

**Development Bank of Japan
Research Report
No. 63**

**Survey on Planned Capital Spending
for Fiscal Years 2007, 2008 and 2009
(Conducted in June 2008)**

September 2008

**Economic and Industrial Research Department
Development Bank of Japan**

This report is an abridged translation of the original edition published in Japanese as *Chosa* No. 98 in September 2008.

Contents

I	Summary	1
II	Outline	3
III	Survey Results	5
	1. Overall Situation.....	5
	2. Characteristics of Capital Spending, by Industry	7
	3. Ratio of Capital Spending to Cash Flow	9
	4. Investment Motives	10
	5. Capital Spending Overseas.....	12
	6. Research & Development Expenditure	12
IV	Survey on Planned Capital Spending, by Region (large- and medium-sized firms)	13
V	Opinion Poll on Corporate Behavior	14
	1. Impact of Subprime-Related Events.....	14
	2. Profit Outlook for FY2008	14
	3. Lending Attitude of Financial Institutions	15
	4. Trends in M&A	15
	Appendix	16

Planned Spending Growth Slows amid Mounting Concerns about Downside Risks

Increased Strategic Investment for Global and Resource-Related Motives and Next-Generation Products

Spending to Increase in Seven Regions despite Downturns in Others

I Summary

1. Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) for FY2008 shows a fifth consecutive increase overall (up 4.1%). The growth is slowing, however, amid mounting concerns about downside risks in the coming months.

2. In the manufacturing sector (up 6.8%), positive growth is expected overall despite declines in paper & pulp and electric machinery, with the completion of large-scale projects in the previous year. In particular, substantial growth is expected in automobiles, thanks largely to the construction of large plants for finished cars and investment in key components; in general machinery, with buoyant external demand for industrial machinery; and in chemicals, led by investment in battery/LC components and high-performance materials. In the non-manufacturing sector (up 2.4%), spending is also expected to increase overall, as the curtailment in transportation due to the completion of large-scale products in the previous year will be more than offset by significant increases in electric power, with further increases in investment planned for power source development and transmission/distribution facilities, as well as in retail, led by investment in new branches and refurbishment in supermarkets and convenience stores.

As regards investment motives in the manufacturing sector, the share of “expansion of production capacity” is lower, but it is still substantial, and the decrease is compensated for by increases in the shares of “maintenance and repair,” “research and development” and “rationalization and labor saving,” among others.

Ordinary profits are expected to record a

double-digit decline of 11.7% overall. Corporate profits in the manufacturing sector will fall by some 20%, with negative impacts largely coming from strains in the U.S. economy following sub-prime-related events, higher raw material and fuel costs due to rising resource prices, and the weakening dollar against the yen. Earnings are also expected to decline in the non-manufacturing sector.

3. According to the present survey, capital spending is now characterized by four developments:

- (1) expansion of capacity to capture global demand: general machinery, automobiles, electric machinery, precision machinery, other;
- (2) response to rising resource prices and energy conservation: iron & steel, automobiles, retail, chemicals;
- (3) reorganization and efficiency in existing markets: electric power, automobiles, food & beverages, chemicals (pharmaceuticals), retail, telecommunications; and
- (4) new businesses and next-generation products: solar cells, rechargeable batteries, flat panel displays.

In terms of corporate behavior, there remains a compelling need for investment, such as to cope with rising resource prices and to conserve energy, in spite of radical changes in the external environment. In individual industries, investment tends to concentrate on a handful of firms, while strategic investment across industries is also rising for new businesses and next-generation products.

4. Ancillary surveys yielded the following results:

- (1) So far, subprime-related events have had limited impact on domestic and overseas capital spending. Yet, uncertainty about future developments remains strong, with some 30% of firms expecting profits to decline in the current year. Financial institutions will also continue to tighten their controls on lending in general.
- (2) Capital spending overseas remains resilient. Expected declines in North America and Europe will be offset by increases in Asia.
- (3) Investment in information technology will increase for a third consecutive year. Driving motives include operational efficiency and differentiation from competitors.
- (4) Research and development expenditure is expected to increase across the board in the manufacturing industry. The prospect of reduced profits appears not to have affected companies' commitment to research and development.
5. Planned capital spending of large- and medium-sized firms (capitalized at ¥100 million or over) for FY2008 will increase 2.9% nationwide, with seven regions expecting positive growth despite downturns elsewhere.

II Outline

Survey on Planned Capital Spending (large-sized firms)

Objectives

This annual survey has been conducted since FY1956 by the Development Bank of Japan to assess major trends in the domestic capital spending of Japanese industry.

Scope of Capital Spending

In this survey, “capital spending” refers to domestic investment in the tangible fixed assets of one’s own corporation (excluding investment in land for subdivision in the real estate industry). In general, it is calculated as the sum of newly formed tangible fixed assets, including the “construction in progress” account (on a construction basis, without subtracting resale value, depreciation, or loss).

Survey Methods

The survey was conducted by questionnaire (sent to individual firms, followed up by telephone interviews when necessary).

Target Firms

This survey covers all private firms in Japan’s major industries capitalized at ¥1 billion or more, excluding agriculture, forestry, finance, and insurance.

Date of Survey

June 20, 2008. Most of the responses to the questionnaire were obtained in June.

Responses

	No. of Firms Targeted	No. of Valid Responses	Proportion of Valid Responses
Principal Business Classification	3,470	2,438	70.3%
Investment-specific Classification	4,090	2,933	71.7%

On the Totals

Industrial classification

In principle, investment-specific classification (separate treatment for individual business departments of a company) is used for the amount of capital spending and investment motives, whereas principal business classification (based on the main business department of a company) is used for other survey items.

Timing of survey and years covered

The survey is conducted once a year. Each fiscal year is surveyed three times (until FY2005; see the note for the chart below) until the planned investments are materialized.

Targeted FY	2005	2006	2007	2008	2009
Timing of survey					
November 2005	Revised plan for current FY	Revised plan for next FY			
June 2006	Actual	Plan for current FY	Plan for next FY		
June 2007		Actual	Plan for current FY	Plan for next FY	
June 2008			Actual	Plan for current FY	Plan for next FY

Note: Until FY2005, the survey was conducted twice a year, in June and November.

Survey on Planned Capital Spending, by Region (large- and medium-sized firms)

Objectives

The objective of this survey is to identify trends in capital spending by region, regrouping the prefecture-specific data obtained from the annual Survey on Planned Capital Spending.

Scope of Capital Spending

In this survey, “capital spending” refers to domestic investment by a firm in its own tangible fixed assets (excluding investment in land for subdivision in the real estate industry). In general, it is calculated as the sum of newly formed tangible fixed assets, including the “construction in progress” account (on a construction basis, without subtracting resale value, depreciation, or loss).

Survey Methods

The survey was conducted by questionnaire (sent to individual firms, followed up by telephone interviews when necessary).

Target Firms

In general, this survey covers all private firms in Japan’s major industries capitalized at ¥100 million or more, excluding agriculture, forestry, finance, and insurance.

Date of Survey

June 20, 2008. Most of the responses to the questionnaire were obtained in June.

Advantages of DBJ’s Survey

The survey adopts the “principle of territoriality,” focusing on the location of investment. In comparison with questionnaire surveys that focus on the location of the firm, it allows the identification of trends in capital spending that more truly reflect the actual conditions of local economies.

Responses

The composition of respondents is as follows. The numbers of targeted firms and responding firms are the largest among similar surveys conducted in Japan on capital spending.

