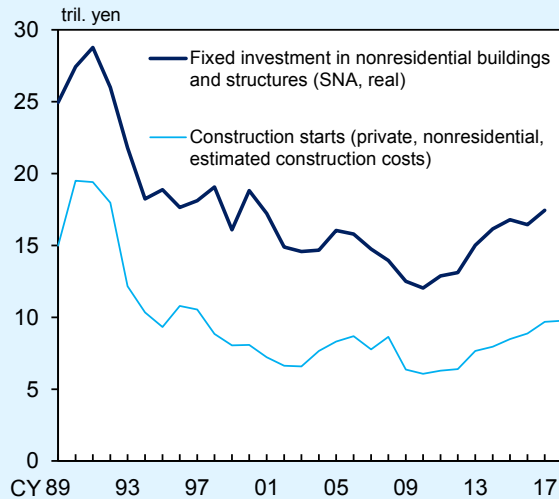


### (Box 5) Steady Business Fixed Investment despite the Slowdown in Overseas Economies (2): Construction Investment

This box focuses on construction investment, which recently has continued to increase steadily.

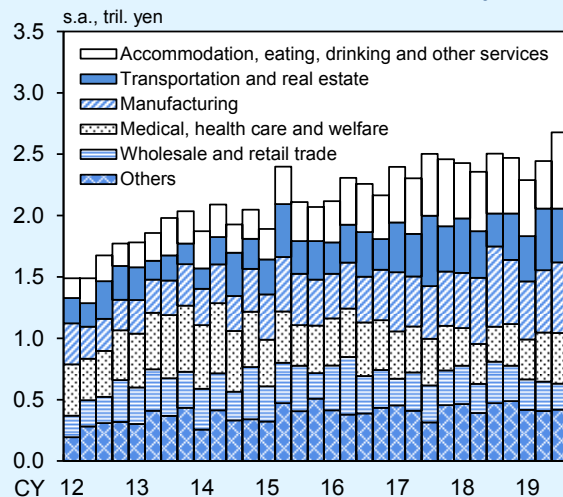
Looking at long-term developments in fixed investment in nonresidential buildings and structures, after the boom during the bubble period from the late 1980s to the early 1990s, such investment followed a prolonged downtrend until around the global financial crisis (Chart B5-1). Subsequently, after bottoming out in the early 2010s, it turned to a moderate uptrend, due in part to the aging of existing buildings and growing demand for earthquake-related rebuilding, and has maintained its pace of increase until recently. Construction starts (private, nonresidential, estimated construction costs) -- a leading indicator of construction investment -- have continued on an uptrend even after a peak-out of Olympic Games-related demand, which contributed to their increase until around 2018 (Chart B5-2). Under these circumstances, uncompleted construction of private nonresidential buildings, which corresponds to the remaining orders received by builders, has reached a record high level, due to an increase in orders and delays in construction work that reflect labor shortage and supply constraints (Chart B5-3). Furthermore, various anecdotal evidence suggests that there seem to be quite a few large-scale redevelopment projects mainly in the heart of Tokyo that are not included in the statistics on construction starts at present, although they are scheduled to enter the

**Chart B5-1: Long-Term Time Series of Construction Investment**



Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism.  
Note: Fixed investment in nonresidential buildings and structures is investment in "other buildings and structures" by private nonfinancial corporations in the Cabinet Office's "Gross Fixed Capital Formation of Assets classified by Institutional Sectors and Economic Activities."

**Chart B5-2: Construction Starts by Industry**



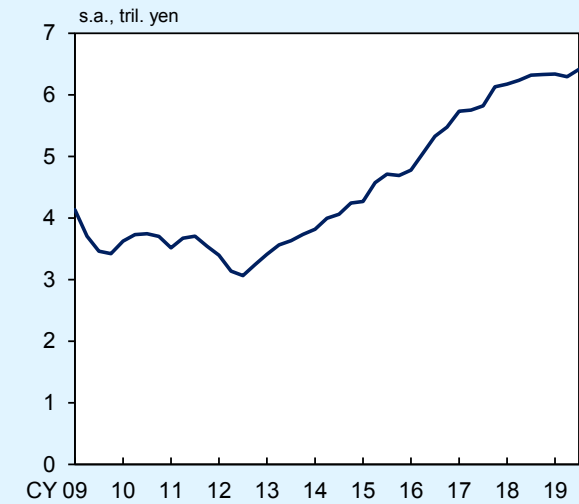
Source: Ministry of Land, Infrastructure, Transport and Tourism.  
Notes: 1. Figures are estimated construction costs reported by private-sector builders.  
2. "Others" consists of finance and insurance, information and communications, etc.  
3. Figures for 2019/Q3 are July-August averages.

construction stage within the next one to two years. Given this, construction investment will likely maintain a moderate but sustained uptrend, as construction work makes slower progress than in the past due to labor shortage.

