

Buildup in Demand

Overall construction demand has grown faster in fiscal 1987 than in the previous year. Public works projects, housing construction and investment in the private nonmanufacturing sector have all expanded substantially.

The total business value of public works projects undertaken by the central and local governments was to increase 5% from the year before in the original 1987 budget. In May, however, the government announced a new package of "emergency economic measures" aimed at expanding domestic demand. A substantial increase in domestic growth was considered necessary to fight the recession caused by the appreciation of the yen and alleviate trade frictions.

The supplementary budget included in the package called for additional spending on public works projects worth some ¥4,150 billion, pushing total public works expenditures up more than 10% over the previous year.

Housing construction expanded rapidly in the private sector in fiscal 1987, with the number of construction starts expected to reach some 1,650,000, the largest number since fiscal 1973. One reason is a substantial increase in rental residence starts reflecting, among other things, falling interest rates and the soaring price of residential land.

Construction starts on homes have also continued to expand, thanks in part to improved terms on Housing Loan Corporation lendings. Condominium construction has increased markedly in the suburbs of major cities, where supply is far short of demand.



Newly built houses in Urayasu, a commuter town southeast of Tokyo. Housing construction has continued to expand, thanks in part to improved terms on Housing Loan Corporation lendings.

In the nonresidential sector, nonmanufacturing investment has continued to soar not only in the big urban centers but in major local cities as well. Office buildings, hotels and commercial buildings for service-oriented businesses are springing up; the strong demand for such buildings reflects the growing need for urban-type industries in light of the growing concentration of populations and functions in the cities. Demand for office buildings is particularly strong in the Tokyo metropolitan area.

More and more corporations wish to locate their head offices in central Tokyo, while those already in the area are seeking to expand their international, finance and securities divisions.

In the manufacturing sector, investment is expected to remain relatively low. The business climate is improving, thanks largely to the steady expansion of the domestic economy, but many industries are still in the midst of structural adjustment. So far, recovery in the sector has not been tied to active investment in new plant and equipment. Many corporations are branching out into new lines of business, however, such as leasing build-

ings and condominium construction, in order to utilize idle plots of land.

The surge of construction has sharply driven up prices for construction materials such as steel and lumber as well as the payroll costs of skilled labor since last summer. This was particularly true in Tokyo and neighboring prefectures where supply fell short of demand. The price rises have apparently peaked, but the authorities are continuing to monitor price trends to prevent price and wage inflation in the sector from putting the brakes on the expansion of domestic demand.

Construction companies, buoyed by robust demand, are expected to gain substantially in both sales and earnings in fiscal 1987. The same will be true of real estate companies in light of the strong housing market, the substantial increase in building leasing and higher rents.

Looking ahead to fiscal 1988, overall construction demand should remain at the high level reached in fiscal 1987, although the rate of growth is expected to slow. On a sector-by-sector basis, public works projects are likely to show only mild growth in the absence of follow-on emergency economic measures. Housing investment, though it will remain at a high level, is expected to slow somewhat from the rapid pace set in fiscal 1987. Rising interest rates and high land prices will help dampen demand. In the nonresidential sector, manufacturers' capital investment is expected to remain weak, but investment in nonmanufacturing industries should be strong, supported by the robust demand for office space in big cities. Both construction and real estate companies will report further gains in both sales and profits.

Construction Investment (nominal basis)

(¥ trillion)

	FY 1986	FY 1987	FY 1988
Government	20.0	22.3 (11.7)	23.5 (5.0)
Private	32.1	35.9 (11.8)	37.7 (5.2)
Residential	16.8	19.7 (16.9)	20.8 (6.0)
Nonresidential	15.3	16.2 (6.1)	16.9 (4.3)
Total	52.1	58.2 (11.7)	61.2 (5.1)
Civil engineering	20.1	22.2 (10.0)	23.1 (4.4)
Construction	31.9	36.0 (12.8)	38.0 (5.6)

Notes: 1. Figures in parentheses represent percentage growth over the previous year.

2. Outlook for FY 1987 and 1988 prepared by the Industrial Research Division, Industrial Bank of Japan, Ltd.

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