

DBJ Capital Spending Survey for FY2008



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

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.

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.

DBJ Capital Spending Survey

This annual survey (mailed questionnaire) has been conducted since 1956 to assess major trends in domestic capital spending of the Japanese private sector. It is known as one of the most reliable surveys in this field, with very broad coverage and deep analyses. Until FY2005, the survey was conducted twice a year, in June and November.

Survey method: Questionnaire

Date of survey: June 20, 2008

Survey on planned capital spending (large-sized firms)

Target firms: 3,470 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 70.3% (2,438 firms)

Survey on planned capital spending by region (large- and medium-sized firms)

Target firms: 13,571 private firms in Japan's major industries capitalized at ¥100 million or more

Proportion of valid responses: 45.4% (6,164 firms)

Executive 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 subprime-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 cell, rechargeable battery, flat panel display.

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.

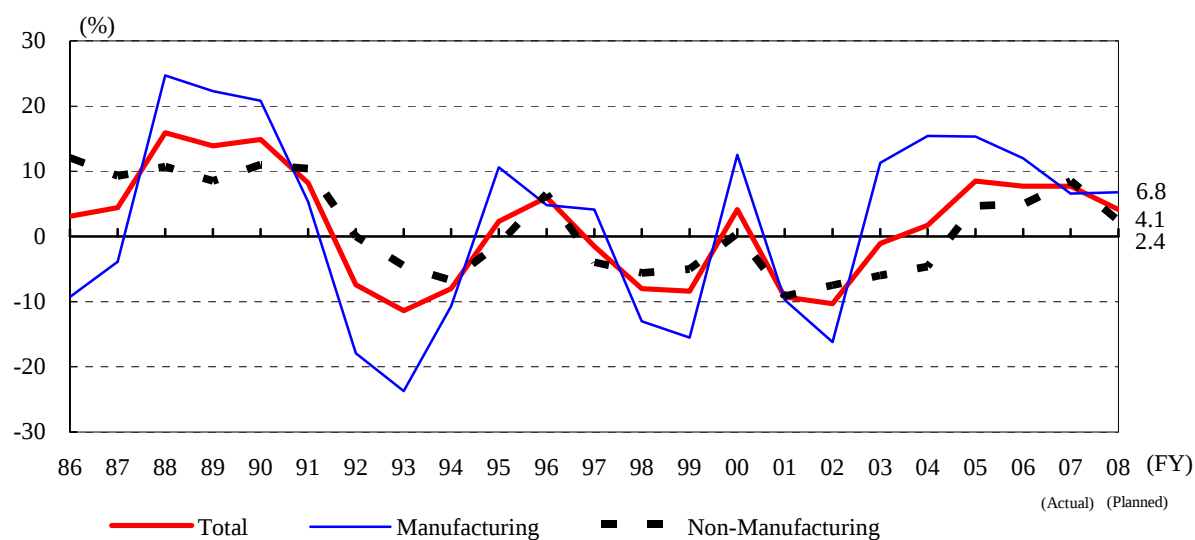
5. Planned capital spending of large- and medium-sized firms (capitalized at ¥100 million or over) for FY2008 will increase 2.9% nationwide, with seven regions expecting positive growth despite downturns elsewhere.

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.

Growth in Capital Spending



Note: Data cover those firms which also responded concerning spending in the previous year.

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
Electric Devices, etc.	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
Automobiles	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
Retail	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
Electric Power	2,214.1	2,638.8	2,342.1	2,487.8	26.2	19.2	6.2	9.1	10.4
City Gas	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 and printing, rubber, metal products and others.
Other Non-Manufacturing includes fishing, mining and others.
2. Monetary amounts are in billion yen.

All inquiries should be directed to
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