Development Bank of Japan Research Report No. 64

Survey on Planned Capital Spending for Fiscal Years 2008, 2009 and 2010 (Conducted in June 2009)

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Economic and Industrial Research Department
Development Bank of Japan

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Reduced Spending for Second Consecutive Year Mainly in Manufacturing Sector

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I Summary

1. Planned capital spending of large-sized firms (capitalized at ¥1 billion or over) for FY2009 shows a second consecutive year of decline overall (down 9.2%), with the first 20% drop since FY1993 in manufacturing and a slight drop in non-manufacturing.

2. In the manufacturing sector (down 20.7%), spending is expected to decline substantially in many industries including automobiles and electric machinery, where capacity expansion will be curtailed in response to the rapid contraction of demand both in Japan and overseas. In the non-manufacturing sector (down 0.1%), spending will fall slightly overall: although spending will increase in electric power, mainly for developing power source and transmission/distribution facilities, as well as in transportation, primarily for safety measures in railways and procurement of fuel-efficient aircraft in airlines, this will be more than offset by declines in other industries. Investment in real estate will fall further, and spending is expected to drop in telecommunications & information, where investment for third-generation cellular phones in the mobile communication sector will decrease.

Regarding investment motives in the manufacturing sector, the share of "expansion of production capacity" is sharply lower, while the shares of other motives are higher. In particular, "product development and upgrading" and "maintenance and repair" are more important not only in terms of share but also in terms of absolute investment amount.

3. According to the present survey, capital spending is now characterized by three developments:

(1) cutback on investment: electric machinery, automobiles, real estate, other;
(2) continued investment in infrastructure: electric power, transportation, telecommunications & information; and
(3) focus on profitable/growth areas, geographical selection: product development and upgrading of electric machinery (rechargeable batteries) and automobiles (eco-cars), as well as concentrated investment in urban areas in real estate and retail.

As demand rapidly shrinks, plans to expand production capacity are being postponed, frozen or otherwise cut back, particularly in the manufacturing sector. Meanwhile, infrastructure investment continues in order to meet safety requirements and upgrade services. There is also much interest in strategic investment in areas where profit or growth is promising.

4. Ancillary surveys yielded the following results.

(1) Regarding the impact of the financial crisis on the real economy, more than 50% of the firms responded that their sales would not return to the pre-crisis peak level until FY2011 or would never recover. Over 30% of the firms replied that their ordinary profits were exposed to downside risks. A majority of firms have revised downwards their medium-term capital spending plans.
(2) Areas with medium- to long-term potential are mainly related to energy conservation/global warming (photovoltaic generation, eco-cars), welfare, information content, pollution control and biotechnology.

(3) Capital spending overseas is expected to decline almost 40% in industries such as automobiles and electric machinery. By region, investment in North America will be halved while spending in Europe and Asia will experience substantial declines.

(4) Research and development expenditure continues to fall. An expected increase in chemicals will be more than offset by cutbacks in automobiles and electric machinery, among others.

5. Planned capital spending of large- and medium-sized firms (capitalized at ¥100 million or over) for FY2009 will fall for a second straight year nationwide (down 10.6%), with nine of the 10 regions (except Tohoku) expecting negative growth.

II Outline

Survey on Planned Capital Spending (large-sized firms)

Objectives

This Development Bank of Japan Inc. survey has been conducted annually since FY1956 to assess major trends in the domestic capital spending of Japanese industry.

Scope of Capital Spending

In this survey, “capital spending” refers to domestic investment in the tangible fixed assets of one’s own corporation (excluding investment in land for subdivision in the real estate industry). In general, it is calculated as the sum of newly formed tangible fixed assets, including the “construction in progress” account (on a construction basis, without subtracting resale value, depreciation or loss). From the present survey, capital spending includes the amount newly credited to lease assets as per the Accounting Standard for Lease Transactions (Accounting Standard No. 13) and its implementation guidance (Accounting Standard Implementation Guidance No. 16), which are applicable to the business years starting on April 1, 2008 or later. Nevertheless, the figures for FY2008 used for comparison with data for FY2007 and earlier do not include the amount newly credited to lease assets (except in the ancillary survey on capital spending overseas).

Survey Methods

The survey was conducted by questionnaire (sent to individual firms, followed up by telephone interviews when necessary).

Target Firms

This survey covers all private firms in Japan’s major industries capitalized at ¥1 billion or more, excluding agriculture, forestry, finance and insurance.

Date of Survey

June 22, 2009. Most of the responses to the questionnaire were obtained in June.

Responses

	No. of Firms Targeted	No. of Valid Responses	Proportion of Valid Responses
Principal Business Classification	3,402	2,366	69.5%
Investment-specific Classification	4,007	2,839	70.9%

On the Totals

Industrial classification

In principle, investment-specific classification (separate treatment for individual business departments of a company) is used for the amount of capital spending and investment motives, whereas principal business classification (based on the main business department of a company) is used for other survey items.

Timing of survey and years covered

The survey is conducted once a year. Each fiscal year is surveyed three times until the planned investments are materialized.

Timing of survey \ Targeted FY	2006	2007	2008	2009	2010
June 2006	Plan for current FY	Plan for next FY			
June 2007	Actual	Plan for current FY	Plan for next FY		
June 2008		Actual	Plan for current FY	Plan for next FY	
June 2009			Actual	Plan for current FY	Plan for next FY

Survey on Planned Capital Spending, by Region (large- and medium-sized firms)

Objectives

The objective of this survey is to identify trends in capital spending by region, regrouping the prefecture-specific data obtained from the annual Survey on Planned Capital Spending.

Scope of Capital Spending

In this survey, “capital spending” refers to domestic investment by a firm in its own tangible fixed assets (excluding investment in land for subdivision in the real estate industry). In general, it is calculated as the sum of newly formed tangible fixed assets, including the “construction in progress” account (on a construction basis, without subtracting resale value, depreciation or loss). From the present survey, capital spending includes the amount newly credited to lease assets as per the Accounting Standard for Lease Transactions (Accounting Standard No. 13) and its implementation guidance (Accounting Standard Implementation Guidance No. 16), which are applicable to the business years starting on April 1, 2008 or later.

Survey Methods

The survey was conducted by questionnaire (sent to individual firms, followed up by telephone interviews when necessary).

Target Firms

In general, this survey covers all private firms in Japan’s major industries capitalized at ¥100 million or more, excluding agriculture, forestry, finance and insurance.

Date of Survey

June 22, 2009. Most of the responses to the questionnaire were obtained in June.

Advantages of This Survey

The survey adopts the “principle of territoriality,” focusing on the location of investment. In comparison with questionnaire surveys that focus on the location of the firm, it allows the identification of trends in capital spending that more truly reflect the actual conditions of local economies.

Responses

The composition of respondents is as follows. The numbers of targeted firms and responding firms are the largest among similar surveys conducted in Japan on capital spending.

	No. of Firms	Proportion of Valid Responses
No. of Firms Targeted	13,089	100.0%
No. of Valid Responses	7,305	55.8%
No. of Firms Providing Region-specific Data	6,093	46.6%

(Total number of firms providing region-specific data)

Hokkaido	664	Kansai	1,270
Tohoku	1,167	Chugoku	785
North Kanto and Koshin	936	Shikoku	418
Tokyo metropolitan area	1,930	Kyushu	1,016
Hokuriku	501	Okinawa	54
Tokai	1,087		

Note: The following regional classification is adopted for the purpose of this survey.

