

The 22nd

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Japan Country Report

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Country Report (Japan)

I. Overview

Although the Japanese economy had been in a recession due to the turmoil in the global economy and the Great East Japan Earthquake of March 2011, it has experienced a trend of recovery backed by public investment, primarily earthquake recovery and reconstruction work. Since in fiscal 2017, despite weaknesses in areas such as personal consumption and business sentiment, it is forecast that, along with improvements in employment and income due to economic policy, demand will be stimulated. As a result, a moderate recovery is expected amid an emerging positive cycle for the economy. In fiscal 2018, full-scale economic policy progress with further demand stimulation is expected to result in the development of a positive cycle for the economy, which will continue to maintain a moderate recovery.

Construction investment in Japan peaked at about 84.0 trillion yen in fiscal 1992 and has remained at about 40 – 50 trillion yen, or half the peak level, in recent years. Challenging times have persisted for the construction industry, but construction investment is gradually recovering due to recoveries in public sector and private sector investment resulting from recovery and reconstruction following the Great East Japan Earthquake. In fiscal 2017, although the initial budget relating to the general account was flat, investment is expected to rise 3.3% on a nominal basis when reconstruction work following the Great East Japan Earthquake and the amount from the supplementary budget of 2016FY are included. In private sector residential investment, the number of owner-occupied house starts is on the increase, impacted by low interest rates on mortgages. On the other hand, the number of rental housing and condominium starts is on the decline, and the number of new housing starts is expected to decrease 1.3% from the previous fiscal year. Private sector non-residential investment is expected to rise 1.4% from the previous fiscal year overall on a nominal basis as capital expenditure remains high, backed by a recovery in corporate earnings and other factors, with civil engineering related corporate capital expenditures also making a contribution.

The recent circumstances of the construction industry in Japan are summarized as below.

- 1) The number of licensed construction company operators declined 0.5% in fiscal 2016 from the same period of the previous year and has undergone a decline of 22.6% from the peak in 2000.
- 2) The number of workers in the construction industry has declined, and there has been a significant decrease in the number of general contractors and equipment contractors.
- 3) Construction costs are on an upward trend given the increase in labor costs. Meanwhile, construction material costs have remained stable in the past few years.

- 4) Wages in the construction industry are on an upward trend, and the wage differential with other industries is continuing to shrink.
- 5) Japan's overseas construction orders fell to 697.0 billion yen in fiscal 2009, affected by the global recession, but subsequently recovered to 1.6825 trillion yen in fiscal 2016.

II. Macroeconomic Review and Prospects

1. Japanese Economy Overview (Figures 1 and 2)

In fiscal 2017, in addition to weaknesses observed in areas such as personal consumption and business sentiment, it is forecast that together with improvements in employment and income due to economic policies that include The Japan's Plan for Dynamic Engagement of All Citizens (Provisional) (June 2, 2016), demand will be stimulated by Economic Measures for Realizing Investment for the Future (Tentative Translation by Cabinet Office) (August 2, 2016). As a result, a moderate recovery is expected amid a developing positive cycle for the economy.

In fiscal 2018, full-scale economic policy progress with further demand stimulation is expected to result in the development of a positive cycle for the economy, which will continue to maintain a moderate recovery.

In terms of downside risk, it is necessary to pay attention to the impact from the normalization of monetary policy in the United States, the economic outlook for China and other emerging countries, rising uncertainty about the future accompanying the withdrawal of the United Kingdom from the EU, and fluctuations in capital markets.

Real economic growth in fiscal 2017 is expected to be 1.6%. Government fixed capital formation is forecast to rise 2.1% year on year (GDP contribution rate up 0.1 percentage points), private sector housing investment is forecast to rise 2.1% (down 0.1 percentage points) and private sector plant and equipment investment is forecast to rise 2.9% (up 0.4 percentage points).

Fig. 1 Macroeconomic Trends (FY)

Fiscal year	(Unit: Billion yen)									
	2000	2005	2010	2013	2014	2014	2015	2016	2017 (Forecast)	2018 (Forecast)
Real GDP	4,643,371	4,926,877	4,775,114	4,996,338	5,126,515	5,102,539	5,165,870	5,229,602	5,313,425	5,356,827
(YoY change)	2.5%	2.1%	-2.2%	0.9%	2.6%	-0.5%	1.2%	1.2%	1.6%	0.8%
Real private final consumption expenditures	2,641,355	2,815,922	2,827,152	2,937,293	3,016,826	2,936,550	2,951,604	2,969,490	2,996,410	3,021,976
(YoY change)	1.4%	1.8%	1.0%	1.8%	2.7%	-2.7%	0.5%	0.6%	0.9%	0.9%
(Contribution rate)	0.8	1.0	0.5	1.1	1.6	-1.6	0.3	0.3	0.5	0.5
Real government final consumption expenditures	844,879	924,013	959,943	1,010,711	1,028,310	1,032,352	1,053,571	1,057,848	1,067,380	1,082,313
(YoY change)	3.6%	0.4%	2.8%	1.3%	1.7%	0.4%	2.1%	0.4%	0.9%	1.4%
(Contribution rate)	0.6	0.1	0.5	0.3	0.4	0.1	0.4	0.1	0.2	0.3
Real private housing	216,520	200,161	135,572	150,291	162,795	146,650	150,694	160,250	156,640	155,821
(YoY change)	-0.5%	-0.4%	-20.3%	5.1%	8.3%	-9.9%	2.8%	6.3%	-2.3%	-0.5%
(Contribution rate)	0.0	0.0	-0.7	0.1	0.3	-0.3	0.1	0.2	-0.1	0.0
Real private corporate facilities	726,509	783,439	660,880	721,429	771,764	790,426	795,315	815,222	838,520	861,323
(YoY change)	6.3%	7.6%	-11.9%	2.4%	7.0%	2.4%	0.6%	2.5%	2.9%	2.7%
(Contribution rate)	1.0	1.1	-1.8	0.3	1.0	0.4	0.1	0.4	0.4	0.4
Real public fixed asset formation	400,179	282,617	265,575	245,032	266,054	260,567	255,654	247,477	252,599	223,995
(YoY change)	-7.3%	-7.8%	9.4%	1.3%	8.6%	-2.1%	-1.9%	-3.2%	2.1%	-11.3%
(Contribution rate)	-0.6	-0.4	0.5	0.1	0.4	-0.1	-0.1	-0.2	0.1	-0.5
Real inventory increase	5,119	6,731	-48,784	8,688	-14,972	8,800	26,846	6,224	4,884	2,947
(YoY change)	-116.7%	-59.4%	-326.3%	-40.3%	-272.3%	-158.8%	205.1%	-76.8%	-21.5%	-0.4
(Contribution rate)	0.7	-0.2	-1.4	-0.1	-0.5	0.5	0.8	-0.4	0.0	0.0
Real financial services net exports	-134,823	-70,554	-21,318	-77,681	-102,796	-73,410	-69,405	-31,703	-7,803	3,656
(YoY change)	11.8%	-17.1%	-42.1%	111.3%	32.3%	-28.6%	-5.5%	-54.3%	-75.4%	-1.5
(Contribution rate)	0.1	0.6	0.3	-0.8	-0.5	0.6	0.1	0.8	0.5	0.2
Nominal GDP	5,286,212	5,258,139	4,920,751	4,946,744	5,074,011	5,177,064	5,317,681	5,374,617	5,459,748	5,535,396
(YoY change)	1.3%	0.9%	-3.4%	0.2%	2.6%	2.0%	2.7%	1.1%	1.6%	1.4%

