

Decrease in Capital Spending for the Second Consecutive Year; Adjustment Continuing in the Manufacturing Sector

---Urban infrastructures supporting overall investment under conservative plans---

1. Total industries' planned capital spending for FY2002 will decrease for the second consecutive year (down 0.6%), continuing to decrease in the manufacturing sector (down 5.6%) and taking an upward turn in the non-manufacturing sector (up 1.7%).

2. In the manufacturing sector, capital spending is expected to increase by double digits over the previous year in the automobile industry as companies introduce new models, and to increase substantially in the petroleum industry as policies are taken for environmental protection. However, decreases are expected in many industries. These include electric machinery, mainly due to declines in areas involving semiconductors; and materials such as paper and pulp, chemicals, cement, ceramics and glass, iron and steel, and non-ferrous metals, which are affected by large investments in the previous year and drops in investment in IT-related materials.

In the non-manufacturing sector, decreases are planned in electric power, due to limited investment in thermal power plants; in telecommunications and information, due to restraints on mobile telephone investment; and in services, due to the completion of a large amusement park. Increases are expected, however, in the transportation industry, mainly as the result of continued airport construction, the building of new railway lines and extensions, and investment in the *Shinkansen* bullet train. Other increases will take place in warehousing, led by the full-scale promotion of a large-scale redevelopment project in the metropolitan area, and in leasing, where demand is expected to expand.

3. Investment in information technology, for the purpose of improving business efficiency on the user side, will continue to increase by double digits in the manufacturing sector as firms make steady investments in production and inventory management systems. Increases will also take place in the non-manufacturing sector, mainly in retailing.

4. Steady earning recovery is expected in FY2002 compared with the poor earnings achieved in FY2001. Planned capital spending, however, appears to be relatively conservative at present. Looking at the components of investment motives in the manufacturing sector, the importance of "maintenance and repair" is increasing, with a decline seen in the importance of "expansion of production capacity." Meanwhile, a steady approach to the future can be seen in the increase in the importance of "research and development,"

5. In the non-manufacturing sector, several industries which account for a large share – electric power and telecommunications and information – are tending to restraint in their investments. Urban infrastructures, however, are supporting overall investment, backed by growth in metropolitan-

area transportation infrastructure, including railway networks and airports, and by large redevelopment projects in the Tokyo metropolitan area.

Target Firms and Survey Methods

Survey method: Questionnaire

Date of survey: August 10, 2002

Target firms: 3,566 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 84.7% (3,021 firms)

Industrial classification for the totals: By activity base in most cases; according to principle business in some parts of the analysis.

Outline

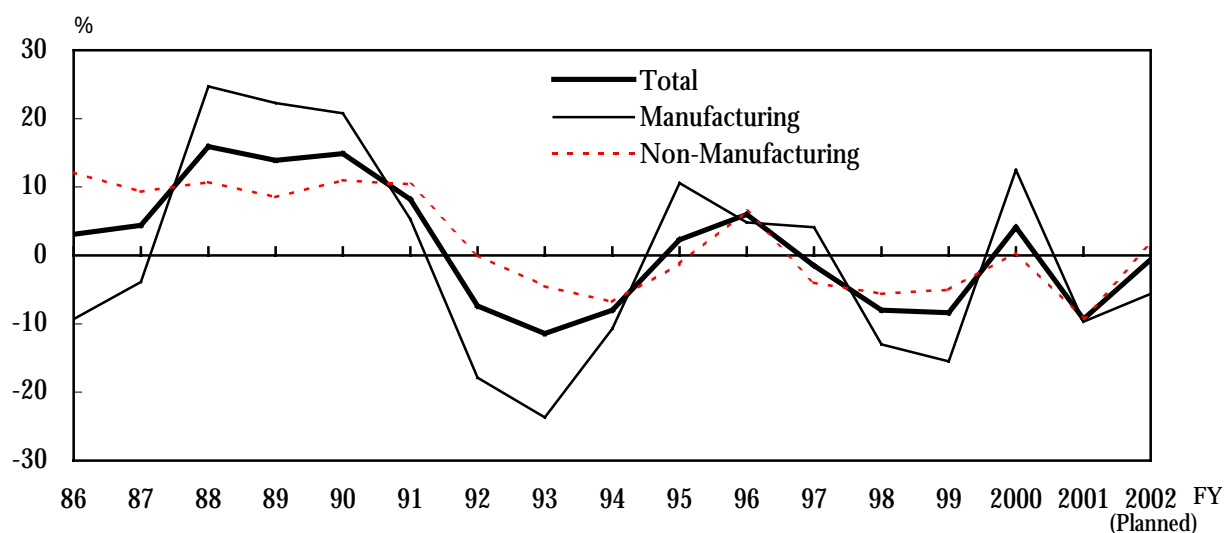
Actual capital spending in FY2001 point to the start of a decline (down 9.3%), both in the manufacturing sector (down 9.7%) and in the non-manufacturing sector (down 9.2%; all figures are based on construction; the growth rate is in comparison with the previous year). Capital spending planned for FY2002 by all industries will decrease for the second consecutive year (down 0.6%), while that for the manufacturing sector continues to decrease (down 5.6%) and that for the non-manufacturing sector begins to increase (up 1.7%).

