

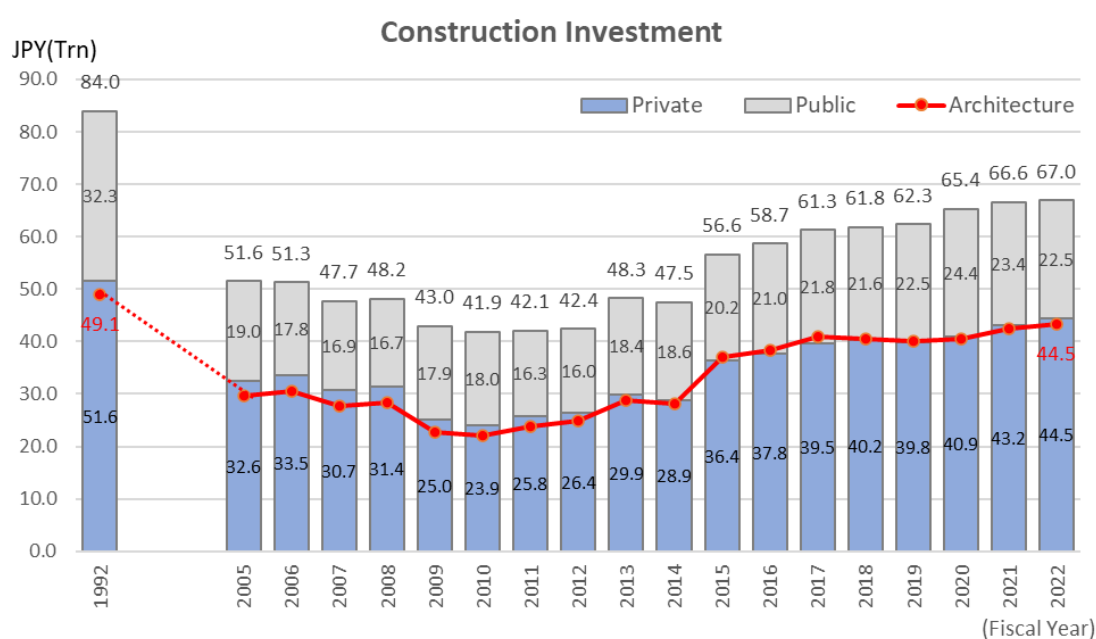
Construction Outlook in Japan

Apr 2023

This report is the summary of SFC's research covering the Japanese construction market. It provides the historical and forecasting construction industry value with details of the market condition and the construction categories in Japan.

1. Construction Investment

1.1 Transition of Construction Investment

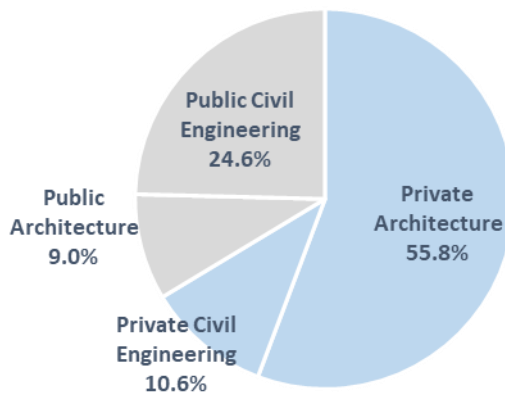


Source: MLIT "Construction Investment Outlook"

After peaking at 84 trillion yen in FY1992, construction investment has continued to decline, and in FY2010 it fell to about 50% of its peak. Since then, it has been on an upward trend due to reconstruction demand following the Great East Japan Earthquake and a recovery in private sector investment. Construction investment in FY2022 is expected to increase by about 0.6% from the previous year to 67.0 trillion yen, and the investment in building construction is expected to be 44.5 trillion yen.

