

2020 SURVEY ON PLANNED CAPITAL SPENDING

Covid-19 to Induce First Negative Growth in Nine Years
Forward-looking Investment for Digitalization Sees Increase

Executive Summary

1. Planned domestic capital spending for FY2020 by major firms (capitalized at ¥1 billion or over) in industry as a whole shows an increase of 3.9%, mainly supported by the manufacturing sector. However, actual performance is likely to show the first decrease in nine years, in light of the trend of downward revision to planned figures in recent surveys.
2. Domestic capital spending in FY2019 recorded an increase for the eighth consecutive year, up 1.9% overall, led by robust investment for the development of next-generation automobile technology and the enhancement of urban functions.
Planned spending for FY2020 shows continued spending on the development of next-generation automobile technology and an increase in investment to meet the rising demand for digitalization while being affected by the widespread downward pressure from the Covid-19 (novel coronavirus) pandemic.
3. Characteristics of domestic capital spending in FY2020 identified from the survey results:
(1) In the manufacturing sector (up 8.1%, contributing 3.0% of the overall increase), continued investment in chemicals, non-ferrous metals and electric machinery for the development of next-generation automobile technology will be accompanied by a rise in spending to meet the increasing demand for digitalization.
(2) In the non-manufacturing sector (up 1.4%, contributing 0.9% of the overall increase), spending will increase in telecommunications & information for the development of digital infrastructure, in addition to investment in electric power for the maintenance and replacement of facilities. Meanwhile, investment will decline in transportation, real estate and retail due to widespread downward pressure from the Covid-19 pandemic.
4. Planned capital spending overseas shows a decline for the second consecutive year, down 3.6% overall. Although investment in Europe (up 6.3%) is set to increase in anticipation of rising demand for pharmaceuticals due to the influence of the Covid-19 pandemic, spending in North America (down 5.6%) will decline, led by transport equipment.
5. Continuing from the previous year, our Mind Survey on Corporate Activities focuses on “investment in a broader sense,” including investment in tangible fixed assets, information technology and R&D, in addition to a contingent survey on the business impact of Covid-19 (see paragraph 6 below).
With regard to information technology investment, the result points to a year-on-year increase in the percentage of firms leveraging artificial intelligence (AI) and the Internet of Things (IoT), but there is a rising concern about the shortage of specialists.
As for R&D, some 30% of the firms responded that they are increasingly using open innovation, showing a slight decrease on the previous year, but no significant change has been observed despite the Covid-19 pandemic. Some respondents have high expectations for AI and other digital technologies to improve research efficiency.
Although the labor shortage has eased somewhat given the Covid-19 pandemic, many expect it to worsen in the medium term.

6. Business impact of Covid-19:

(Impact on business)

- 90% of the firms report a negative impact of Covid-19, of which 30% report the worst negative impact to date.
- As the negative impact, over 80% of the firms cite the decline in domestic demand, while many manufacturers also point to the decline in overseas demand.
- 30% of the firms have postponed capital spending due to the Covid-19 pandemic, but 80% of them may consider implementing the postponed projects if and when the situation improves.
- Although some 30% of the respondents expect their revenues to regain the pre-pandemic level in the first half of 2021, many have different ideas, with a notable number of firms unable to anticipate a recovery in the foreseeable future.

(Medium- to long-term demand perspective)

- Looking ahead to the post-Covid-19 market environment, 60% of the firms expect that demand for goods and services will remain unchanged, but over 30% anticipate a decline in demand.

(Necessity to review business)

- In view of the Covid-19 pandemic, 50% of the firms indicate that they need to review their business operations. As to how they should do so, 50% of the companies cite the offering of new products or services, while over 30% indicate the digitalization of services including through non-contact technology.

(Supply chain restructuring)

- As to the restructuring of the supply chains in response to Covid-19, 40% of the manufacturers cite the diversification of overseas suppliers, followed by the standardization of products and components.

(Developing remote working environment)

- Over 70% of the firms responded that the underdevelopment of remote working environment has restricted their business operations.
- As regards obstacles to the introduction and development of remote working environment, about 60% of the firms cite the shortage of information equipment and communications infrastructure problems. Not many firms cite client relations and corporate culture as obstacles, whereas some 50% of firms recognize existing operational processes as constraints.