Region	Prefecture
Hokkaido:	Hokkaido
Tohoku:	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima, Niigata
North Kanto and Koshin:	Ibaraki, Tochigi, Gunma, Yamanashi, Nagano
Tokyo metropolitan area:	Saitama, Chiba, Tokyo, Kanagawa
Hokuriku:	Toyama, Ishikawa, Fukui
Tokai:	Gifu, Shizuoka, Aichi, Mie
Kansai:	Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama
Chugoku:	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi
Shikoku:	Tokushima, Kagawa, Ehime, Kochi
Kyushu:	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima
Okinawa:	Okinawa

III Survey Results (large-sized firms)

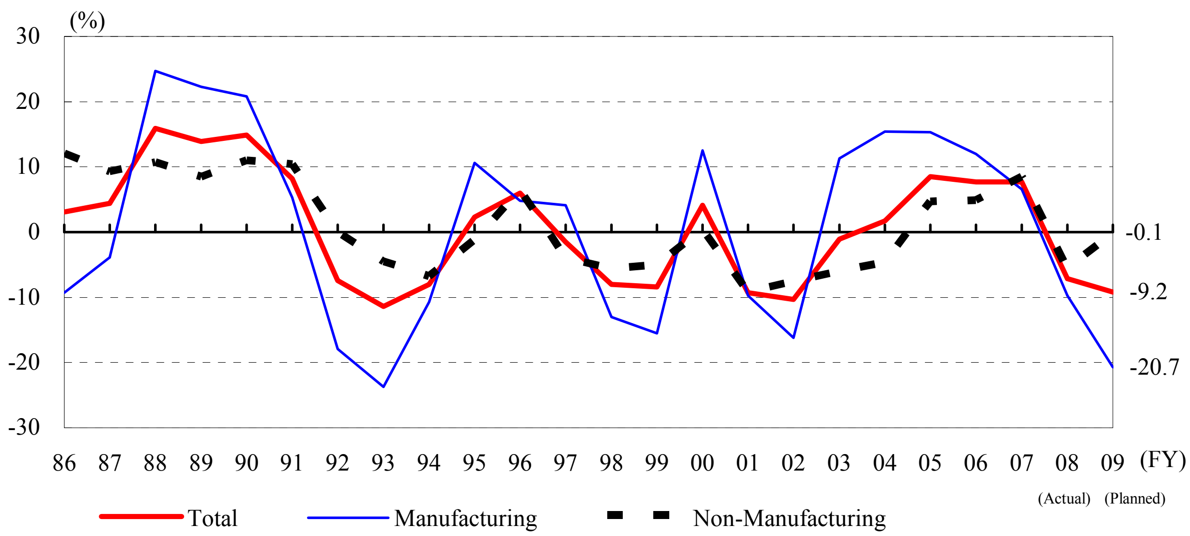
1. Overall Situation

Table 1. Capital Spending

	FY2008 Actual	FY2009 Planned (2,366 firms)			FY2010 Planned (1,080 firms)		
	Growth Rate (%) 2008/2007	FY2008 Actual	FY2009 Planned	Growth Rate (%) 2009/2008	FY2009 Planned	FY2010 Planned	Growth Rate (%) 2010/2009
Total	-7.1	20,072.1	18,220.6	-9.2	5,917.7	5,698.3	-3.7
Manufacturing	-9.7	8,900.5	7,057.9	-20.7	1,244.3	1,092.7	-12.2
Non-Manufacturing	-5.6	11,171.6	11,162.7	-0.1	4,673.4	4,605.6	-1.5

Note: Monetary amounts are in billion yen.

Figure 1. Growth in Capital Spending



Note: Data cover those firms which also responded concerning spending in the previous year.

(1) Actual Capital Spending in FY2008

On an all-industry basis, actual capital spending decreased for the first time in five years in FY2008 (down 7.1%): spending in the manufacturing sector fell for the first time in six years, while the non-manufacturing sector recorded the first decline in four years.

In the manufacturing sector (down 9.7%), spending declined as capacity investment in electric machinery and automobiles was curtailed amid slumping demand, and as capacity building peaked in pulp & paper.

In the non-manufacturing sector (down 5.6%), increased spending in electric power mainly for power source development and transmission/distribution facilities was more than offset by double-digit drops in leasing, due to the decline in corporate capital spending and the adverse effect of the revision to the accounting standard for leasing; in real estate, due to the termination of major development projects and deteriorating market conditions; and in transportation, due to the termination of large-scale investments in railways and road cargo transport.

(2) Planned Capital Spending for FY2009

Planned capital spending for FY2009 shows a second consecutive year of decline overall (down 9.2%), with the first 20% drop since FY1993 in manufacturing and a slight drop in non-manufacturing.

In the manufacturing sector (down 20.7%), spending is expected to decline substantially in many industries including automobiles and electric machinery, where capacity expansion will be curtailed in response to the rapid contraction of demand both in Japan and overseas. In the non-manufacturing sector (down 0.1%), spending will fall slightly overall: although spending will increase in electric power, mainly for developing power source and transmission/distribution facilities, as well as in transportation, primarily for safety measures in railways and procurement of fuel-efficient aircraft in airlines, this will be more than offset by declines in other industries. Investment in real estate will fall further, and spending is expected to drop in telecommunications & information, where investment for third-generation cellular phones in the mobile communication sector will decrease.

Regarding investment motives in the manufacturing sector, the share of "expansion of production capacity" is sharply lower, while the shares of other motives are higher. In particular, "product development and upgrading" and "maintenance and repair" are more important not only in terms of share but also in terms of absolute investment amount.

(3) Highlights of This Survey (regarding Planned Capital Spending for FY2009)

According to the present survey, capital spending is now characterized by three developments:

1. cutback on investment: electric machinery, automobiles, real estate, other;
2. continued investment in infrastructure: electric power, transportation, telecommunications & information; and
3. focus on profitable/growth areas, geographical selection: product development and upgrading of electric machinery (rechargeable batteries) and automobiles (eco-cars), as well as concentrated investment in urban areas in real estate and retail.

As demand rapidly shrinks, plans to expand production capacity are being postponed, frozen or otherwise cut back, particularly in the manufacturing sector. Meanwhile, infrastructure investment continues in order to meet safety requirements and upgrade services. There is also much interest in strategic investment in areas where profit or growth is promising.

(4) Planned Capital Spending for FY2010

Planned capital spending for FY2010 shows an overall decline of 3.7%: down 12.2% in manufacturing and down 1.5% in non-manufacturing. Much remains to be seen, however, as considerably fewer firms answered this question than those which provided information on planned spending for the current year.

2. Characteristics of Capital Spending, by Industry

Manufacturing

Food & Beverages

(*-10.5%→6.2%*) *2.2%*

Spending is expected to increase as a whole, with investment in production capacity and the consolidation of production facilities in some areas compensating for decreases in livestock processed food products and beer/spirits.

Pulp & Paper

(*-38.1%→-39.4%*) *0.7%*

The substantial decline will continue as a series of capacity investment projects in enamel paper has been terminated and spending on fuel conversion has peaked.

Chemicals

(*-10.4%→-11.1%*) *5.4%*

Despite expenditures for enhancing R&D in pharmaceuticals and investment in energy-related materials including lithium ion batteries, spending will continue to decline as a whole with the termination of large-scale investments in carbon fiber and other high-performance chemicals, and checks on spending in petrochemicals.

Petroleum

(*7.1%→45.4%*) *1.9%*

Spending will continue to grow with investment for transforming full-service stations into self-service stations, as well as for upgrading facilities such as heavy-oil cracking in oil refining.

Cement, Ceramics & Glass

(13.4%→-30.9%) 1.1%

Spending will plummet to record the first decline in seven years, with cutbacks expected in cement as well as in glass, where investment in flat-panel display materials will be curtailed.

Iron & Steel

(*10.3%→0.4%*) *4.8%*

Spending is expected to remain flat, as increases in ordinary steel for repairing blast furnaces and in high-grade steel for capacity enhancement will offset a decrease in special steel.

Non-Ferrous Metals

(-0.5%→-40.4%) 1.3%

A substantial decline is on the way despite capacity investment for solar cell materials, as investment projects in silicon wafers have been terminated and capacity spending in metal refining has peaked.

