

The 21st

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Country Report (Japan)

I. Overview

Although the Japanese economy had been in recession due to the turmoil in the global economy and the Great East Japan Earthquake of March 2011, subsequently it has experienced a trend of recovery backed by public investment, primarily earthquake recovery and reconstruction work. In fiscal 2016, despite weakness 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 2017, 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 2016, although the initial budget relating to the general account was flat, investment is expected to rise 1.9% on a nominal basis when reconstruction work following the Great East Japan Earthquake and the amount from the second supplementary budget are included. In private sector residential investment, the number of condominium starts is on the decline, impacted by prices that have remained at high levels. On the other hand, an increase in rental housing starts due to cuts in the inheritance tax is driving overall housing starts, and the number of new housing starts is expected to increase 2.2% from the previous fiscal year. Private sector non-residential investment is expected to rise 0.8% 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 expenditure 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 1.1% in fiscal 2015 from the same period of the previous year and has undergone a decline of 22.2% 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.
- 3) Construction costs are on an upward trend given the increase in labor costs. Meanwhile, construction materials 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 2015.

II. Macroeconomic Review and Prospects

1. Japanese Economy Overview (Figures 1 and 2)

In fiscal 2016, in addition to weakness 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 2017, 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 2016 is expected to be 0.6%. Government fixed capital formation is forecast to rise 2.1% year on year (GDP contribution rate down 0.1 percentage points), private sector housing is forecast to rise 3.2% (up 0.1 percentage points) and private sector plant and equipment is forecast to rise 0.4% (up 0.1 percentage points).

Fig. 1 Macroeconomic Trends (FY)

(Unit: Billion yen)

Fiscal year	2000	2005	2010	2012	2013	2014	2015	2016 (Forecast)	2017 (Forecast)
Real GDP	476,723	507,158	512,720	519,547	529,765	524,783	529,192	532,433	535,920
(YoY change)	2.0%	1.9%	3.5%	0.9%	2.0%	-0.9%	0.8%	0.6%	0.7%
Real private final consumption expenditures	275,056	292,579	299,721	309,158	316,190	307,159	306,540	308,754	311,128
(YoY change)	0.3%	1.9%	1.6%	1.7%	2.3%	-2.9%	-0.2%	0.7%	0.8%
(Contribution rate)	0.2	1.1	0.9	0.8	0.8	0.9	1.6	0.4	0.4
Real government final consumption expenditures	83,960	92,363	97,886	100,579	102,194	102,318	103,930	105,726	106,935
(YoY change)	4.8%	0.4%	2.0%	1.5%	1.6%	0.1%	1.6%	1.7%	1.1%
(Contribution rate)	0.8	0.1	0.4	0.2	0.2	0.3	0.4	0.3	0.2
Real private housing	20,080	18,345	12,534	13,678	14,886	13,143	13,456	13,880	13,657
(YoY change)	-0.1%	-0.7%	2.2%	5.7%	3.2%	-11.7%	2.4%	3.2%	-1.6%
(Contribution rate)	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.1	-0.0
Real private corporate facilities	64,986	70,599	64,876	68,647	70,678	70,723	72,192	72,480	73,669
(YoY change)	4.8%	4.4%	3.8%	0.9%	3.0%	0.1%	2.1%	0.4%	1.6%
(Contribution rate)	0.7	0.6	0.5	0.6	0.6	0.1	0.4	0.1	0.2
Real public fixed asset formation	35,071	24,113	20,715	20,263	22,354	21,779	21,194	21,639	20,599
(YoY change)	-6.1%	-6.7%	-6.4%	1.0%	-3.2%	-2.6%	-2.7%	2.1%	-4.8%
(Contribution rate)	-0.5	-0.3	-0.3	-0.1	-0.1	0.1	0.7	0.1	-0.2
Real inventory increase	341	807	-136	-1,071	-2,647	314	1,770	548	550
(YoY change)	-110.2%	-46.3%	-97.3%	-97.3%	988.9%	-111.9%	464.1%	-69.1%	0.4%
(Contribution rate)	0.8	-0.1	-0.1	-0.5	-0.5	-0.1	-0.4	-0.2	0.0
Real financial services net exports	-2,087	8,349	17,167	8,579	7,241	11,317	11,688	10,973	10,949
(YoY change)	102.6%	56.0%	46.5%	43.8%	-28.9%	56.3%	-15.4%	-6.1%	-0.2%
(Contribution rate)	0.0	0.6	0.8	-1.0	-1.0	-0.8	-0.5	-0.1	-0.0
Nominal GDP	510,835	505,349	480,528	474,404	482,401	489,558	500,547	504,591	508,739
(YoY change)	0.8%	0.5%	1.4%	0.0%	1.7%	1.5%	2.2%	0.8%	0.8%

Source: *Construction and Economic Forecasts* (RICE) for 2016 and 2017, Annual Report on National Accounts(Cabinet Office) for 2000-2015

Note: Real values reflect 2005 prices.

