Development Bank of Japan Research Report No. 11

Survey on Planned Capital Spending for Fiscal Years 1999, 2000 and 2001 (Conducted in August 2000)

October 2000

Economic and Industrial Research Department
Development Bank of Japan

Contents

I Outline

Objectives

This survey has been conducted biannually (in February and August) since FY 1956 by the Development Bank of Japan to assess major trends in the capital spending of Japanese industry.

The Scope of Capital Spending

In this survey, capital spending refers to domestic investment in the tangible fixed assets of one's own corporation; they include buildings, structures and equipment (including ships, aircraft, rolling stock, tools and furnishings), as well as the purchase and development of land (excluding the purchase of land for subdivision in the real estate industry). Accordingly, intangible fixed assets are excluded, as are capital spending abroad and investment in subsidiaries/affiliated firms (except that "information technology investment" includes intangible fixed assets, etc. as indicated later.)

Survey Methods

The survey was conducted by means of questionnaire (sent to and completed by individual firms).

Capital spending has been calculated on a construction basis. In general, it is calculated as the sum total of tangible fixed assets including the construction in progress account (without subtracting resale value, depreciation and loss).

Target Firms

This survey covers all private firms in Japan's major industries capitalized at ¥1 billion or more.

However, it excludes agriculture, forestry, finance and insurance, medicine, etc. In addition, the Teito Rapid Transit Authority has been included in the survey despite the fact that it is classified as a (non-financial) public corporation under the System of National Accounts (SNA).

Date of Survey

August 10, 2000

Contents of the Survey

(i) Actual capital spending in FY 1999 and planned capital spending in FY 2000 and FY 2001, (ii) Details of individual construction projects in each of the above years, (iii) Anticipated revenue and expenditure in FY 1999 and FY 2000, (iv) Investment motives in FY 1999 and FY 2000, (v) Trends in land investment in FY 1999, FY 2000 and FY 2001, (vi) Capital spending abroad in FY 1999 and FY 2000, and (vii) Information technology investment in FY1999 and FY2000 (new survey item).

Responses

The responses to the survey are shown below. This survey is the largest among similar national surveys on the trend of capital spending in terms of the number of targeted firms and respondents.

	No. of Firms Targeted	No. of Firms Giving Valid Responses	Proportion of Valid Responses
Principle Business Classification	3,495	3,076	88.0%
Investment Specific Classification	4,247	3,765	88.7%

On the Totals

On industrial classification

There are two types of industrial classification: principal business classification and investment specific classification. The former classifies and totals the companies' responses based on the main business interest of each company, while the latter classifies and totals the amount of investment for each business department in a company's response according to industrial sector.

Timing of survey and years covered

The survey is conducted twice a year, in February and in August. Since the survey is conducted five times concerning the same fiscal year until the planned investments are materialized, the result reveals business sentiments in minute detail, through the extent to which planned investments have been modified for example.

Targeted FY / Timing of survey	1997	1998	1999	2000	2001
August, 1998	Actual	Modified plan	Plan for next FY		
February, 1999		Actual expected	Initial plan		
August, 1999		Actual	Modified plan	Plan for next FY	
February, 2000			Actual expected	Initial plan	
August, 2000			Actual	Modified plan	Plan for next FY
February, 2001				Actual expected	Initial plan

On the number of common firms

The number of common firms for actual capital spending in FY1999 and planned capital spending in FY2000 refers to the number of respondent firms as regards actual capital spending in FY1999 and planned capital spending in FY2000 (number of responses based on principal business classification). Among those firms, the number of common firms for planned capital spending in FY2000 and planned capital spending in FY2001 refers to the number of respondent firms as regards planned capital spending in FY2000 and FY2001.

Positive Growth for the first time in Four Years, Mainly in Manufacturing
Information technology's ripple effect on investment

II Summary

1. Overall Condition

Overall actual capital spending for all industries in FY 1999 was down 8.4%, the third consecutive year of decline. (All figures are on a construction basis; the rate of growth or decline is compared with the previous year.) Looking at planned capital spending for FY 2000, investment will turn up in both the manufacturing sector (up 15.2%) and the non-manufacturing sector (up 4.4%), meaning the first increase (7.6%) for all industries in four years.

2. Actual Capital Spending for FY 1999

Looking at actual capital spending for FY 1999, there were downward revisions in most industrial sectors after the last survey (February 2000), with the overall figure down 8.4%, the third consecutive year of decline.

3. Planned Capital Spending for FY 2000

Planned capital spending for FY 2000 will turn up in both the manufacturing sector and the non-manufacturing sector. The overall planned increase is 7.6%, the first increase in four years.

In the manufacturing sector (up 15.2%), investment will decline in the food & beverages and iron & steel industries. It will also continue to fall in the petroleum industry under a heavily restrictive mood. However, capital spending will increase substantially in electrical machinery, led by capacity investment in electronic parts such as semiconductors and liquid crystals and thus inducing parallel increases in related industries such as precision machinery (semiconductor production devices), non-ferrous metals (silicon wafer) and cement, ceramics & glass (glass for liquid crystal display). Investment will also turn up in automobiles and chemicals, recovering from restrictive trends. The result will be the first increase in three years in capital spending for manufacturing as a whole, with increases expected in most industries. In the non-manufacturing sector (up 4.4%), increases in spending are planned in telecommunications & information technology thanks to increased demand for cellular phones and adaptation to next-generation models. Increase is also expected in railways due to progress in the construction of new lines and the expansion of existing lines in the Tokyo metropolitan area, as well as in wholesale & retail thanks mainly to accelerated establishment of new outlets prompted by the promulgation of the Large-scale Retail Store Law and to investments in information technology. In addition, the electric power and leasing industries also envisage increase in investment. Taken as a whole, these factors will lead to the first overall increase in four years in capital spending in the non-manufacturing sector.

In comparison to the previous survey (February 2000), investment was revised upwards in both the manufacturing sector (up 9.8%) and the non-manufacturing sector (up 1.1%). This means an overall upward revision of 3.7%. This is the first time in three years that upward revision is observed in both the manufacturing sector and the non-manufacturing sector in the August survey. The upward revision for manufacturing in particular represents the highest level since FY 1990 (10.8%).

A comparison of each half of FY 2000 with the corresponding period in the previous year for all industries predicts an overall increase of 13.7% in the first half of FY 2000, and a growth of 2.5% in the second half.

Looking at the respective shares of different investment motives for manufacturing, increase can be observed in “expansion of production capacity,” “product development and upgrading” and “research and development.” for both the materials industry and the processing & assembly industry. The share of “expansion of production capacity” rose in many industries including those envisaging increased investments related to electronic parts, such as electrical machinery, precision machinery and non-ferrous metals. In particular, the share is the largest in the processing & assembly industry since FY1995, the previous recovery phase. “Product development and upgrading” and “research & development” also increased their shares with contribution from industries such as electrical machinery and chemicals. Meanwhile, the weight declined for “rationalization and labor saving” and “maintenance.”

Land investment shows a big drop of 32.0% from the previous year, with double-figure reductions planned in both the manufacturing and non-manufacturing sectors. The decline is particularly steep in manufacturing (down 68.7%). As a result, the share of land investment in total capital spending will drop from 6.3% to 3.9%.

Turning to capital spending abroad (up 13.3%), there is a rise in the manufacturing sector that account for the largest share of the investment amounts in the responses to the questionnaire, as a double-digit increase is expected in the processing & assembly industry (up 17.5%) led by active investments in electrical machinery and transport equipment, and as the materials industry is also expected to increase capital spending (up 4.1%), led by non-ferrous metals and cement, ceramics & glass. In the manufacturing sector, the ratio of capital spending abroad to domestic capital spending will fall from 27.2% in FY 1999 to 26.7% in FY 2000, due to substantial increase in domestic capital spending.

The domestic capital spending of foreign-affiliated firms (firms with over one-third foreign ownership; 153 respondents) shows a substantial increase of 41.3% to ¥816.8 billion thanks to double-digit increases in all industries except energy. Foreign-affiliated firms now account for 3.1% of total capital spending in Japan.

Looking at information technology investment, double-digit increase is expected in both the manufacturing sector (up 18.8%) and the non-manufacturing sector (15.4%). Accordingly, the total for all industries will rise 16.6%, by far exceeding the growth of total capital spending (4.4%). As percentage of IT investment, fixed tangible assets and leasing account for the majority (52.2% in actual figure for 1999), followed by fixed intangible assets (27.8%).

The ratio of capital spending to cash flow (net profit/loss plus depreciation expenses) will fall in both the manufacturing sector and the non-manufacturing sector, because of a larger number of firms that project improvements in their profit picture.

4. Features of Planned Capital Spending for FY 2000

Prospects of capital investment is getting brighter, albeit with some variance among industries, as both the manufacturing and non-manufacturing sectors plan to increase investment.

