



Economic White Paper 2024

Annual Report on the Japanese Economy and Public Finance
— *Toward a Vibrant New Economic Stage* —

Summary

August 2024

Cabinet Office, Government of Japan

- Chapter 1. Macroeconomic Trends and Challenges
 - Section 1. Trends in the Macroeconomy
 - Section 2. Establishing an Economic Structure That Will Not Go Back to Deflation

- Chapter 2. Overcoming Growth Constraints Due to Labor Shortages
 - Section 1. Status of Labor Shortages and Measures Taken
 - Section 2. Issues Concerning Labor Mobility
 - Section 3. Issues Concerning Foreign Workers in Japan

- Chapter 3. Utilizing Assets Toward an Enriched Socio-Economy
 - Section 1. Household Financial Assets and Investments
 - Section 2. Prospects for and Issues Concerning Housing Stock
 - Section 3. Utilizing Human Capital of Elderly Workers

This material has been tentatively prepared to explain the Annual Report on the Japanese Economy and Public Finance. For quotations and other purposes, please refer to the text of the Annual Report on the Japanese Economy and Public Finance.

Chapter 1. Macroeconomic Trends and Challenges

- Nominal GDP increased to a record high level of 597 trillion yen (P1, Fig 1).
- Corporate profits hit a record high, and appetite for business investment remained strong (P5, Figs 1 & 3). In contrast, private consumption lacks strength (P2, Fig 1)
- Cash and deposit holdings of the corporate sector stand out internationally. Underinvestment so far has contributed to the low potential growth rate (P6, Figs 1 & 2).
- CPI has risen in the range of 2% (YoY) since last fall (P9, Fig 1).
- As for the wage growth deflated by price level (i.e. real wage), hourly wages of part-time workers have increased since mid-2023, and the rate of decrease in monthly wages of full-time workers has been consistently slowing (P11, Fig 3).
- The nominal wage hike in the 2024 annual negotiation (*shunto*) hits the highest in the last 33 years. More enterprises decided on higher wage increases than in the last year (P10, Figs 1 & 2). Higher growth in payrolls is expected in the months ahead.
- Pass-through from purchase to sales prices almost returned to the pre-deflation period (1980s-early 1990s) (P12, Fig 1). Promoting pass-through of labor costs in SMEs remains important for realizing a virtuous cycle of wages and prices.
- Service trade deficit increases primarily in digital-related areas. Domestic demand surges in areas where foreign companies have an advantage (P7, Figs 1 & 2). Strengthening the earning power in potentially competitive areas is a challenge.
- Number of users of spot-work apps increased approx. 70-fold in 4 years. Recruiting channels in the labor market are diverse partially thanks to DX (P4, Figs 2 & 4).

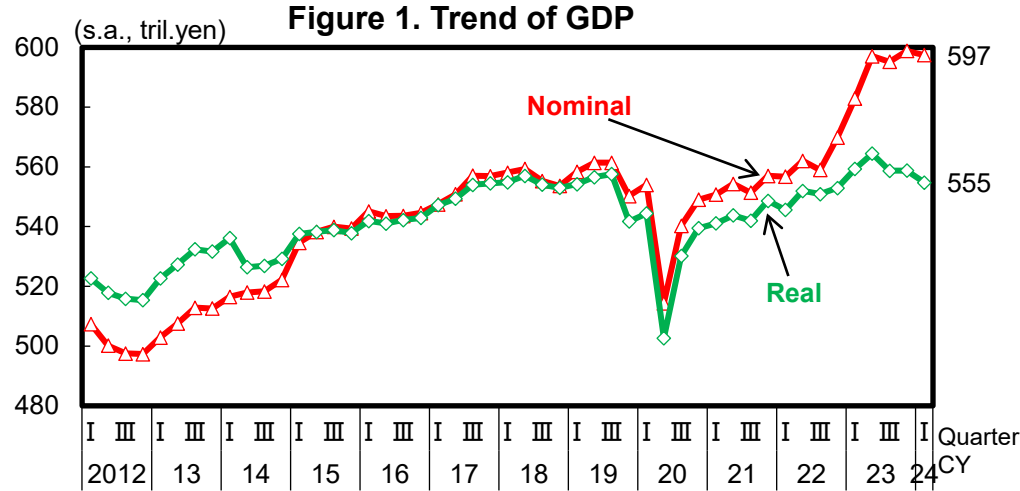
Chapter 2. Overcoming Growth Constraints Due to Labor Shortages

- Labor shortages in corporations reached a record high level, with the increase in career-changers and the fiercer competition for talent (P15, Fig 3).
- Corporations strengthen wage hikes and labor-saving investment against labor shortages (P15, Fig 4). Labor-saving investment contributes to improved labor productivity (P17, Fig 2).
- Job opening to application ratios are higher for construction workers and caregivers amid the labor shortage, while the ratio is 0.4 for clerical workers (P19, Fig 2). Reskilling is increasingly important since clerical worker's jobs are potentially substituted by AI (P19, Fig 3)
- Foreign workers have increased, accounting for 3.4% of total employees. The wage gap with Japanese workers is reduced to 7% by controlling various attributes. Wages of skilled workers living in Japan for a long period is higher than those of Japanese counterparts. (P22, Figs 1,4 & 5)

Chapter 3. Utilizing Assets Toward an Enriched Socio-Economy

- Households' financial assets have increased by 60% since 2000, though the majority is explained by cash and deposits (P23, Figs 1 & 2). The elderly don't dissave the assets due to longevity risk. Meanwhile, younger generations are increasing their risk appetite (P25, Figs 1 & 2).
- Secondhand housing acquisition increases regardless of income group, now accounting for a quarter of total housing acquisition. (P29, Fig 1). Further promoting the circulation of existing homes is important for realizing a better QoL.
- Labor participation rates of the elderly in Japan, both male and female, stand out among the major advanced economies (P31, Fig 1). People willing to work beyond 65 are increasing (P32, Fig 2). It is essential to inform people of how not adjusting employment affects lifetime income and to review various systems.
- The ratio of companies that set the wage level after mandatory retirement age (*teinen*) above 80% of the pre-retirement wage increased to around 40% (P33, Fig 1).

Chapter 1 Section 1: Trends in the Macroeconomy (1) -GDP

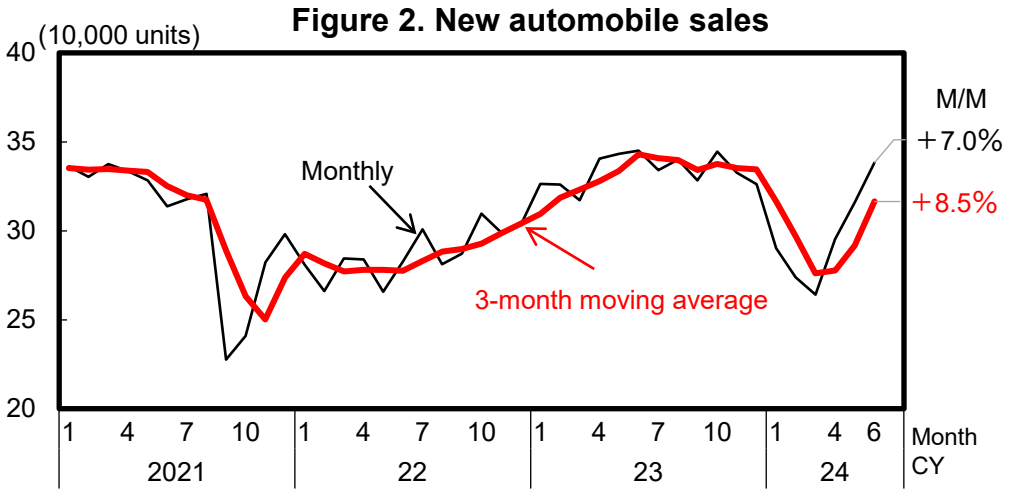


Special factors in 2024 Q1 (real growth rate: ▲0.7%)

Special Factors	Estimated Effects
Impact of the 2024 Noto Peninsula Earthquake	About ▲0.1% pt ₍₁₎
Suspension of production and shipment by some automotive manufacturers	
On consumption (durable goods)	Almost all of ▲0.5% pt ₍₂₎
On investment (transport equipment)	About ▲0.1% pt ₍₃₎
Reactionary fall in service export	About ▲0.6% pt ₍₄₎

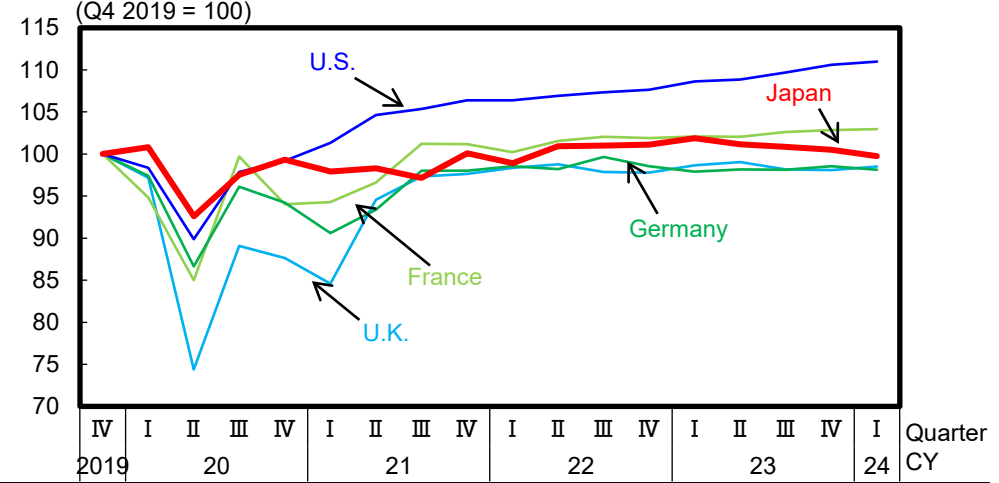
- 1: Direct effect on GDP, estimated by Cabinet Office
- 2: Contribution of durable goods (some comes from decline in cell phone)
- 3: Contribution of transport equipment
- 4: Contribution of service export, excluding direct domestic purchase by non-resident households

Nominal GDP is on an increasing trend and reached 597 trillion yen, while real GDP decreased in 2024 Q1 due to special factors like the suspension of production and shipment by some automotive manufacturers.



New automobile sales are picking up after the suspension of production and shipment last December.

Figure 3. Real private consumption in major advanced economies (Q4 2019 = 100)

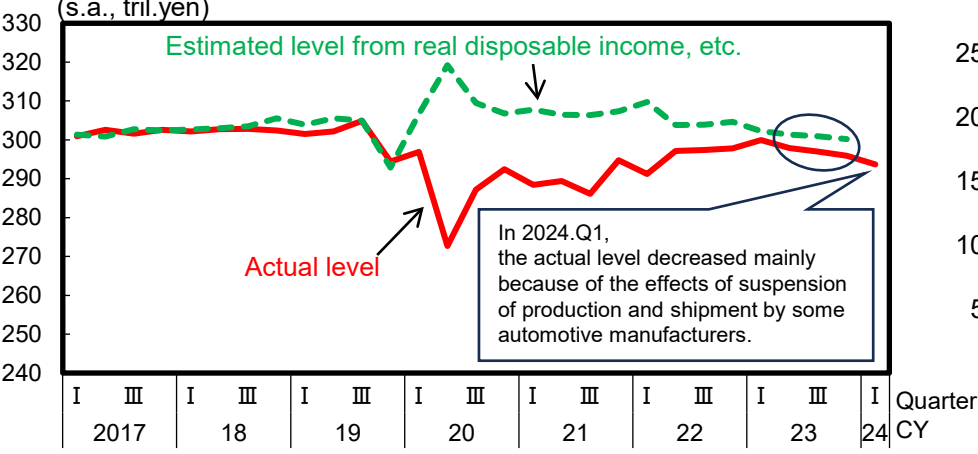


However, private consumption lacks strength compared to other major advanced economies.

Sources: Cabinet Office, Japan Automobile Dealers Association, Japan Light Motor Vehicle and Motorcycle Association, U.S. Department of Commerce, U.K. Office for National Statistics, German Federal Statistical Office, and INSEE

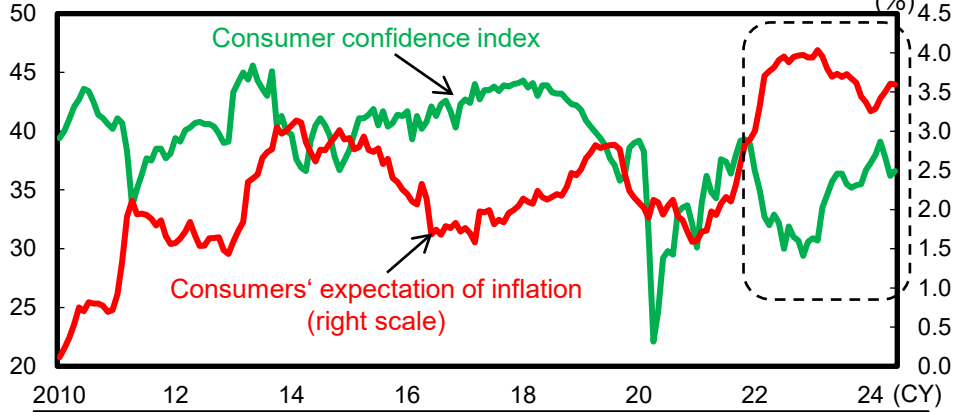
Chapter 1 Section 1: Trends in the Macroeconomy (2) –Private Consumption

Figure 1. Real private consumption



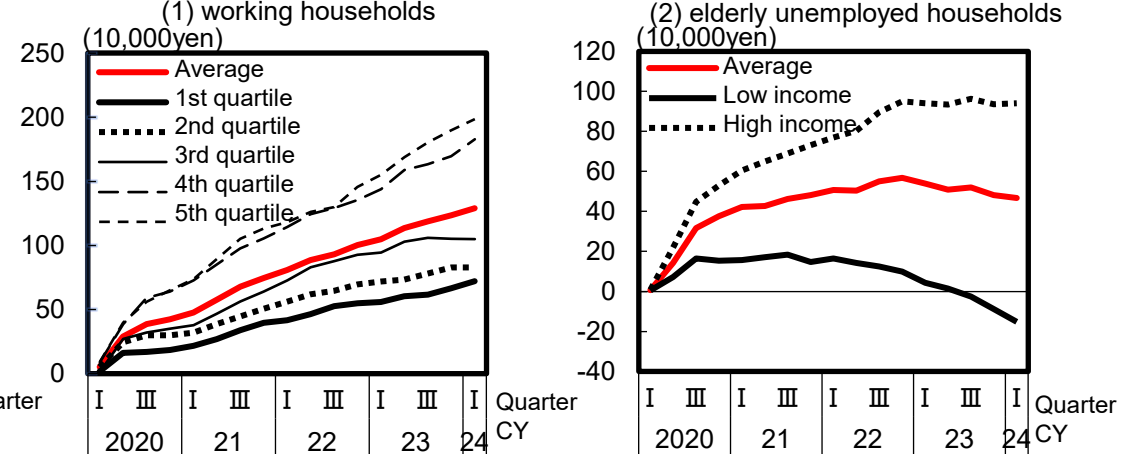
Private consumption is gradually going back to a level that can be explained by disposable income and other factors following Covid-19's categorization as Class 5.

Figure 2. Consumer sentiment and expected inflation



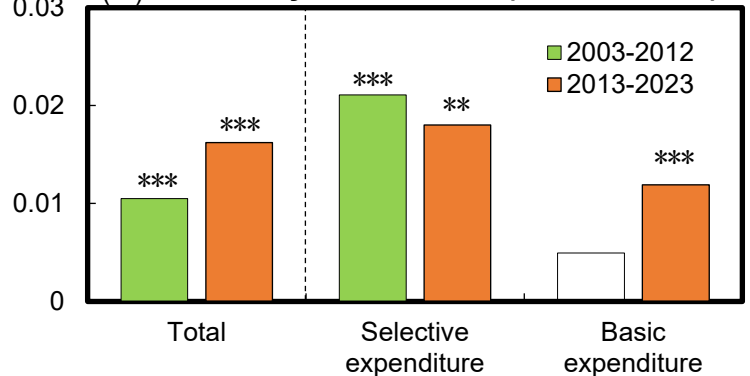
During the recent phase of price increase, consumer confidence index shows a strong inverse correlation with household's inflation expectation.

Figure 3. Excess savings by household attributes (with 2 or more people)



Accumulated excess savings during the Covid-19 pandemic remains at a high level for worker's households, especially high-income householders, while it is depleted in elderly, low-income, and unemployed households.

Figure 4. The effect on consumption by 1% increase in asset value held by households (wealth effect)

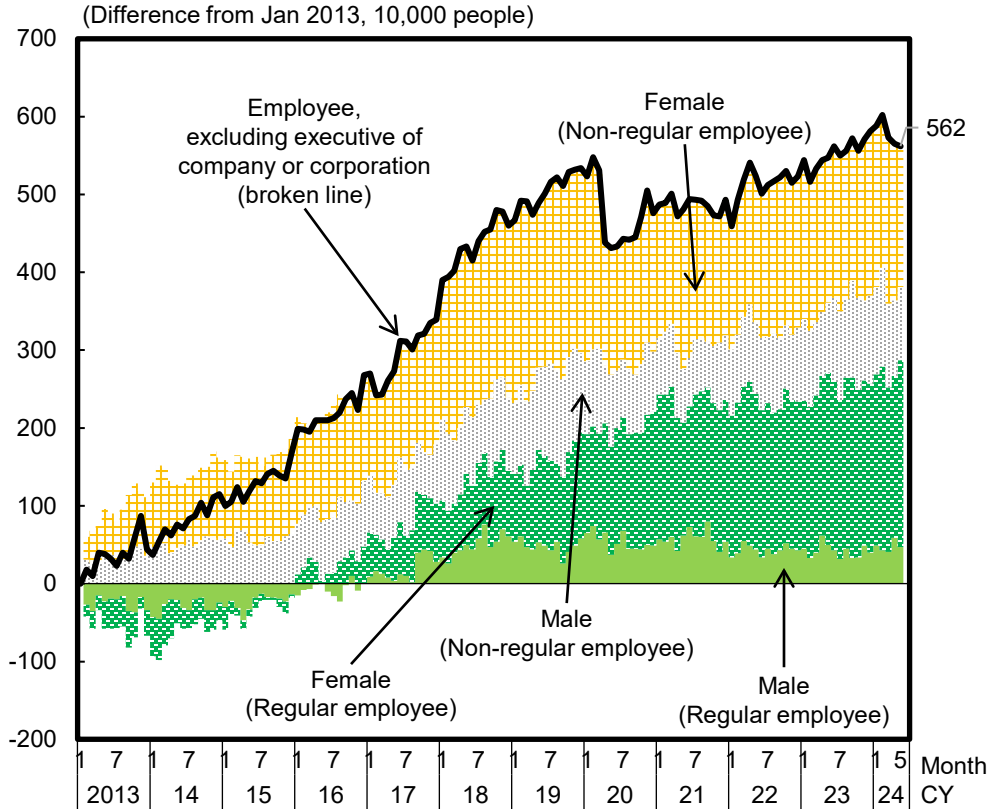


The effect by capital gain increases after 2013. Encouraging a shift from saving to investment is expected to stimulate consumption.

Sources: Cabinet Office, Bank of Japan, Ministry of Internal Affairs and Communications, and MIC.

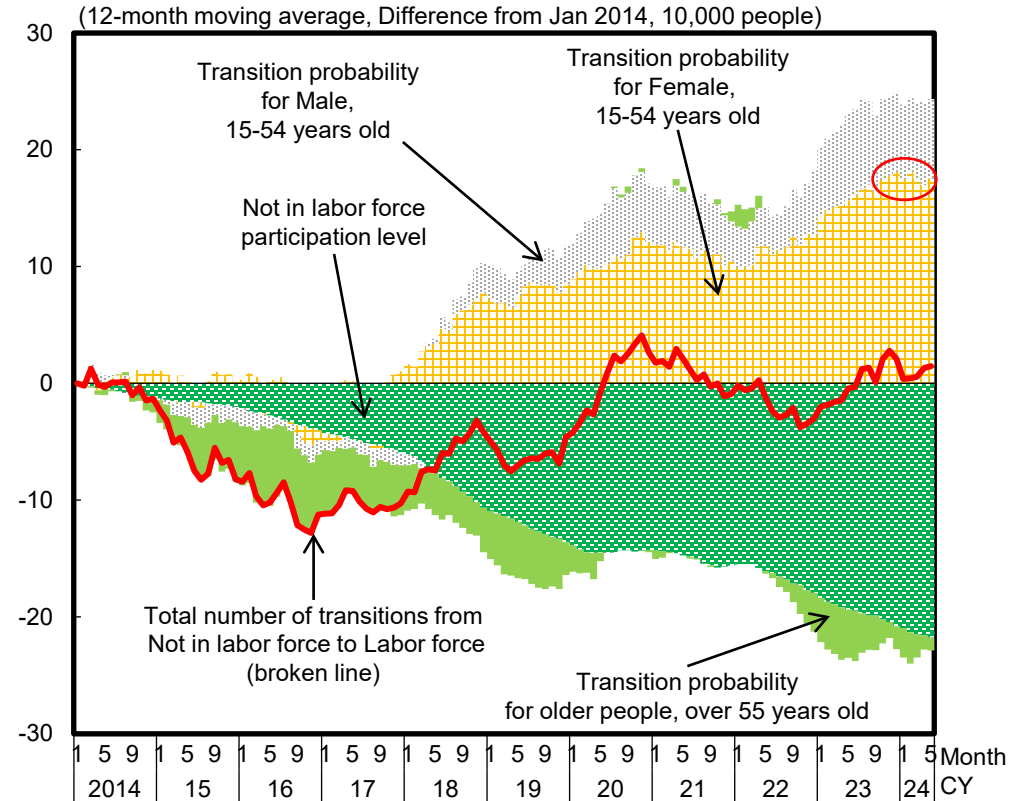
Chapter 1 Section 1: Trends in the Macroeconomy (3) -Labor Market

Figure 1. Trends in the number of employees



Even amid the decreasing trend in the working age population, the number of employees has been increasing, led by the increase in female employees.

Figure 2. Transitions from a population not in the labor force to a population in the labor force



Attention should be given to the flat trend after early 2024 in the flow from "not in labor force" to "labor force" in female, 15-54 years old.

