

Chapter 2 Labor Market Challenges for Enhancing Growth Potential

Section 1 Challenges for Better Use of Domestic Labor

- As the labor force participation rate of Japanese women in their 30s and 40s is relatively low, there is room for women to play a more active role.
- If female part-time workers become full-time workers on a scale similar to other developed countries or if women dedicated to child bearing and rearing participate in the labor force, total labor supply will increase around 1.5%.

Figure 2-1-1 Labor participation by women and elderly people
(1) Women's labor force participation rate

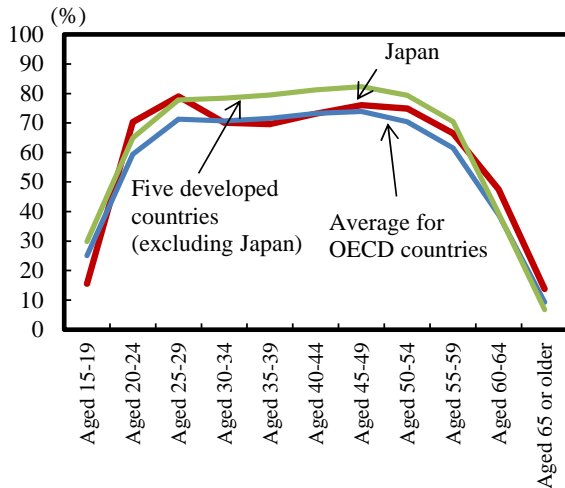
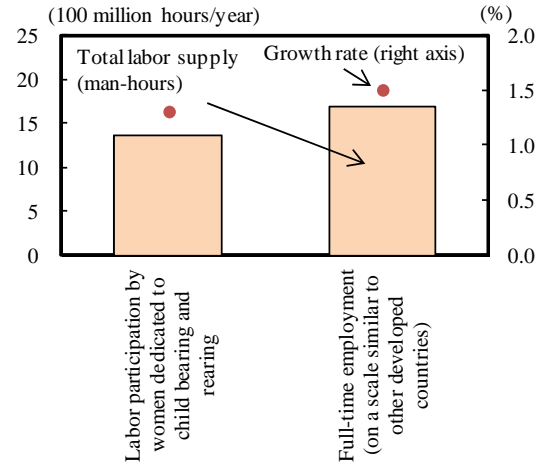


Figure 2-1-1 Labor participation by women and elderly people
(2) Women's potential manpower (man-hours basis)



- (Notes) 1. (Left) Compiled based on OECD.Stat. "Five major countries (excluding Japan)" refers to the U.S., U.K., France and Germany.
2. (Right) Compiled based on OECD.Stat and the Labour Force Survey, Ministry of Internal Affairs and Communications. The impact on the total labor supply in the whole of Japan was estimated.

- Since 2013, the number of employed people has been increasing due to labor participation by women and elderly people who desire flexible working arrangements. As many women and elderly people work as non-regular employees, the non-regular employee rate has risen. Recently, the rate has stayed mostly flat as a result of conversion of young and middle-age non-regular workers into regular workers.
- Amid the contraction of nominal GDP, companies have so far adjusted labor cost by expanding employment of non-regular workers with low wages while securing jobs.

Figure 2-1-4 Trends concerning non-regular employees
(3) Breakdown of year-to-year difference in the ratio of non-regular employees

