The28th

ASIA CONSTRUCT CONFERENCE

September 24-26, 2025

Japan Country Report

PREPARED BY

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Japan Country Report

I. Overview

Construction investment in Japan peaked at approximately 84 trillion yen in FY 1992 and then declined and fell to half of the peak amount at approximately 42 trillion yen in FY 2010. However, construction investment has since turned upwards due to reconstruction and recovery projects following the Great East Japan Earthquake in 2011, the Building National Resilience in FY 2018, and demand related to the Tokyo Olympic and Paralympic Games in 2021. In recent years, the construction market has boomed due to the Expo 2025 Osaka, Kansai, Japan, the establishment of new semiconductor plants and data centers, and the progress of urban redevelopment projects. On the other hand, rising construction costs have become a serious issue, and there have been cases of construction delays and cancellations. In addition, labor shortages are becoming more severe, and the amount of construction work that each company has on hand has reached a record high.

The current situation of the construction industry in Japan is summarized as follows:

1) The number of construction companies was 483,700 in FY 2024. Compared to the peak at 530,700 in FY 1999, there has been a decrease of 117,000, but the number has been increasing in recent years.
2) The number of construction workers peaked at 6.85 million in 1997. After that, it continued to decline due to factors such as population decline and reduced construction investment and reached 4.77 million in 2024. In particular, the decline in skilled workers has been significant. Additionally, the percentage of construction workers in the total workforce has also decreased, making the securing of human resources an urgent issue.
3) Construction costs have been rising sharply since around 2021 due to increases in material prices and labor costs.
4) While working hours in the construction industry are longer than in other industries, the gap has narrowed rapidly in recent years due to the effects of work style reform.
5) While the annual wage in the construction industry exceeds the average for all industries, when focusing on production workers in the construction industry, their wages are low and improvements in working conditions are required.
6) Japanese construction companies' overseas orders exceeded 2 trillion yen for three consecutive years from FY 2022 to FY 2024. By region, Asia, North America, and Europe account for approximately 95% of the total.

II. Macroeconomics

1) Economic Outlook

The Japanese economy, which surpassed 500 trillion yen in nominal GDP in 1991, reached 600 trillion yen for the first time in 2024 after 33 years. Capital investment has also reached a record high, showing signs of optimism not seen in recent years. In particular, amid rising prices and wages, the labor management negotiations in the springtime of 2024 resulted in the highest wage increases in 33 years, contributing to supporting personal consumption and a beneficial cycle between wage and price increase is in the process of being achieved. However, while the corporate sector remains steady, wage and income growth has not yet consistently surpassed price increase, and personal consumption continues to lack momentum. As a result, the Japanese economy currently stands at a critical juncture: will it slip back into deflation, or will it transition to a growth-oriented economy driven by wage increases and investment?

2) Major Economic Indicators

Figure 1 shows major economic indicators.

Figure 1: Major Economic Indicators

(Year)	2020	2021	2022	2023	2024
GDP and Components					
GDP at real prices (Trillion of Chained (2015) Yen)	529.5	543.8	548.9	556.5	557.4
GDP at current market prices	539.6	553.1	560.5	591.4	609.5
Real GDP growth (%)	▲4.2	2.7	0.9	1.4	0.2
Agriculture, Forestry, and Fishing	▲3.7	5.8	3.9	1.1	-
Mining	▲ 4.6	▲ 6.5	▲ 11.9	▲6.2	-
Manufacturing	▲5.7	9.0	0.7	1.0	-
Services	▲35.4	▲19.1	20.3	20.4	-
Construction	▲0.3	▲ 0.7	▲ 3.1	2.0	-
Demographic Indicators					
Population (thousand)	126,146	125,502	124,947	124,352	123,802
Population growth rate (%)	▲0.0	▲0.5	▲0.4	▲0.5	▲0.4
Total labor force (thousand)	69,020	69,070	69,020	69,250	69,570
Labor force growth rate (%)	▲0.1	0.1	▲0.1	0.3	0.5
Unemployment rate (%)	2.8	2.8	2.6	2.6	2.5
Inflation rate (%)	0.0	▲0.2	2.5	3.2	2.7
Financial Indicators					
Interbank interest rate (%)	▲0.03	▲0.02	▲0.03	▲0.03	0.12
Short-term interest rate (%)	0.47	0.43	0.42	0.43	0.51
Long-term interest rate (%)	0.77	0.74	0.78	0.87	1.07
Exchange rate against US	106.8	109.8	131.4	140.5	151.5

Sources: "System of National Accounts," Cabinet Office; "Population Estimates," "Labor Force Survey," and "Consumer Price Index," Ministry of Internal Affairs and Communications; BOJ Time-Series Data Search website, Bank of Japan

Notes: 1. The "Service" category in GDP reflects the growth rate of the "accommodation and food and beverage services industry."