Investment will increase substantially in electrical machinery led by semiconductors and LC (liquid crystal) display. This will be accompanied by parallel increases in related fields. In addition, cement, ceramics & glass and precision machinery, which already confirmed planned increase in capital spending in the previous survey, are now joined by non-ferrous metals (led by wafer-related investment) and general machinery (led by investment in OA equipment in response to digitalization) in the recovery. The movement indicates a chain reaction of investment related to information technology. Capital investment in the telecommunications & information technology industry will also turn up mainly due to the start of investments in next-generation cellular phones.

Cautious attitude continues however in some heavy-spending industries. Restrictive mood lingers on in automobiles and chemicals despite planned recovery in capital spending, while planned investment may be adjusted downward in electric power. The difference in tendency is all the more marked because the wholesale & retail industry is affected by the special factor of accelerated establishment of outlets before the promulgation of the Large-scale Retail Store Law.

5. Planned Capital Spending for FY 2001

Planned capital spending for FY 2001 shows and overall decline of 8.6%, although many investment projects still remain uncertain in both the manufacturing (down 3.5%) and non-manufacturing (down 9.6%) sectors.

Trends in Capital Spending for FY 1999 through FY 2001

(Units: 100 million yen, %)

	FY 1999 Survey (Actual) (2,752firms)			FY 2000 Survey (Planned) (3,076 firms)			FY 2001 Survey (Planned) (1,579 firms)		
	FY 1998 (Actual)	FY 1999 (Actual)	Growth rate 99/98	FY 1999 (Actual)	FY 2000 (Planned)	Growth rate 2000/99	FY 2000 (Planned)	FY 2001 (Planned)	Growth rate 2001/2000
Total	258,114	236,433	-8.4	242,682	261,227	7.6	105,970	96,887	-8.6
(except Electric Power)	*(216,928)*	*(197,568)*	*(-8.9)*	*(203,814)*	*(221,214)*	*(8.5)*	*(74,801)*	*(66,883)*	*(-10.6)*
Manufacturing	83,477	70,498	-15.5	72,582	83,586	15.2	17,463	16,844	-3.5
Non-Manufacturing	174,637	165,936	-5.0	170,100	177,641	4.4	88,507	80,043	-9.6
(except Electric Power)	*(133,450)*	*(127,070)*	*(-4.8)*	*(131,232)*	*(137,628)*	*(4.9)*	*(57,339)*	*(50,039)*	*(-12.7)*
(Electric Power)	*(41,187)*	*(38,866)*	*(-5.6)*	*(38,868)*	*(40,013)*	*(2.9)*	*(31,169)*	*(30,004)*	*(-3.7)*

Growth of Capital Spending, FY 1986-FY 2000

Capital Spending by Industry for Fiscal Years 1999-2001

(Units: 100 million yen, %)

	Capital Spending (hundred million yen)				Growth Rate (%)			Component Rate (%)	
	FY1999 (Actual)	FY2000 (Planned)	FY2000 (Planned)	FY2001 (Planned)	99/98	2000/99	2001/2000	FY1999 (Actual)	FY2000 (Planned)
	(3,076 firms)		(1,579 firms)					(3,076 firms)	
Total	242,682	261,227	105,970	96,887	-8.4	7.6	-8.6	100.0	100.0
except Electric Power	*(203,814)*	*(221,214)*	*(74,801)*	*(66,883)*	*(-8.9)*	*(8.5)*	*(-10.6)*	*(84.0)*	*(84.7)*
Manufacturing	72,582	83,586	17,463	16,844	-15.5	15.2	-3.5	29.9	32.0
Food & Beverages	5,800	5,706	1,399	1,368	-2.7	-1.6	-2.2	2.4	2.2
Textiles	831	761	73	61	-12.8	-8.4	-16.0	0.3	0.3
Paper & Pulp	1,764	2,196	577	644	-29.4	24.5	11.5	0.7	0.8
Chemicals	9,414	10,574	3,038	2,814	-22.4	12.3	-7.3	3.9	4.0
Organic Chemicals	*(4,179)*	*(4,349)*	*(1,377)*	*(1,408)*	*(-20.8)*	*(4.1)*	*(2.3)*	*(1.7)*	*(1.7)*
Pharmaceuticals	*(1,972)*	*(2,448)*	*(961)*	*(838)*	*(-26.8)*	*(24.2)*	*(-12.7)*	*(0.8)*	*(0.9)*
Petroleum	1,481	1,291	474	539	-32.3	-12.8	13.7	0.6	0.5
Cement, Ceramics & Glass	1,769	2,397	641	619	-20.2	35.5	-3.5	0.7	0.9
Iron & Steel	4,974	4,222	1,358	992	-14.0	-15.1	-27.0	2.0	1.6
Ordinary Steel	*(4,211)*	*(3,484)*	*(1,064)*	*(688)*	*(-10.6)*	*(-17.3)*	*(-35.3)*	*(1.7)*	*(1.3)*
Non-Ferrous Metals	1,914	2,747	1,051	1,143	-30.5	43.5	8.8	0.8	1.1
General Machinery	4,557	4,991	912	893	-28.3	9.5	-2.1	1.9	1.9
Electric Machinery	19,817	26,687	4,254	4,531	-0.0	34.7	6.5	8.2	10.2
Electric Devices, etc.	*(12,882)*	*(18,885)*	*(3,563)*	*(3,798)*	*(3.2)*	*(46.6)*	*(6.6)*	*(5.3)*	*(7.2)*
Precision Machinery	1,078	1,659	343	279	-29.2	54.0	-18.7	0.4	0.6
Transportation	13,784	14,761	2,270	2,017	-19.2	7.1	-11.2	5.7	5.7
Automobiles	*(12,957)*	*(13,972)*	*(2,176)*	*(1,930)*	*(-18.6)*	*(7.8)*	*(-11.3)*	*(5.3)*	*(5.3)*
Other Manufacturing	5,400	5,596	1,073	944	-19.2	3.6	-12.0	2.2	2.1
Non-Manufacturing	170,100	177,641	88,507	80,043	-5.0	4.4	-9.6	70.1	68.0
except Electric Power	*(131,232)*	*(137,628)*	*(57,339)*	*(50,039)*	*(-4.8)*	*(4.9)*	*(-12.7)*	*(54.1)*	*(52.7)*
Construction	1,957	1,736	515	462	-35.0	-11.3	-10.4	0.8	0.7
Wholesale & Retail	12,633	13,622	5,765	3,656	-8.5	7.8	-36.6	5.2	5.2
Retail	*(9,821)*	*(11,204)*	*(4,836)*	*(2,970)*	*(-6.9)*	*(14.1)*	*(-38.6)*	*(4.0)*	*(4.3)*
Real Estate	9,600	8,973	4,492	2,754	-19.2	-6.5	-38.7	4.0	3.4
Transportation	18,462	20,753	9,051	5,822	-2.7	12.4	-35.7	7.6	7.9
Railways	*(12,526)*	*(14,708)*	*(5,306)*	*(3,175)*	*(0.9)*	*(17.4)*	*(-40.2)*	*(5.2)*	*(5.6)*
Marine Transport	*(688)*	*(393)*	*(314)*	*(112)*	*(-48.7)*	*(-42.8)*	*(-64.5)*	*(0.3)*	*(0.2)*
Airlines	*(2,175)*	*(1,261)*	*(773)*	*(524)*	*(13.1)*	*(-42.0)*	*(-32.2)*	*(0.9)*	*(0.5)*
Warehousing, etc.	*(1,863)*	*(2,975)*	*(2,191)*	*(1,606)*	*(20.8)*	*(59.7)*	*(-26.7)*	*(0.8)*	*(1.1)*
Electric Power & City Gas	42,073	43,764	34,875	33,097	-6.3	4.0	-5.1	17.3	16.8
Electric Power	*(38,868)*	*(40,013)*	*(31,169)*	*(30,004)*	*(-5.6)*	*(2.9)*	*(-3.7)*	*(16.0)*	*(15.3)*
City Gas	*(3,205)*	*(3,751)*	*(3,707)*	*(3,093)*	*(-14.1)*	*(17.0)*	*(-16.6)*	*(1.3)*	*(1.4)*
Telecom.& Information	37,269	38,415	13,027	13,093	-12.5	3.1	0.5	15.4	14.7
Leasing	42,731	45,091	19,960	20,542	7.6	5.5	2.9	17.6	17.3
Services	5,011	4,941	703	538	38.9	-1.4	-23.4	2.1	1.9
Other Non-Manufacturing	364	346	118	79	-8.0	-5.2	-33.1	0.2	0.1

Note: Other Manufacturing Industries includes Publishing & Printing, Rubber, Metal Products and Others.
Other Non-Manufacturing Industries includes Fishing, Mining and Others.