General Machinery

(*4.2%→-23.0%*) *3.9%*

In spite of expected growth in boilers/motors, spending will decline for the first time in seven years as slumping demand, both in Japan and overseas, will almost halve investment in industrial machinery, as well as in general machinery components and metal working machinery.

Electric Machinery

(-31.1%→-24.6%) 6.8%

The substantial decline will continue overall with further retrenchment in the heavy-weighted semiconductors and the termination of large-scale projects in heavy electric machinery, although capacity investment will continue for car-mounted rechargeable batteries, solar cells and flat-panel displays.

Precision Machinery

(*-26.4%→-53.3%) 0.6%*

Spending will plunge with the termination of large-scale investment projects in digital cameras, forced revision or suspension of planned investment in semiconductor manufacturing equipment and cutbacks on spending in medical equipment.

Automobiles

(-9.4%→-33.8%) *7.0%*

Despite investment for product development and upgrading in eco-cars, spending is expected to fall substantially as capacity investment will be generally curtailed in both finished cars and parts/bodies.

Non-Manufacturing

Wholesale & Retail

(*8.2%→-0.8%*) *5.6%*

Although investment in wholesale continues to increase, led by food wholesalers, spending is expected to decline for the first time in three years overall as investment in retail will be curtailed with checks on new supermarket and DIY outlets, despite some large-scale projects planned by department stores in metropolitan areas.

Real Estate

(*-13.3%→-16.6%*) *6.9%*

Robust redevelopment/rebuilding projects in the Tokyo metropolitan area and Osaka will not stop spending from continuing to suffer double-digit declines due to further checks on investment, the completion of some large-scale development projects and the termination of active trading in used assets observed last year.

Transportation

(*-15.2%→7.4%*) *12.6%*

Spending will turn up as a whole despite some declines in logistics centers, among others, as investment is expected to increase in railways, for new trunk routes (Shinkansen) and large-scale terminal development in addition to safety measures, as well as in airlines, for increased procurement of fuel-efficient aircraft in anticipation of airport expansion in the Tokyo metropolitan area.

Electric Power

(*10.6%→12.0%*) *15.2%*

Spending is expected to show a double-digit rise for the third straight year as investment will increase in power source development and transmission/distribution facilities to ensure stable supply and address global warming.

Telecommunications & Information

(*3.5%→-4.4%*) *14.8%*

Although extension of the optical fiber network continues in fixed-line communications, spending will decline in total with the completion of third-generation projects in mobile communications and the termination of large-scale investments in information services.

Leasing

(*-13.9%→-15.8%*) *1.4%*

Spending will continue to suffer a double-digit fall as corporate capital spending remains stagnant amid difficult financial conditions.

Services

(*-4.8%→-15.7%*) *1.2%*

The first double-digit decline in four years is expected with the completion of large-scale investment projects in amusement facilities and hotels.

Notes:
1. The figures in parentheses ( ) indicate changes in the rate of capital spending growth for each industry between FY2008 and FY2009.
2. The figure to the right for each industry indicates its share in total planned capital spending for FY2009.

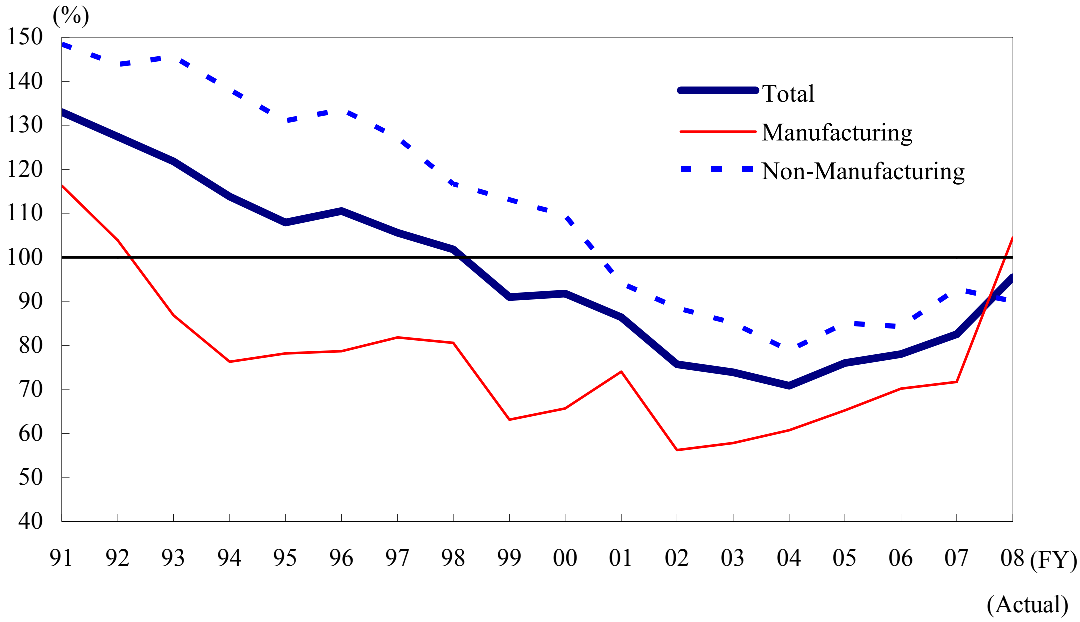
3. Diffusion Index on Capital Spending/Cash Flow

Table 2. Diffusion Index on Capital Spending/Cash Flow

	Diffusion Index on Sales		Diffusion Index on Ordinary Profits		Diffusion Index on Capital Spending/Cash Flow	
	1,573 firms	1,753 firms	1,573 firms	1,753 firms	1,753 firms	
	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned
Total	-23.2	-32.2	-21.7	-20.5	-48.5	-31.2
Manufacturing	-37.3	-48.2	-30.4	-16.6	-51.0	-31.6
Non-Manufacturing	-13.5	-20.4	-15.6	-23.4	-46.7	-30.9

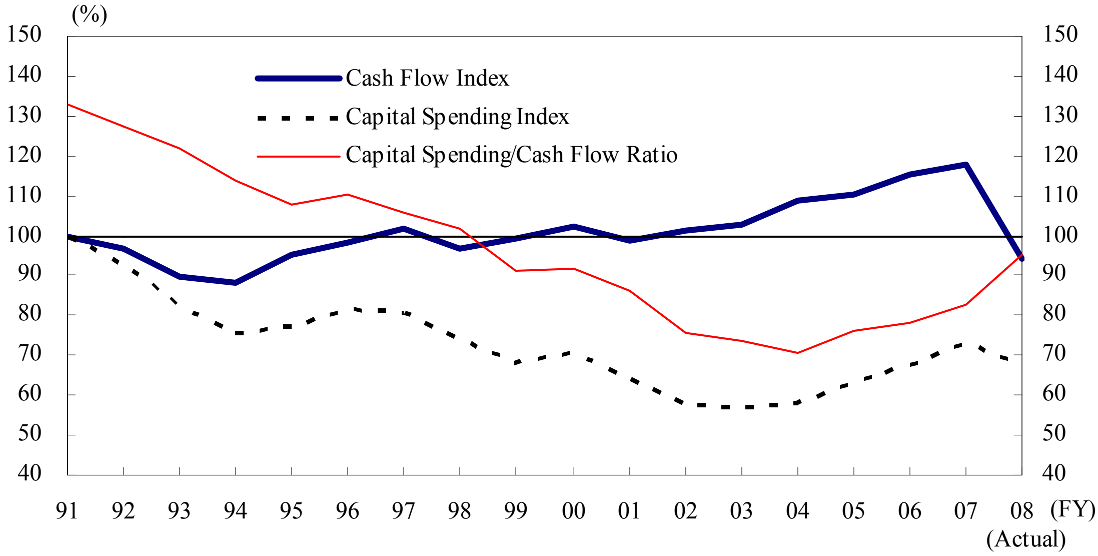
Notes:
1. Diffusion Index on Sales/Ordinary Profits = (number reporting “increase” – number reporting “decrease”) ÷ number of valid responses
2. Diffusion Index on Capital Spending/Cash Flow = (number reporting “capital spending in excess of cash flow” – number reporting “capital spending below cash flow”) ÷ number of valid responses
3. Figures are given as percentages.

