

Capital Spending Is in Weak Recovery

Slight upturn in manufacturing, but downturn in urban infrastructure

1. Total capital spending by all industry for FY2003 will decrease for the third consecutive year (down 3.0%), taking a slight upturn in the manufacturing sector (up 1.1%) but continuing to decrease in the non-manufacturing sector (down 4.8%).

2. In the manufacturing sector, upward turns are expected in many industries. These include electric machinery, mainly in flat panel displays; iron & steel, led by large-scale blast furnace refreshment; and chemicals, led by investment in high-value-added products. Capital spending is expected to decrease in paper & pulp, after passing a peak for investment in recycling of waste papers, and in food & beverages, affected by large investment in the previous year in soft drinks.

In the non-manufacturing sector, decreases are expected in transportation (for new railway lines and line extensions and airport construction) and real estate (for a large-scale urban redevelopment) after passing their peaks. There will also be decreased investment by the nine major power companies (mainly in nuclear fuel and generating stations) and in telecommunications (due to restraints on wired phones). Increases are planned in retail, led by establishment of new outlets, such as supermarkets, and in wholesaling of electricity.

3. Both the manufacturing sector and the non-manufacturing sector expect slight increases in income and double-digit increases in current profits; however, plans for capital spending are being confined to within the range of cash flow.

In the manufacturing sector, there is a possibility that some firms in processing & assembly industry and those heading for restructuring will revise upward their capital spending plans. On the other hand, in the non-manufacturing sector, a trend of restraint is expected to continue, mainly in infrastructure related industries facing steep price competition.

4. Capital spending for flat panel display production, which is leading a recovery in the electric machinery industry, is having a positive effect on the chemicals industry (in film production equipment) and glass. Having reached a bottom in semiconductor investment bodes a positive impact on non-ferrous metals (in 300-mm silicon wafer production equipment and in precision machinery for semiconductor processing). There seem to be signs of a capital spending chain reaction, beginning with electronic machinery, although at a slower pace than in the past recovery phase.

(Target Firms and Survey Methods)

Survey Method: Questionnaire

Date of Survey: February 10, 2003

Target Firms: 3,618 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of Valid Responses: 80.6% (2,915 firms)

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

Outline

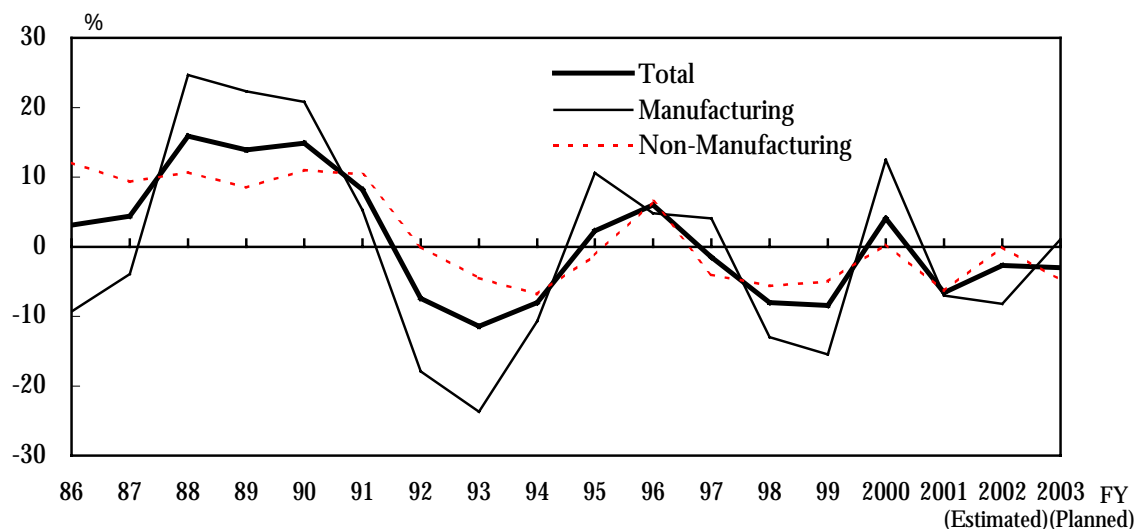
Estimates on capital spending in FY2002 (all figures are based on construction; the growth rate is in comparison with the previous year) showed a decrease for the second consecutive year (down 3.8%), as that by the manufacturing sector decreased by double digits (down 11.4%) and that by the non-manufacturing sector decreased slightly (down 0.2%). Capital spending planned by total industries for FY2003 will decrease for the third consecutive year (down 3.0%), as that planned by the manufacturing sector takes an upward turn (up 1.1%) but that planned by the non-manufacturing sector continues to decrease (down 4.8%).