III Survey Results

1. Actual Capital Spending for FY 1999

Outline

Overall actual capital spending for FY 1999 was down 8.4% from the previous year, the third consecutive year of decline. In the manufacturing sector (down 15.5%), except for the electric machinery industry, which almost kept previous year's level (down 0.0%) as investment turned upward in the second half of the fiscal year, spending fell in almost all industries including chemicals and automobiles, resulting in a double-digit decline for the second consecutive year. In the non-manufacturing sector (down 5.0%), spending rose substantially in the service industry, led by large-scale theme parks. Investment also increased in leasing, backed by the substitution of plant and equipment investment with leased facilities and the transfer of assets from small-sized leasing firms. Nevertheless, controls on spending in the nine electric power companies continued. There were also drops in spending in many other industries including telecommunications & information technology, affected by decrease in the number of fixed phones and reactionary drop in head office-related investments. These factors resulted in an overall reduction in capital spending in the non-manufacturing sector for the third year running.

Trends by Industrial Sector

The trends in actual capital spending for FY 1999, classified according to industrial sector, are as follows. Numbers in curly brackets { } show the percentage of total capital spending accounted for by each sector.

Materials (down 21.5%) {8.5%}

Total capital spending in the materials sector declined for a second consecutive year with some acceleration, as double-digit drop was recorded in all industry including chemicals, which represents a large portion of materials sector spending.

In the chemical industry, spending controls continued in organic chemicals while plant construction in pharmaceuticals came to a respite. Capital spending also declined in inorganic and other chemicals. As regards iron & steel, overall tone continued to be that of spending control despite large-scale renewals of facilities by some major furnace steel makers, resulting in the first decline in two years. In non-ferrous metals, the decline accelerated chiefly because of lower cable-related spending. The paper & pulp industry experienced a second consecutive substantial drop as investments to expand continuous paper manufacturing machinery for coated paper and newspaper had been completed by the previous fiscal year. The size of spending cuts in the cement, ceramics & glass industry increased due to substantial decline in other cement and ceramics, despite capacity investments by some manufacturers in glass wiring board for LC display. Spending controls also continued in textiles.

Processing & Assembly (down 12.2%) {20.7%}

Spending in the processing & assembly sector declined for the second consecutive year with accelerated drop in automobiles, general machinery and precision machinery although the spending reduction in electric machinery, which represents a large portion of this sector, has bottomed out and the decline slowed in food & beverages.

In electric machinery, spending cutbacks in electronic and electrical equipment was more than offset by rapid recovery in electronic parts, which account for more than half of the investment in this industry, led by liquid crystals and semiconductors. As a result, the decline in capital spending in the industry slowed substantially and has almost leveled off. In food & beverages, the decline also slowed substantially with the construction of new plants and large-scale renewal investments in other food and beverages.

Spending in automobiles recorded a double-digit drop with the completion of investments to meet new standards as controls on spending continued. In general machinery, spending was curtailed substantially, mainly in reaction to the large-scale investments in the previous year. In precision machinery, overall spending fell by double figures as a result of curbs on investment in semiconductor manufacturing equipment as well as in clocks and other measuring instruments.

Energy (down 7.4%) {18.5%}

The energy sector recorded a decrease in capital spending for the sixth consecutive year.

In the electric power industry, an underlying tone of curbs on investment at Japan's nine electric power companies has resulted in downward revisions for the sixth year running. In the gas industry as well, investment in production and distribution facilities was revised downward and spending decreased for the fourth consecutive year. Large cutbacks in petroleum also continued due to controls on spending into refining and distribution facilities, despite investments for environmental conservation measures such as lowering benzene content in gasoline.

Non-Manufacturing, excluding Energy (down 4.5%) {52.3%}

Despite higher capital spending in the leasing and service industries, total spending in non-manufacturing excluding energy fell for the third year running, reflecting cutbacks in real estate, wholesale & retail, construction and transportation and as investment turned down in telecommunications & information technology.

In leasing, capital spending turned up under an improved climate for financing, backed by the substitution of plant and equipment investment with leasing and capital transfers from small-sized leasing firms. Investment in services also increased substantially led by the construction of large-scale theme parks in the waterfront area.

Despite substantial investment in cellular phones, capital spending in the telecommunication & information technology industry turned down due to reduced spending on fixed phones and the Personal Handy-phone Systems (PHS), as well as to reactionary decline in investments in information services related to systems and head offices. The real estate industry and the wholesale & retail industry both experienced decreases in spending, the former due to the completion of local projects and the latter due to spending restriction by supermarkets and convenience stores' cautious attitude in establishing new outlets. Spending in construction declined for the seventh consecutive year as restriction in investment continued. The transportation industry also curtailed capital spending mainly due to the peaking out of investment in LNG ships in marine transport.

Trends in Capital Spending by Industry Sector

	Growth Rate (%)					Share (%)			
	FY1997	FY1998	FY1999	FY2000	FY2001	FY1997	FY1998	FY1999	FY2000
Materials	3.6	-12.8	-21.5	10.8	-6.9	10.0	9.7	8.5	8.8
Paper & Pulp	*(4.8)*	*(-33.8)*	*(-29.4)*	*(24.5)*	*(11.5)*	*(1.3)*	*(1.0)*	*(0.7)*	*(0.8)*
Chemicals	*(14.5)*	*(-10.2)*	*(-22.4)*	*(12.3)*	*(-7.3)*	*(4.3)*	*(4.3)*	*(3.9)*	*(4.0)*
Iron & Steel	*(-12.0)*	*(0.3)*	*(-14.0)*	*(-15.1)*	*(-27.0)*	*(2.0)*	*(2.2)*	*(2.0)*	*(1.6)*
Processing & Assembly	7.3	-12.1	-12.2	17.8	-2.1	21.7	21.0	20.8	22.7
Food & Beverages	*(31.5)*	*(-12.1)*	*(-2.7)*	*(-1.6)*	*(-2.2)*	*(2.2)*	*(2.2)*	*(2.4)*	*(2.2)*
Electric Machinery	*(-1.1)*	*(-21.9)*	*(-0.0)*	*(34.7)*	*(6.5)*	*(8.0)*	*(7.2)*	*(8.2)*	*(10.2)*
Automobiles	*(17.0)*	*(-4.2)*	*(-18.6)*	*(7.8)*	*(-11.3)*	*(5.6)*	*(5.9)*	*(5.3)*	*(5.3)*
Energy	-9.4	-9.2	-7.4	3.3	-4.8	17.8	17.6	18.0	17.3
Petroleum	*(-32.2)*	*(-32.5)*	*(-32.3)*	*(-12.8)*	*(13.7)*	*(1.1)*	*(0.8)*	*(0.6)*	*(0.5)*
Electric Power	*(-7.9)*	*(-8.0)*	*(-5.6)*	*(2.9)*	*(-3.7)*	*(15.3)*	*(15.4)*	*(16.0)*	*(15.3)*
Non-Manufacturing excluding Energy	-2.8	-4.8	-4.5	4.6	-12.5	50.5	51.6	52.7	51.2
Construction	*(-10.5)*	*(-16.6)*	*(-35.0)*	*(-11.3)*	*(-10.4)*	*(1.3)*	*(1.2)*	*(0.8)*	*(0.7)*
Wholesale & Retail	*(-7.0)*	*(-1.7)*	*(-8.5)*	*(7.8)*	*(-36.6)*	*(4.4)*	*(4.8)*	*(5.2)*	*(5.2)*
Real Estate	*(2.0)*	*(-19.2)*	*(-19.2)*	*(-6.5)*	*(-38.7)*	*(4.6)*	*(4.3)*	*(4.0)*	*(3.4)*
(3.4)	*(-10.2)*	*(-8.8)*	*(-2.7)*	*(12.4)*	*(-35.7)*	*(7.2)*	*(7.0)*	*(7.6)*	*(7.9)*
Telecom.& Information	*(-6.1)*	*(3.7)*	*(-12.5)*	*(3.1)*	*(0.5)*	*(14.5)*	*(16.4)*	*(15.4)*	*(14.7)*
Leasing	*(5.1)*	*(-6.5)*	*(7.6)*	*(5.5)*	*(2.9)*	*(17.3)*	*(16.5)*	*(17.6)*	*(17.3)*
Services	*(-5.3)*	*(-7.1)*	*(38.9)*	*(-1.4)*	*(-23.4)*	*(1.2)*	*(1.3)*	*(2.1)*	*(1.9)*
All Industries	-1.5	-8.0	-8.4	7.6	-8.6	100.0	100.0	100.0	100.0
excluding Electric Power	*(-0.2)*	*(-8.0)*	*(-8.9)*	*(8.5)*	*(-10.6)*	*(84.7)*	*(84.6)*	*(84.0)*	*(84.7)*
Manufacturing	4.1	-13.0	-15.5	15.2	-3.5	32.8	31.6	29.9	32.0
Non-Manufacturing	-4.0	-5.6	-5.0	4.4	-9.6	67.2	68.4	70.1	68.0
excluding Electric Power	*(-2.8)*	*(-4.9)*	*(-4.8)*	*(4.9)*	*(-12.7)*	*(51.9)*	*(53.0)*	*(54.1)*	*(52.7)*

Note 1: Materials: textiles; paper & pulp; chemicals; cement, ceramics & glass; iron & steel; non-ferrous metals
Processing & assembly: food & beverages; general machinery; electric machinery; precision machinery; transportation; other manufacturing
Energy: petroleum; electric power; city gas and coal; crude oil & natural gas
Non-manufacturing, excluding energy: Non-manufacturing industries excluding those industries mentioned in ‘energy’ above

Note 2: Share % for FY 1999 and FY 2000 are based upon 3,076 companies that responded to the survey in both years

2. Planned Capital Spending for FY 2000

Outline

Taking a look at planned capital spending for FY 2000, capital spending is expected to turn up in both the manufacturing and non-manufacturing sectors, meaning the first overall increase (7.6%) in four years..

