

Construction Economy Report No. 52

The Japanese Economy and Public Investment

New dimensions in public investment and
construction industry in the midst of an economic crisis

July 2009

**Research Institute of Construction and Economy
(RICE)**

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Chapter 1 Trends in the Construction Investment

1.1.1 Trends in the Japanese economy and construction investment

- The condition of the Japanese economy continues to worsen, due to shrinking consumer spending and capital investment – though the pace is decelerating. It is hoped that a stimulus package will protect the economy against risks including a further decline of the global economy.
- According to a regular forecast announced in April 2009, a 5.8% year-on-year decline to 44.8 trillion yen in construction investment is expected for FY2009. A significant decrease is expected for private-sector housing investment (-6.0%) and private-sector non-housing investment (-9.8%) due to the economic downturn.
- If the FY2009 supplementary budget approved by the Diet on May 29 is implemented as scheduled, government construction investment in FY2009 is expected to significantly increase, to return to a level equivalent to that of FY2008.

● Trends in construction investment (FY)

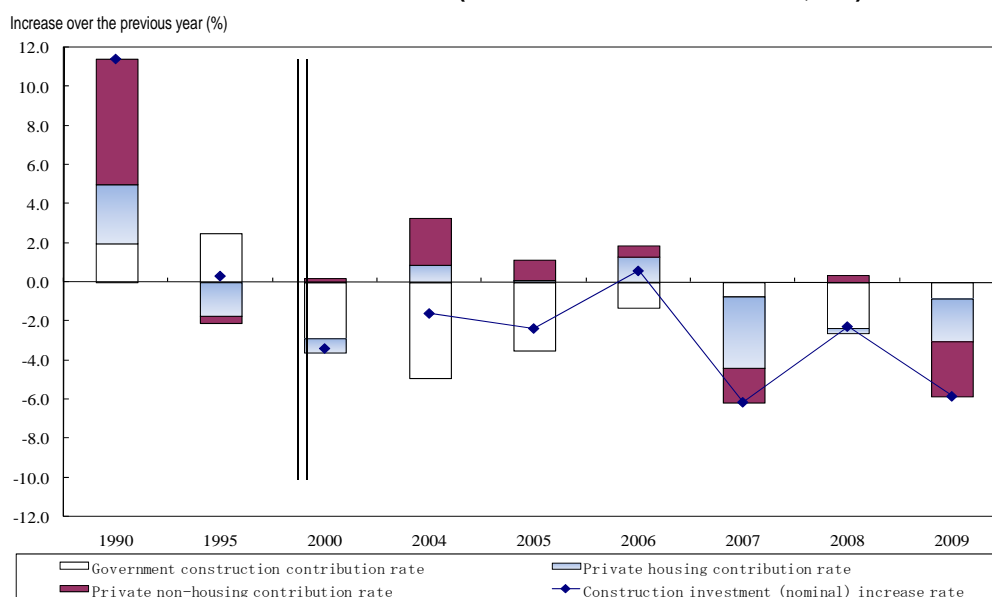
FY	Actual ← → Tentative → Forecast								
	1990	1995	2000	2004	2005	2006	2007	2008	2009
Nominal CI (Increase rate)	81,440 11.4%	79,017 0.3%	66,195 -3.4%	52,825 -1.6%	5,157 -2.4%	51,860 0.6%	48,670 -6.2%	47,560 -2.3%	44,780 -5.8%
Nominal government CI (Increase rate) (Contribution rate)	25,748 6.0% 2.0	35,199 5.8% 2.5	29,960 -6.2% -2.9	20,828 -11.2% -4.9	18,974 -8.9% -3.5	18,290 -3.6% -1.3	17,900 -2.1% -0.8	16,760 -6.4% -2.3	16,360 -2.4% -0.8
Nominal private CI (Increase rate) (Contribution rate)	25,722 9.3% 3.0	24,130 -5.2% -1.7	20,276 -2.2% -0.7	18,375 2.6% 0.9	18,426 0.3% 0.1	19,100 3.7% 1.3	17,210 -9.9% -3.6	17,070 -0.8% -0.3	16,040 -6.0% -2.2
Nominal private NH CI (Increase rate) (Contribution rate)	29,970 18.4% 6.4	19,505 -1.8% -0.4	15,959 0.7% 0.2	13,622 10.4% 2.4	14,170 4.0% 1.0	14,470 2.1% 0.6	13,560 -6.3% -1.8	13,730 1.3% 0.3	12,380 -9.8% -2.8
Real CI (Increase rate)	84,044 7.6%	77,727 0.2%	66,195 -3.6%	53,334 -2.7%	51,478 -3.5%	50,780 -1.4%	46,730 -8.0%	44,610 -4.5%	42,440 -4.9%

(Units: billion yen. Real figures are based on 2000 prices.)

Notes:

1. CI: construction investment NH: non-housing
2. Private NH CI = private non-housing construction investment + private civil engineering investment.
3. Data from the "FY2006 Construction Investment Outlook" by the MLIT up to FY2006

● **Trends in construction investment (nominal contribution rate, FY)**



● **Construction-related government investment in the FY2009 supplementary budget (all items to be financed from the national treasury)**

Item	Amount
Disaster preparedness and response (e.g., torrential rain, floods and tidal waves)	368.5 billion yen
Traffic safety	319.5 billion yen
Earthquake preparedness of buildings and structures (e.g., seismic retrofitting, preventive measures, maintenance)	270.6 billion yen
Seismic retrofitting of school buildings, renovation to make them more eco-friendly	264.1 billion yen
Ports and airports	204.0 billion yen

1.1.2 Stimulus packages and public investment by country

- To cope with the global recession (said to be the worst in a century), countries around the world are pushing fiscal policies to their limits. Many are aggressively increasing public investment and spending in selected fields to stimulate their economies.
- These selected areas include global environmental issues and investment to strengthen international competitiveness for the country's future success.
- Unfortunately, greater public spending means ballooning budget deficits. Countries such as Germany and France are cautious about further increasing public spending and are expressing their concerns about the declining value of the euro. The United States has announced an aggressive stimulus package but at the same time has shown plans to cut spending after an economic recovery. Japan too has indicated it will put public finances on a recovery track after the economy is out of danger.
- To achieve this goal, Japan should learn from the innovative stimulus plans of other countries (listed below).