	No. of Firms	Proportion of Valid Responses
No. of Firms Targeted	13,571	–
No. of Valid Responses	7,325	54.0%
No. of Firms Providing Region-specific Data	6,164	45.4%

(Total number of firms providing region-specific data)

Hokkaido	671	Kansai	1,280
Tohoku	1,190	Chugoku	823
North Kanto and Koshin	950	Shikoku	453
Tokyo metropolitan area	1,874	Kyushu	1,037
Hokuriku	507	Okinawa	60
Tokai	1,041		

Note: The following regional classification is adopted for the purpose of this survey.

Region	Prefecture
Hokkaido:	Hokkaido
Tohoku:	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima, Niigata
North Kanto and Koshin:	Ibaraki, Tochigi, Gunma, Yamanashi, Nagano
Tokyo metropolitan area:	Saitama, Chiba, Tokyo, Kanagawa
Hokuriku:	Toyama, Ishikawa, Fukui
Tokai:	Gifu, Shizuoka, Aichi, Mie
Kansai:	Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama
Chugoku:	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi
Shikoku:	Tokushima, Kagawa, Ehime, Kochi
Kyushu:	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima
Okinawa:	Okinawa

III Survey Results

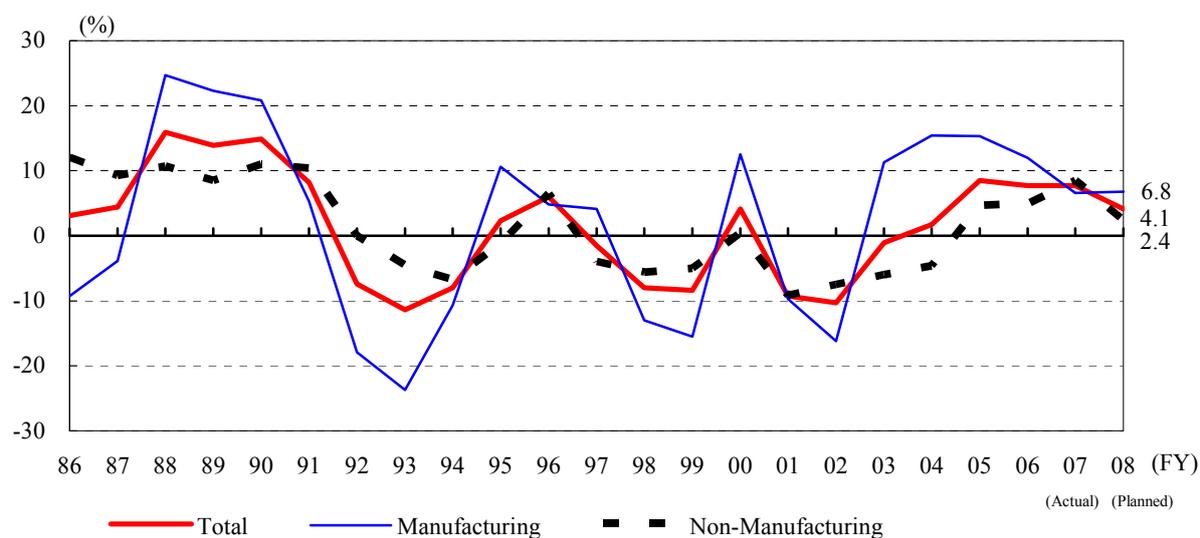
1. Overall Situation

Table 1. Capital Spending

	FY2007 Actual (2,214 firms)			FY2008 Planned (2,438 firms)			FY2009 Planned (1,140 firms)		
	FY2006 Actual	FY2007 Actual	Growth Rate (%) 2007/2006	FY2007 Actual	FY2008 Planned	Growth Rate (%) 2008/2007	FY2008 Planned	FY2009 Planned	Growth Rate (%) 2009/2008
Total	20,814.3	22,416.8	7.7	24,320.5	25,327.7	4.1	7,547.8	7,482.0	-0.9
Manufacturing	8,619.7	9,185.7	6.6	9,700.0	10,359.1	6.8	1,706.2	1,559.9	-8.6
Non-Manufacturing	12,194.7	13,231.1	8.5	14,620.5	14,968.6	2.4	5,841.6	5,922.1	1.4

Note: Monetary amounts are in billion yen.

Figure 1. Growth in Capital Spending



- Notes:
1. Data cover those firms which also responded concerning spending in the previous year.
 2. For data up to FY2006, see actual figures for August presented in appendix table 2 on page 17.

(1) Actual Capital Spending in FY2007

On an all-industry basis, actual capital spending in FY2007 increased for the fourth consecutive year (up 7.7%): the manufacturing sector recorded a fifth straight increase in spending, while investment in the non-manufacturing sector accelerated, registering positive growth for the third straight year.

In the manufacturing sector (up 6.6%), active capacity investment contributed substantially to the increase in spending, mainly for flat panel displays and semiconductors in electric machinery, for silicon wafers and metal refining in non-ferrous metals, for high-performance materials in chemicals, and for industrial machinery in general machinery.

In the non-manufacturing sector (up 8.5%), the growth was led by a substantial increase in investment in electric power, mainly for power source development and transmission/distribution facilities, in transportation, mainly for railroad safety measures and new line construction, and in real estate, mainly for redevelopment/rebuilding projects in the Tokyo metropolitan area and Osaka.

(2) Planned Capital Spending for FY2008

Planned capital spending by large-sized firms (capitalized at ¥1 billion or over) for FY2008 shows an overall increase for the fifth consecutive year (up 4.1%), as spending is expected to continue to rise in both the manufacturing and non-manufacturing sectors. The growth is slowing, however, amid mounting concerns about downside risks in the coming months.

In the manufacturing sector (up 6.8%), positive growth is expected overall despite declines in paper & pulp and electric machinery, with the completion of large-scale projects in the previous year. In particular, substantial growth is expected in automobiles, thanks largely to the construction of large plants for finished cars and investment in key components; in general machinery, with buoyant external demand for industrial machinery; and in chemicals, led by active investment in battery/LC components and high-performance materials.

In the non-manufacturing sector (up 2.4%), spending is also expected to increase overall, as the curtailment in transportation due to the com-

pletion of large-scale projects in the previous year will be more than offset by significant increases in electric power, with further increases in investment planned for power source development and transmission/distribution facilities, as well as in retail, led by investment in new branches and refurbishment of supermarkets and convenience stores.

As regards investment motives in the manufacturing sector, the share of “expansion of production capacity” is lower but still substantial, and the decrease is compensated for by increases in the shares of “maintenance and repair,” “research and development” and “rationalization and labor saving,” among others.

Although spending remains within cash flow, the latter will decline as ordinary profits are expected to show double-digit falls overall. Consequently, the ratio of capital spending to cash flow will rise for the fourth straight year.

(3) Highlights of This Survey (regarding Planned Capital Spending for FY2008)

According to the present survey, capital spending is now characterized by four developments:

1. expansion of capacity to capture global demand: general machinery, automobiles, electric machinery, precision machinery, other;
2. response to rising resource prices and energy conservation: iron & steel, automobiles, retail, chemicals;
3. reorganization and efficiency in existing markets: electric power, automobiles, food & beverages, chemicals (pharmaceuticals), retail, telecommunications; and
4. new businesses and next-generation products: solar cells, rechargeable batteries, flat panel displays.

In terms of corporate behavior, there remains a compelling need for investment, such as to cope with rising resource prices and to conserve energy, in spite of radical changes in the external environment. In individual industries, investment tends to concentrate on a handful of firms, while strategic investment across industries is also rising for new businesses and next-generation products.