2. Population as of October 1 of each year.

3. Total labor force and unemployment rates are annual averages.

4. Interbank transaction interest rates, short-term interest rates, and long-term interest rates are all annual averages.

5. The exchange rate against the US dollar is the annual average, calculated from the monthly average, based on the daily rate at 5pm in the Tokyo market.

III. Overview of the Construction Industry

1) Construction Investment

Figure 2 shows construction investment. Construction investment in FY 2025 is estimated to increase by 2.5% from the previous fiscal year to 75.45 trillion yen.

In the public sector, due to the increasing frequency and severity of natural disasters such as earthquakes and typhoons, the "Three-Year Emergency Measures for Disaster Prevention and Mitigation and Building National Resilience" was implemented from FY 2018 to FY 2020, and the "Five-Year Accelerated Measures for Disaster Prevention and Mitigation and Building National Resilience" is being implemented from FY 2021 to FY 2025. Furthermore, in June 2025, the "First Mid-Term Plan for the Implementation of Building National Resilience" was approved by the Cabinet, and projects worth over 20 trillion yen are planned for the five years starting in FY 2026.

In the private residential sector, the number of new housing units constructed has been declining due to the shrinking population in Japan. In the mid-2000s, construction was commenced on approximately 1.2 million units annually, but in recent years, the number has remained at around 800,000. However, the investment per unit is on an upward trend due to the high value-added nature of housing. In the private non-residential sector, redevelopment in the Tokyo metropolitan area has been active in recent years, and demand for office space in large buildings is strong. In addition, demand for warehouses remains high due to the expansion of the e-commerce market.

The private repair and maintenance sector is seeing an increase in investment due to trends such as extending the lifespan of buildings through renovation, growing interest in energy-saving measures, and the high-value-added nature of buildings. Additionally, rising construction costs due to sharp increases in prices and labor costs may be shifting the focus from demolition and reconstruction to renovation and remodeling.

Figure 2: Construction Investment (Nominal Values)

(Unit: 100 million yen)

Type of Investment	2020	2021	2022	2023	2024 (forecast)	2025 (forecast)
(Local Currency at Current Price)						
Private Residential	150,562	160,256	167,200	166,900	168,700	168,500
Private Non-Residential (including civil work)	157,168	163,700	174,500	170,900	176,300	186,000
Public (Residential & Non-Residential)	240,848	240,357	244,900	252,700	262,600	271,200
Private Repair & Maintenance	81,203	92,504	98,700	120,400	128,800	128,800
Total	629,781	656,817	685,300	710,900	736,400	754,500

Sources: Up to FY 2023, "Construction Investment Outlook (FY 2024)", Ministry of Land, Infrastructure, Transport and Tourism, for FY2024 and FY 2025, "Construction Investment Outlook Based on the Construction Economy Model (July 2025)", RICE