2. Major Economic Indicators

Table 2 List of Major Economic Indicators

Economic Indicators						
	2011	2012	2013	2014	2015	(Forecast) 2016
GDP (Real, (2005prices) , billion yen)	514,695	519,547	529,765	524,783	529,192	532,433
GDP (Nominal, billion yen)	474,171	474,404	482,401	489,558	500,547	504,591
GDP growth (%)	0.4%	0.9%	2.0%	-0.9%	0.8%	0.6%
Agriculture, forestry, and fishery	2.0%	0.6%	2.0%	-2.3%	-	-
Manufacturing	-2.5%	2.3%	0.1%	1.5%	-	-
Services	0.6%	2.3%	1.4%	-0.6%	-	-
Mining	1.1%	-6.4%	9.1%	-1.3%	-	-
Construction	0.9%	1.6%	5.5%	1.9%	-	-
Demographic Indicators						
Population (thousands)	127,799	127,515	127,298	127,083	127,110	126,930
Population growth rate (%)	-0.20%	-0.22%	-0.17%	-0.17%	0.02%	-0.14%
Total labor force (thousands)	65,768	65,552	65,776	65,927	66,053	66,504
Labor force growth rate (%)	-0.79%	-0.33%	0.34%	0.23%	0.19%	0.68%
Unemployment rate (%)	4.5%	4.3%	3.9%	3.5%	3.3%	3.1%
Inflation rate (%)	-0.3%	0.0%	0.4%	2.7%	0.8%	-0.2%
Financial Indicators						
Interbank interest rate (%)	0.336	0.309	0.221	0.181	0.171	0.057
Short-term interest rate (%)	0.075	0.076	0.068	0.070	0.038	-0.060
Long-term interest rate (%)	1.147	0.860	0.721	0.565	0.380	-0.035
Exchange rate against US\$ (yen)	79.78	79.79	97.60	105.84	121.02	108.65

Source: Construction and Economic Forecasts (RICE, Oct 2016), 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 FY2016 is a forecast. Real values: 2005 prices.
2. Population figures are estimates as of October 1 each year. The FY2016 figure is an average value for five months.
3. The workforce population and unemployment rates are average values for 12 months. For FY2016, 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 2016, the figure is the rate of increase between 2015 and August 2016.
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, 2015. For 2016, 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 2016 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 2015 (nominal value, same hereinafter) was about 51.0 trillion yen, which includes about 21.5 trillion yen in government investment and about 29.4 trillion yen in private sector investment. Compared to its peak, construction investment was down 39.3% (peak in fiscal 1992) with government investment down 38.8% (peak in fiscal 1995) and private sector investment down significantly by 47.2% (peak in fiscal 1990).

Construction investment in fiscal 2016 is expected to rise 1.9% from the previous fiscal year to 51.94 trillion yen.

Considering the contents of the initial budget for fiscal 2016, 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 2015 and fiscal 2016 will be realized as completed amounts during fiscal 2016, government construction investment is forecast to rise 1.9% from the previous fiscal year.

Private sector residential construction investment is forecast to rise 3.3% 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 rise 2.2% 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 3.3% 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 1.5% from the previous fiscal year, civil engineering-related corporate capital expenditure is expected to contribute to an overall increase of 0.8% from the previous fiscal year.

Fig. 3 Construction Investment Forecast

(Unit: ¥1 billion)

FY	1990	1992	1995	2013	2014	2015	2016 (Forecast)	2017 (Forecast)
Nominal construction investment (YoY change)	81,440 11.4%	83,971 1.9%	79,017 0.3%	51,298 13.3%	51,240 -0.1%	50,950 -0.6%	51,940 1.9%	51,200 -1.4%
Nominal government construction investment (YoY change) (Contribution rate)	25,748 6.0% 2.0	32,334 12.8% 4.4	35,199 5.8% 2.5	22,561 14.4% 0.5	22,960 1.8% -6.8	21,550 -6.1% 4.9	21,950 1.9% 0.4	21,300 -3.0% 0.9
Nominal private residential construction (YoY change) (Contribution rate)	25,722 9.3% 3.0	22,663 -2.0% -0.6	24,313 -5.2% -1.7	15,789 12.0% 0.3	14,120 -10.6% 28.6	14,440 2.3% -1.1	14,910 3.3% 0.5	14,820 -0.6% 0.1
Nominal private non-residential construction (YoY change) (Contribution rate)	29,970 18.4% 6.4	28,974 -5.4% -2	19,505 -1.8% -0.4	12,948 12.8% 0.2	14,160 9.4% -20.7	14,960 5.6% -2.8	15,080 0.8% 0.1	15,080 0.0% 0.0
Real construction investment (YoY change)	84,221 7.6%	83,603 0.6%	77,935 0.2%	47,944 10.7%	46,661 -2.7%	46,628 -0.1%	47,780 2.5%	46,490 -2.7%