Chapter 1 Section 1: Trends in the Macroeconomy (4) -Labor Market

Figure 1. Job openings for full-time workers

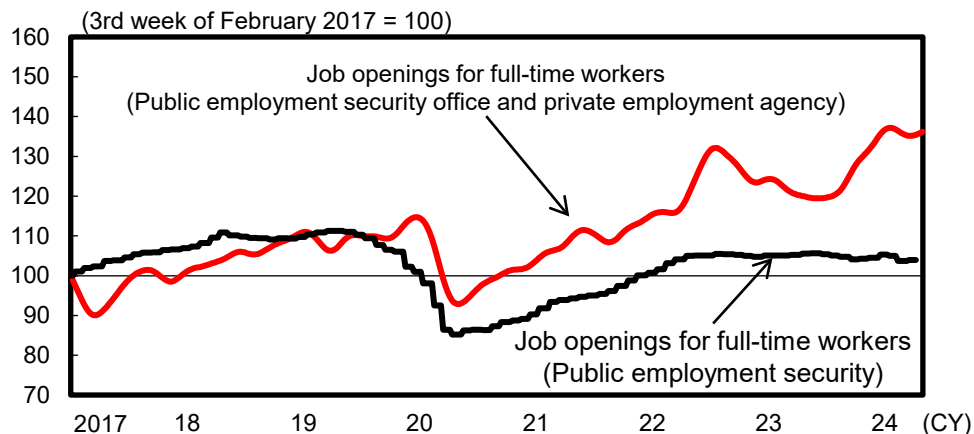


Figure 3. Job openings for part-time workers

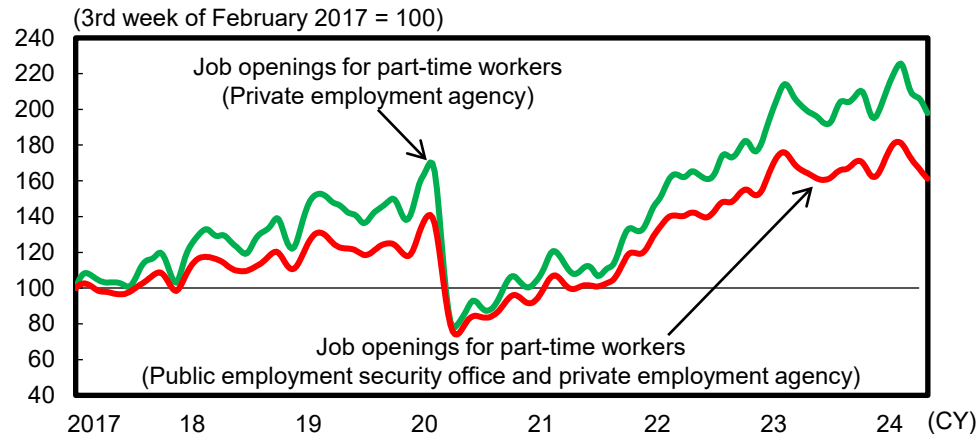
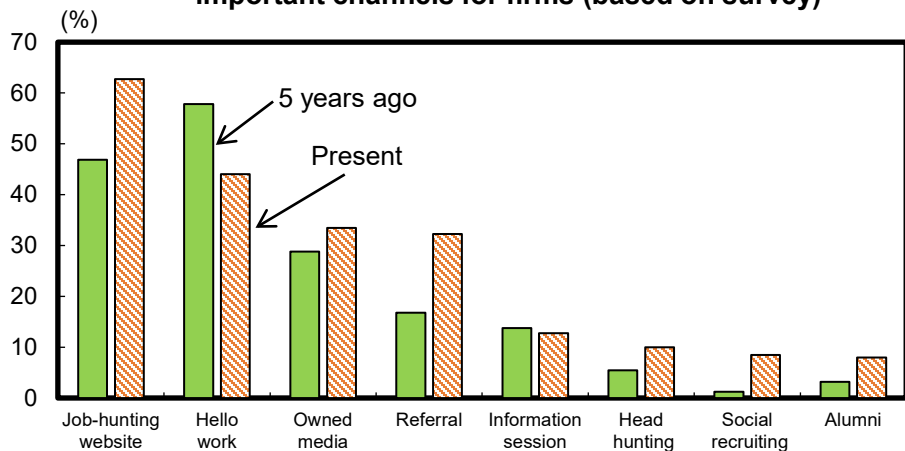
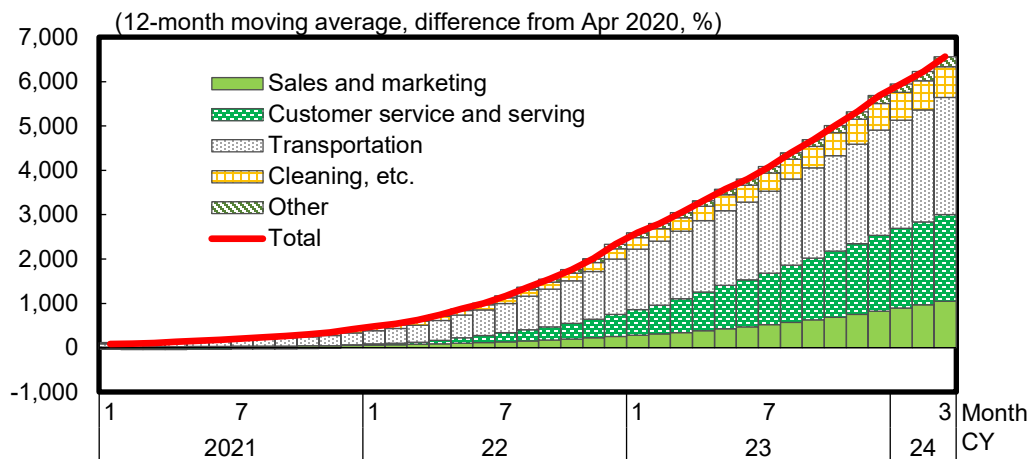


Figure 2. Channels for recruiting full-time workers (mid-career) important channels for firms (based on survey)



As firms diversify recruiting channels, the number of job openings for full-time workers observed by big data shows steady performance compared to the official statistics collected by "Hello Work."

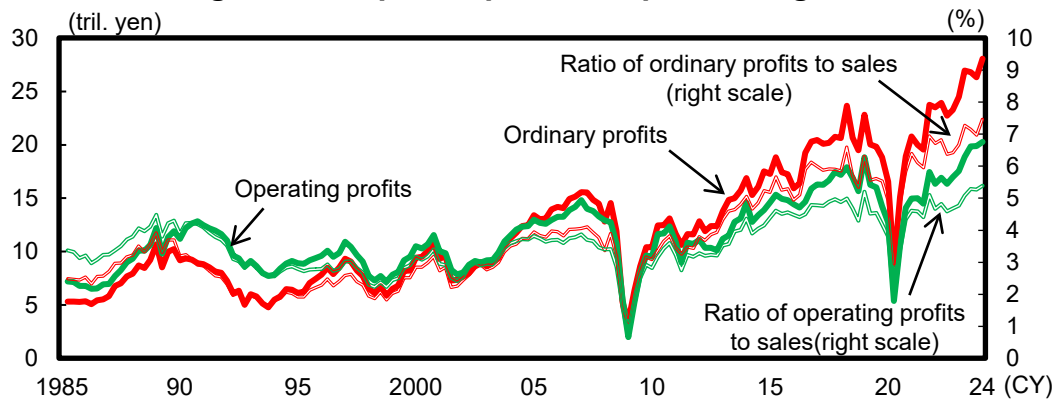
Figure 4. Total users for spot-work apps



Job openings for part-time workers using channels by private firms also greatly increased. In addition, the number of users of spot-work apps increased approx. 70-fold in 4 years. With DX, matching in the labor market is entering a new phase.

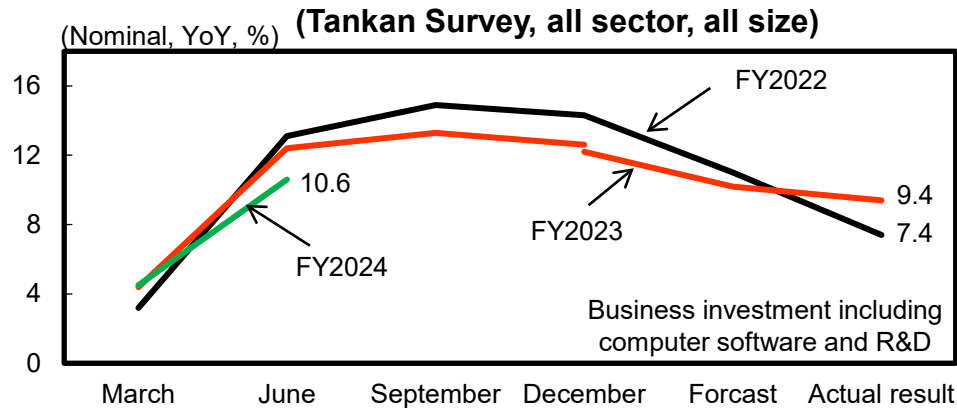
Chapter 1 Section 1: Trends in the Macroeconomy (5) -Business Sector

Figure 1. Corporate profit and profit margin



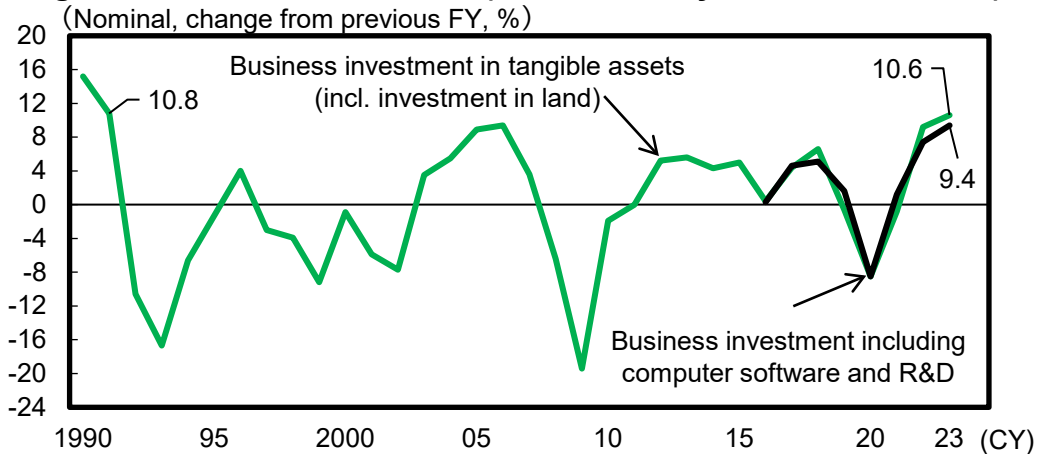
Corporate profits hit a record high both in terms of amount of ordinary/operating profits and operating profit margin, showing a steady trend.

Figure 3. Planned investment in FY 2024



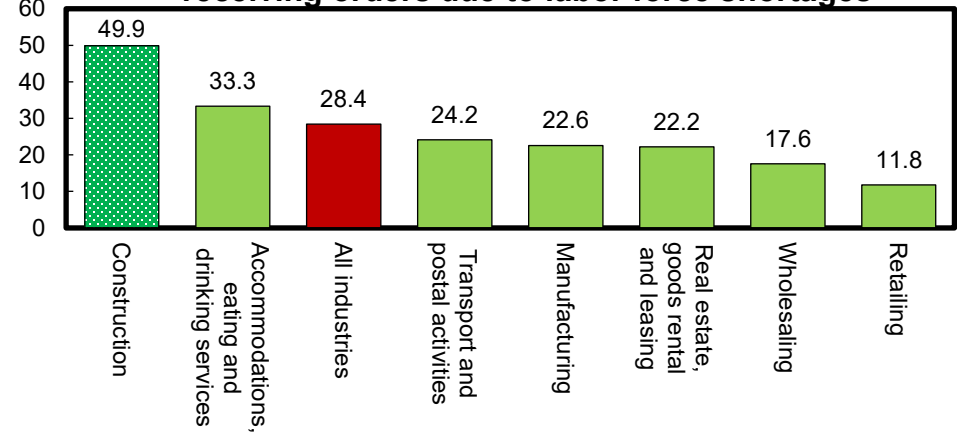
Planned investment in FY 2024 shows a two-digit increase in June, which shows firms continued strong motivation for investment.

Figure 2. Realized investment (Tankan survey, all sector, all size)



Realized investment (in terms of YoY) in FY 2023 is at the highest level since FY 1991.

Figure 4. Ratio of firms adjusting the amount of receiving orders due to labor force shortages

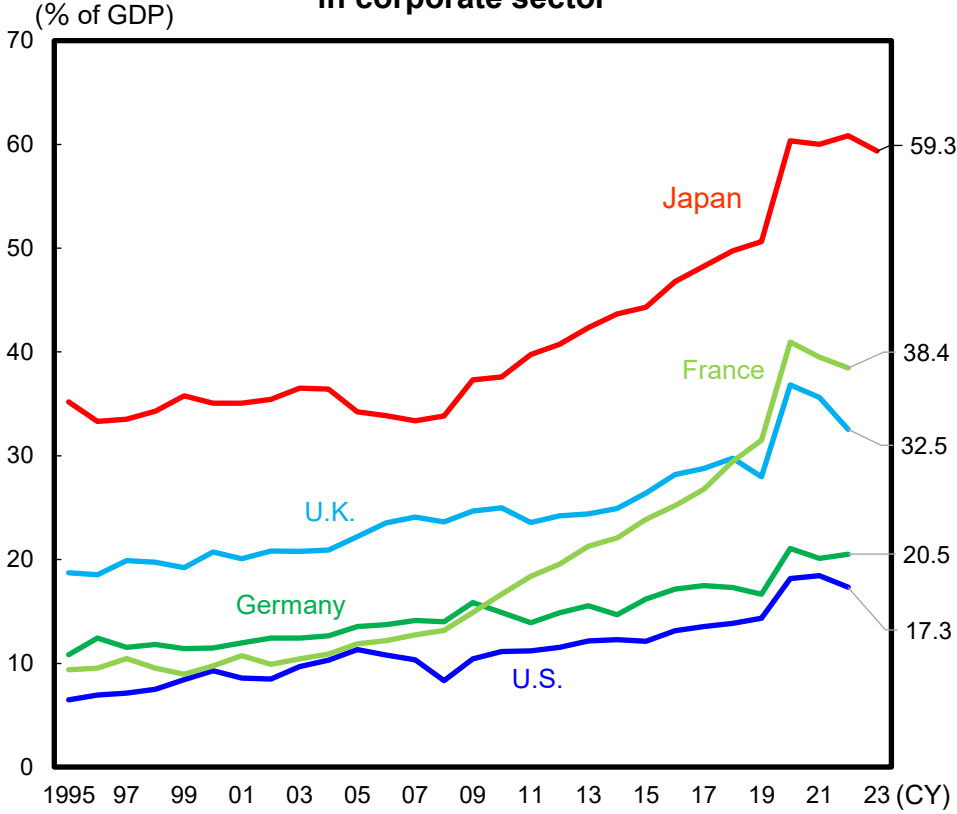


Due to labor force shortages, many construction firms adjust the amount of receiving orders. Attention should be given to the fact that such supply constraints can restrain investment in buildings and structures.

Sources: Ministry of Finance, Bank of Japan, and Cabinet Office

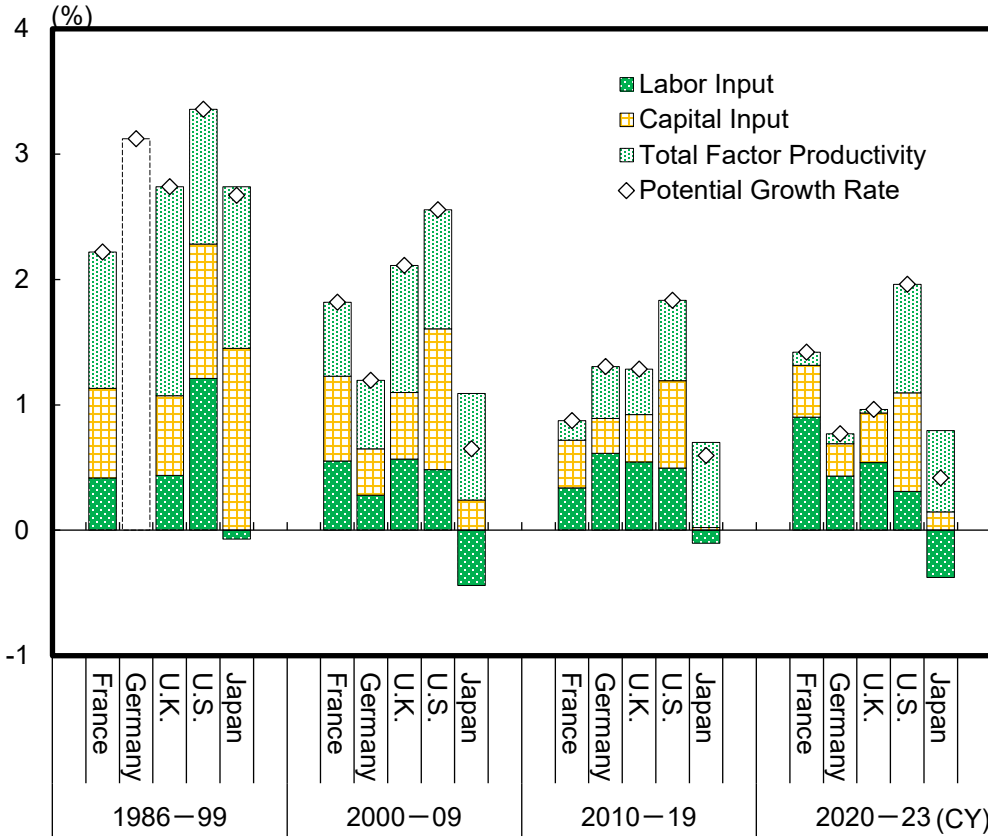
Chapter 1 Section 1: Trends in the Macroeconomy (6) -Business Sector

Figure 1. Accumulated cash and deposits in corporate sector



While corporate profits are showing steady performance, the amount of accumulated cash and deposits in the corporate sectors stand out compared to major advanced economies and is showing an increasing trend, reaching 60% of GDP.

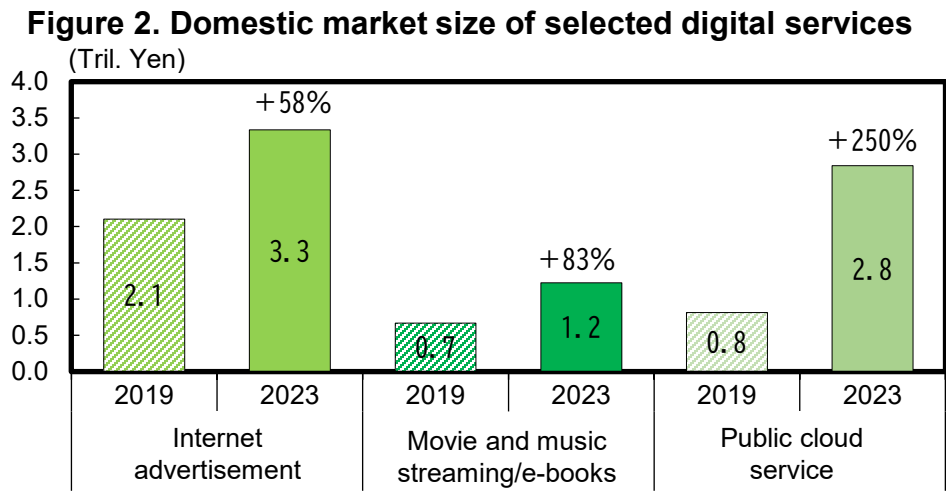
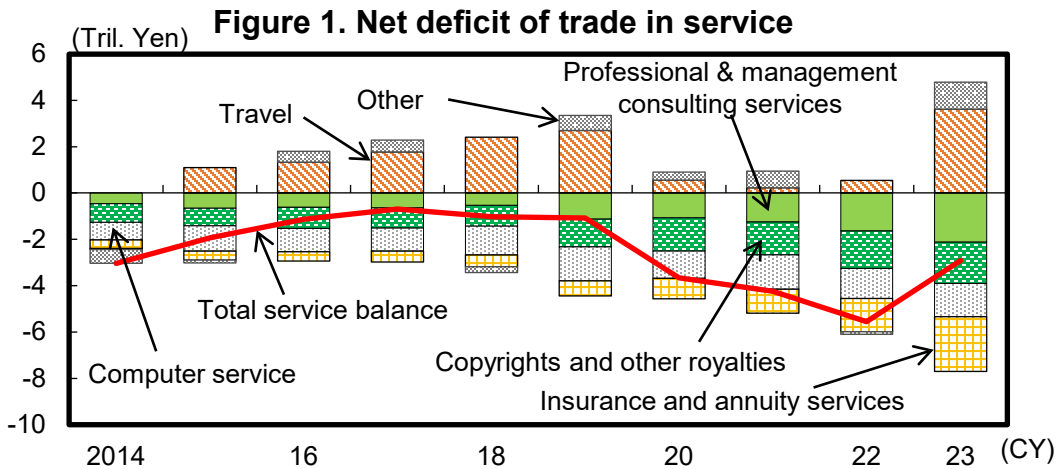
Figure 2. Potential growth rate



The potential growth rate in Japan remains the lowest in major advanced economies, due to the negative contribution from labor and the shrinking contribution from capital. It is crucial to direct accumulated cash to investment and higher wages.

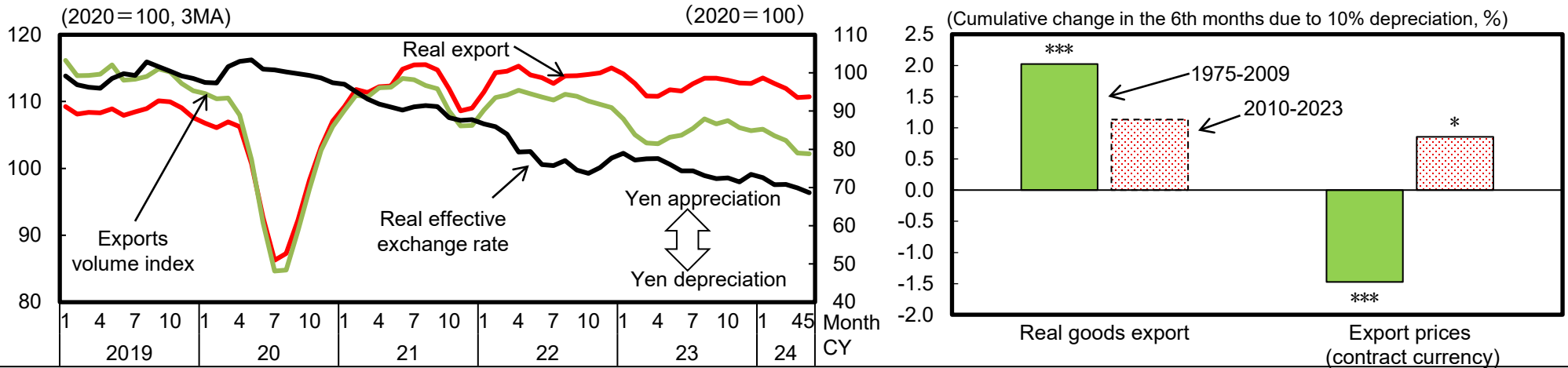
Sources: Bank of Japan, Cabinet Office, and OECD.

Chapter 1 Section 1: Trends in the Macroeconomy (7) -Imports and Exports



Trade deficit in services are increasing primarily in digital industries and insurance. Domestic demand is surging for digital products in which foreign companies have a comparative advantage. Measures to improve competitiveness in fields with advantages is essential.

Figure 3. Relationship between exports and exchange rate, effects from exchange rate shock on export prices and export volume

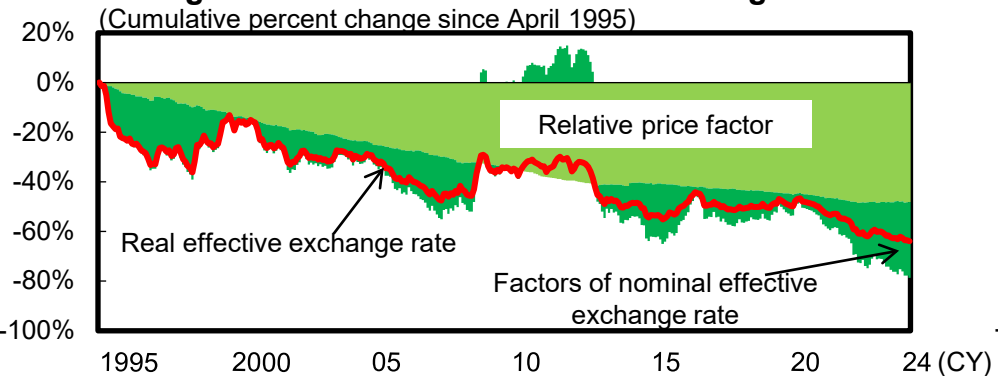


Exports of goods is pausing for increase even aimed the trend of the depreciating yen. Recently, the effects from the exchange rate shock have become smaller due to the expansion of overseas production and the change in price-setting patterns in foreign markets.

Sources: Ministry of Finance, Bank of Japan, and various sources for each industry

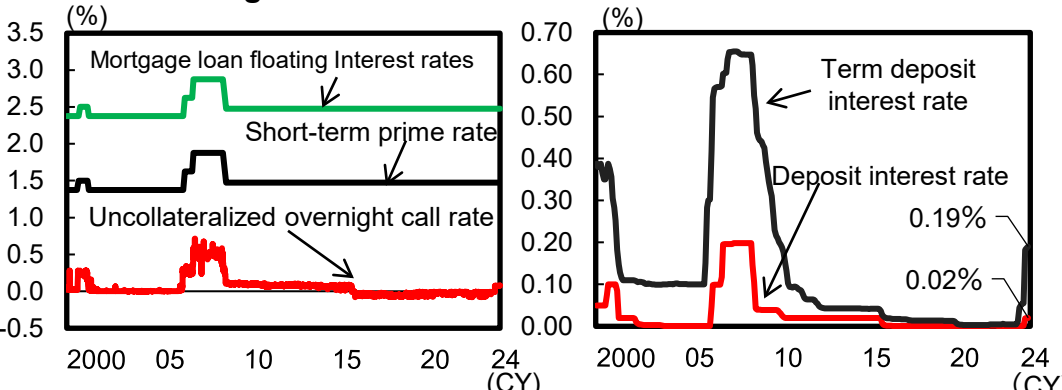
Chapter 1 Section 1: Trends in the Macroeconomy (8) -Exchange and Interest Rate

Figure 1. Trend in real effective exchange rate



The long-term trend of depreciation in the real effective exchange rate caused by domestic inflation has remained lower compared to trading partners, while, most recently, the widening gap between domestic and foreign interest rates is causing yen depreciation .

Figure 2. Trend in short-term interest rates



After the regime change in monetary policy (March 2024), the short-term prime rate remains flat while the deposit interest rate is increasing.