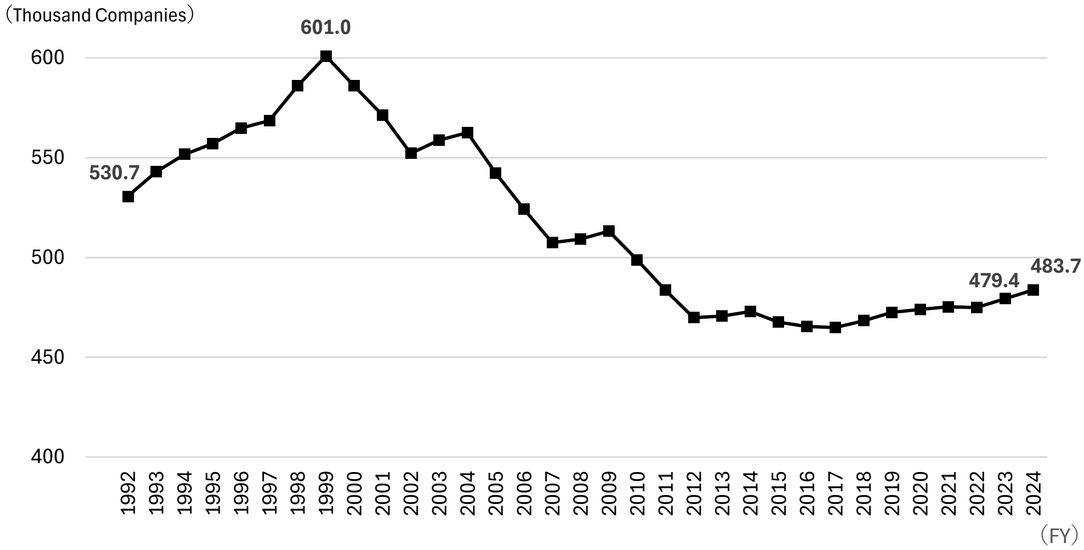
2) Number of construction companies

Figure 3 shows the trend in the number of licensed construction companies. In FY 2024, the number of companies was 483,700, an increase of 4,300 (0.9%) compared to the previous fiscal year. Compared to FY 1999, when the number of licensed construction companies was the highest, there has been a decrease of 117,000 (▲19.5%), but the trend has been increasing in recent years.

In Figure 4, when examining the number of licensed construction companies by capitalization tier, "self-employed" and "corporations with capital of less than 300 million yen[1]" account for 99.5% of the total. Looking at past trends, the number of companies in the "corporations with capital of 5 million yen or more, less than 10 million yen" category has significantly increased, while the number of companies in the "self-employed" and "corporations with capital of 10 million yen or more, less than 20 million yen" categories has notably decreased. Additionally, the number of companies in the "corporations with capital of 100 million yen or more" category has remained stable.

[1] The Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) defines small and medium-sized enterprises as companies with capital of 300 million yen or less and companies and individuals with 300 or fewer regular employees, provided that their primary business is construction.

Figure 3: Number of Licensed Construction Companies



Source: Created by RICE based on the data retrieved from Ministry of Land, Infrastructure, Transport and Tourism "Results of survey of licensed construction companies"

Figure 4: Number of Licensed Construction Companies by Capital Tier

(Thousand Companies)