Stimulus measures of major countries

Country	Outline of stimulus
Japan	<ul style="list-style-type: none"> • A total of 12 trillion yen (approx. 124 billion US dollars) including the "Fixed Cash Handout," employment promotion measures and tax breaks for those who buy houses, approved when the second FY2008 supplementary budget and the FY2009 budget were enacted in March 2009. • Additional public spending of 14.7 trillion yen (project spending of 56.8 trillion yen) based on the FY2009 supplementary budget plan. • Ratio of the stimulus to GDP: 2.4% in 2009 and 1.8% in 2010.
USA	<ul style="list-style-type: none"> • "2009 US Recovery and Reinvestment Act" became law in February 2009. The total amount of 78.7 billion dollars is about 5.7% of GDP. • There will be 28.8 billion dollars of tax cuts over the next few years and a total of 500 billion dollars of fiscal spending. • In February 2009 President Obama announced plans to halve the US fiscal deficit by the end of his first term. • Ratio of the stimulus to GDP: 2.0% in 2009 and 1.8% in 2010.
China	<ul style="list-style-type: none"> • Announced a stimulus package (e.g. public investment) in November 2008 to invest a total of 4 trillion yuan (approx. 585 billion US dollars, 13.3% of GDP) between Nov. 2008 and the end of 2010. • Additional investment indicated if needed. • Ratio of the stimulus to GDP: 3.1% in 2009 and 2.7% in 2010.
Korea	<ul style="list-style-type: none"> • Announced economic policies totaling 33 trillion won (approx. 26 billion US dollars) in October and November 2008. • Additional measures for low-income earners announced. • Ratio to the stimulus to GDP: 3.9% in 2009 and 1.2% in 2010.
UK	<ul style="list-style-type: none"> • Temporarily reduced the rate of VAT (value-added tax) totaling 12.5 billion pounds (approx. 21 billion US dollars), and announced a stimulus package (e.g., public investment spending in advance of schedule) in November 2008. • Total spending of approx. 20 billion pounds by March 2010. • Ratio of the stimulus to GDP: 1.4% in 2009 and -0.1% in 2010. • Announced enhanced employment measures in April 2009.
Germany	<ul style="list-style-type: none"> • Announced a stimulus package (e.g. public investment) in November 2008. • Announced additional measures (including public investment and tax reductions) in January 2009. • Total spending of 80 billion euros (approx. 113 billion US dollars) in the two years of 2009 and 2010. • Ratio of the stimulus to GDP: 1.6% in 2009 and 2.0% in 2010. • Announced enhanced employment measures in May 2009.
France	<ul style="list-style-type: none"> • Announced a stimulus package (e.g., public investment and financial support to auto-related companies) in December 2008. • Announced measures to sustain employment and to support lower income people in February 2009. • Total spending of approx. 29.1 billion euros (approx. 41 billion US dollars) in the two years of 2009 and 2010. • Ratio of the stimulus to GDP: 0.7% in 2009 and 0.8% in 2010. • Announced enhanced employment measures in April 2009.

* Conversion to US dollars is based on the exchange rates as of June 30, 2009

1.2 Maintenance, repair and renovation of building stock

- Construction is a demand-driven industry whose market size is determined by demand trends in general. On the other hand, the rent of houses, apartments and offices is determined by supply-side factors, including location, facilities, and the level of maintenance.
- Vacancy rates of wooden houses for rent built during the high economic growth period started to increase at a relatively early stage as these houses deteriorated. On the other hand, the vacancy rates of modern, well-managed, non-wooden houses have remained constant, and will continue to remain low.
- At present, housing companies are not enthusiastic about rebuilding old rental houses and these remain unutilized. More aggressive measures to promote the rebuilding of those houses and expand the supply of new houses for rent are needed.
- The collapse of the bubble economy in the early 1990s was a turning point for office buildings. There is now more emphasis on investment for maintenance and repair rather than the building of new stock. This trend is likely to accelerate with the prolonged service life of modern buildings.
- Construction companies should meet market needs by developing technologies for the maintenance and renovation of office buildings and by aligning their sales and marketing to meet these new demands for longer service lives.

- Trends in the occupancy rate of rental houses in the Tokyo Metropolitan Region (every five years)

Those built in 1960s

From 1973 to 1978: -17%
From 1978 to 1983: -28%
From 1988 to 1993: -55%
From 1998 to 2003: -73%

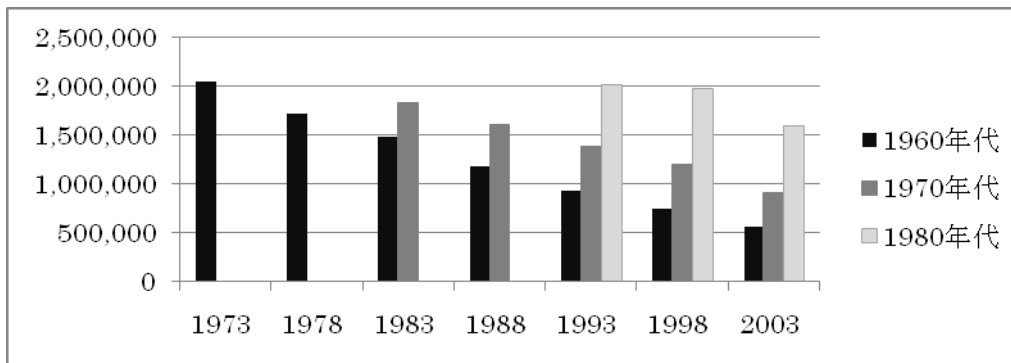
Those built in 1970s

From 1983 to 1988: -12%
From 1988 to 1993: -24%
From 1998 to 2003: -50%

Those built in 1980s

From 1993 to 1998: -2%
From 1998 to 2003: -21%

Number of rental houses by the decade built (1960s, 1970s, 1980s)