(4) Planned Capital Spending for FY2009

Planned capital spending for FY2009 shows an overall decline of 0.9%: down 8.6% in manufacturing and up 1.4% in non-manufacturing. Much remains to be seen, however, as considerably fewer firms answered this question than those which provided information on planned spending for the current year.

2. Characteristics of Capital Spending, by Industry

Manufacturing

Food & Beverages

(4.2%→2.6%) 1.8%

Despite decreases in livestock processed food products, due to the completion of large investment projects, and in beer/spirits, spending is expected to continue to rise overall, led by other food products, mainly for construction of new plants designed to consolidate production facilities.

Pulp & Paper

(24.4%→-32.6%) 0.9%

Continued investment for rationalization to reduce production costs will not stop capital spending from declining substantially, largely due to the planned curtailment of capacity investment in enamel paper.

Chemicals

(9.5%→13.6%) 5.5%

A sixth straight increase in spending is planned. Active investment is expected in electronic components for batteries and LC components, and in industrial gas. Investment will also continue in high-performance chemicals including carbon fiber. Furthermore, spending to enhance R&D functions and plant consolidation is planned, particularly in pharmaceuticals.

Petroleum

(-20.2%→21.5%) 1.2%

Spending will rise as investment continues for transforming full-service stations into self-service stations, as well as for expanding capacity to produce petrochemical materials and introduce heavy-oil cracking equipment in oil refining.

Cement, Ceramics & Glass

(13.7%→10.8%) 1.3%

Spending is expected to increase for the sixth consecutive year. Active capacity expansion and consolidation are planned in glass for flat-panel display materials. Investment is also expected for mine development and safety measures in cement.

Iron & Steel

(7.8%→5.0%) 3.5%

The sixth consecutive year of increase is expected, as blast furnace repair projects in ordinary steel will be accompanied by rationalization investment to address higher material costs and spending on environmental conservation measures. Capacity investment in high-grade steel products will continue to rise. Increased spending is also planned in special steel and other iron & steel.

Non-Ferrous Metals

(36.1%→8.5%) 1.8%

Despite the termination of silicon wafer investment projects, the industry will experience the sixth consecutive increase in spending, led by metal refining and materials for electronic components.

General Machinery

(6.9%→17.8%) 4.5%

Spending is expected to increase for the sixth consecutive year, as investment will continue to increase substantially in industrial machinery, thanks to capacity expansion in response to buoyant external demand and large-scale investment projects for LC components. Increased investment is also planned in boilers/motors, metal working machinery and office equipment.

Electric Machinery

(8.3%→-4.1%) 7.9%

Spending will decline for the first time in six years despite resilience in electronic devices, electric equipment and other electronic components, as semiconductor-related investment will fall significantly due to the completion of large-scale projects.

Precision Machinery

(15.0%→1.0%) 0.8%

Spending is expected to increase on balance, as the downturn in medical equipment and semiconductor manufacturing equipment will be more than offset by the continued increase in digital cameras.

Automobiles

(1.0%→15.3%) 8.6%

Continued increase is expected, with the construction of large plants and consolidation of production facilities for finished cars in order to capture external demand, as well as active investment in key components and bodies mainly for environmental and safety purposes.

Non-Manufacturing

Wholesale & Retail

(5.8%→13.9%) 4.4%

Spending will continue to increase in the industry as a whole. In retail, reduced spending on department stores will be offset by a continued increase in supermarkets, convenience stores and specialized consumer electronics retailers, mainly for new outlets and refurbishment. Spending in wholesale is expected to rise largely due to the construction of logistics centers.

Real Estate

(29.3%→-21.7%) 5.3%

A downturn in spending is expected despite robust redevelopment/rebuilding projects in the Tokyo metropolitan area and Osaka. Some of the large-scale development projects have been completed in the Tokyo metropolitan area, and a decrease from last year's active trading in used assets should also be expected.

Transportation

(21.9%→-6.5%) 9.0%

Investment in the construction of airports in the Tokyo metropolitan area is gaining momentum. Spending on railways will remain level, with the continuation of large-scale projects including new line construction. Meanwhile, investment will decline in aircraft, logistics terminals and marine transport, due to the completion of large-scale projects. On balance, capital spending

is expected to fall for the industry as a whole.

Electric Power

(26.2%→19.2%) 10.4%

The double-digit increase in spending will continue, as investment in power source development and transmission/distribution facilities is expected to increase further, mainly in response to rising power demand and for the renovation of aging facilities.

Telecommunications & Information

(-4.8%→2.8%) 10.4%

Despite the completion of investment projects in mobile communications, capital investment is expected to increase for the industry as a whole, led by active investment in fixed-line communications induced by recent developments such as the commercialization of advanced communication networks.

Leasing

(-7.0%→4.4%) 15.7%

An increase in capital spending is planned, as investment for manufacturing customers is expected to rise. Spending on many types of equipment, including transport and information, will increase.

Services

(1.2%→6.3%) 1.4%

A third consecutive year of higher spending is expected, as the completion of investment projects in amusement facilities will be more than offset by increased spending on corporate services and other segments, as well as continued increased spending on hotels.

Notes: 1. The figures in parentheses () indicate changes in the rate of capital spending growth for each industry between FY2007 and FY2008.

2. The figure to the right for each industry indicates its share in total planned capital spending for FY2008.

3. Ratio of Capital Spending to Cash Flow

Table 2. Ratio of Capital Spending to Cash Flow

	Revenue Growth		Income (ordinary) Growth		Capital Spending/ Cash Flow Ratio		Capital Spending/ Depreciation Expenses Ratio	
	1,625 firms	1,742 firms	1,625 firms	1,742 firms	1,742 firms			
	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned
Total	5.9	3.6	-3.0	-11.7	82.5	87.5	133.1	132.2
Manufacturing	7.5	3.8	0.5	-18.5	71.7	77.3	135.7	126.1
Non-Manufacturing	4.0	3.4	-8.1	-1.2	92.8	97.3	131.2	137.3

Notes: 1. Capital Spending / Cash Flow = [capital spending / (ordinary profit / 2 + depreciation expenses)] × 100.
2. Figures are given as percentages.