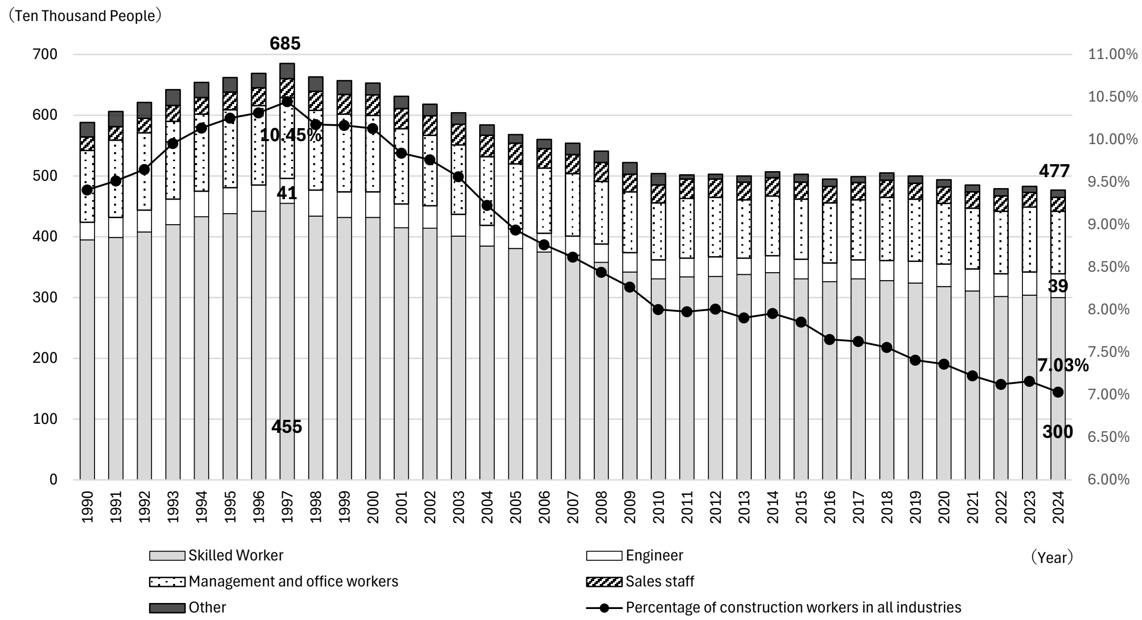
Fiscal year			2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total (Self-employed + Corporations)		Number of companies	**498.8**	**483.6**	**469.9**	**470.6**	**472.9**	**467.6**	**465.5**	**464.9**	**468.3**	**472.5**	**474.0**	**475.3**	**474.9**	**479.4**	**483.7**
		Rate of change	—	-3.0%	-2.8%	0.2%	0.5%	-1.1%	-0.5%	-0.1%	0.7%	0.9%	0.3%	0.3%	-0.1%	0.9%	0.9%
Self-employed		Number of companies	102.4	97.0	91.8	91.2	89.9	85.3	81.9	78.5	77.2	75.8	73.5	70.9	68.3	67.8	67.3
		Percentage	20.5%	20.1%	19.5%	19.4%	19.0%	18.2%	17.6%	16.9%	16.5%	16.0%	15.5%	14.9%	14.4%	14.1%	13.9%
Corporations (by amount of capital)	less than 2 million yen	Number of companies	5.7	6.7	7.8	9.0	10.4	12.1	14.1	16.5	18.3	20.3	23.0	25.5	27.7	30.0	32.6
		Percentage	1.1%	1.4%	1.7%	1.9%	2.2%	2.6%	3.0%	3.6%	3.9%	4.3%	4.9%	5.4%	5.8%	6.3%	6.7%
	2 million yen or more, less than 3 million yen	Number of companies	1.4	1.7	1.9	2.2	2.5	3.0	3.5	4.0	4.3	4.8	5.3	5.7	6.1	6.5	7.0
		Percentage	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%	0.7%	0.9%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.4%
	3 million yen or more, less than 5 million yen	Number of companies	119.6	115.4	111.6	110.6	110.2	108.1	106.8	105.6	105.5	105.6	104.9	104.1	103.1	103.2	103.0
		Percentage	24.0%	23.9%	23.8%	23.5%	23.3%	23.1%	22.9%	22.7%	22.5%	22.4%	22.1%	21.9%	21.7%	21.5%	21.3%
	5 million yen or more, less than 10 million yen	Number of companies	66.7	66.5	66.6	68.4	71.1	73.3	75.9	79.0	81.5	84.2	86.6	89.5	91.5	93.8	95.9
		Percentage	13.4%	13.7%	14.2%	14.5%	15.0%	15.7%	16.3%	17.0%	17.4%	17.8%	18.3%	18.8%	19.3%	19.6%	19.8%
	10 million yen or more, less than 20 million yen	Number of companies	123.6	118.4	113.5	112.7	111.8	108.8	106.1	103.9	103.4	102.9	101.3	99.5	97.8	97.1	96.3
		Percentage	24.8%	24.5%	24.2%	23.9%	23.6%	23.3%	22.8%	22.4%	22.1%	21.8%	21.4%	20.9%	20.6%	20.2%	19.9%
	20 million yen or more, less than 50 million yen	Number of companies	62.3	61.0	59.7	59.8	60.1	60.0	60.1	60.3	60.8	61.4	61.8	62.4	62.7	63.2	63.7
		Percentage	12.5%	12.6%	12.7%	12.7%	12.7%	12.8%	12.9%	13.0%	13.0%	13.0%	13.0%	13.1%	13.2%	13.2%	13.2%
	50 million yen or more, less than 100 million yen	Number of companies	11.3	11.2	11.2	11.3	11.4	11.5	11.6	11.7	11.8	12.0	12.1	12.2	12.3	12.4	12.5
		Percentage	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%
	100 million yen or more, less than 300 million yen	Number of companies	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.1
		Percentage	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
	300 million yen or more, less than 1 billion yen	Number of companies	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2
		Percentage	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%
	1 billion yen or more, less than 10 billion yen	Number of companies	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
		Percentage	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
	over 10 billion yen	Number of companies	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
		Percentage	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Created by RICE based on the data retrieved from Ministry of Land, Infrastructure, Transport and Tourism "Results of survey of licensed construction companies"

3) Number of Construction Workers

The number of construction workers, as shown in Figure 5, peaked at 6.85 million in 1997. After that, it steadily declined and reached 4.77 million in 2024, a decrease of approximately 30% from the peak. Focusing on engineers and skilled workers, there were 390,000 engineers and 3 million skilled workers in 2024. Compared to the peak in 1997, the number of engineers decreased by approximately 5%, while the number of skilled workers decreased by approximately 34%, highlighting the significant decline in the number of skilled workers. Additionally, the percentage of construction workers in the total workforce decreased from 10.45% in 1997 to 7.03% in 2024, underscoring the growing need to secure human resources in the construction industry.

