

Rebuilding on a Firm Foundation

Looking at the construction market in fiscal 1993 by total investment (based upon Industrial Research Department forecasts), the overall total was a nominal ¥85.5 trillion, a slight 1.7% increase over the previous year, and it is forecast the growth rate will be slightly higher than fiscal 1992 (which had a 1.3% increase over the previous year), but growth varies widely by sector. Divided into public and private sectors, the public works sector led the market, receiving total investment in the amount of ¥36 trillion after two major budget revisions and turning in growth that exceeded fiscal 1992 by 10%, for two consecutive years of double digit growth. On the other hand, although investment in housing showed signs of an underlying recovery in the private sector, non-housing investments continued fiscal 1992's sharp decline due to the lengthening real estate market downturn and the recession, inevitably leading to a slump in private investment, which totaled ¥49.4 trillion, or 3.7% less than fiscal 1992.

Bearing the preceding in mind and looking at the overall fiscal 1993 construction market it could be said that there was tolerable growth considering the underlying economic situation, but

fiscal 1993 was an extremely tough year for leading general construction companies. From the standpoint of structural demand for the top general construction firms, the continuing slump in private non-housing investments carried considerable weight so the climate for orders was more severe than in the rest of the market.

In addition, the public works investments, which could be referred to as the mainstay of the industry, continued at a satisfactory growth rate, but punishments in the form of suspension from tenders due to suspicions regarding illegal contributions to political parties and corruption related to construction orders had a heavy impact on some general construction firms. It is forecast that the top 50 firms will have fiscal 1993 orders totaling ¥18.3 trillion, a 20.1% drop compared to fiscal 1992 (-14.6% compared to the previous year), resulting in the second consecutive year of sharp declines.

The outlook is that there will be ¥86 trillion of investment in construction in fiscal 1994 (according to Industrial Research Department forecasts), a 0.7% increase that will be more or less the same as fiscal 1993's total, and the industry will probably continue to face a period of readjustment. With regard to public works, which led the market in fiscal 1993, numerous additional supplemental budgets were behind the extremely high levels the market reached in fiscal 1993. Even with a considerable number of budget supplements in fiscal 1994, there are no expectations that the high growth of fiscal 1993 can be matched.

In the housing sector, continued satisfactory growth is forecast for first time acquisitions for subdivided condominiums, but high-priced properties still face a correction phase. With regard to purchased housing, while the market will continue to trend at firm growth, the outlook is

low for overall housing investments due to anxieties regarding the lengthening recession's effects upon employment and wages. There does not appear to be any prospect for an economic recovery in fiscal 1994 and, in addition to the scant interest corporations are showing in plant and equipment investments, there is no immediate outlook for a rebound from the real estate market slump. It is forecast that investment in the private non-housing sector will continue to lag throughout the year. However, compared with fiscal 1993 the scope of negative growth should decline and the market should show signs of bottoming out in fiscal 1995.

With regard to the Tokyo metropolitan office sector, which led the construction industry in the late 1980s, the supply of large properties still continues unabated and, considering that demand continues to lag, forecasts are that the slump will proceed for several years.

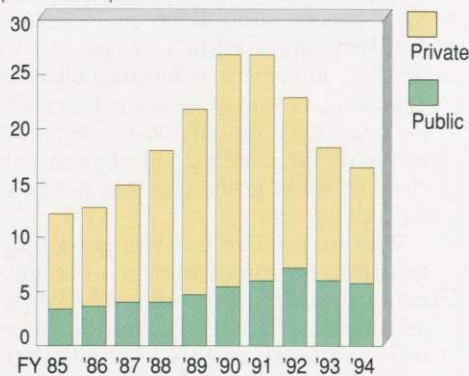
In addition to the continuing slump in private non-housing investments it is believed that orders for the 50 top firms and public works investments will lag behind fiscal 1993's growth, with a decline in growth predicted.

Further, fiscal 1993's biggest construction industry topic was the allegation of illegal contributions and corruption related to public works construction. Taking this situation very seriously, a special committee was established within the Central Council on Construction Contracting Business and a December 1993 report outlined measures to introduce open competitive tenders for public works projects over a certain size. The extent to which these huge, historical reforms succeed depends on how they are handled in the future, including steps taken by the national and local governments. In order to give the overall industry a new image, the cooperation of contractors and suppliers alike will be required. ■

(Mizutomi Yoshiyasu, senior economist)

Order Trends for the Top 50 Firms

(Unit: ¥ trillion)



Note: FY93 and FY94 show IBJ Industrial Research Department estimates.