Capital Spending

	FY2001 Actual (2,821firms)			FY2002 Planned (3,021 firms)			FY2003 Planned (1,385 firms)		
	FY2000 Actual	FY2001 Actual	Growth Rate (%) 2001/2000	FY2001 Actual	FY2002 Planned	Growth Rate (%) 2002/2001	FY2002 Planned	FY2003 Planned	Growth Rate (%) 2003/2002
Total	238,837	216,528	-9.3	222,206	220,817	-0.6	81,617	77,485	-5.1
<i>Excluding electric power</i>	203,659	184,812	-9.3	189,562	191,037	0.8	58,695	55,332	-5.7
Manufacturing	75,238	67,909	-9.7	70,209	66,297	-5.6	11,940	11,480	-3.9
Non-Manufacturing	163,599	148,619	-9.2	151,997	154,519	1.7	69,677	66,004	-5.3
<i>Excluding electric power</i>	128,422	116,903	-9.0	119,353	124,739	4.5	46,755	43,852	-6.2
<i>Electric power</i>	35,178	31,716	-9.8	32,644	29,780	-8.8	22,922	22,152	-3.4

Note: Monetary amounts are in 100 million yen.

Growth Rate of Capital Spending



Capital Spending by Industry

	Amount of Capital Spending				Growth Rate (%)			Component Rate (%)	
	FY2001	FY2002	FY2002	FY2003	2001/2000	2002/2001	2003/2002	FY2001	FY2002
	Actual (3,021 firms)	Planned	Planned	Planned (1,385 firms)				Actual (3,021 firms)	Planned
Total	222,206	220,817	81,617	77,485	-9.3	-0.6	-5.1	100.0	100.0
<i>Excluding Electric Power</i>	<i>189,562</i>	<i>191,037</i>	<i>58,695</i>	<i>55,332</i>	<i>-9.3</i>	<i>0.8</i>	<i>-5.7</i>	<i>85.3</i>	<i>86.5</i>
Manufacturing	70,209	66,297	11,940	11,480	-9.7	-5.6	-3.9	31.6	30.0
Food and Beverages	4,742	4,494	997	854	-6.5	-5.2	-14.3	2.1	2.0
Textiles	727	738	54	62	3.3	1.5	13.6	0.3	0.3
Paper and Pulp	2,557	1,982	383	389	15.1	-22.5	1.7	1.2	0.9
Chemicals	10,587	10,144	2,171	2,197	8.1	-4.2	1.2	4.8	4.6
<i>Organic Chemicals</i>	<i>4,909</i>	<i>4,513</i>	<i>1,019</i>	<i>1,116</i>	<i>8.4</i>	<i>-8.1</i>	<i>9.5</i>	<i>2.2</i>	<i>2.0</i>
<i>Pharmaceuticals</i>	<i>2,243</i>	<i>2,371</i>	<i>565</i>	<i>467</i>	<i>7.6</i>	<i>5.7</i>	<i>-17.4</i>	<i>1.0</i>	<i>1.1</i>
Petroleum	1,201	1,795	1,004	774	34.7	49.5	-22.9	0.5	0.8
Cement, Ceramics and Glass	2,267	1,703	283	335	-7.4	-24.9	18.3	1.0	0.8
Iron and Steel	4,226	3,431	924	1,070	7.5	-18.8	15.8	1.9	1.6
<i>Ordinary Steel</i>	<i>3,490</i>	<i>2,691</i>	<i>707</i>	<i>907</i>	<i>8.6</i>	<i>-22.9</i>	<i>28.3</i>	<i>1.6</i>	<i>1.2</i>
Non-Ferrous Metals	3,506	2,085	220	213	10.2	-40.5	-3.2	1.6	0.9
General Machinery	4,407	4,323	465	435	-3.3	-1.9	-6.5	2.0	2.0
