

2015 SURVEY ON PLANNED CAPITAL SPENDING THE FOURTH STRAIGHT YEAR OF INCREASE LED BY MANUFACTURERS

Trend in domestic fields rising on the back of brisk earnings

SUMMARY

1. Planned domestic capital spending of major firms capitalized at JPY 1 billion or more for FY2015 **in industry as a whole shows an increase (up 13.9%)**, with investment rising in both manufacturing (up 24.2%) and non-manufacturing (up 8.7%). **The fourth straight year of increase** is expected, led by manufacturing.
2. Domestic capital spending in FY2015 may be characterized as follows.
 - ① **Trend in domestic fields rising on the back of brisk earnings in the manufacturing sector**
In manufacturing, increased spending for electronic components, automobiles and high-functioning products is expected. Spending has been expanding in materials, components and intermediate goods for final products in areas of growing demand such as eco-cars and smartphones, in which Japanese firms have competitiveness. As for investment motives, the weight of “maintenance and repair” is decreasing. On the other hand, **the weights of “product development and upgrading” and “research and development”, considered forward-looking investment are planned to increase.**
 - ② **Continuous growth in infrastructure investment in electric power & gas, transportation and real estate in the non-manufacturing sector**
In non-manufacturing, increases in spending in logistics and commercial facilities and in real estate redevelopment are observed due to diversification of consumer spending, a rise in the number of inbound tourists and the need to replace aging urban infrastructure. In transport, spending in Shinkansen and railway improvement is the driver. In electric power & gas, an increase is led by spending for stable supply of electric power.
3. In the **manufacturing sector** (up 24.2%, contribution margin ratio 8.1%), all sectors except iron & steel are expected to boost capital spending on a year-on-year basis. In the electric machinery sector, substantial growth is planned due mainly to larger spending in semiconductors and displays for smartphones and in-car devices. Automobiles is seeing an increase driven by spending for new and higher-functioning products for eco-cars. The increase of general machinery is led by spending for new and higher-functioning products for aircraft and automobiles.

In the **non-manufacturing sector** (up 8.7%, contribution margin ratio 5.8%), an increase is driven by infrastructure investment in electric power & gas, transportation and real estate. In electric power & gas, spending in power facilities aiming at more stable supply is the driver. In transportation, spending in Shinkansen and railway improvement results in increase. In real estate, an increased number of large-scale urban development projects are observed.
4. **Capital spending overseas** shows an increase of 5.8% in industry as whole. In the manufacturing sector, general machinery and electric machinery lead to a 4.1% increase, while automobiles experiences a decline. In the non-manufacturing sector, spending is expected to rise due largely to real estate and wholesale & retail. **The overseas/domestic capital spending ratio (consolidated basis) is declining for the second consecutive year**, due to the growth rate of domestic spending surpassing that of spending overseas. As for the **medium-term supply capacity outlook** in manufacturing, the supply capacity of Japanese firms will continue to be characterized by “relative overseas enhancement”; however, this category’s share has been on a downward trend since FY2012. On the other hand, “enhance both domestically and overseas” is on the upward trend, causing a pause in the trend of a majority commitment overseas.
5. **The opinion poll** shows R&D in manufacturing and human capital investment in non-manufacturing are the most major measures respectively **to realize future growth and strengthen competitiveness**. It also has been seen that many of the firms in non-manufacturing are **concerned with a shortage of workforce**, either currently or in the future.