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

Notes:

1. Real values reflect 2005 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 2016 was 468 thousand, a decrease of 1.1% from the same month of the previous year. (Figure4) In comparison to the peak of March 2000, it is a decrease of 22.2%.

Looking at the number of licensed construction companies by capital classification, the highest proportion, 38.8%, 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 (23.3%)”, and then “Sole proprietor (18.2%)”.

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

Year	2000		2013		2014		2015		2016	
	(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%	470	100.0%	471	100.0%	473	100.0%	468	100.0%
Breakdown of registered contractors by size classification										
8 Sole proprietor	158.2	26.3%	91.8	19.5%	91.2	19.4%	89.9	19.0%	85.3	18.2%
7 Corporation with less than ¥3 million in capital	1.0	0.2%	9.7	2.1%	11.1	2.4%	12.9	2.7%	15.1	3.2%
6 Corporation with ¥3 million up to ¥10 million in capital	195.3	32.5%	178.2	37.9%	179.0	38.0%	181.3	38.3%	181.5	38.8%
5 Corporation with ¥10 million up to ¥20 million in capital	166.0	27.6%	113.5	24.2%	112.7	23.9%	111.8	23.6%	108.8	23.3%
4 Corporation with ¥20 million up to ¥100 million in capital	74.1	12.3%	71.0	15.1%	71.1	15.1%	71.5	15.1%	71.5	15.3%
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%	4.2	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%	1.0	0.2%
1 Corporation with ¥10 billion or more in capital	0.4	0.1%	0.4	0.1%	0.4	0.1%	0.4	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)

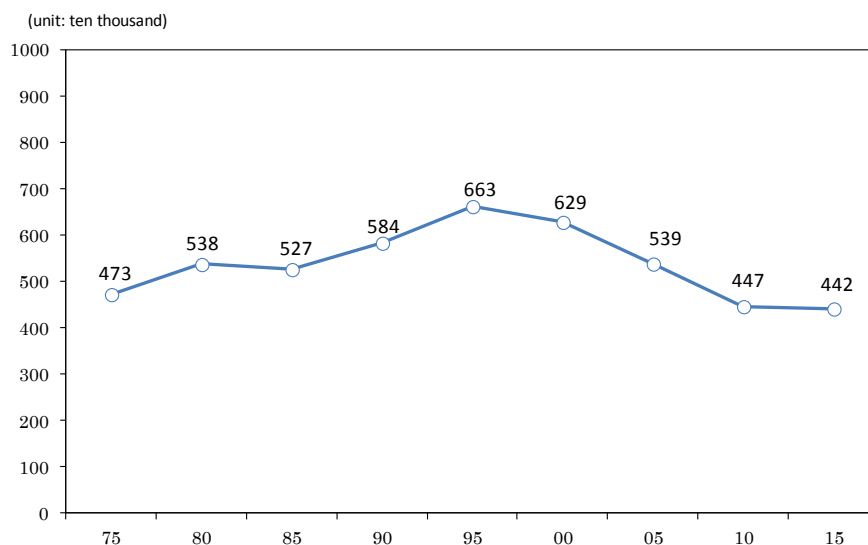
Notes:

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 2010 was 4.47million, a decrease of ▲ 32.6% in comparison to the 6.63million in 1995. (Figure 6)