Source: *Construction and Economic Forecasts* (RICE) for 2017 and 2018, Annual Report on National Accounts(Cabinet Office) for 2000-2016

Note: Real values reflect 2011 prices.

2. Major Economic Indicators

Table 2 List of Major Economic Indicators

Economic Indicators						
	2012	2013	2014	2015	2016	(Forecast) 2017
GDP (Real, (2011prices), billion yen)	499,634	512,652	510,254	516,587	522,960	531,343
GDP (Nominal, billion yen)	494,674	507,401	517,706	531,768	537,462	545,975
GDP growth (%)	0.2%	2.6%	2.0%	2.7%	1.1%	1.6%
Agriculture, forestry, and fishery	0.6%	0.003	-0.033	-8.8%	-	-
Manufacturing	2.4%	-0.001	0.028	2.1%	-	-
Services	-4.4%	0.06	0.01	1.2%	-	-
Mining	-13.6%	0.088	-0.036	-17.7%	-	-
Construction	2.0%	0.091	0.039	1.2%	-	-
Demographic Indicators						
Population (thousands)	127,515	127,298	127,083	127,095	126,933	126,755
Population growth rate (%)	-0.22%	-0.17%	-0.17%	0.01%	-0.13%	-0.14%
Total labor force (thousands)	65,552	65,776	65,927	66,053	66,810	67,430
Labor force growth rate (%)	-0.33%	0.34%	0.23%	0.19%	1.15%	0.93%
Unemployment rate (%)	4.3%	3.9%	3.5%	3.3%	3.0%	3.0%
Inflation rate (%)	-0.3%	0.9%	2.9%	0.2%	-0.1%	0.0%
Financial Indicators						
Interbank interest rate (%)	0.3091	0.22091	0.18091	0.17091	0.05727	0.0572
Short-term interest rate (%)	0.076	0.068	0.07	0.038	-0.058	-0.064
Long-term interest rate (%)	0.86	0.721	0.565	0.38	-0.031	0.065
Exchange rate against US\$ (yen)	79.79	97.60	105.84	121.02	108.84	112.36

Source: Construction and Economic Forecasts (RICE, Oct 2017), Annual Report on National Accounts (Final Report for 2014, Cabinet Office), Financial and Economic Statistics Monthly (Bank of Japan), Ministry of Internal Affairs and Communications website.

Notes:

1. The GDP figure for FY2017 is a forecast. Real values: 2011 prices.
2. Population figures are estimates as of October 1 each year. The FY2017 figure is an average value for five months.
3. The workforce population and unemployment rates are average values for 12 months. For FY2017, the figure is an average value for five months.
4. The inflation rate is a percentage as compared with the previous year's consumer price index. For 2017, the figure is the rate of increase between 2016 and August 2017.
5. Interbank Interest rates for 2014 are as of the end of September. Others reflect the year-end rates.
6. Short-term interest rates are the year-end uncollateralized overnight call rates. For 2014, the figure is the rate of the beginning of January, 2016. For 2017, the figure is the rate of the end of September.
7. Long-term interest rates are the rates on 10-year government bonds.
8. Exchange rate for 2017 is as of the end of September. Others are annual averages.

III. Construction Industry Overview

1. Construction Investment Forecast (Figure 3)

Japanese construction investment in fiscal 2016 (nominal value, same hereinafter) was about 52.5 trillion yen, which includes about 21.1 trillion yen in government investment and about 31.4 trillion yen in private sector investment. Compared to its peak, construction investment was down 37.5% (peak in fiscal 1992) with government investment down 40.1% (peak in fiscal 1995) and private sector investment down significantly by 43.7% (peak in fiscal 1990).

Construction investment in fiscal 2017 is expected to rise 1.2% from the previous fiscal year to 53.11 trillion yen.

Considering the contents of the initial budget for fiscal 2017, government construction investment related to the general account is flat compared with the initial budget in the previous fiscal year.

Government construction investment relating to the Great East Japan Earthquake Special Account for Reconstruction estimates the cost for each project based on the content of the initial budget of the related ministries and agencies in the Reconstruction and Revitalization Period. Considering that some of the government construction investment relating to supplementary budgets in fiscal 2016 and fiscal 2017 will be realized as completed amounts during fiscal 2017, government construction investment is forecast to rise 3.3% from the previous fiscal year.

Private sector residential construction investment is forecast to fall 1.7% from the previous fiscal year because of the continued increase in the number of starts due to cuts to the inheritance tax for rental houses despite a decline in condominium starts due to prices remaining at high levels, while the number of housing starts is forecast to fall 1.3% from the previous fiscal year.

In the area of private sector non-residential investment, although some stagnation is observed in the current trend of recovery in capital expenditure, it remains robust backed by improvements in corporate earnings, and the floor area of private sector non-residential construction starts is forecast to rise 3.1% from the previous fiscal year. Meanwhile, construction unit prices are expected to decline from the previous fiscal year, so while private sector non-residential construction investment will be down 0.6% from the previous fiscal year, civil engineering-related corporate capital expenditure is expected to contribute to an overall increase of 1.4% from the previous fiscal year.