Figure 2. Trends in Ratio of Capital Spending to Cash Flow

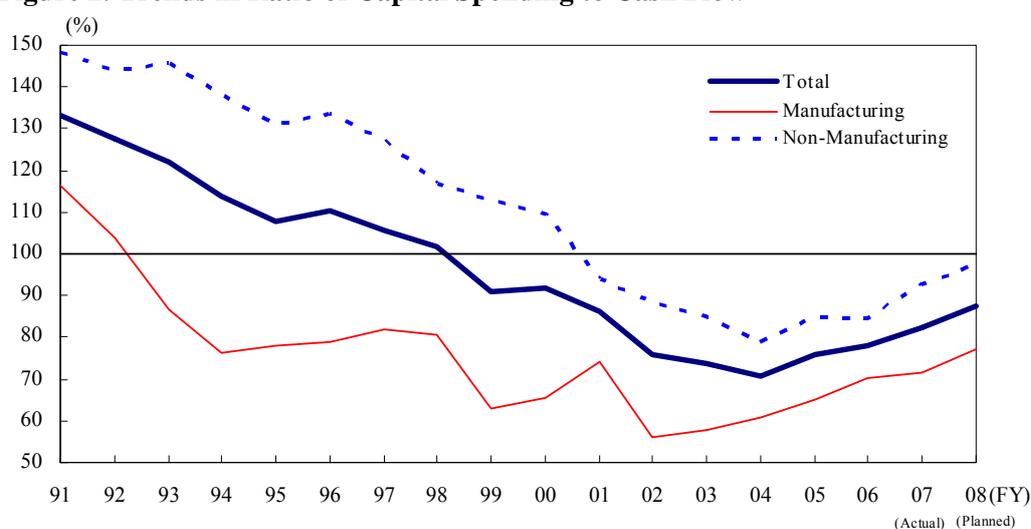
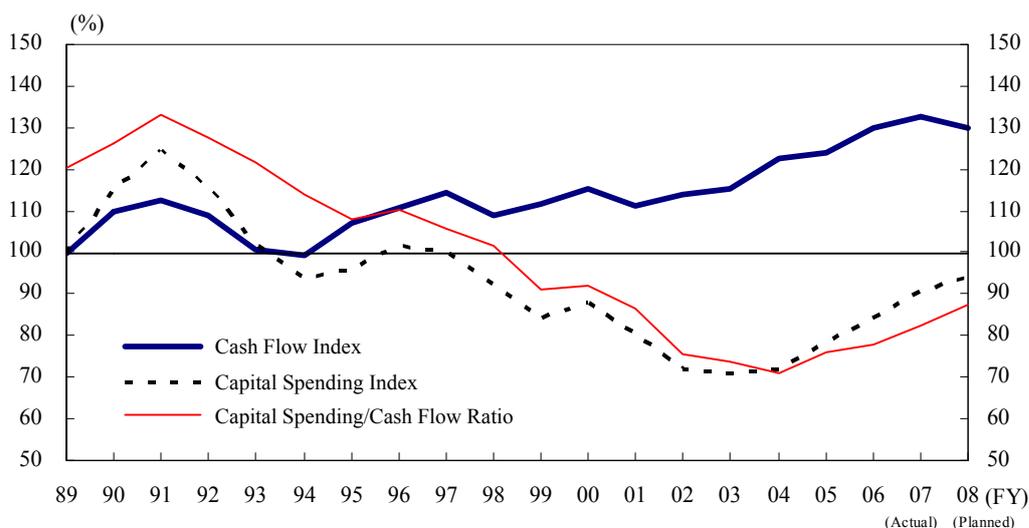


Figure 3. Levels of Capital Spending and Cash Flow (1989=100) (Overall Industry)



4. Investment Motives

Table 3. Investment Motives

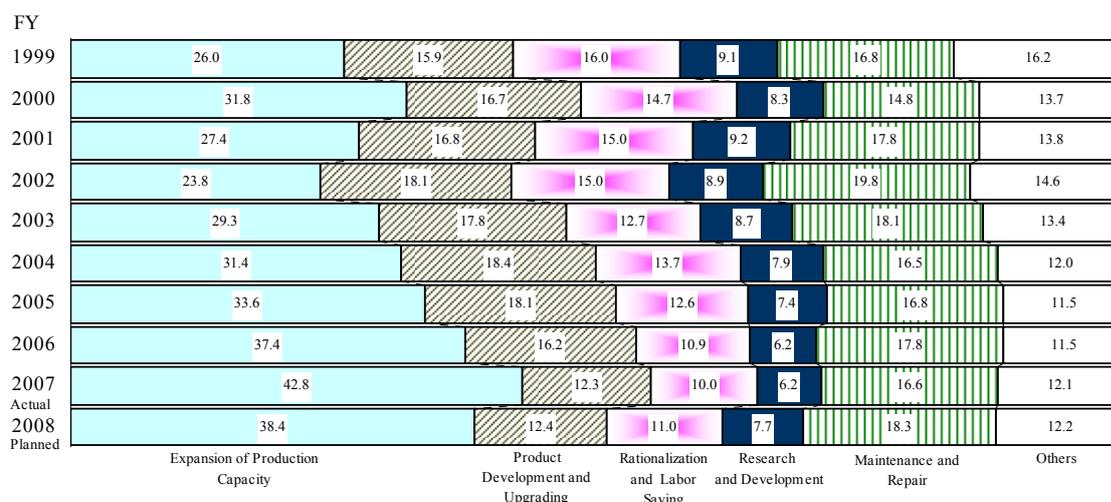
(1,822 firms)

	Total		Manufacturing		Materials		Processing & Assembly		Non-Manufacturing	
	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned	FY2007 Actual	FY2008 Planned
Expansion of Production Capacity	49.0	44.3	42.8	38.4	43.0	34.9	42.5	40.8	54.0	49.2
Product Development and Upgrading	7.0	7.6	12.3	12.4	3.5	5.1	20.4	19.0	2.7	3.6
Rationalization and Labor Saving	6.4	7.1	10.0	11.0	12.5	13.8	8.2	9.0	3.5	3.7
Research and Development	3.3	4.0	6.2	7.7	3.4	5.0	8.7	10.3	1.0	1.0
Maintenance and Repair	21.5	24.3	16.6	18.3	22.1	23.9	11.4	12.6	25.4	29.3
Others	12.8	12.8	12.1	12.2	15.5	17.2	8.9	8.3	13.3	13.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

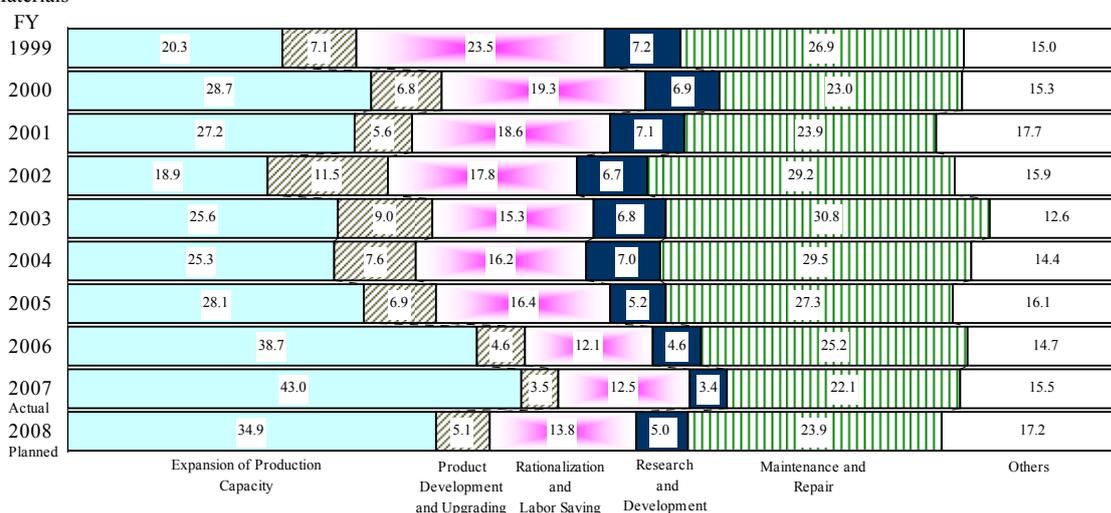
- Notes: 1. Materials: Textiles; Pulp & Paper; Chemicals; Cement, Ceramics & Glass; Iron & Steel; Non-Ferrous Metals.
Processing & Assembly: Food & Beverages; General Machinery; Electric Machinery; Precision Machinery;
Transport Equipment; Other Manufacturing.
2. Figures are given as percentages.