1.2 Construction Investment Breakdown

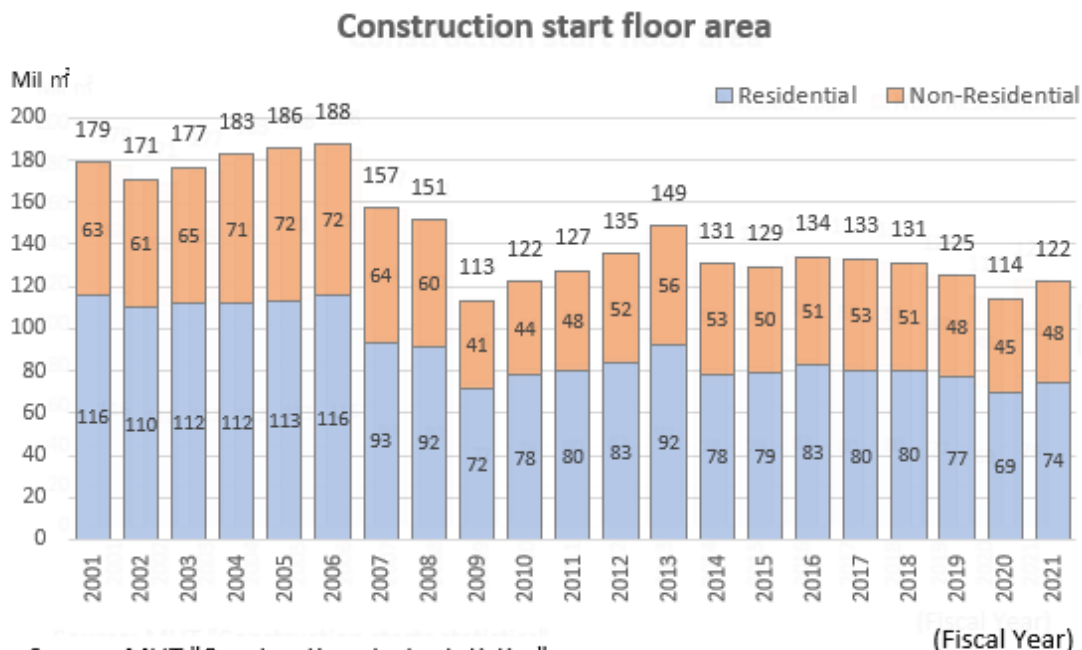
Construction Investment Breakdown



Source: MLIT "Construction Investment Outlook"

Looking at the composition of construction investment, private investment accounts for about 66.4% of the total, and public sector accounts for about 33.6%. By type of construction, architecture accounted for about 64.8% and civil engineering for about 35.2%. As the result shows, most of the private investment is in construction works, and most of the public investment is in civil engineering works in Japan.

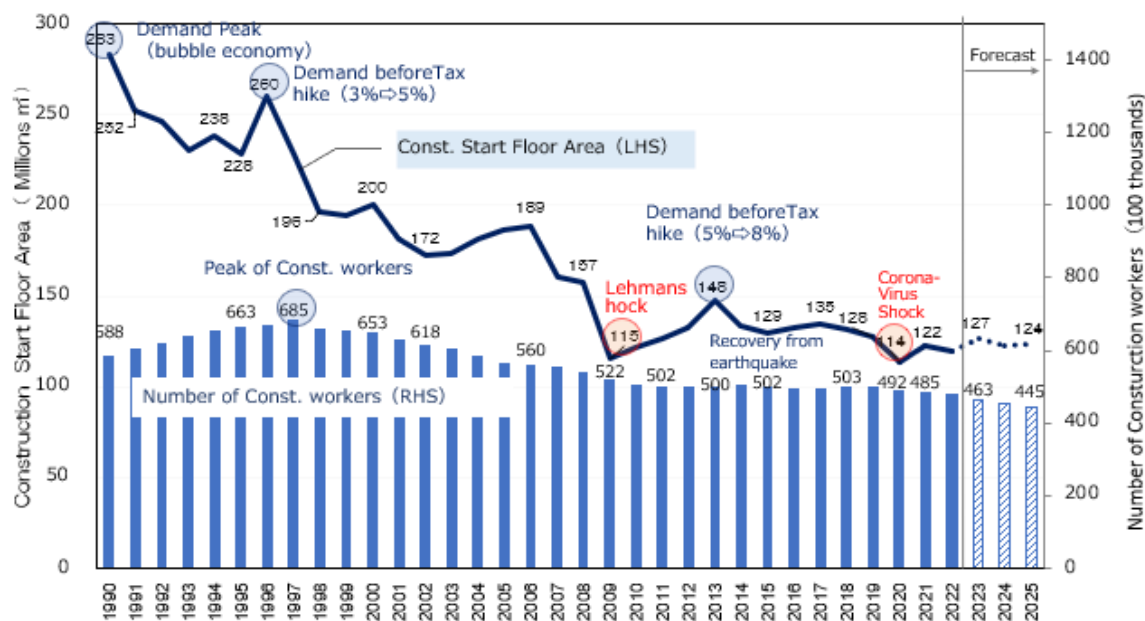
2. Construction Demand (Construction Start floor area)