Fig. 6 Number of Construction Industry Employees



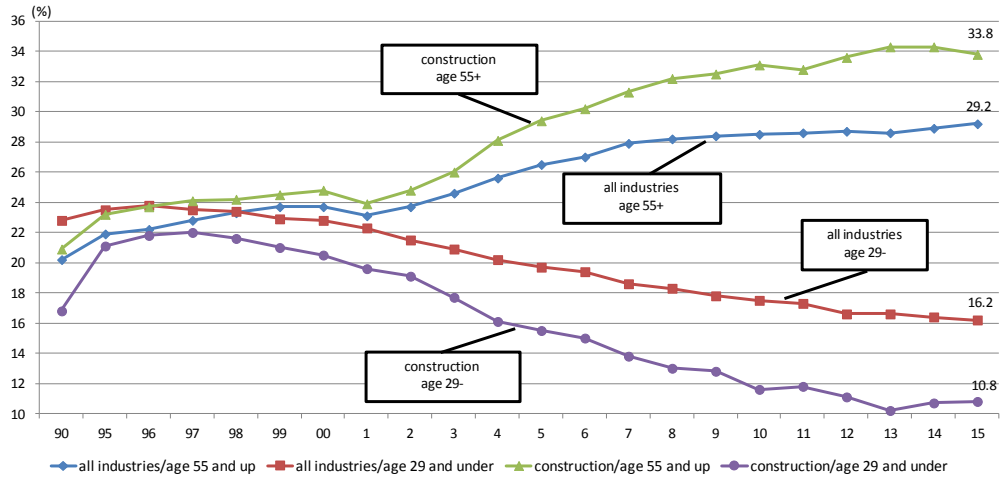
Source: Population Census (Ministry of Internal Affairs and Communications)

1. Preliminary Figures for 2015

Looking at trends in age composition among construction industry employees, in 2015, about

34% of employees were aged 55 or higher, while about 10% 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)

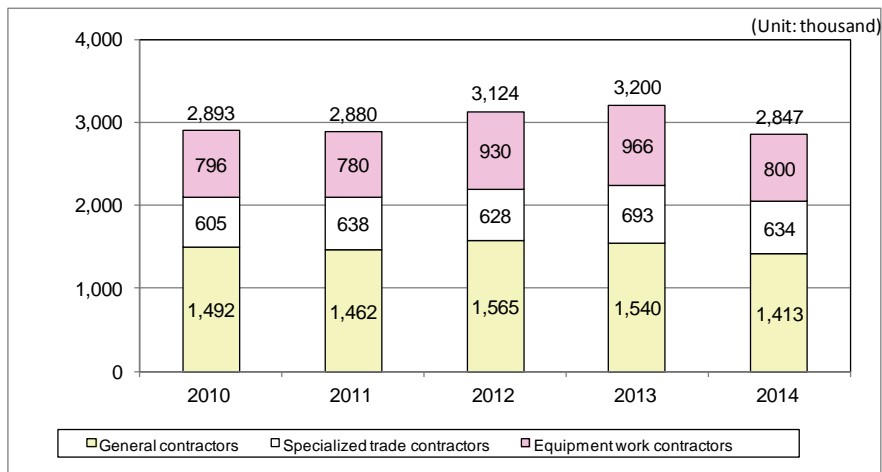
Fig.7 Age Composition of Construction Industry Employees



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

The numbers of construction industry employees by trade/field shows that 1,413,000 (49.6%) work for “general contractors,” 634,000 (22.3%) for “specialized trade contractors,” and 800,000 (28.1%) for “equipment work contractors,” for a total of 2,847,000 employees. This total is down 44,600 from FY2010, 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



(unit: thousand)

	2002		2007		2012	
Full-time	30.5	53.7%	23.8	53.5%	16.6	56.1%
Temporary	9.2	16.2%	6.7	15.0%	6.1	9.8%
Board members	9.2	16.2%	4.8	10.9%	4.0	13.4%
Other	7.9	13.9%	9.1	20.5%	6.1	20.7%
Total	56.9	100.0%	44.4	100.0%	32.8	100.0%

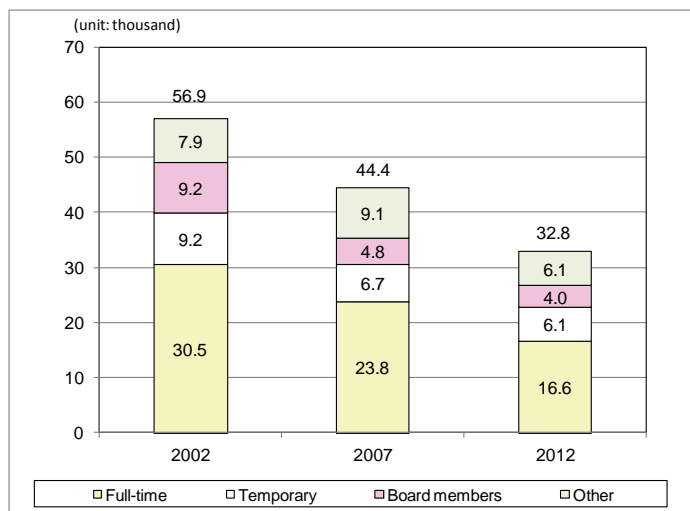
(unit:thousand)