Figure 4. Long-term Trend of Investment Motives

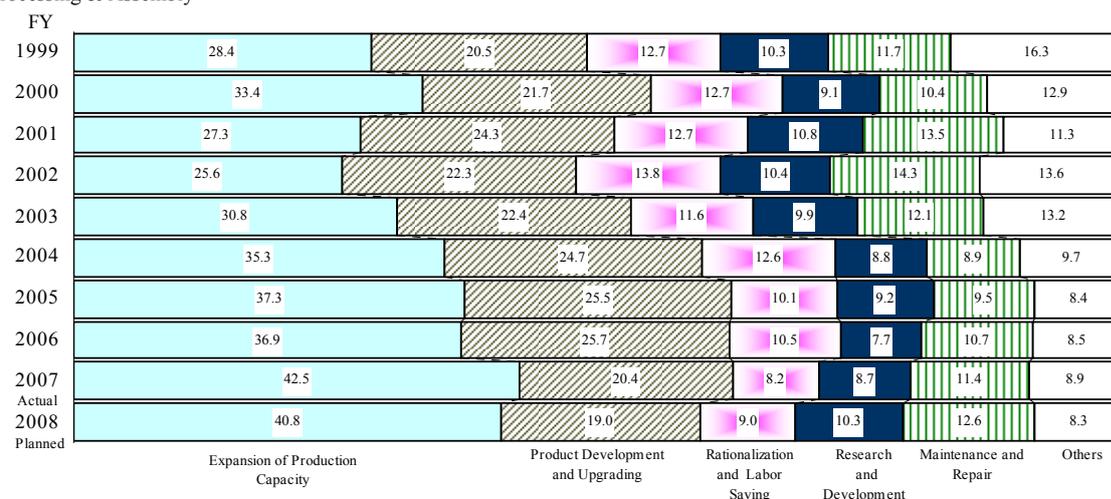
Manufacturing



Materials



Processing & Assembly



Note: Figures are given as percentages.

5. Capital Spending Overseas

Table 4. Capital Spending Overseas (by Region)

(1,359 firms)

	FY2007 Actual		FY2008 Planned		Growth Rate (%)
	Amount	Share (%)	Amount	Share (%)	2008/2007
Manufacturing	2,579.0	73.9	2,706.1	76.0	4.9
Non-Manufacturing	909.4	26.1	855.6	24.0	-5.9
Total	3,488.4	100.0	3,561.7	100.0	2.1
North America	1,095.2	31.4	1,035.1	29.1	-5.5
Europe	524.9	15.0	499.1	14.0	-4.9
Asia	1,309.9	37.6	1,392.4	39.1	6.3
<i>of which: China</i>	<i>331.3</i>	<i>9.5</i>	<i>370.3</i>	<i>10.4</i>	<i>11.8</i>
Others	558.4	16.0	635.1	17.8	13.7

- Notes:
1. Capital spending overseas includes capital spending on a consolidated basis of firms adopting consolidated accounting and capital spending of overseas subsidiaries owned 50% or more by firms that do not adopt consolidated accounting.
 2. "Others" includes all corporate capital spending overseas for which geographical location is unknown. "Asia excluding China" includes corporate capital spending in Asia for which precise geographical location ("China" or "other Asia") is unknown.
 3. Monetary amounts are in billion yen.

6. Research & Development Expenditure

Table 5. Overview of R&D Expenditure

	FY2007 Actual (1,381 firms)			FY2008 Planned (1,553 firms)		
	FY2006 Actual	FY2007 Actual	Growth Rate (%) 2007/2006	FY2007 Actual	FY2008 Planned	Growth Rate (%) 2008/2007
Total	7,260.3	7,811.9	7.6	5,863.0	6,112.1	4.2
Manufacturing	6,883.4	7,408.6	7.6	5,634.9	5,870.1	4.2
<i>Transport Equipment</i>	<i>2,455.0</i>	<i>2,634.5</i>	<i>7.3</i>	<i>2,309.1</i>	<i>2,348.7</i>	<i>1.7</i>
<i>Electric Machinery</i>	<i>2,085.4</i>	<i>2,152.6</i>	<i>3.2</i>	<i>1,116.5</i>	<i>1,146.6</i>	<i>2.7</i>
<i>Chemicals</i>	<i>869.6</i>	<i>1,014.5</i>	<i>16.7</i>	<i>863.0</i>	<i>952.4</i>	<i>10.3</i>
Non-Manufacturing	376.9	403.3	7.0	228.1	241.9	6.1
<i>Electric Power & City Gas</i>	<i>105.2</i>	<i>109.0</i>	<i>3.7</i>	<i>75.3</i>	<i>82.3</i>	<i>9.2</i>
<i>Telecom. & Information</i>	<i>158.9</i>	<i>174.0</i>	<i>9.5</i>	<i>47.4</i>	<i>51.1</i>	<i>7.8</i>

Note: Monetary amounts are in billion yen.

IV Survey on Planned Capital Spending, by Region (large- and medium-sized firms)

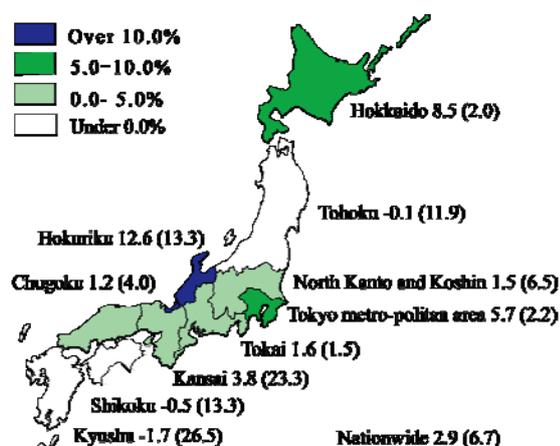
By region, planned capital spending for FY2008 (according to region-specific data provided by 6,164 of the 7,325 firms responding to the survey) shows a downturn for Kyushu (down 1.7%), due to decreased investment in manufacturing, as well as a very slight decline for Tohoku (down 0.1%) and Shikoku (down 0.5%). Meanwhile, spending will increase in four regions – Hokkaido, North Kanto and Koshin, Hokuriku and Chugoku – led by non-manufacturing, and in two regions – Tokai and Kansai – led by manufacturing. Spending will increase in both sectors in the Tokyo metropolitan area. Nationwide, capital spending is expected to increase by 2.9%.

Manufacturing (6.1%)

- In the manufacturing sector, capital spending will decrease in six regions – Hokkaido, Tohoku, North Kanto and Koshin, Hokuriku, Chugoku, and Kyushu – and increase in four regions – the Tokyo metropolitan area, Tokai, Kansai, and Shikoku. Nationwide, capital spending is expected to increase for the sixth consecutive year (up 6.1%).

Figure 5. Change in Capital Spending, by Region, FY2008/FY2007

Difference from 2007/2006 in parentheses ()



- Major contributors to the spending increase (nationwide) in the manufacturing sector include transport equipment (contribution of 1.3% [nationwide]), general machinery (0.7%) and chemicals (0.6%).

Non-Manufacturing (0.8%)

- In the non-manufacturing sector, capital spending will decrease in three regions – Tokai, Kansai, and Shikoku – and increase in seven regions – Hokkaido, Tohoku, North Kanto and Koshin, the Tokyo metropolitan area, Hokuriku, Chugoku, and Kyushu. Nationwide, capital spending will slightly increase for the fourth consecutive year (up 0.8%).
- Major contributors to the spending increase (nationwide) in the non-manufacturing sector include electric power (contribution of 1.6% [nationwide]), leasing (0.6%) and wholesale & retail (0.5%).