Fig. 3 Construction Investment Forecast

(Unit: ¥1 billion)

FY	1990	1992	1995	2000	2014	2015	2016	2017 (Forecast)	2018 (Forecast)
Nominal construction investment	81,440	83,971	79,017	66,195	51,141	50,820	52,470	53,110	51,020
(YoY change)	11.4%	1.9%	0.3%	-3.4%	-0.3%	-0.6%	3.2%	1.2%	-3.9%
Nominal government construction investment	25,748	32,334	35,199	29,960	22,862	21,120	21,090	21,780	19,620
(YoY change)	6.0%	12.8%	5.8%	-6.2%	1.3%	-7.6%	-0.1%	3.3%	-9.9%
(Contribution rate)	2.0	4.4	2.5	-2.9	0.6	-3.4	-0.1	1.3	-4.1
Nominal private residential construction	25,722	22,663	24,313	20,276	14,121	14,740	15,680	15,410	15,510
(YoY change)	9.3%	-2.0%	-5.2%	-2.2%	-10.6%	4.4%	6.4%	-1.7%	0.6%
(Contribution rate)	3.0	-0.6	-1.7	-0.7	-3.3	1.2	1.8	-0.5	0.2
Nominal private non-residential construction	29,970	28,974	19,505	15,959	14,158	14,960	15,700	15,920	15,890
(YoY change)	18.4%	-5.4%	-1.8%	0.7%	9.3%	5.7%	4.9%	1.4%	-0.2%
(Contribution rate)	6.4	-2.0	-0.4	0.2	2.4	1.6	1.5	0.4	0.0
Real construction investment	84,221	83,603	77,935	66,195	46,570	46,513	48,041	47,839	45,272
(YoY change)	7.6%	0.6%	0.2%	-3.6%	-2.9%	-0.1%	3.3%	-0.4%	-5.4%

Source: *Construction and Economic Forecast (RICE), Construction Investment Forecasts (MLIT)*.

Notes:

1. Real values reflect 2011 prices.
2. Private non-residential construction investment = private non-residential building investment + private civil engineering investment.

2. Construction Companies

The number of licensed construction companies in Japan as of end March 2017 was 465 thousand, a decrease of 0.5% from the same month of the previous year. (Figure4) In comparison to the peak of March 2000, it is a decrease of 22.6%.

Looking at the number of licensed construction companies by capital classification, the highest proportion, 39.2%, is comprised of “Corporation with ¥3 million up to ¥10 million in capital”, followed by “Corporation with ¥10 million up to ¥20 million in capital (22.8%)”, and then “Sole proprietor (17.6%)”.

Fig. 4 No. of Construction Companies, and Composition Size

Year	2000		2014		2015		2016		2017	
	(thousand)	Percent of total	(thousand)	Percent of total	(thousand)	Percent of total	(thousand)	Percent of total	(thousand)	Percent of total
No. of registered contractors (total)	601	100.0%	471	100.0%	473	100.0%	468	100.0%	465	100.0%
Breakdown of registered contractors by size classification										
8 Sole proprietor	158.2	26.3%	91.2	19.4%	89.9	19.0%	85.3	18.2%	81.9	17.6%
7 Corporation with less than ¥3 million in capital	1.0	0.2%	11.1	2.4%	12.9	2.7%	15.1	3.2%	17.6	3.8%
6 Corporation with ¥3 million up to ¥10 million in capital	195.3	32.5%	179.0	38.0%	181.3	38.3%	181.5	38.8%	182.7	39.2%
5 Corporation with ¥10 million up to ¥20 million in capital	166.0	27.6%	112.7	23.9%	111.8	23.6%	108.8	23.3%	106.1	22.8%
4 Corporation with ¥20 million up to ¥100 million in capital	74.1	12.3%	71.1	15.1%	71.5	15.1%	71.5	15.3%	71.7	15.4%
3 Corporation with ¥100 million up to ¥1 billion in capital	4.8	0.8%	4.2	0.9%	4.2	0.9%	4.2	0.9%	4.1	0.9%
2 Corporation with ¥1 billion up to ¥10 billion in capital	1.6	0.3%	1.0	0.2%	1.0	0.2%	1.0	0.2%	0.9	0.2%
1 Corporation with ¥10 billion or more in capital	0.4	0.1%	0.4	0.1%	0.4	0.1%	0.3	0.1%	0.3	0.1%

Source: *Survey of on the Number of Licensed Construction Companies (MLIT)*

The number of construction consultant businesses is shown in the figure below. (Figure 5)

**Fig. 5 No. of Registered Construction-Related Businesses
(by Business Type and Net Registered Number)**

Business Type	Fiscal Year ²	2011	2012	2013	2014	2015
Surveying ¹	No. of registered companies	12,566	12,436	12,272	12,115	12,000
	YoY change (%)	-1.0	-1.0	-1.3	-1.3	-0.9
Construction consulting ¹	No. of registered companies	3,935	3,941	3,945	3,947	3,934
	YoY change (%)	-1.4	0.2	0.1	0.1	-0.3
Geological surveying ¹	No. of registered companies	1,265	1,263	1,259	1,265	1,269
	YoY change (%)	-1.9	-0.2	-0.3	0.5	0.3
Net number of companies	No. of registered companies	13,951	13,773	13,714	13,599	13,475
	YoY change (%)	-1.8	-1.3	-0.4	-0.8	-0.9

Source: Registration Status of Construction-Related Companies (MLIT)

