

Bigger Starts

Construction starts in fiscal 1988 covered a total area of 258 million square meters, the second-highest on record, while housing starts numbered 1.66 million, the third-highest. Although the number of housing starts in fiscal 1989 is expected to be somewhat lower than the preceding year at 1.57 million, the total area covered by housing starts will be at a high level, with the expansion of floor space per dwelling a contributing factor.

Against a background of brisk investment in equipment and plant, non-housing starts are expected to continue increasing in fiscal 1989, and the total area covered by construction starts will exceed that of the preceding year. Investment in construction on a turnover basis has surged to the extent that the estimate made at the beginning of the fiscal year had to be revised upward. The total investment is likely to far exceed ¥70 trillion (\$483 billion).

The higher-than-expected construction investment is largely due to the favorable cycle of business expansion supported by investors' confidence in the future with a continued increase in corporate earnings, improvement of per-

sonal income and the rise in the value of assets, such as land and shares, in the background.

After the two oil crises, construction investment in Japan turned sluggish and the share of construction investment in GNP had been gradually decreasing. Since 1987, however, new demand, especially demand for the construction of more sophisticated and higher value-added private housing and private non-housing structures, became apparent in the course of the smooth growth of a domestic demand-oriented economy, causing the share of construction investment in GNP to turn upward again.

In other words, such multifarious factors for equipment investment as a change in Japanese lifestyles resulting from rapid internationalization and the spread of urbanized spending had combined to accelerate investment in equipment and plant among industries, corporations and individuals.

The amount of orders received by 50 major construction firms, which in the past several years had stayed at around ¥12 trillion, jumped to the ¥17 trillion level in fiscal 1988. Orders are expected to



Soaring land prices have put homes like these far beyond the reach of the average salaried worker in the Tokyo area.

enjoy double-digit growth and approach ¥20 trillion (\$138 billion) in fiscal 1989. With the increase in the volume of construction and rises in construction costs, major construction companies are expected to continue reporting record high recurring profits. Such a trend in earnings is also seen among medium-sized and small construction enterprises.

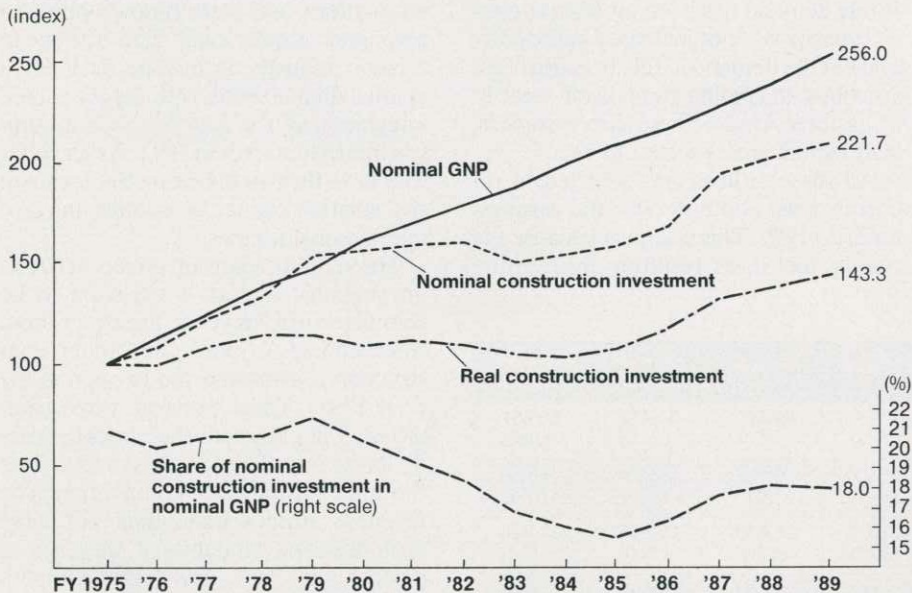
Sustained by brisk demand for office buildings, mainly in the heart of the metropolitan area and in regional cities, in addition to rising demand for housing, real estate companies are also increasing their sales and recurring profits. Since there are also such favorable factors as large-scale urban development projects including those for Tokyo's waterfront and redevelopment of cities, no signs of adverse change in the climate for the construction and real estate sectors will be perceivable for at least two or three years.

Yet such factors as a shortage of construction workers, rises in costs of some construction materials resulting from the yen's tendency to climb again since the first half of 1989 and tight supply and demand, land prices that started to increase again, and the gradual rise of interest rates since 1989 may cause some problems for the construction industry.

Profits derived from development projects might decrease due to a rise in costs, and a widening gap in purchasing power may adversely affect the construction business. Still another possibility is a further widening of the corporate gap between major construction companies that excel in mobilizing workers and making procurements, and smaller construction firms which do not have adequate management resources.

(Hironobu Yamaguchi, economist)

Construction Investment and GNP



Notes: 1. Construction investments in FY 1987 and 1988 are estimates, and FY 1989's a forecast.
 2. GNPs for FY 1988 and 1989 are forecasts.
 3. Figures for FY 1975 are taken as 100 except for the real construction investment (FY 1980 = 100).
 Source: A construction statistics monthly report, June 1989