Figure 3. Balance sheet in households (with two or more people)

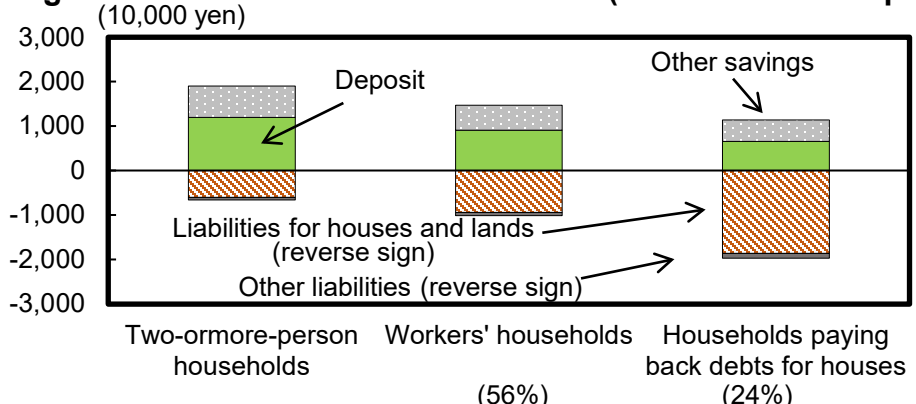
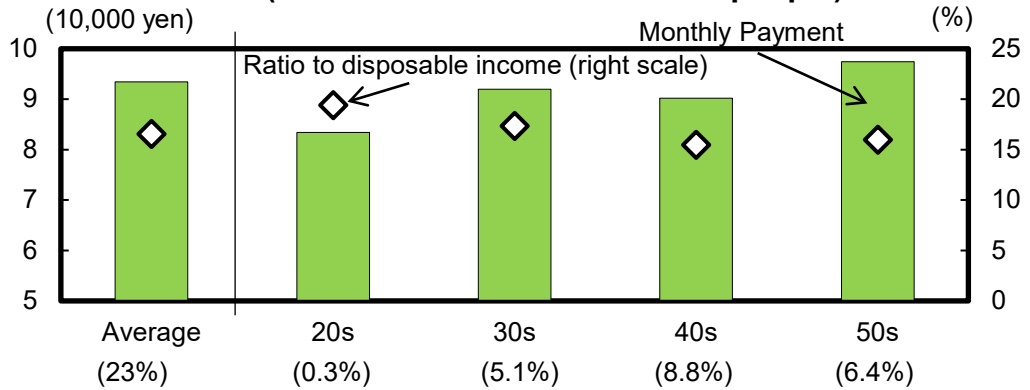


Figure 4. Amount of repayment in housing loans (households with two or more people)

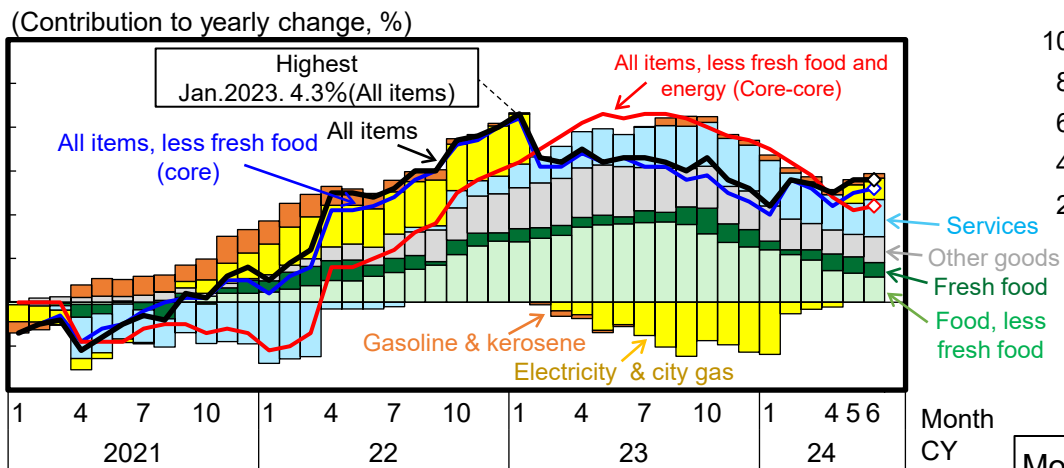


As for the impact of interest hikes on households, average households will benefit from income gain, as their financial assets outweigh their loans. Households with a housing loan (approx. a quarter of households with two or more people) could suffer from higher loan repayments. The impact could be larger for younger households with a relatively high debt service ratio, though the share of younger households with housing loan payments is limited.

Sources: Ministry of Internal Affairs and Communications, Bank of Japan, and Bloomberg

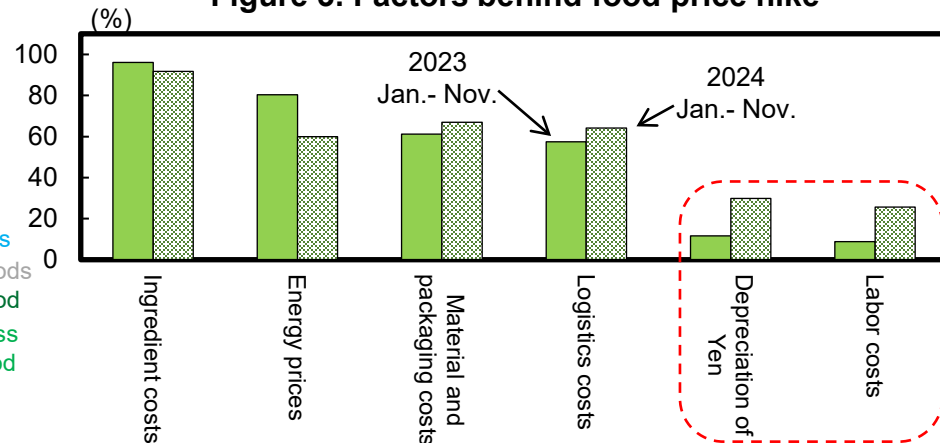
Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (1)

Figure 1. Consumer price index



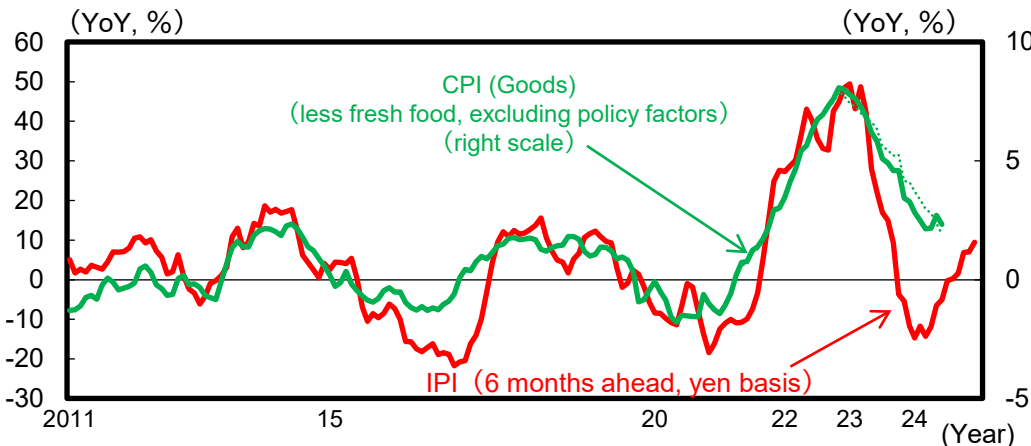
Since 2023 fall, consumer prices are increasing in a range of about 2%.

Figure 3. Factors behind food price hike



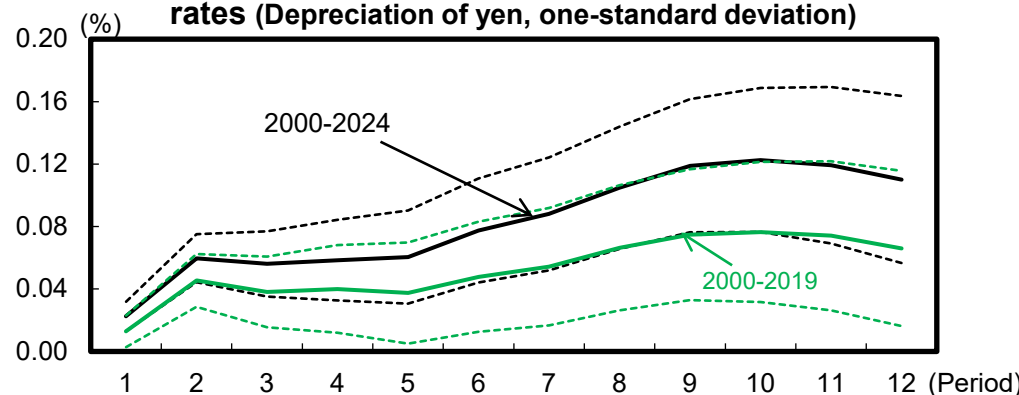
More firms increasingly point to the passing through of labor cost (due to wage hikes) and yen depreciation as the factors behind food price hikes.

Figure 2. Consumer price index (goods) and import price index



The rate of increase in goods prices is only moderately declining amid decreasing import prices.

Figure 4. Accumulated response of CPI for goods to exchange rates (Depreciation of yen, one-standard deviation)

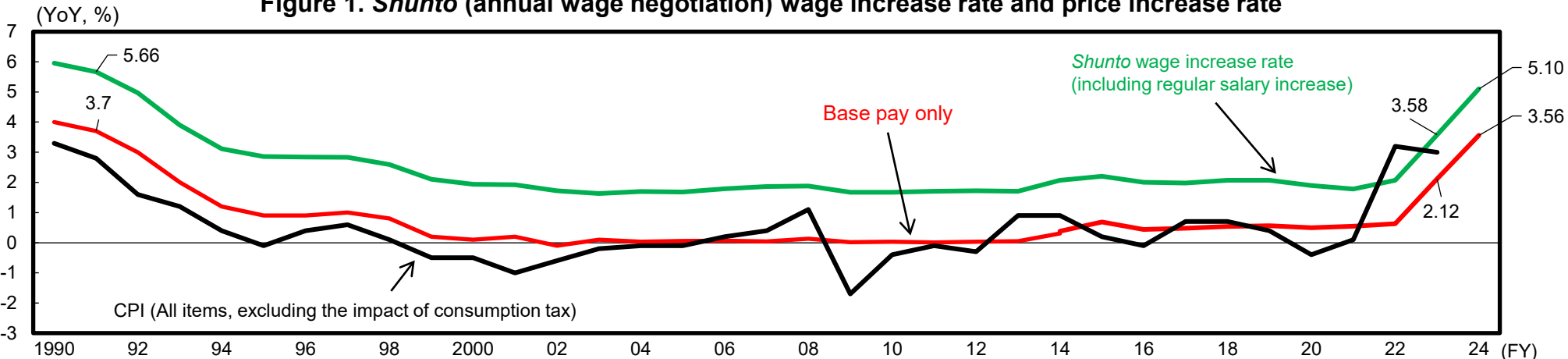


The pass-through from yen depreciation to consumer goods price is strengthening. Attention should be paid to developments in domestic prices in the near future.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan; Teikoku Databank Ltd. Business View: Price revision trend survey of "195 major food and beverage makers"(July 2024). The dotted line in Figure 2 shows the YoY rate in which the impact of the revision of the Renewable Energy Surcharge Rate is excluded.

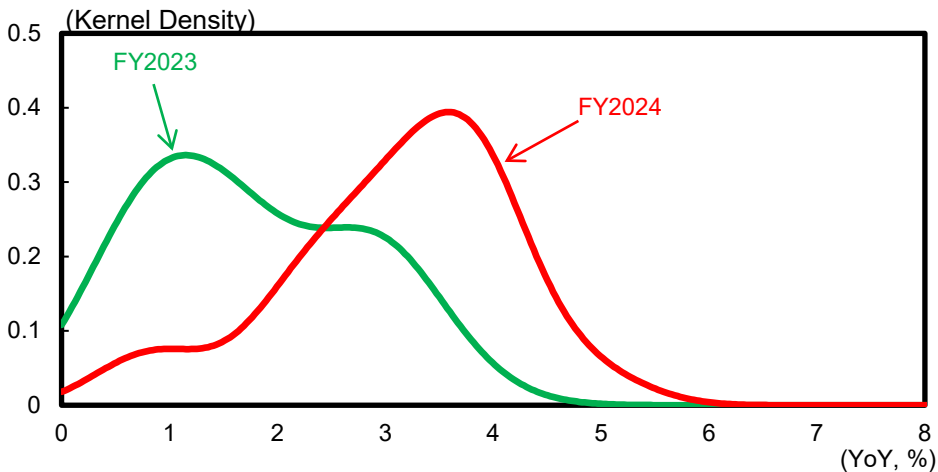
Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (2)

Figure 1. *Shunto* (annual wage negotiation) wage increase rate and price increase rate



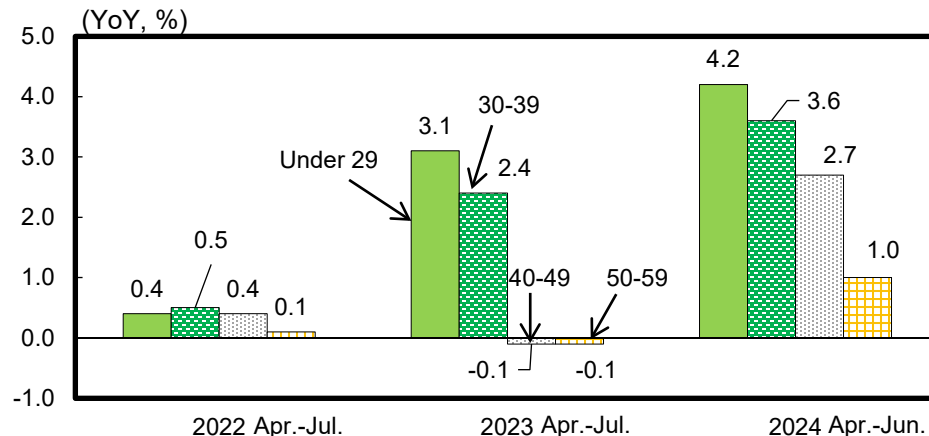
Surpassing the increase rate in 2023, the wage hike agreed in “*Shunto*” is 5.1% (3.56% for base pay only), the highest in 33 years.

Figure 2. Distribution of *Shunto* wage increase rates (base pay)



In the 2024 negotiations, higher wage increase rates are agreed in more firms compared to 2023.

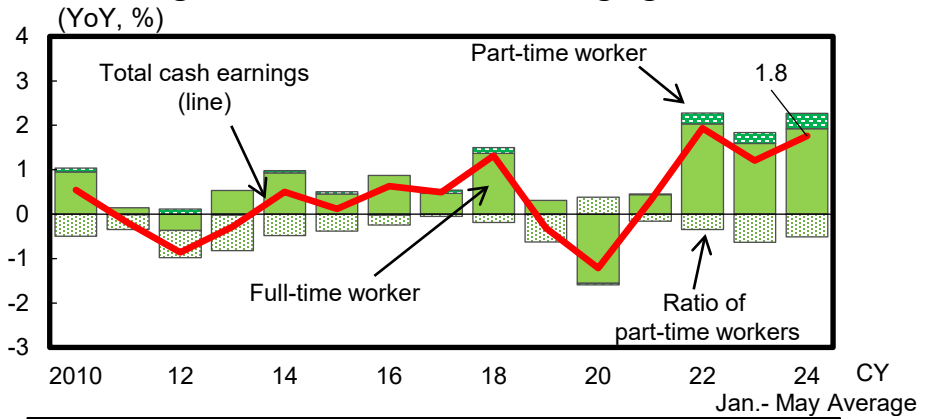
Figure 3. Big data on wage increase rate by age group



In 2024, in addition to a higher wage increase rate in the younger generation than last year, wages for 40s are also increasing, showing a more wide-spread trend for wage hike.

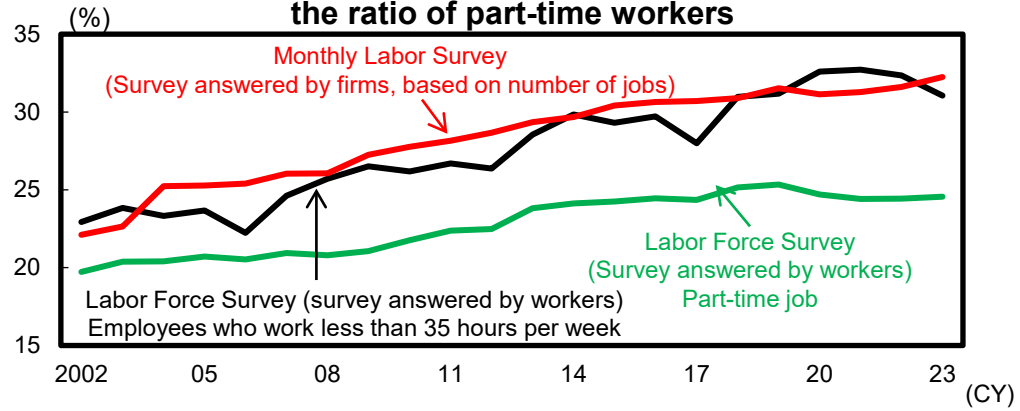
Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (3)

Figure 1. Trend in nominal wage growth



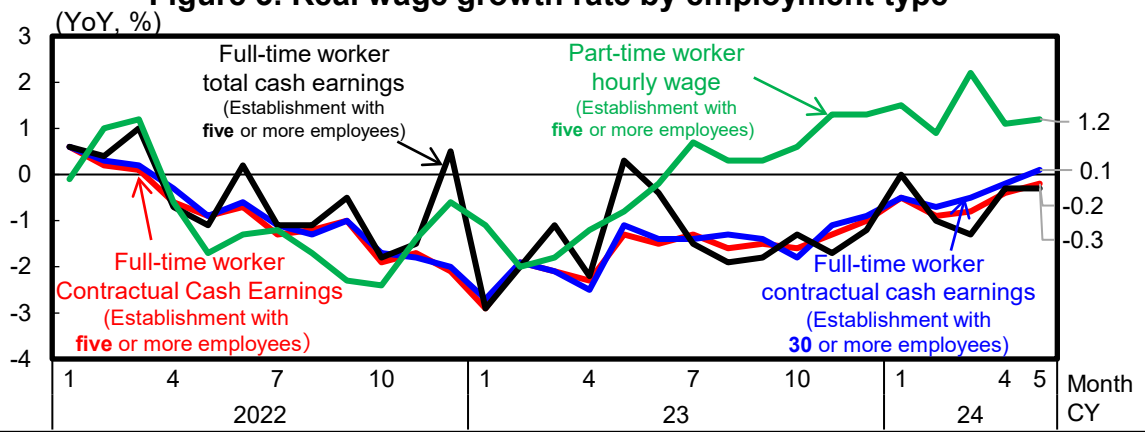
The rise in the ratio of part-time workers puts downward pressure on the average wage increase rate.

Figure 2. Various indicators of the ratio of part-time workers



Partly due to the increase in side-work, the ratio of part-time workers tends to show an increasing trend in the survey answered by firms (Monthly Labor Survey), because one job is counted as one worker.

Figure 3. Real wage growth rate by employment type

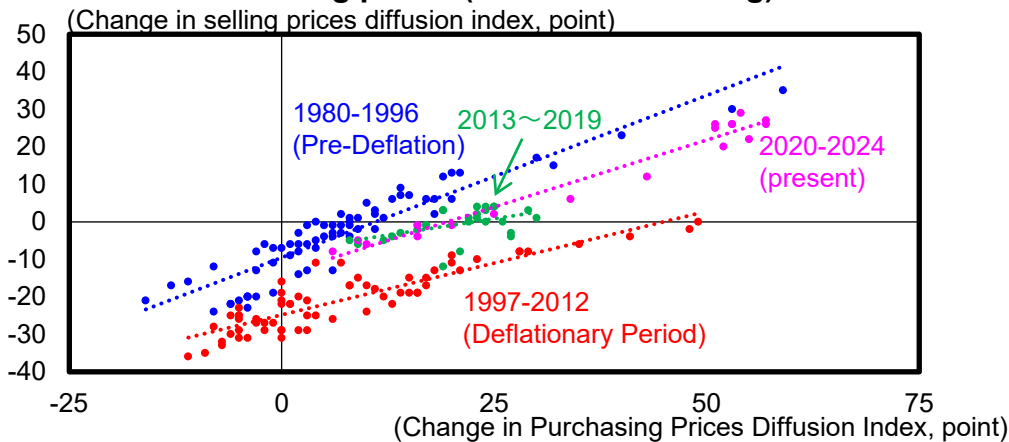


It is meaningful to see wages by employment type in evaluating trends. In terms of real wages (wages in which inflation is taken into account), hourly wages for part-time workers have been rising (YoY) after mid-2023. For full-time workers, the decreasing rate of monthly wages (contractual cash earnings) is shrinking. For those working at establishments with 30 or more employees, wages have increased for the first time in 26 months.

Sources: Ministry of Health, Labor and Welfare and Ministry of Internal Affairs and Communications. In figure 3, nominal wages are divided by CPI (all items).

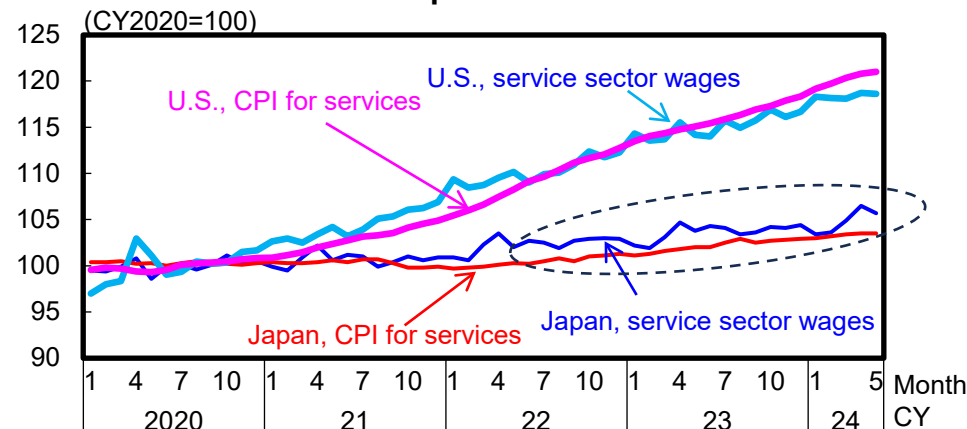
Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (4)

Figure 1. Pass-through from purchasing prices to selling prices (non-manufacturing)



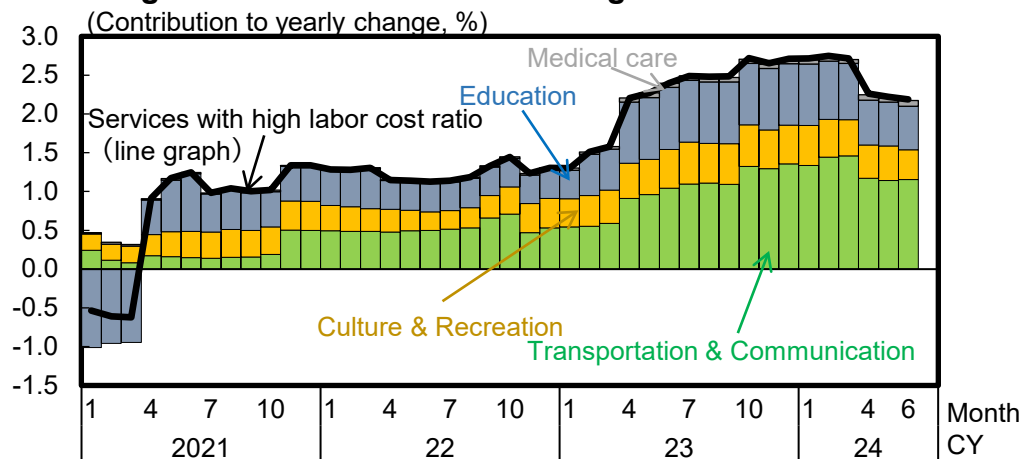
The extent of pass-through from purchasing prices to selling prices has almost returned to that of the pre-deflation era.

Figure 2. Wages and prices in the service sector in Japan and the U.S.



Both wages and prices in the service sector have turned to a moderate upward trend.

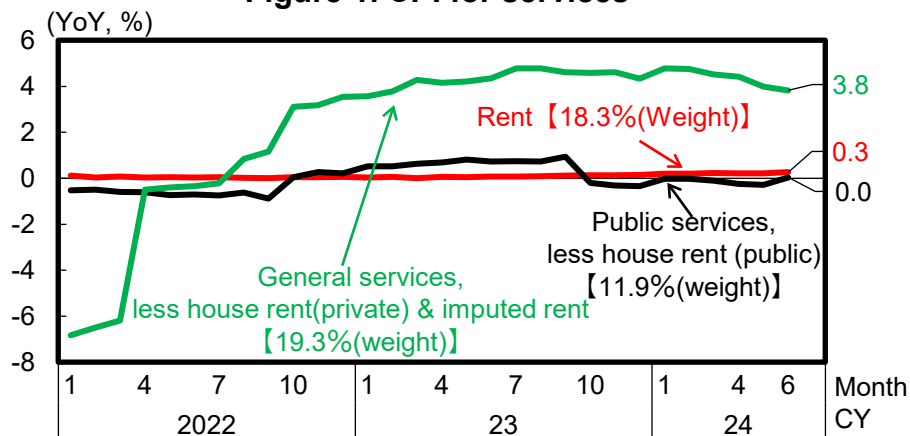
Figure 3. CPI for services with high labor cost ratio



The price increase rate for service sectors with a high labor cost ratio is steadily becoming larger. Promoting the pass-through of labor costs in SMEs remains important for realizing a virtuous cycle of wages and prices.