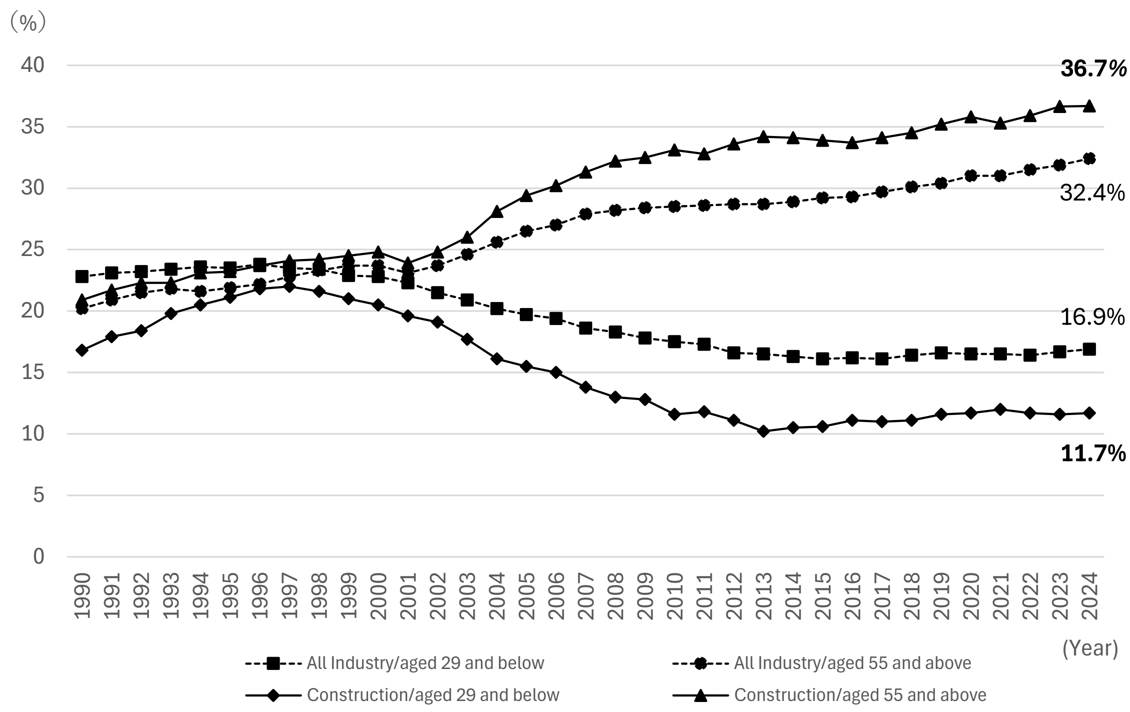
Figure 5: Number of Construction Workers



Source: Created by RICE based on the data retrieved from Ministry of Internal Affairs and Communications "Labor Force Survey"

Furthermore, as shown in Figure 6, the percentage of workers aged 55 or above in the construction industry accounts for 36.7%, while those aged 29 or below account for 11.7%. Compared to all industries, the construction industry is facing an aging workforce, and the transfer of skills to the next generation has become a major challenge.

Figure 6: Age Composition of Construction Workers



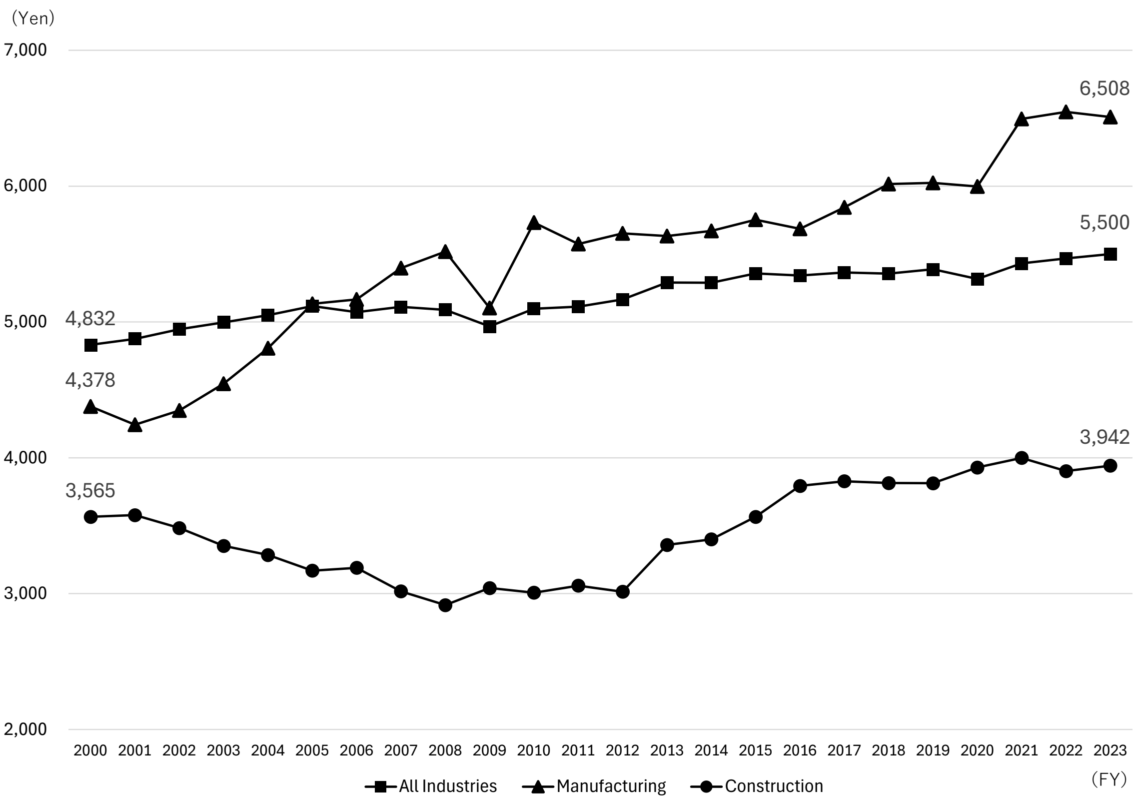
Source: Created by RICE based on the data retrieved from the Ministry of Internal Affairs and Communications "Labor Force Survey"