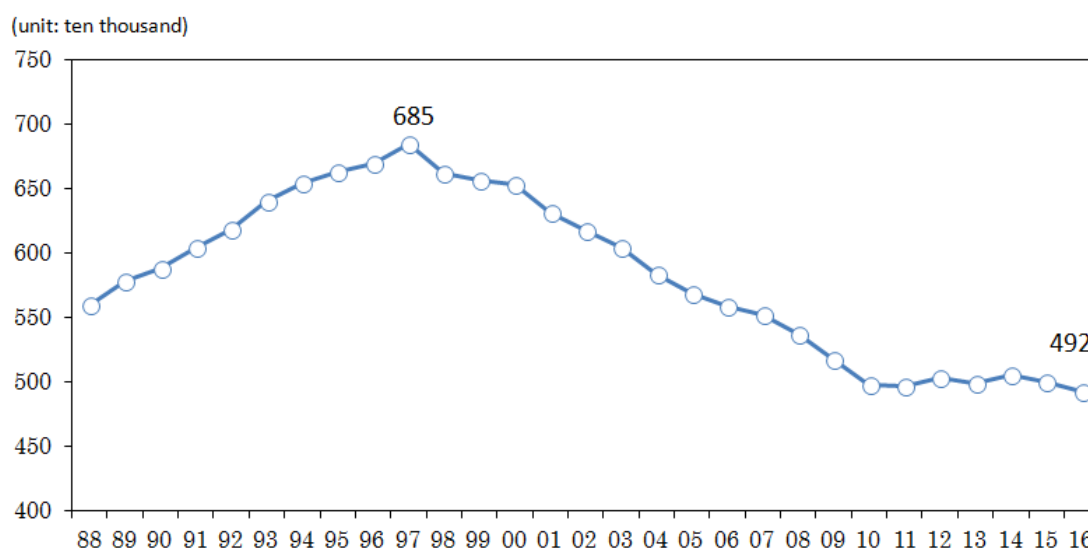
Notes:

1. Including companies with multiple registrations.
2. As of the end of March in each fiscal year.

3. Employees and Construction Labor

The number of construction industry employees in 2016 was 4.92million, a decrease of ▲28.1% in comparison to the 6.85million in 1997. (Figure 6)

Fig. 6 Number of Construction Industry Employees



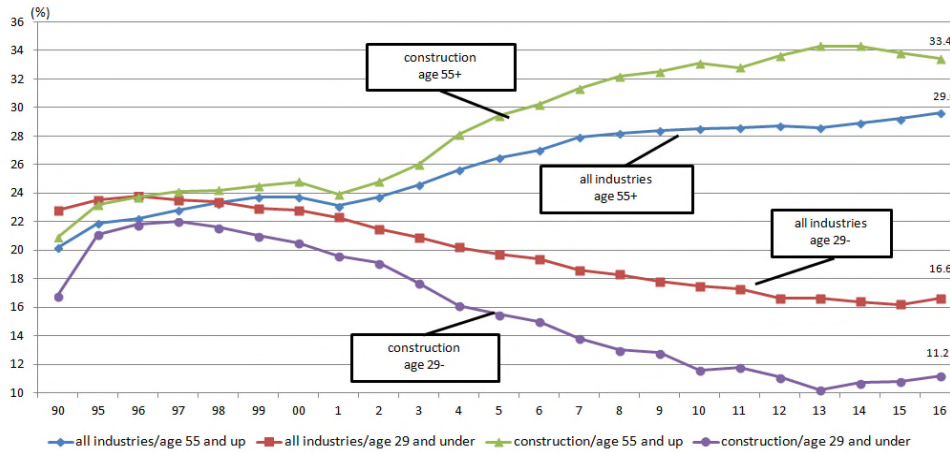
Source: Annual Report on the Labor Force Survey

1. Preliminary Figures for 2016

Looking at trends in age composition among construction industry employees, in 2016, about 33% of employees were aged 55 or higher, while about 11% were aged 29 and under, indicating that

aging in the employee population is progressing. In addition, the percentage in the young adult age group has dropped significantly, and the passing of skills to the next generation has become a major issue. (Figure 7)

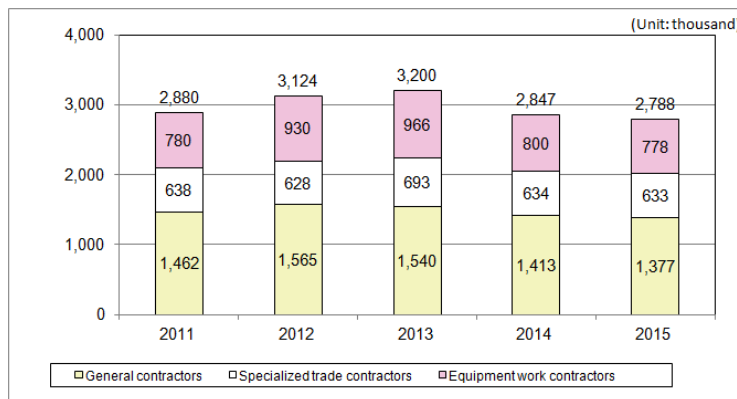
Fig.7 Age Composition of Construction Industry Employees



Source: Labour Force Survey (Ministry of Health, Labour and Welfare)

The numbers of construction industry employees by trade/field shows that 1,377,000 (49.4%) work for “general contractors,” 633,000 (22.7%) for “specialized trade contractors,” and 778,000 (27.9%) for “equipment work contractors,” for a total of 2,788,000 employees. This total is down 412,000 from FY2013, reflecting a particularly large decrease in the number of general contractors and equipment work contractors.

Fig. 8 Number of Construction Industry Employees by trade/field



	2011		2012		2013		2014		2015	
General contractors	1,462	50.8%	1,565	50.1%	1,540	48.1%	1,413	49.6%	1,377	49.4%
Specialized trade contractors	638	22.2%	628	20.1%	693	21.7%	634	22.3%	633	22.7%
Equipment work contractors	780	27.1%	930	29.8%	966	30.2%	800	28.1%	778	27.9%
Total	2,880	100.0%	3,124	100.0%	3,200	100.0%	2,847	100.0%	2,788	100.0%