Table 6. Change in Capital Spending, by Region, FY 2008

	Total	Manufacturing	Non-Manufacturing
Hokkaido	8.5	-8.2	16.3
Tohoku	-0.1	-25.4	17.7
North Kanto and Koshin	1.5	-2.1	8.3
Tokyo metro-politan area	5.7	25.8	2.0
Hokuriku	12.6	-3.6	28.1
Tokai	1.6	2.3	-0.5
Kansai	3.8	30.1	-11.5
Chugoku	1.2	-0.7	4.6
Shikoku	-0.5	2.3	-4.6
Kyushu	-1.7	-8.2	5.6
Nationwide	2.9	6.1	0.8

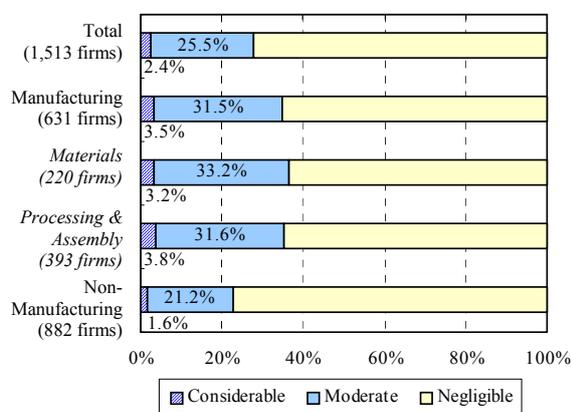
Note: Figures are given as percentages.

V Opinion Poll on Corporate Behavior

1. Impact of Subprime-Related Events

With regard to subprime-related events, about 28% of the firms responded that they had “considerable” or “moderate” impact on their ordinary profits for FY2007, and about 14% of the firms replied that they had “considerable” or “moderate” impact on their domestic capital spending for FY2008.

Figure 6. Impact on Ordinary Profits for FY2007



2. Profit Outlook for FY2008

As regards potential revision to planned ordinary profits for FY2008, 43% of the firms envisage “no revision,” while more firms expect a “downward” revision (30.6%) than an “upward” revision (5.2%).

“Raw material prices” was the most significant factor affecting the revision to ordinary profits for FY2008.

The firms expecting a “downward” revision to profits cited “raw material prices,” “domestic demand” and “competition within industry” as major factors, while those considering the possi-

Figure 7. Impact on Domestic Capital Spending for FY2008

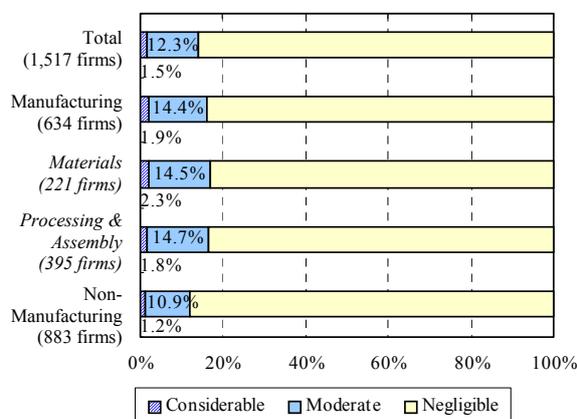
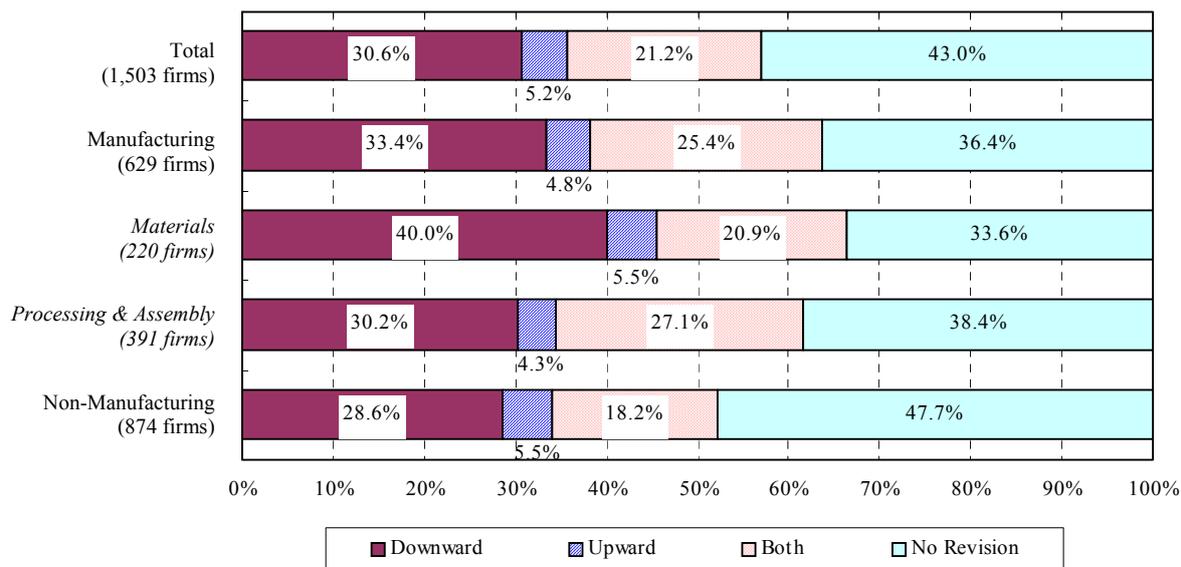


Figure 8. Potential Revision to Planned Ordinary Profits for FY2008



bility of revision in “both” directions referred to “fluctuating exchange rates” as a fourth factor. On the other hand, the firms envisaging an “upward” revision cited “demand in emerging/resource-rich countries” and “technological innovation (new products and services)” as factors affecting the revision to ordinary profits, in addition to “domestic demand” and “raw material prices.”

3. Lending Attitude of Financial Institutions

Against the backdrop of rising concerns about the credit crunch among Western financial institutions, some 90% of large- and medium-sized Japanese firms feel that the lending attitude of financial institutions is “changing little.” How-

ever, 5% of the large-sized firms and almost 10% of the medium-sized firms responded that lending attitudes were “tightening.” Looking ahead, lending attitudes are likely to tighten further, although most of the firms say that it “will change little.”

4. Trends in M&A

As regards future M&A activity, more firms expect that it will become “inactive” in 2008, as compared with the results of the survey in 2007. Meanwhile, the combined share of “active in future” and “more active in future” has declined from 41% to 32% in total, suggesting that activity in the M&A market overall will cool.

Table 7. Potential Revision to Planned Ordinary Profits for FY2008 and Major Factors

2,020 firms		Factors affecting revision to profits												Total
		Raw material prices	Labor cost	Fluctuating exchange rates	Financial environment	Domestic demand	Demand in North America	Demand in West Europe	Demand in emerging/resource-rich countries	Technological innovation	Competition within industry	Legal, tax, accounting, etc.	Other	
Potential revision to profits	Upward 140 firms	0.9% (13.6)	0.4% (5.0)	0.4% (5.0)	0.4% (5.0)	1.6% (23.6)	0.2% (2.9)	0.1% (2.1)	0.7% (10.7)	0.5% (7.9)	0.3% (5.0)	0.2% (2.1)	1.2% (17.1)	6.9% (100.0)
	Both 790 firms	11.4% (29.1)	1.4% (3.5)	6.0% (15.3)	1.7% (4.4)	8.7% (22.2)	1.5% (3.8)	0.1% (0.3)	0.9% (2.4)	0.6% (1.7)	4.9% (12.5)	1.1% (2.8)	0.8% (2.0)	39.1% (100.0)
	Downward 1,090 firms	17.8% (33.0)	2.2% (4.0)	4.1% (7.6)	2.7% (5.0)	13.5% (25.1)	2.3% (4.2)	0.3% (0.5)	0.7% (1.3)	0.5% (0.9)	6.8% (12.6)	2.3% (4.2)	0.8% (1.6)	54.0% (100.0)
	Total	30.1%	3.9%	10.4%	4.8%	23.8%	4.0%	0.5%	2.4%	1.7%	12.1%	3.5%	2.8%	100.0%

Note: Figures indicate percentages of the firms that responded to both questions on subprime-related impact. Figures in parentheses () indicate shares in each category – “upward,” “both” or “downward.” Respondents could choose up to three factors affecting revision to profits.