In the manufacturing sector (up 15.2%), the food & beverage and iron & steel industries will curtail spending mainly as a result of the completion of large-scale investment projects in the previous year. Spending will also continue to decline in petroleum under a strongly restrictive environment. Meanwhile, capital spending in electrical machinery will increase substantially led by capacity investments in semiconductors, liquid crystals and other electronic parts, thus inducing increased spending in related industries including precision machinery, non-ferrous metals and cement, ceramics & glass. Capital spending is expected to turn up in other industries previously affected by restrictive environment, including automobiles with investment in new models and chemicals led by pharmaceuticals and other chemicals. As a result of increased spending planned in many industries, total investment will rise for the first time in three years.

In the non-manufacturing sector (up 4.4%), increases in investment are planned in telecommunications & information technology, led by increased demand for cellular phones and spending in response to next-generation models. Spending will also increase in railways for healthy progress in the construction of new lines and extensions of existing lines in the Tokyo metropolitan area, and in wholesale & retail, mainly due to accelerated construction of new outlets prior to the promulgation of the Large-scale Retail Stores Law as well as to increased investment in information technology. Increased spending is also planned in electric power and leasing. Thus, overall spending in the non-manufacturing sector is expected to increase for the first time in four years.

Trends by Industrial Sector

The trends in planned capital spending for FY 2000, classified according to industrial sector, are as follows. Numbers in curly brackets { } show the percentage of total planned capital spending accounted for by each sector.

Materials (up 10.8%) {8.8%}

The materials sector will record the first increase in three years despite negative growth in iron & steel and textiles, due in part to significant increases in non-ferrous metals and cement, ceramics & glass led by capacity investments related to information technology. Contribution will also come from double-digit increase in the heavily-weighted chemical industry, as well as from substantial growth in paper & pulp.

In the iron & steel industry, capital spending will continue to decline as large-scale investment projects in the previous year has been completed. Spending in textiles will also decline for the third straight year despite some investments in non-woven fabrics, with the completion of head office-related investment projects.

Capital spending will turn to substantial increase in non-ferrous metals, led by investments related to optical cables and semiconductor wafers (including 300mm wafers) as well as in cement, ceramics & glass, backed by capacity investments in glass for LC display and ceramic products. The chemical industry also plans a double-digit increase, mainly for increased capacity in pharmaceuticals and other chemicals. In addition, capital spending will turn to a substantial increase in paper & pulp, mainly due to the introduction of new machines accompanying the reconstruction of production systems for corrugating medium and whiteboard.

Processing & Assembly (up1 7.8%) {22.7%}

Capital spending in the processing & assembly sector is expected to rise substantially for the first time in three years despite a slight decline in food & beverages, due to huge increases in electrical machinery and precision machinery and upturns in automobiles and general machinery.

In the electrical machinery industry, spending will increase rapidly in electronic parts, which account for more than half of spending in the industry, backed by capacity investments in semiconductors and liquid crystals. This, along with increased spending on electronic equipment including computers and communication equipment, will result in a substantial growth of investment in the industry as a whole.

In the precision machinery industry as well, spending will rise substantially for the first time in three years, as a significant growth is envisaged in the heavily-weighted semiconductor manufacturing devices and clocks & other measuring instruments, mainly related to semiconductors and liquid crystals.

In the automobile industry, investment will increase for the first time in three years despite the continuation of restrictive tone overall, thanks to investment into new models and for rationalization. In the general machinery industry, overall spending will also rise for the first time in three years despite spending controls on boilers and motors, as investment in machinery for office & household use will increase by double figures mainly for new products and spending on general machinery parts is expected to continue its growth mainly for capacity building against the backdrop of perceived tightness in supply and demand.

Energy (up 3.3%) {17.3%}

The energy sector is expected to show growth for the first time in seven years.

In the electric power industry, despite the continuing underlying tone of squeezes on investment, an overall increase in capital spending is planned due to the good progress being made by the nine major electric power companies in construction related to the development of power sources such as atomic power stations, and as other power suppliers will also increase investment related to atomic fuels and in wholesale power supply activities. In the gas industry, capital spending is expected to rise for the first time five in years thanks to expected increase in investment in city gas as the construction of LNG bases will progress in full swing. The petroleum industry plans overall cuts for the eighth consecutive year despite investments related to the consolidation of distribution facilities, as restraints on spending at refineries are continued.

Non-Manufacturing, excluding Energy (up 4.6%) {51.2%}

Looking at the non-manufacturing sector excluding energy, cuts in spending are planned in the real estate and construction industries while investment in services will turn down. But total spending in this sector will rise for the first time in four years because spending will continue to grow in leasing and will turn up in the transportation, telecommunication & information technology and wholesale & retail industries.

In real estate, capital spending will decline for the third straight year despite building redevelopment in the metropolitan areas, because of continued checks on investment. Spending will also decline in the construction industry for the eighth consecutive year, as cutbacks in investment continues. Service investment will experience a slight setback largely due to the completion of hotel construction although the construction of large theme spark will reach the pinnacle.

Capital spending in leasing will continue to increase as a result of recovery in overall investment and increased demand for leasing in asset replacement. In transportation, capital spending will rise by double figures thanks to the construction of new lines and extension of existing lines in the Tokyo metropolitan area and the full progress of new airport construction. As regards the telecommunications & information technology industry, spending will turn up thanks to increase in demand for cellular telephones and investment in next-generation products. In the wholesale & retail industry, capital spending will increase for the first time in four years, backed by accelerated investment in new outlets prior to the promulgation of the Large-scale Retail Store Law and IT investment by convenience stores.

Trends and Features of Capital Spending by Industry

Trends and features of capital spending for main industries are shown below. The figures in parentheses ( ) indicate the rate of growth in capital spending for the industry in question (FY 1999→ FY 2000). The figures in curly brackets { } show each industry's share of planned spending for FY 2000 as a percentage of the total value for all industries.

Materials

Chemicals: (-22.4% → 12.3%) {4.0%}

For organic chemicals, which accounts for the majority of the chemical industry, as well as for inorganic chemicals, spending will increase largely due to investment for rationalization. For pharmaceuticals, spending will increase substantially mainly on capacity buildup including plant construction. Spending for other chemicals will also record a double-digit growth. Combining all of these factors, capital spending in the chemical industry as a whole is expected to rise for the first time in three years.

Iron & Steel: (-14.0% → -15.1%) {1.6%}

Despite continued investment to update facilities by some blast furnace producers, the industry will once again see an overall decline in total spending due to the completion of large-scale investment projects in the previous year..

Non-Ferrous Metals: (-30.5% → 43.5%) {1.1%}

Thanks to increased investment related to optical cables and semiconductor wafers including 300mm wafers, the industry will record a substantial increase in capital spending for the first time in three years.

Paper & Pulp: (-29.4% → 24.5%) {0.8%}

Despite continued checks on spending, investment in the industry will rise for the first time in three years mainly due to the introduction of new machines accompanying the reconstruction of production systems for corrugating medium and whiteboard.

Cement, Ceramics & Glass: (-20.2% → 35.5%) {0.9%}

Although spending restriction will continue in cement, capacity investment is expected in glass, particularly in glass for LC display. Capacity investment in other cement, ceramics and glass is also expected, especially for ceramic products thanks to buoyant semiconductor production. For the industry as a whole, spending will increase for the first time in five years.

Textiles: (-12.8% → -8.4%){ 0.3%}

Despite some capacity investment in non-woven fabrics, there will be a decrease in capital spending for the third straight year due to the completion of head office-related investment projects.

Processing & Assembly

Electric Machinery: (-0.0% → 34.7%){10.2%}

For electronic parts, which account for the majority of the electric machinery industry, spending will increase substantially due to capacity investment mainly in semiconductors and liquid crystals. Spending on electronic devices will increase largely related to computers and communication equipment. In electric devices, investment will turn up after four consecutive years of decline.

