

2017 SURVEY ON PLANNED CAPITAL SPENDING
SIXTH STRAIGHT YEAR OF GROWTH LED BY MANUFACTURING
Broad-Based Spending on Production Efficiency and Inbound Tourism

SUMMARY

1. Planned domestic capital spending in FY2017 by major firms, capitalized at JPY 1 billion or over, **shows an increase for the sixth consecutive year overall, up 11.2%**, with investment rising in both manufacturing (up 14.2%) and non-manufacturing (up 9.5%).
2. Characteristics of domestic capital spending in FY2017 identified from the survey results:
 - (1) In the manufacturing sector, spending for components and materials will increase in chemicals and nonferrous metals, while investment will continue in general machinery, transport equipment and iron & steel, among other industries, for improving production efficiency, including through the consolidation and replacement of production facilities.
 - (2) In the non-manufacturing sector, spending to capture inbound tourists will continue mainly in transportation, real-estate and services in the run-up to the Tokyo Olympics/Paralympics, as wholesale & retail and other industries are planning investment to cope with the labor shortage.
3. **In the manufacturing sector (up 14.2%, contribution of 5.3%)**, the under-performance of the heavyweight transport equipment industry due to the completion of a round of investment for the introduction of new models will be partly offset by increased spending in chemicals and nonferrous metals on the production of components and materials for automobiles and electronics/batteries, as well as on R&D. In general machinery, a rise in spending is planned to enhance production capacity and efficiency for aircraft, automobile and industrial robot components.
In the non-manufacturing sector (up 9.5%, contribution of 5.9%), spending will continue in order to capture inbound tourists in the run-up to the Tokyo Olympics/Paralympics, including on airport facilities development in transportation, large-scale urban redevelopment projects in real estate, and hotels and theme parks in services. In wholesale & retail, investment will be driven by the introduction of labor-saving equipment mainly among CVS outlets.
4. Continuing from the previous year, our **opinion poll** this year primarily focuses on “investment in a broader sense,” including overseas tangible fixed asset investment, R&D, M&A and human investment, as well as domestic tangible fixed asset investment. Regarding human investment, international experts and specialists, including in sales were cited by manufacturers and non-manufacturers, respectively, as crucial human resources to be developed in the years ahead. Asked about how to cope with the labor shortage, both manufacturers and non-manufacturers responded that they will not immediately leverage AI and IoT for productivity improvement but that they will do so in five years. As regards R&D, many cited a central laboratory, etc. as the primary driver of basic research while prioritizing on-site activities for development research. Although some 30% of the firms responded that they are actively seeking M&A opportunities either in Japan or overseas, their track record in M&A points to a rather lackluster performance, with impairments recognized by almost half of the firms in overseas deals, and by 40% in domestic projects. Asked about investment in information technology, 40% of both manufacturers and non-manufacturers responded that they are utilizing or planning to utilize IoT, etc., a slight increase from last year’s survey. Although our survey results point to rising awareness of business continuity management (BCM) among the firms since the Great East Japan Earthquake, with 80% of the respondents adopting the practice of business continuity planning, only 20% of them have disclosed information to major stakeholders, including institutional investors.
5. **Planned capital spending overseas** shows an increase of 14.3% overall, the first positive growth in three years. In the manufacturing sector, spending shows an increase of 15.1%, as investment is expected to turn up in automobiles, electric machinery and general machinery. Capital spending in the non-manufacturing sector is expected to rise 11.6%, led by real estate.