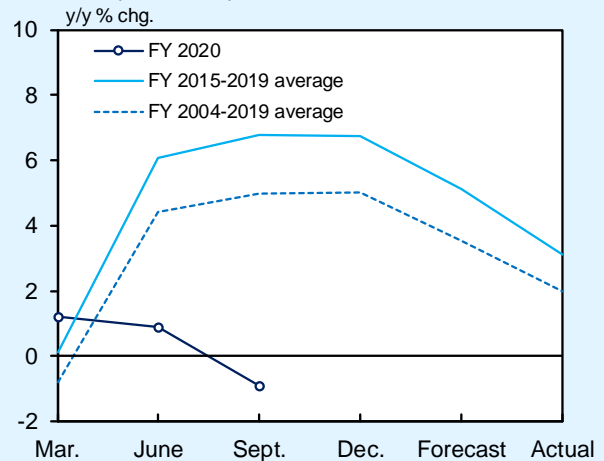


**(Box 2) Impact of COVID-19 on Business Fixed Investment**

While COVID-19 has adversely affected business fixed investment through such channels as deterioration in corporate profits and increasing uncertainties over the future, such impact varies across types and industries. This box examines developments in business fixed investment in the current phase in some detail, looking at its leading indicators and firms' fixed investment plans in the *Tankan*.

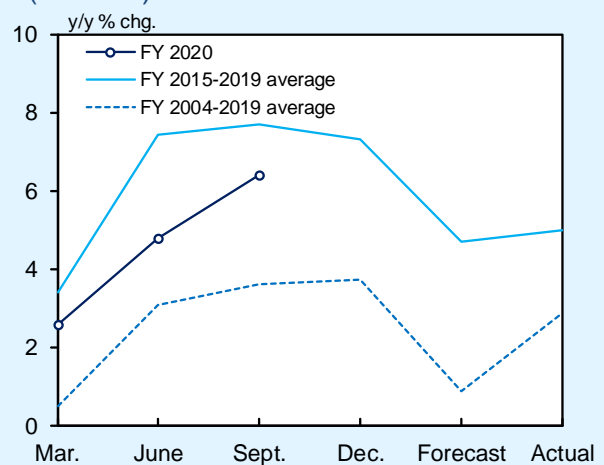
A breakdown by type of investment shows that, although business fixed investment has been on a declining trend on the whole, software investment has been firm. Looking at the business fixed investment plans for fiscal 2020 in the September *Tankan*, the overall investment plan has been revised markedly downward from that in the June *Tankan*, and its year-on-year rate of change has turned negative (Chart B2-1). Such a clear downward revision is unusual for a September survey, and it seems that firms have been postponing or scaling down their planned fixed investment with the continuing impact of COVID-19. In contrast to that overall fixed investment plan, the software investment plan has been notably firm, as seen in the fact that, in the September *Tankan*, the plan has been revised upward and its year-on-year rate of increase has remained at a relatively high level (Chart B2-2). Looking at software investment by industry, such investment is expected to substantially decline in the accommodations as well as eating and drinking services industry, whereas it is projected to increase clearly mainly in the communications,

**Chart B2-1: Business Fixed Investment Plans (*Tankan*)**



Source: Bank of Japan.  
 Note: Figures are for all industries and enterprises. Including software and R&D investments and excluding land purchasing expenses (R&D investment is not included before the March 2017 survey).

**Chart B2-2: Software Investment Plans (*Tankan*)**

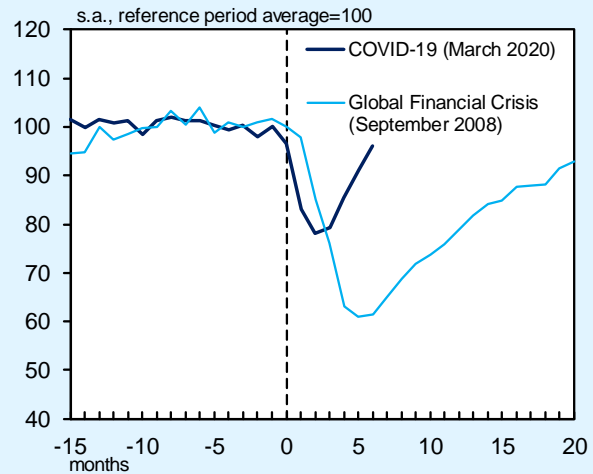


Source: Bank of Japan.  
 Note: Figures show the amount of newly recorded software investment under intangible fixed assets. Figures are for all industries and enterprises.

information services, and retail industries. One of the factors behind such firmness is the continuing trend of enhancing business efficiency and undertaking labor-saving investment since before the outbreak of COVID-19. In addition, it seems that, amid expansion in demand for non-face-to-face services (e.g., e-commerce, telework, and digital content distribution services) due to the prolonged impact of COVID-19, firms have recently been taking an active stance toward making fixed investment for these growth areas.