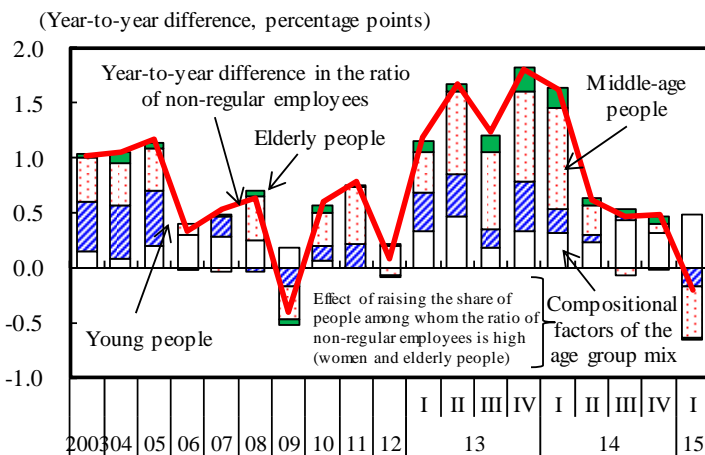
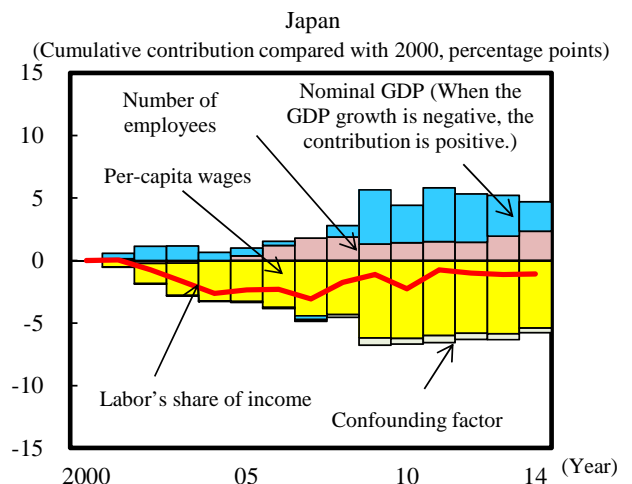


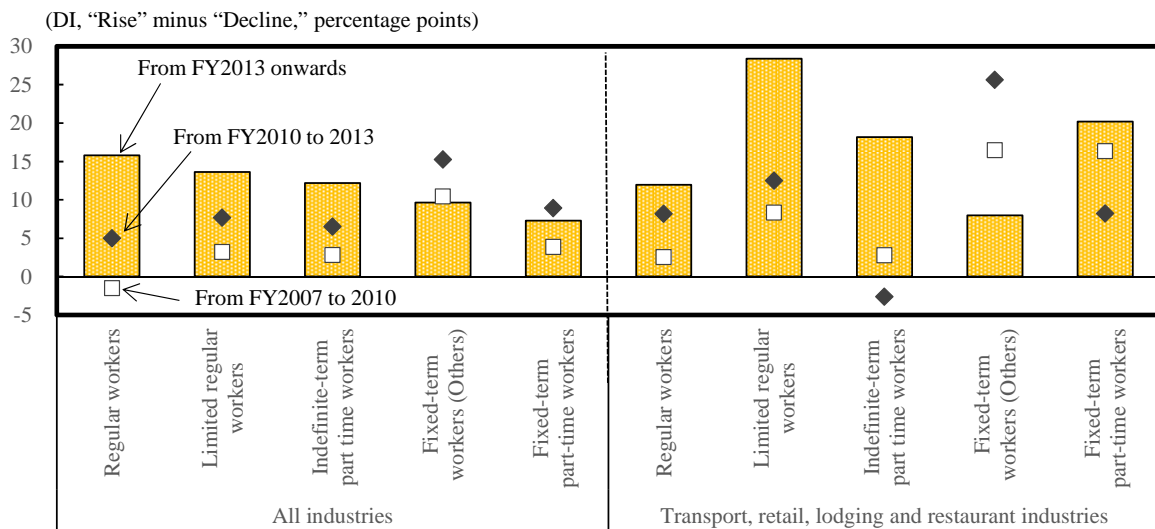
Figure 2-1-8 Breakdown of factors of the labor's share of income



- (Notes) 1. (Left) Compiled based on the Labour Force Survey, the Ministry of Internal Affairs and Communications. "Young people" refers to people aged from 15 to 34, "middle-age people" to people aged 35 to 64 and "elderly people" to people aged 65 or older.
2. (Right) Compiled based on OECD.Stat. As a contraction of nominal GDP raises labor's share of income, it is represented as a positive contribution.

- Amid the tightening labor supply-demand balance, companies have generally become positive about employing regular workers. In addition, in the transport, retail, lodging and restaurant industries, there are growing moves to retain employees by promoting employment of limited regular workers and part-time workers on an indefinite-term contract.