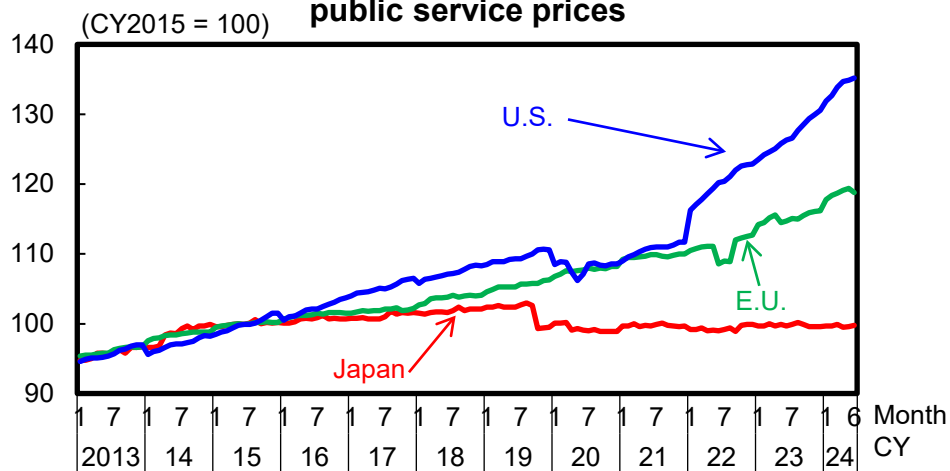
Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (5)

Figure 1. CPI for services



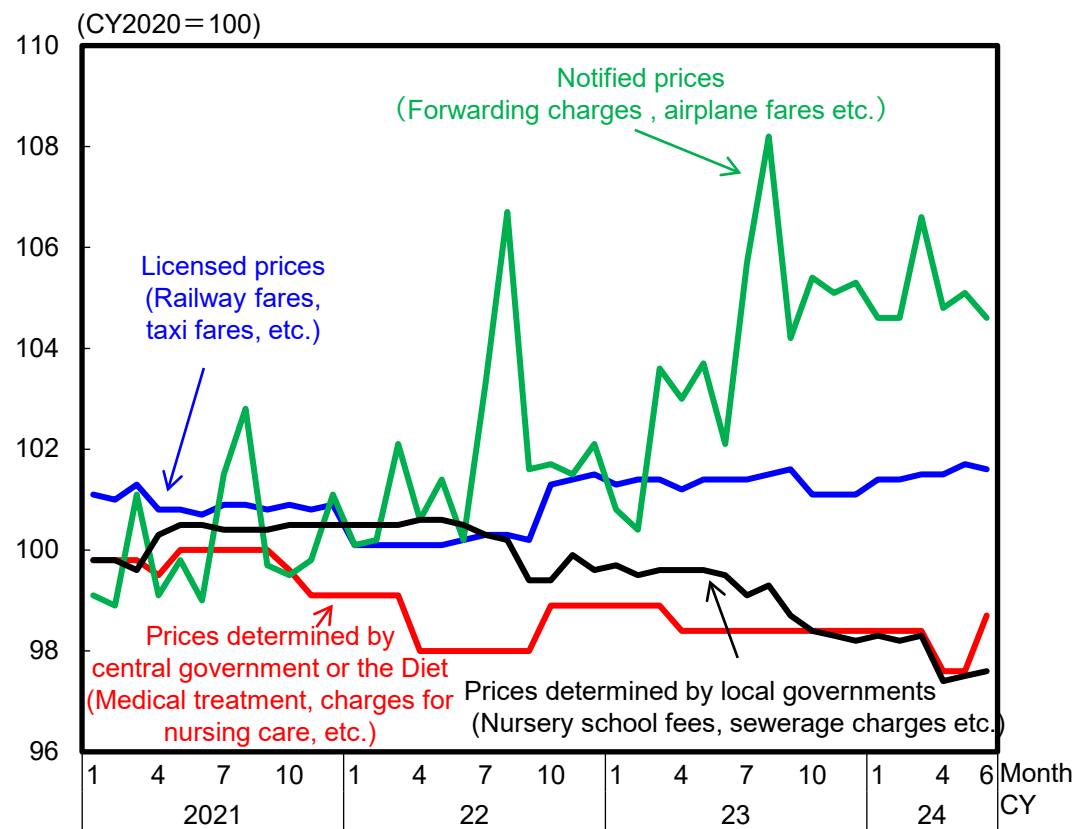
Among service prices, the prices of public services and rent are almost flat.

Figure 2. International comparison of public service prices



Unlike in Japan, public service prices show increasing trends in other advanced countries.

Figure 3. CPI for public services (By revision process type)

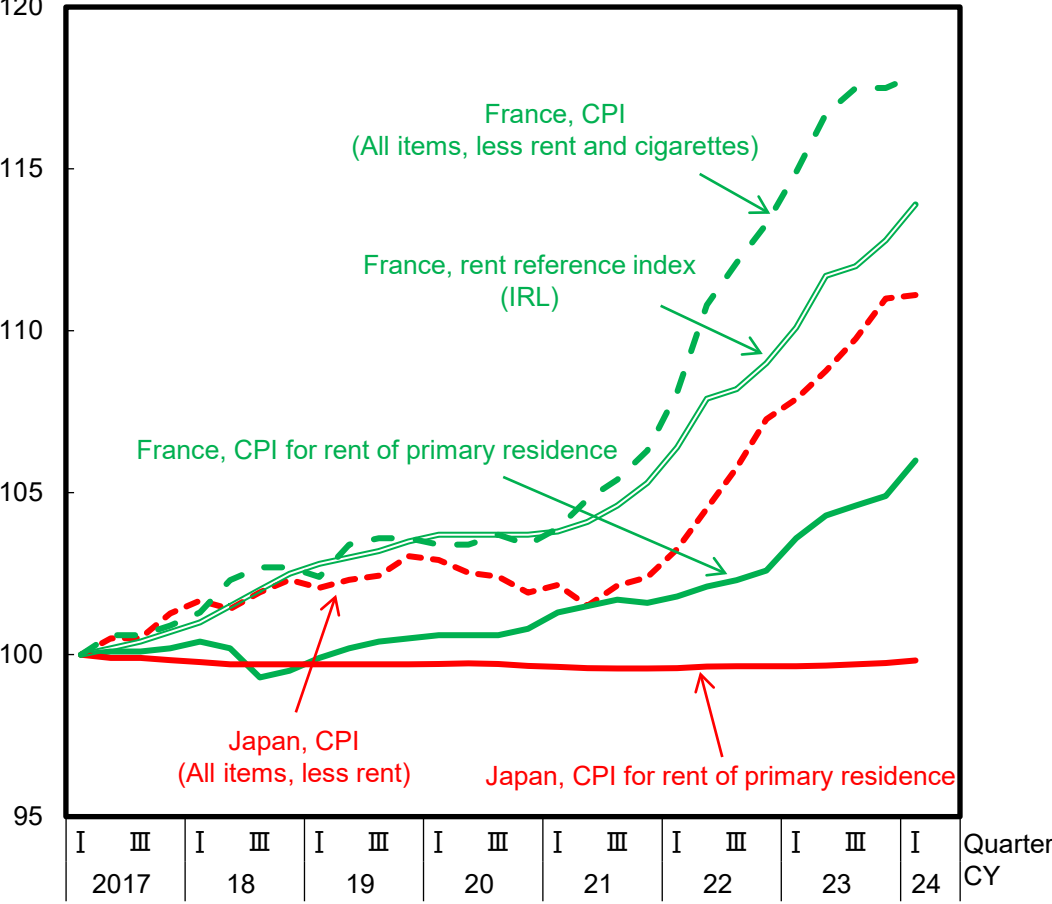


The increasing rates in public service prices show different trends depending on their types of revision processes. In the period to establish the norm that both prices and wages rise, it is crucial to strike a balance between appropriate pass-through for wage hikes in the public service sector and stabilizing daily life for the people.

Chapter 1 Section 2: Establishing an Economic Structure That Will Not Go Back to Deflation (6)

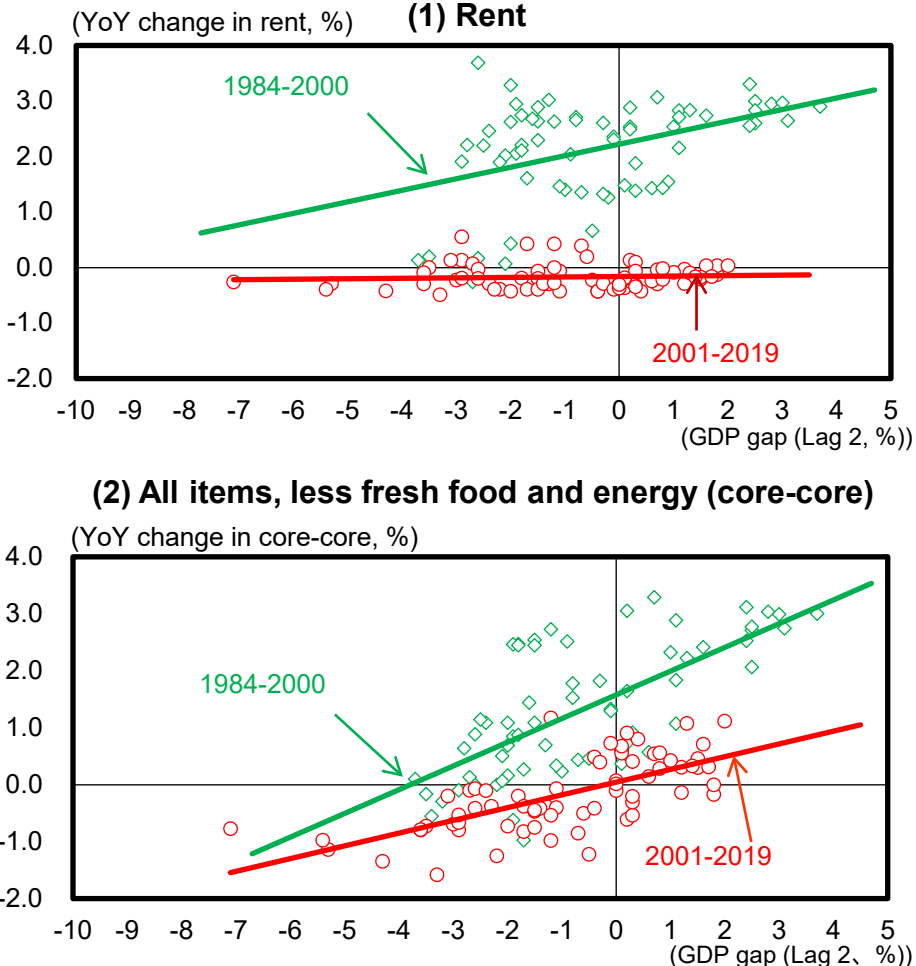
Figure 1. Rent in Japan and France

(Jan-Mar 2017 = 100)



Rent in France is increasing while general price increase is capped by regulations. On the other hand, rent in Japan is almost flat amid the price hike in other goods.

Figure 2. Relationship between price inflation and GDP gap

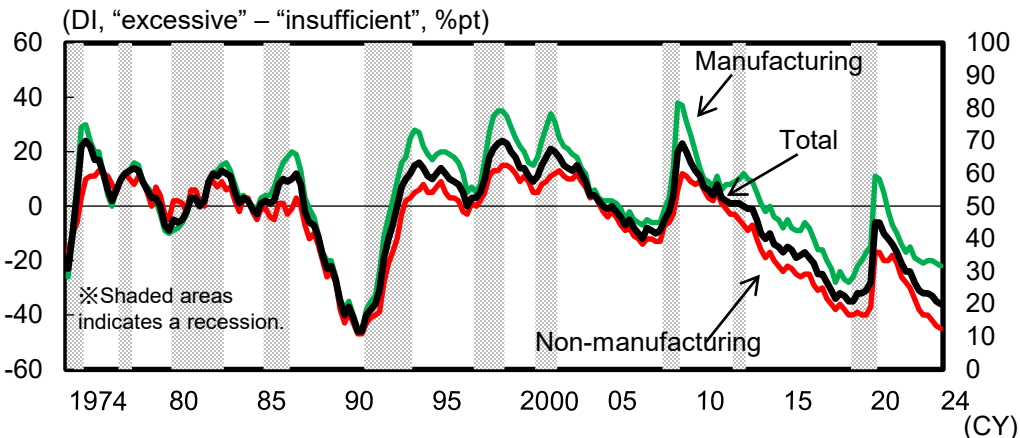


Rent has been less responsive to the output gap compared to prices of other goods and services. Rent is expected to start increasing after income grows at a pace greater than price hikes.

Sources: Ministry of Internal Affairs and Communications, Institut National de Statistique et d'Economie, France, and Cabinet Office

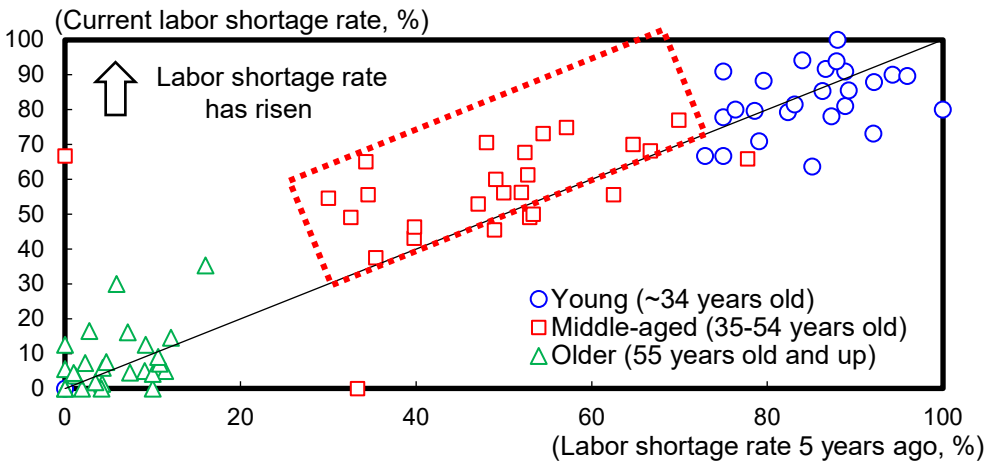
Chapter 2 Section 1: Status of Labor Shortages and Measures Taken (1)

Figure 1. Employment Condition DI (Labor shortage perceived by firms)



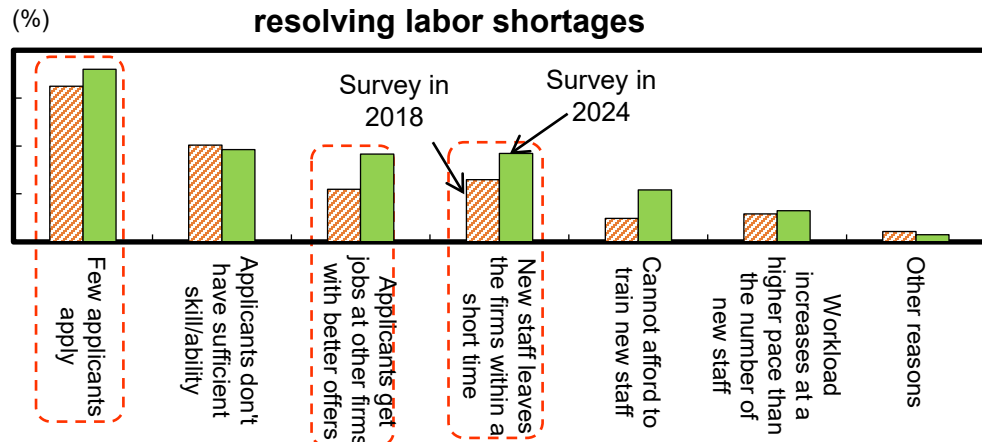
The labor shortage among businesses, especially in the non-manufacturing sector, is at a historically high level since the bubble.

Figure 2. Changes in labor shortages among businesses



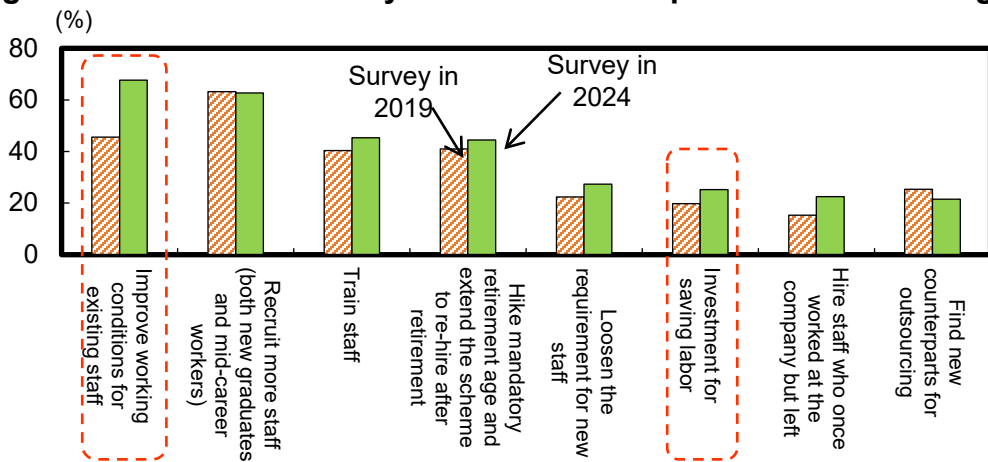
Compared to pre-COVID, labor shortages have risen among middle-aged workers in addition to younger workers.

Figure 3. Factors preventing businesses from resolving labor shortages



The increasing number of job transfers and the resulting intensification of recruiting competition are behind the labor shortage among businesses.

Figure 4. Measures taken by businesses to cope with labor shortages

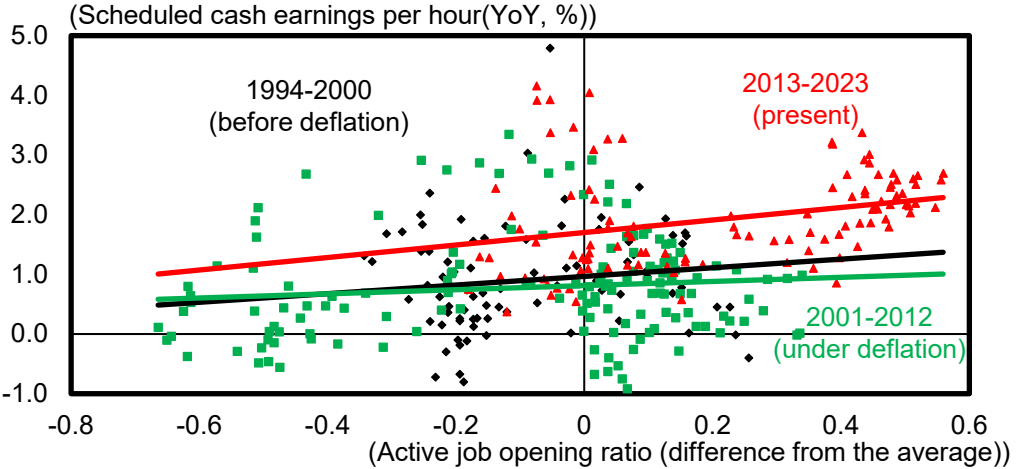


Companies are providing better treatment to their workers in response to the labor shortage and more firms have increased labor saving investment.

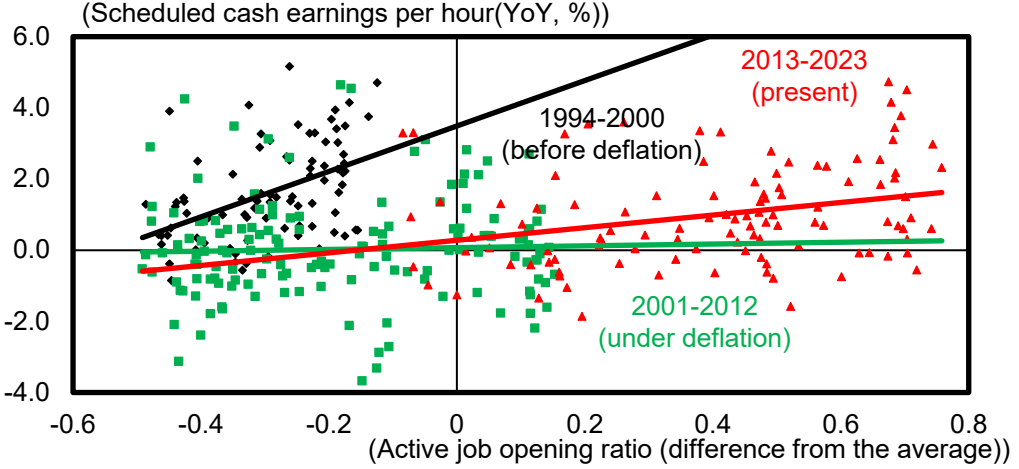
Chapter 2 Section 1: Status of Labor Shortages and Measures Taken (2)

Figure 1. Labor market tightness and wage growth rate

(1) Part-time workers



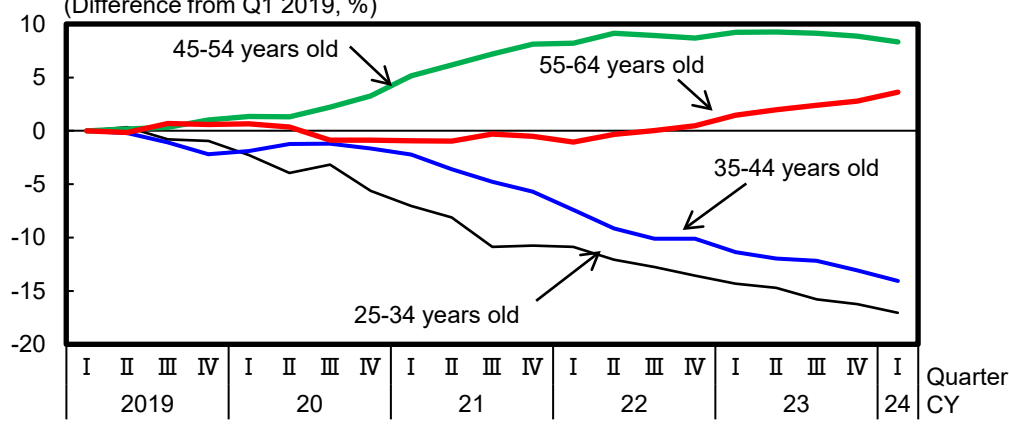
(2) Full-time workers



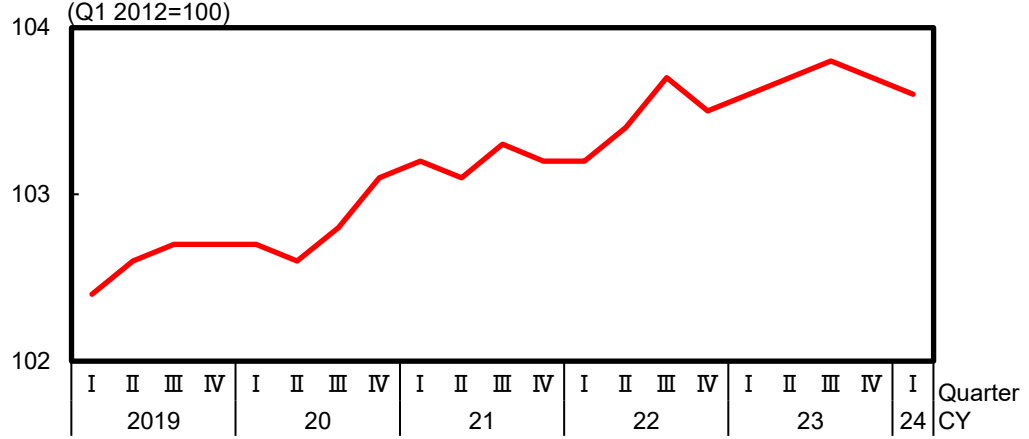
Wages for part-time workers are rising in response to the tighter labor market and those for full-time workers are returning to the figure where the balance between labor supply and demand is determined .

Figure 2. Non-labor force population and reservation wage of females

(1) Non-labor force population of females



(2) Reservation wage of females



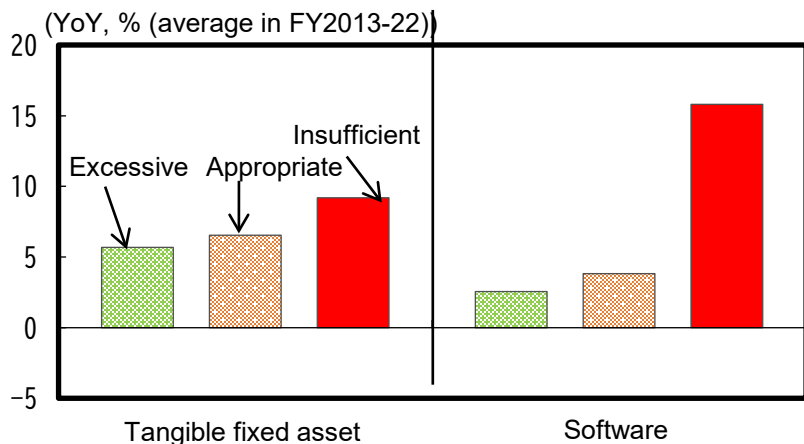
The non-labor force population is aging due to the labor participation of females and population changes. Consequently, the reservation wage of females is rising.

