

INDUSTRIAL SURVEY

Construction A Tower of Strength

Construction investments in Japan in fiscal 1985 totaled some ¥49.6 trillion (about \$300 billion), according to Construction Ministry estimates, with approximately 60% coming from the private sector and 40% from the public sector. For the past several years, construction investment has been sluggish due to corporate curbs on equipment investment following the 1973-74 oil crunch and fiscal restraint imposed on public works by the government's financial reconstruction plans. In fiscal 1986 and 1987, however, construction investment performance is expected to achieve mild growth.

Housing investment and spending on construction projects by the nonmanufacturing industry were strong in fiscal 1986, setting the pace for the construction sector as a whole. Housing investment rode on a wave of a continuous increase in rental homes, mainly in the Tokyo metropolitan area. Reduced interest rates, housing tax cuts, improved terms for Housing Loan Corporation (HLC) loans and an expanded HLC lending framework—part of the government's September 1986 economic stimulus package—encouraged the public to build houses of their own. For the first time since fiscal 1979, housing construction starts are expected to top the 1,300,000 mark in fiscal 1986, reaching about 1,340,000.

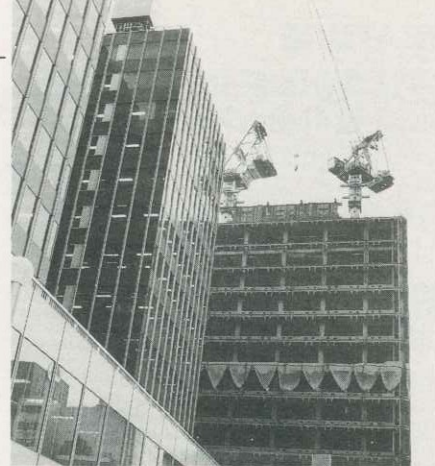
While equipment investment by private manufacturers suffered from the yen's appreciation against the dollar, investment by nonmanufacturing industries continued brisk. Meanwhile, statistics on floor space under construction have indicated monthly drastic decreases in the manufacturing industry, in comparison with monthly figures for the pre-

vious year, since the yen began its sharp ascent in September 1985. Domestic demand for and exports of manufacturing industries' products were hit hard by the yen's rise. In addition to a steep decline in equipment investment itself, investment in factories to house such equipment also appears to be dropping.

On the other hand, investment in non-manufacturing industry is increasingly active, with life insurance firms, developers, wholesalers, retailers and the leisure-hotel business leading the way. One major reason is the strong demand for office buildings in central Tokyo. Urbanization is continuing, while the economy as a whole is becoming increasingly service oriented. Thriving "urban-type industries" such as commerce, restaurants and leisure are also responsible for increasing construction investment in the nonmanufacturing sector.

These factors have combined to make the building supply-demand situation extremely tight. A survey by the Japan Building Owners and Managers Association shows that the percentage of room vacancies in buildings nationwide was down to 1.3% in 1985.

At the same time it should not be forgotten that investment in nonmanufacturing industry has been boosted by power and gas companies' drive to invest more in new equipment. The main beneficiaries of the strong yen, these firms are redistributing exchange gains to consumers through improved equipment. The scale of construction equipment investment in the nonmanufacturing sector is now four to five times greater than in manufacturing. In fiscal 1986, the active investment in nonmanufacturing is expected to fully cover setbacks in the manufacturing field.



Demand for office space in central Tokyo never lets up.

Public works are also expected to be a central pillar of plans to stimulate domestic demand to cope with the recession brought on by the strong yen. But the government, still unable to pull down the banner of financial reconstruction, considers it essential to hold down public works spending in the general account budget, which relies on taxes and national bonds for revenue. The only alternative, then, is to use fiscal investment and loan program funds, and expand locally funded projects. As can be seen from the scale of the 1986 supplementary budget approved by the Diet in November, no appreciable increase seems possible in the volume of public works.

In fiscal 1987, construction demand is projected to continue moderate growth with housing and nonmanufacturing industry the driving forces. Housing construction starts are forecast to rise further to 1,390,000. The question is how far the nonmanufacturing sector will be able to cover setbacks in manufacturing investment.

The supply-demand relationship for buildings will remain tight. The most promising spurs to demand are urban development projects being undertaken jointly by the government and local public entities in an effort to draw upon public-sector vitality. Not only national projects like the new Kansai international airport and trans-Tokyo Bay highway but also various local projects will soon be getting off the ground, generating more construction demand. These endeavors are assured of support under the *min-katsu* (private-sector vitality) law of May 1986 and governmental subsidies.

The flow of construction orders from abroad is now at a low ebb owing to the yen's appreciation. But once the yen stabilizes, orders for office buildings and hotels are expected to pour in from the U.S., Australia and other industrialized countries. ●

Outlook on Construction Investment (nominal value)

(¥ trillion)

(%)

	FY 1985	FY 1986	FY 1987	FY 1985-86	FY 1986-87
Total	49.6	52.1	54.5	4.9	4.6
Public sector	19.3	20.0	21.0	3.5	5.0
Private sector	30.3	32.1	33.5	5.8	4.4
Housing	15.1	16.3	17.2	8.1	5.8
Nonhousing	15.2	15.8	16.3	3.5	3.0

Notes: 1. Construction Ministry estimates for FY 1985

2. Outlook for FY 1986 and 1987 prepared by the Industrial Research Division, Industrial Bank of Japan, Ltd.

(Nobuo Fujii, economist)