Capital Investment Plan Trends Draw Attention in Japan

One factor which will determine the future of the Japanese economy is the trend of capital investment. While corporate earnings appear to be on course to post a record high for the fourth consecutive year, recently capital investment has been swinging back and forth between positive and negative growth quarter by quarter. How the revision of supply chains under the economic friction centering on the US and China will affect corporate investment trends is also a matter of concern.

According to the GDP statistics (first preliminary) for the April–June quarter released on August 15, capital investment grew by an annualized rate of 3.6% versus the prior quarter on a real basis and by 7.8% on a nominal basis. While this high growth rate was partially in reaction to the decline on a real basis during the January–March quarter, the actual amount also basically recovered to the peak level recorded prior to the Covid-19 pandemic (July–September 2019). So, the start of the fiscal year was solid, but the focus is on whether capital investment will continue to show stable growth. We considered the future outlook using the Development Bank of Japan (DBJ) *Survey on Planned Capital Spending for FY2024* (released August 6, covering large companies capitalized at ¥1 billion or more) as an indicator.

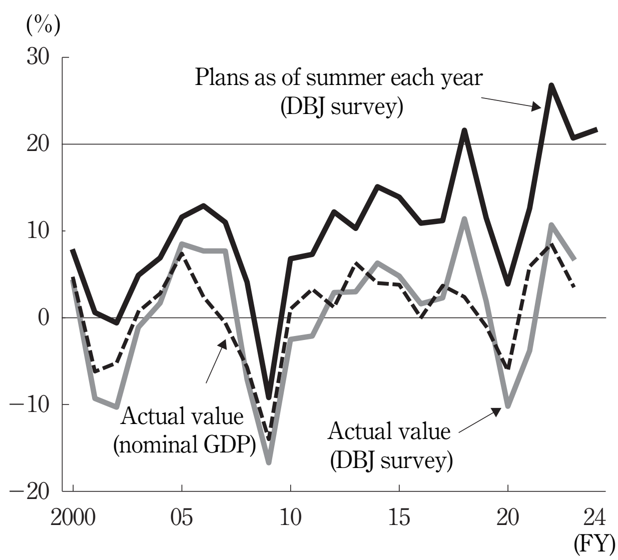
First, fiscal 2024 planned domestic capital spending shows an increase of 21.6% from the fiscal 2023 results, rising by more than 20% for the third consecutive year (see Figure). This may be considered to show the strongest intention to invest in around 20 years. However, the rule of thumb is that the summer plans are revised downwards as time proceeds, and in fiscal 2023 as well while the plans called for year-on-year growth of 20.7% as of the summer, the actual increase was just 6.9%. The rates of growth in capital spending in the DBJ survey's actual values and the GDP statistics (nominal basis) generally follow the same pattern (see Figure). The trends of the DBJ survey serve as useful material for seeking out the GDP capital investment trends.

Next, looking at the DBJ survey for the background to downward revisions to planned capital spending to date, the number of companies citing construction delays and higher construction costs caused by labor shortages and other factors has been rising since fiscal 2022. While such factors may bring about downward revisions this fiscal year as well, more than 80% of the companies responded that they will maintain their existing plans even if investments are postponed. Other possible risks for downward revisions include the failure to achieve a soft landing of the US economy and rising inflation, but what we have to be aware of is that we have entered a phase where the assumption of the continuation of an ultra-weak yen and zero interest rates no longer holds. It is necessary to pay great attention to the impact that such changes in the monetary environment would have on investment.

Another point that requires attention is the movement toward revising overseas investment and returning investment to Japan. According to the DBJ survey, in fiscal 2024 companies plan to increase overseas investment by 21.3% from the previous year, showing that the willingness to invest overseas remains robust (see Table), and a return of investment to Japan is not evident. By region, however, plans for investment in North America are up 22.0% year-on-year, while the growth in investment in China has slowed (up 0.6% in fiscal 2023, up 7.4% in plans for fiscal 2024). According to the DBJ survey, as management policies for their China bases, less than 10% of the companies have specified that they are planning reductions or withdrawals over the next three years. Regardless, the momentum toward reducing investment in China where companies face uncertainties regarding the real economy and economic security concerns is growing. It is also important to note that companies are restructuring their investment allocations, with plans to invest in Asia outside of China and in other regions up 21.2% and 46.1% year-on-year, respectively. At any rate, companies which could formerly make investment decisions mainly based on economic rationality must now give greater consideration to economic security and other political factors, and making investment decisions are becoming extremely difficult accordingly.

As for the outlook, considering the worsening of the domestic labor shortage, companies will have to concentrate more on capital investments to boost productivity than they have in the past. Looking at the investment motives in the fiscal 2024 plans from this perspective, increasing capacity and maintaining and repairing facilities still account for most of the investments, while investments for rationalization and labor saving and for research and development have not increased as much as one would think. This gives cause for concern from the perspective of strengthening Japan's competitiveness over the middle to long term.

Figure: Transition of Changes in the Domestic Capital Spending of Large Companies



Source: *Survey on Planned Capital Spending for FY2024* by Development Bank of Japan

Table: Overseas Capital Investment Trends of Large Companies

(Unit:%)

	Fiscal 2023	Fiscal 2024 plans		
	Growth rate	Growth rate	Constituent percentage	Contribution
Worldwide (excluding Japan)	15.4	21.3	100.0	21.3
North America	22.3	22.0	37.3	8.2
Europe	19.2	3.7	14.8	0.5
China	0.6	7.4	7.7	0.6
Asia excluding China	16.6	21.2	26.2	5.6
Others	2.7	46.1	14.0	6.5

Source: *Survey on Planned Capital Spending for FY2024* by Development Bank of Japan