Sources: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications and Recruit Works Institute

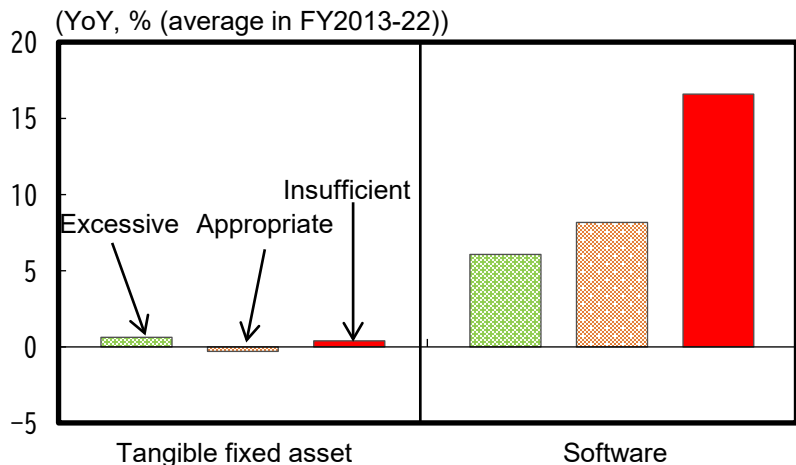
Chapter 2 Section 1: Status of Labor Shortages and Measures Taken (3)

Figure 1. Business investment by employment condition DI

(1) Large firms



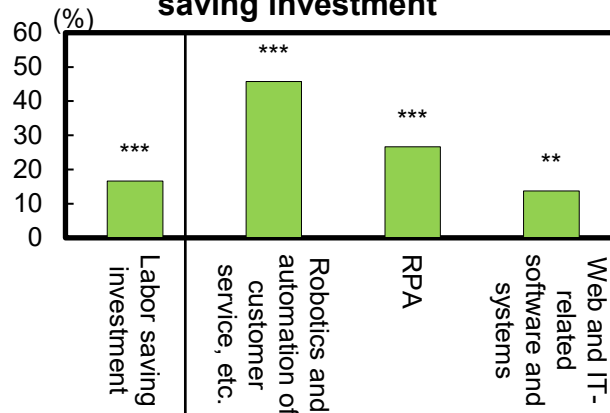
(2) SMEs



Firms facing labor shortages are more actively investing in capital. Software investment is particularly active among SMEs.

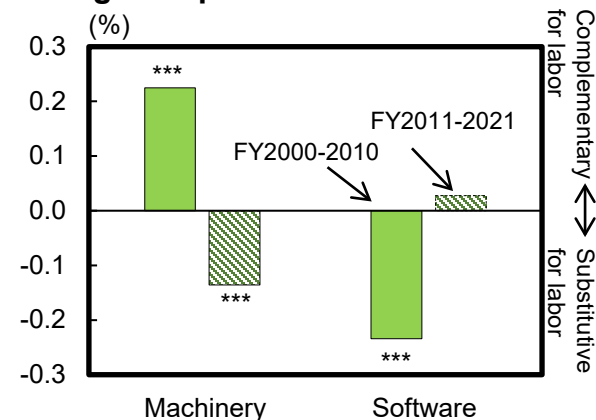
(Sources) Bank of Japan, Cabinet Office and Ministry of Economy, Trade and Industry

Figure 2. Labor productivity improvement through labor saving investment



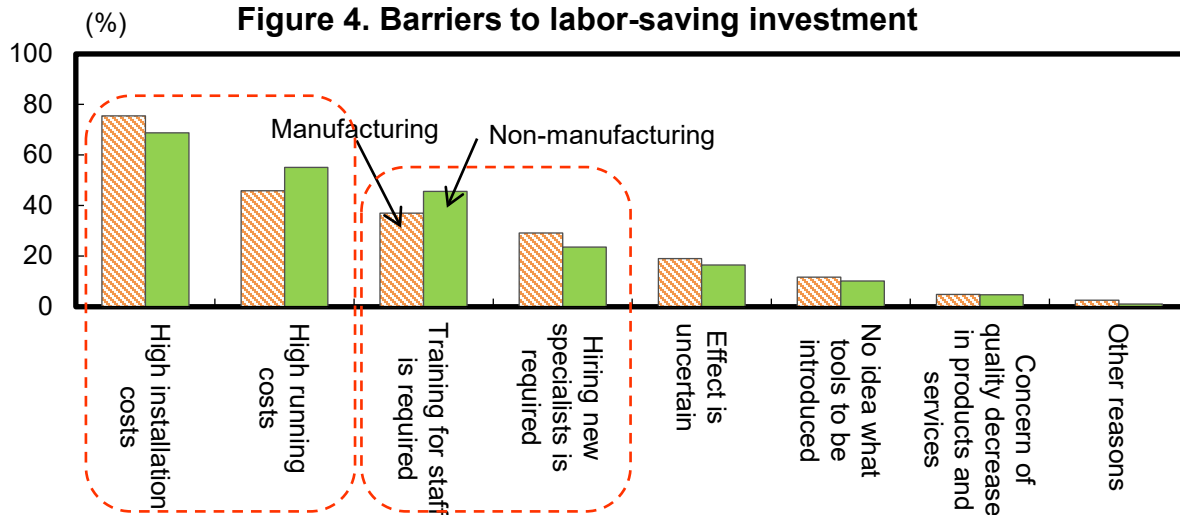
Firms that increased labor saving investment such as automation and AI experienced productivity improvement

Figure 3. Impact of a fall in capital goods price on labor share



In recent years, software investment has been labor-neutral while machine investment became labor-substitutional.

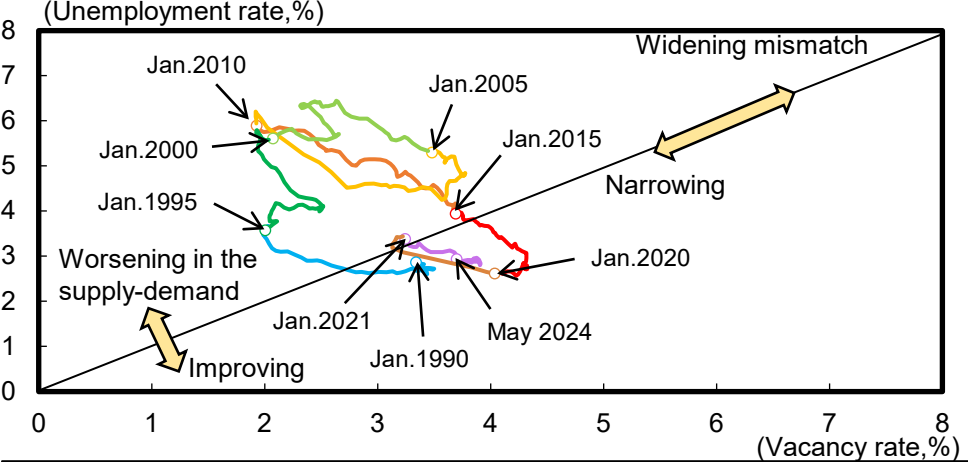
Figure 4. Barriers to labor-saving investment



In addition to cost, labor-saving investment is hampered by a lack of human resources capable of handling new technology.

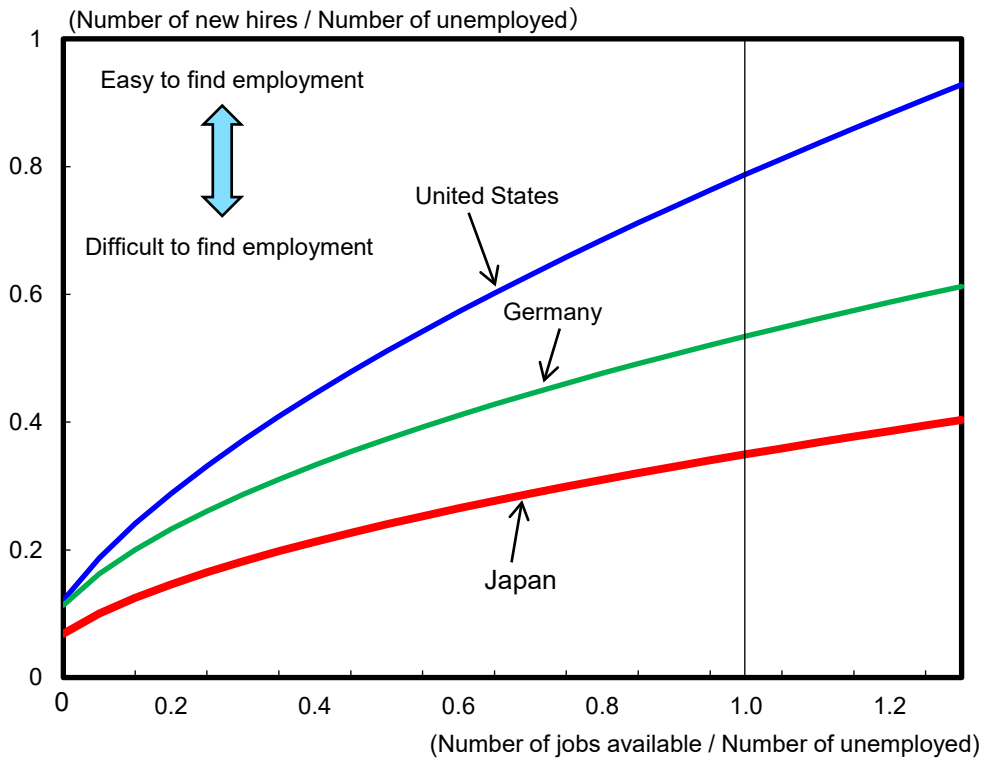
Chapter 2 Section 2: Issues Concerning Labor Mobility (1)

Figure 1. Unemployment rate and vacancy rate



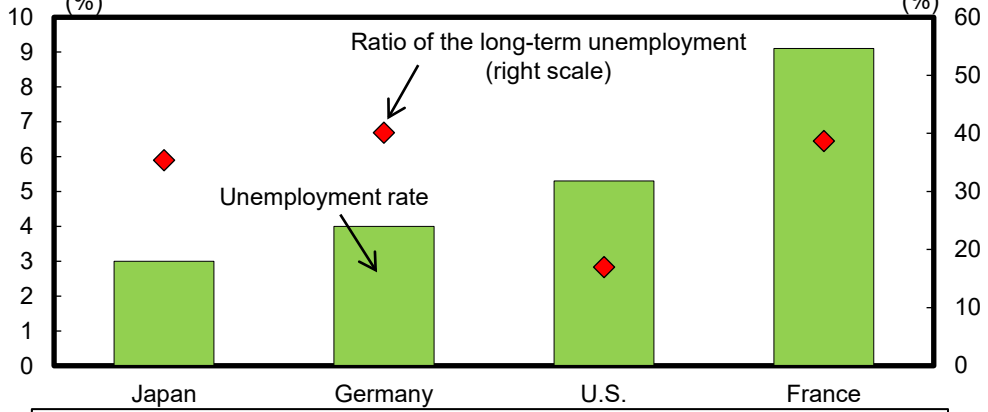
The mismatch in terms of the UV curve had widened significantly since the 1990s, but has partly narrowed since the mid-2010s.

Figure 3. International comparison of matching efficiency in the labor market



- The matching efficiency in Japan is lower than in the US and Germany.
- When the number of job openings and unemployed workers is the same, the probability of leaving unemployment in one month is 80% in US but 30% in Japan.
- Differences in the labor mobility smoothness from unemployment to employment are observed, posing a challenge to the efficiency of resource reallocation in the labor market.

Figure 2. International comparison between unemployment rates and ratios of the long-term unemployment

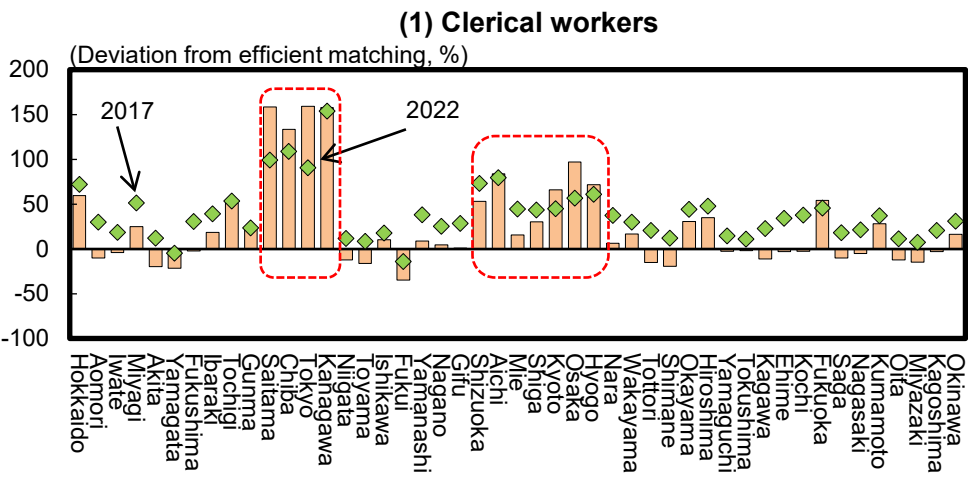


Internationally, the percentage of people who experienced unemployment for more than a year is high, whereas the unemployment rate is low in Japan.

(Sources) Ministry of Health, Labour and Welfare, OECD, Ministry of Internal Affairs and Communications, Eurostat and US Department of Labor

Chapter 2 Section 2: Issues Concerning Labor Mobility (2)

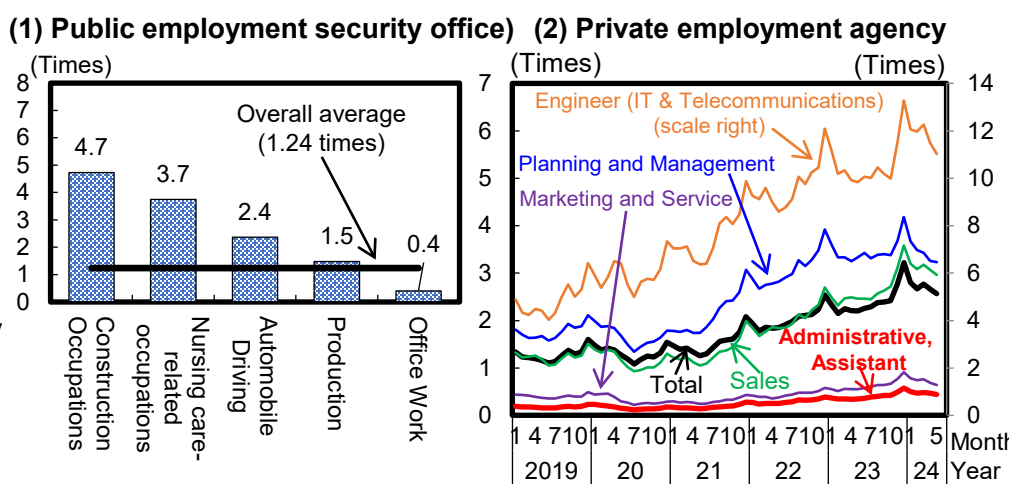
Figure 1. Mismatch rate by occupation



Looking at mismatch rates* by occupation in each prefecture, most prefectures are suffering an undersupply of transportation and machine operation workers, whereas an oversupply of clerical workers can be observed mainly in metropolitan areas.

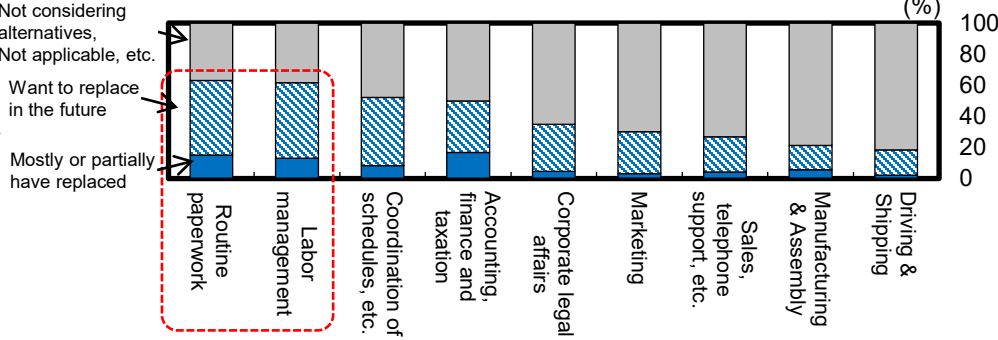
*The gap between the actual number of job placements by occupation and the potential number of job placements if efficient matching had been achieved.

Figure 2. Effective job openings by occupation



The active job opening ratio for clerical jobs is lower than 1.0, whereas those for construction and nursing care are around 3.0 or 4.0. The low job opening is similar in the private employment agency.

Figure 3. Operations replaced by AI and automation

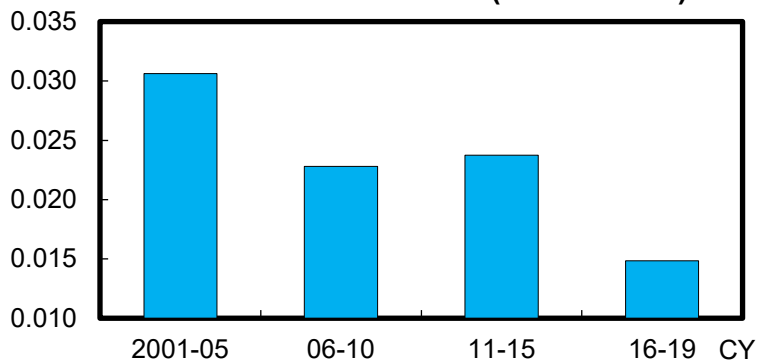


Clerical work may be replaced by AI and other technologies in the future. It is important to promote re-skilling to facilitate labor reallocation from over-supplied to under-supplied fields and to improve productivity through labor-saving investment in under-supplied fields.

Sources: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications, doda and Cabinet Office

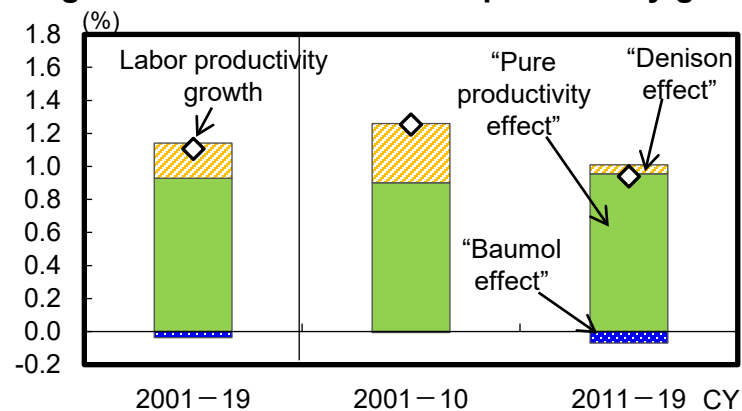
Chapter 2 Section 2: Issues Concerning Labor Mobility (3)

Figure 1. Extent of shifts of employment between industries (Lilien Index)



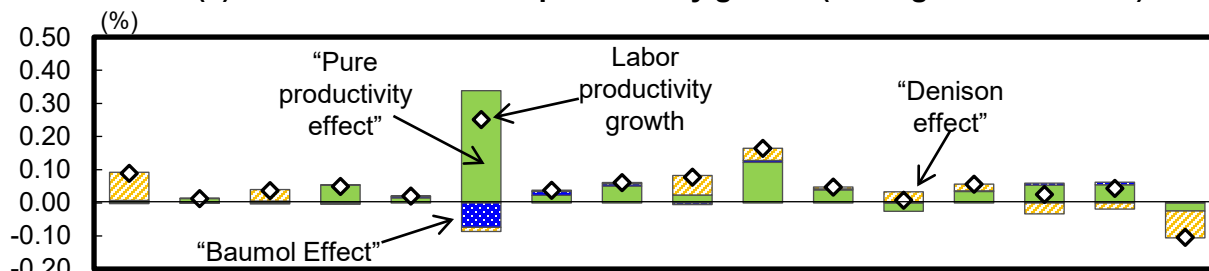
The activeness of inter-industry labor mobility has been declining over the long term.

Figure 2. Breakdown of labor productivity growth

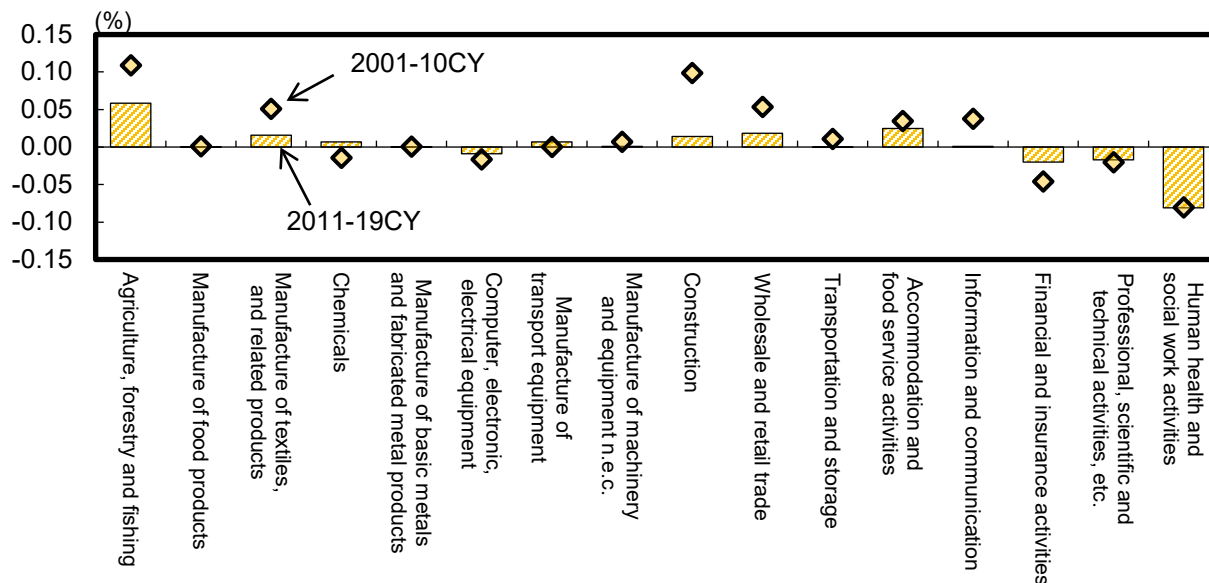


The decisive factor for macroeconomic productivity growth is the productivity increase in each industry. The positive contribution of the productivity boosting effect of inter-industry labor reallocation (Denison effect) declined from the 2000s to the 2010s.

Figure 3. Breakdown of labor productivity growth (by type of industry)
(1) Contribution of labor productivity growth (Average in 2001-19CY)



(2) Contribution of the "Denison effect"

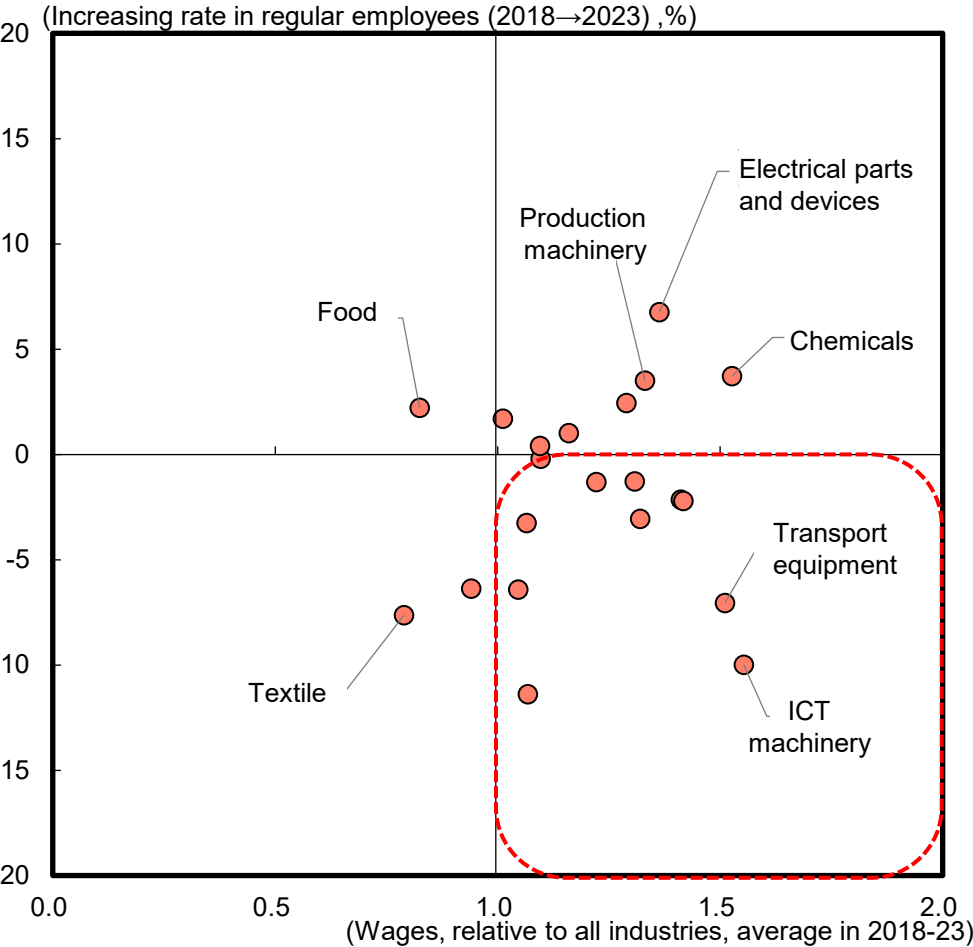


- Looking at the contribution of the Denison effect by industry, the ones with the largest contributions, for both positive and negative, are those with relatively low productivity.
- From the 2000s to the 2010s, the contributions of industries with large positive contributions declined significantly, while the negative contribution continued to be large in health and social care services.