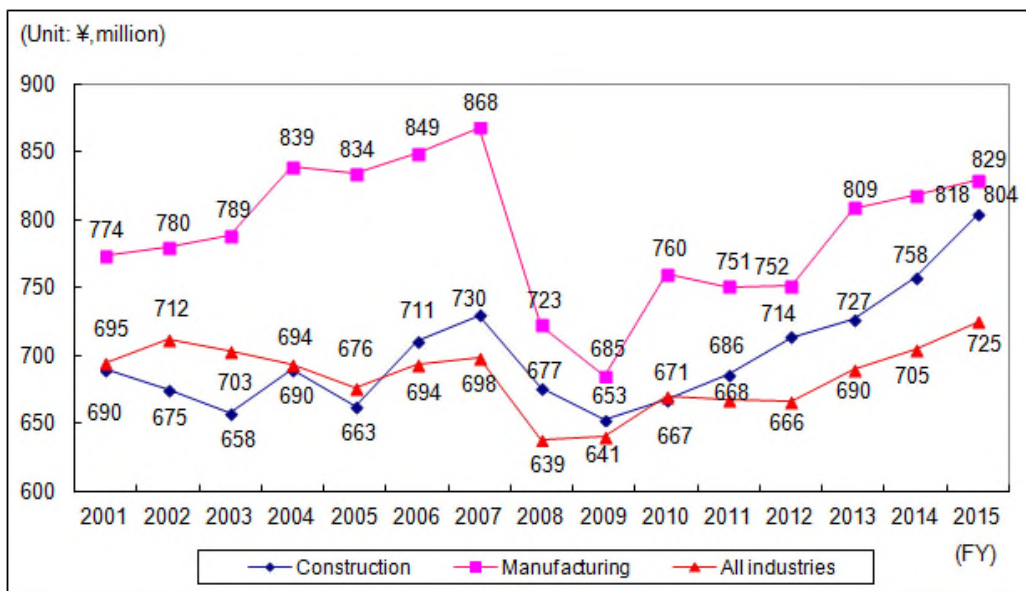
Source: Statistics on Construction Projects Implemented (MLIT)

4. Productivity

The low level of labor productivity in the construction industry versus manufacturing and other industries is largely due to macroeconomic factors, impediments to productivity also exist at work sites and in companies. The major factors involved are as

- (1) Productivity improvement in workplace that would bring about major reforms in the production system has not been adequately developed.
- (2) Production system has been ineffective because of that the state of “too many layers of subcontractors” leads to increased overhead costs.

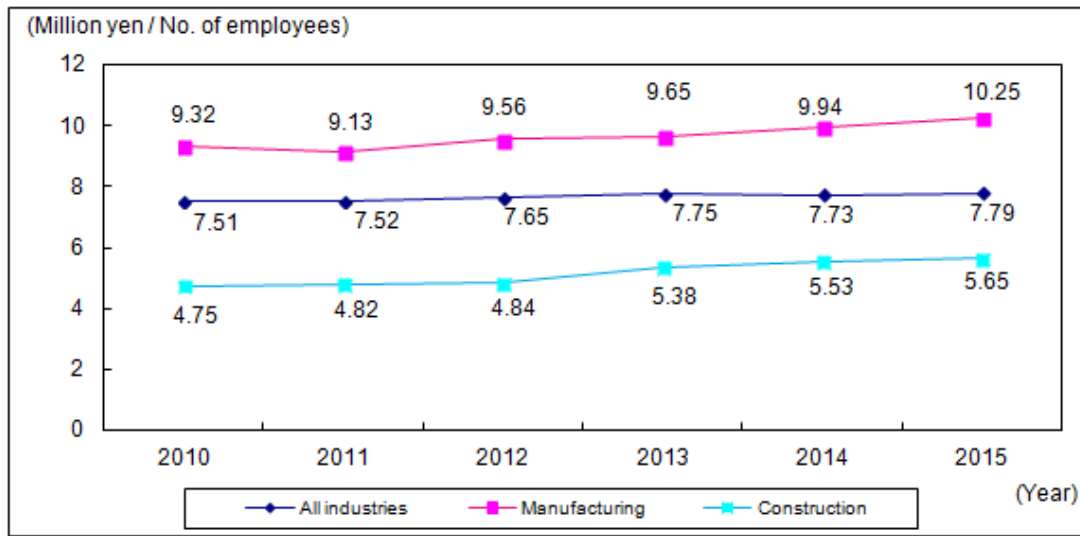
Fig. 10 Added Value Per Employee



Source: *Corporate Statistics* (Ministry of Finance)

Note: Added value = operating income + personnel expenses + interest expenses/discount expenses + taxes and public fees, etc.

Fig. 11 Trends in Real Labor Productivity in the Construction Industry



Source: *National Accounts (2015Final Version)* (Cabinet Office)

Notes:

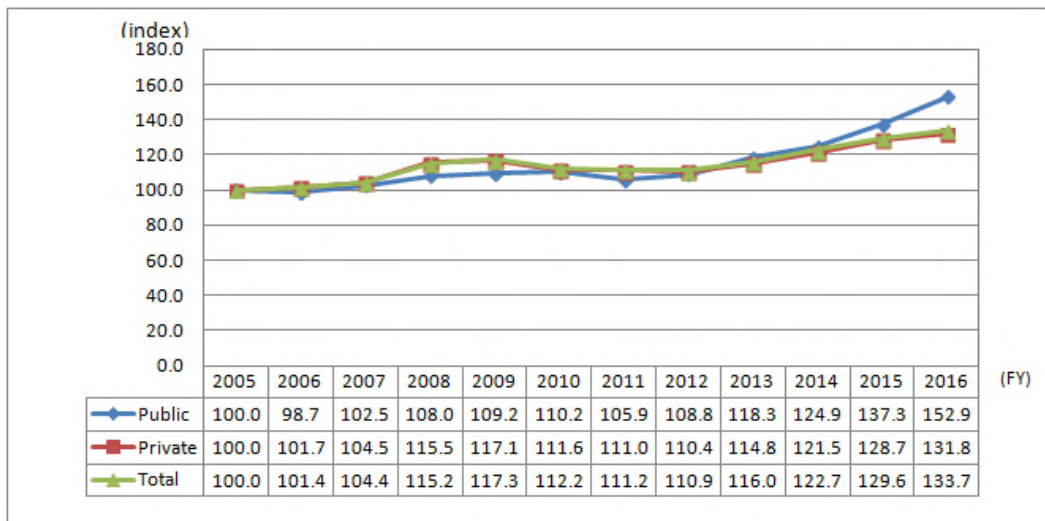
1. Real labor productivity = GDP by economic activity / no. of employees engaged in each economic activity
2. Benchmark year 2011. Real prices: Fixed standard year method.

5. Construction Costs

(1) Trends in the expected construction costs per floor area of new starts

This diagram shows the trends in the expected construction costs per floor area of new starts using FY2005 as the baseline. The index, combining the public and private sectors, shows that there has been an increasing trend in construction costs since FY2003. This is largely due to the increase of labor cost.