Capital Spending

	FY2002 Estimated (2,801 firms)			FY2003 Planned (2,915 firms)		
	FY2001 Actual	FY2002 Estimated	Growth Rate (%) 2002/2001	FY2002 Estimated	FY2003 Planned	Growth Rate (%) 2003/2002
Total	20,148.3	19,377.7	-3.8	19,869.7	19,271.0	-3.0
<i>Excluding Electric Power</i>	<i>16,883.9</i>	<i>16,404.1</i>	<i>-2.8</i>	<i>16,896.0</i>	<i>16,387.5</i>	<i>-3.0</i>
Manufacturing	6,520.2	5,778.0	-11.4	5,874.2	5,941.2	1.1
Non-Manufacturing	13,628.1	13,599.8	-0.2	13,995.5	13,329.7	-4.8
<i>Excluding Electric Power</i>	<i>10,363.8</i>	<i>10,626.1</i>	<i>2.5</i>	<i>11,021.8</i>	<i>10,446.3</i>	<i>-5.2</i>
<i>Electric Power</i>	<i>3,264.4</i>	<i>2,973.7</i>	<i>-8.9</i>	<i>2,973.7</i>	<i>2,883.4</i>	<i>-3.0</i>

Note: Monetary amounts are in billion yen.

Growth Rate of Capital Spending



Capital Spending by Industry

	Capital Spending				Growth Rate (%)		Component Rate (%)	
	FY2001	FY2002	FY2002	FY2003	2002/2001	2003/2002	FY2002	FY2003
	Actual	Estimated	Estimated	Planned			Estimated	Planned
	(2,801 firms)		(2,915 firms)				(2,915 firms)	
Total	20,148.3	19,377.7	19,869.7	19,271.0	-3.8	-3.0	100.0	100.0
<i>Excluding Electric Power</i>	<i>16,883.9</i>	<i>16,404.1</i>	<i>16,896.0</i>	<i>16,387.5</i>	<i>-2.8</i>	<i>-3.0</i>	<i>85.0</i>	<i>85.0</i>
Manufacturing	6,520.2	5,778.0	5,874.2	5,941.2	-11.4	1.1	29.6	30.8
Food and Beverages	440.6	421.0	438.5	410.3	-4.5	-6.4	2.2	2.1
Textiles	72.2	70.4	70.9	66.7	-2.5	-5.9	0.4	0.3
Paper and Pulp	254.5	203.5	209.8	178.8	-20.1	-14.7	1.1	0.9
Chemicals	876.0	734.2	752.7	767.5	-16.2	2.0	3.8	4.0
<i>Organic Chemicals</i>	<i>421.3</i>	<i>322.4</i>	<i>333.4</i>	<i>345.9</i>	<i>-23.5</i>	<i>3.8</i>	<i>1.7</i>	<i>1.8</i>
<i>Pharmaceuticals</i>	<i>169.8</i>	<i>160.2</i>	<i>161.7</i>	<i>139.2</i>	<i>-5.7</i>	<i>-13.9</i>	<i>0.8</i>	<i>0.7</i>
Petroleum	116.0	165.5	165.5	155.0	42.6	-6.3	0.8	0.8
Cement, Ceramics and Glass	171.3	133.5	141.6	138.6	-22.1	-2.1	0.7	0.7
Iron and Steel	419.9	347.4	349.7	386.9	-17.3	10.6	1.8	2.0
<i>Ordinary Steel</i>	<i>346.2</i>	<i>271.0</i>	<i>272.7</i>	<i>311.2</i>	<i>-21.7</i>	<i>14.1</i>	<i>1.4</i>	<i>1.6</i>
Non-Ferrous Metals	345.1	195.5	195.5	197.3	-43.3	0.9	1.0	1.0
General Machinery	410.3	370.8	370.8	370.1	-9.6	-0.2	1.9	1.9