Figure 2-1-10 Changes in companies' stance on employment by employment type



(Notes) 1. Compiled based on the Survey on Companies' Attitudes toward Use of Human Capital, the Cabinet Office.

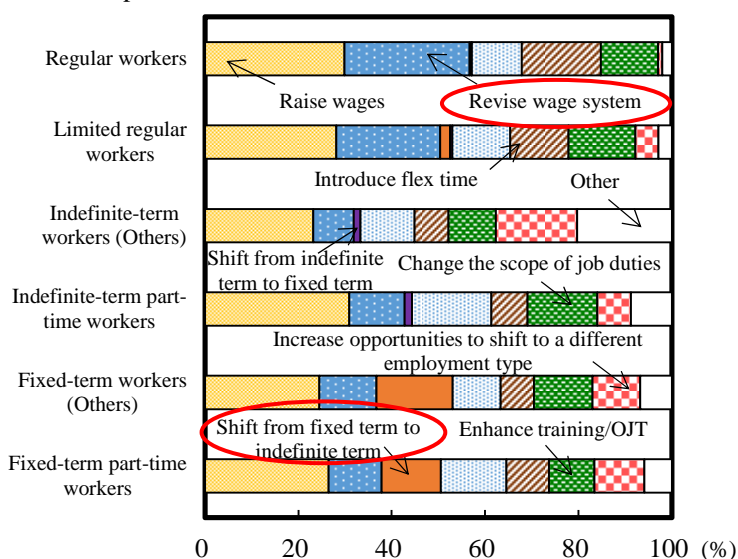
2. DI compiled by weighting replies given by companies as follows:

Composition of employees by type: 1 for a steep rise, 0.5 for a moderate rise, 0 for little change, -0.5 for a moderate decline and -1 for a steep decline

- Companies are expecting an improvement in contributions by employees by employing part-time workers on an indefinite-term contract and by revising the wage system of regular employees so as to place emphasis on competence and performance. It is important to ensure that enhancement of investment in education and training leads to productivity growth.
- While companies with robust earnings have until now increased fixed-term employees, they plan to convert such workers into regular employees and indefinite-term employees. Revision of the way of using human capital is expected.

Figure 2-1-11 Attitude to personnel system and employee treatment

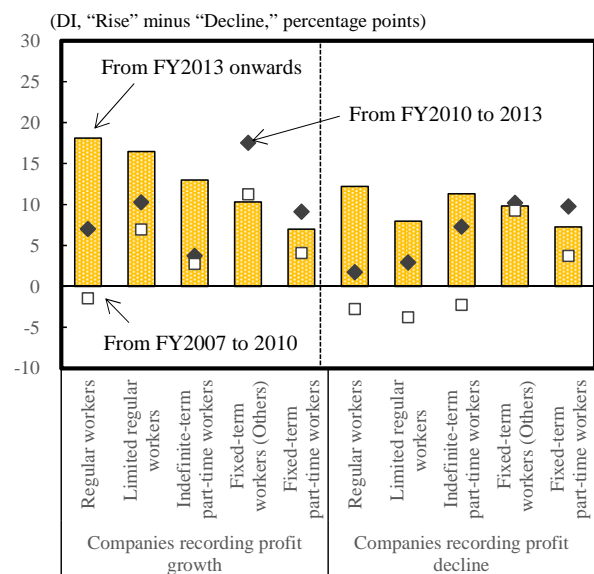
(1) Measures highly effective in improving job performance and contributions



(Notes) 1. Compiled based on the Survey on Companies' Attitudes toward Use of Human Capital, the Cabinet Office.

2. (Right) "Companies recording profit growth or profit decline" refers to current profit performance in FY2013 compared with FY2010.

Figure 2-1-12 Difference in employment stance by corporate earnings performance



Section 2 Smooth Labor Migration and Economic Growth

- The scale of labor migration in Japan is small. To more efficiently allocate the limited labor force, it is necessary to promote labor migration without job losses.
- For the purpose of raising labor productivity at the macro level, not only labor migration to industries with higher productivity but also raising the labor productivity growth rates in individual industries will be highly effective.