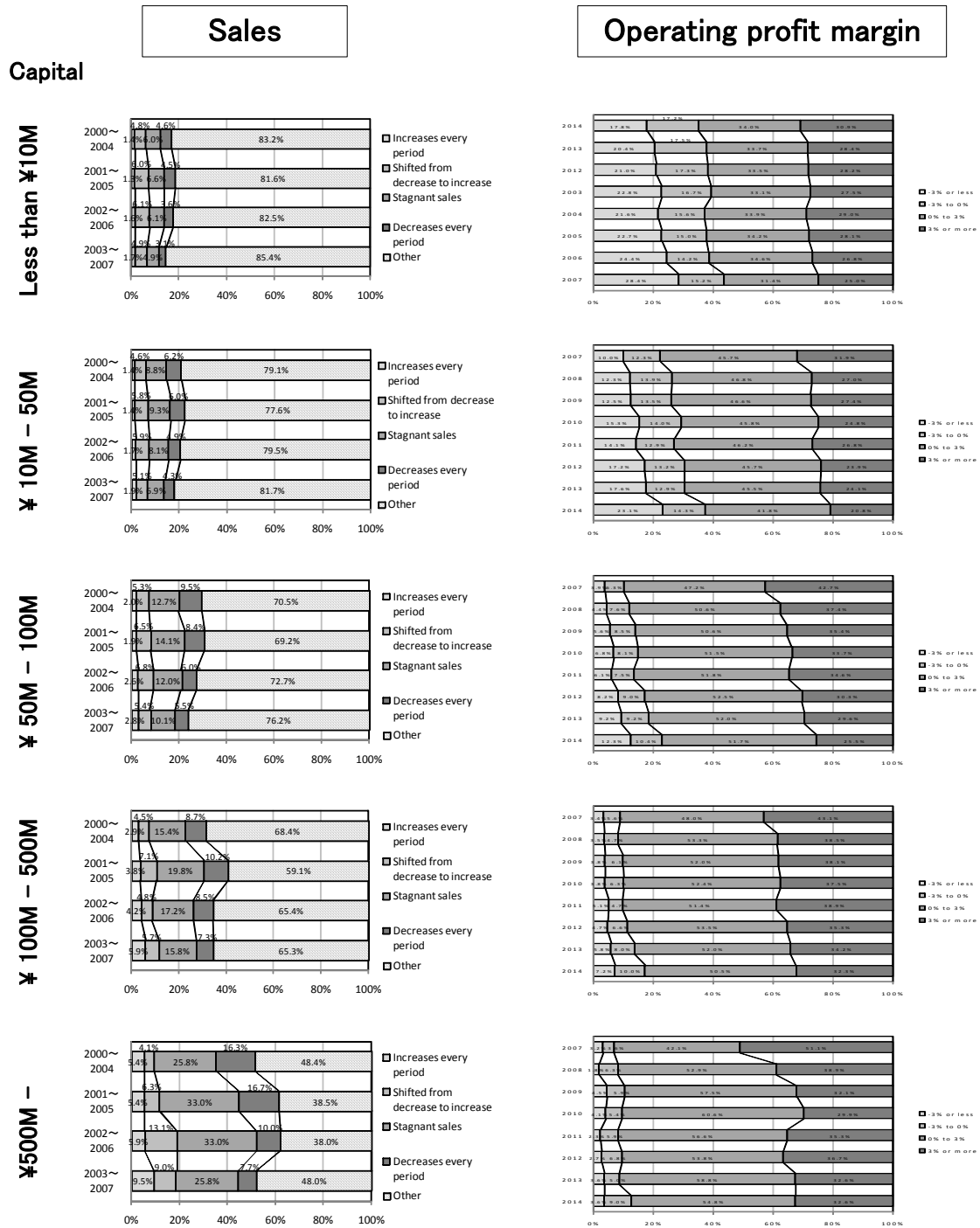
- Reasons why the service life of office buildings has lengthened
 - 1) Greater emphasis on environmentally friendly construction:
A change from “scrap-and-build” with a heavy burden on the environment to “stock and renovation” with less impact on the environment.
 - 2) More durable building frameworks:
The “skeleton” itself lasts longer, and the service life of the building is extended by replacing the equipment.
 - 3) Better repair and renovation technologies:
The life of old buildings is prolonged by using better, cheaper technologies and adding the latest features.
 - 4) Longer service life of high-rise office buildings:
High-rise buildings built decades ago are being repaired, as it is more costly to completely rebuild and ensure the business continuity of the tenants during reconstruction.

Chapter 2 Trends in the Construction Business

2.1 Recent performance of construction companies

- RICE conducted research into the business conditions of construction companies by analyzing the results of the Business Evaluation Survey conducted between 2000 and 2007.
- Sales levels of many companies fluctuate, which puts them in financially vulnerable positions. There is a tendency for only companies with a large capital base, 100 million yen and over, to be able to increase sales every period. There seems to be a considerable difference between 'big' companies (having a capital of 100 million yen and over) and 'small' companies (with capital of less than 100 million yen) in terms of the nature and structure of the company: the former has the power to conduct sales promotion and marketing to acquire customers and increase sales. Big companies can have their own sales teams and act as the contractors in large projects; whereas small companies without that capacity tend to be the subcontractors.
- Operating profit margins are declining in general, and many companies are in difficult financial conditions considering the size of their interest-bearing liabilities. The larger the capital of a company, the greater the profit ratio tends to be. Again, the borderline is 100 million yen. Bigger companies can better cope with the changing construction market and maintain profits.
- When classified by type of business, small companies tend to engage only in civil engineering. Bigger companies tend to engage in several types of business within construction, or within both construction and civil engineering.

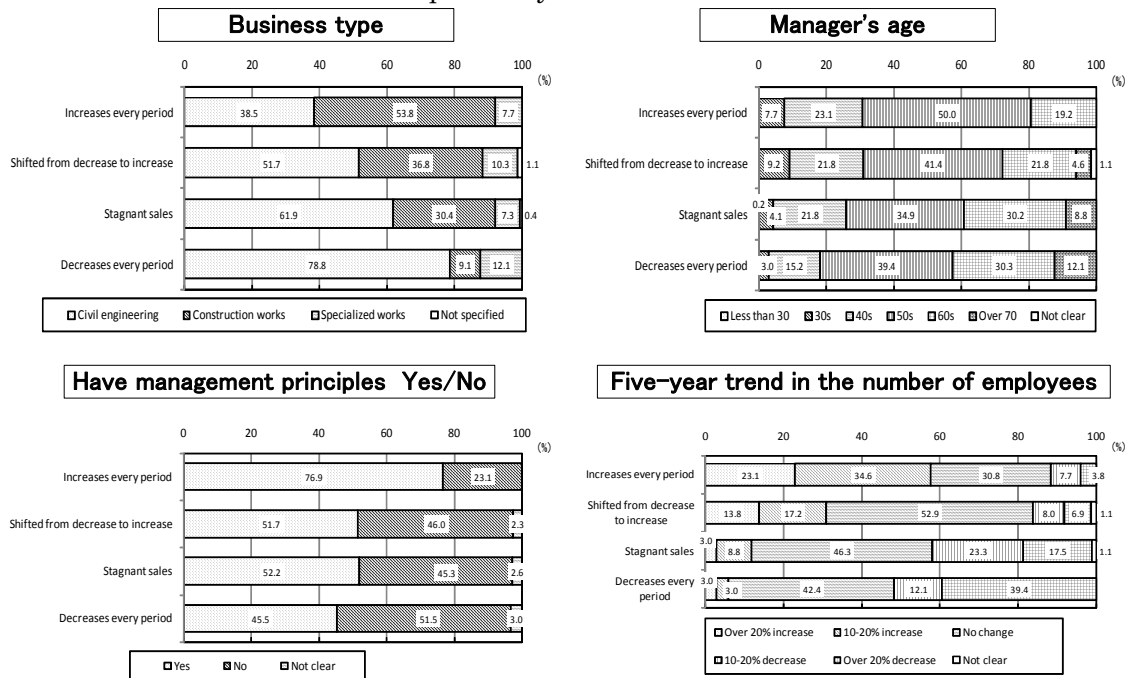
● Trends in sales and operating profit margin by the amount of capital