Fig. 12 Trends in the expected construction costs per floor area of new starts

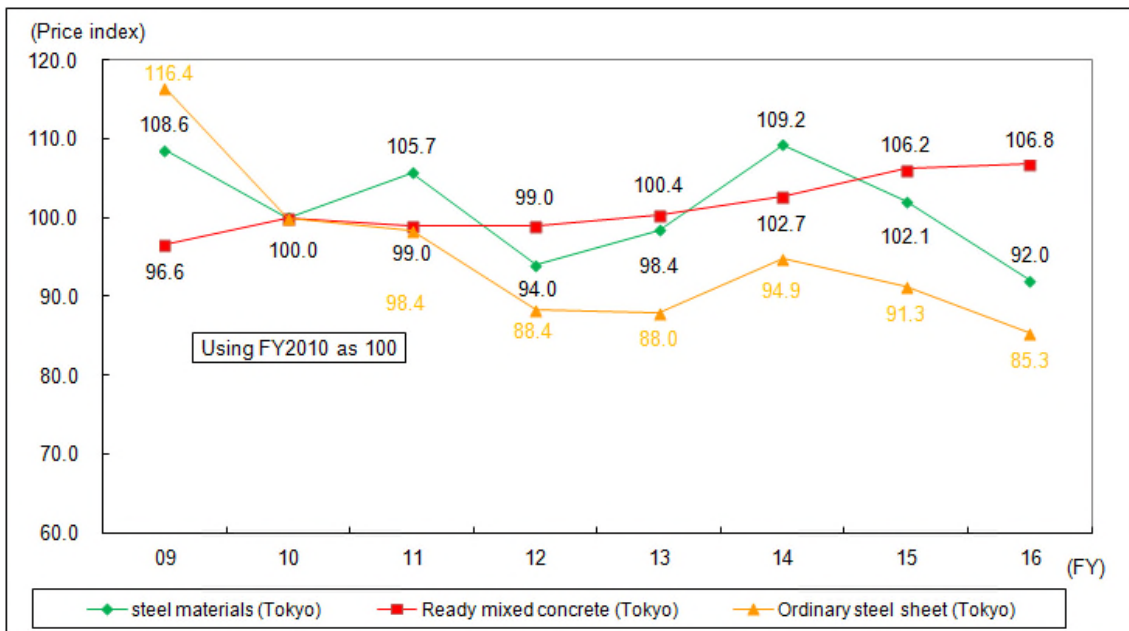


Source: *Statistics on Building Starts* (MLIT)

(2) Average Construction Material Prices

Figure 13 shows the trends in prices of major materials in the form of an index based on the average prices in 2010 (construction materials price index). The leading factor in the increasing trend in construction costs in the steel product price index is massive price increases due to the sharp rise in ordinary steel product prices in 2003–04 and to the impact of rising shipping costs resulting from natural resource price increases in 2007–08, all of which have been affected by rising prices associated with an increased demand for steel worldwide. Reductions since 2009 are attributed to the effects of the Lehman Brothers collapse.

Fig. 13 Trends in the Construction Materials Price Index

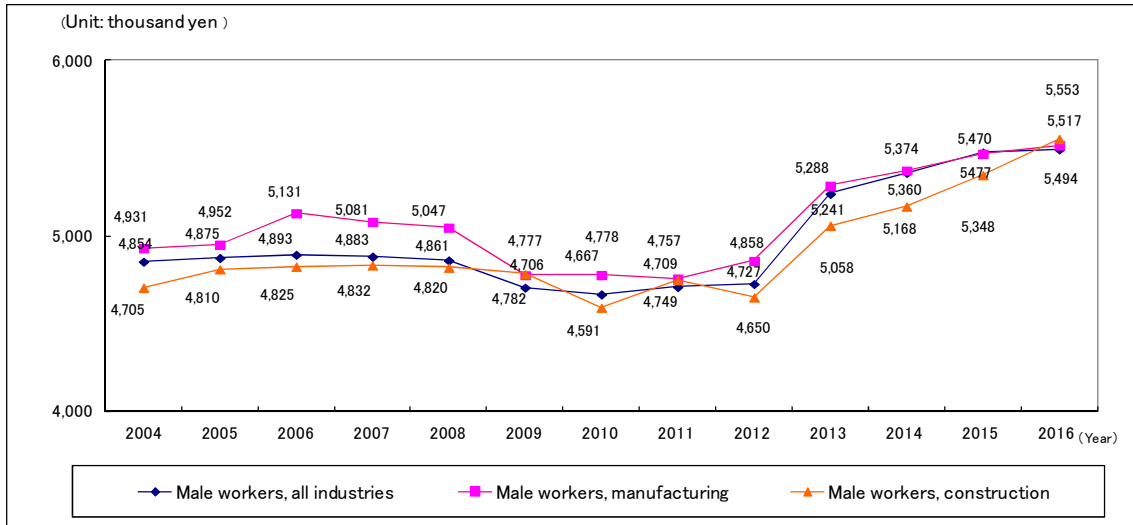


Source: *Market Conditions and Price Trends for Major Commodities*
(Economic Research Association)

(3) Construction Industry Wages

Until the early 1990s, wages of production workers in the construction industry had been rising alongside of workers in other industries. However, the decrease of wages began in 1995, earlier and larger than other industries, and this drop caused the gap between the construction industry and other industries to widen. Recently the wage gap has shrunk. In 2016, annual construction wages were ¥5,550,000, about ¥60,000 higher (1.1%) than the average wage for male production workers in all industries and about ¥40,000 lower (0.7%) than the average wage of male production workers in the manufacturing industry.