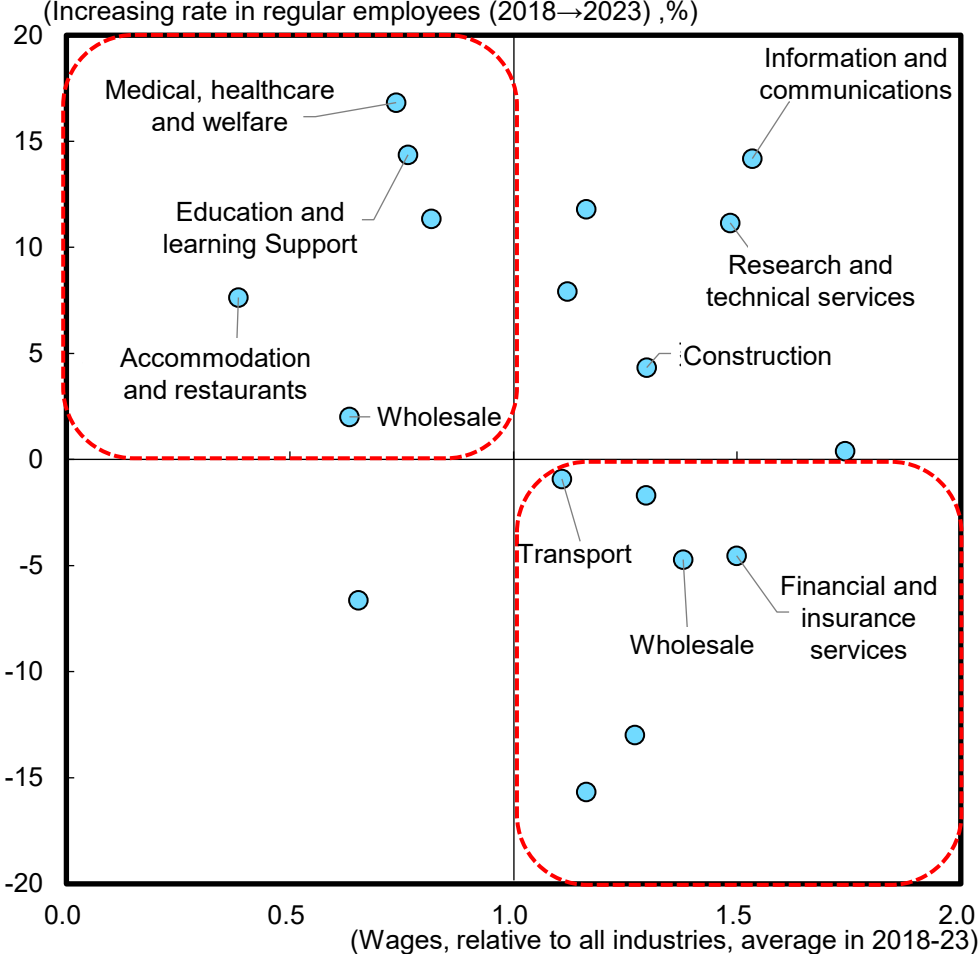
Source: EU KLEMS.

Chapter 2 Section 2: Issues Concerning Labor Mobility (4)

Figure 1. Relative wages and permanent employment by industry (2018-2023)
<Manufacturing>



<Non-manufacturing>

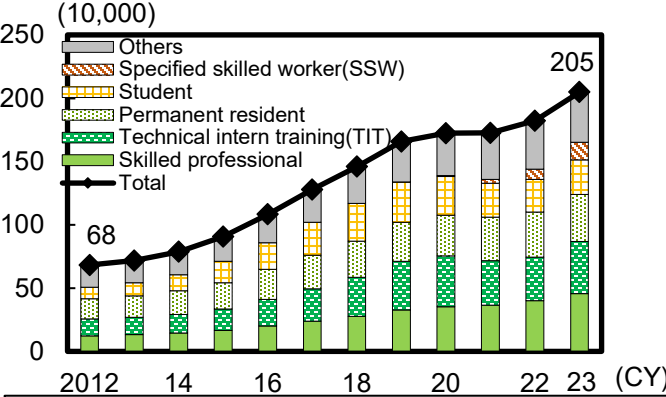


- Even in recent years, both before and after COVID-19, labor migration to high-productivity sectors has not necessarily progressed.
- In the manufacturing sector, where relative wages are high, employment is shrinking and a labor-saving trend can be seen in many industries, except for some growing fields. In the non-manufacturing sector, although there is variation across industries, employment is expanding in response to rising social demand in many sectors with low relative wages, such as nursing care, accommodation and food services.

Source: Ministry of Health, Labour and Welfare

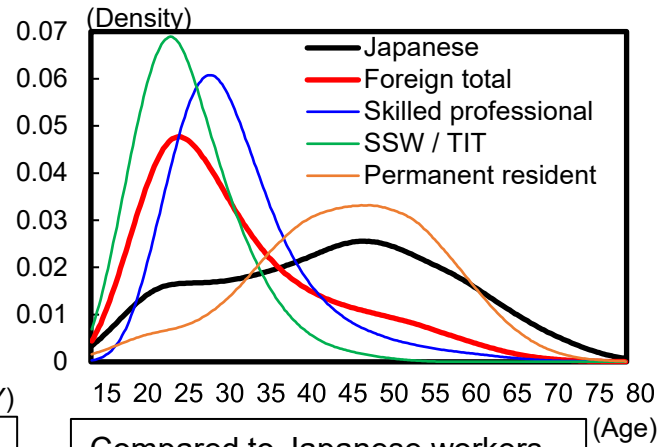
Chapter 2 Section 3: Issues Concerning Foreign Workers in Japan

Figure 1. Number of foreign workers by status of residence



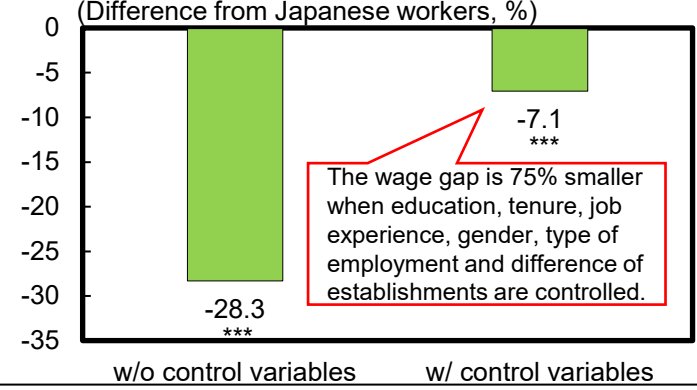
The number of foreign workers has been increasing along with the expansion of the acceptance system and reached over 2 mil., 3.4% of total employees.

Figure 3. Age distribution of foreign workers



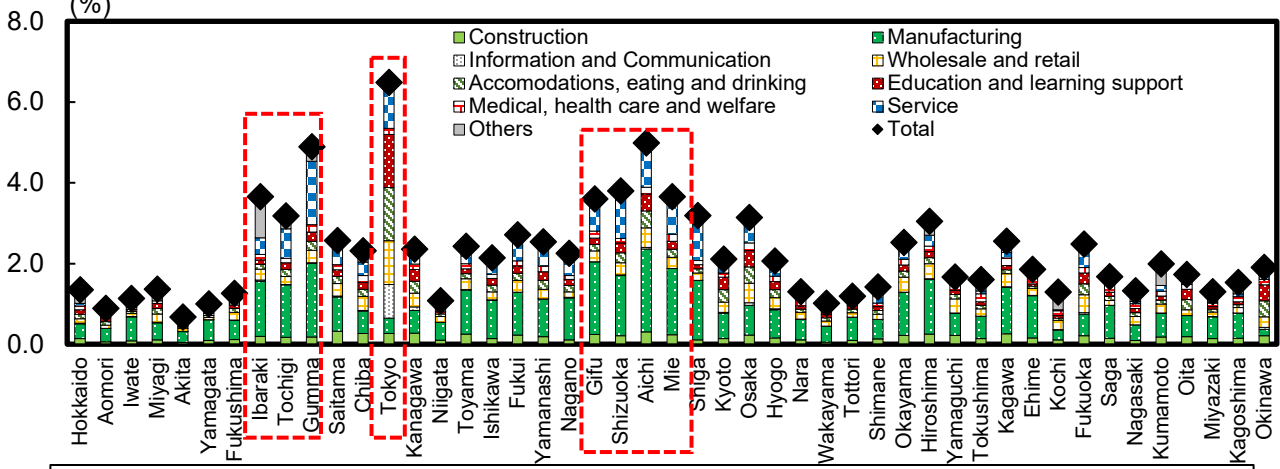
Compared to Japanese workers, foreign workers are younger and have shorter tenure.

Figure 4. Wage gap between Japanese and foreign workers



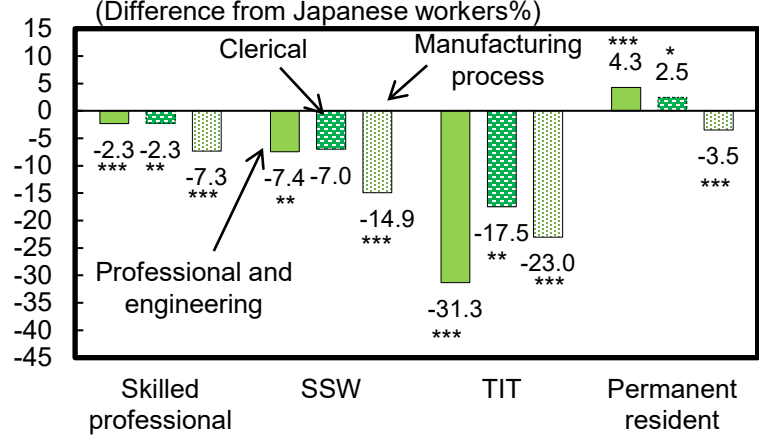
While wages for foreign workers are 28% lower than Japanese, three-quarters of this gap is explained by age, tenure and other factors.

Figure 2. Ratios of foreign workers by prefecture and industry



Many foreign workers work in Tokyo, northern Kanto and Tokai regions and the manufacturing sector employ more foreign workers than others.

Figure 5. Wage gap by occupation and status of residence



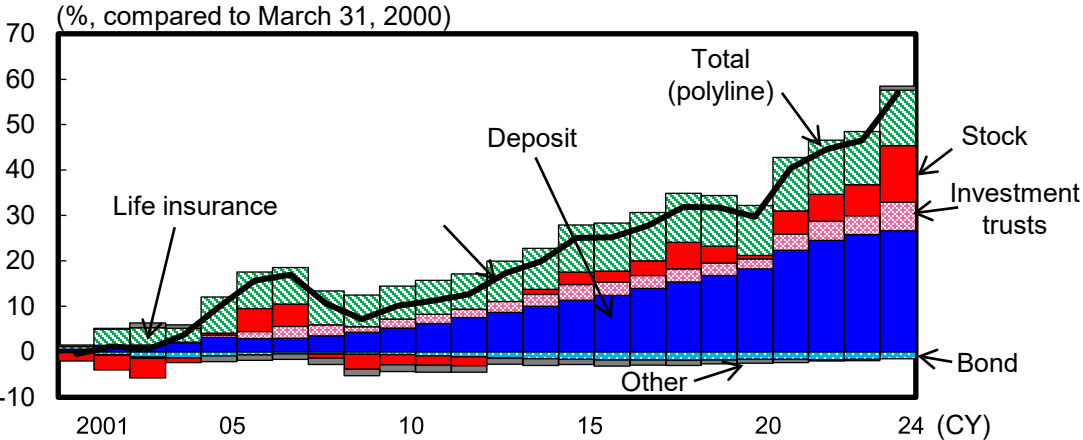
Highly skilled foreign workers with longer working experience in Japan tend to earn higher wages than Japanese workers

Sources: Ministry of Health, Labour and Welfare and Ministry of Internal Affairs and Communications

Chapter 3 Section 1: Household Financial Assets and Investments (1)

Figure 1. Financial assets held by households

(1) Japan



(2) United States

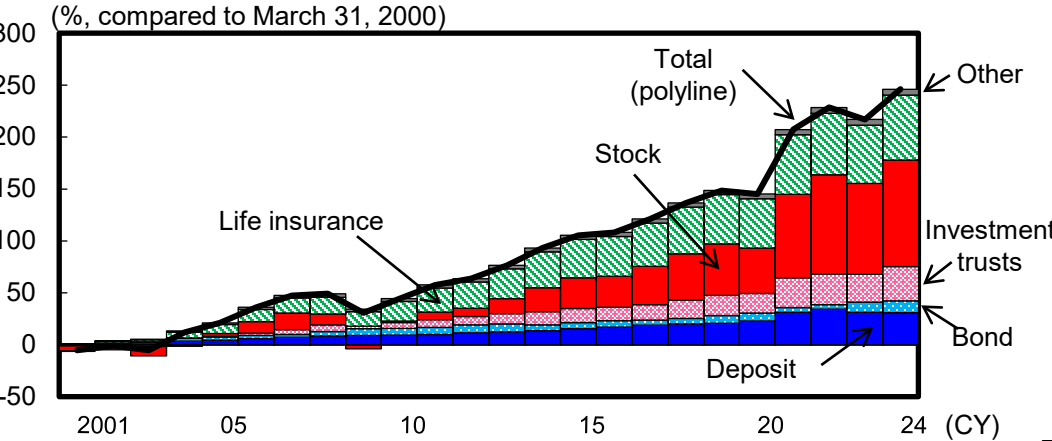


Figure 2. Structure of financial assets held by households (Mar. 2024)

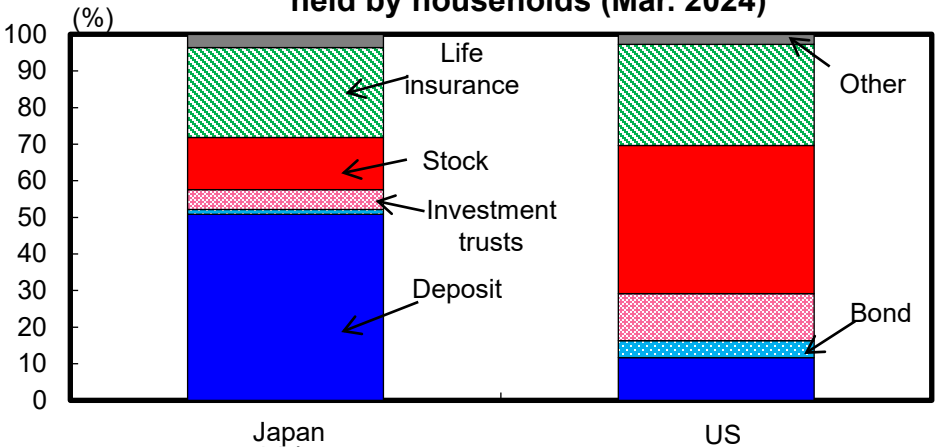
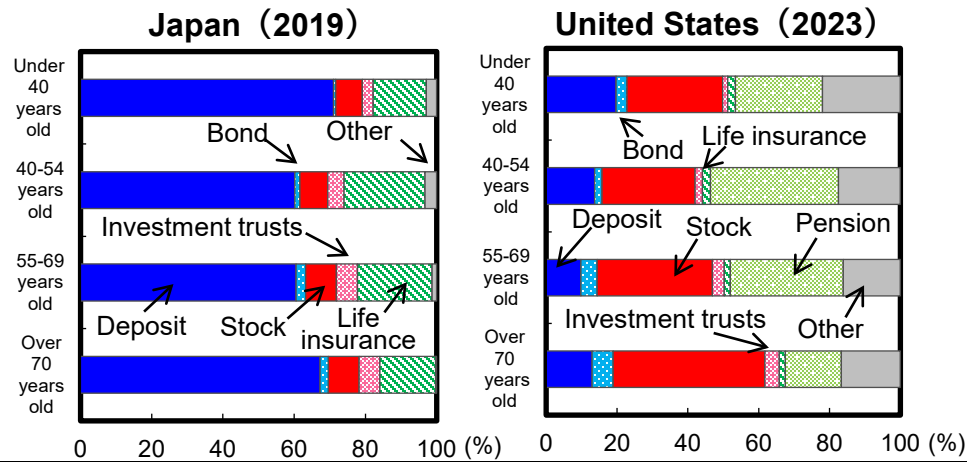


Figure 3. Structure of household financial asset holdings by age



Financial assets in households have been increasing in both Japan and the U.S, although the growth in Japan was lower than the U.S. While risk assets such as stocks make a large contribution in the U.S., cash and deposits make a large contribution in Japan.

Japanese households are more risk averse in the management of their financial assets than U.S. households. In asset composition ratios by age group, the structure is the same as above, with Japanese households preferring cash and deposits and U.S. households preferring risk assets.

Sources: Ministry of Internal Affairs and Communications, FRB, and Bank of Japan

Chapter 3 Section 1: Household Financial Assets and Investments (2)

Figure 1. Financial asset holdings per household (2019)

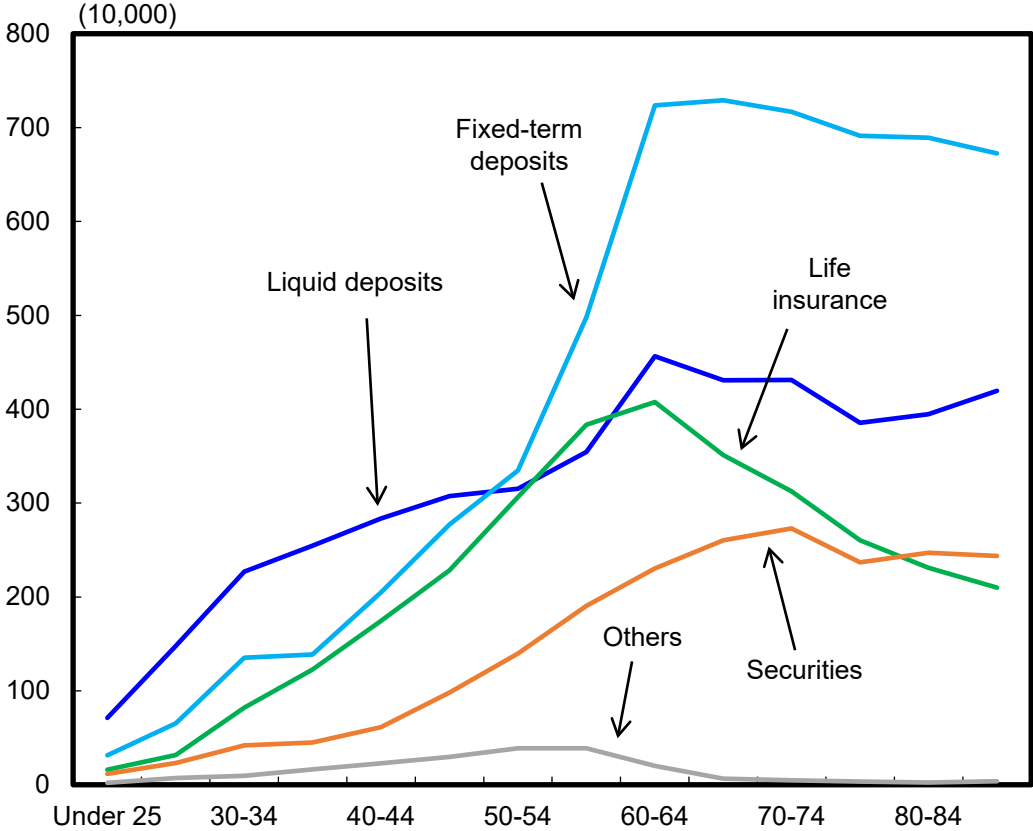


Figure 2. Distribution of deaths by age

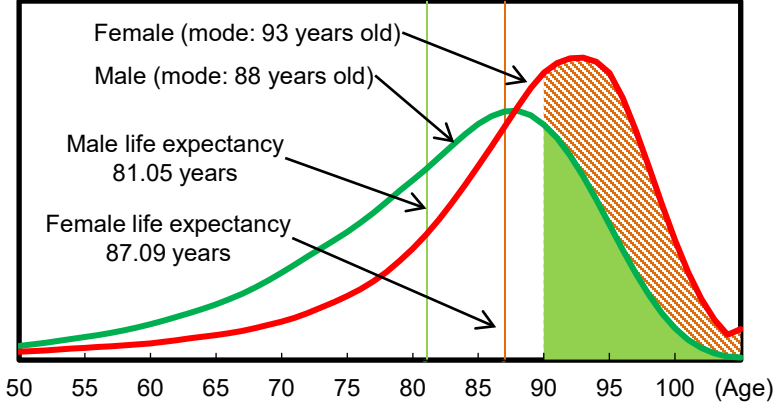
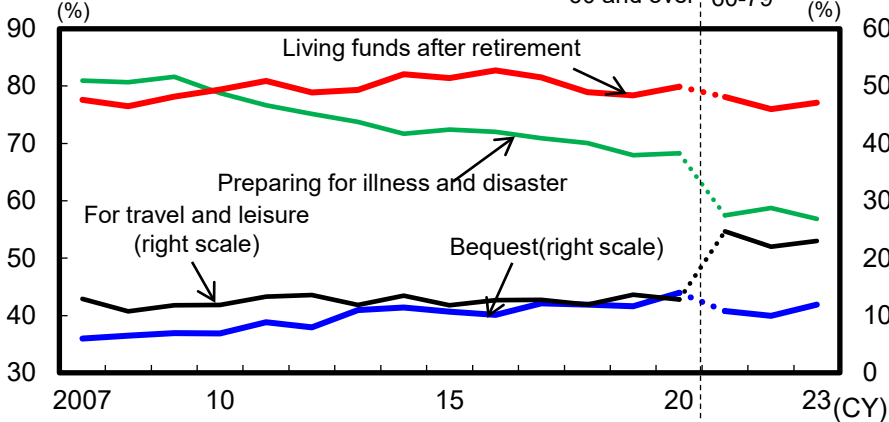


Figure 3. Purpose of financial asset holdings by elderly households



- While financial assets per Japanese household have increased toward the peak in the early 60s, these assets do not decrease in the elderly years including oldest-old, as people secure funds for retirement against longevity risk.
- In Japan, the challenge is to encourage households to make effective use of their affluent stock of financial assets for economic activities.