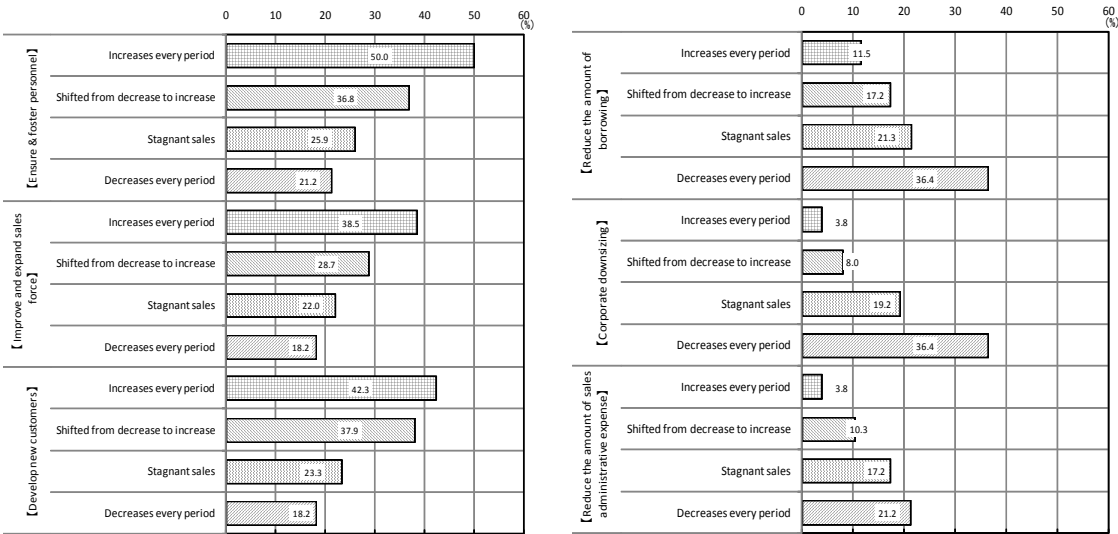
2.2 Common traits of construction companies that can increase both sales and profit

- RICE conducted a questionnaire survey of small- and medium-sized construction companies that have boosted both sales and profits at a time when construction investment as a whole is decreasing. These companies have something in common in terms of “how they respond to the market,” “age of managers,” “management principles,” “management policies” and “personnel.”
- Companies with a positive sales trend tend to “focus on construction works,” “have young managers,” “have clear management principles,” “engage in active management,” and “value their employees.” These companies, headed by young executives, tend to be flexible and aggressive, and can cope with the rapidly changing construction market. They understand the importance of personnel as a management resource and the management principle necessary to guide the company. They are committed to employing and fostering personnel to engage in sales promotion to attract new customers.
- On the other hand, companies with a negative sales trends tend to “have old managers,” “cannot cope well with the changing construction market,” “do not fully understand the importance of personnel as a key management resource,” and fall into a vicious cycle of “downsizing staff to cut costs but make the company less competitive.”
- Even though one cannot guarantee positive results merely by imitating successful companies, these research findings offer some insights and hope to other construction companies suffering in an economic recession.

● Features of construction companies by the sales trend



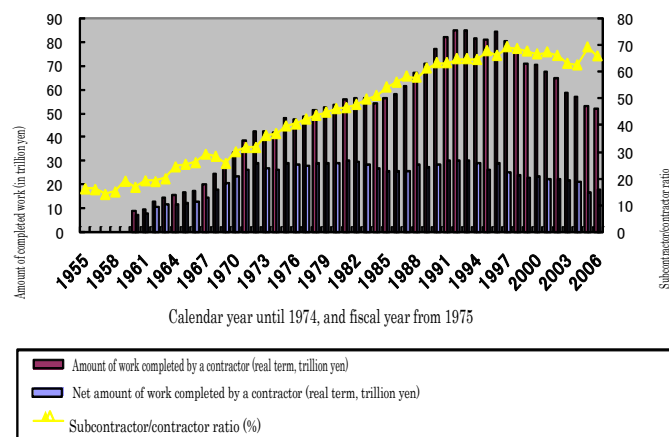
Five-year trend in management policy



2.3 Improving general contractors' business: problems arising from contractor-subcontractor relations

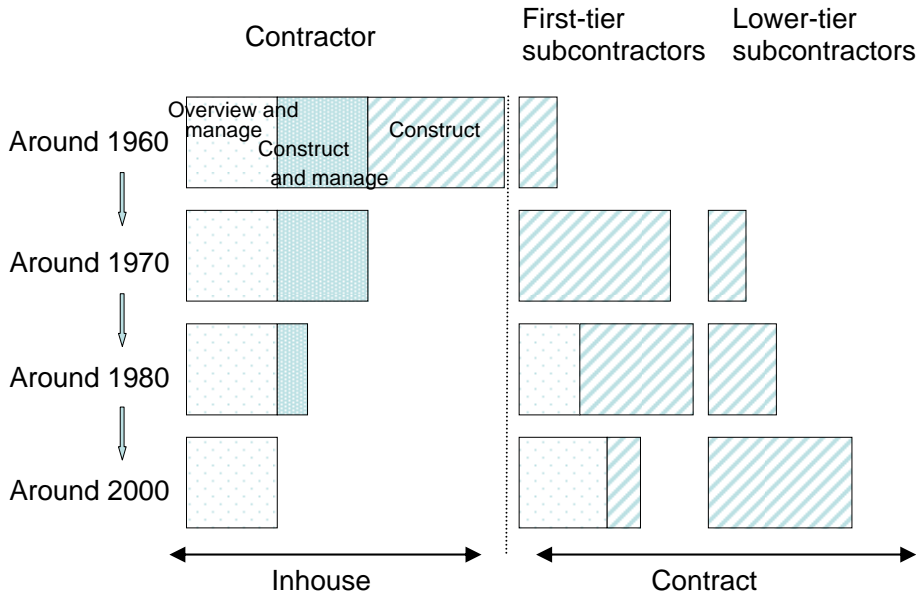
- The role of general contractors has changed over time. They used to directly conduct and manage construction projects, but when the high-growth period of the Japanese economy ended, they started to subcontract works rather than carrying out entire projects themselves in an effort to rationalize their business and make it more efficient. They now subcontract most of the actual work and focus on the management of construction projects. In this way, the division of labor and vertical contractor-subcontractor systems have become established in the industry
- Through these actions, general contractors have created similar value chains, making it structurally difficult to differentiate one general contractor from one another.
- The strategies used to streamline business – cutting personnel levels, increasing outsourcing and selecting subcontractors based only on price factors – work adversely when contractor-subcontractor relations worsen. The value chain becomes rigid and underperforming, making the general contractors' business more difficult.
- RICE recently conducted a questionnaire survey of general contractors to learn more about the relations between head office/branch office and on-site teams (internal relations) and between them and subcontractors (external relations). The results suggest that strategies employed by general contractors to improve business performance are not necessarily successful.
- General contractors, even though they were in the same line of business as their competitors, were able to survive in the days when the construction market was expanding. Now that significant growth of the market cannot be expected and competition among the companies for survival has begun, general contractors should review their production systems, think of ways to add value to their services, and differentiate themselves from one another.