Figure 2-2-1 International comparison of labor migration
(2) Average unemployment period

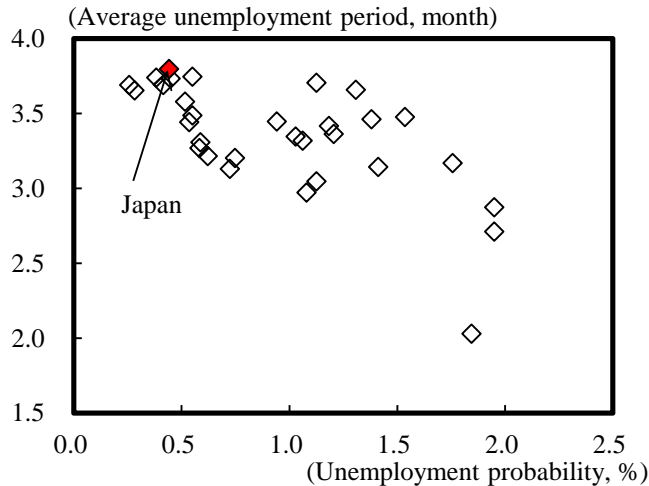
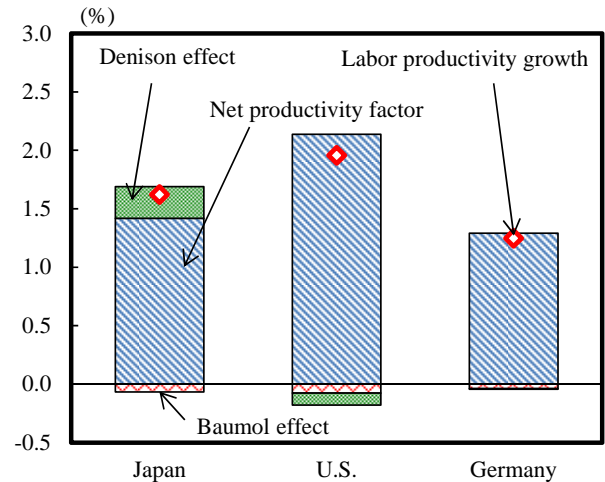


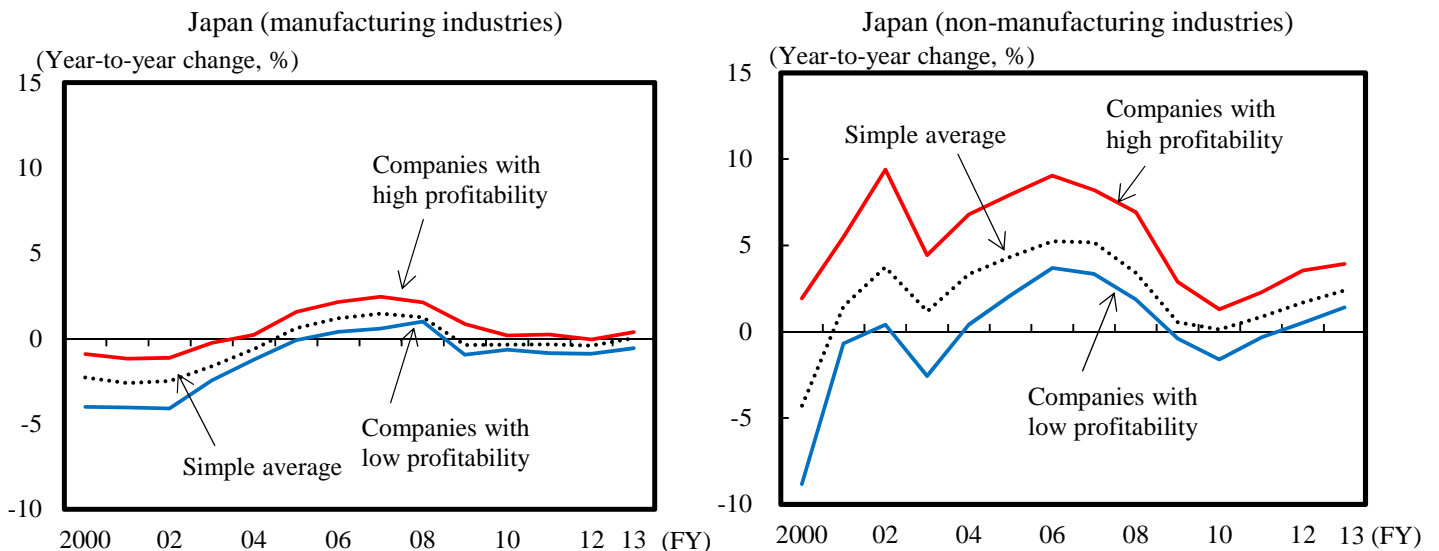
Figure 2-2-3 Breakdown of factors of labor productivity growth