Thus, overall spending will record a significant growth.

Automobiles: (-18.6% → 7.8%) {5.3%}
For four-wheel vehicles, capital spending will increase despite continued restriction, as some manufacturers plan to increase investment for new types of vehicles as part of their business restructuring programs. For parts/bodies, spending will also increase despite a restrictive tone, with investment for new models and rationalization. As a result, overall capital spending will rise for the first time in three years in this industry.

Food & Beverages: (-2.7% → -1.6%) {2.2%}
Although spending will increase in processed meat & dairy products, flour milling, sugar manufacture, edible oils and beer & other alcoholic beverages, a reactionary drop to previous year's new plant construction is expected in other foodstuffs. As a whole, investment will continue to decline in the industry.

General Machinery: (-28.3% → 9.5%) {1.9%}
Although restriction will continue for boilers and motors, a double-digit growth is expected for office & household machinery mainly due to response to new products. Continued increase is also expected for general machinery parts, led by capacity investment against the backdrop of perceived tightness in supply and demand. Moreover, investment will turn up in metal processing machinery and industrial machinery. Thus, capital spending for the general machinery industry as a whole will increase for the first time in three years.

Precision Machinery: (-29.2% → 54.0%) {0.6%}
Decline in spending will continue for medical instruments. For the heavily-weighted semiconductor manufacturing equipment and clocks & other measuring instruments, however, spending will increase substantially thanks to the buoyant production of semiconductors and liquid crystals. On balance, spending for the precision machinery industry as a whole will turn to a substantial increase after three consecutive years of decline.

Energy

Electric Power: (-5.6% → 2.9%) {15.3%}
Despite continued restrictive tone, spending will increase for the nine electric power companies, thanks to good headway being made in construction projects related to the development of power sources such as nuclear power stations. There will also be a growth in the rest of electric power industry, due in part to healthy progress in investment related to nuclear fuel and wholesale power supply activities.

Gas: (-14.1% → 17.0%) {1.4%}
For city gas, increased spending is planned thanks to the full-scale commencement of large-scale construction of LNG bases in some regions. Spending will also turn up at LNG suppliers thanks to large-scale investment projects. Added to planned increase in spending for heat supplies, capital spending in the gas industry as a whole will rise for the first time in five years.

Petroleum: (-32.3% → -12.8%) {0.5%}
Although there will be some increases in investment in distribution facilities related to consolidation, restraints on investment into refineries will continue. Overall, capital spending in

the petroleum industry will decline for the eighth consecutive year.

Non-Manufacturing Industries, excluding Energy

Leasing: (7.6% → 5.5%) {17.3%}
Amid improvement in the overall picture of capital spending, spending in leasing will continue to increase as a result of increased demand for leasing in asset replacement as well as the leasing of information equipment.

Telecommunications & Information Technology: (-12.5% → 3.1%) {14.7%}
For telecommunications, which is the mainstay of this industry, spending will turn up thanks to new investments in next-generation models as well as to continued increase in demand for cellular telephones. Although companies will be reducing capital spending for information services after large increases in spending related to system construction, investment will increase in broadcasting, mainly for cable TV. Thus, capital spending will regain positive growth for the whole industry.

Railways: (0.9% → 17.4%) {5.6%}
Continued increase in capital spending is planned thanks to progress in the construction of new lines and line extensions in the Tokyo metropolitan area.

Wholesale & Retail: (-8.5% → 7.8%) {5.2%}
In wholesale, spending will be cut for the second straight year despite investments related to head offices and redevelopment. In retail, the prospect of investment by some supermarkets, cooperatives and specialized stores in new outlet development ahead of the enforcement of the Large-scale Retail Store Law (June 2000) and IT investments by convenience stores in introducing services for the EC will result in the first spending increase for the industry as a whole in four years.

Real estate: (-19.2% → -6.5%) {3.4%}
Although construction of large office buildings is healthily progressing in the Tokyo metropolitan area, in general there is a continued pause in investment, meaning an overall drop in capital spending for the third year in a row.

Services: (38.9% → -1.4%) {1.9%}
Although investment in the construction of large-scale theme parks is expected to reach its peak, investment in hotels and inns will turn down with the completion of large-scale construction projects, leading to an overall decline in capital spending..

Warehousing & Transportation: (20.8% → 59.7%) {1.1%}
Despite expected respite in investment in warehousing, spending will increase substantially, benefiting from investments in new airport construction, which will progress in full swing.

Construction: (-35.0% → -11.3%) {0.7%}
In construction there, will be reduced investment for the eighth straight year, with the continuation of overall restraints on investment as future business conditions remain uncertain.

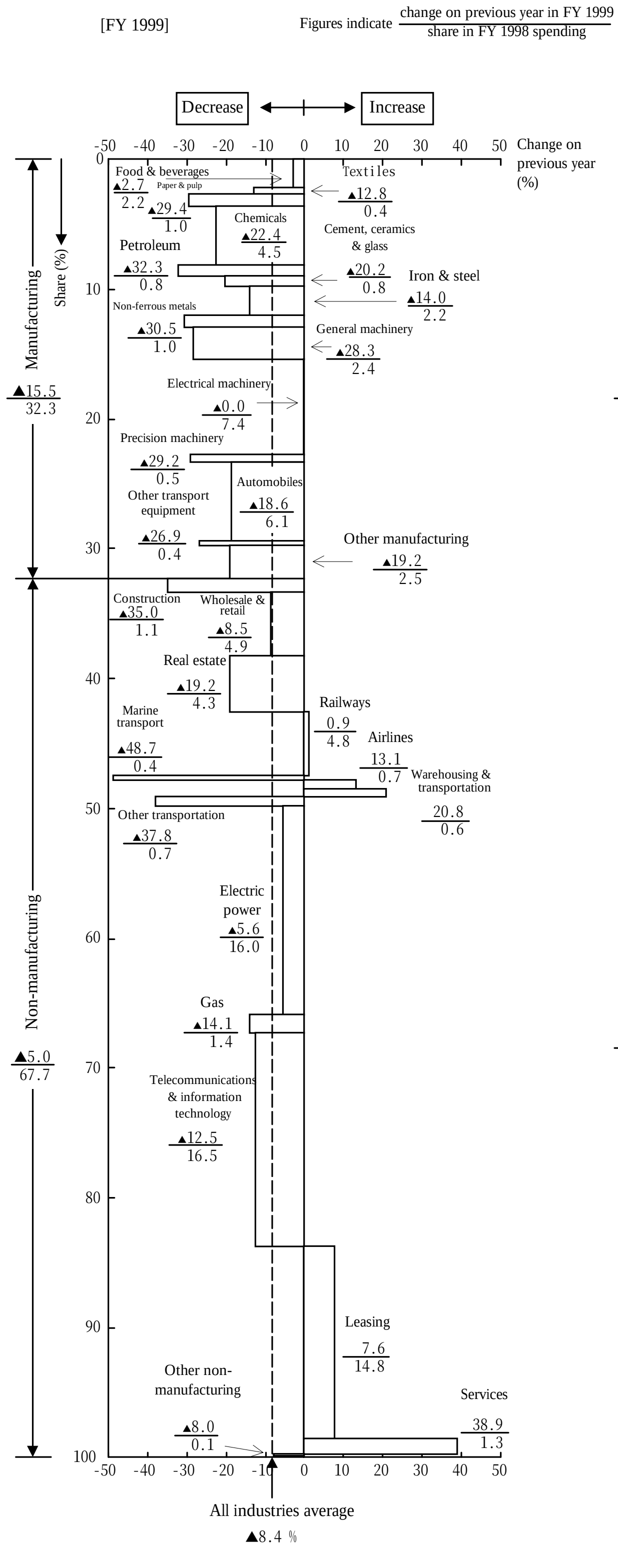
Airlines: (13.1% → -42.0%) {0.5%}
Despite increase in spending for ground facilities and spare parts, industry spending overall will show a substantial decline due to reduced introduction of new aircraft as each major company carries out plans to improve management efficiency.

