DBJ Capital Spending Survey for FY2009

Reduced Spending for Second Consecutive Year Mainly in Manufacturing Sector

— *Focus on Infrastructure and Strategic Investment while Cutting Spending on Capacity* —

Spending to Decline in 9 of the 10 Regions (except Tohoku)

Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) for FY2009 shows a second consecutive year of decline overall (down 9.2%), with the first 20% drop since FY1993 in manufacturing and a slight drop in non-manufacturing.

Planned capital spending of large- and medium-sized firms (capitalized at ¥100 million or over) for FY2009 will fall for a second straight year nationwide (down 10.6%), with nine of the ten regions (except Tohoku) expecting negative growth.

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.

Survey method: Questionnaire
Date of survey: June 22, 2009

Survey on planned capital spending (large-sized firms)
Target firms: 3,402 private firms in Japan’s major industries capitalized at ¥1 billion or more
Proportion of valid responses: 69.5% (2,366 firms)

Survey on planned capital spending by region (large- and medium-sized firms)
Target firms: 13,089 private firms in Japan’s major industries capitalized at ¥100 million or more
Proportion of valid responses: 46.6% (6,093 firms)

Executive Summary

1. Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) for FY2009 shows a second consecutive year of decline overall (down 9.2%), with the first 20% drop since FY1993 in manufacturing and a slight drop in non-manufacturing.

2. In the manufacturing sector (down 20.7%), spending is expected to decline substantially in many industries including automobiles and electric machinery, where capacity expansion will be curtailed in response to the rapid contraction of demand both in Japan and overseas. In the non-manufacturing sector (down 0.1%), spending will fall slightly overall: although spending will increase in electric power, mainly for developing power source and transmission/distribution facilities, as well as in transportation, primarily for safety measures in railways and procurement of fuel-efficient aircraft in airlines, this will be more than offset by declines in other industries. Investment in real estate will fall further, and spending is expected to drop in telecommunications & information, where investment for third-generation cellular phones in the mobile communication sector will decrease.

Regarding investment motives in the manufacturing sector, the share of “expansion of production capacity” is sharply lower, while the shares of other motives are higher. In particular, “product development and upgrading” and “maintenance and repair” are more important not only in terms of share but also in terms of absolute investment amount.

3. According to the present survey, capital spending is now characterized by three developments:
(1) cutback on investment: electric machinery, automobiles, real estate, other;
(2) continued investment in infrastructure: electric power, transportation, telecommunications & information; and
(3) focus on profitable/growth areas, geographical selection: product development and upgrading of electric machinery (rechargeable batteries) and automobiles (eco-cars), as well as concentrated investment in urban areas in real estate and retail.

As demand rapidly shrinks, plans to expand production capacity are being postponed, frozen or otherwise cut back, particularly in the manufacturing sector. Meanwhile, infrastructure investment continues in order to meet safety requirements and upgrade services. There is also much interest in strategic investment in areas where profit or growth is promising.

4. Ancillary surveys yielded the following results.
(1) Regarding the impact of the financial crisis on the real economy, more than 50% of the firms responded that their sales would not return to the pre-crisis peak level until FY2011 or would never recover. Over 30% of the firms replied that their ordinary profits were exposed to downside risks. A majority of firms have revised downwards their medium-term capital spending plans.
(2) Areas with medium- to long-term potential are mainly related to energy conservation/global warming (photovoltaic generation, eco-cars), welfare, information contents, pollution control and biotechnology.
(3) Capital spending overseas is expected to decline almost 40% in industries such as automobiles and electric machinery. By region, investment in North America will be halved while spending in Europe and Asia will experience substantial declines.
(4) Research and development expenditure continues to fall. An expected increase in chemicals will be more than offset by cutbacks in automobiles and electric machinery, among others.

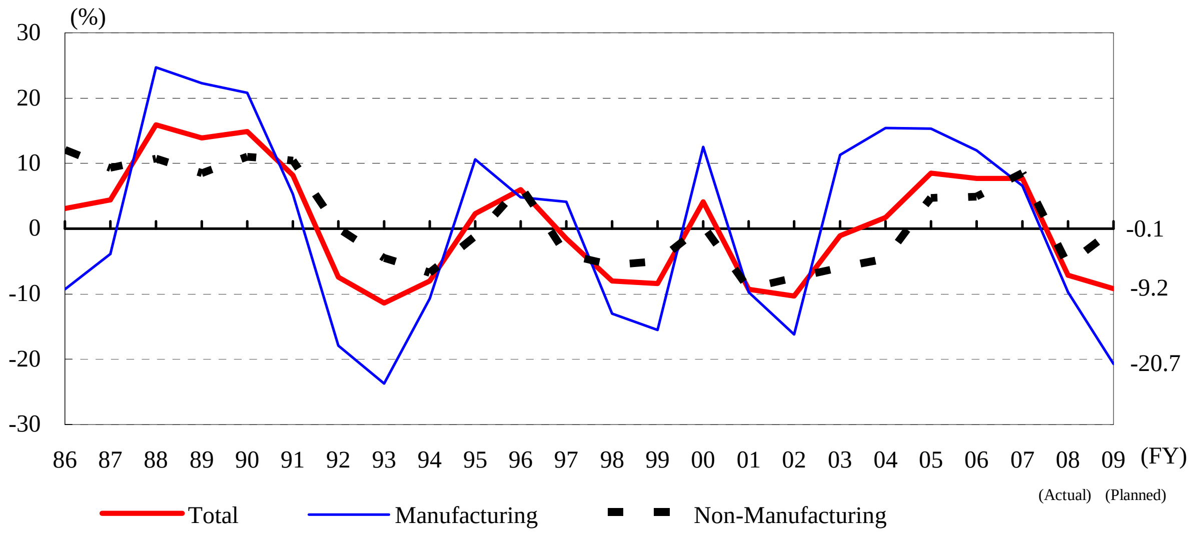
5. Planned capital spending of large- and medium-sized firms (capitalized at ¥100 million or over) for FY2009 will fall for a second straight year nationwide (down 10.6%), with nine of the ten regions (except Tohoku) expecting negative growth.

