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Characteristics of Planned Capital Spending for FY2023

Second Straight Year of Increase to Signal New Growth Surpassing Pre-Covid Level

Led by Spending on Digitization, Semiconductors and EVs and Resumed Investment for Increased Movement of People

Executive Summary

1. Overview of domestic capital spending

Domestic capital spending by major firms (capitalized at ¥1 billion or over) rose 10.7% overall, recording the first increase in three years driven by the development and increased production of electric vehicles, semiconductors and materials thereof, city-center redevelopment, as well as the resumption of investment postponed during the Covid-19 pandemic.
Planned capital spending for FY2023 shows a sizable increase of 20.7% on the previous year. In addition to investment projects carried over from the previous year, accelerated digitization is driving spending on enhancing semiconductor production capacity, including in materials industries for silicon wafers. Investment in electric vehicles is also on the rise. Furthermore, spending on safety measures in railways and new aircraft is expected to resume while city-center redevelopment continues, resulting in the second consecutive year of increase in both the manufacturing and non-manufacturing sectors.

2. Supply chains

The rising raw material and labor costs, as well as risks from the conflict between China and the US, are prompting moves to diversify sourcing overseas and expand business where demand is robust. Enhancement of production sites in Japan is a notable change from the pre-pandemic period.

3. Decarbonization

Investment continues to be led this year by renewable energy, energy conservation and electric vehicles. Despite the emergence of new energy forms such as sustainable aviation fuel (SAF), decarbonization shows no substantial increase this year as a percentage of capital spending or R&D investment. More firms are now citing procurement as a key challenge for decarbonization, to the detriment of development cost.

4. Digitization

Spending on digitization shows an increase led by investment related to decarbonization and for user convenience in railways. Despite the increased use of, and interest in generative and other types of artificial intelligence (AI), most of the spending on digitization is intended to

update existing systems. The medium- to long-term outlook for office space is improving as the downgrading of Covid-19 to a Class 5 disease is prompting many companies to adopt a return-to-office policy.

5. Innovation

R&D investment shows an increase, mainly for electrification, IoT and decarbonization. Although companies are actively investing in talent development as the labor shortage remains the largest obstacle to innovation, only 10% of firms are planning to partner with startups. Expansion of collaboration with startups will require support for information platform development as well as for joint research.

6. Investment in human resources

Faced with the requirement to retain talent, companies are showing proactive efforts not only in recruitment but also in pay increases. Most firms cited investment in automation as an alternative measure to talent recruitment.

7. Characteristics of capital spending by region and by medium-sized firms

As spending grows rapidly across Japan, substantial increases are planned in Hokkaido, Hokuriku and Kyushu in particular, driven by the automobile and semiconductor-related industries. Medium-sized firms are also moving toward raising the prices of their products and the wages of their employees, but few of these companies are planning to increase the prices of their products and services to achieve carbon neutrality.