	2010		2011		2012		2013		2014	
General contractors	1,492	51.6%	1,462	50.8%	1,565	50.1%	1,540	48.1%	1,413	49.6%
Specialized trade contractors	605	20.9%	638	22.2%	628	20.1%	693	21.7%	634	22.3%
Equipment work contractors	796	27.5%	780	27.1%	930	29.8%	966	30.2%	800	28.1%
Total	2,893	100.0%	2,880	100.0%	3,124	100.0%	3,200	100.0%	2,847	100.0%

Source: *Statistics on Construction Projects Implemented (MLIT)*

Of the total 32,800 foreign employees in the construction industry in 2012, 16,600 are full-time employees (56.1%), 6,100 are temporary employees (9.8%), and 4,000 are members of the board (13.4%). Compared with 2007, the total number has decreased by about 11,600 employees.

Fig. 9 Number of Foreign Construction Industry Employees by Type of Employment in FY 2002, 2007 and 2012



Source: *National Census (Ministry of Internal Affairs and Communications)*

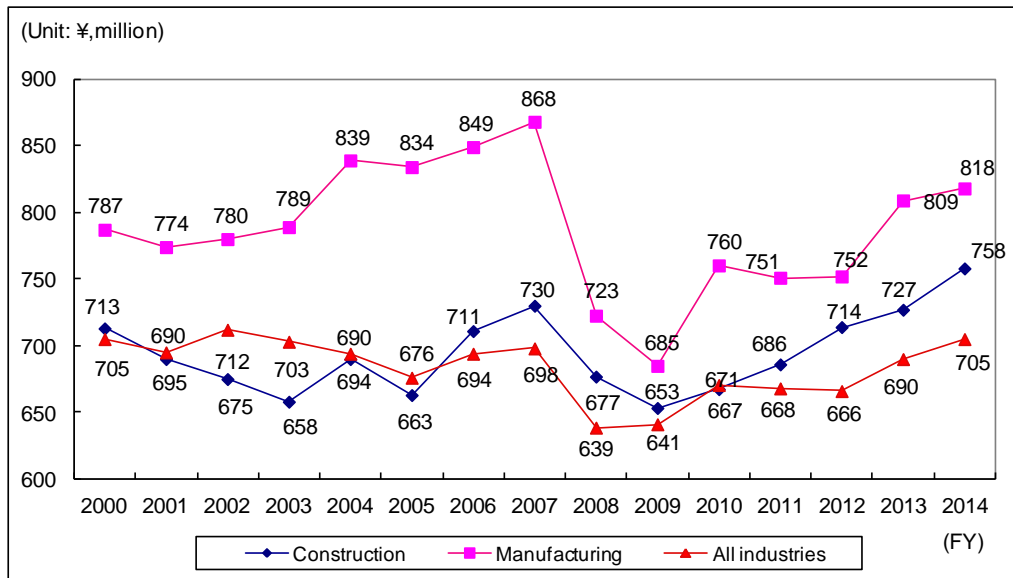
4. Productivity

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 in effective because of that the state of “too many layers of subcontractors” leads to increased overhead costs.

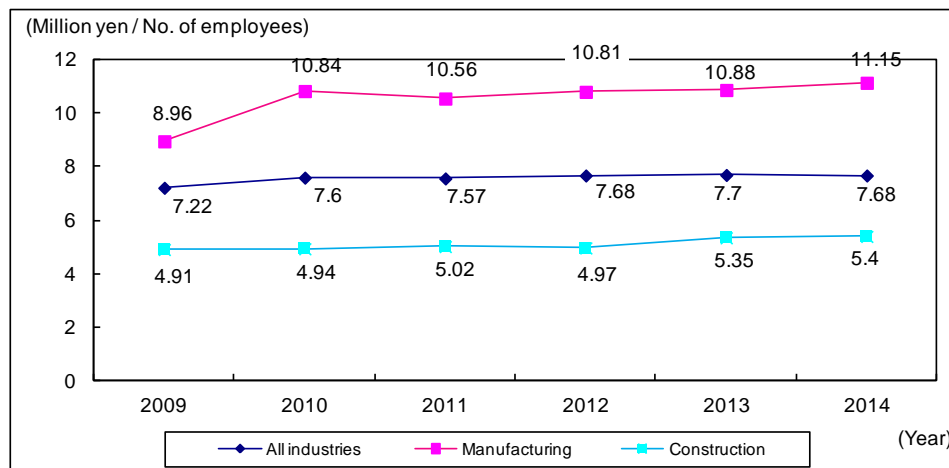
Fig. 10 Added Value Per Employee



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 (2014 Final Version)* (Cabinet Office)