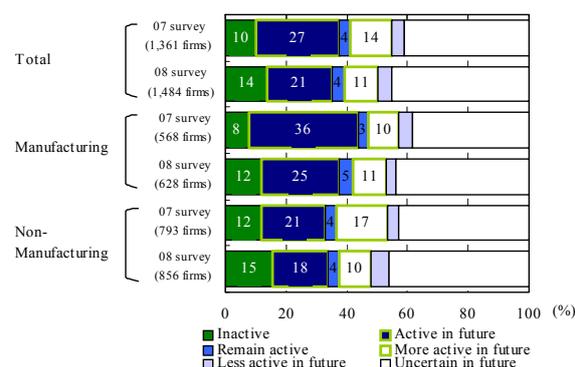
Table 8. Current Perception and Prospects (toward end of 2008 FY)

Cross-tabulation for large- and medium-sized firms

Current \ Prospects	Prospects			Total
	Will tighten	Will change little	Will loosen	
Tightening	6.9 (86.2)	1.0 (13.0)	0.1 (0.8)	8.0 (100)
Changing little	7.9 (8.8)	81.9 (90.9)	0.3 (0.3)	90.0 (100)
Loosening	0.1 (3.3)	1.3 (64.4)	0.6 (32.2)	2.0 (100)
Total	14.9	84.2	1.0	100

- Notes: 1. Figures indicate shares in the total number of firms (4,602) that responded to both questions regarding current perception and prospects. Figures in parentheses () indicate shares in the total for each current perception item.
2. Figures are given as percentages.

Figure 9. Prospects for Future M&A Activity



Appendix

Appendix Table 1. Capital Spending, by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	2,438 firms		1,140 firms		2007/2006	2008/2007	2009/2008	2,438 firms	
	FY2007 Actual	FY2008 Planned	FY2008 Planned	FY2009 Planned				FY2007 Actual	FY2008 Planned
Total	24,320.5	25,327.7	7,547.8	7,482.0	7.7	4.1	-0.9	100.0	100.0
Manufacturing	9,700.0	10,359.1	1,706.2	1,559.9	6.6	6.8	-8.6	39.9	40.9
Food & Beverages	434.6	445.8	66.8	66.7	4.2	2.6	-0.2	1.8	1.8
Textiles	85.5	84.8	14.1	13.2	63.1	-0.8	-6.4	0.4	0.3
Pulp & Paper	355.0	239.2	23.2	24.0	24.4	-32.6	3.6	1.5	0.9
Chemicals	1,215.7	1,380.6	345.7	300.9	9.5	13.6	-12.9	5.0	5.5
Petroleum	252.1	306.2	50.1	54.1	-20.2	21.5	7.8	1.0	1.2
Cement, Ceramics & Glass	297.9	329.9	29.6	29.9	13.7	10.8	1.0	1.2	1.3
Iron & Steel	853.6	895.9	180.2	147.1	7.8	5.0	-18.3	3.5	3.5
Non-Ferrous Metals	418.7	454.3	201.5	200.4	36.1	8.5	-0.5	1.7	1.8
General Machinery	970.8	1,143.3	162.8	145.6	6.9	17.8	-10.6	4.0	4.5
Electric Machinery	2,095.2	2,010.4	122.4	115.2	8.3	-4.1	-5.9	8.6	7.9
<i>Electric Devices, etc.</i>	1,553.2	1,372.8	63.4	62.4	8.3	-11.6	-1.5	6.4	5.4
Precision Machinery	200.0	202.0	26.9	24.3	15.0	1.0	-9.8	0.8	0.8
Transport Equipment	2,020.2	2,356.9	356.6	302.7	1.4	16.7	-15.1	8.3	9.3
<i>Automobiles</i>	1,882.6	2,171.1	302.1	266.8	1.0	15.3	-11.7	7.7	8.6
Other Manufacturing	500.8	509.7	126.4	135.8	-8.0	1.8	7.4	2.1	2.0
Non-Manufacturing	14,620.5	14,968.6	5,841.6	5,922.1	8.5	2.4	1.4	60.1	59.1
Construction	222.9	261.2	45.8	37.1	7.3	17.2	-19.1	0.9	1.0
Wholesale & Retail	982.7	1,119.1	321.8	330.1	5.8	13.9	2.6	4.0	4.4
<i>Retail</i>	857.4	949.6	252.1	236.1	7.9	10.7	-6.4	3.5	3.7
Real Estate	1,705.1	1,334.9	626.9	628.6	29.3	-21.7	0.3	7.0	5.3
Transportation	2,439.5	2,280.3	721.8	677.1	21.9	-6.5	-6.2	10.0	9.0
Electric Power & City Gas	2,486.1	2,939.4	2,579.9	2,718.9	23.0	18.2	5.4	10.2	11.6
<i>Electric Power</i>	2,214.1	2,638.8	2,342.1	2,487.8	26.2	19.2	6.2	9.1	10.4
<i>City Gas</i>	272.0	300.7	237.8	231.2	1.7	10.5	-2.8	1.1	1.2
Telecom. & Information	2,554.7	2,626.8	232.1	211.5	-4.8	2.8	-8.9	10.5	10.4
Leasing	3,809.6	3,979.0	1,172.7	1,209.1	-7.0	4.4	3.1	15.7	15.7
Services	334.8	355.8	130.1	100.0	1.2	6.3	-23.2	1.4	1.4
Other Non-Manufacturing	85.0	72.2	10.4	9.7	13.4	-15.1	-7.3	0.3	0.3

Notes: 1. "Other Manufacturing" includes publishing & printing, rubber, metal products, and others.

"Other Non-Manufacturing" includes fishing, mining and others.

