



DBJ Capital Spending Survey for FY2010

Mild but First Increase in Three Years after Sharp Decrease

— *Growing Investment in Eco-Cars, Solar Cells and Other Environment-Friendly Products* —

Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) in overall industry for FY2010 shows the first increase in three years (up 6.8%), with investment rising in both the manufacturing and non-manufacturing sectors. In contrast, actual figures for the previous year reveal the steepest drop since the survey started, falling 16.7% overall and 30.8% in the manufacturing sector. Hence, the increase in FY2010 is expected to be small.

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 21, 2010

Survey on planned capital spending (large-sized firms)

Target firms: 3,365 private firms in Japan's major industries capitalized at ¥1 billion or more

Proportion of valid responses: 67.5% (2,270 firms)

Executive Summary

1. Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) in overall industry for FY2010 shows the first increase in three years (up 6.8%), with investment rising in both the manufacturing and non-manufacturing sectors. In contrast, actual figures for the previous year reveal the steepest drop since the survey started, falling 16.7% overall and 30.8% in the manufacturing sector. Hence, the increase in FY2010 is expected to be small.

2. According to the present survey, capital spending in FY2010 has three characteristics:

- (1) Profitability factor: The increase in spending is led by electric machinery and automobiles as profits recover.
- (2) Industry- and product-specific trends: Investment in the manufacturing sector is driven by new areas including environment-friendly products (eco-cars, rechargeable batteries, solar cells, LEDs). In the non-manufacturing sector, the increase in spending is supported by infrastructure development projects to improve the stability of services (electric power, telecommunications and transportation).
- (3) Linkage with investment overseas: Domestic investment is focused on product development and upgrading, while spending overseas is geared toward expansion of production capacity, mostly in emerging economies.

3. In the manufacturing sector (up 8.9%), spending is expected to recover led by electric machinery and automobiles, as rising external demand boosts performance, particularly in emerging economies, and as domestic demand picks up with the help of government policy measures. In addition to the maintenance and replacement of existing facilities, the two industries are significantly increasing investments in new areas including environment-friendly products, which will have ripple effects on other industries such as chemicals and cement, ceramics & glass. The chemical industry is also planning to increase investment in R&D on pharmaceuticals. Meanwhile, spending in iron &

steel is expected to fall as investment projects for capacity expansion and renovation come to an end.

In the non-manufacturing sector (up 5.5%), increased spending is planned, mainly for infrastructure development to ensure the stability of services: maintenance and replacement in electric power; security measures and *Shinkansen*-related projects in transportation; and enhancement of base station construction in telecommunications. Although investment in real estate will also increase as projects go ahead in metropolitan areas, spending is expected to decline in retail as last year's large projects are completed.

The planned growth of capital spending overseas far exceeds that of domestic investment, effectively offsetting the reduction in FY2009. In particular, investment in Asia (including China) is substantially higher than in FY2008, reflecting a shift to overseas investment to meet external demand (particularly to emerging economies in Asia).

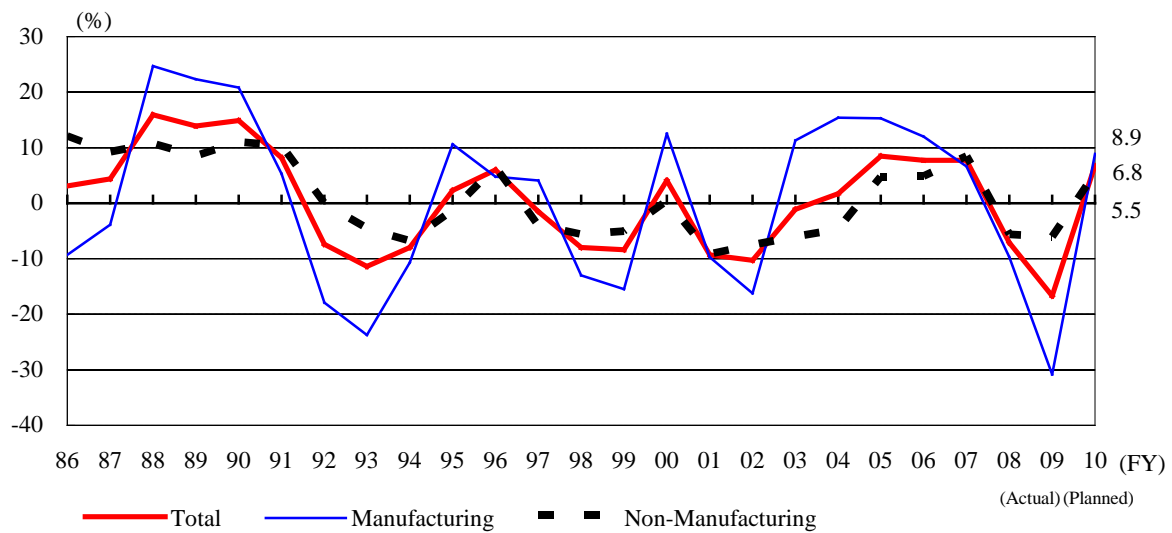
Regarding investment motives in the manufacturing sector, the share of "product development and upgrading" is typically larger in most industries. Additionally, the share of "research and development" has risen, mainly in chemicals, general machinery and electric machinery. In the non-manufacturing sector, the share of "maintenance and repair" is higher in almost every sector.

