Characteristics of Planned Capital Spending for FY2026

Positive Investor Sentiment despite Rising Uncertainties including in the Middle East:

Investment Propped Up by Spending for AI, Data Centers, Urban Function Enhancement and Inbound Tourism

1. Domestic Capital Spending

Capital spending by major firms (capitalized at ¥1 billion or over) in FY2025 rose 7.3% overall, the fourth straight year of increase on the previous year, driven by investment for decarbonization in material-based industries, for grid enhancement in electric power, and for station-area redevelopment in transportation. Planned capital spending for FY2026 shows a 19.7% increase, pointing to active investor sentiment that even exceeds the previous year's planned level (up 14.3%) despite the rising uncertainties caused by the Middle East conflict, among others. The manufacturing sector plans a double-digit increase in spending, driven by increased investment related to artificial intelligence (AI) and data centers. A substantial increase in capital spending is also planned in the non-manufacturing sector, thanks to continued investment for grid enhancement and full-scale spending related to nuclear plants in electric power, as well as investment in urban function enhancement and inbound tourism.

2. Government Industrial Policy including on the 17 Strategic Areas and Capital Spending

Among the 17 strategic areas, many companies are enhancing spending on AI, semiconductors and digital, as a large percentage of the firms are planning additional investment within three years in this area. They show high expectations for government support while focusing on expected growth when deciding to increase domestic capital spending, thus indicating the crucial importance of building an environment that enables businesses to expect greater growth.

3. Impact of the Middle East Conflict, Supply Chains and Investment Overseas

Many firms are switching their focus from efficient supply chains through lower costs to more resilient supply chains. They are responding to the Middle East conflict primarily through the diversification of suppliers abroad. Planned capital spending in Japan shows faster growth than investment overseas, pointing to the continued downtrend of the overseas investment ratio.

4. Corporate Management

Major risks for companies include procurement risk due to the Middle East conflict, among others, as well as rising prices and labor shortages. Materials-based industries are experiencing difficulty in passing on the rising costs. Most firms continue to raise wages.

5. Investment in Human Resources

Companies continue to regard wage increases as a means of investing in human resources to help recruit talent. An increasing percentage of companies are finding that digital transformation is an alternative to talent recruitment.

6. Digitalization and R&D

Spending on digitalization continues to increase. Although AI adoption is spreading, its impact remains focused on operational efficiency. Spending on research and development remains robust, particularly for AI, semiconductors and decarbonization.

7. Decarbonization

As efforts for decarbonization continue to gain ground steadily, how to pass on related costs is becoming an even bigger issue for companies, indicating greater difficulties in reconciling profitability and decarbonization.

8. Characteristics of Capital Spending by Region and by Medium-sized Firms

By region, double-digit increases in capital spending are planned for FY2026 across the board, led by Tohoku, Hokkaido, and North Kanto & Koshin. While a larger percentage of medium-sized firms than major firms consider that the Middle East conflict, rising prices, labor shortages and succession planning are risk factors, they both see growth opportunities in new technologies including AI.