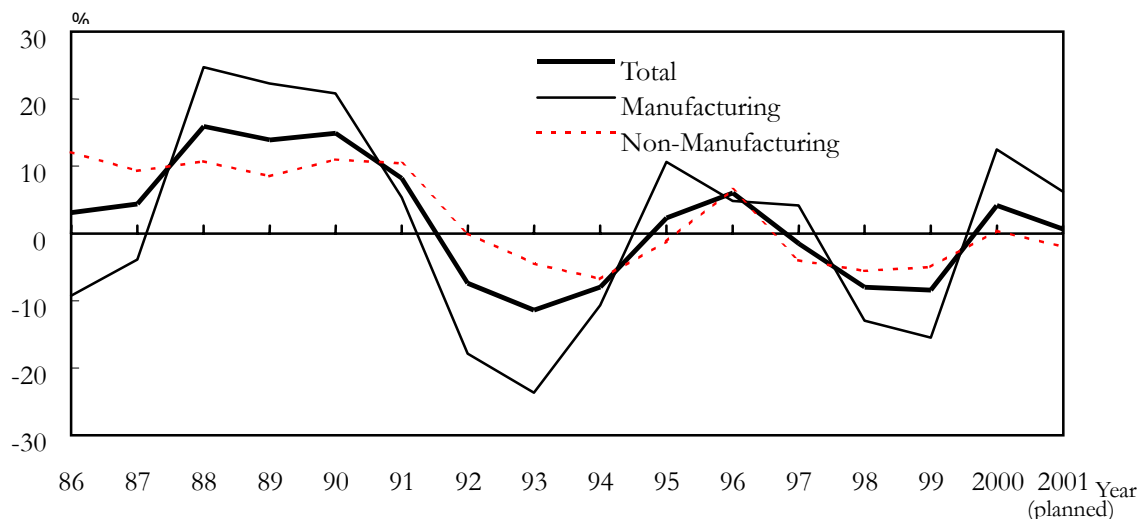
Estimated capital spending in FY 2000 (all figures are based on construction; the growth rate is in comparison with the previous year) was up 4.1%, the first increase in four years. Both the manufacturing sector (up 12.5%) and the non-manufacturing sector (up 0.4%) increased. Looking at plans for FY 2001, capital spending by the manufacturing sector will increase 6.2%, but by the non-manufacturing sector will return to decrease (down 2.0%) leading to only a slight increase (up 0.6%) for the entire industrial sector.

### Trends in Capital Spending in FY2000 through 2002

(Billion yen, %)

	FY2000 Survey (2,842 firms)			FY2001 Survey (3,096 firms)			FY2002 Survey (1,512 firms)		
	FY1999 (Actual)	FY2000 (Actual)	Growth Rate 2000/99	FY2000 (Actual)	FY2001 (Planned)	Growth Rate 2001/2000	FY2001 (Planned)	FY2002 (Planned)	Growth Rate 2002/2001
Total	23,415.0	24,374.6	4.1	25,160.4	25,317.6	0.6	9,171.5	9,302.6	1.4
<i>(except Electric power)</i>	<i>(19,528.3)</i>	<i>(20,856.8)</i>	<i>(6.8)</i>	<i>(21,642.6)</i>	<i>(21,741.6)</i>	<i>(0.5)</i>	<i>(6,389.7)</i>	<i>(6,619.1)</i>	<i>(3.6)</i>
Manufacturing	7,094.4	7,982.2	12.5	8,165.3	8,668.6	6.2	1,435.0	1,303.0	-9.2
Non-Manufacturing	16,320.7	16,392.4	0.4	16,995.1	16,649.0	-2.0	7,736.4	7,999.6	3.4
<i>(except Electric power)</i>	<i>(12,433.9)</i>	<i>(12,874.6)</i>	<i>(3.5)</i>	<i>(13,477.3)</i>	<i>(13,073.0)</i>	<i>(-3.0)</i>	<i>(4,954.6)</i>	<i>(5,316.2)</i>	<i>(7.3)</i>
<i>(Electric power)</i>	<i>(3,886.8)</i>	<i>(3,517.8)</i>	<i>(-9.5)</i>	<i>(3,517.8)</i>	<i>(3,576.0)</i>	<i>(1.7)</i>	<i>(2,781.8)</i>	<i>(2,683.4)</i>	<i>(-3.5)</i>