(Sources) Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare and the Central Council for Financial Services Information

Chapter 3 Section 1: Household Financial Assets and Investments (3)

Figure 1. Number of NISA accounts by age

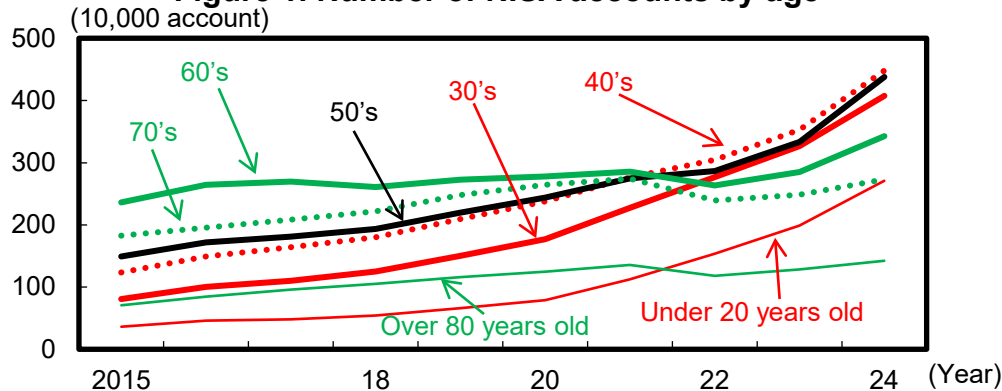


Figure 3. Percentage of securities by annual income

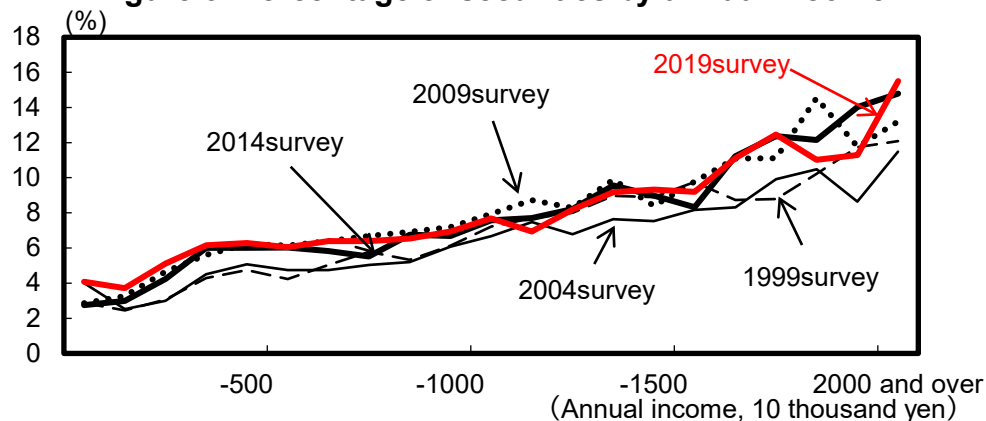
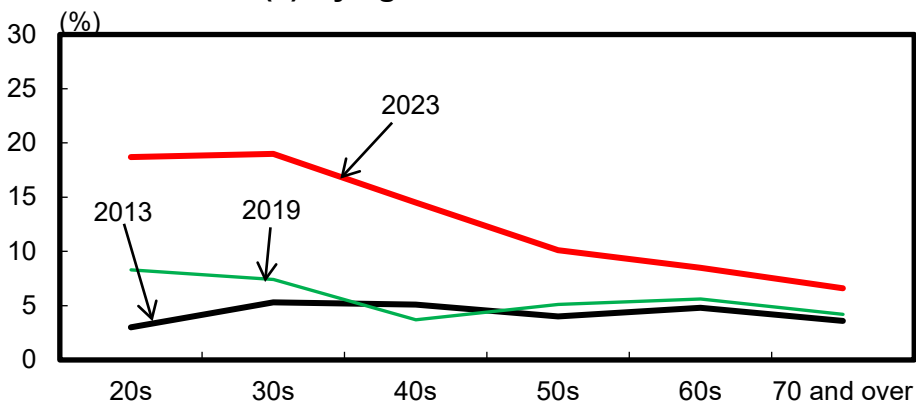
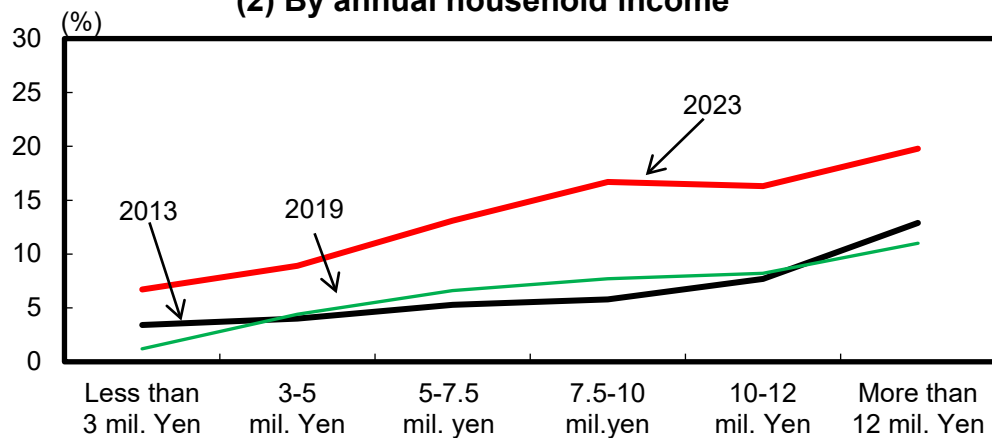


Figure 2. Ratios of households that have shifted their assets from cash and deposits to riskier assets

(1) By age of household head



(2) By annual household income



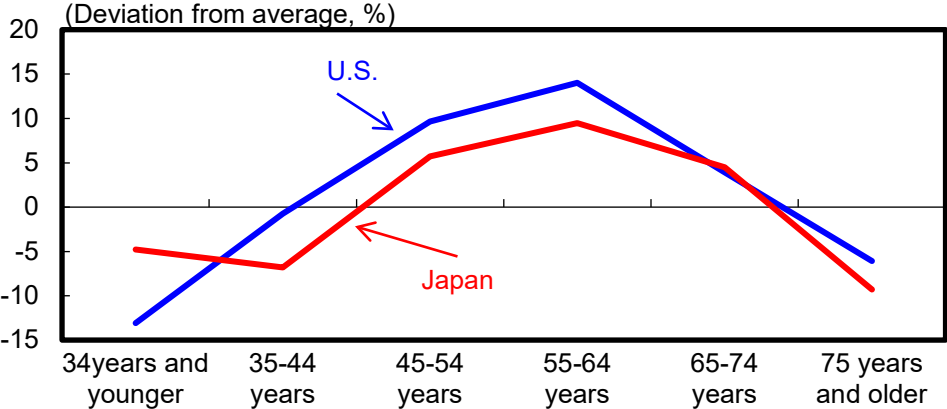
- The number of NISA accounts has increased especially among the working-age population including younger groups.
- The percentage of households that have shifted their financial assets from cash and deposits to risky assets has increased significantly compared to 10 years ago, especially among younger groups.

On the other hand, households with higher annual incomes tend to allocate their income to risky assets and hold a high share of such assets. From the perspective of promoting the “shift from savings to investment,” it is important to increase household income.

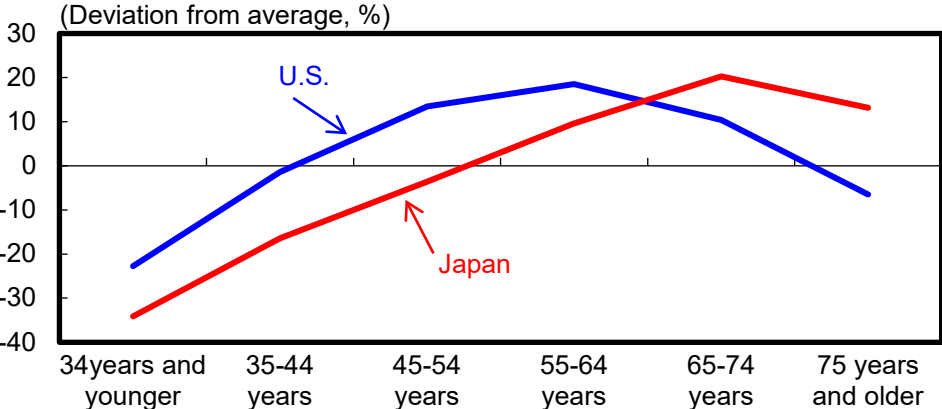
Chapter 3 Section 1: Household Financial Assets and Investments (4)

Annex: Japanese and U.S. consumption patterns by age

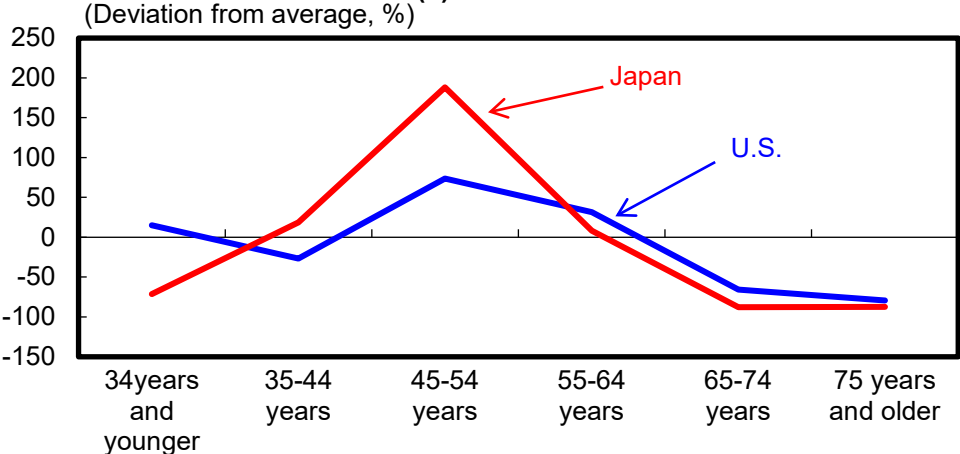
(1) Consumption expenditure



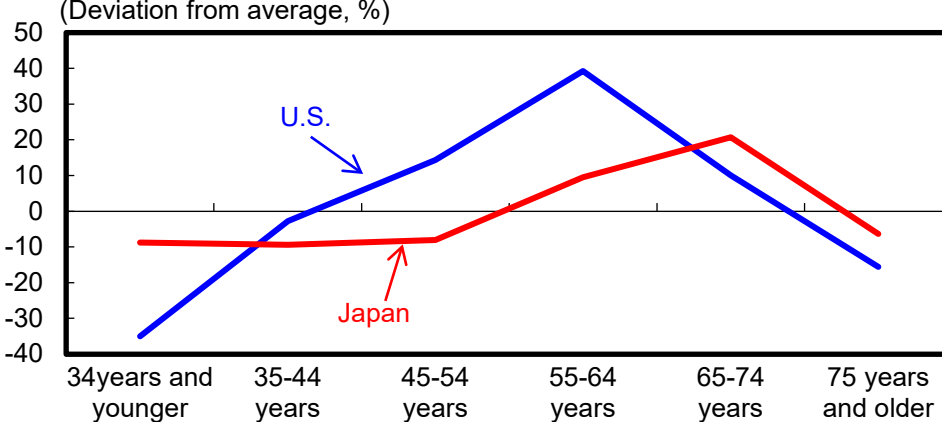
(2) Food and beverage



(3) Education



(4) Entertainment and accommodation

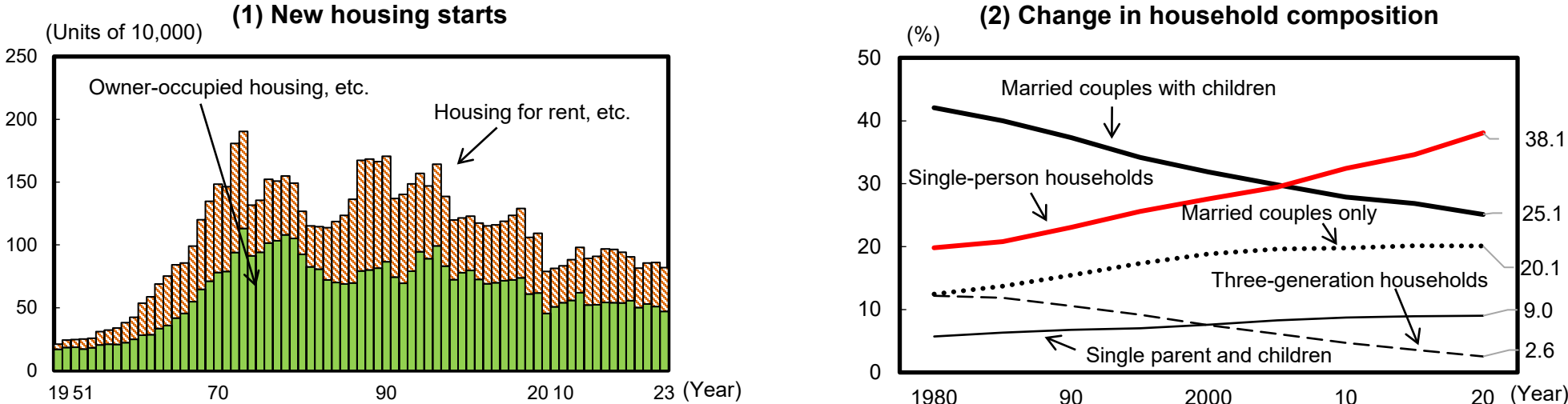


A comparison of consumption by age of household head between Japan and the U.S. shows that (1) overall consumption peaks in the 55-64 age group in both, (2) the elderly group spends more on food and beverages in Japan, (3) education spending increases significantly in the 45-54 age group in Japan, (4) the spendings in entertainment and accommodation are suppressed in the 45-54 age group in Japan.

Sources: Ministry of Internal Affairs and Communications and U.S. Bureau of Labor Statistics.

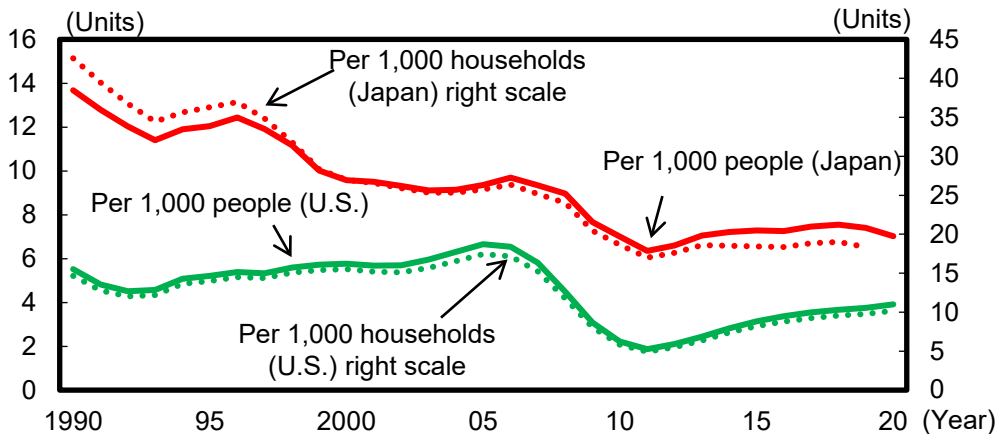
Chapter 3 Section 2: Prospects for and Issues Concerning Housing Stock (1)

Figure 1. New housing starts and household composition



The number of new housing starts, especially that of owner-occupied housing, has declined to less than half of its peak. This is mainly due to an increase in the number of single-person households and a decrease in the number of married couples with children.

Figure 2. Housing starts per population/household

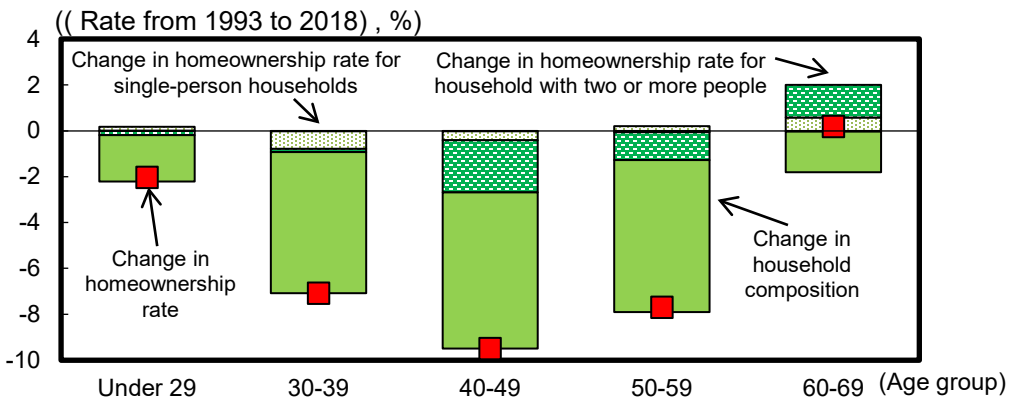


Although the number of housing starts per population/household is declining, it is about twice that of the U.S.

Sources: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare and US Census Bureau.

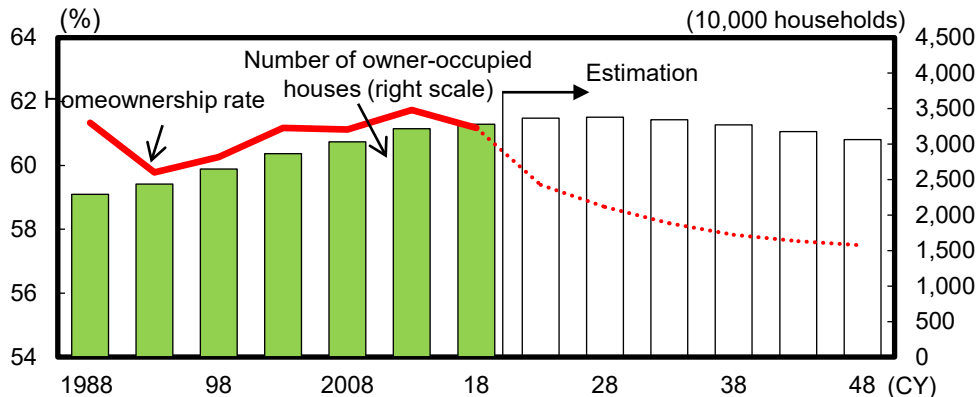
Chapter 3 Section 2: Prospects for and Issues Concerning Housing Stock (2)

Figure 1. Contribution of factors to change in homeownership rate



The percentage of owner-occupied houses has been declining for many age groups over the long-term, as the percentage of single-person households with low owner-occupied rates has increased.

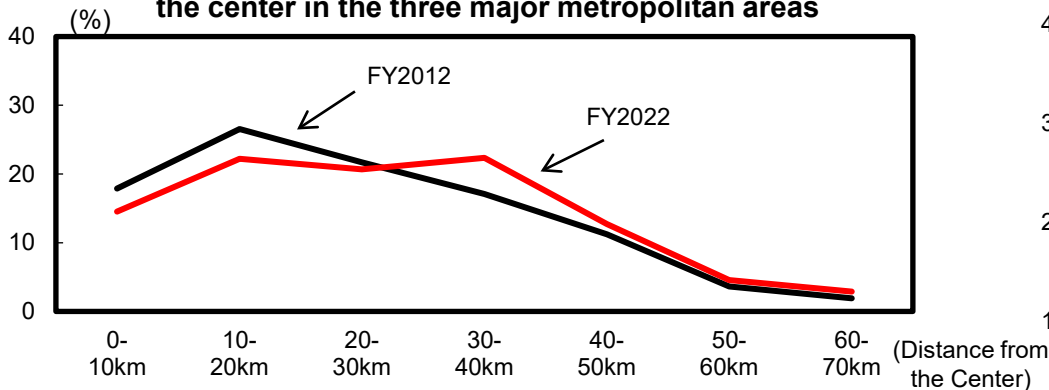
Figure 2. Trends in homeownership rate and number of owner-occupied houses due to changes in household composition



As the number of single-person households increases, the average percentage of owner-occupied houses and the number of owner-occupied units is expected to decrease.

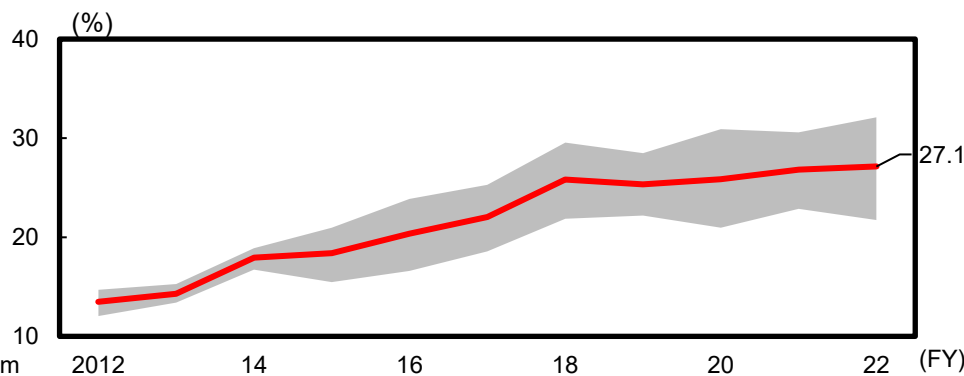
Figure 3. Acquisition Status and Locations of Existing Houses

(1) Percentage of housing acquisitions by distance from the center in the three major metropolitan areas



As housing prices rise, home acquisitions in the suburbs have spread over the past decade in three major metropolitan areas.

(2) Estimated rate of acquisitions of existing houses

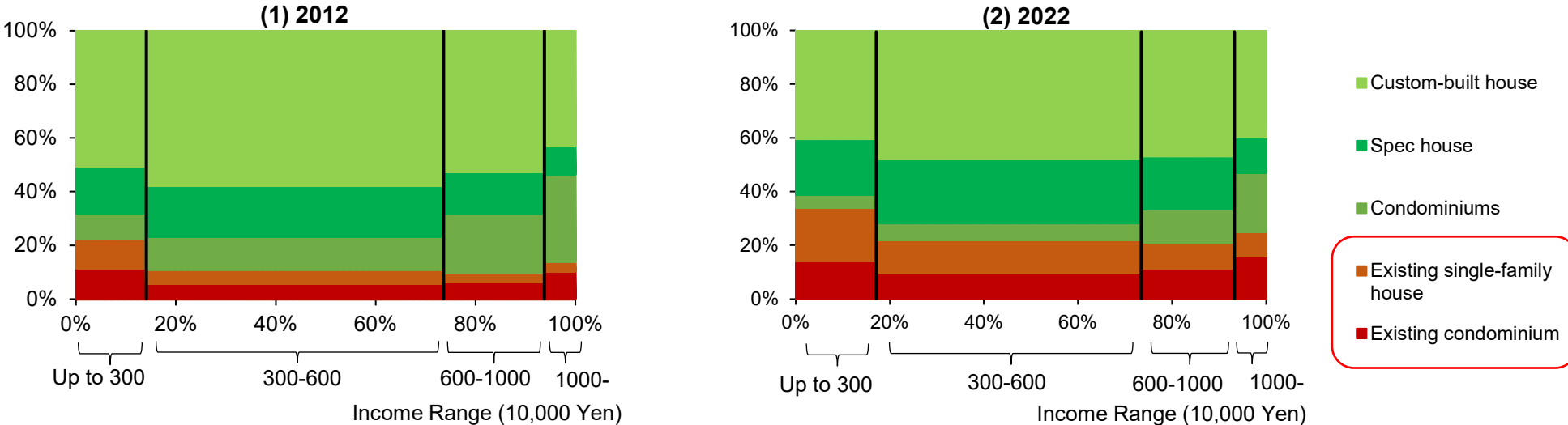


As housing prices rise, the percentage of acquiring existing homes is also on the rise.

Sources: Ministry of Internal Affairs and Communications, IPSS, Ministry of Land, Infrastructure, Transport and Tourism and Japan Housing Finance Agency

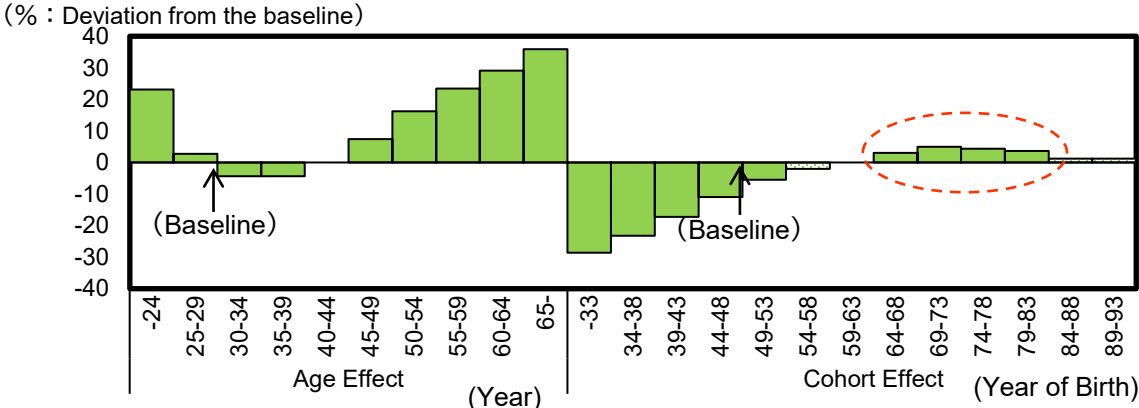
Chapter 3 Section 2: Prospects for and Issues Concerning Housing Stock (3)

Figure 1. Acquisition status of existing house by annual income



The acquisition of existing houses has spread across a wide range of groups over the past decade, regardless of income levels.

Figure 2. Cohort analysis of acquiring existing houses



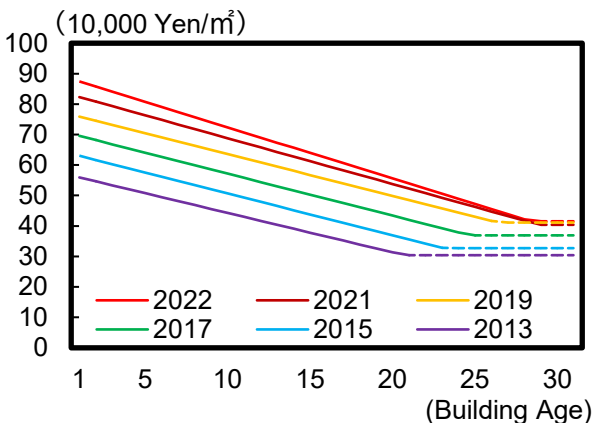
Acquisition of existing houses is larger among older age groups, and the willingness to acquire them may be getting stronger among younger cohorts.

