

**2016 SURVEY ON PLANNED CAPITAL SPENDING
FIFTH STRAIGHT YEAR OF INCREASE DRIVEN BY ENHANCEMENT OF
BUSINESS INFRASTRUCTURE INCLUDING FOR NEW PRODUCTS**

Investment also continues for improvement of urban functions

SUMMARY

1. **Planned domestic capital spending of major firms capitalized at JPY 1 billion or more for FY2016 in industry as a whole shows an increase (up 10.9%),** with investment rising in both manufacturing (up 14.5%) and non-manufacturing (up 8.8%), **sustaining a rising trend for the fifth straight year.**
2. **Characteristics of domestic capital spending in FY2016 identified from the survey results.**
 - (1) **The increase in planned capital spending in the manufacturing sector is driven by investment for new models in transport equipment and investment in the development of business infrastructure, including for new materials in chemicals and for facility replacement/consolidation in iron & steel**
 - (2) **Planned capital spending in the non-manufacturing sector is led by transportation and real estate for security, disaster prevention and the enhancement of urban functions in the run-up to the Tokyo Olympics/Paralympics, as well as railways for infrastructure development.**
3. **In the manufacturing sector (up 14.5%, contribution of 5.4%),** spending is expected to rise in transport equipment for new automobile models leveraging new technology for environmental, safety and comfort considerations, and for production line renovation to improve efficiency. Increased spending in chemicals is driven by investment in pharmaceuticals, cosmetics and hygiene goods, and in R&D centers, while the iron & steel industry plans to increase investment in the development of business structure, including for coke oven relining, and facility replacement/consolidation to improve productivity and cost competitiveness. In addition, aircraft-related investment is expected to drive spending in multiple industries such as transport equipment and general machinery.
In the non-manufacturing sector (up 8.8%, contribution of 5.6%), spending is expected to increase in transportation for the speeding-up of railways, safety and disaster prevention, and the development of logistics facilities. Wholesale & retail, particularly supermarkets, show an increase in investment in new and existing outlets, whereas large-scale development projects are expected to increase in real estate featuring international business hubs and disaster prevention functions mainly in the Tokyo metropolitan area, as per medium- and long-term plans.
4. **This year's opinion poll focuses on "investment in a broader sense,"** including R&D, M&A and human investment, as well as investment in tangible fixed assets. Asked about investment in a broader sense, many manufacturers responded that they are focusing on R&D and human investment, in addition to tangible fixed asset investment. An increasing number of firms are concerned about securing the necessary workforce, as many specifically cite shortage of young skilled labor to lead field workers. Under these circumstances, many emphasized on-the-job training (OJT) and promotion of young skilled workers in the field as the focus of human investment. As regards investment in information technology, 70% of both manufacturers and non-manufacturers responded that it has been on the rise in recent years. 36% of manufacturers and 23% of non-manufacturers responded that they have closed at least one M&A deal since FY2010, mainly for the purpose of scaling up their business, increasing their market share or expanding their scope of business.
5. **Planned capital spending overseas** shows the second consecutive year of decline overall (down 1.3%). In the manufacturing sector, spending is expected to turn up largely (up 4.7%) driven by a substantial increase in chemicals, despite continued cutbacks on spending in transport equipment and reduced investment in general and electric machinery. Planned spending in the non-manufacturing sector shows the first decline (13.2%) in seven years led by mining, despite a substantial increase in wholesale & retail and real estate.