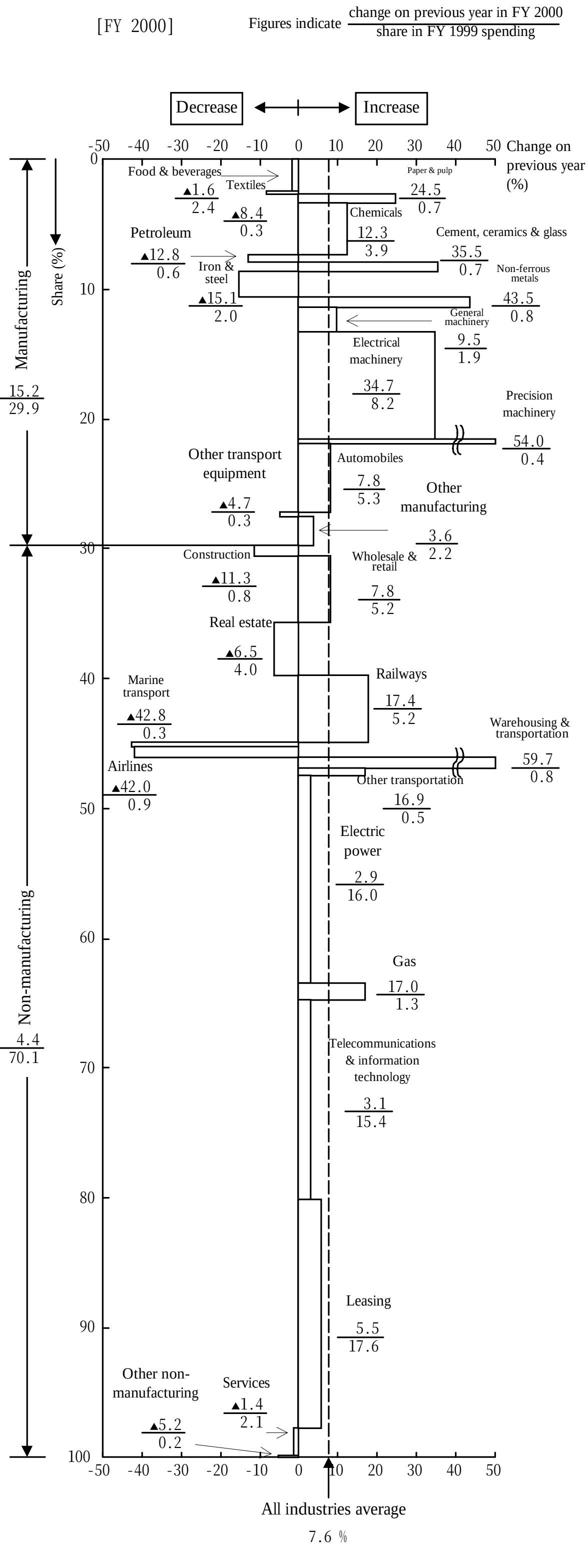
Marine Transport: (-48.7% → -42.8%) {0.2%}
With reduction in spending on the construction of LNG transport ships, investment will continue to decline sharply.

3. Planned Capital Spending for FY 2001

Planned capital spending for FY 2001 for all industries shows an overall decrease of 8.6%. In both the manufacturing sector (down 3.5%) and the non-manufacturing sector (down 9.6%), however, there are a large number of capital spending decisions that still have not been made.

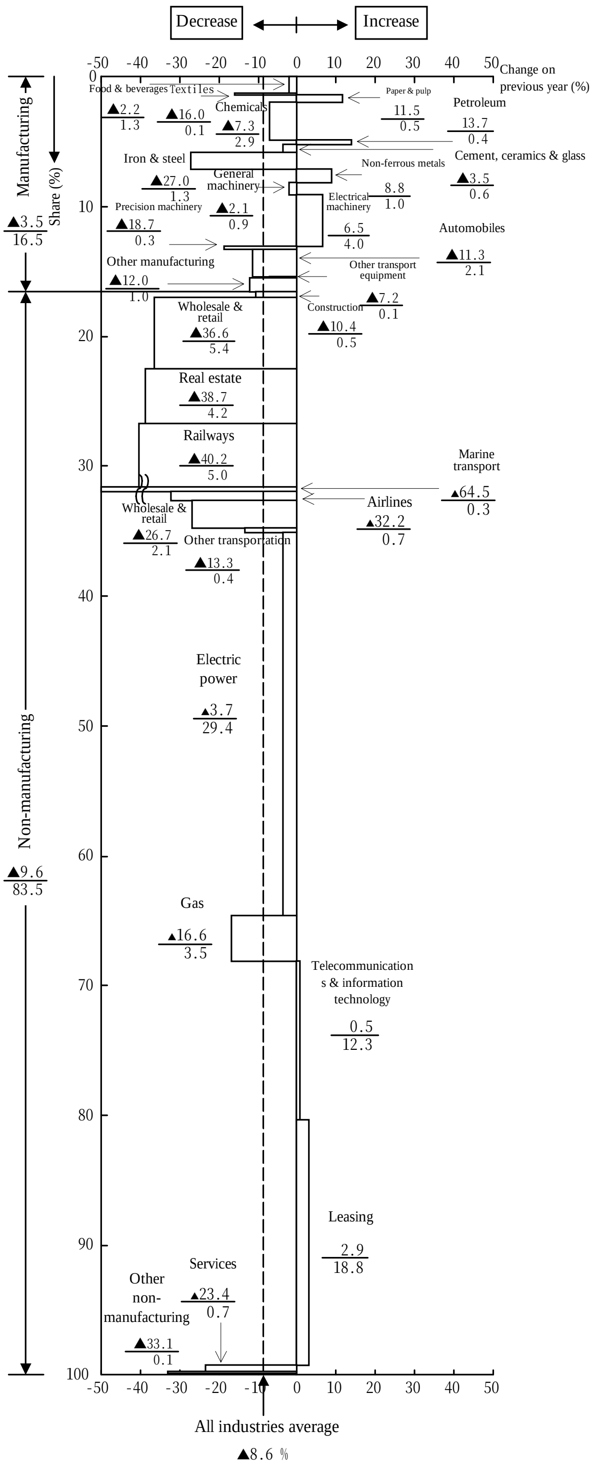
Characteristics of Capital Spending by Industry





[FY 2001]

Figures indicate $\frac{\text{change on previous year in FY 2001}}{\text{share in FY 2000 spending}}$



4. Investment Motives

Investment Motives in the Manufacturing and Non-Manufacturing Sectors in FY 2000

Looking at the respective shares of each category of investment motive for the manufacturing sector in FY 2000, one finds increases in "expansion of production capacity," "product development and upgrading" and "research and development" for both the materials and processing & assembly sub-sectors.

Above all, "expansion of production capacity" will increase substantially in terms of both share and absolute investment amount. Contribution from electrical machinery will be particularly significant, thus implying the expansion of IT-related investment to other industries. A similar development can be observed in "product development and upgrading." Increase in "research and development" will be led by electrical machinery and chemicals, albeit with some variance among industries.

Share will decline for "rationalization and labor saving" due to reduced investment in some materials industries, as well as for "maintenance" due to decline in the majority of the industries.

The share of "expansion of production capacity" will also rise in the non-manufacturing sector, with contribution coming from industries such as transportation and wholesale & retail.

Investment Motives in the Manufacturing Sector for the "Materials" and "Processing & Assembly" Industries

We now look at the respective shares of each category of investment motive within the manufacturing sector, comparing the materials industry with the processing & assembly industry. For the materials industry, the motives "rationalization and labor saving", and "maintenance" are traditionally at high levels, whereas for the processing & assembly industry, the incentives "product development and upgrading" and "research & development" are most important.

The characteristics of investment motives for the materials industry in FY 2000 are:

i) Increased shares of "expansion of production capacity" (20.3% → 24.2%) and "product development and upgrading" (7.1% → 8.5%) as the amount of investment is slated to record a double-digit increase.

ii) A substantial decline in "rationalization and labor saving" (23.5% → 19.8%) due to the termination of large-scale investment projects.

iii) A rise in the importance of "research and development" in the heavily-weighted chemical industry (11.3% → 11.5%), also contributing to increase in the absolute amount of investment.

iv) An continuing shift from "expansion of production capacity" to "maintenance" in chemicals, thus increasing the overall share of the latter for the second straight year.

In the processing & assembly sub-sector, a double digit increase in capital spending is also expected, pointing to the expansion of IT-related investment in various industries. The significant trends for the sub-sector are:

i) An increase in the importance of "expansion of production capacity" to exceed 30% for the first time since FY 1995 (28.4% → 30.7%) with contribution from electrical machinery and precision machinery.

ii) An increase in "product development and upgrading" (20.5% → 21.3%) led by electrical machinery and general machinery to reach the second highest level ever, only next to FY1997 and comparable to FY 1996.

iii) An overall increase in "research & development" (10.3% → 10.7%), led solely by a sizable increase in its weight in electrical machinery (13.1% → 13.6%) with a substantial increase in the amount of spending overall, whereas its share will decline in most of the industries.

Shift in Investment Motives within the Manufacturing Sector

We now look at the change in the percentage share of each category of investment motive for the manufacturing sector. For “expansion of production capacity”, there are increases in many industries including electrical machinery, precision machinery and non-ferrous metals. Overall there is a large increase from 26.0% to 28.5%.

