

**Increase in Capital Spending for the First Time in Three Years,
Led by the Manufacturing Sector**
More select and focused investment targeting consumer demand

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 parts, 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-video 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 display), led by investments in sectors that are 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 automobile industry, for production of new models and promotion of production efficiency; and in iron & steel industry, for blast furnace refurbishment—as a 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 part, 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 select 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 cyclical effect, and a deep-seated undercurrent of restraint in terms of domestic investment persists. This is a point that should be considered, when the investment trend for the next few years is estimated.

Target Firms and Survey Methods

Survey method: Questionnaire

Date of survey: August 10, 2003

Target firms: 3,654 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 81.2% (2,966 firms)

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

Outline

Capital Spending

	FY2002 Actual (2,737firms)			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

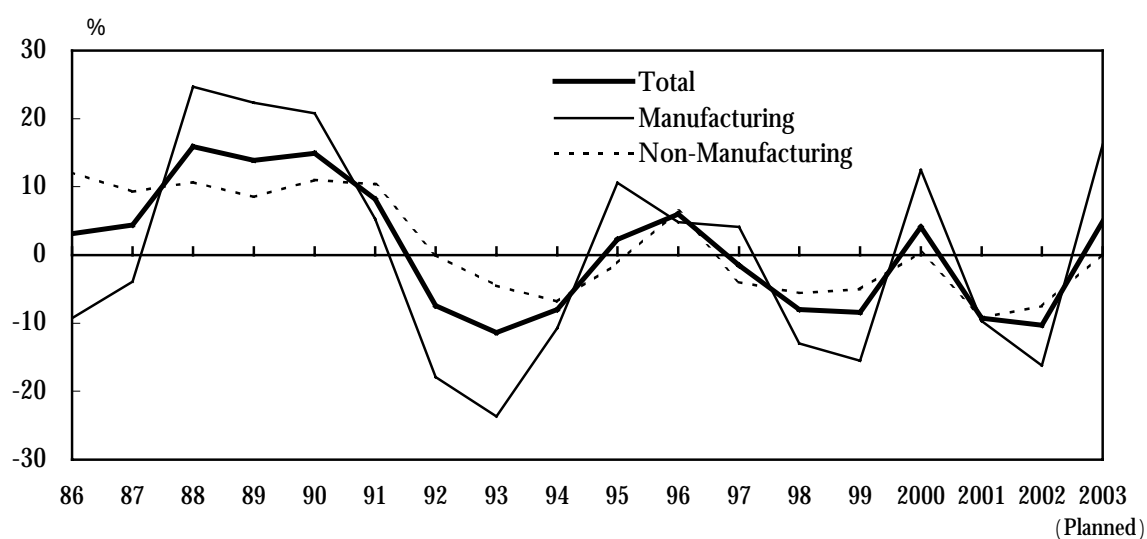
Note: Monetary amounts are in billion yen.

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

Revision Rate = {(Aug. 2003 survey)/(Feb. 2003 survey)-1}×100

Growth in Capital Spending



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 overall industry 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 parts, 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-video 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 display), led by investments in sectors that are 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 automobile industry, for production of new models and promotion of production efficiency; and in iron & steel industry, for blast furnace refurbishment—as a 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%, showed in the previous survey, to +4.9%, showed in this survey, because the downward revision of capital spending for FY2002 was large.

Capital Spending by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	FY2002	FY2003	FY2003	FY2004	2002/2001	2003/2002	2004/2003	FY2002	FY2003
	Actual	Planned	Planned	Planned				Actual	Planned
	(2,966 firms)		(1,436 firms)					(2,966 firms)	
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
<i>Electric Devices, etc</i>	<i>875.7</i>	<i>1,113.6</i>	<i>241.2</i>	<i>204.9</i>	<i>-20.9</i>	<i>27.2</i>	<i>-15.0</i>	<i>4.5</i>	<i>5.4</i>
Precision Machinery	109.6	143.0	11.3	8.2	-20.2	30.4	-27.2	0.6	0.7
Transportation	1,291.1	1,507.3	216.0	211.2	1.5	16.7	-2.3	6.6	7.4
<i>Automobiles</i>	<i>1,224.8</i>	<i>1,427.4</i>	<i>193.9</i>	<i>192.6</i>	<i>1.2</i>	<i>16.5</i>	<i>-0.6</i>	<i>6.3</i>	<i>7.0</i>
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
<i>Retail</i>	<i>859.8</i>	<i>882.8</i>	<i>269.7</i>	<i>260.5</i>	<i>6.3</i>	<i>2.7</i>	<i>-3.4</i>	<i>4.4</i>	<i>4.3</i>
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 City Gas	2,866.0	2,780.2	2,462.9	2,337.9	-19.0	-3.0	-5.1	14.7	13.6
<i>Electric Power</i>	<i>2,619.7</i>	<i>2,511.6</i>	<i>2,231.2</i>	<i>2,124.0</i>	<i>-19.7</i>	<i>-4.1</i>	<i>-4.8</i>	<i>13.4</i>	<i>12.3</i>
<i>City Gas</i>	<i>246.3</i>	<i>268.6</i>	<i>231.7</i>	<i>214.0</i>	<i>-9.6</i>	<i>9.1</i>	<i>-7.7</i>	<i>1.3</i>	<i>1.3</i>
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: Other Manufacturing includes publishing and printing, rubber, metal products and others.

Other Non-Manufacturing includes fishing, mining and others.

Monetary amounts are in billion yen.