- (Notes) 1. (Left) Compiled based on OECD.Stat.
2. (Right) Compiled based on EUKLEMS. The average values for 2001 to 2011. The Denison effect refers to the effect of raising the share of industries with higher labor productivity in labor input. The Baumol effect refers to the effect of raising the share of industries with higher labor productivity growth rate in nominal added value. Net productivity factor refers to the effect of raising the labor productivity growth rate of individual industries.

- At the company level, the more profitable a company is (the higher a company's ROA is), the higher the rate of growth in the number of employees. As a result, labor force is shifting to companies with higher productivity. However, this trend may be gradually weakening.

Figure 2-2-4 Changes in employment by corporate profitability
(1) Growth rate of the number of employees at companies with high and low profitability



- (Notes) 1. Compiled based on "Osiris," Bureau van Dijk; and NikkeiNEEDS Financial Quest. The data covers listed companies.
2. "Companies with high profitability" are those in the top 25% in terms of ROA and "Companies with low profitability" are those in the bottom 25% in terms of ROA. The figures for manufacturing industries are on a parent-company basis.

- Factors behind the shrinkage of the gap in employment growth rate between companies with high profitability and companies with low profitability are (1) the small margin of decline in employment at companies with low profitability in manufacturing industries, (2) a decrease in the number of newly listed companies in non-manufacturing industries and (3) reduced growth in employment at companies with high profitability in both manufacturing and non-manufacturing industries. It is necessary to facilitate labor migration, create new businesses and resolve job mismatch.

Figure 2-2-5 Distribution of growth rate of the number of employees by ROA performance in manufacturing industries

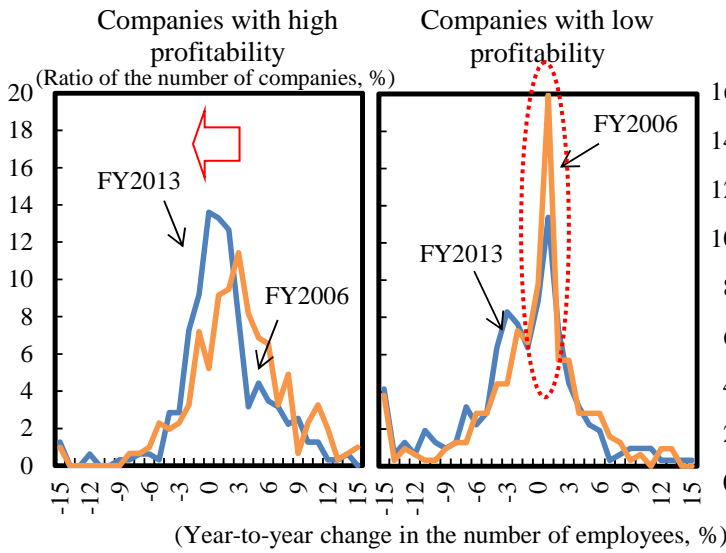
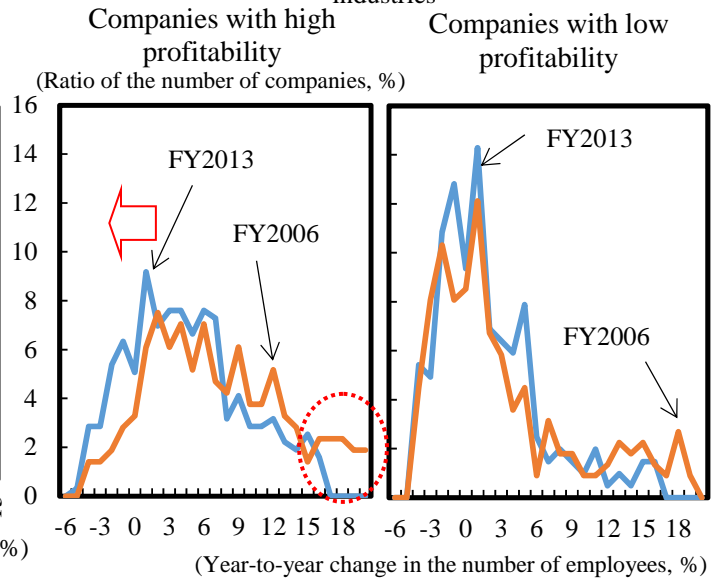