Electric Machinery	17,366	15,861	3,051	3,000	-34.4	-8.7	-1.7	7.8	7.2
<i>Electric Devices, etc.</i>	<i>11,629</i>	<i>10,281</i>	<i>2,265</i>	<i>2,220</i>	<i>-40.5</i>	<i>-11.6</i>	<i>-2.0</i>	<i>5.2</i>	<i>4.7</i>
Precision Machinery	1,438	1,274	143	127	-5.7	-11.4	-11.0	0.6	0.6
Transportation	13,113	14,510	1,853	1,673	2.0	10.7	-9.7	5.9	6.6
<i>Automobiles</i>	<i>12,291</i>	<i>13,776</i>	<i>1,734</i>	<i>1,573</i>	<i>1.1</i>	<i>12.1</i>	<i>-9.3</i>	<i>5.5</i>	<i>6.2</i>
Other Manufacturing	4,072	3,959	394	352	-9.9	-2.8	-10.6	1.8	1.8
Non-Manufacturing	151,997	154,519	69,677	66,004	-9.2	1.7	-5.3	68.4	70.0
<i>Excluding Electric Power</i>	<i>119,353</i>	<i>124,739</i>	<i>46,755</i>	<i>43,852</i>	<i>-9.0</i>	<i>4.5</i>	<i>-6.2</i>	<i>53.7</i>	<i>56.5</i>
Construction	1,620	1,378	349	313	-0.1	-14.9	-10.3	0.7	0.6
Wholesale and Retail	11,375	11,715	3,807	3,590	-19.6	3.0	-5.7	5.1	5.3
<i>Retail</i>	<i>8,732</i>	<i>9,611</i>	<i>3,086</i>	<i>3,042</i>	<i>-23.4</i>	<i>10.1</i>	<i>-1.4</i>	<i>3.9</i>	<i>4.4</i>
Real Estate	8,811	9,424	3,267	3,241	-20.5	7.0	-0.8	4.0	4.3
Transportation	16,493	20,916	7,406	4,452	-7.1	26.8	-39.9	7.4	9.5
<i>Railways</i>	<i>10,122</i>	<i>13,824</i>	<i>4,146</i>	<i>2,468</i>	<i>-20.5</i>	<i>36.6</i>	<i>-40.5</i>	<i>4.6</i>	<i>6.3</i>
<i>Marine Transport</i>	<i>471</i>	<i>289</i>	<i>202</i>	<i>144</i>	<i>23.4</i>	<i>-38.6</i>	<i>-28.9</i>	<i>0.2</i>	<i>0.1</i>
<i>Airlines</i>	<i>1,933</i>	<i>1,845</i>	<i>40</i>	<i>19</i>	<i>14.7</i>	<i>-4.6</i>	<i>-52.1</i>	<i>0.9</i>	<i>0.8</i>
<i>Warehousing etc.</i>	<i>2,688</i>	<i>3,520</i>	<i>2,691</i>	<i>1,549</i>	<i>58.3</i>	<i>30.9</i>	<i>-42.4</i>	<i>1.2</i>	<i>1.6</i>
Electric Power and City Gas	35,314	32,546	25,685	24,981	-10.3	-7.8	-2.7	15.9	14.7
<i>Electric Power</i>	<i>32,644</i>	<i>29,780</i>	<i>22,922</i>	<i>22,152</i>	<i>-9.8</i>	<i>-8.8</i>	<i>-3.4</i>	<i>14.7</i>	<i>13.5</i>
<i>City Gas</i>	<i>2,669</i>	<i>2,766</i>	<i>2,764</i>	<i>2,829</i>	<i>-15.3</i>	<i>3.6</i>	<i>2.3</i>	<i>1.2</i>	<i>1.3</i>
Telecom. and Information	35,056	34,381	4,834	4,059	-10.8	-1.9	-16.0	15.8	15.6
Leasing	39,390	40,899	23,428	24,624	2.8	3.8	5.1	17.7	18.5
Services	3,524	2,688	749	604	-35.5	-23.7	-19.4	1.6	1.2
Other Non-Manufacturing	416	572	153	142	34.8	37.4	-7.0	0.2	0.3

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

Other Non-Manufacturing includes fishing, mining and others.

