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Economic & Industrial Research Department
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2019 SURVEY ON PLANNED CAPITAL SPENDING

EIGHTH STRAIGHT YEAR OF INCREASE, LED BY NON-MANUFACTURING

Amid Uncertainties for Manufacturing in Particular

SUMMARY

1. Planned domestic capital spending in FY2019 by major firms, capitalized at JPY 1 billion or over, shows an increase for the eighth consecutive year overall, up 11.5%, with investment rising in both manufacturing (up 13.5%) and non-manufacturing (up 10.5%).

2. Actual domestic capital spending in FY2018, despite staying within the limits of cash flow, showed the largest increase in 28 years overall, up 11.4%, driven by spending for the enhancement of production capacity and urban functions.
   In FY2019, domestic capital spending is expected to remain robust as a whole, increasing for the eighth consecutive year despite uncertainties regarding investment in manufacturing against the backdrop of trade friction, as investment continues in non-manufacturing mainly for the enhancement of urban functions.

3. Characteristics of domestic capital spending in FY2019 identified from the survey results:
   (1) In the manufacturing sector (up 13.5%, contributing 4.6% of the overall increase), continued investment in new automobile models, including for vehicle electrification, will be accompanied by a rise in spending in chemicals, nonferrous metals and electric machinery for electronic/battery materials, including for use in automobiles.
   (2) In the non-manufacturing sector (up 10.5%, contributing 6.9% of the overall increase), spending will continue for the enhancement of urban functions, including in transportation and real estate. Investment will also continue in stores and logistics to cope with the labor shortage, as well as in the development of digital infrastructure.

4. Planned capital spending overseas shows an increase of 10.2% overall, thus recording positive growth for the third consecutive year. Although investment in North America (down 0.4%) is set to taper off, particularly in transport equipment, spending is expected to grow in China (up 22.7%) in response to the rising local demand, particularly in transport equipment and general machinery, as well as in other parts of Asia (up 21.8%).

5. Continuing from the previous year, our opinion poll this year focuses on "investment in a broader sense," including overseas tangible fixed asset investment, R&D, information technology investment, human investment and M&A, as well as domestic investment in tangible fixed assets.
   As regards R&D, some 30% of the firms responded that they are increasingly utilizing open innovation, including over 50% of large-sized firms. Larger firms also tended to report positive impacts of R&D investment on research efficiency, among others.
   As for information technology investment, about 70% of the firms responded that the digitalization of industry and society through technologies such as artificial intelligence(AI), the Internet of Things(IoT) and 5G will impact their business model and environment.
   An increasing number of non-manufacturers (about 70%) responded that their operations are currently constrained by the labor shortage. The share of firms reporting an aggressive attitude toward M&A shows a slight decline on the previous year, when M&A activities showed significant growth.
   With regard to environmental, social and governance (ESG) matters, many respondents cited social contribution and risk management as purposes for activities in this area. As for the relative importance of the various aspects of ESG, most firms cited corporate governance, whereas climate change and resources recycling were also common answers among large-sized companies.