### Growth Rate of Capital Spending 1986-2001



## Capital Spending by Industry for Fiscal Year 2000-2002

	Capital Spending (Billion Yen)				Growth Rate (%)			Component Rate (%)	
	FY2000	FY2001	FY2001	FY2002	2000/99	2001/2000	2002/2000	FY2000	FY2001
	(Actual)	(Planned)	(Planned)	(Planned)				(Actual)	(Planned)
	(3,096 firms)		(1,512 firms)					(3,096 firms)	
Total	25,160.4	25,317.6	9,171.5	9,302.6	4.1	0.6	1.4	100.0	100.0
<i>except Electric Power</i>	<i>21,642.6</i>	<i>21,741.6</i>	<i>6,389.7</i>	<i>6,619.1</i>	<i>6.8</i>	<i>0.5</i>	<i>3.6</i>	<i>86.0</i>	<i>85.9</i>
Manufacturing	8,165.3	8,668.6	1,435.0	1,303.0	12.5	6.2	-9.2	32.5	34.2
Food and Beverages	563.0	578.3	120.2	104.1	-3.2	2.7	-13.4	2.2	2.3
Textiles	68.1	76.5	12.9	11.5	-19.8	12.4	-11.0	0.3	0.3
Paper and Pulp	225.2	267.5	72.8	42.5	24.2	18.8	-41.6	0.9	1.1
Chemicals	1,038.8	1,198.9	218.2	200.4	10.1	15.4	-8.2	4.1	4.7
<i>Organic Chemicals</i>	<i>454.8</i>	<i>522.2</i>	<i>109.9</i>	<i>112.1</i>	<i>5.6</i>	<i>14.8</i>	<i>2.0</i>	<i>1.8</i>	<i>2.1</i>
<i>Pharmaceuticals</i>	<i>233.7</i>	<i>272.2</i>	<i>57.4</i>	<i>47.7</i>	<i>19.8</i>	<i>16.5</i>	<i>-16.9</i>	<i>0.9</i>	<i>1.1</i>
Petroleum	93.6	140.5	83.8	109.6	-36.8	50.1	30.9	0.4	0.6
Cement, Ceramics and Glass	249.4	261.8	27.8	21.9	37.1	5.0	-21.2	1.0	1.0
Iron and Steel	392.5	451.8	129.1	134.3	-21.1	15.1	4.1	1.6	1.8
<i>Ordinary steel</i>	<i>322.6</i>	<i>377.7</i>	<i>89.2</i>	<i>91.3</i>	<i>-23.4</i>	<i>17.1</i>	<i>2.3</i>	<i>1.3</i>	<i>1.5</i>
Non-Ferrous Metals	314.0	401.2	59.4	65.2	64.3	27.8	9.8	1.2	1.6
General Machinery	438.5	499.9	54.0	50.2	0.6	14.0	-7.0	1.7	2.0
Electric Machinery	2,726.2	2,554.6	395.0	319.0	38.7	-6.3	-19.2	10.8	10.1
<i>Electric Devices, etc.</i>	<i>2,074.1</i>	<i>1,808.5</i>	<i>314.2</i>	<i>243.8</i>	<i>60.5</i>	<i>-12.8</i>	<i>-22.4</i>	<i>8.2</i>	<i>7.1</i>
Precision Machinery	151.5	171.1	11.5	11.5	34.2	12.9	0.4	0.6	0.7
Transportation	1,324.4	1,454.9	156.7	158.1	-3.7	9.9	0.9	5.3	5.7
<i>Automobiles</i>	<i>1,251.5</i>	<i>1,373.9</i>	<i>142.8</i>	<i>145.2</i>	<i>-3.2</i>	<i>9.8</i>	<i>1.7</i>	<i>5.0</i>	<i>5.4</i>
Other Manufacturing	580.2	611.6	93.7	74.7	5.3	5.4	-20.4	2.3	2.4
Non-Manufacturing	16,995.1	16,649.0	7,736.4	7,999.6	0.4	-2.0	3.4	67.5	65.8
<i>except Electric Power</i>	<i>13,477.3</i>	<i>13,073.0</i>	<i>4,954.6</i>	<i>5,316.2</i>	<i>3.5</i>	<i>-3.0</i>	<i>7.3</i>	<i>53.6</i>	<i>51.6</i>
Construction	169.5	157.0	51.0	41.9	-5.4	-7.4	-18.0	0.7	0.6
Wholesale and Retail	1,419.0	1,104.1	419.2	436.1	6.6	-22.2	4.0	5.6	4.4
<i>Retail</i>	<i>1,157.9</i>	<i>890.9</i>	<i>337.2</i>	<i>363.5</i>	<i>10.4</i>	<i>-23.1</i>	<i>7.8</i>	<i>4.6</i>	<i>3.5</i>
Real Estate	1,215.8	843.6	380.5	426.2	17.7	-30.6	12.0	4.8	3.3
Transportation	1,772.1	1,757.4	562.1	839.0	-5.0	-0.8	49.3	7.0	6.9
<i>Railways</i>	<i>1,273.4</i>	<i>1,082.5</i>	<i>238.0</i>	<i>519.5</i>	<i>-0.1</i>	<i>-15.0</i>	<i>118.3</i>	<i>5.1</i>	<i>4.3</i>
<i>Marine Transport</i>	<i>38.2</i>	<i>39.5</i>	<i>22.3</i>	<i>22.6</i>	<i>-41.8</i>	<i>3.3</i>	<i>1.7</i>	<i>0.2</i>	<i>0.2</i>
<i>Airlines</i>	<i>168.6</i>	<i>172.7</i>	<i>9.1</i>	<i>8.5</i>	<i>-24.3</i>	<i>2.4</i>	<i>-6.8</i>	<i>0.7</i>	<i>0.7</i>
<i>Warehousing, etc.</i>	<i>167.2</i>	<i>322.8</i>	<i>248.0</i>	<i>250.6</i>	<i>-10.8</i>	<i>93.0</i>	<i>1.1</i>	<i>0.7</i>	<i>1.3</i>
Electric Power and City Gas	3,835.1	3,887.7	3,087.9	2,973.0	-8.9	1.4	-3.7	15.2	15.4
<i>Electric Power</i>	<i>3,517.8</i>	<i>3,576.0</i>	<i>2,781.8</i>	<i>2,683.4</i>	<i>-9.5</i>	<i>1.7</i>	<i>-3.5</i>	<i>14.0</i>	<i>14.1</i>
<i>City Gas</i>	<i>317.3</i>	<i>311.7</i>	<i>306.0</i>	<i>289.6</i>	<i>-2.1</i>	<i>-1.8</i>	<i>-5.4</i>	<i>1.3</i>	<i>1.2</i>
Telecom. and Information	3,952.5	4,194.2	840.8	861.6	2.1	6.1	2.5	15.7	16.6
Leasing	4,077.2	4,280.3	2,277.3	2,341.5	5.4	5.0	2.8	16.2	16.9
Services	522.6	367.2	113.5	76.5	3.7	-29.7	-32.6	2.1	1.5
Other non- Manufacturing	31.4	57.5	4.2	3.8	-13.9	83.3	-10.8	0.1	0.2