For “product development and upgrading”, there are increases for electrical machinery, general machinery, transport equipment, chemicals and other industries, resulting in the largest share since FY 1986 with an overall rise from 15.9% to 17.0%.

Despite increased shares in most industries, “rationalization and labor saving” is down from 16.0% to 15.4% overall, due to the termination of large-scale investment projects in some materials industries.

For “research & development” there are rises for most industries, including the highly influential electrical machinery and chemical industries, resulting in an overall increase from 9.1% to 9.6%.

Despite an increase in the heavily-weighted chemical industry, “maintenance” as a spending incentive shows a decline from 16.8% to 16.3%, as most investment projects will be concentrated on “expansion of production capacity” and “product development and upgrading.

Investment Motives

(Unit: %)

	Total		Manufacturing						Non-Manufacturing	
	(2,237 firms)				Materials		Processing & Assembly			
	FY99 Actual	FY2000 Planned	FY99 Actual	FY2000 Planned	FY99 Actual	FY2000 Planned	FY99 Actual	FY2000 Planned	FY99 Actual	FY2000 Planned
Expansion of Production Capacity	51.3	52.3	26.0	28.5	20.3	24.2	28.4	30.7	62.3	63.2
Product Development and product upgrading	7.4	8.1	15.9	17.0	7.1	8.5	20.5	21.3	3.7	4.1
Rationalization and Labor Saving	6.9	6.8	16.0	15.4	23.5	19.8	12.7	13.5	3.0	2.9
Research & Development	3.3	3.6	9.1	9.6	7.2	7.7	10.3	10.7	0.8	0.9
Maintenance	15.4	15.0	16.8	16.3	26.9	26.7	11.7	11.1	14.8	14.4
Others	15.7	14.1	16.2	13.2	15.0	13.2	16.3	12.7	15.4	14.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

5. Trends in Land Investment (Classified According to Principal Business Sector)

Actual Land Investment for FY 1999

Actual land investment for FY 1999 (based on figures for the 1,782 firms that gave responses regarding both FY 1998 and FY 1999) was down 34.3% compared with the previous year, the third consecutive annual decline. Despite land purchases related to the development of former railway sites and business restructuring in paper & pulp, petroleum, iron & steel and electrical machinery for manufacturing as well as in services for non-manufacturing, overall land investment recorded sharper drops in both sectors (down 21.1% and 38.2% respectively), reflecting reductions in other industries..

Planned Land Investment for FY 2000

Planned land investment for FY 2000 (based on figures for the 2,271 firms that gave responses regarding both FY 1999 and FY 2000) is down 32.0%, a large decline from the prior fiscal year, as no significant developments can be observed save for investment in new airport construction sites in transportation. (Land investment accounts for 3.9% of all investment planned for FY 2000.)

It should be noted that there is a tendency for large upward revisions in land investment between the planning stage and actual implementation.

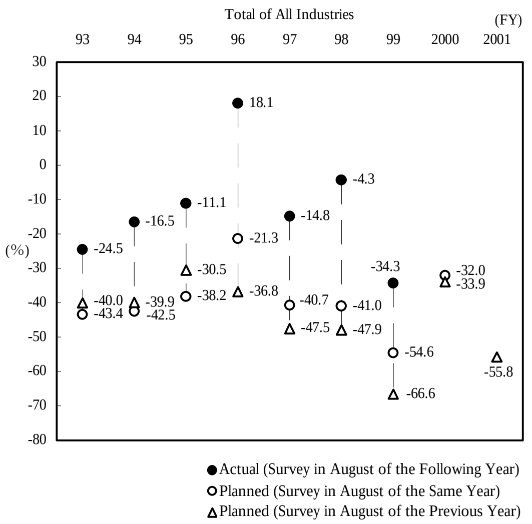
Planned Land Investment for FY 2001

Planned land investment for FY 2001 (based on figures for the 1,327 firms that gave responses regarding both FY 2000 and FY 2001) is down 55.8% on the previous year. (Land investment accounts for 2.6% of all investment planned for FY 2000.) Planned land investment for FY 2001 is even more uncertain than for FY 2000, however.

Trends in Land Investment (Classified According to Principal Business Sector)

	FY1998 (Actual)	FY1999 (Planned)	Growth Rate (%)	FY1999 (Actual)	FY2000 (Planned)	Growth Rate (%)	FY2000 (Actual)	FY2001 (Planned)	Growth Rate (%)
	(1,782 firms)		99/98	(2,271 firms)		2000/99	(1,327 firms)		2001/2000
Total Investment	159,057	144,950	-8.9	170,498	182,462	7.0	87,269	78,684	-9.8
Investment except Land	145,135	135,808	-6.4	160,068	175,373	9.6	82,573	76,609	-7.2
Investment in Land	13,922	9,142	-34.3	10,430	7,089	-32.0	4,696	2,075	-55.8
(Share of Land %)	*(8.8)*	*(6.3)*		(6.1)	*(3.9)*		*(5.4)*	*(2.6)*	
Total Investment	51,062	41,437	-18.8	50,494	57,088	13.1	14,401	13,628	-5.4
Investment except Land	47,940	38,973	-18.7	47,463	56,140	18.3	14,156	13,521	-4.5
Investment in Land	3,121	2,464	-21.1	3,031	948	-68.7	246	106	-56.7
(Share of Land %)	*(6.1)*	*(5.9)*		*(6.0)*	*(1.7)*		*(1.7)*	*(0.8)*	
Non-Manufacturing									
Total Investment	107,996	103,513	-4.2	120,004	125,374	4.5	72,868	65,057	-10.7
Investment except Land	97,195	96,836	-0.4	112,606	119,233	5.9	68,418	63,088	-7.8
Investment in Land	10,801	6,678	-38.2	7,399	6,141	-17.0	4,450	1,968	-55.8
(Share of Land %)	(10.0)	(6.5)		(6.2)	(4.9)		(6.1)	(3.0)	

Growth Rate of Investment in Land



6. Capital Spending Abroad (Classified According to Principal Business Sector)

Capital spending abroad

Capital spending abroad in all industries will rise 13.3% from ¥977.4 billion in FY 1999 to ¥1,107.5 billion in FY 2000 (based on figures for the 1,268 firms that gave responses regarding both FY 1999 and FY 2000). (The manufacturing sector increases by 13.3%, while the non-manufacturing sector rises by 13.4%.) In the manufacturing sector, which accounts for the majority of capital spending abroad in the survey responses, there is an increase in spending of 4.1% for materials industry, whereas in the processing & assembly industry, investment will record a double-digit growth of 17.5% mainly due to active spending in electrical machinery and transport equipment. In the non-manufacturing sector, a broad increase in the transportation industry will contribute to a 13.4% increase overall, despite declines in construction and wholesale & retail.

The ratio of capital spending abroad to domestic capital spending within the manufacturing sector

The ratio of capital spending abroad to domestic capital spending for the manufacturing sector (based on figures for the 566 firms that gave responses regarding both FY 1999 and FY 2000) stands at 27.2% for FY 1999 and 26.7% for FY2000. For the processing & assembly sub-sector there is a decline from 28.3% to 27.9%, due mainly to a decline in the electric machinery industry, which is oriented toward domestic investment. For the materials sub-sector, the ratio also falls from 26.9% to 24.9%, due in part to declines in chemicals and non-ferrous metals.

Note: 'Capital spending abroad' by a company refers to capital spending conducted overseas by either the company itself or one of its overseas subsidiaries. (Here, an 'overseas subsidiary' of a company is an overseas firm for which the company holds at least 10% of the shares.)

Capital Spending Overseas by Region

(Units: 100 million yen, %)

	Region	Amount (¥100 million)				Change
		FY 1999	Share	FY 2000	Share	2000/1999
Capital spending overseas (1,268 firms)	U.S., EU	5,334	54.6%	5,431	49.0%	1.8%
	Asia	3,328	34.0%	4,075	36.8%	22.4%
	Others	1,112	11.4%	1,569	14.2%	41.1%
	Total	9,774	100.0%	11,075	100.0%	13.3%

7. Trends in Capital Spending by Foreign-Affiliated Firms (Classified According to Principal Business Sector)

153 firms out of 3,076 that responded to both FY 1999 and 2000 surveys are classified as foreign-affiliated firms (firms with over one third foreign ownership). Their capital spending accounts for 3.1% of the total (FY 2000).

Planned capital spending by foreign-affiliated firms in FY 2000 is 41.3% higher than in the previous fiscal year. By sub-sector, capital spending will drop in energy (down 17.7%) but increase in chemicals and other materials industries (up 41.4%). Also, there is a substantial increase in processing & assembly (up 54.1%) as a result of increases for electric machinery and transport equipment. Spending will continue to increase sharply in non-manufacturing excluding energy (up 34.6%), led mainly by services.

Planned capital spending by foreign-affiliated firms continues to rise for FY 2001, up 10.1% from the previous year.