Electric Machinery	<i>1,599.7</i>	<i>1,316.3</i>	<i>1,332.6</i>	<i>1,404.9</i>	<i>-17.7</i>	<i>5.4</i>	<i>6.7</i>	<i>7.3</i>
<i>Electric Devices, etc.</i>	<i>1,081.8</i>	<i>869.1</i>	<i>873.5</i>	<i>939.8</i>	<i>-19.7</i>	<i>7.6</i>	<i>4.4</i>	<i>4.9</i>
Precision Machinery	137.6	103.1	106.6	108.7	-25.1	1.9	0.5	0.6
Transportation	1,257.6	1,334.8	1,349.2	1,350.6	6.1	0.1	6.8	7.0
<i>Automobiles</i>	<i>1,207.9</i>	<i>1,278.4</i>	<i>1,283.2</i>	<i>1,289.8</i>	<i>5.8</i>	<i>0.5</i>	<i>6.5</i>	<i>6.7</i>
Other Manufacturing	419.3	382.1	390.9	405.9	-8.9	3.8	2.0	2.1
Non-Manufacturing	13,628.1	13,599.8	13,995.5	13,329.7	-0.2	-4.8	70.4	69.2
<i>Excluding Electric Power</i>	<i>10,363.8</i>	<i>10,626.1</i>	<i>11,021.8</i>	<i>10,446.3</i>	<i>2.5</i>	<i>-5.2</i>	<i>55.5</i>	<i>54.2</i>
Construction	145.3	158.4	166.1	119.8	9.0	-27.8	0.8	0.6
Wholesale and Retail	1,097.8	1,139.6	1,159.0	1,155.9	3.8	-0.3	5.8	6.0
<i>Retail</i>	<i>848.2</i>	<i>937.4</i>	<i>955.0</i>	<i>993.0</i>	<i>10.5</i>	<i>4.0</i>	<i>4.8</i>	<i>5.2</i>
Real Estate	875.2	986.8	990.8	855.4	12.8	-13.7	5.0	4.4
Transportation	1,599.9	2,022.3	2,022.8	1,638.4	26.4	-19.0	10.2	8.5
<i>Railways</i>	<i>1,011.9</i>	<i>1,370.5</i>	<i>1,370.5</i>	<i>1,070.7</i>	<i>35.4</i>	<i>-21.9</i>	<i>6.9</i>	<i>5.6</i>
<i>Marine Transport</i>	<i>45.5</i>	<i>32.0</i>	<i>32.0</i>	<i>19.3</i>	<i>-29.7</i>	<i>-39.9</i>	<i>0.2</i>	<i>0.1</i>
<i>Airlines</i>	<i>193.3</i>	<i>160.9</i>	<i>161.4</i>	<i>191.8</i>	<i>-16.7</i>	<i>18.8</i>	<i>0.8</i>	<i>1.0</i>
<i>Warehousing etc.</i>	<i>242.4</i>	<i>343.8</i>	<i>343.8</i>	<i>237.7</i>	<i>41.8</i>	<i>-30.9</i>	<i>1.7</i>	<i>1.2</i>
Electric Power and City Gas	3,531.4	3,245.5	3,249.4	3,155.5	-8.1	-2.9	16.4	16.4
<i>Electric Power</i>	<i>3,264.4</i>	<i>2,973.7</i>	<i>2,973.7</i>	<i>2,883.4</i>	<i>-8.9</i>	<i>-3.0</i>	<i>15.0</i>	<i>15.0</i>
<i>City Gas</i>	<i>267.0</i>	<i>271.9</i>	<i>275.7</i>	<i>272.0</i>	<i>1.8</i>	<i>-1.3</i>	<i>1.4</i>	<i>1.4</i>
Telecom. and Information	2,773.9	2,596.1	2,615.1	2,496.2	-6.4	-4.5	13.2	13.0
Leasing	3,214.5	3,165.0	3,505.4	3,641.8	-1.5	3.9	17.6	18.9
Services	349.8	238.5	239.5	225.6	-31.8	-5.8	1.2	1.2
Other Non-Manufacturing	40.5	47.5	47.5	41.2	17.2	-13.3	0.2	0.2