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

Other Non-Manufacturing includes fishing, mining and others.

## Revision of Planned Capital Spending

In comparison with the previous survey (February 2001), investment for FY 2001 was revised upwards in both the manufacturing sector (up 1.3%) and the non-manufacturing sector (up 1.0%), leading to an overall increase (up 1.1%) for the second consecutive year; however, the revision is relatively small wide.

### Comparison with the February 2001 Survey

(Billion, %)

	FY2000 Survey (2,907 firms)			FY2001 Survey (2,907 firms)		
	Capital Spending		Revision Rates	Capital Spending		Revision Rates
	Feb.01 (Estimated)	Aug.01 (Actual)	Aug.01/Feb. 01	Feb.01 (Planned)	Aug.01 (Planned)	Aug.01/Feb. 01
Total	25,258.5	24,232.3	-4.1	23,978.0	24,249.4	1.1
<i>(except Electric Power)</i>	<i>(21,302.4)</i>	<i>(20,714.5)</i>	<i>(-2.8)</i>	<i>(20,095.6)</i>	<i>(20,673.4)</i>	<i>(2.9)</i>
Manufacturing	8,406.0	8,038.8	-4.4	8,380.8	8,488.6	1.3
Non-Manufacturing	16,852.5	16,193.5	-3.9	15,597.2	15,760.8	1.0
<i>(except Electric Power)</i>	<i>(12,896.4)</i>	<i>(12,675.7)</i>	<i>(-1.7)</i>	<i>(11,714.8)</i>	<i>(12,184.9)</i>	<i>(4.0)</i>
<i>(Electric Power)</i>	<i>(3,956.1)</i>	<i>(3,517.8)</i>	<i>(-11.1)</i>	<i>(3,882.5)</i>	<i>(3,575.9)</i>	<i>(-7.9)</i>

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

## Investment Intent

Looking at investment intent in the manufacturing sector, we see substantial ratio increase for product development and upgrading (in the processing and assembly industry) and ratio decrease in expansion of production capacity. Research and development is well maintained in wide range of industries, and we see ratio increase for it in both the material industry and the processing and assembly industry.

