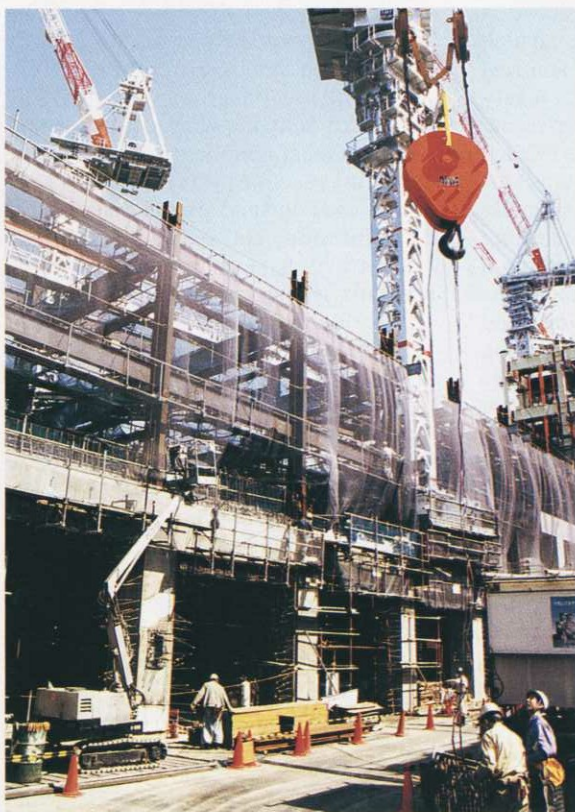


The Worst Is Nearly Over

Although capital investment for construction (based on IBJ forecasts) for fiscal 1994 is expected to increase 2.5% over last year, to ¥88.2 trillion (fiscal 1993 rose 1.8% over fiscal 1992), there were conflicting differences in each construction category. As far as public sector works were concerned, although there had been a holdover amount from a large-scale budget revision the year before, due to capital spending in fiscal 1993 being at such a high level, only a 3.5% increase (fiscal 1993's increase was 11.5%) is expected. However, the ¥50.1 trillion figure shown by the private sector was the first positive rise in four years, with runaway housing sales making up for spending in non-residential construction which had been inactive following the collapse of the bubble economy.

Construction orders on the books for large general contractors slightly surpassed last year's in value, thereby enabling recovery from the two digit negative percentage. Taking an overall perspective of the fiscal 1994 construction market, therefore, one gets the feeling that the adjustment period is nearly over. Leading general contractors cater to a limited market, they are heavily biased towards non-residential construction in the private sector—stagnant for some time now—and are less disposed towards the now newly-buoyant residential sector and stable demand in public works. Nevertheless, the fact that fiscal 1994 orders for general contractors showed even a moderate increase is more a rebound against the effect brought on by suspensions of public works projects to firms tainted by bid-rigging (bribery) and corruption scandals. Orders for fiscal 1994 for 50 major construction companies are forecast to be ¥19.1 trillion, up just 0.8% from fiscal 1993.

Though construction investment in fiscal 1995 (based on IBJ forecasts) at ¥87.8 trillion is expected to decrease no more than 0.4% from fiscal 1994 and



Cutting construction costs is the issue for the future.

consequently be a slightly negative rate in growth, the effects of the current economic slump will probably taper out before too long when the disparities between each area of expenditure are reduced. Housing expenditure, which took the lead in fiscal 1994, will probably undergo some realignment as a recoil against the excess levels of supply the year before.

Though there is optimism in regard to the domestic economy, growth in public works expenditure will be somewhat negative because of restrictions on funding and high levels of expenditure in the past. As far as public non-residential projects are concerned, fiscal 1995 will basically be a turning point. Nevertheless, the forecast is for capital

spending by companies to be sluggish and recovery in the real estate market cannot be expected for the time being. It is still too early to expect a quick recovery.

Added to further reductions in the negative disparity from non-residential projects, general contractors are now mostly out of the shadow of suspicions against them, and are therefore forecast to show positive growth in comparison to the year before.

An item of interest must be the Action Plan in Regard to Reductions in Public Works Spending announced by the Ministry of Construction last December. This plan calls for measures such as increased use of imported raw materials and a more efficient distribution system, a reduction in materials costs through product standardization, labor-saving procedure implementation from design stages, and more efficient usage of machinery.

As we approach the 21st century, in order to efficiently realize consolidation in social overhead capital spending, within the confines of limited tax budgets, not only are reductions in costs for public works construction one of the most important topics for contemplation, its merits for society as a whole are incalculable. While innovative reforms of the construction business in general itself is a critical subject for discussion, as the industry that will bear most of the weight for consolidation in tomorrow's social overhead capital, it is hoped that efforts by the industry in general will continue to be made in this positive direction. ■

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