Capital Spending

	FY2009 Actual (2,068 firms)			FY2010 Planned (2,270 firms)			FY2011 Planned (1,007 firms)		
	FY2008 Actual	FY2009 Actual	Growth Rate (%) 2009/2008	FY2009 Actual	FY2010 Planned	Growth Rate (%) 2010/2009	FY2010 Planned	FY2011 Planned	Growth Rate (%) 2011/2010
Total	18,853.7	15,709.8	-16.7	16,350.6	17,454.9	6.8	5,696.5	5,510.7	-3.3
Manufacturing	8,122.4	5,624.6	-30.8	5,857.3	6,380.8	8.9	1,083.2	1,034.4	-4.5
Non-Manufacturing	10,731.3	10,085.2	-6.0	10,493.3	11,074.1	5.5	4,613.3	4,476.3	-3.0

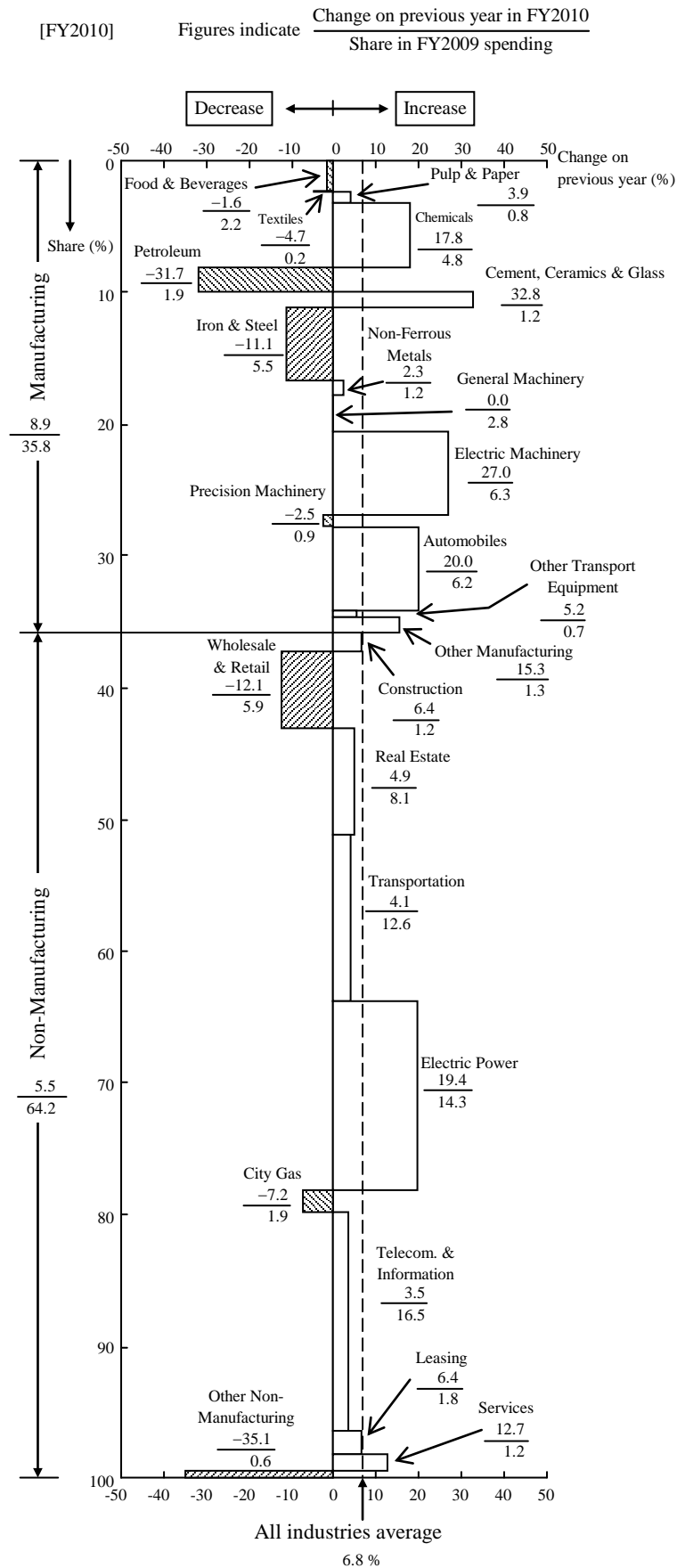
Note: Monetary amounts are in billion yen.

Growth in Capital Spending



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

Characteristics of Capital Spending by Industry



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