Amount of work completed by a contractor (real term), net amount of work completed by a contractor (real term) and trends in subcontractor/contractor ratio
(Calculated based on data from the Ministry of Land, Infrastructure and Transport)

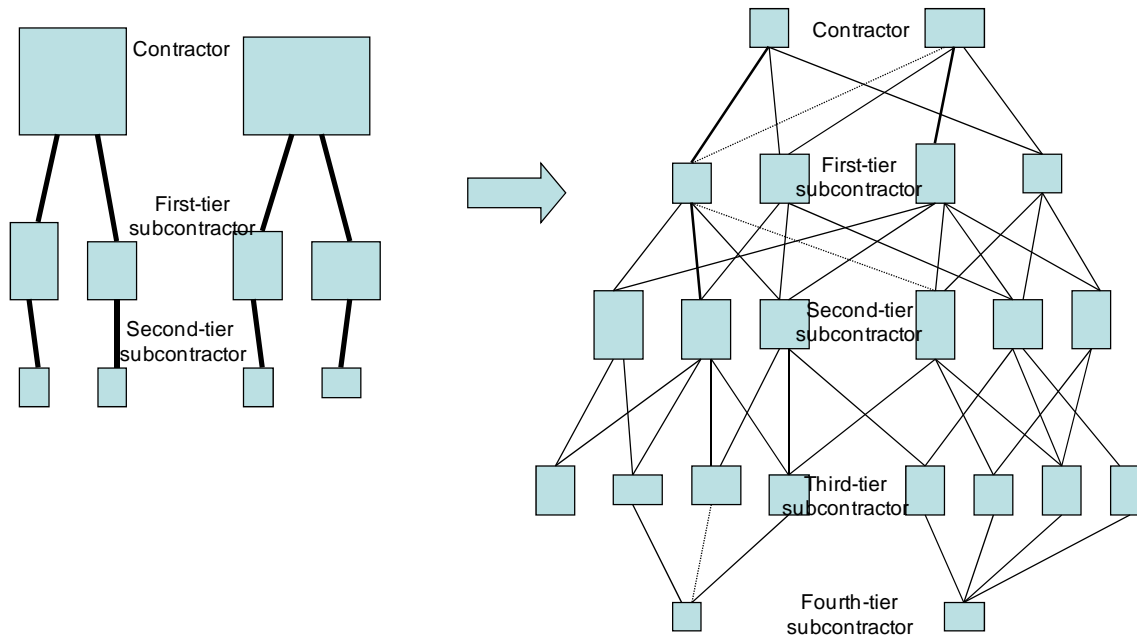


How production structures have changed leading to value chains similar among different general contractors

■ **Contractor-subcontractor role change (subcontracted works increased)**



■ **Schematic chart of more unstable and multi-layered contractor-subcontractor relations**



As the amount of work subcontracted from general contractors increased, the contractor-subcontractor relations gradually changed, resulting in all general contractors having similar value chains (because the same subcontractors tend to be selected when price is the main factor of company selection).

Chapter 3 Bidding and Contracting Systems

3.1 Local governments and bidding and contracting systems

- Profit ratios are declining in the oversupplied construction industry due to two factors: firstly, intensifying price competition in private-sector works; and secondly, the system of general competitive bidding introduced to the process of bidding for public works projects. In this type of bidding, the scheduled price, lowest price and standard price should be announced after the bidding to avoid low-priced bidding in subsequent biddings in which inferior companies might win the project on price alone. The General Evaluation System, that uses criteria other than price, should be used more, depending on the type and scale of the project. This system has been designed to evaluate construction companies from various aspects including technical expertise, management and social contribution.
 - The General Evaluation System however, requires both the time and effort of local government officials whose number has declined in recent years. National and prefectural governments should support municipalities to help promote the spread of the General Evaluation System. Price-only bidding may be transparent and easily understood by citizens but runs the risk that technically inferior companies may win the project by putting in extremely low prices. A building or a structure built very cheaply may be inferior in quality, resulting in significant economic loss or putting lives at risk. The government should gain the public's understanding that bidding should be based on multiple criteria (e.g., technology and work performance) to enhance the quality of price competition.
 - Some local governments have gained experience in utilizing the General Evaluation System and various anti-dumping measures while ensuring fair and transparent bidding through general competitive bidding. They seek a new system to determine the bid price that can ensure a suitable profit for the bidder. When designing a new system, one of the criteria is the evaluation of a construction company's role in the community and its social contribution.
-
- ◆ General competitive bidding (Introduced by 48.0% of local governments and 100% of prefectures and major cities)
 - After the introduction of this system, the percentage of successful bidding decreased and new companies winning bids emerged.
 - The new system means less work for employers selecting and designating companies that can take part in the bidding, but additional work for them with bid announcement. The system means more work for construction companies as they can take part in more bidding.
 - ◆ The General Evaluation System (Introduced by 100% of prefectures and major cities and 42.4% of municipalities)
 - The employer needs to establish the factors to be evaluated, the criteria and methods themselves, which means additional work for them compared with simple price-only bidding. Some municipalities find it difficult to get opinions from academics.

- Construction companies need to prepare technical proposals and work plans, and thus need to limit the number of biddings they take part in.
- ◆ Bid bonds (Introduced by 0.7% of local governments)
 - The bid bond is used only by limited number of local governments in Japan. In a survey on bidding and contracting, some mentioned that surety companies do not screen most construction companies.
- ◆ Anti-dumping measures
 - Many (especially employers) express concern over announcing the scheduled price after bidding.
 - Construction companies expect that systems including the standard price based on a survey on low-price bidding, and the lowest price to be used to control excessive dumping and maintain the bid winning rate.

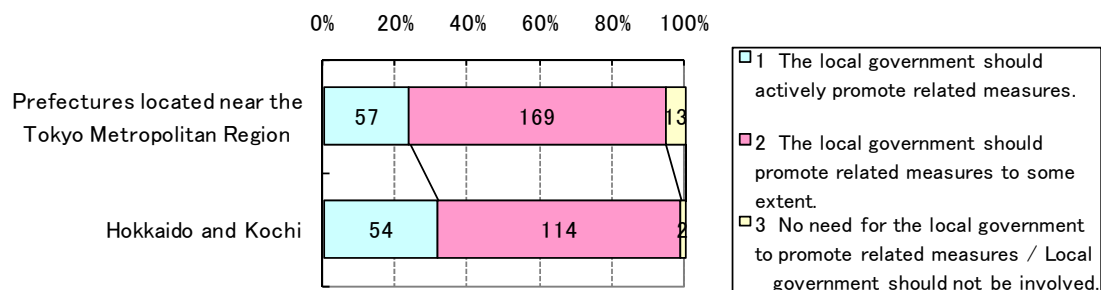
(The introduction rate of various systems is based on a survey by the MLIT on September 1, 2008.)