Capital Spending by Foreign Affiliated Firms (Classified According to Principal Business Sector)

(Units: 100 million yen, %)

	Capital Spending (hundred million Yen)						Growth rate (%)			Share(%)	
	FY98 (Actual)	FY99 (Actual)	FY99 (Actual)	FY2000 (Planned)	FY2000 (Planned)	FY2001 (Planned)	99/98	2000/99	2001/2000	FY2000	
	(128 firms)		(153 firms)		(85 firms)					(153 firms)	(of All Firms)
Total	4,894	4,610	5,780	8,168	3,072	3,384	-5.8	41.3	10.1	100.0	3.1
Manufacturing	4,028	3,309	4,201	6,043	2,312	2,898	-17.9	43.8	25.3	74.0	7.1
Non-Manufacturing	865	1,302	1,579	2,126	760	486	50.4	34.6	-36.1	26.0	1.2
By sector											
Materials	1,551	1,039	1,088	1,539	377	363	-33.0	41.4	-3.6	18.8	6.4
Processing & Assembly	1,911	1,862	2,704	4,167	1,705	2,180	-2.6	54.1	27.8	51.0	7.0
Energy	567	409	409	337	231	355	-28.0	-17.7	54.1	4.1	0.8
Non-Manufacturing excluding Energy	865	1,302	1,579	2,126	760	486	50.4	34.6	-36.1	26.0	1.6

Note: foreign-affiliated firms are firms with over one-third foreign ownership

8. Information Technology Investment (Classified According to Principal Business Sector)

In this survey, investment in information technology is added as new questionnaire item, with effective responses from 1,763 firms (effective response rate: 50.4%). For the purpose of this report, IT investment refers to the capital spending deemed as such by the respondent firms and chiefly comprises the investment projects aimed at utilizing computers and communication equipment for improving the business efficiency and productivity of the firms.

In concrete terms, the questions are related to four factors: “tangible fixed assets,” “intangible fixed assets and investments” (software development and other costs credited to assets rather than accounted for as costs, and hereinafter referred to as “intangible fixed assets”), “leasing contracts” (the amount of newly concluded leasing contracts and not that of leasing charges for the fiscal year) and “other expenses” (PCs and other office equipment accounted for as costs).

Actual IT investment in FY 1999 and planned investment for FY 2000 in all industries amount to ¥856.9 billion and ¥999.2 billion respectively. Its growth rate for FY 2000 (16.6%) is much higher than that of total capital spending in all industries (4.4%). By sector, IT investment will grow faster than total capital spending in both manufacturing and non manufacturing (18.8% and 15.4% against 17.8% and 0.5% respectively).

The ratio of IT investment in capital spending (actual figures for FY 1999) is largest in the manufacturing sector: 7.0% for all industries, 11.1% for manufacturing and 5.8% for non-manufacturing. By sub-sector, the ratio is largest in processing & assembly at 12.9%, as compared with materials (8.6%), energy (4.7%) and other non-manufacturing (6.5%).

The total of tangible fixed assets and leasing contracts amounts to ¥447.6 billion (3.7% of capital spending) for FY 1999 and ¥546.5 billion (4.3%) for FY 2000. The growth rate for FY 2000 (22.1%) will largely exceed that of capital spending as a whole (4.4%).

As percentage of IT investment, tangible fixed assets and leasing contracts account for more than half (52.2% in actual figure for FY 1999), followed by intangible fixed assets (27.8%).

As regards tangible fixed assets and leasing, overall trend points to active investments related to LAN and host computers. In non-manufacturing, active investments are observed for example in retail, mainly for multi-media terminals and POS of convenience stores.

As for intangible fixed assets, investments related to personnel, accounting and other business administration systems are observed in most industries. Concrete investment projects in the manufacturing sector include customer management systems and systems for the improvement of production efficiency such as SCM (supply chain management: a technique for integrated business management from production to sales) and three-dimensional CAD in the processing & assembly sub-sector. Examples in non-manufacturing include investments in distribution systems, design software and charging systems.

Overview of IT Investment

(Units: 100 million yen, %)

Industrial sector		Amount of IT investment (1,763 firms)		Change in IT investment 2000/99 (1,763 firms)	Change in capital spending 2000/99 (1,763 firms)	Share of IT investment		IT investment/capital spending	
		FY 99 actual	FY 20000 planned			FY 99 actual	FY 2000 planned	FY 99 actual	FY 2000 planned
All industries		8,569	9,992	16.6	4.4	100.0	100.0	7.0	7.8
Manufacturing		3,027	3,596	18.8	17.8	35.3	36.0	11.1	11.2
Non-manufacturing		5,543	6,396	15.4	0.5	64.7	64.0	5.8	6.7
Sub-sector	Materials	888	991	11.6	17.7	10.4	9.9	8.6	8.1
	Processing & assembly	2,033	2,503	23.1	19.3	23.7	25.1	12.9	13.3
	Energy	1,642	2,080	26.7	2.9	19.2	20.8	4.7	5.8
	Other non-manufacturing	4,005	4,416	10.3	-0.9	46.7	44.2	6.5	7.3

Comparison between IT Investment and Capital Spending

(Units: 100 million yen, %)

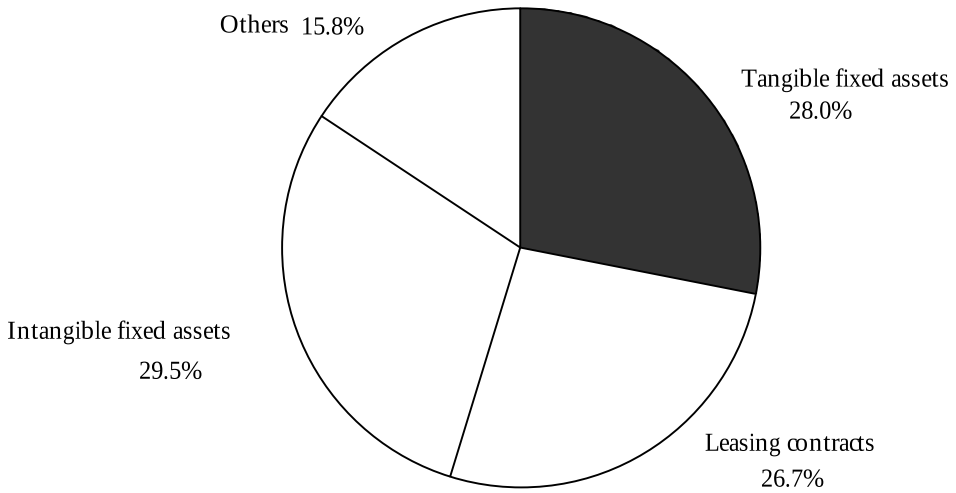
Industrial sector		Tangible fixed assets in IT investment		(Tangible fixed assets + leasing) in IT investment		Capital spending		Tangible fixed assets/capital spending		(Tangible fixed assets + leasing)/capital spending	
		FY99 actual	FY2000 planned	FY99 actual	FY2000 planned	FY99 actual	FY2000 planned	FY99 actual	FY2000 planned	FY99 actual	FY2000 planned
All industries (99/2000 growth)		2,083	2,795	4,476	5,465 (22.1%)	122,560	127,909 (4,4%)	1.7	2.2	3.7	4.3
Excl. leasing		2,078	2,789	4,468	5,448	107,417	111,972	1.9	2.5	4.2	4.9
Manufacturing		508	692	1,431	1,767	27,199	32,030	1.9	2.2	5.3	5.5
Non-manufacturing		1,576	2,103	3,045	3,698	95,361	95,879	1.7	2.2	3.2	3.9
Sub-sector	Materials	190	247	423	497	10,379	12,217	1.8	2.0	4.1	4.1
	Processing & assembly	295	427	978	1,241	15,736	18,778	1.9	2.3	6.2	6.6
	Energy	336	587	873	1,321	35,043	36,064	1.0	1.6	2.5	3.7
	Other non-manufacturing	1,263	1,535	2,201	2,407	61,403	60,849	2.1	2.5	3.6	4.0

IT Investment by Component (Actual FY 1999 Figures)

(Unit: %)

Industrial sector		Of which Tangible fixed assets	Of which Leasing contracts	Of which Intangible fixed assets	Total
All industries Planned FY 2000 figures in parentheses ( )		24.3 (28.0)	27.9 (26.7)	27.8 (29.5)	100.0 (100.0)
Manufacturing		16.8	30.5	29.9	100.0
Non-manufacturing		28.4	26.5	26.7	100.0
Sub-sector	Materials	21.4	26.2	30.9	100.0
	Processing & assembly	14.5	33.6	27.6	100.0
	Energy	20.5	32.7	11.2	100.0
	Other non-manufacturing	31.5	23.4	34.1	100.0

IT Investment by Component (Planned FY 2000 Figures)



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