Figure 2. Trends in Ratio of Capital Spending to Cash Flow



Note: Ratio of capital spending to cash flow = capital spending ÷ cash flow × 100
Cash flow:
Where ordinary profits are positive in the industry = (ordinary profits in the industry ÷ 2) + depreciation expenses
Where ordinary profits are negative in the industry = ordinary profits in the industry + depreciation expenses

Figure 3. Levels of Capital Spending and Cash Flow (1991=100) (Overall Industry)



4. Investment Motives

Table 3. Investment Motives

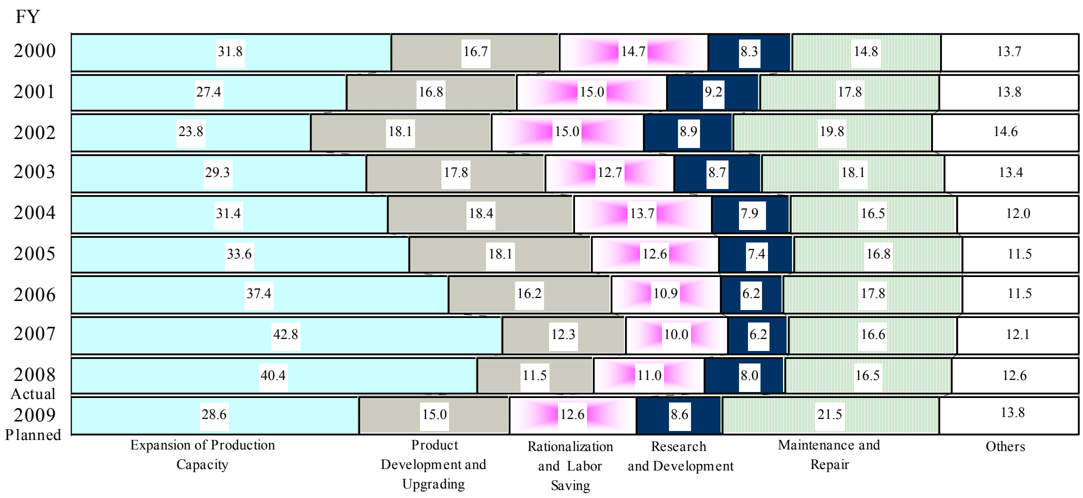
(1,714 firms)

	Total		Manufacturing		Materials		Processing & Assembly		Non-Manufacturing	
	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned	FY2008 Actual	FY2009 Planned
Expansion of Production Capacity	46.9	41.1	40.4	28.6	40.3	25.3	41.6	31.5	51.7	48.3
Product Development and Upgrading	7.1	7.8	11.5	15.0	3.5	3.8	17.2	23.3	3.9	3.7
Rationalization and Labor Saving	6.8	7.7	11.0	12.6	13.6	17.0	9.4	9.8	3.6	4.9
Research and Development	3.9	3.7	8.0	8.6	4.2	4.9	11.3	12.6	0.9	1.0
Maintenance and Repair	24.1	28.2	16.5	21.5	23.0	31.0	10.1	12.0	29.7	32.0
Others	11.2	11.5	12.6	13.8	15.3	18.0	10.5	10.7	10.2	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

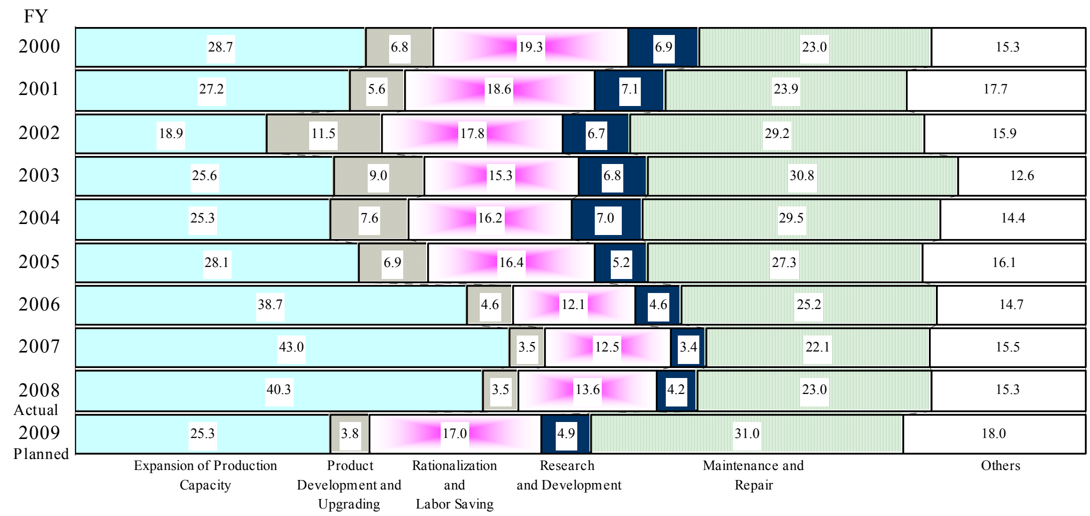
Notes:
1. Materials: Textiles; Pulp & Paper; Chemicals; Cement, Ceramics & Glass; Iron & Steel; Non-Ferrous Metals. Processing & Assembly: Food & Beverages; General Machinery; Electric Machinery; Precision Machinery; Transport Equipment; Other Manufacturing.
2. Figures are given as percentages.

Figure 4. Long-term Trend of Investment Motives

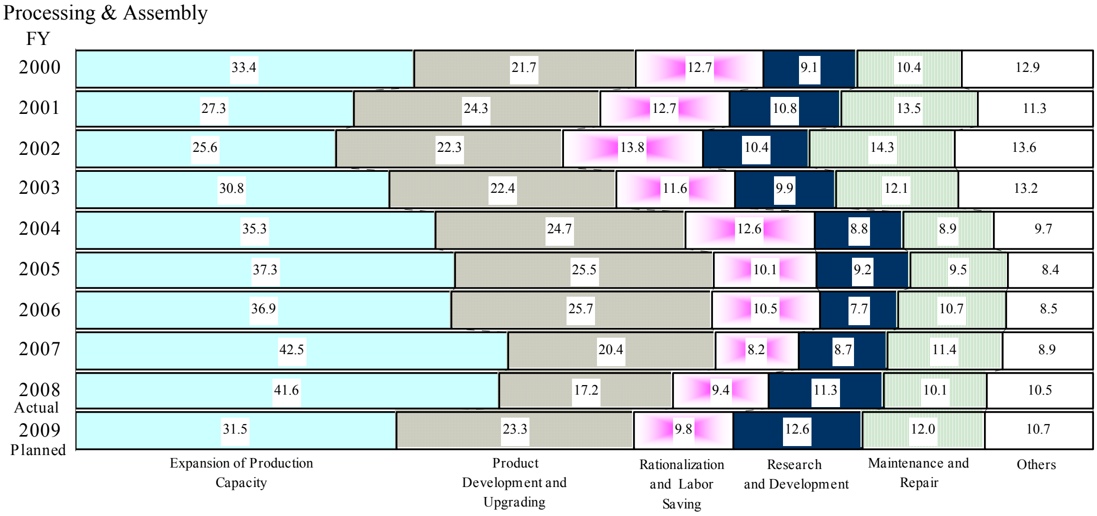
Manufacturing



Materials



Processing & Assembly



Note: Figures are given as percentages.