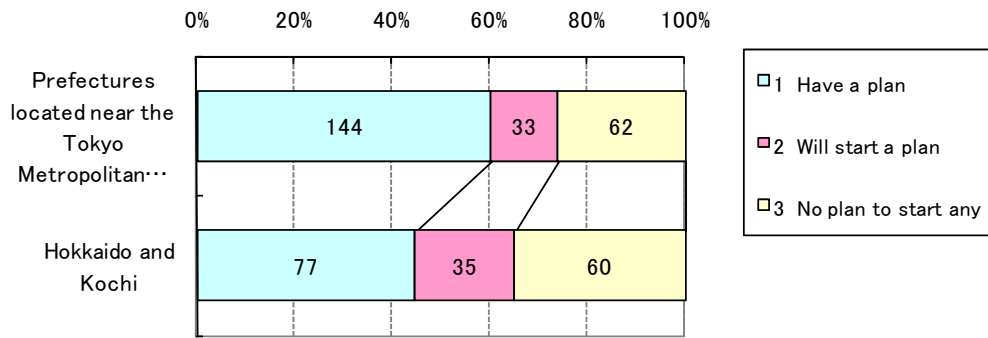
Chapter 4 National and Regional Planning

4.1 Exchanges between cities and rural areas

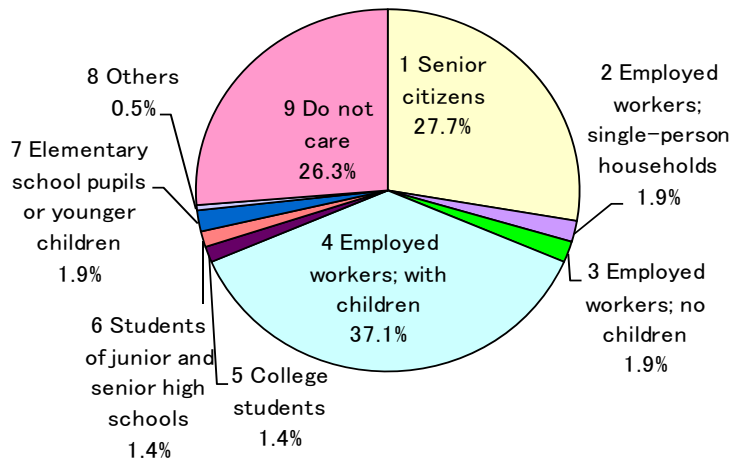
- The urban-rural balance is under threat in Japan. Depopulation and abandoned and poorly managed farmland are responsible for worsening security, the dumping of industrial waste, and greater damage by insects, birds and animal pests which in turn are threatening rural communities. Environmental and disaster control problems in these regions (e.g., floods and landslides caused by mountain forests losing water-retaining capacity, depletion of sources of drinking water, declining fish catches due to changing ecosystems, and a declining food self-sufficiency ratio) will affect the entire nation. To cope with these issues, measures to maintain the living standards of people in depopulated areas, proper maintenance of uninhabited regions, increased efficiency of farming, forestry and other local industries and measures to control depopulation, are needed.
- Multi-habitation and exchanges among regions may help manage residential populations in rural areas, sustain local industries, and promote new ones. Many municipalities are aware of this opportunity and have taken measures to attract urban residents, including retirees and families with small children. Some of them have been successful, but many municipalities think that their attempts are still at the experimental stage and need better ideas and development.
- The expectation for multi-habitation and exchanges are particularly high among municipalities in remote areas, and those suffering from population declines and the aging of their populations. Strategies to meet their needs have to be developed.
- The “Children to Rural Village” exchange project that sends urban elementary school pupils to farming, mountain and fishery villages was launched this fiscal year. The project is expected to trigger a large and continuous flow of people from cities to villages, and promote exchanges between the two environments. To further expand the project scale, the number of areas that can receive a large number of children should be increased nationwide, necessary facilities should be developed, and measures to protect children should be planned and implemented.

1. Survey on Multi-Habitation and Exchanges

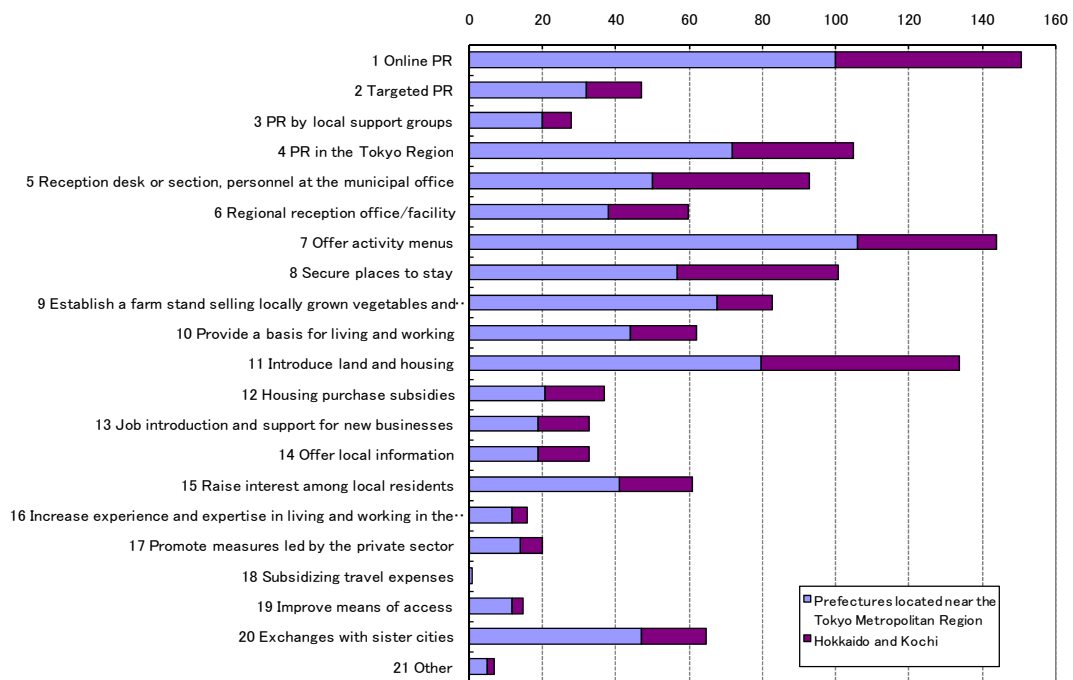




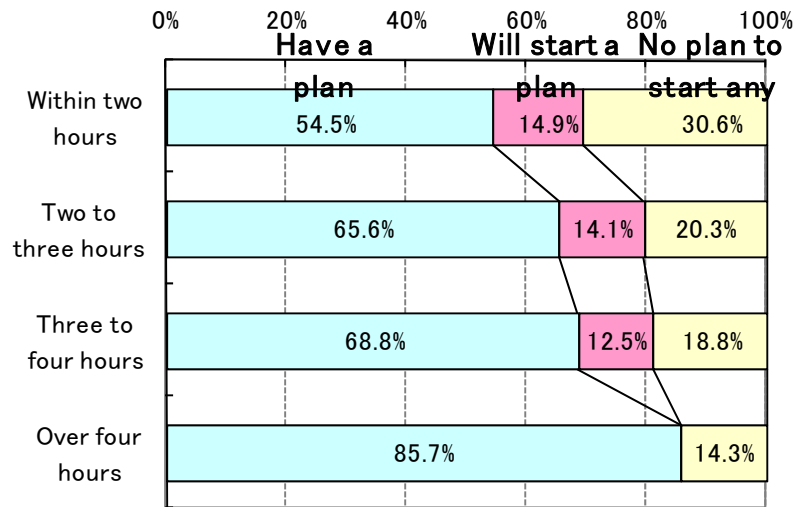
2. Types of urban residents preferred by municipalities as those participating in multi habitation and exchange projects