Monetary amounts are in 100 million yen.

Revision of Planned Capital Spending

In comparison with the previous survey (February 2002), investment for FY2002 was revised downwards in both the manufacturing sector (down 2.3%) and the non-manufacturing sector (down 1.6%).

Comparison with the February 2002 Survey

	FY2001 (2,778 firms)			FY2002 (2,778 firms)		
	Amount of Capital Spending		Revision Rate (%)	Amount of Capital Spending		Revision Rate (%)
	Feb.02 Estimated	Aug.02 Actual	Aug.02 /Feb. 02	Feb.02 Planned	Aug.02 Planned	Aug.02 /Feb. 02
Total	217,241	209,295	-3.7	212,255	208,381	-1.8
<i>Excluding Electric Power</i>	<i>182,033</i>	<i>177,484</i>	<i>-2.5</i>	<i>178,967</i>	<i>178,693</i>	<i>-0.2</i>
Manufacturing	71,041	67,454	-5.0	64,887	63,419	-2.3
Non-Manufacturing	146,200	141,841	-3.0	147,369	144,963	-1.6
<i>Excluding Electric Power</i>	<i>110,992</i>	<i>110,030</i>	<i>-0.9</i>	<i>114,080</i>	<i>115,275</i>	<i>1.0</i>
<i>Electric Power</i>	<i>35,208</i>	<i>31,811</i>	<i>-9.6</i>	<i>33,288</i>	<i>29,688</i>	<i>-10.8</i>

Notes: Monetary amounts are in 100 million yen.

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

Investment Motives

In the manufacturing sector, the importance of “maintenance and repair” is increasing, both in materials and in processing and assembly, with substantial decreases in the importance of “expansion of production capacity.” Meanwhile, the importance of “research and development” and “product development and product upgrading” is increasing in both the materials and processing and assembly industries.

Investment Motives

	(%)									
	Total		Manufacturing						Non-Manufacturing	
	(2,043 firms)						Processing & Assembly			
	FY2001	FY2002	FY2001	FY2002	FY2001	FY2002	FY2001	FY2002	FY2001	FY2002
	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned
Expansion of Production Capacity	40.1	41.2	27.4	24.0	27.2	23.8	27.3	23.2	46.2	48.7
Product Development and Upgrading	12.3	10.4	16.8	17.6	5.6	6.3	24.3	24.6	10.1	7.3
Rationalization and Labor Saving	6.8	6.4	15.0	15.0	18.6	17.5	12.7	13.6	2.9	2.7
Research and Development	3.9	4.0	9.2	10.3	7.1	9.2	10.8	11.4	1.4	1.3
Maintenance and Repairs	17.4	17.4	17.8	19.7	23.9	27.2	13.5	15.0	17.2	16.4
Others	19.5	20.5	13.8	13.4	17.7	15.9	11.3	12.2	22.2	23.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Investment in Information Technology by Principal Business Sectors

1. Investment in information technology for FY2001, based on 1,465 firms which responded to the survey in both FY2000 and FY2001, is expected to increase in both the manufacturing sector (up 8.0%) and the non-manufacturing sector (up 6.1%). This results in a 6.7% increase for all industries. In the manufacturing sector, many industries are investing in production and inventory management systems and in customer management systems. In the non-manufacturing sector, the important electric power industry, as well as airlines, railways and other transportation companies, are major contributors to the increase.

2. Planned investment in information technology for FY2002, based on 1,706 firms which responded to the survey in both FY2001 and FY2002, is expected to increase in the manufacturing sector (up 11.9%) and in the non-manufacturing sector (up 1.3%), leading to an overall increase of 4.8%. By sector, investment in the manufacturing sector is expected to continue to increase, led by steady investments in production and inventory management systems and customer management systems, amid an expected decline in capital spending overall. In the non-manufacturing sector, planned investment in IT is expected to continue to increase in retailing and railways, but to decline in electric power and airlines, where large investments were made in the previous year.