Capital Spending

	FY2008 Actual	FY2009 Planned (2,366 firms)			FY2010 Planned (1,080 firms)		
	Growth Rate (%) 2008/2007	FY2008 Actual	FY2009 Planned	Growth Rate (%) 2009/2008	FY2009 Planned	FY2010 Planned	Growth Rate (%) 2010/2009
Total	-7.1	20,072.1	18,220.6	-9.2	5,917.7	5,698.3	-3.7
Manufacturing	-9.7	8,900.5	7,057.9	-20.7	1,244.3	1,092.7	-12.2
Non-Manufacturing	-5.6	11,171.6	11,162.7	-0.1	4,673.4	4,605.6	-1.5

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 (%)	
	2,366 firms		1,080 firms					2,366 firms	
	FY2008 Actual	FY2009 Planned	FY2009 Planned	FY2010 Planned	2008/2007	2009/2008	2010/2009	FY2008 Actual	FY2009 Planned
Total	20,072.1	18,220.6	5,917.7	5,698.3	-7.1	-9.2	-3.7	100.0	100.0
Manufacturing	8,900.5	7,057.9	1,244.3	1,092.7	-9.7	-20.7	-12.2	44.3	38.7
Food & Beverages	374.7	398.1	82.4	73.6	-10.5	6.2	-10.7	1.9	2.2
Textiles	74.0	31.7	5.5	8.5	-12.1	-57.1	55.8	0.4	0.2
Pulp & Paper	225.4	136.5	24.8	21.4	-38.1	-39.4	-13.6	1.1	0.7
Chemicals	1,110.9	988.1	254.6	253.0	-10.4	-11.1	-0.6	5.5	5.4
Petroleum	239.6	348.3	96.5	80.3	7.1	45.4	-16.8	1.2	1.9
Cement, Ceramics & Glass	282.5	195.3	35.7	27.0	13.4	-30.9	-24.6	1.4	1.1
Iron & Steel	880.0	883.2	153.1	121.0	10.3	0.4	-21.0	4.4	4.8
Non-Ferrous Metals	402.6	239.9	80.5	45.5	-0.5	-40.4	-43.5	2.0	1.3
General Machinery	928.1	714.3	124.1	102.0	4.2	-23.0	-17.8	4.6	3.9
Electric Machinery	1,638.3	1,235.8	98.6	91.1	-31.1	-24.6	-7.6	8.2	6.8
Electric Devices, etc.	*1,134.8*	*814.7*	*64.2*	*52.7*	*-33.4*	*-28.2*	*-18.0*	*5.7*	*4.5*
Precision Machinery	241.0	112.6	14.0	18.9	-26.4	-53.3	34.5	1.2	0.6
Transport Equipment	2,090.0	1,403.9	202.0	191.6	-7.3	-32.8	-5.2	10.4	7.7
Automobiles	*1,929.2*	*1,276.2*	*169.7*	*165.0*	*-9.4*	*-33.8*	*-2.8*	*9.6*	*7.0*
Other Manufacturing	413.4	370.2	72.5	59.0	-11.5	-10.5	-18.7	2.1	2.0
Non-Manufacturing	11,171.6	11,162.7	4,673.4	4,605.6	-5.6	-0.1	-1.5	55.7	61.3
Construction	284.8	264.4	42.2	47.4	41.7	-7.2	12.2	1.4	1.5
Wholesale & Retail	1,030.8	1,022.3	208.9	165.7	8.2	-0.8	-20.7	5.1	5.6
Retail	*867.8*	*850.1*	*144.5*	*122.8*	*1.2*	*-2.0*	*-15.0*	*4.3*	*4.7*
Real Estate	1,499.3	1,250.7	576.2	573.6	-13.3	-16.6	-0.5	7.5	6.9
Transportation	2,136.1	2,294.9	584.6	556.4	-15.2	7.4	-4.8	10.6	12.6
Electric Power & City Gas	2,761.6	3,075.8	2,813.1	2,813.7	10.6	11.4	0.0	13.8	16.9
Electric Power	*2,468.9*	*2,765.6*	*2,551.0*	*2,569.9*	*10.6*	*12.0*	*0.7*	*12.3*	*15.2*
City Gas	*292.7*	*310.2*	*262.1*	*243.9*	*10.8*	*6.0*	*-6.9*	*1.5*	*1.7*
Telecom. & Information	2,814.2	2,691.3	240.0	234.0	3.5	-4.4	-2.5	14.0	14.8
Leasing	298.3	251.2	150.1	169.5	-13.9	-15.8	12.9	1.5	1.4
Services	268.1	226.1	50.7	40.3	-4.8	-15.7	-20.4	1.3	1.2
Other Non-Manufacturing	78.4	86.0	7.6	5.0	-15.2	9.8	-34.0	0.4	0.5

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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