3. Measures of Multi Habitation and Exchanges



4. Have/have not multi-habitation and /or exchange plan, and travel time from Tokyo



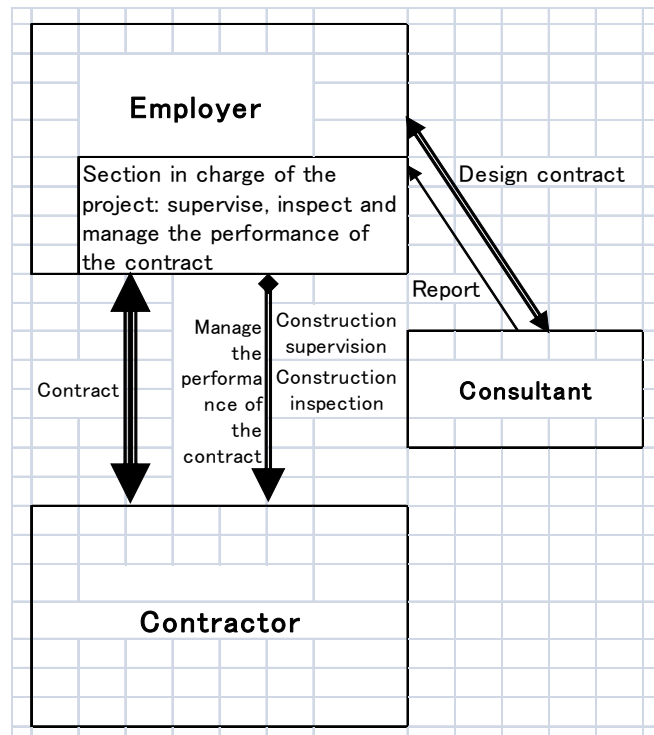
Notes:

- 1) Graphs 2 and 4 are compiled based only on municipalities in prefectures near the Tokyo Region.
- 2) Data from a research survey commissioned by MILT and conducted by RICE on regional exchanges.

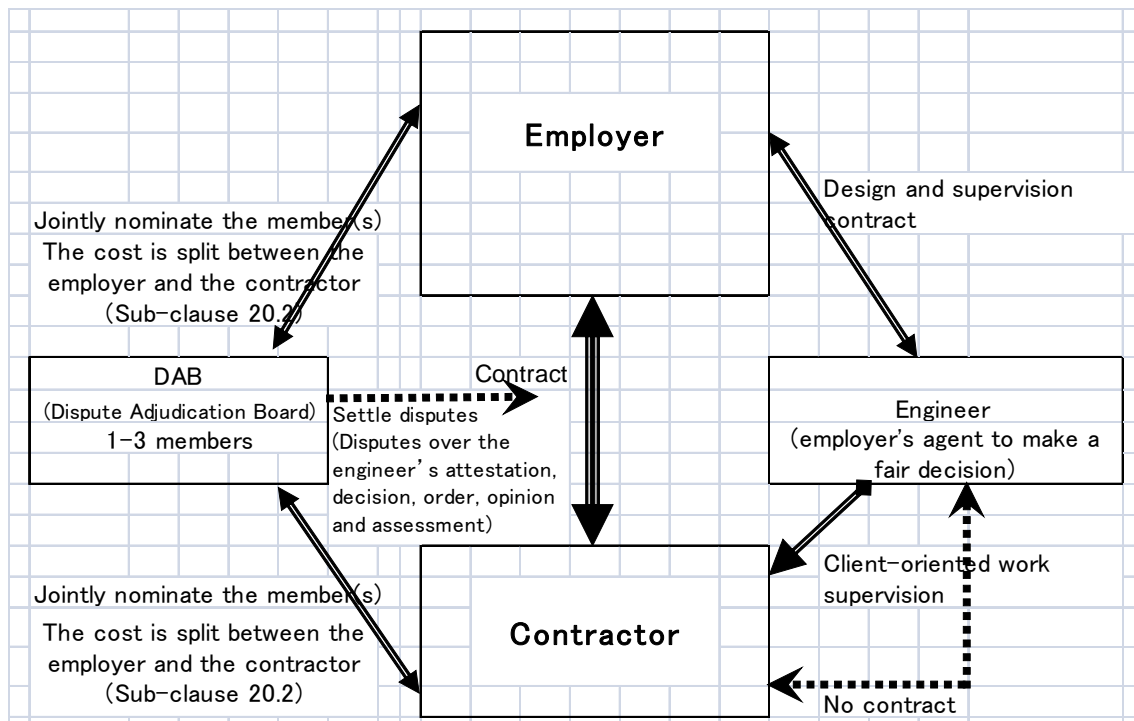
5.1 Risk sharing and contracting systems in other countries

- Many Japanese construction companies suffered unexpected losses in their overseas projects. The major reason is that they were not used to overseas construction project contracts which, from their point of view, were incomplete.
- Standard contracts for Japanese public works projects include clauses providing for three types of price fluctuations: overall adjustments or “sliding scales,” single item adjustments and inflation adjustments. The employer is responsible for covering a certain level of change from what was in the original contract, depending on the type of work and the extent covered in the contract. In the case of lump-sum contracts, the employer bears the risk if that amount is considered reasonable. If it goes beyond that level, the risk is shared between the employer and the contractor. In 2008 the single item adjustments were applied for the first time in 28 years, covering steel, fuel oil and various other construction materials.
- FIDIC (International Federation of Consulting Engineers) contracts commonly used for international bidding specify formulas for different types of contracted works to calculate the amount to be adjusted after completion of the project. They are applied regardless of the length of the work period. Basically BQ (Bills of Quantities) contracts are used, and the final amount of contract may increase or decrease.
- Clauses in public works projects in the UK, US, Australia, Hong Kong, India and Singapore include those covering price fluctuations, but in actual work contracts they tend to be deleted and the contractor needs to carefully assess the risks that they may have to bear.
- In a contract for overseas works, an engineer who is in a neutral position is assigned. This person sometimes acts as employer’s agent and gives them technical advice – but in doing so it is often difficult to remain neutral. Thus DAB (Dispute Adjudication Board) has come to be established for each project to settle disputes smoothly in a fair manner. On the other hand, in Japan, disputes are negotiated between the employer and the contractor in general. If this attempt fails, the dispute is taken to a construction disputes committee for settlement. No committee like DAB is established for each construction project.
- The UK and other countries have introduced contract-based partnering to avoid claims wars and conflicts between the employer and the contractor and to improve project performance. Australia and Hong Kong are planning to introduce partnering. In the US, non-contract-based partnering is sometimes used by drafting a charter.