Notes:

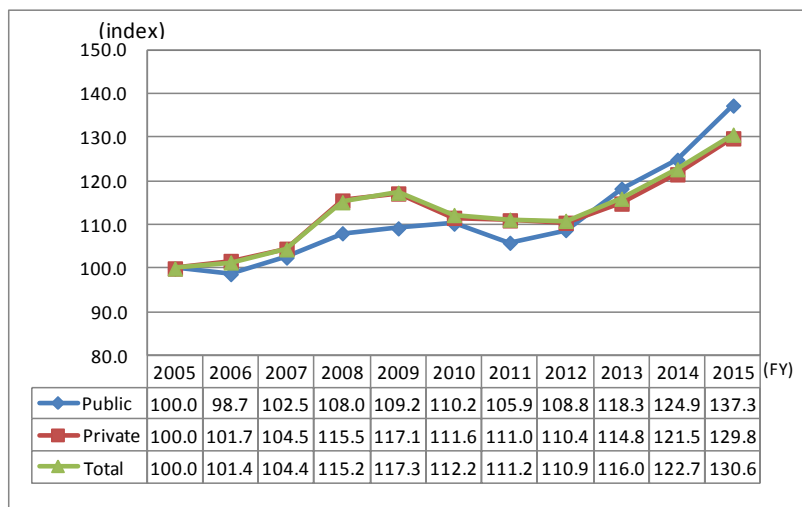
1. Real labor productivity = GDP by economic activity / no. of employees engaged in each economic activity
2. Benchmark year 2005. Real prices: Fixed standard year method.

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

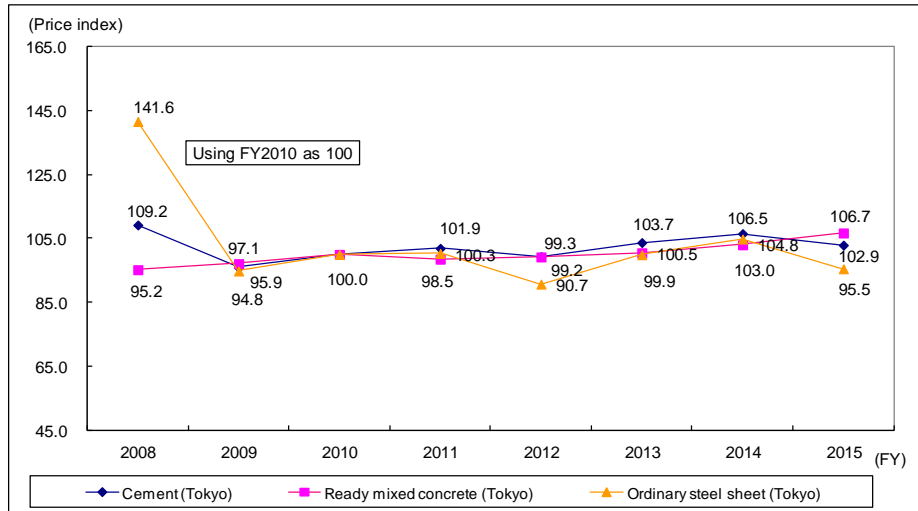


Source: *Statistics on Building Starts (MLIT)*

(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 2005 (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

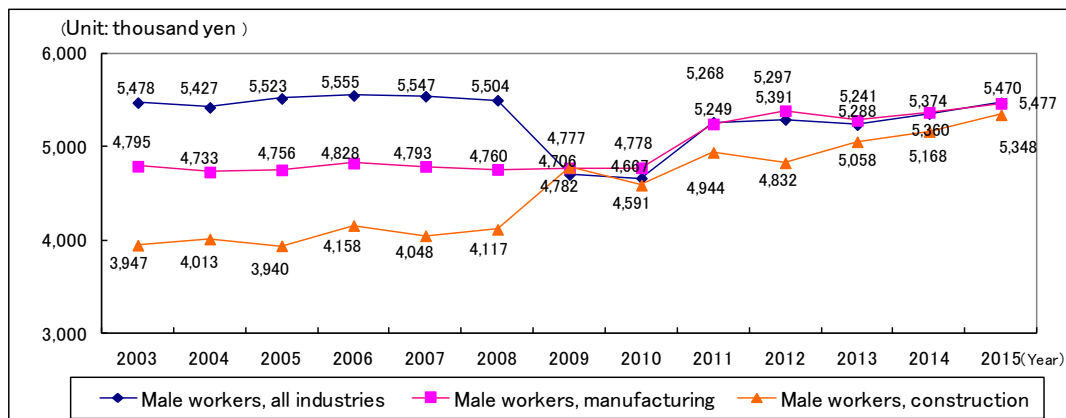


Source: *Market Conditions and Price Trends for Major Commodities*
(Economic Research Association)