5. Capital Spending Overseas

Table 4. Capital Spending Overseas (by Region)

(1,327 firms)

	FY2008 Actual		FY2009 Planned		Growth Rate (%)
	Amount	Share (%)	Amount	Share (%)	2009/2008
Manufacturing	2,131.1	72.1	1,466.8	66.8	-31.2
Non-Manufacturing	825.7	27.9	728.1	33.2	-11.8
Total	2,956.8	100.0	2,194.9	100.0	-25.8
North America	782.7	26.5	416.3	19.0	-46.8
Europe	471.1	15.9	365.8	16.7	-22.4
Asia	1,160.5	39.2	861.2	39.2	-25.8
of which: China	*377.5*	*12.8*	*268.4*	*12.2*	*-28.9*
Others	542.5	18.3	551.5	25.1	1.7

Notes: 1. Capital spending overseas includes capital spending on a consolidated basis of firms adopting consolidated accounting and capital spending of overseas subsidiaries owned 50% or more by firms that do not adopt consolidated accounting.
2. Monetary amounts are in billion yen.

6. Research & Development Expenditure

Table 5. Overview of R&D Expenditure

	FY2008 Actual (1,316 firms)			FY2009 Planned (1,483 firms)		
	FY2007 Actual	FY2008 Actual	Growth Rate (%) 2008/2007	FY2008 Actual	FY2009 Planned	Growth Rate (%) 2009/2008
Total	7,066.9	6,917.7	-2.1	5,507.9	5,181.9	-5.9
Manufacturing	6,646.9	6,490.2	-2.4	5,287.0	4,959.0	-6.2
Transport Equipment	*2,693.4*	*2,566.3*	*-4.7*	*2,233.0*	*2,015.8*	*-9.7*
Electric Machinery	*1,542.9*	*1,438.4*	*-6.8*	*912.6*	*817.4*	*-10.4*
Chemicals	*1,036.2*	*1,107.4*	*6.9*	*993.4*	*1,038.4*	*4.5*
Non-Manufacturing	420.0	427.5	1.8	220.9	222.9	0.9
Electric Power & City Gas	*114.0*	*117.0*	*2.6*	*78.0*	*76.4*	*-2.0*
Telecom. & Information	*197.4*	*201.0*	*1.9*	*46.1*	*45.5*	*-1.3*

Note: Monetary amounts are in billion yen.

IV Survey on Planned Capital Spending by Region (large- and medium-sized firms)

By region, planned capital spending for FY2009 (according to region-specific data provided by 6,093 of the 7,305 firms responding to the survey) shows a decline in nine of the 10 regions (except Tohoku, which is up 1.5%), where spending is expected to turn up thanks to planned increases in investment in the non-manufacturing sector, led by electric power. Nationwide, capital spending will decline for the second straight year (down 10.6%).

In particular, six regions – Hokkaido, North Kanto and Koshin, Tokai, Chugoku, Shikoku, and Kyushu – will experience a substantial drop of over 20% due to the slump in manufacturing industries such as transport equipment and electric machinery.

Manufacturing (-22.0%)

- In the manufacturing sector, capital spending will decrease in all 10 regions, nine of which except Kansai will experience a substantial decline of over 20%. Nationwide, spending is expected to decline for the second straight year (down 22.0%).
- Major contributors to the spending decline (nationwide) in the manufacturing sector include transport equipment (contribution of -3.6%), electric machinery (-2.2%), and general machinery (-1.0%).

Non-Manufacturing (-1.2%)

- In the non-manufacturing sector, capital spending will increase in four regions – Tohoku, the Tokyo metropolitan area, Hokuriku, and Chugoku – and decrease in six regions – Hokkaido, North Kanto and Koshin, Tokai, Kansai, Shikoku, and Kyushu. Nationwide, capital spending will decline for the second consecutive year (down 1.2%).
- Major contributors to the spending decline (nationwide) include real estate (contribution of -1.0%), telecommunications & information (-0.7%) and services (-0.4%).

Figure 5. Change in Capital Spending, by Region, FY2009

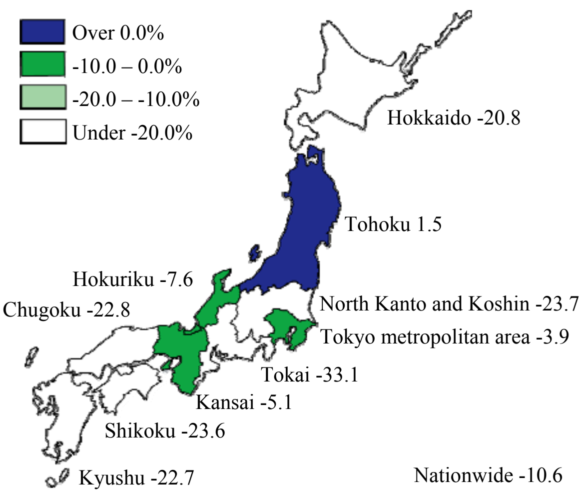


Table 6. Change in Capital Spending, by Region, FY 2009

	Total	Manufacturing	Non-Manufacturing
Hokkaido	-20.8	-38.5	-12.0
Tohoku	1.5	-30.0	18.2
North Kanto and Koshin	-23.7	-33.4	-8.0
Tokyo metropolitan area	-3.9	-22.8	1.3
Hokuriku	-7.6	-38.1	19.2
Tokai	-33.1	-41.0	-5.9
Kansai	-5.1	-1.3	-8.9
Chugoku	-22.8	-37.3	6.3
Shikoku	-23.6	-34.9	-3.4
Kyushu	-22.7	-38.5	-3.4
Nationwide	-10.6	-22.0	-1.2

Note: Figures are given as percentages.

V Opinion Poll on Corporate Behavior

1. Impact of Financial Crisis on Real Economy

As regards the impact of the financial crisis, about 80% of the firms responded that the crisis affected their sales performance. More than half of the firms expect that their sales will not recover until FY2011 (including those responding that sales will not recover).

In transport equipment and iron & steel, more than 60% of the firms expect that their sales will not recover until FY2012 (including those responding that sales will not recover). In food & beverages, electric power & city gas and telecommunications & information, however, about 40% of the firms responded that the crisis had not affected their sales performance. (Figure 6)

As regards potential revision to planned ordinary profits for FY2009, about 30% of the firms envisage "no revision," while far more firms expect a "downward" revision (36%) than an "upward" revision (7%). (Figure 7)

Almost 80% of the firms cited "domestic demand" as a major factor affecting the revision to ordinary profits for FY2009, whereas "raw material prices" and "competition within industry" were each referred to by 30% of the firms.

Of the firms expecting a "downward" revi-

Figure 6. When Will Sales Return to Pre-Crisis Peak Level?