Graph 1 A Public works project in Japan



Graph 2 FIDIC (New Red Book, 1999 edition)



Graph 3 Differences between traditional and partnering projects

	Partnering	Traditional
Vision	Win-Win	Win-Lose
Principle of competition	Best value (Note 1)	Lowest-price competition
Participant's relation	Dependent (all in the same boat)	Independent (priority on the profit of the own company)
Code of conduct	Trust and cooperation: share the mission	Confrontation: based solely on the contract
Communication	Open and information sharing	Cautious and defensive (share information only when necessary)
Risk handling	Shared risk management	Shift risk to the other party
Incentivize (Note 2)	Motivate by pain/gain share	No (except for a certain types of contract)
Project implementation	One project team	Different employer, engineer and contractor teams
Profit	Ensure suitable amount of profit to all concerned upon successful completion of the project	Each tries to maximize its profits
Cost management	Open book or (Note 3) or managed individually	Managed individually
Process management	Performance evaluated by all concerned	Try to avoid reviewing the project to uncover problems – thus fewer chances to learn from experience

Note 1: VFM (Value For Money) is to assess the project not by the lowest price but by the maximum value gained from the invested money.

Note 2: "Incentivize" means offering monetary and other rewards for cost reductions and shortened work periods.

Note 3: "Open book" is to disclose the budget and the accounting book to the contracting parties (to make the cost transparent).

5.2 Japanese construction companies taking part in overseas projects: a comparison of management strategies

- The volume of orders taken by Japanese construction companies from abroad decreased for the first time in six years since FY2002, to 1034.7 billion yen (approx. 7.7 billion euros), a 38% decrease from the previous year.
- Japanese construction companies are engaged in projects around the world, including Asia, the Middle East, Africa and Europe. Some are engaged in warehouse and distribution projects and real estate development projects.
- Most major construction companies/groups in Europe are engaged in domestic projects and projects within Europe. Their amounts of sales outside Europe are equivalent to overseas sales amount of Japanese major construction companies (See the table below).
- Concession projects in the fields of airports, toll roads and public buildings are profitable and important business for European construction groups.
- A large short-term hurdle for Japanese companies to enter this lucrative business overseas still exists. Japanese companies should seek ways to cooperate and challenge as the industry as a whole (e.g., forming a “Japan package”).
- These efforts by Japanese companies to do business abroad require personnel who have sufficient communication and negotiation skills, and can live in any environment.
- Japanese companies should develop negotiation skills to settle claims (weak negotiation skills are a disadvantage of the Japanese in general) and should re-empower on-site leaders and workers so that they can propose construction methods, solve procedural, managerial and technical problems on site, and come up with alternative plans to better communicate and negotiate with subcontractors.

Domestic, regional and overseas sales of five major European construction companies (2008).

	Total sales (worldwide)	Domestic sales (%)	Sales in Europe (except home country) (%)	Non-European sales (%)
Hochtief 1* 2**	19,103	2,584 (13%)	1,304 (7%)	15,215 (80%)
Vinci 1* 2**	33,458	20,936 (63%)	8,966 (27%)	3,556 (10%)
Concessions	4,781	4,446 (93%)	191 (4%)	143 (3%)
Construction	15,722	8,175 (52%)	4,717 (30%)	2,830 (18%)
Skanska 1* 2**	14,923	3,208 (22%)	6,749 (46%)	4,966 (32%)
Strabag 1* 2**	13,743	2,270 (17%)	10,117 (73%)	1,356 (10%)
Bouygues 1* 2**	32,713	22,321 68(%)	5,190 16(%)	5,202 16(%)

*1 Total sales in units of one million euros.

**2 Percentage figures in parenthesis are ratios to the total sales.

Note: Compiled from corporate annual reports (2008).

5.3 Trends in overseas construction markets

- The US economy has entered a serious recession triggered by the financial crisis. It has experienced three consecutive quarters of low economic growth since the third quarter of 2008, where the annualized growth over the previous quarter has been less than 0% (-0.5% in Q3/08, -6.3% in Q4/08 and -6.1% in Q1/09). There is growing pessimism that the recession will be a lengthy one. A report on the construction investment in the US in 2008 announced a 27.7% year-on-year decline for private-sector housing, a 7.1% year-on-year increase in public works, and a 14.9% increase year-on-year for private non-housing construction compared with figures for 2007. In April 2009 the number of private-sector housing starts posted a year-on-year plunge of 54.2%, crossing the 0.5-million-house line to reach 458,000 units, or the lowest in recent history.
- Economies in Western European began to slow down in the latter half of 2008 and are rapidly deteriorating. Some in Central and Eastern Europe have recorded negative growth since the beginning of 2009, whereas others continue to grow at a slower rate. Overall, the future is fraught with risks. Annual growth in construction output among a total of 27 European countries in February 2009 recorded -12.2% compared with the same month of the previous year, and that of civil engineering recorded a year-to-year decline of 8.2% during the same period.
- In Asia and Oceania, the economy of China slowed in 2009, and that of Korea, Taiwan and Singapore further declined, with serious effects for the region. Many have come to believe that a recession is unavoidable in Australia due to slackening international demand for natural resources.
- Economies of the Gulf countries, where construction investment rapidly grew, have been affected too. The construction boom in Dubai (UAE) has ended and there are currently very few new plans for major developments. Other plans announced earlier have been either postponed or scaled back.

Construction markets in various nations and regions (nominal values, converted into trillions of yen)

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Japan FY2008

US 2008

Europe (19 countries) 2008

Asia (Note 1) 2007

GDP

Construction investment (Note 2)

As a % of GDP

Note 1: Not including Japan. Figures are based on the reports announced at the Asia Construct Conference.

Note 2: Figures are for investment in new construction; not repair of existing structures. Nevertheless, construction investment in Japan includes expenditure on the maintenance and repair to government civil engineering projects.

Note 3: Figures for Europe are those of the entire construction investment (=construction market) including maintenance and repair works.

Trends in the numbers of private-sector housing starts in the US (000 units)

No. of houses

Growth rate (%)

Note: Data published by the US Department of Commerce on May 19th, 2009. The number plummeted to 458,000 units recording an annual decline rate of 54.2% compared with the same month of the previous year.

Construction investment in Middle East and Gulf Countries

\$1B

Dec. '04,,,,, March '08 May '08 Sept. '08 Dec. '08 Mar. '08 April 2009

Kuwait Qatar Saudi Arabia UAE Other 4 countries

Data from MEED (Middle East Business Intelligence)

Note 1: Other four countries are Iran, Iraq, Bahrain and Oman.

Note 2: The total amount of projects with the budget of 50 million US dollars and over, both ongoing and scheduled.