4) Labor Productivity

Figure 7 compares the labor productivity per employee per hour across all industries, manufacturing, and construction. In 2000, the figure for the construction industry was 3,565 yen, while that for manufacturing was 4,378 yen, with a difference of approximately 800 yen. However, the gap gradually widened thereafter, and in 2023, the construction industry stood at 3,942 yen, while the manufacturing industry reached 6,508 yen, with the difference expanding to approximately 2,600 yen. Over the past 20 years, while labor productivity in the manufacturing industry increased by approximately 1.5 times, the construction industry saw only a modest increase of about 1.1 times, indicating a lag in labor productivity improvement.

There are several reasons why labor productivity in the construction industry is lower than in other industries. First, it is difficult to standardize and rationalize work because production is based on individual orders from customers. Second, the fact that work must be carried out under various geographical and topographical conditions while responding to daily changes in climatic conditions also has an impact. Third, the multi-tiered subcontracting structure, which involves many contractors and workers, is thought to hinder work efficiency. However, in order to improve labor productivity in the construction industry, efforts are currently being made across the industry to automate construction, automate data integration (digitization and paperless operations), and automate construction management (remote and off-site operations).

Figure 7: Labor productivity per employee per hour



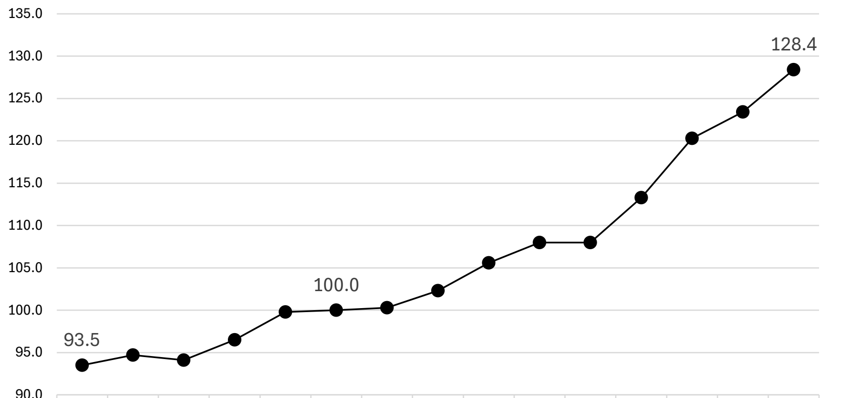
Source: Created by RICE based on the data retrieved from Cabinet Office "System of National Accounts"
Note: Basis of estimations: Real output = Real GDP ÷ (Number of employees x Working hours)

5) Construction Costs

Figure 8 shows the "Overall construction" component of the construction cost deflator. The deflator is an index of construction costs for each fiscal year, with FY 2015 as the base year (equal to 100).

As shown in Figure 8, construction costs began to rise sharply from FY 2021 and reached an index of 128.4 in FY 2024. This is due to soaring prices for materials such as steel and timber, as well as rising labor costs caused by a shortage of workers. Due to these circumstances, there are signs that projects will be delayed or suspended and even scrapped altogether.