Figure 2-2-6 Distribution of growth rate of the number of employees by ROA performance in non-manufacturing industries



(Notes) 1. Compiled based on "Osiris," Bureau van Dijk; and NikkeiNEEDS Financial Quest. The data covers listed companies.
 2. "Companies with high profitability" are those in the top 25% in terms of ROA and "Companies with low profitability" are those in the bottom 25% in terms of ROA. The figures for manufacturing industries are on a parent-company basis.

- Amid a sluggish growth in labor productivity, the labor supply-demand balance is tightening at a faster pace in local areas than in metropolitan areas. As an outflow of labor force from local areas continues, it is necessary for the personal service industry that supports the infrastructure for people's living to achieve a higher cluster effect and strengthen its earning power by taking advantage of local characteristics.

Figure 2-2-10 Population inflow/outflow and wage inequality

(2) Population outflow rate and wage level by prefecture

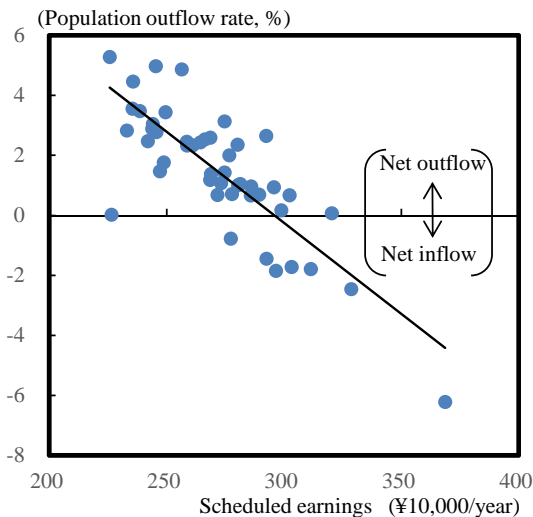
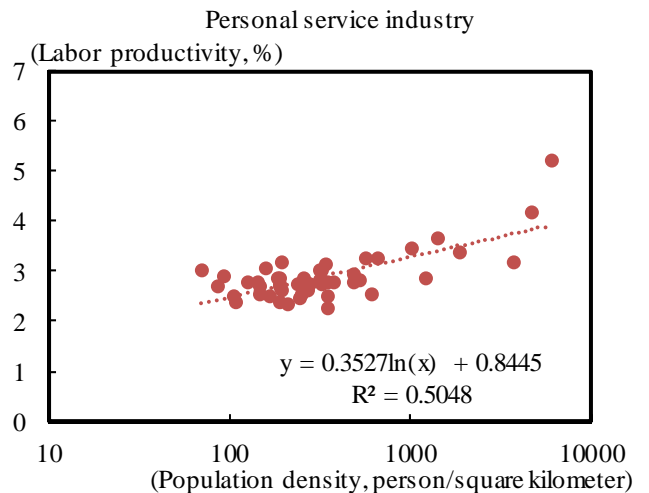


Figure 2-2-11 Productivity of the personal service industry and location of manufacturing companies

(1) Labor productivity of the personal service industry and population density



(Notes) 1. (Left) Compiled based on the Annual Report on the Internal Migration in Japan Derived From the Basic Resident Registers, the Ministry of Internal Affairs and Communications; and the Basic Survey on Wage, the Ministry of Health, Labour and Welfare.
 2. (Right) Compiled based on the R-JIP Database (2012), the Research Institute of Economy, Trade and Industry.