(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 2015, annual construction wages were ¥535,000, about ¥130,000 lower (2.4%) than the average wage for male production workers in all industries and about ¥120,000 lower (2.3%) than the average wage of male production workers in the manufacturing industry.

Fig. 14 Trends in Total Annual Wages of Production Workers

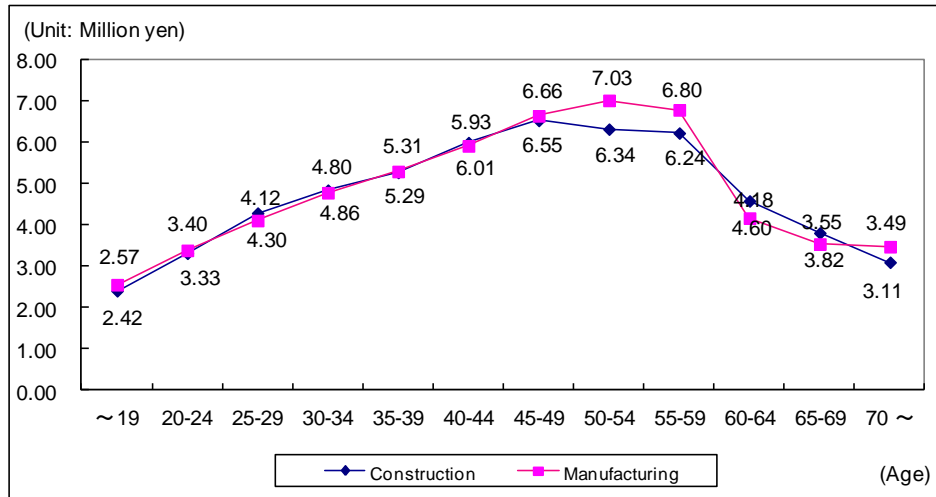


Source: *Basic Survey of Wage Structures* (Ministry of Health, Labor, and Welfare)

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)

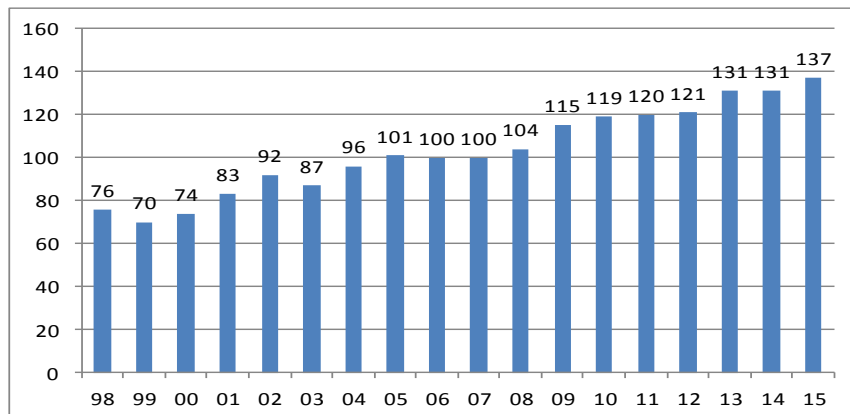
Note: Total annual wages = fixed monthly salary × 12 (months) + annual bonus and other special pay

6. International Transactions in the Construction Market

(1) International Construction Companies in Japan

In FY2015, 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



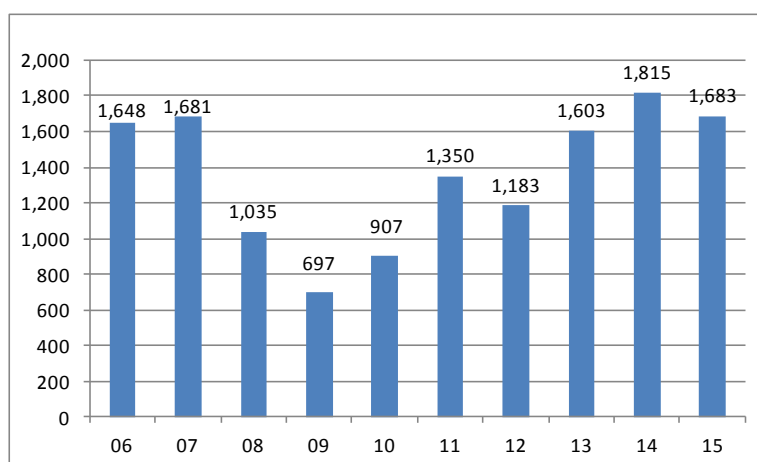
Source: MLIT

(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.

