

### Characteristics of Planned Capital Spending for FY2024

## **Substantial Growth in Both Manufacturing and Non-manufacturing Growth Driven by Digitization and EV-led Electrification amid Concerns about Labor Shortage and Price Inflation**

### **1. Overview of domestic capital spending**

Domestic capital spending by major firms (capitalized at ¥1 billion or over) in FY2023 rose 6.9% overall, the second straight year of increase in three years driven by the development and increased production of electric vehicles, semiconductors and materials thereof, as well as city-center redevelopment. Planned capital spending for FY2024 shows a sizable increase of 21.6% on the previous year. In addition to investment projects carried over from the previous year, accelerated digitization is driving spending on expanding semiconductor production capacity, accompanied by rising investment in electrification including electric vehicles. Furthermore, spending on functional expansion of airports is expected to increase, buoyed by the rising number of passengers and the growth of inbound tourists while city-center redevelopment continues, resulting in substantial expansion in both the manufacturing and non-manufacturing sectors.

### **2. Corporate management and improvement in business value**

Although many of the firms are passing on costs and raising wages, recognizing price inflation and labor shortage as risk factors, such actions have been largely insufficient. The logistics industry is addressing the so-called 2024 crisis due to changes in labor regulations with further digitization and investment in automation. With attention focused on engagement with investors and proactive disclosure to drive up share prices, companies are apparently putting more emphasis on their medium-term business plan.

### **3. Investment in human resources**

Companies are increasingly proactive in raising wages to help recruit talent. Alternatively, many continue to make forward-looking investments in digitization and automation.

### **4. Digitization**

Spending on digitization has remained at high levels since the Covid-19 pandemic. The use of, and interest in artificial intelligence (AI) is expected to rise sharply, helped by the spread of generative AI.

### **5. Innovation**

Companies are focusing attention on autonomous driving and general-use AI as promising technological innovations. A certain number of manufacturers are leveraging data on intellectual capital in business management.

### **6. Decarbonization**

In addition to technical issues, challenges in advancing decarbonization include how to finance, and then pass on development cost. Investment in decarbonization is expected to remain almost unchanged this year as a percentage of total capital spending.

## **7. Supply chains and investment overseas**

Spending on sourcing diversification and stock building is expected to ease, largely due to the relaxation of restrictions on the supply of semiconductors, with the focus shifting to the expansion of business where demand exists. Enhancement of production in Japan is still a notable trend compared with the pre-pandemic period.

## **8. Characteristics of capital spending by region and by medium-sized firms**

Substantial increases are planned in Hokkaido, driven by infrastructure development, in North Kanto & Koshin, led by transport equipment, and in the Tokyo metropolitan area, with growth across the board in both manufacturing and non-manufacturing, among others. Medium-sized firms are moving toward passing on costs and raising wages, as they are more keenly aware than large-sized firms of price inflation and shortages of workers and successors as downside risks. Remaining challenges include how to pass on the increased cost of achieving carbon neutrality.