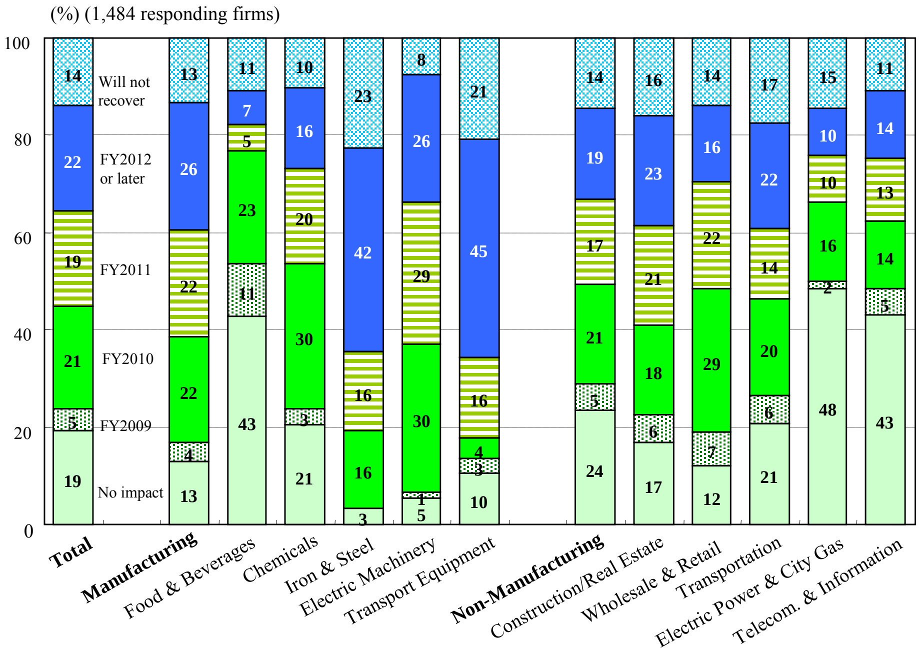
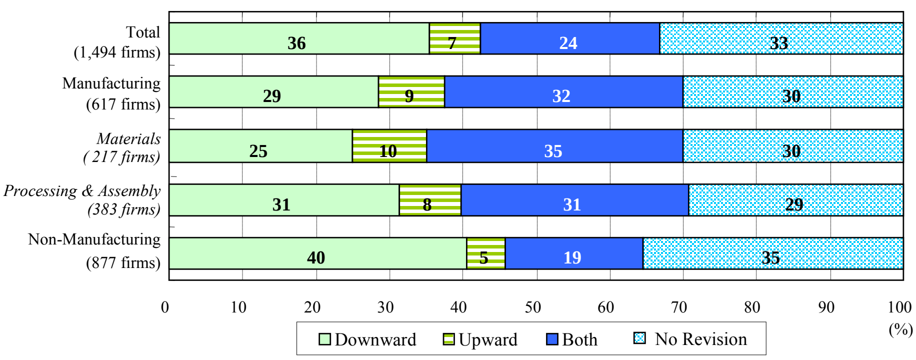


Figure 7. Potential Revision to Planned Ordinary Profits for FY2009



sion to profits, almost 90% cited "domestic demand" as a major factor, while those considering the possibility of revision in "both" directions often referred to "fluctuating exchange rates" and "demand in North America." On the other hand, many of the firms envisaging an "upward" revision cited "demand in emerging/ resource-rich countries." (Table 7)

Asked about revision to their medium-term capital spending plans, over half of the firms responded that they had revised their plans "downward," and almost 30% of the firms indicated that their plans had been revised "downward by more than 20%." In the manufacturing sector, the share of "downward" revision amounts to some 70%, with 45% of the company indicating that the planned spending had been revised "downward by more than 20%."

By industry, the share of "downward" revision is largest in transport equipment (90%), electric machinery (76%) and iron & steel (83%). The share is much smaller in food & beverages (26%), electric power & city gas (16%) and telecommunications & information (25%). (Figure 8)

2. Business Areas with Long-Term Potential

No marked difference is observed between industries in business areas with medium- to long-term potential, with "energy conservation/ new energies/ measures against global warming" enjoying the largest share across the board. Indeed, areas related to energy conservation and the measures against global warming are ranked very high in the list of potential business operations, including "photovoltaic generation" and "eco-cars."

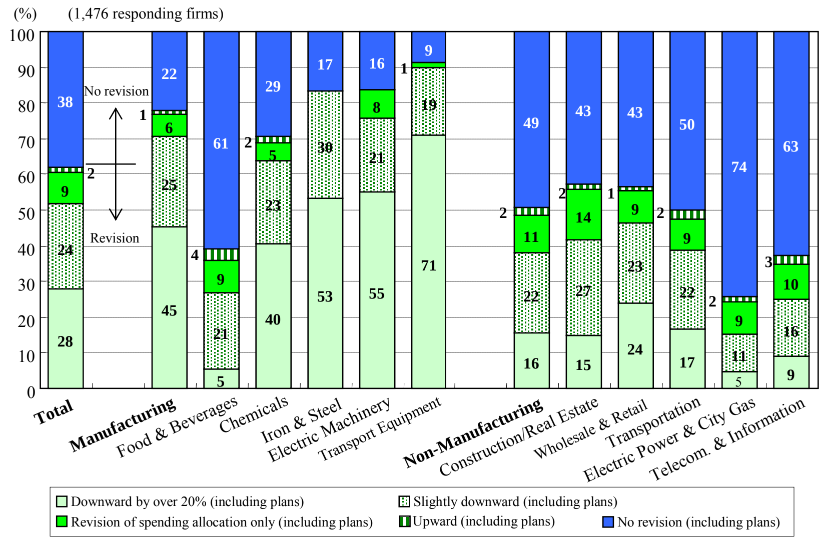
Table 7. Potential Revision to Planned Ordinary Profits for FY2009 and Major Factors

		Factors affecting revision to profits											
		Domestic demand	Raw material prices	Competition within industry	Fluctuating exchange rates	Demand in North America	Demand in emerging/ resource-rich countries	Financial environment	Labor cost	Demand in West Europe	Legal, tax, accounting, etc.	Technological innovation	Other
Potential revision to profits	Upward 100 firms	53	27	17	12	9	21	10	18	5	4	9	21
	Both 354 firms	73	45	26	34	22	17	13	9	8	3	5	8
	Downward 511 firms	87	22	36	10	14	8	13	10	7	4	1	7
	Total 965 firms	78	31	30	19	17	13	13	11	7	4	3	8

Notes: 1. Respondents could choose up to three factors affecting revision to planned profits, and figures indicate shares in each category – "upward," "both" or "downward." Hence the total for each category exceeds 100%.

2. Figures are given as percentages.

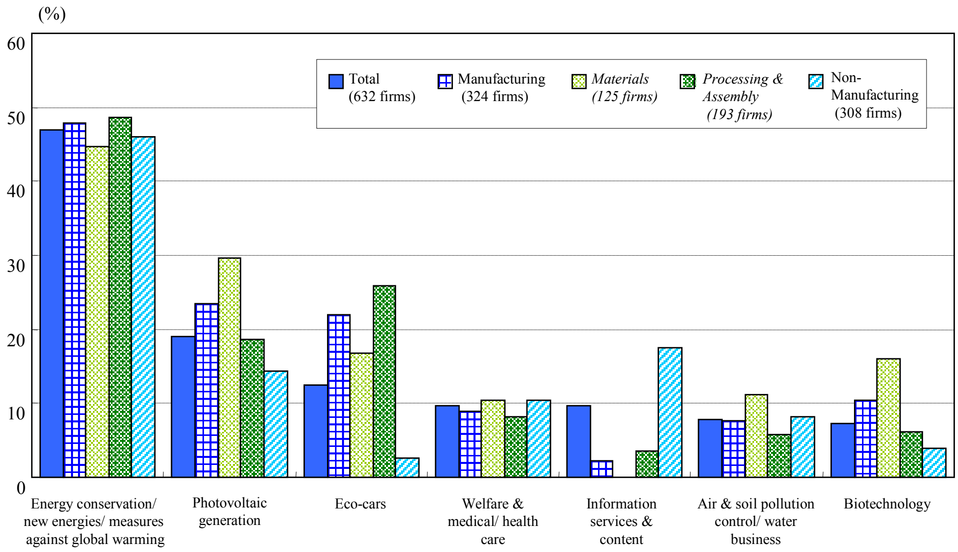
Figure 8. Revision to Medium-Term Capital Spending Plans



Elsewhere, about 10% of the firms cited "welfare & medical/ health care" in view of the aging society, as well as "air & soil pollution control/ water business." "Information services and content" and "biotechnology" enjoy relatively large shares in services and materials-based manufacturing industries, respectively. (Figure 9)