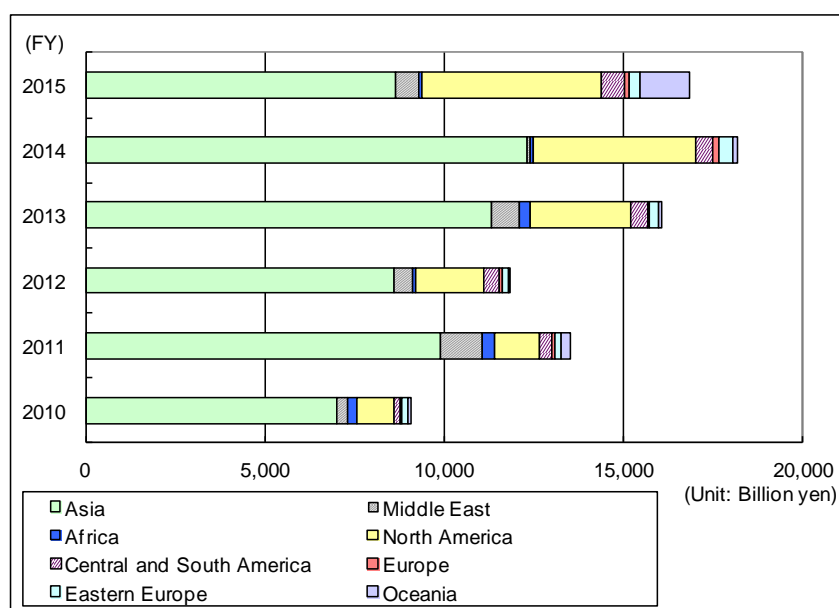
Orders rose again and set a new record to ¥1,815.3 billion in FY2015, and fell by ¥123.9 billion to ¥1,862.5 billion in FY2015, which was the second highest record.

Fig. 17 Overseas Construction Orders of Japanese Companies



Source: The Overseas Construction Association of Japan. Inc

Fig. 18 Overseas Construction Orders Received in 2010–2015 (by Region)



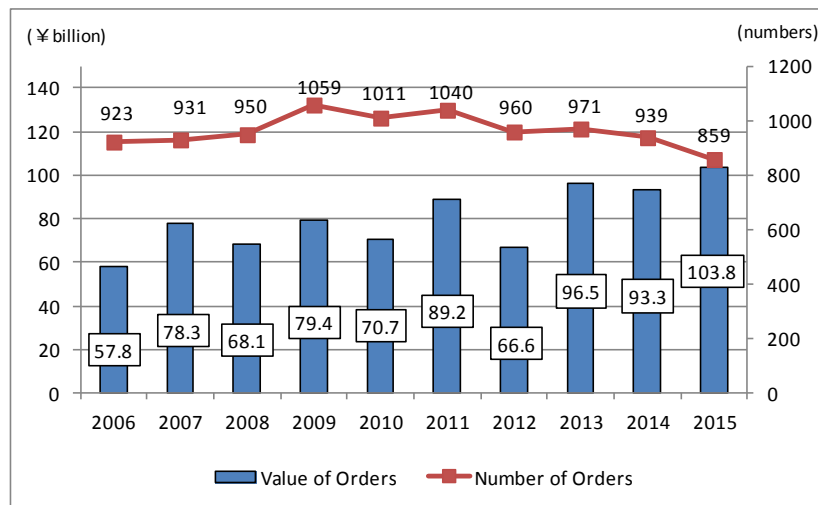
Source: The Overseas Construction Association of Japan. Inc

(2) Japanese Construction Consulting Companies Overseas

Regarding the overseas sales of Japanese construction consultant companies, the total value of orders received in FY2015 was the highest ever recorded. The total value of orders received was ¥103.8 billion, a year-on-year increase of ¥10.5 billion, and the number of projects decreased by 80 to 859.

When looking at the overseas sales per order, FY2015 increased by ¥22 million to ¥12.1 billion compared to previous year.

Fig. 19 Overseas Sales of Japanese Construction Consulting Companies



Source: Infrastructure Development Institute of Japan, Inc