Sources: Japan Housing Finance Agency and Ministry of Internal Affairs and Communications

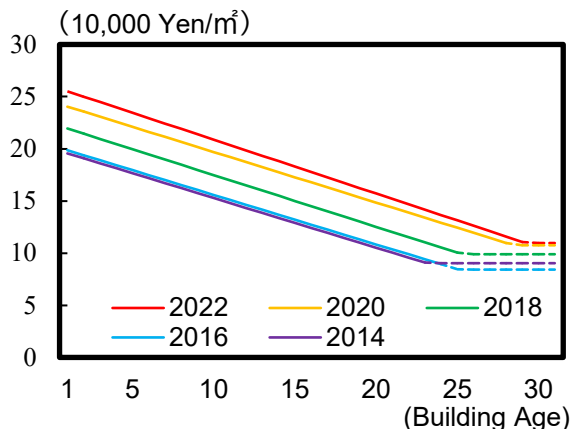
Chapter 3 Section 2: Prospects for and Issues Concerning Housing Stock (4)

Figure 1. Changes in depreciation trends due to building age (Tokyo Area)

(1) Condominiums



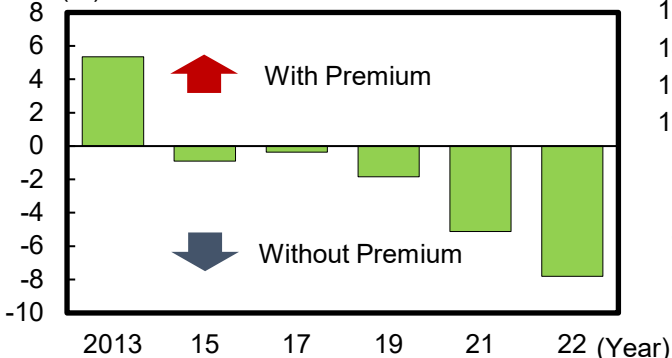
(2) Detached houses



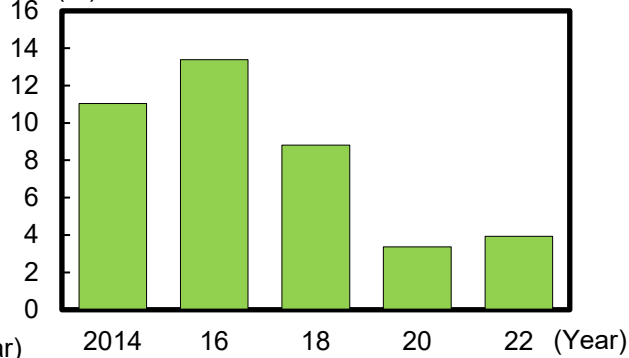
In about the past decade, older existing homes have been valued in a longer term.

Figure 2. Estimation of new construction premium (Tokyo Area)

(1) Condominiums

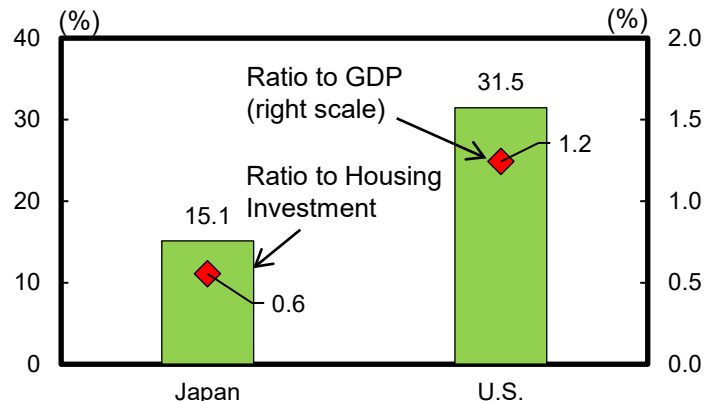


(2) Detached houses



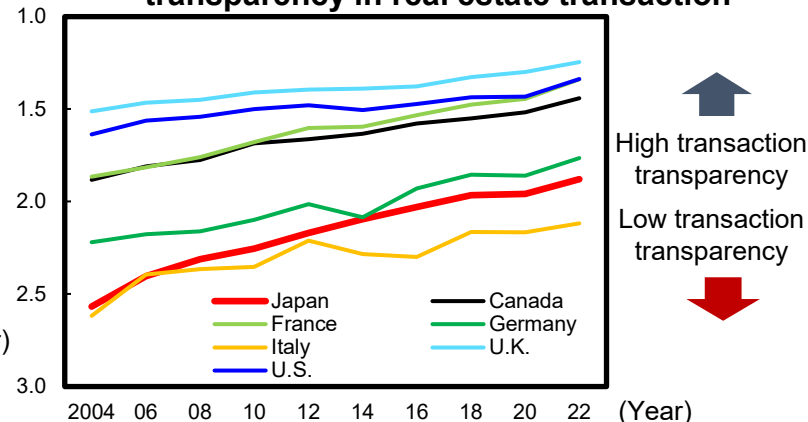
The new construction premium may be disappearing in condominiums which are generally versatile. On the other hand, the new construction premium is still observed in detached houses which are more individualized.

Figure 3. Comparison of Home Renovation Market between Japan and the U.S.



To further develop the market for existing home transactions, efforts to promote renovation to extend the life of homes are important.

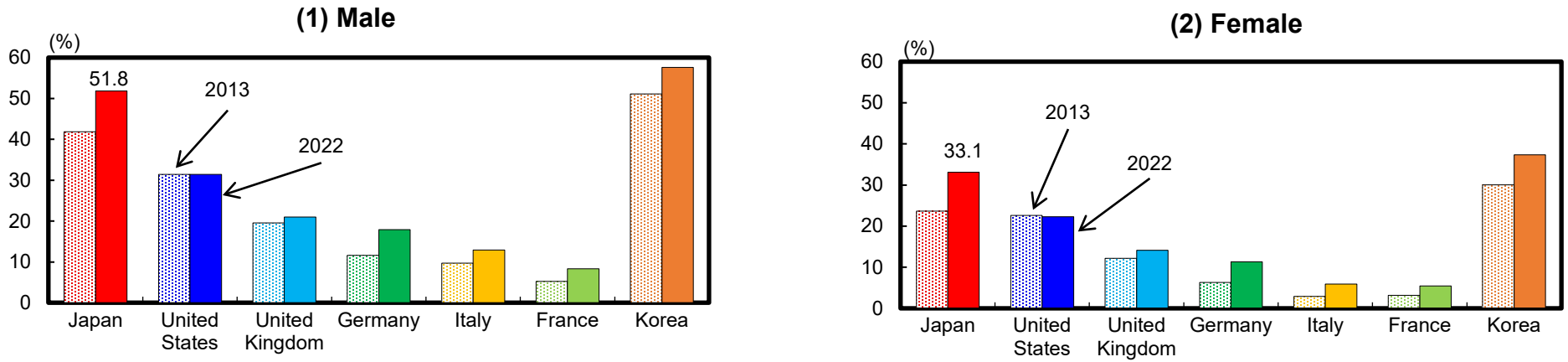
Figure 4. International comparison of transparency in real estate transaction



It is also important to increase transparency in real estate transactions.

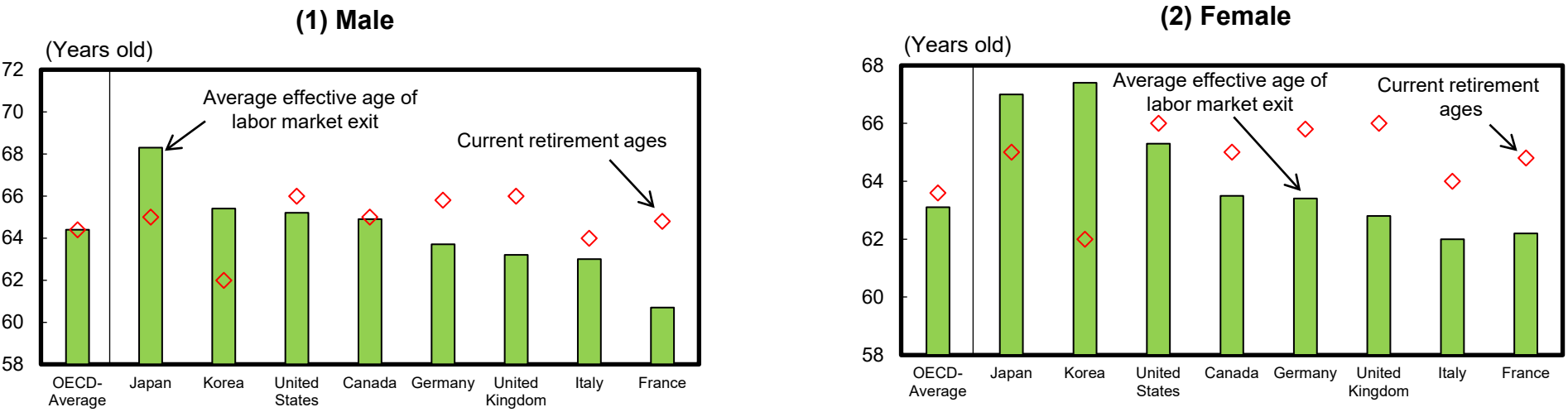
Chapter 3 Section 3: Utilizing Human Capital of Elderly Workers (1)

Figure 1. Labor participation rate of older people, 65-74 years old



Compared to other advanced countries, the labor participation rate of the elderly has been high and rising significantly over the past decade for both males and females.

Figure 2. Average effective age of labor market exit and current retirement ages

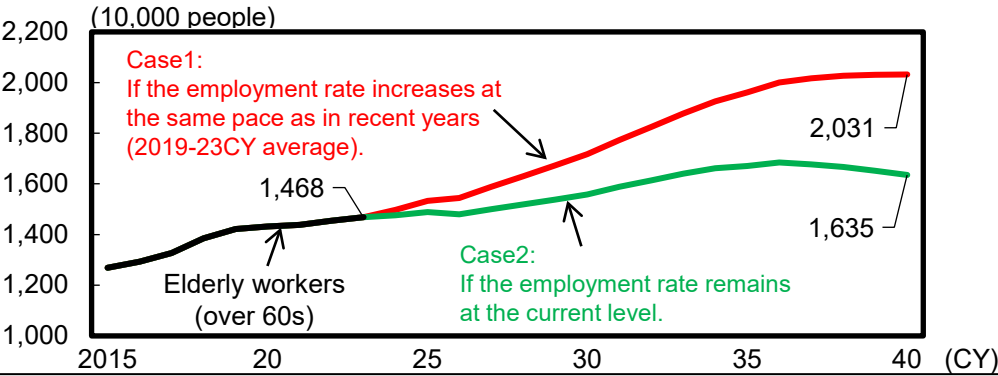


The average retirement age for the elderly in Japan exceeds the age at which they start receiving their pension benefits, while the opposite is true in Europe and the United States.

Source: OECD.

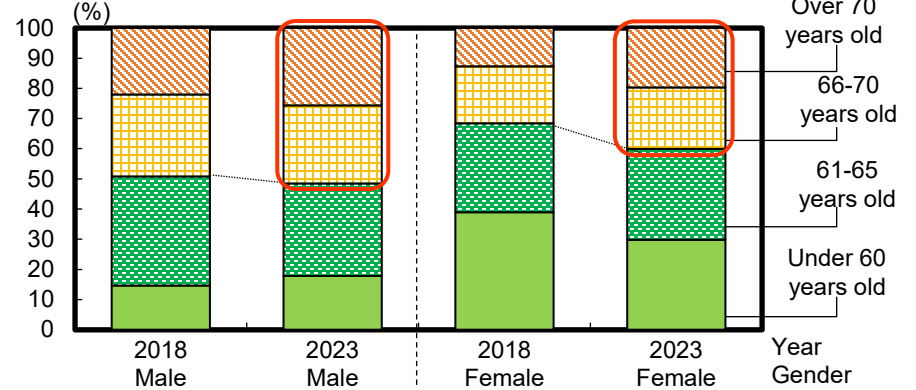
Chapter 3 Section 3: Utilizing Human Capital of Elderly Workers (2)

Figure 1. Estimation of future number of elderly workers



Due to the measures to ensure continued employment, the number of elderly workers is increasing and expected to expand over the next 10 years.

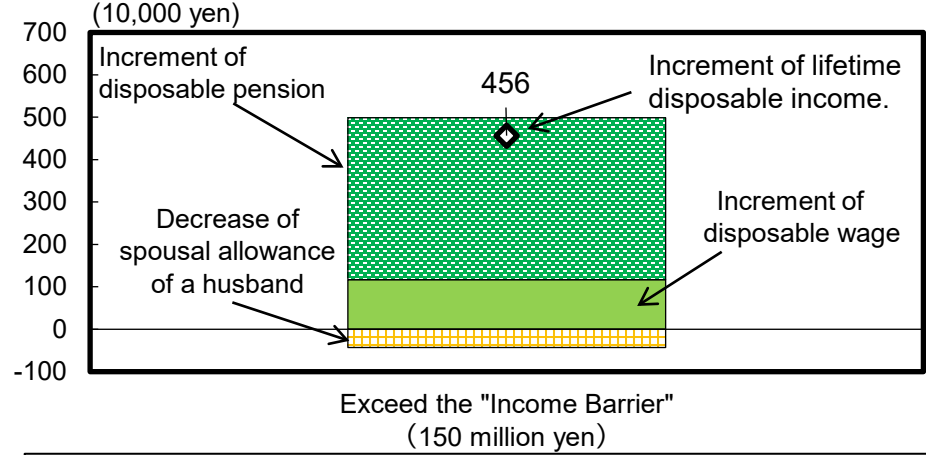
Figure 2. Change in desired age for employment by gender



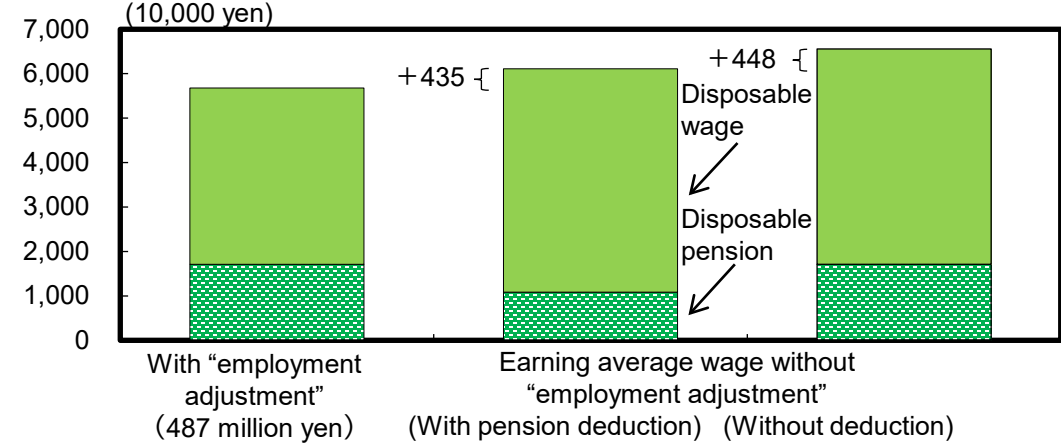
More elderly people are willing to work after 65 years-old for both males and females.

Figure 3. Increase in lifetime disposable income for seniors working exceeding the "Income threshold"

(1) Increase in income by working exceeding the "income barrier" for women aged 60-64 with spouses. (compared to earning 1 million yen annually)



(2) Disposable wage and pension of university graduate male aged 65-74 (with and without a pension deduction for working seniors)



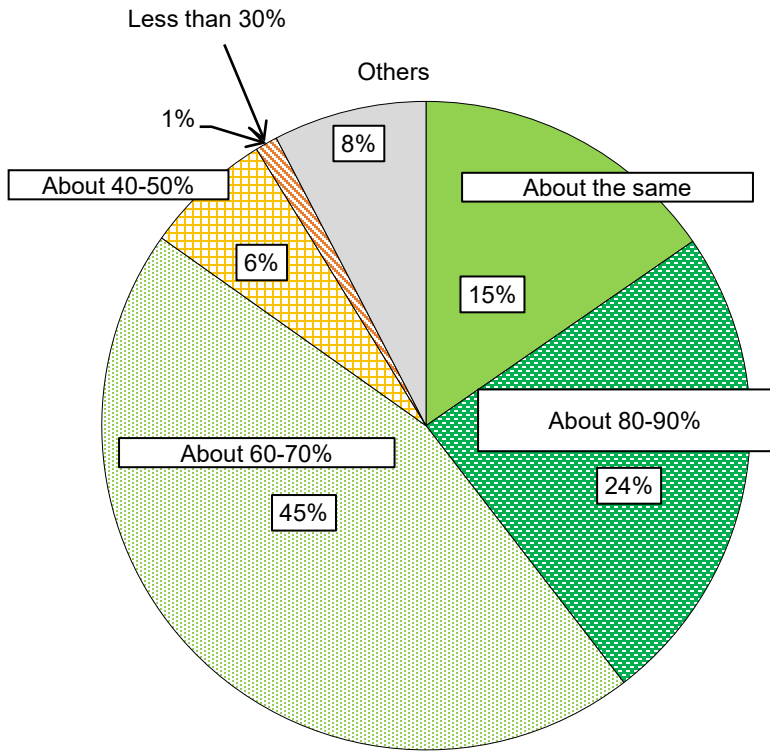
It is important to encourage people to work to exceed the "income barrier" by informing them that doing so will increase their lifetime disposable income and to review the social security system to support seniors' willingness to work.

Sources: Ministry of Internal Affairs and Communications, National Institute of Population and Social Security Research, Cabinet Office, Ministry of Health, Labour and Welfare, Japan Pension Service and National Tax Agency

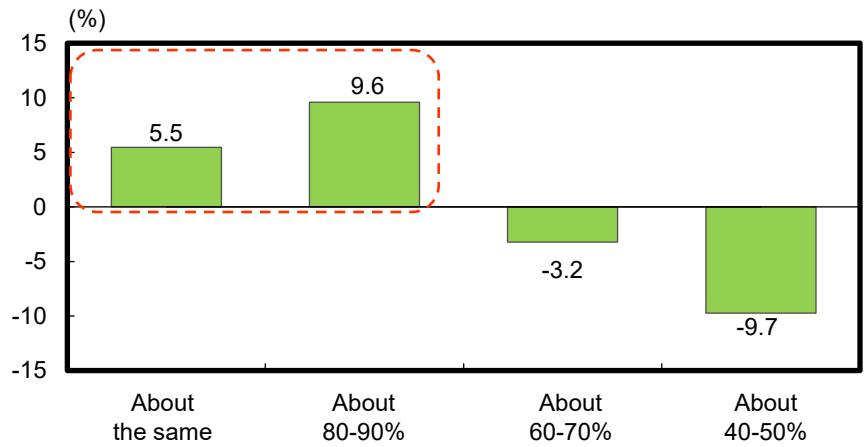
Chapter 3 Section 3: Utilizing Human Capital of Elderly Workers (3)

Figure 1. Current status, changes and background of wage reductions when rehiring elderly employees in companies

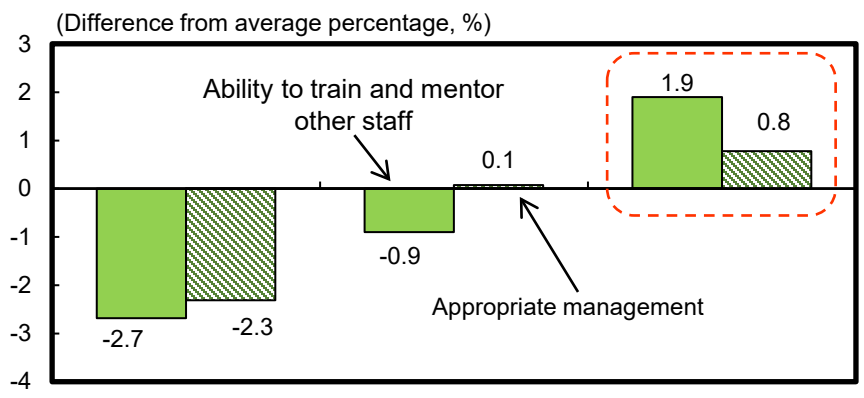
(1) Wage levels for older workers after retirement (2024)



(2) Percentage difference from 5 years ago



(3) Changes in the range of wage declines and the abilities demanded of the elderly

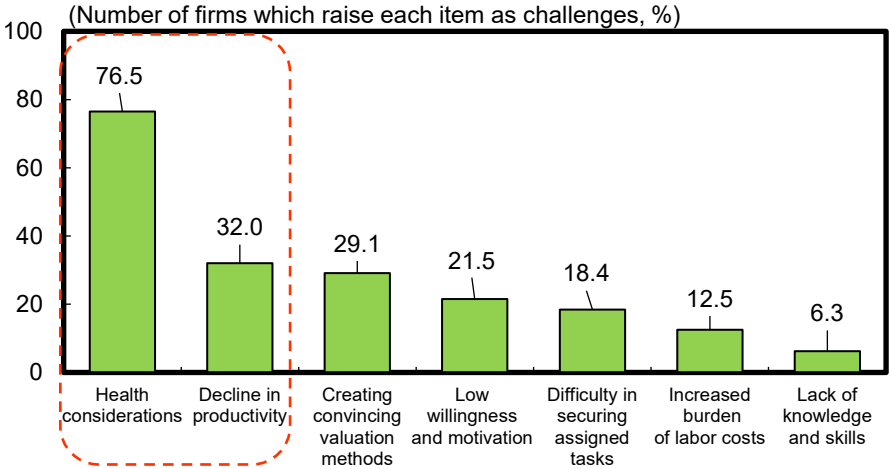


Although the majority of firms (45%) set wages for workers over the retirement age at 60-70% of pre-retirement wages, an increasing number of firms (40%) are paying wages more than 80% of the pre-retirement level. These firms expect their elderly employees to play a leading role by utilizing their knowledge and experience.

Source: Cabinet office.

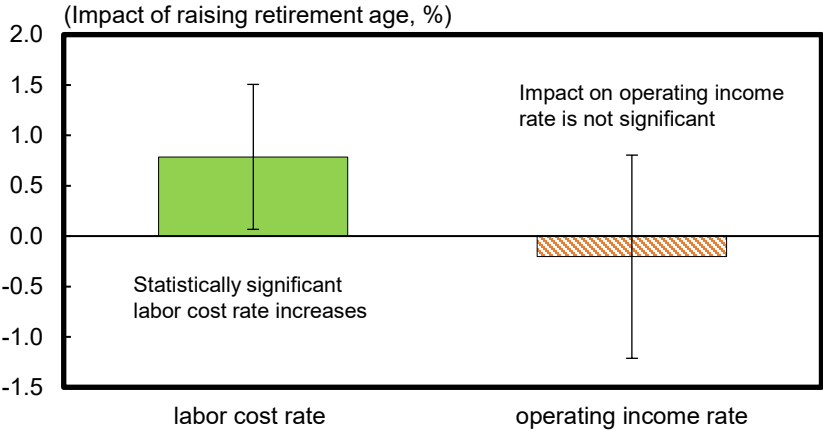
Chapter 3 Section 3: Utilizing Human Capital of Elderly Workers (4)

Figure 1. Challenges for companies in hiring older workers



Many companies report “health considerations” and “declining productivity” as challenges in hiring elderly workers.

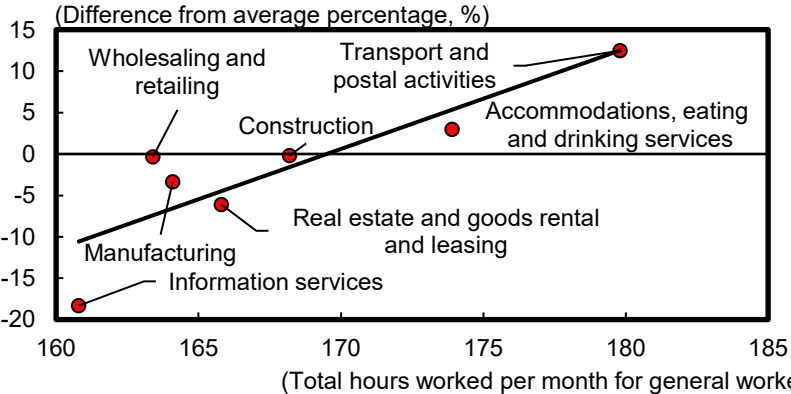
Figure 3. Impact on labor cost rate and profit margin of companies raising retirement age



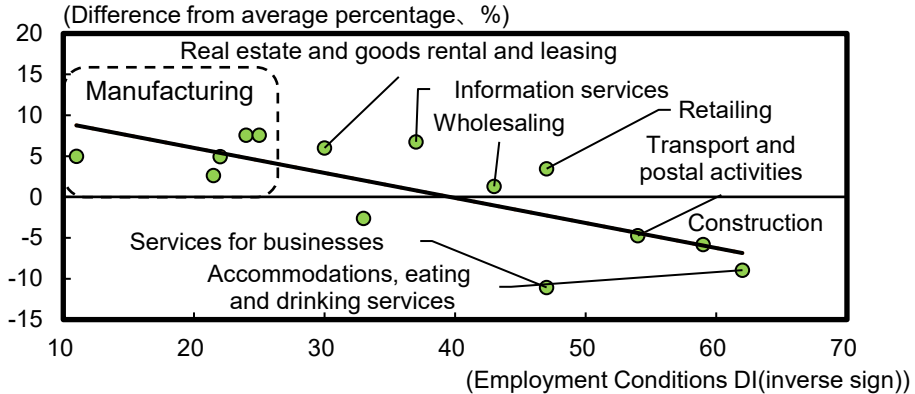
Companies that have raised the retirement age experience high labor cost ratios, but profit ratios haven't necessarily worsened. It is important to improve productivity by encouraging labor-saving investments, etc.

Figure 2. Challenges and background to employment of the elderly

(1) Working hours and percentage of “health considerations”



(2) Labor shortage and “decline in productivity”



Industries with long working hours report the health of the elderly as an issue for hiring. Industries with relatively low labor shortages report their low productivity as an issue.

Sources: Cabinet office, Bank of Japan, and Ministry of health, labor and welfare.