Fig. 14 Trends in Total Annual Wages of Production Workers

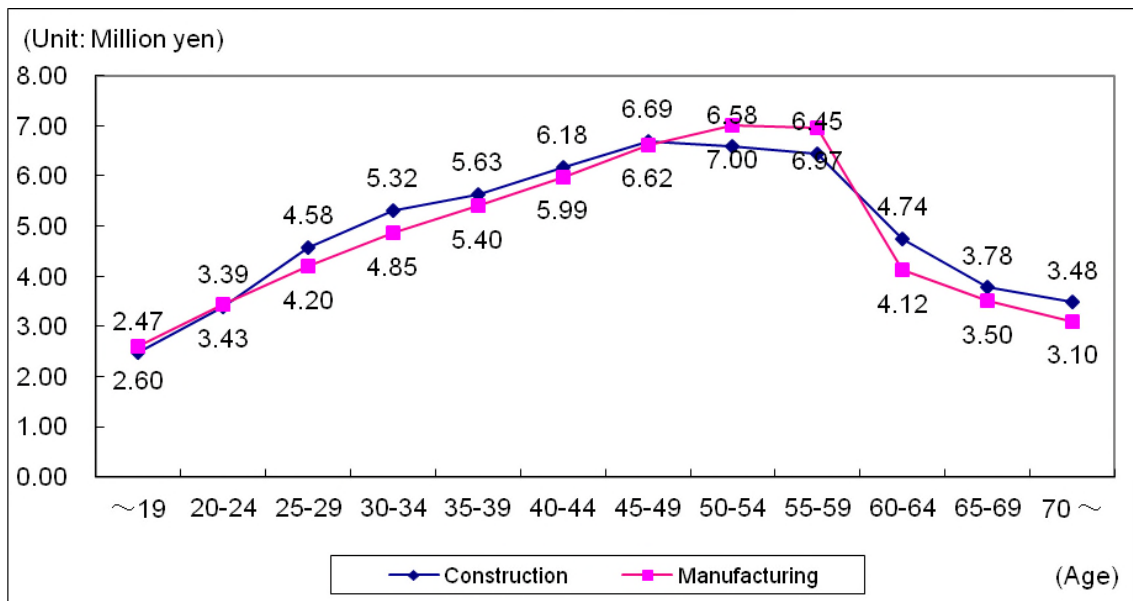


Source: *Basic Survey of Wage Structures* (Ministry of Health, Labor, and Welfare)

Note: Total annual wages = fixed monthly salary × 12 (months) + annual bonus and other special pay

The wage curve for production workers by age in the construction industry shows that wage increases level off at around 45-54 years old when workers likely own homes and have a burden of payment for their children’s education. In that range, a gap between this curve and that of the manufacturing industry has been less than before.

Fig. 15 Annual Wages for Male Production Workers in Construction and Manufacturing



Source: *Basic Survey of Wage Structures* (Ministry of Health, Labour, and Welfare)

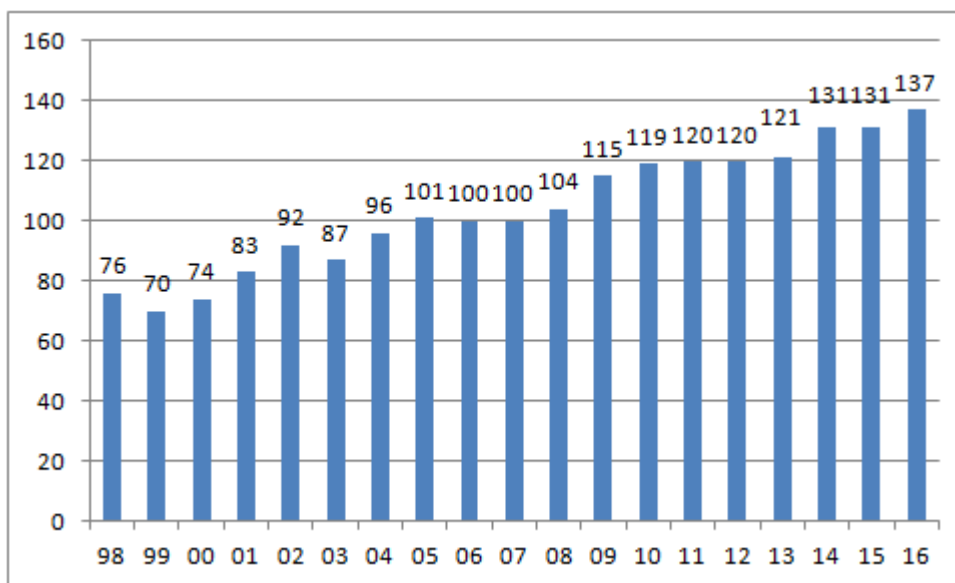
Note: Total annual wages = fixed monthly salary × 12 (months) + annual bonus and other special pay

6. International Transactions in the Construction Market

(1) International Construction Companies in Japan

In FY2016, there were 137 international construction companies holding construction licenses in Japan (foreign corporations and Japanese corporations with 50% or greater foreign ownership).

Fig. 16 No. of International Construction Companies Holding Construction Licenses in Japan



Source: MLIT

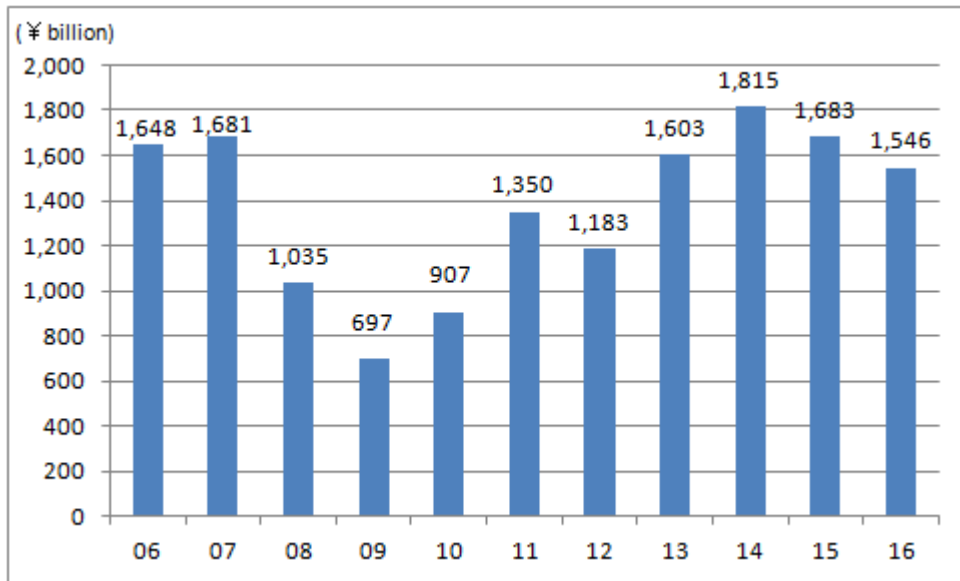
(2) Japanese Construction Companies Overseas

Construction orders of Japanese companies from overseas trended at about the ¥1 trillion level for more than 20 years since first crossing the ¥1 trillion threshold in FY1983. Orders received in FY2007 rose to ¥1,681.3 billion. However, as a result of the global economic downturn, orders received in FY2009 fell to ¥697 billion in FY2009 due to the effects of the global recession.