2. Monetary amounts are in billion yen.

Appendix Table 2. Long-term Trend of Capital Spending, by Timing of Survey

FY	Total					Manufacturing					Non-Manufacturing				
	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual
1973	2.1	14.8	25.9	20.6	18.6	-6.8	14.7	33.4	26.2	25.7	8.9	14.9	18.3	15.0	11.5
1974	0.6	18.3	23.4	15.3	12.0	-6.9	27.4	35.1	26.6	22.9	7.0	9.7	10.3	2.7	-0.3
1975	21.6	9.7	5.5	-4.9	-10.3	12.9	3.8	0.3	-10.0	-16.1	30.4	17.5	12.9	2.2	-2.3
1976	14.0	9.9	16.3	12.2	5.9	8.5	-2.1	6.4	1.9	-3.5	19.1	24.5	27.7	24.0	16.4
1977	-1.5	2.1	5.7	0.8	-3.4	-11.1	-6.9	-3.1	-8.2	-11.2	7.0	10.7	14.1	9.5	4.0
1978	10.3	7.3	15.1	15.2	10.1	-0.9	-6.9	0.0	-2.2	-4.4	17.6	19.3	27.5	28.6	21.8
1979	-2.6	0.3	13.0	12.8	9.3	-6.1	4.5	19.1	21.9	18.9	-1.0	-2.2	9.1	7.0	3.3
1980	0.7	13.1	23.5	23.9	20.6	-16.0	5.2	23.3	25.8	24.8	7.8	18.8	23.7	22.6	17.5
1981	5.8	9.9	12.3	12.0	8.8	-8.2	6.7	14.5	13.0	10.4	13.2	12.4	10.5	11.1	7.5
1982	10.0	11.2	10.2	8.4	2.8	-1.8	7.2	10.3	6.6	3.8	16.3	14.5	10.1	9.9	2.0
1983	5.5	1.8	1.8	2.7	-2.1	-6.7	-5.3	-1.5	-2.6	-8.6	13.3	7.9	4.6	7.2	3.4
1984	0.7	2.6	10.5	11.3	7.6	-10.2	2.7	17.1	20.3	17.1	7.1	2.6	5.6	4.2	0.2
1985	-2.6	5.3	10.6	9.2	7.6	-9.6	5.1	12.6	9.7	8.6	0.9	5.6	9.1	8.8	6.9
1986	0.2	1.6	5.4	3.1	3.1	-9.1	-4.1	-3.6	-7.1	-9.3	5.0	5.7	12.0	10.3	12.1
1987	-0.7	0.1	3.5	6.0	4.4	-10.6	-5.6	-2.2	-0.2	-3.9	2.1	4.0	7.0	9.7	9.3
1988	-2.6	6.7	15.7	18.8	15.9	-7.1	9.3	25.3	27.5	24.7	-1.4	5.2	10.8	13.0	10.7
1989	-0.7	6.4	17.5	17.4	13.9	-4.0	9.4	26.3	26.7	22.3	0.9	4.4	11.8	11.5	8.5
1990	-1.8	8.6	17.0	16.2	14.9	-7.9	10.1	23.6	22.8	20.8	1.4	7.6	12.5	11.9	11.0
1991	0.6	4.4	10.7	8.9	8.2	-7.1	1.7	7.9	5.2	5.3	3.7	6.1	12.8	11.5	10.4
1992	0.3	-0.8	-0.9	-4.7	-7.4	-2.8	-6.4	-10.5	-15.5	-17.9	1.4	3.2	6.0	2.7	-0.0
1993	-1.5	-5.6	-4.6	-8.4	-11.4	-11.9	-12.9	-13.1	-19.0	-23.7	2.0	-1.6	0.3	-2.3	-4.5
1994	-3.3	-5.6	-2.4	-4.7	-8.0	-14.7	-9.0	-4.0	-7.1	-10.7	-0.1	-4.0	-1.6	-3.7	-6.8
1995	-1.4	0.3	6.1	5.7	2.3	-4.3	3.8	13.5	13.9	10.6	-0.7	-1.3	3.0	2.4	-1.2
1996	-3.1	0.7	9.1	8.5	6.0	-13.6	-0.6	8.8	7.0	4.8	-1.2	1.3	9.2	9.2	6.5
1997	-7.5	-1.3	4.5	2.8	-1.5	-11.1	-1.0	8.9	7.5	4.1	-6.8	-1.5	2.5	0.7	-4.0
1998	-7.5	-4.0	-1.8	-3.5	-8.0	-11.7	-6.7	-4.7	-8.5	-13.0	-6.8	-2.7	-0.3	-1.1	-5.6
1999	-4.6	-5.3	-3.7	-3.4	-8.4	-13.6	-10.1	-10.1	-11.8	-15.5	-3.1	-3.2	-0.7	0.8	-5.0
2000	-5.0	0.2	7.6	7.8	4.1	-10.9	0.3	15.2	18.0	12.5	-4.0	0.2	4.4	3.2	0.4
2001	-8.6	-5.2	0.6	-6.6	-9.3	-3.5	-0.7	6.2	-7.0	-9.7	-9.6	-7.4	-2.0	-6.3	-9.2
2002	1.4	-2.7	-0.6	-3.8	-10.3	-9.2	-8.2	-5.6	-11.4	-16.2	3.4	0.0	1.7	-0.2	-7.5
2003	-5.1	-3.0	4.9	—	-1.1	-3.9	1.1	16.2	—	11.3	-5.3	-4.8	0.2	—	-6.0
2004	-6.1	—	6.9	8.3	1.7	-11.0	—	18.8	22.3	15.4	-5.1	—	1.3	1.9	-4.6
2005	-7.6	-3.8	11.6	15.0	8.5	-7.9	3.8	19.8	22.7	15.3	-7.5	-6.3	6.9	10.6	4.7
2006	-1.0	-0.3	12.9	—	7.7	1.9	1.7	21.8	—	12.0	-2.1	-1.0	7.4	—	4.9
2007	-1.4	—	11.0	—	7.7	-4.3	—	13.5	—	6.6	-0.1	—	9.2	—	8.5
2008	-8.8	—	4.1	—	—	-19.4	—	6.8	—	—	-4.6	—	2.4	—	—
2009	-0.9	—	—	—	—	-8.6	—	—	—	—	1.4	—	—	—	—

- Notes:
1. Shaded figures represent results of the present survey.
 2. As of June 2004, the survey months changed from August and February to June and November, respectively. Therefore:
“Aug. of Previous Yr. Planned” should be read as “Jun. of Previous Yr. Planned”;
“Feb. of Current Yr. Planned” should be read as “Nov. of Previous Yr. Planned”;
“Aug. of Current Yr. Planned” should be read as “Jun. of Current Yr. Planned”;
“Feb. of Following Yr. Estimated Actual” should be read as “Nov. of Current Year Planned”; and
“Aug. of Following Yr. Actual” should be read as “Jun. of Following Yr. Actual.”
 3. In FY2006, the frequency of the survey was changed to once a year.
 4. Figures are given as percentages.

Appendix Table 3. Trend of Ratio of Capital Spending to Cash Flow

FY	Projected Ratio for Current Fiscal Year				Actual Ratio in Previous Fiscal Year			
	Survey Month	Total	Manu- facturing	Non- Manufacturing	Survey Month	Total	Manu- facturing	Non- Manufacturing
1991	8/1991	129.3	104.2	150.1	8/1992	133.0	116.3	148.4
1992	8/1992	128.0	102.8	150.4	8/1993	127.4	103.8	143.8
1993	8/1993	114.1	90.0	129.2	8/1994	121.8	86.8	145.6
1994	8/1994	116.4	80.7	141.2	8/1995	113.8	76.3	138.1
1995	8/1995	113.9	79.8	136.6	8/1996	107.9	78.2	131.0
1996	8/1996	112.2	80.1	137.6	8/1997	110.5	78.7	133.6
1997	8/1997	107.7	79.9	128.0	8/1998	105.6	81.8	127.2
1998	8/1998	103.0	77.4	126.4	8/1999	101.8	80.6	116.6
1999	8/1999	90.4	60.3	114.3	8/2000	91.0	63.1	113.1
2000	8/2000	92.3	64.5	115.5	8/2001	91.8	65.7	109.5
2001	8/2001	88.6	71.2	99.8	8/2002	86.4	74.0	94.1
2002	8/2002	85.0	64.4	98.9	8/2003	75.7	56.2	88.5
2003	8/2003	79.6	63.5	90.4	6/2004	73.9	57.8	85.1
2004	6/2004	76.4	66.9	83.2	6/2005	70.8	60.7	78.8
2005	6/2005	78.5	71.5	84.3	6/2006	76.0	65.2	85.1
2006	6/2006	85.5	77.6	92.5	6/2007	78.0	70.2	84.3
2007	6/2007	84.7	74.2	93.6	6/2008	82.5	71.7	92.8
2008	6/2008	87.5	77.3	97.3				

- Notes:
1. Shaded figures represent results of the present survey.
 2. Capital Spending / Cash Flow = [capital spending / (ordinary profit / 2 + depreciation expenses)] × 100.
 3. Figures are given as percentages.

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- No. 63 Survey on Planned Capital Spending for Fiscal Years 2007, 2008 and 2009 (Conducted in June 2008) (this issue)
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