## Investment Intent

[illegible]

## Investments in Information Technology

### (Industry classified according to principal business area)

1. Investment in information technology for FY 2000 (based on 1,466 firms which responded to the survey in both FY 1999 and FY 2000) is expected to increase in both the manufacturing sector (up 16.2%) and the non-manufacturing sector (up 6.1%). This results in a 9.6% all-industry increase, which is in excess of the expected growth rate for total capital spending. Materials in advanced investment for production management systems were major contributors to the increase in the manufacturing sector. Electric power, which occupies a large part, was a major contributor to the increase in the non-manufacturing sector.

As for components of actual IT investment for FY 2000, tangible fixed assets was the biggest (31.9%), followed by intangible fixed assets (26.3%), lease contracts (25.1%), and other expenses (16.7%). The intangible fixed assets figure was large.

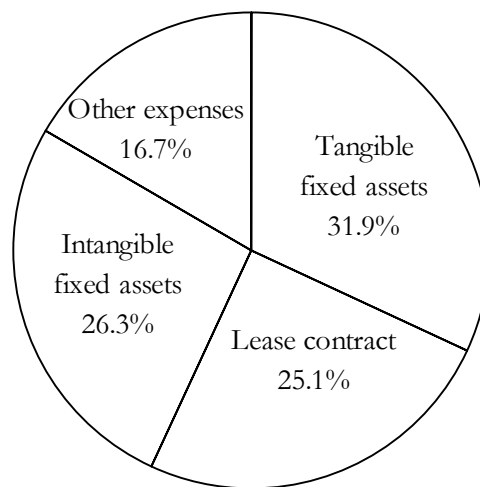
#### Investment in Information Technology (actual FY2000)

		(Billion, %)							
		Investment in		Growth Rate (%)		Share in		IT/Capital Spending	
		Information Technology		IT	Capital Spending	IT investment(%)		(%)	
		FY1999	FY2000	2000/99	2000/99	FY1999	FY2000	FY1999	FY2000
		(Actual)	(Actual)			(Actual)	(Actual)	(Actual)	(Actual)
		(1,466 Firms)		(1,466 Firms)					
Total		789.7	865.7	9.6	1.0	100.0	100.0	7.2	7.8
	Manufacturing	279.4	324.6	16.2	11.4	35.4	37.5	11.9	12.4
	Non-manufacturing	510.3	541.1	6.0	-1.8	64.6	62.5	5.9	6.4

#### Information Technology Investment (revision)

		(Billion, %)					
		FY2000 (Estimated/Actual)			FY2001 (Planned)		
		Investment in		IT	Investment in		IT
		Information Technology		investment	Information Technology		investment
				(revision)			(revision)
		Feb. 2001	Aug. 2001		Feb. 2001	Aug. 2001	
		(1,562 Firms)		(1,562 Firms)	(1,258 Firms)		(1,258 Firms)
Total		899.8	904.8	0.6	633.3	715.7	13.0
	Manufacturing	327.6	317.9	-3.0	199.9	204.5	2.3
	Non-Manufacturing	572.2	586.9	2.6	433.4	511.2	18.0

### Components of IT Investment (actual FY2000)



Definition of investment in information technology:

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

- Tangible fixed assets
- Lease contracts
- Intangible fixed assets
- Other expenses

2. Overall planned investment in information technology for FY 2001 (based on 1,807 firms which responded to the survey in both FY 2000 and FY 2001) is expected to show high growth (21.7%) despite a slight increase in capital spending. Increases will continue in both the manufacturing sector (21.4%) and the non-manufacturing sector (21.9%). Increase in transportation machinery is a major contributor to the increase in the manufacturing sector. As for the non-manufacturing sector, the growth rate in electric power, which occupies a large part, will slow down but maintain a high level, and investment in IT will increase substantially in wholesale & retail and transportation such as airlines and railways. This will result in an increase in the share of IT investment in total capital spending.



Investment in Information Technology (planned FY2001)

	(Billion, %)							
	Investment in Information		Growth Rate (%)		Share in IT investment(%)		IT/Capital Spending (%)	
	FY2000 (Actual)	FY2001 (Planned)	IT 2001/00	Capital Spending 2001/00	FY2000 (Actual)	FY2001 (Planned)	FY2000 (Actual)	FY2001 (Planned)
	(1,807 Firms)		(1,807 Firms)					
Total	1,032.2	1,256.5	21.7	1.3	100.0	100.0	7.7	9.3
Manufacturing	339.6	412.2	21.4	13.3	32.9	32.8	11.1	11.9
Non-manufacturing	692.7	844.3	21.9	-2.3	67.1	67.2	6.7	8.3