Orders rose again and set a new record to ¥1,815 billion in FY2014, and fell by ¥269 billion to ¥1,546 billion in FY2016.

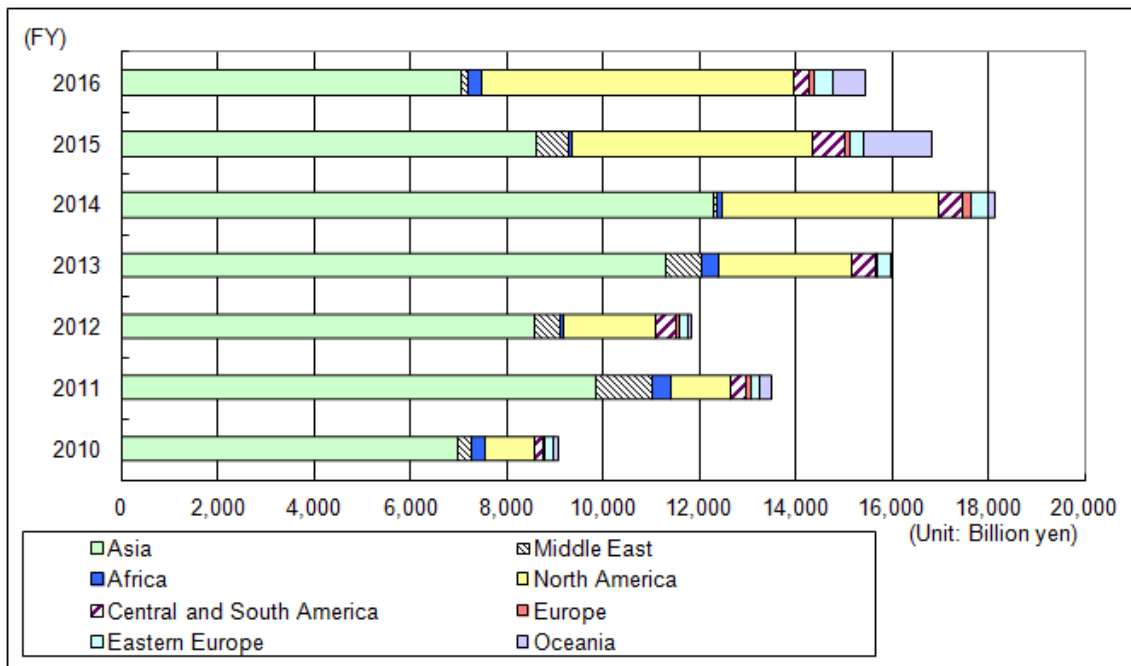
Note that the amount of construction orders of Japanese companies from overseas only represents a sampling of construction companies. These figures come from a census of 50 companies in The Overseas Construction Association of Japan, Inc.

Fig. 17 Overseas Construction Orders of Japanese Companies



Source: The Overseas Construction Association of Japan, Inc

Fig. 18 Overseas Construction Orders Received in 2010–2016 (by Region)



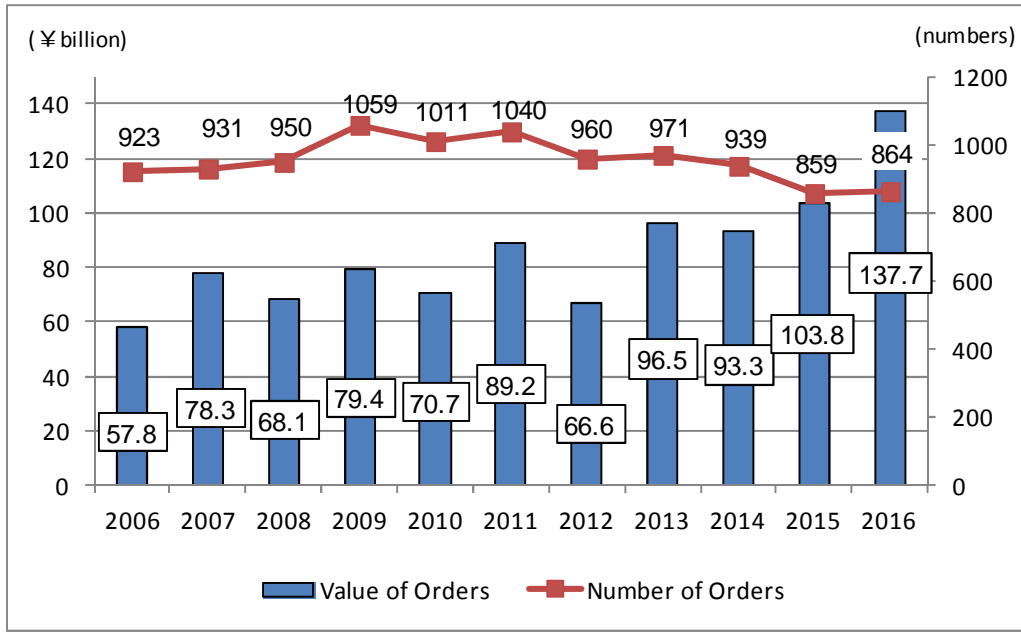
Source: The Overseas Construction Association of Japan, Inc

(2) Japanese Construction Consulting Companies Overseas

Regarding the overseas sales of Japanese construction consultant companies, the total value of orders received in FY2016 was the highest ever recorded. The total value of orders received was ¥1,377 billion, a year-on-year increase of ¥34 billion, and the number of projects increased by 5 to 864.

When looking at the overseas sales per order, FY2016 increased by ¥38 million to ¥15.9 billion compared to previous year.

Fig. 19 Overseas Sales of Japanese Construction Consulting Companies



Source: Infrastructure Development Institute of Japan, Inc