The steady growth in fixed investment in nonresidential buildings and structures in recent years is attributable to a combination of the following factors. (1) Demand for high-end offices in urban areas offering safety and disaster-mitigation features is increasing, as seen in office vacancy rates falling to around record low levels (Chart B5-4). (2) Demand for investment aimed at attracting foreign visitors is strengthening as inbound tourism demand is expected to increase steadily over the long run. Furthermore, (3) the cost of debt has declined, with highly accommodative financial conditions lasting for a long period (Chart B5-5).

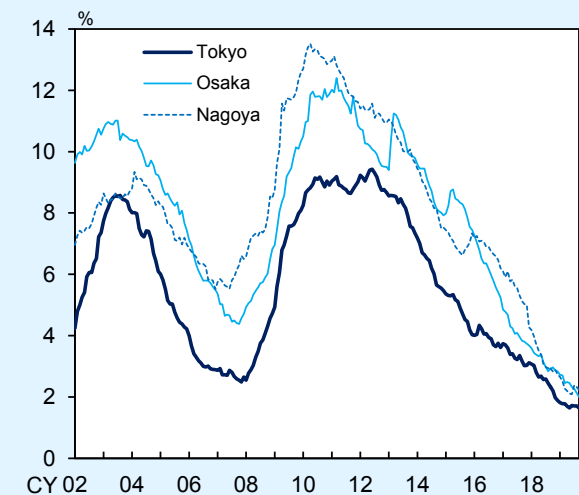
Developments in construction starts by industry are as follows (Chart B5-2). "Transportation and real estate" has been on an uptrend, led mainly by (1) the development of logistics facilities against the backdrop of the expansion of electronic commerce, (2) projects to boost the speed of railways and to expand and enhance airport facilities, and (3) urban development projects such as for international business bases and large-scale commercial complexes. Moreover, the pace of increase in "accommodation, eating, drinking, and other services" recently has accelerated, led by projects such as commercial facilities, theme parks, and hotels, with the aim of capturing steady inbound tourism demand. Meanwhile, "manufacturing" also has continued

**Chart B5-3: Uncompleted Nonresidential Construction**



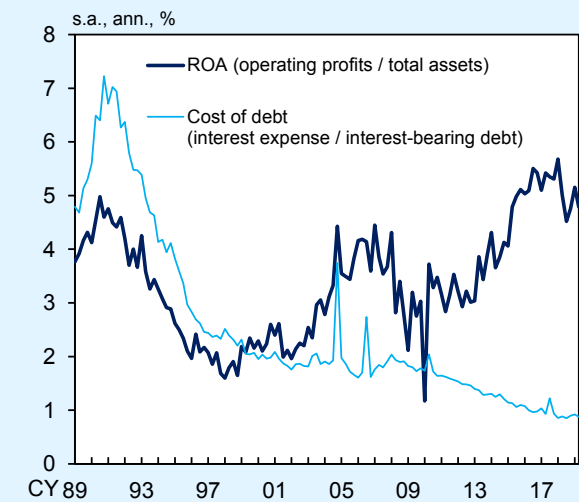
Source: Ministry of Land, Infrastructure, Transport and Tourism.  
Notes: 1. Figures are based on construction costs reported by private-sector builders.  
2. The figure for 2019/Q3 is the July-August average.

**Chart B5-4: Office Vacancy Rates**



Source: Miki Shoji Co., Ltd.

**Chart B5-5: Funding Conditions for Real Estate and Construction Industries**



Source: Ministry of Finance.  
Notes: 1. Based on the "Financial Statements Statistics of Corporations by Industry, Quarterly." Figures are for large enterprises.  
2. Interest-bearing debt = borrowings from financial institutions + borrowings from others + bonds

on a steady uptrend, supported by moves to shift production back to Japan that have been seen in part and by demand for new factories that are targeted at developing advanced technologies and making new high-value-added products.

This increase in construction investment is expected to offset the impact of the decline in manufacturers' machinery investment to some extent and underpin overall business fixed investment.