Source: MLIT "Construction starts statistics"

New construction floor area fell sharply in FY2007 due to the impact of the revision of the Building Standards Law, and in FY2009 due to the rapid economic downturn caused by the Lehman shock. Although it started to increase from FY2010 onwards, it fell for the first time in five years in FY2014 due to the reaction to the last-minute surge in demand before the consumption tax rate hike in the previous year. Although it remained at the same level thereafter, in fiscal 2020, residential buildings decreased for the second consecutive year and non-residential buildings decreased for the third consecutive year, which means new construction floor area fell sharply to 114 million square meters, down 10.8% for all buildings. In fiscal 2021, it will increase by 7.5% to 122 million square meters, but it has not reached the level of 2019 before the corona crisis. Even in FY2022, the pace of recovery has been slow.

3. Construction Demand and Number of Construction Workers



Source: MLIT "Construction Starts Statistics", MIC "labor force survey", Forecast (SFC)

Building demand would remain at a low level until the end of 2022 after a major drop in 2020 due to the coronavirus. Demand is expected to increase in 2023 as the economy recovers. On the other hand, the number of workers in the construction industry is on a downward trend, and the shortage of workers is expected to continue.

From the first half of 2023 onwards, demand is expected to recover, but the supply and demand situation is expected to tighten further due to the decrease in the labor force due to the retirement of elderly workers and the impact of the upper limit on working hours due to the full-scale implementation of work style reforms in FY2024.

4. Construction Price

Construction cost in Japan keeps on rising continuously after recovery of the global financial crisis occurred in 2008. Fundamentally this has been caused by a shortage of construction workers nationwide, which is a direct result of an existing aging problem and a lack of interest by incoming workers. In recent years, the reform of working practice initiated by the government is accelerating this condition.

Some people assumed the volume of construction investment would reduce after the completion of the projects related to the Olympic games in 2019. However, the problem of labor shortage has not been resolved and is becoming more serious, and as a result, it seems that construction prices will continue to rise for a while.

The construction industry had been extremely strong until 2019, however, since Covid-19 occurred February in 2020, the economic situation was suddenly changed remarkably. And as economic activity reduced greatly, capital outlay for investment for Building decreased drastically in 2020.

From 2022, the recovery of demand from the pandemic combined with Russia's invasion of Ukraine has accelerated the rise in energy costs and raw material prices. In addition, the price of materials procured from overseas is soaring due to the impact of the weak yen. Construction prices are expected to continue to rise due to rising material costs.

Below figure shows the trend of construction cost per unit floor area of all types of buildings across Japan. The price has been increasing annually, particularly from 2014 to 2017, during which a significant increase was observed. Even after that, there was a rise in demand for building construction due to active redevelopment, particularly leading up to the Olympics.

Since 2020, there was a significant drop in demand due to the impact of the COVID-19 pandemic. However, from 2021, there has been a sharp rise in the cost of building materials. Although the year 2023 is expected to see a growth in building demand after the pandemic, there are issues with the high cost of building materials and rising labor costs due to labor shortages, so prices are predicted to remain high for the time being.

Trend of Construction Cost per Floor Area