Turning to a breakdown by industry, business fixed investment has been decreasing in both the manufacturing and nonmanufacturing industries recently, but it is highly likely that investment in the manufacturing industry will pick up relatively early. Regarding the manufacturing industry, there is a quite high correlation between machinery investment and real exports. Looking at developments in such exports, they saw a substantial decline immediately after the GFC -- against the background of a rapid decline in the world trade volume, and also partly due to the yen's appreciation and inventory adjustments in IT-related goods -- and their subsequent pick-up was slow (Charts B2-3 and 11). On the other hand, primarily because the global impact of COVID-19 has been mainly on the services sector, Japan's exports in the current phase have not seen as much of a decline in a wide range of goods as at the time of the GFC, and the degree of decline itself has been limited. In addition, exports of automobile-related goods, for which demand declined rapidly in early spring, have registered a prompt and clear recovery owing to the

**Chart B2-3: Real Exports**

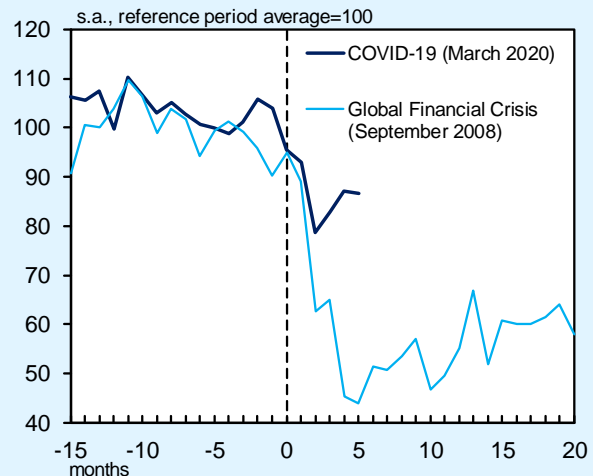


Sources: Bank of Japan; Ministry of Finance.  
 Notes: 1. Month 0 is indicated in the legend for each event.  
 2. The average for the period from October through December 2019 and that for the period from April through June 2008 are used for reference and set to 100 for "COVID-19 (March 2020)" and "Global Financial Crisis (September 2008)," respectively.

subsequent inventory adjustments progressing relatively swiftly (Chart 10). With respect to the outlook, since exports are expected to continue increasing, mainly for automobile-related goods, it is highly likely that machinery investment by the manufacturing industry will not decline as significantly as at the time of the GFC, and will eventually turn to a pick-up. In fact, looking at machinery orders -- a leading indicator of machinery investment -- those by the manufacturing industry have bottomed out and headed toward a pick-up, on the back of an increase in orders by the "general-purpose, production, and business-oriented machinery" and "automobiles, parts, and accessories" industries (Chart B2-4).

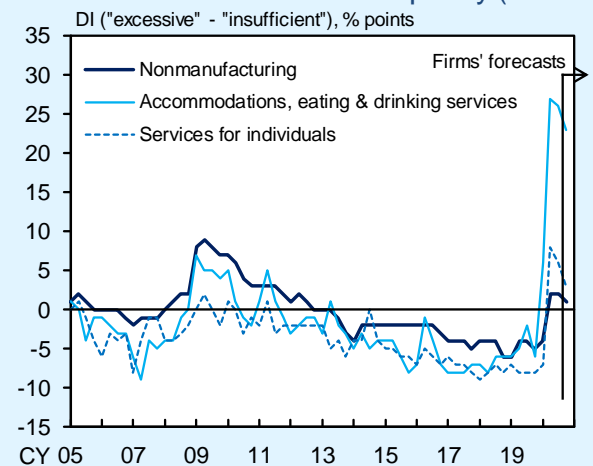
On the other hand, breaking down the nonmanufacturing industry, the environment surrounding business fixed investment has rapidly deteriorated in the face-to-face services industry, which has been strongly affected by COVID-19. The production capacity DI in the *Tankan* shows that, since the outbreak of COVID-19, firms' perception of excess capacity has rapidly intensified in the accommodations as well as eating and drinking services and services for individuals industries (Chart B2-5). In addition, looking at construction starts in terms of planned expenses -- a leading indicator of construction investment -- those for warehouses have continued to increase on the back of expansion in e-commerce, whereas those for stores and accommodation facilities have shown a clear downtrend, as construction projects have been successively postponed or canceled since the

**Chart B2-4: Machinery Orders (Private Sector, Manufacturing)**



Source: Cabinet Office.  
 Notes: 1. Month 0 is indicated in the legend for each event.  
 2. The average for the period from October through December 2019 and that for the period from April through June 2008 are used for reference and set to 100 for "COVID-19 (March 2020)" and "Global Financial Crisis (September 2008)," respectively.

