

Characteristics of Planned Capital Spending for FY2025

Sustained Double-digit Growth amid Uncertainties

Growth Falling from Above-bubble-economy Level in Non-manufacturing, While Staying Robust in Manufacturing

1. Domestic Capital Spending

Capital spending by major firms (capitalized at ¥1 billion or over) in FY2024 rose 10.5% overall, the third straight year of increase on the previous year and reaching the highest level since the bubble economy era, driven by the building of AI processing infrastructure in telecommunications & information and spending for electrification in automobiles. Planned capital spending for FY2025 continues to show a double-digit increase of 14.3%, despite falling below 20% for the first time in four years due to uncertainties about US tariff hikes, among others. The manufacturing sector continues to grow strongly at 21.0% driven by continued investment in automobile electrification and spending for decarbonization mainly in materials-based industries. Meanwhile, investment in the non-manufacturing sector shows a slowdown to 11.3%, largely due to the extraordinary growth last year.

2. Impact of Tariff Hikes in US, Supply Chains and Investment Overseas

Although the impact of tariff hikes by the US administration has not become apparent, there are significant moves to reduce operations in China. Firms curtailing their business operations in China are also tending to diversify supply chains including in Japan. Planned capital spending overseas for FY2025 shows slower growth than investment in Japan, attesting to the continued downtrend of the overseas investment ratio.

3. Corporate Management

Many companies regard price inflation and labor shortages as risk factors. Although large- and medium-sized firms both continue to raise wages and pass the rising cost on to prices, wage hikes have been slowing. Efforts to raise share prices are increasingly focused on initiatives pertaining to business activities, such as review of business portfolio. Capital spending in a broad sense points to a continued increase in the share of investment in human resources.

4. Investment in Human Resources

Wage increases are tending to accelerate as a means of investing in human resources to help recruit talent. Companies are still proactively investing in digitalization as an alternative to recruiting talent.

5. Digitalization and R&D

Spending on digitalization has remained strong since the Covid-19 pandemic. Although the use of artificial intelligence (AI) is expected to rise further, accompanied by initiatives for data analysis, companies face difficulties in finding ways to utilize data. Spending on research and development continues to increase rapidly, including for decarbonization.

6. Decarbonization

As efforts for decarbonization continue to gain ground steadily, how to pass on the related cost is becoming the biggest issue. Energy conservation and renewable energy remain the focus of ongoing efforts, but new technology has been gaining more attention as a longer-term alternative, particularly for

new energy sources such as hydrogen and ammonia.

7. Characteristics of Capital Spending by Region and by Medium-sized Firms

By region, substantial increases are planned for FY 2025 in Hokuriku, Hokkaido, and Tokai, among others, all showing double-digit growth. While many medium-sized firms recognize labor shortages, succession planning and rising labor costs as risk factors, they see more growth opportunities than large-sized firms in policy revisions both inside and outside Japan.