Figure 8: Construction Cost Deflator

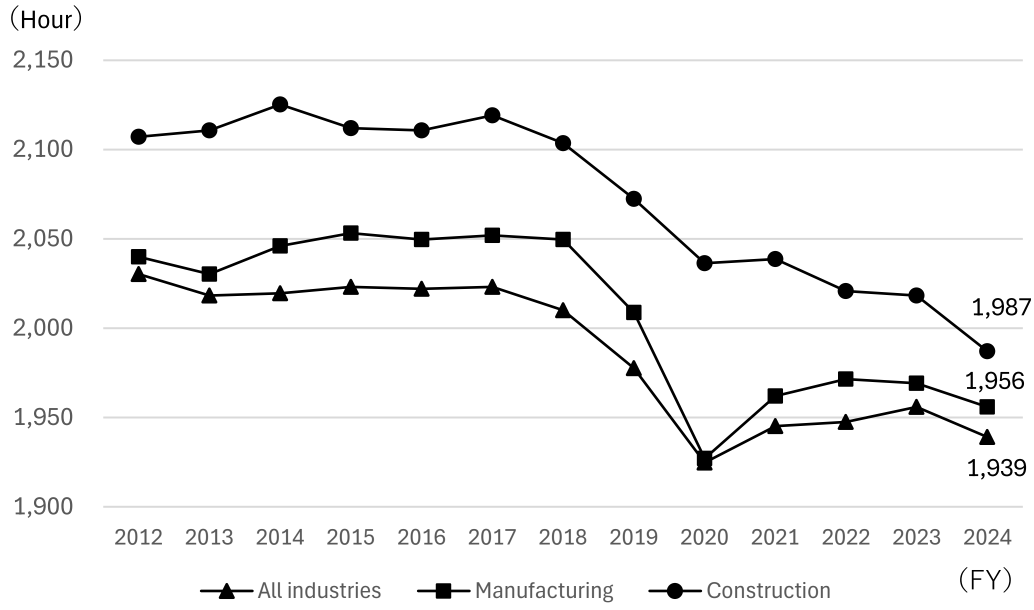


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Deflator "Overall Construction"	93.5	94.7	94.1	96.5	99.8	100.0	100.3	102.3	105.6	108.0	108.0	113.3	120.3	123.4	128.4

Source: Created by RICE based on the data retrieved from the Ministry of Land, Infrastructure, Transport and Tourism "Construction Cost Deflator"

Figure 9 shows a graph of the annual total working hours for "All Industries," "Manufacturing," and "Construction." In FY 2024, the number of working hours in the "Construction Industry" was 48 hours longer than the "All Industries" and 31 hours longer than the "Manufacturing Industry". However, due to the promotion of work style reform in the construction industry and the implementation of penalties for overtime work starting in April 2024, the gap has narrowed significantly.

Figure 9: Annual Working Hours by Industry

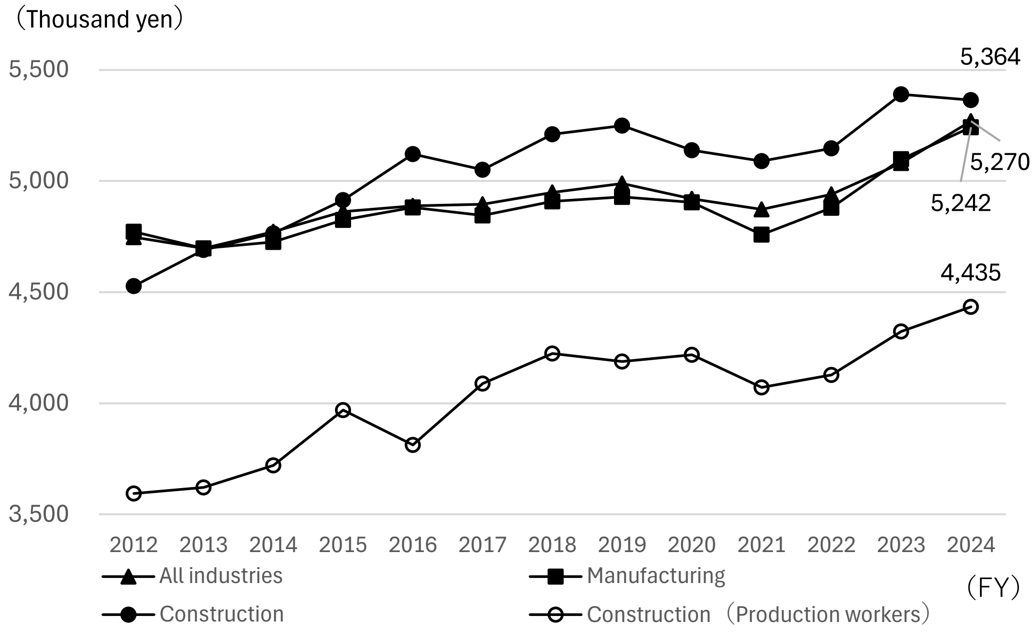


Source: Created by RICE based on the data retrieved from Ministry of Health, Labor and Welfare "Basic Survey on Wage Structure"