**Chart B2-5: Production Capacity (*Tankan*)**

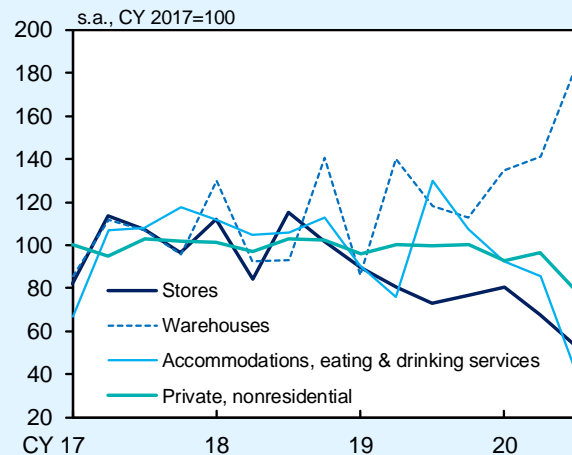


Source: Bank of Japan.  
 Note: Figures are for all enterprises.

outbreak of COVID-19 (Chart B2-6). Under these circumstances, the business fixed investment plan for fiscal 2020 of the face-to-face services industry shows that fixed investment is expected to substantially decline, mainly for the accommodations as well as eating and drinking services industry, which had significantly increased investment over the past few years, reflecting a rise in inbound tourism demand (Chart B2-7). Business fixed investment by the overall nonmanufacturing industry is expected to decline somewhat, due mainly to the negative contribution of the face-to-face services industry. This is because, although the face-to-face services industry is labor intensive and thus its share in business fixed investment of the overall nonmanufacturing industry is not necessarily high, the degree of the decline in its fixed investment plan is significant.

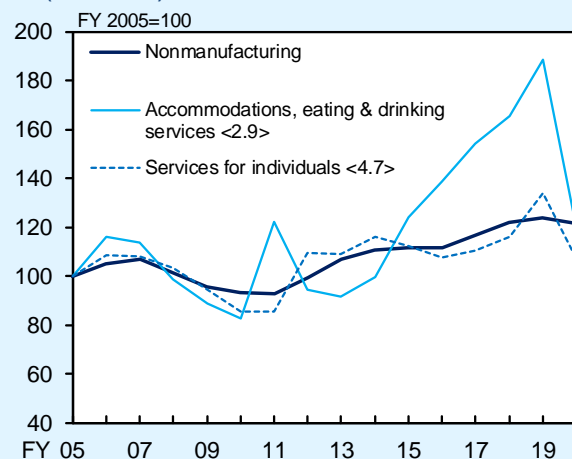
Taking into account these developments, business fixed investment is likely to continue its downtrend on the whole for the time being, mainly for sectors that are directly affected by COVID-19, such as the face-to-face services industry. That said, it is projected that, with financial conditions remaining accommodative compared with at the time of the GFC, the capital stock adjustment will not be so significant, mainly because digital investment that is related to telework and remote services has been firm and exports, which have high correlation with machinery investment by the manufacturing industry, have been increasing.<sup>24</sup> Given that there remain extremely high uncertainties over the consequences of

**Chart B2-6: Construction Starts (in Terms of Estimated Construction Costs)**



Source: Ministry of Land, Infrastructure, Transport and Tourism.  
 Note: Figures for "stores" and "warehouses" are taken from data compiled by type of use, and those for "accommodations, eating & drinking services" are taken from data compiled by type of industry. Figures for 2020/Q3 are July-August averages.

**Chart B2-7: Business Fixed Investment (Tankan)**



Source: Bank of Japan.  
 Notes: 1. Figures up through fiscal 2019 are actual results. Figures for fiscal 2020 are forecasts from the September 2020 survey. Figures include software and R&D investments and exclude land purchasing expenses (R&D investment is not included before the March 2017 survey).  
 2. Figures in angular brackets show the share of each industry in total business fixed investment in the nonmanufacturing sector for fiscal 2019.

<sup>24</sup> With regard to the relationship between financial conditions and business fixed investment under the COVID-19 pandemic, see Box 2 in the July 2020 Outlook Report.

COVID-19, it is necessary to continue to pay close attention to a downside risk that the overall economy will remain at a low level for a prolonged period and that, accordingly, more industries will constrain business fixed investment to a larger degree.