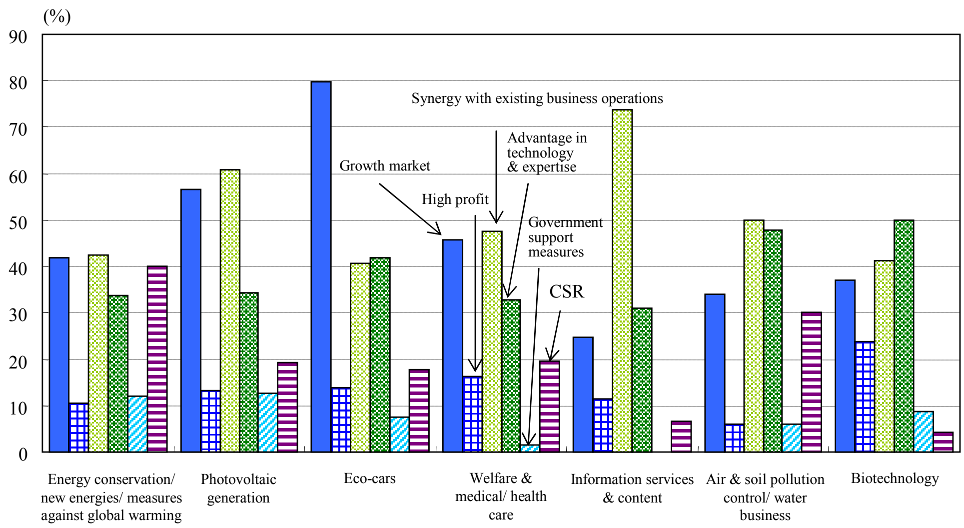
As reasons for considering those potential areas, many firms cited "existence of growth market," "synergy with existing business operations," and "advantage in technology and expertise." Many of the firms finding potential in "energy conservation/ new energies/ measures against global warming" and "air & soil pollution control/ water business" also referred to "corporate social responsibility (CSR)." (Figure 10)

Figure 9. Key Business Areas with Medium- to Long-Term Potential



Note: Respondents could choose up to three business areas. The diagram only shows frequently cited items. Figures indicate shares in the number of responding firms in each industry. The totals exceed 100% as multiple choices are allowed.

Figure 10. Key Business Areas with Medium- to Long-Term Potential and Reasons for Selection



Note: Respondents could choose up to three business areas. The diagram only shows frequently cited items. Figures indicate shares in the number of responding firms in each industry. The totals exceed 100% as multiple choices are allowed.

Appendix

Appendix Table 1. Capital Spending, by Industry

	Capital Spending				Growth Rate (%)			Component Rate (%)	
	2,366 firms		1,080 firms					2,366 firms	
	FY2008 Actual	FY2009 Planned	FY2009 Planned	FY2010 Planned	2008/2007	2009/2008	2010/2009	FY2008 Actual	FY2009 Planned
Total	20,072.1	18,220.6	5,917.7	5,698.3	-7.1	-9.2	-3.7	100.0	100.0
Manufacturing	8,900.5	7,057.9	1,244.3	1,092.7	-9.7	-20.7	-12.2	44.3	38.7
Food & Beverages	374.7	398.1	82.4	73.6	-10.5	6.2	-10.7	1.9	2.2
Textiles	74.0	31.7	5.5	8.5	-12.1	-57.1	55.8	0.4	0.2
Pulp & Paper	225.4	136.5	24.8	21.4	-38.1	-39.4	-13.6	1.1	0.7
Chemicals	1,110.9	988.1	254.6	253.0	-10.4	-11.1	-0.6	5.5	5.4
Petroleum	239.6	348.3	96.5	80.3	7.1	45.4	-16.8	1.2	1.9
Cement, Ceramics & Glass	282.5	195.3	35.7	27.0	13.4	-30.9	-24.6	1.4	1.1
Iron & Steel	880.0	883.2	153.1	121.0	10.3	0.4	-21.0	4.4	4.8
Non-Ferrous Metals	402.6	239.9	80.5	45.5	-0.5	-40.4	-43.5	2.0	1.3
General Machinery	928.1	714.3	124.1	102.0	4.2	-23.0	-17.8	4.6	3.9
Electric Machinery	1,638.3	1,235.8	98.6	91.1	-31.1	-24.6	-7.6	8.2	6.8
Electric Devices, etc.	*1,134.8*	*814.7*	*64.2*	*52.7*	*-33.4*	*-28.2*	*-18.0*	*5.7*	*4.5*
Precision Machinery	241.0	112.6	14.0	18.9	-26.4	-53.3	34.5	1.2	0.6
Transport Equipment	2,090.0	1,403.9	202.0	191.6	-7.3	-32.8	-5.2	10.4	7.7
Automobiles	*1,929.2*	*1,276.2*	*169.7*	*165.0*	*-9.4*	*-33.8*	*-2.8*	*9.6*	*7.0*
Other Manufacturing	413.4	370.2	72.5	59.0	-11.5	-10.5	-18.7	2.1	2.0
Non-Manufacturing	11,171.6	11,162.7	4,673.4	4,605.6	-5.6	-0.1	-1.5	55.7	61.3
Construction	284.8	264.4	42.2	47.4	41.7	-7.2	12.2	1.4	1.5
Wholesale & Retail	1,030.8	1,022.3	208.9	165.7	8.2	-0.8	-20.7	5.1	5.6
Retail	*867.8*	*850.1*	*144.5*	*122.8*	*1.2*	*-2.0*	*-15.0*	*4.3*	*4.7*
Real Estate	1,499.3	1,250.7	576.2	573.6	-13.3	-16.6	-0.5	7.5	6.9
Transportation	2,136.1	2,294.9	584.6	556.4	-15.2	7.4	-4.8	10.6	12.6
Electric Power & City Gas	2,761.6	3,075.8	2,813.1	2,813.7	10.6	11.4	0.0	13.8	16.9
Electric Power	*2,468.9*	*2,765.6*	*2,551.0*	*2,569.9*	*10.6*	*12.0*	*0.7*	*12.3*	*15.2*
City Gas	*292.7*	*310.2*	*262.1*	*243.9*	*10.8*	*6.0*	*-6.9*	*1.5*	*1.7*
Telecom. & Information	2,814.2	2,691.3	240.0	234.0	3.5	-4.4	-2.5	14.0	14.8
Leasing	298.3	251.2	150.1	169.5	-13.9	-15.8	12.9	1.5	1.4
Services	268.1	226.1	50.7	40.3	-4.8	-15.7	-20.4	1.3	1.2
Other Non-Manufacturing	78.4	86.0	7.6	5.0	-15.2	9.8	-34.0	0.4	0.5

Notes: 1. "Other Manufacturing" includes publishing & printing, rubber, metal products and others.
"Other Non-Manufacturing" includes fishing, mining and others.
2. Monetary amounts are in billion yen.