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

Other Non-Manufacturing industries include fishing, mining and others.

Monetary amounts are in billion yen.

Revision of Planned Capital Spending

In comparison with the previous survey (August 2002), investment for FY2002 was revised downwards in both the manufacturing sector (down 4.7%) and the non-manufacturing sector (down 2.2%). Since the previous survey on planned investment for FY2003, upward revisions are seen in many industries in the manufacturing sector (up 7.6%) but downward revisions are seen in the non-manufacturing sector (down 1.3%). In total, planned investment for FY2003 remains almost the same as that of the previous survey.

Comparison with the August 2002 Survey

	FY2002 (2,801 firms)			FY2003 (1,341 firms)		
	Capital Spending		Revision Rate (%)	Capital Spending		Revision Rate (%)
	Aug.2002 Planned	Feb.2003 Estimated	Feb.2003 /Aug.2002	Aug.2002 Planned	Feb.2003 Planned	Feb.2003 /Aug.2002
Total	19,969.5	19,377.7	-3.0	7,633.8	7,635.2	0.0
<i>Excluding Electric Power</i>	<i>16,991.7</i>	<i>16,404.1</i>	<i>-3.5</i>	<i>5,418.6</i>	<i>5,424.6</i>	<i>0.1</i>
Manufacturing	6,062.6	5,778.0	-4.7	1,143.7	1,231.1	7.6
Non-Manufacturing	13,906.8	13,599.8	-2.2	6,490.1	6,404.1	-1.3
<i>Excluding Electric Power</i>	<i>10,929.0</i>	<i>10,626.1</i>	<i>-2.8</i>	<i>4,274.9</i>	<i>4,193.5</i>	<i>-1.9</i>
<i>Electric Power</i>	<i>2,977.8</i>	<i>2,973.7</i>	<i>-0.1</i>	<i>2,215.2</i>	<i>2,210.5</i>	<i>-0.2</i>

Notes: Monetary amounts are in billion yen.

$$\text{Revision Rate} = \{(\text{Feb. 2003 survey})/(\text{Aug. 2002 survey})-1\} \times 100$$

Investment Motives

Looking at investment motives in the manufacturing sector, the importance of “maintenance and repair” is increasing in material industries (mainly in iron & steel and chemicals), and the importance of “expansion of production capacity” and “rationalization & labor saving” is increasing in processing and assembly industries (mainly in electric machinery).

Investment Motives

(%)

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Investment in Information Technology by principal business sectors

1. Investment in information technology in FY2002, based on 1,451 firms which responded to the survey in both FY2001 and FY2002, is expected to decrease in the non-manufacturing sector (down 1.0%) but continue to increase in the manufacturing sector (up 4.4%). This results in a 0.9% increase among all industries. In the manufacturing sector, many industries are investing in production and inventory management systems and customer management systems. In the non-manufacturing sector, IT investment continues to increase in the retail and railway sectors, but is decreasing in the electric power industry in reaction to large investment in the previous year.
2. Planned investment in information technology in FY2003, based on 1,394 firms which responded to the survey in both FY2002 and FY2003, is expected to take an upward turn (up 13.4%) in the manufacturing sector and continue to increase (up 2.7%) in the non-manufacturing sector, leading to an overall increase (up 9.5%). Investment in production and inventory management systems and software for the purpose of enterprise resource planning are major contributors to expanded IT investment in the manufacturing sector. In the non-manufacturing sector, planned investment in IT will increase in most industries, mainly in electric power and retail, which occupy a large share.
3. In comparison with the previous survey of August 2002, expected investment in information technology for FY2002 was revised downwards in both the manufacturing sector (down 5.8%) and the non-manufacturing sector (down 4.8%), leading to an overall downward revision of 5.1%.