3. In comparison with the previous survey of February 2002, actual investment in information technology for FY2001 was revised downwards in both the manufacturing sector (down 2.3%) and the non-manufacturing sector (down 13.2%), leading to an overall downward revision of 9.9%. On the other hand, planned investment for FY2002 was revised upwards in both the manufacturing sector (up 4.2%) and the non-manufacturing sector (up 6.1%), leading to an overall upward revision of 5.5%.

Overview of IT Investment (actual figures for FY2001)

Industrial Sector (1,465 firms)	Amount of IT Investment (%)		Growth Rate (%)		Share of IT Investment (%)		IT Investment /Capital Spending (%)	
			IT	Capital Spending				
	FY2000 Actual	FY2001 Actual	2001/2000	2001/2000	FY2000 Actual	FY2001 Actual	FY2000 Actual	FY2001 Actual
Total	8,934	9,537	6.7	-10.3	100.0	100.0	7.8	9.3
Manufacturing	2,957	3,195	8.0	-2.5	33.1	33.5	10.9	12.1
Non-manufacturing	5,977	6,342	6.1	-12.7	66.9	66.5	6.9	8.3

Note: Monetary amounts are in 100 million yen.

Overview of IT Investment (planned figures for FY2002)

Industrial Sector (1,706 firms)	Amount of IT Investment (%)		Growth Rate (%)		Share of IT Investment (%)		IT Investment /Capital Spending (%)	
			IT	Capital Spending				
	FY2001 Actual	FY2002 Planned	2002/2001	2002/2001	FY2001 Actual	FY2002 Planned	FY2001 Actual	FY2002 Planned
Total	10,177	10,667	4.8	-1.3	100.0	100.0	9.2	9.8
Manufacturing	3,403	3,808	11.9	-4.7	33.4	35.7	12.3	14.4
Non-manufacturing	6,774	6,859	1.3	-0.2	66.6	64.3	8.2	8.3

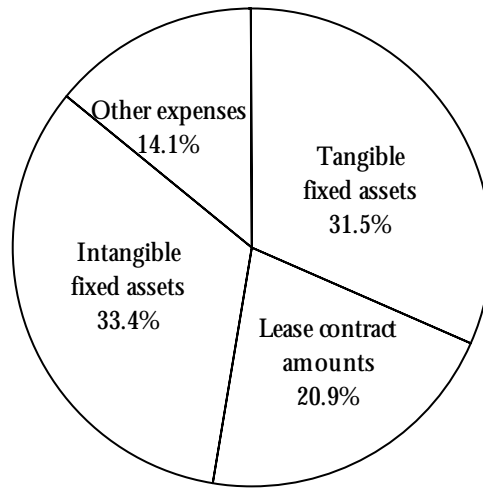
Note: Monetary amounts are in 100 million yen.

Revision to IT Investment

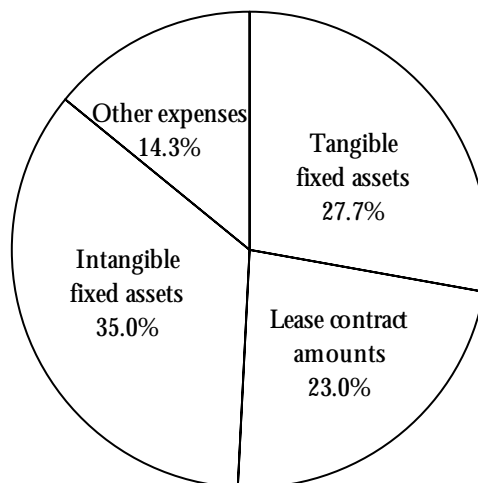
Industrial Sector	FY2001, Actual			FY2002, Planned		
	IT Investment		Revision	IT Investment		Revision
	(1,471 firms)			(1,107 firms)		
	Feb. 2002	Aug. 2002	(%)	Feb. 2001	Aug. 2001	(%)
Total	10,068	9,067	-9.9	5,430	5,729	5.5
Manufacturing	3,008	2,938	-2.3	1,593	1,659	4.2
Non-Manufacturing	7,060	6,129	-13.2	3,837	4,069	6.1

Note: Monetary amounts are in 100 million yen.

Components of IT Investment (actual FY2001)



Components of IT Investment (planned FY2002)



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

- Tangible fixed assets
- Lease contract amounts
- Intangible fixed assets
- Other expenses