Appendix Table 2. Long-term Trend of Capital Spending, by Timing of Survey

FY	Total					Manufacturing					Non-Manufacturing				
	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual	Aug. of Previous Yr. Planned	Feb. of Current Yr. Planned	Aug. of Current Yr. Planned	Feb. of Following Yr. Estimated Actual	Aug. of Following Yr. Actual
1974	0.6	18.3	23.4	15.3	12.0	-6.9	27.4	35.1	26.6	22.9	7.0	9.7	10.3	2.7	-0.3
1975	21.6	9.7	5.5	-4.9	-10.3	12.9	3.8	0.3	-10.0	-16.1	30.4	17.5	12.9	2.2	-2.3
1976	14.0	9.9	16.3	12.2	5.9	8.5	-2.1	6.4	1.9	-3.5	19.1	24.5	27.7	24.0	16.4
1977	-1.5	2.1	5.7	0.8	-3.4	-11.1	-6.9	-3.1	-8.2	-11.2	7.0	10.7	14.1	9.5	4.0
1978	10.3	7.3	15.1	15.2	10.1	-0.9	-6.9	0.0	-2.2	-4.4	17.6	19.3	27.5	28.6	21.8
1979	-2.6	0.3	13.0	12.8	9.3	-6.1	4.5	19.1	21.9	18.9	-1.0	-2.2	9.1	7.0	3.3
1980	0.7	13.1	23.5	23.9	20.6	-16.0	5.2	23.3	25.8	24.8	7.8	18.8	23.7	22.6	17.5
1981	5.8	9.9	12.3	12.0	8.8	-8.2	6.7	14.5	13.0	10.4	13.2	12.4	10.5	11.1	7.5
1982	10.0	11.2	10.2	8.4	2.8	-1.8	7.2	10.3	6.6	3.8	16.3	14.5	10.1	9.9	2.0
1983	5.5	1.8	1.8	2.7	-2.1	-6.7	-5.3	-1.5	-2.6	-8.6	13.3	7.9	4.6	7.2	3.4
1984	0.7	2.6	10.5	11.3	7.6	-10.2	2.7	17.1	20.3	17.1	7.1	2.6	5.6	4.2	0.2
1985	-2.6	5.3	10.6	9.2	7.6	-9.6	5.1	12.6	9.7	8.6	0.9	5.6	9.1	8.8	6.9
1986	0.2	1.6	5.4	3.1	3.1	-9.1	-4.1	-3.6	-7.1	-9.3	5.0	5.7	12.0	10.3	12.1
1987	-0.7	0.1	3.5	6.0	4.4	-10.6	-5.6	-2.2	-0.2	-3.9	2.1	4.0	7.0	9.7	9.3
1988	-2.6	6.7	15.7	18.8	15.9	-7.1	9.3	25.3	27.5	24.7	-1.4	5.2	10.8	13.0	10.7
1989	-0.7	6.4	17.5	17.4	13.9	-4.0	9.4	26.3	26.7	22.3	0.9	4.4	11.8	11.5	8.5
1990	-1.8	8.6	17.0	16.2	14.9	-7.9	10.1	23.6	22.8	20.8	1.4	7.6	12.5	11.9	11.0
1991	0.6	4.4	10.7	8.9	8.2	-7.1	1.7	7.9	5.2	5.3	3.7	6.1	12.8	11.5	10.4
1992	0.3	-0.8	-0.9	-4.7	-7.4	-2.8	-6.4	-10.5	-15.5	-17.9	1.4	3.2	6.0	2.7	-0.0
1993	-1.5	-5.6	-4.6	-8.4	-11.4	-11.9	-12.9	-13.1	-19.0	-23.7	2.0	-1.6	0.3	-2.3	-4.5
1994	-3.3	-5.6	-2.4	-4.7	-8.0	-14.7	-9.0	-4.0	-7.1	-10.7	-0.1	-4.0	-1.6	-3.7	-6.8
1995	-1.4	0.3	6.1	5.7	2.3	-4.3	3.8	13.5	13.9	10.6	-0.7	-1.3	3.0	2.4	-1.2
1996	-3.1	0.7	9.1	8.5	6.0	-13.6	-0.6	8.8	7.0	4.8	-1.2	1.3	9.2	9.2	6.5
1997	-7.5	-1.3	4.5	2.8	-1.5	-11.1	-1.0	8.9	7.5	4.1	-6.8	-1.5	2.5	0.7	-4.0
1998	-7.5	-4.0	-1.8	-3.5	-8.0	-11.7	-6.7	-4.7	-8.5	-13.0	-6.8	-2.7	-0.3	-1.1	-5.6
1999	-4.6	-5.3	-3.7	-3.4	-8.4	-13.6	-10.1	-10.1	-11.8	-15.5	-3.1	-3.2	-0.7	0.8	-5.0
2000	-5.0	0.2	7.6	7.8	4.1	-10.9	0.3	15.2	18.0	12.5	-4.0	0.2	4.4	3.2	0.4
2001	-8.6	-5.2	0.6	-6.6	-9.3	-3.5	-0.7	6.2	-7.0	-9.7	-9.6	-7.4	-2.0	-6.3	-9.2
2002	1.4	-2.7	-0.6	-3.8	-10.3	-9.2	-8.2	-5.6	-11.4	-16.2	3.4	0.0	1.7	-0.2	-7.5
2003	-5.1	-3.0	4.9	—	-1.1	-3.9	1.1	16.2	—	11.3	-5.3	-4.8	0.2	—	-6.0
2004	-6.1	—	6.9	8.3	1.7	-11.0	—	18.8	22.3	15.4	-5.1	—	1.3	1.9	-4.6
2005	-7.6	-3.8	11.6	15.0	8.5	-7.9	3.8	19.8	22.7	15.3	-7.5	-6.3	6.9	10.6	4.7
2006	-1.0	-0.3	12.9	—	7.7	1.9	1.7	21.8	—	12.0	-2.1	-1.0	7.4	—	4.9
2007	-1.4	—	11.0	—	7.7	-4.3	—	13.5	—	6.6	-0.1	—	9.2	—	8.5
2008	-8.8	—	4.1	—	-7.1	-19.4	—	6.8	—	-9.7	-4.6	—	2.4	—	-5.6
2009	-0.9	—	-9.2			-8.6	—	-20.7			1.4	—	-0.1		
2010	-3.7					-12.2					-1.5				

Notes:
1. Shaded figures represent results of the present survey.
2. As of June 2004, the survey months changed from August and February to June and November, respectively. Therefore:
   "Aug. of Previous Yr. Planned" should be read as "Jun. of Previous Yr. Planned";
   "Feb. of Current Yr. Planned" should be read as "Nov. of Previous Yr. Planned";
   "Aug. of Current Yr. Planned" should be read as "Jun. of Current Yr. Planned";
   "Feb. of Following Yr. Estimated Actual" should be read as "Nov. of Current Year Planned"; and
   "Aug. of Following Yr. Actual" should be read as "Jun. of Following Yr. Actual."
3. In FY2006, the frequency of the survey was changed to once a year.
4. Figures are given as percentages.

Appendix Table 3. Trend of Ratio of Capital Spending to Cash Flow

FY	Projected Ratio for Current Fiscal Year				Actual Ratio in Previous Fiscal Year			
	Survey Month	Total	Manu-facturing	Non-Manufacturing	Survey Month	Total	Manu-facturing	Non-Manufacturing
1991	8/1991	129.3	104.2	150.1	8/1992	133.0	116.3	148.4
1992	8/1992	128.0	102.8	150.4	8/1993	127.4	103.8	143.8
1993	8/1993	114.1	90.0	129.2	8/1994	121.8	86.8	145.6
1994	8/1994	116.4	80.7	141.2	8/1995	113.8	76.3	138.1
1995	8/1995	113.9	79.8	136.6	8/1996	107.9	78.2	131.0
1996	8/1996	112.2	80.1	137.6	8/1997	110.5	78.7	133.6
1997	8/1997	107.7	79.9	128.0	8/1998	105.6	81.8	127.2
1998	8/1998	103.0	77.4	126.4	8/1999	101.8	80.6	116.6
1999	8/1999	90.4	60.3	114.3	8/2000	91.0	63.1	113.1
2000	8/2000	92.3	64.5	115.5	8/2001	91.8	65.7	109.5
2001	8/2001	88.6	71.2	99.8	8/2002	86.4	74.0	94.1
2002	8/2002	85.0	64.4	98.9	8/2003	75.7	56.2	88.5
2003	8/2003	79.6	63.5	90.4	6/2004	73.9	57.8	85.1
2004	6/2004	76.4	66.9	83.2	6/2005	70.8	60.7	78.8
2005	6/2005	78.5	71.5	84.3	6/2006	76.0	65.2	85.1
2006	6/2006	85.5	77.6	92.5	6/2007	78.0	70.2	84.3
2007	6/2007	84.7	74.2	93.6	6/2008	82.5	71.7	92.8
2008	6/2008	87.5	77.3	97.3	6/2009	95.5	104.5	90.0

Notes:
1. Shaded figures represent results of the present survey.
2. Ratio of capital spending to cash flow = capital spending ÷ cash flow × 100
   Cash flow:
   Where ordinary profits are positive in the industry = (ordinary profits in the industry ÷ 2) + depreciation expenses
   Where ordinary profits are negative in the industry = ordinary profits in the industry + depreciation expenses
3. Figures are given as percentages.

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