Overview of IT Investment (estimated figures for FY2002)

Industrial Sector (1,451 firms)	Amount of IT Investment		Growth Rate (%)		Share of IT Investment (%)		IT Investment/ Capital Spending (%)	
			IT	Capital Spending				
	FY2001 Actual	FY2002 Estimated	2002/2001	2002/2001	FY2001 Actual	FY2002 Estimated	FY2001 Actual	FY2002 Estimated
Total	859.0	866.7	0.9	-4.1	100.0	100.0	9.0	9.5
Manufacturing	300.0	313.2	4.4	-11.6	34.9	36.1	12.0	14.2
Non-Manufacturing	559.0	553.5	-1.0	-1.5	65.1	63.9	7.9	8.0

Note: Monetary amounts are in billion yen.

Overview of IT Investment (planned figures for FY2003)

Industrial Sector (1,394 firms)	Amount of IT Investment		Growth Rate (%)		Share of IT Investment (%)		IT investment/ Capital Spending (%)	
			IT	Capital Spending				
	FY2002 Estimated	FY2003 Planned	2003/2002	2003/2002	FY2002 Estimated	FY2003 Planned	FY2002 Estimated	FY2003 Planned
Total	488.7	535.2	9.5	-5.9	100.0	100.0	7.4	8.6
Manufacturing	178.5	183.3	2.7	8.9	36.5	34.3	14.0	13.2
Non-Manufacturing	310.3	351.9	13.4	-9.4	63.5	65.7	5.8	7.3

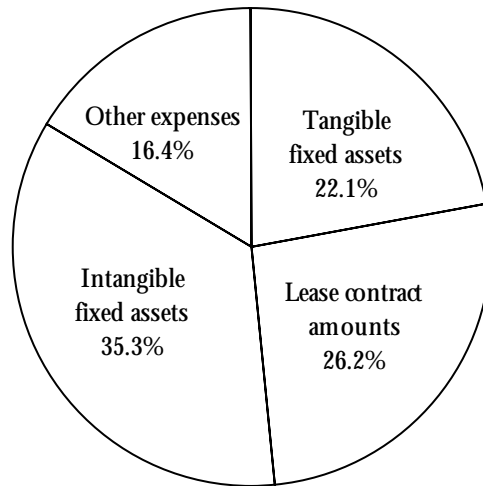
Note: Monetary amounts are in billion yen.

Revised IT Investment

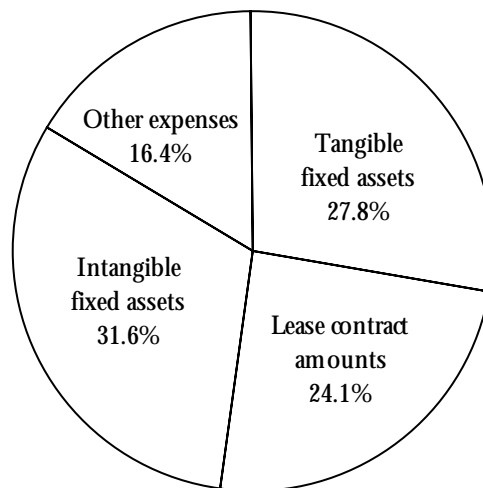
Industrial sector	FY2002, Estimated		Revisions (%)
	IT Investment (1,371 firms)		
	Aug. 2002	Feb. 2003	
Total	875.2	830.3	-5.1
Manufacturing	314.3	296.1	-5.8
Non-Manufacturing	560.9	534.2	-4.8

Note: Monetary amounts are in billion yen.

Components of IT Investment (estimated FY2002)



Components of IT Investment (planned FY2003)



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

Tangible fixed assets

Lease contract amounts

Intangible fixed assets

Other expenses