Note: Total working hours = (Prescribed working hours + Actual overtime working hours) x 12 months

Figure 10 shows the annual wages for “All Industries,” “Manufacturing,” and “Construction.” In FY 2024, the wage amount for the construction industry was 5.36 million yen, which was 94,000 yen higher than all industries and 122,000 yen higher than the manufacturing industry. However, when focusing on the wage amounts of skilled workers directly engaged in construction work at construction sites (production workers), they are significantly lower compared to other industries, and improving their work treatment is an urgent issue.

Figure 10: Annual Wage by Industry



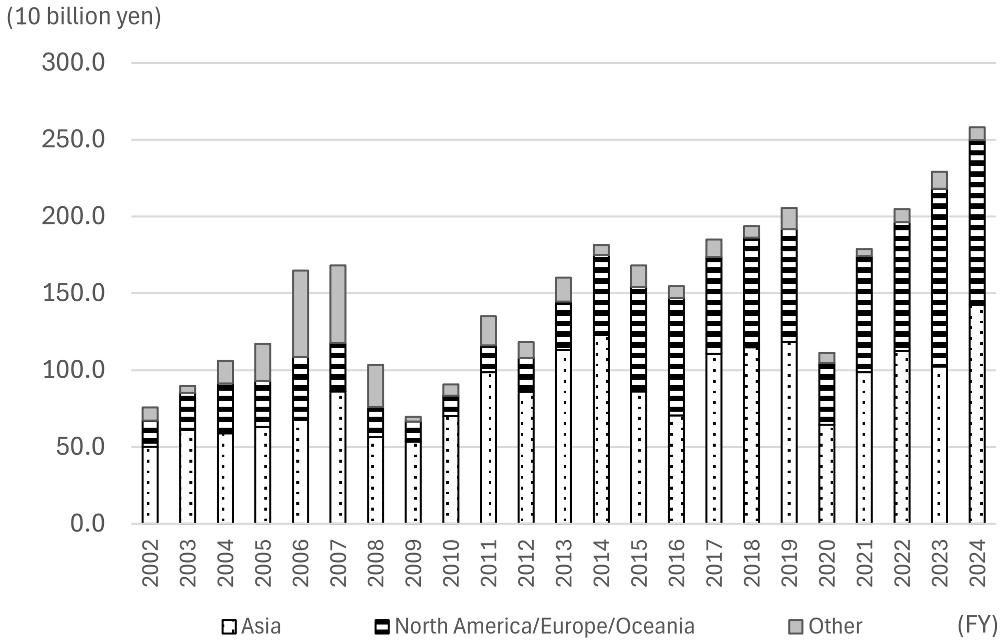
Source: Created by RICE based on the data retrieved from Ministry of Health, Labor and Welfare “Basic Survey on Wage Structure”

Note: Annual wage = Prescribed wage amount x 12 months + Annual bonuses and other special earnings. From 2020 onwards, the figures are calculated as a weighted average of “Construction and Mining Workers,” “Production Process Workers,” and “Transportation and Machinery Operators” in the construction industry.

6) International Trade in the Construction Market

Figure 11 shows the overseas construction contracts by region[2]. Japanese construction companies' overseas contracts have been increasing and exceeded 2 trillion yen in FY 2019. Although FY 2020 was affected by the COVID-19 pandemic, contracts recovered in FY 2021 and have exceeded 2 trillion yen for three consecutive years from FY 2022 to FY 2024. Japan's largest market is "Asia," but since around 2015, contracts from "North America, Europe, and Oceania" have been increasing, and in FY 2023, "North America, Europe, and Oceania" surpassed "Asia" for the first time. Despite various uncertainties, such as the tariff policies of the Trump administration in the United States and international issues including the Middle East conflict, overseas construction demand is expected to remain steady.

Figure 11: Construction Contracts by Region



Source: Created by RICE based on the data retrieved from Overseas Construction Association of Japan, Inc. "Overseas Construction Contracts"
Note: Includes construction contracts from local subsidiaries

[2] These contracts are a compilation of overseas construction projects (worth 10 million yen or more per contract) contracted by 52 members of the Overseas Construction Association of Japan, Inc. and does not represent the entirety of Japan's overseas construction contracts.