

Points of the Analysis of the Labour Economy 2013

(White Paper on the Labour Economy 2013)

~ Employment, Human Resource and Ways of Working in the Midst of Structural Change ~

Background of the analysis

- Changes in the companies which are on the labour demand side and changes in the employees which are on the labour supply side are intertwined behind labour issues. Also, labour demand is derived from demand for products and services.
- The structural changes such as globalization, population decline, and aging population have progressed in the midst of economic stagnation after the burst of the economic bubble; the companies which are on the labour demand side are facing management challenges including difficulty in forecasting the prospects of growth fields, and necessity of securing and developing human resources.
- With this situation in mind, the analysis focuses on what actions could the companies take toward sustainable growth of the Japanese economy and the growth-led expansion of employment and income on the labour supply side.

Chapter 1. Trends and features of the labour economy

The analysis mainly covers the trends of employment/unemployment, wages, working hours, prices/workers' household expenditures and labour-management relationship in 2012.

Movements toward recovery of employment and income

- The employment situation is showing movements of improvement recently, although it still remains severe.
- Looking at the breakdown of general workers' total sum of cash earnings, we can see that the fluctuation of scheduled wages is generally small. In the labour-management negotiations in the spring of 2013, some companies agreed on bonus increase, as their business performance was improving.
- The consumption expenditure of workers' households increased in 2012, for the first time in two years. Consumer confidence has improved from January, 2013, as consumer expectations have become higher mainly in terms of the employment environment.

Chapter 2. Change of Japanese economy and employment structure

From the standpoint of sustainable growth of the Japanese economy, we have summarized, by industry and occupation, the transition of employment structures, employment creation, etc. on a medium to long term basis. We have analyzed new growing fields as well as the roles and challenges of manufacturing industry.

Challenges toward sustainable growth of Japanese economy

- In line with the further expansion of the service economy, the employment structure also shows the trend toward the service economy.
- Since 2001, the gap between the entry rate and the exit rate has been closing. It is necessary for the whole government to make efforts toward economic growth and to create employment, by increasing the entry rate through creation of new businesses in strategic fields, etc.
- The manufacturing industry provides quality work opportunities, supports regional employment and creates employment for all industries through export, thus plays an important role in terms of employment. In the future, it will be important to create value added through such means as entry into new industrial fields, and to secure competitiveness, backed by systems to cultivate abilities and qualities of human resources as well as diversification of human resources.
- The tasks for all the industries are to improve productivity of the service industry, etc., to create and maintain high value-added industries, and to change the industrial structure through labour mobility without unemployment.

Chapter 3. Changes in acquisition and development of human resources in the labour market

Toward strengthening competitiveness in the midst of changing economic and employment structures, effective use of human resources are the foundation of competitiveness. The analysis covers the human resources sought by companies as well as the actual conditions of recruitment of new school graduates and non-regular employment.

Challenges toward effective use of human resources

- In order to assist employment of young people, companies should make further efforts to more clearly define what kind of human resources they are seeking, and universities should endeavor to improve students' abilities and promote student internships. The government should promote strengthening of collaboration and information sharing among organizations of small and medium enterprises, Hello Works, universities, and other entities.
- While regular employment has not been decreasing, the non-regular employees increased due to human cost saving, etc. Most of the non-regular employees are fixed-term contract employees. The fixed-term employees account for 28% of all the employees, and it is expected that more employees will move from fixed-term employment to permanent employment. From the companies' viewpoint of improving productivity through securing of human resources and increasing their stability, and from the workers' viewpoint of developing careers of non-regular employees and securing more stable employment, we need to facilitate "diversified ways of working."

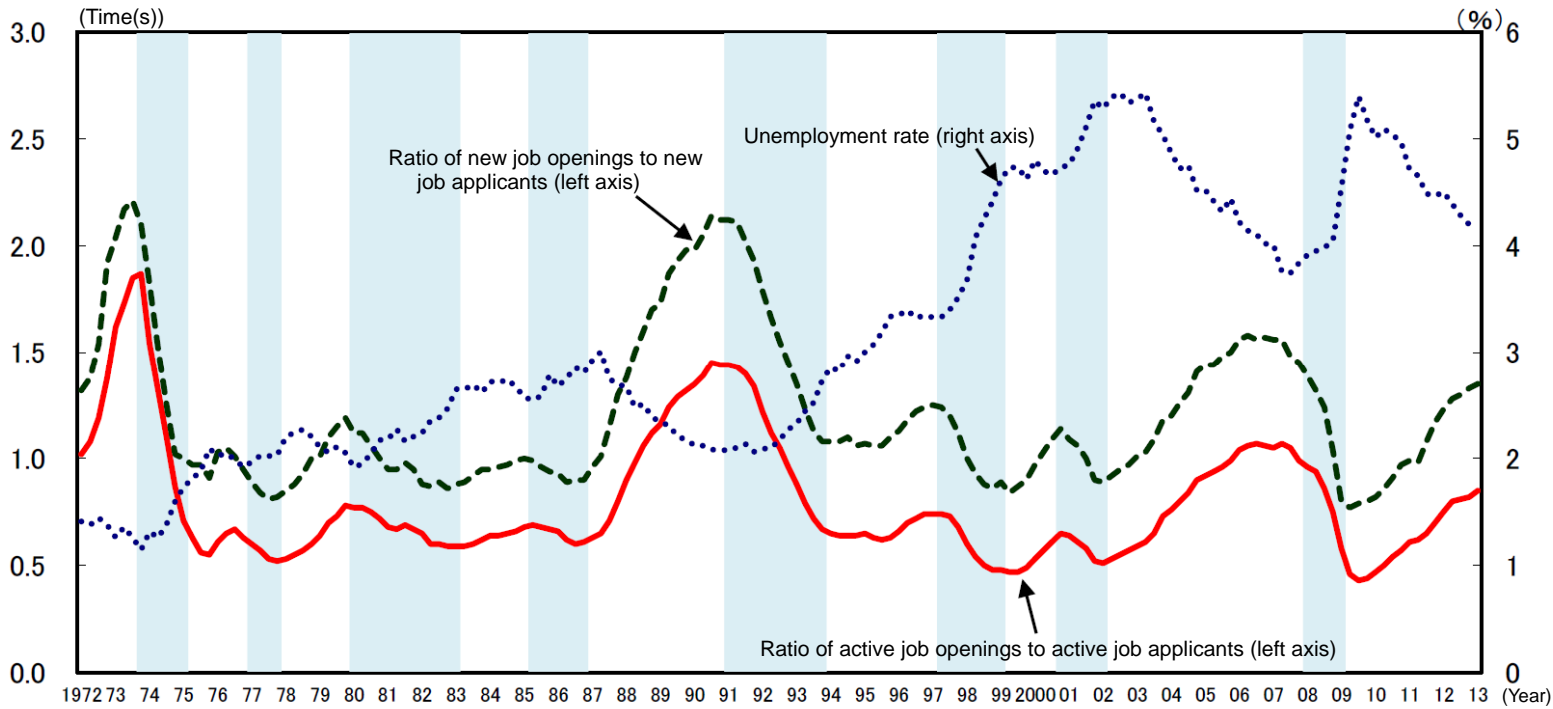
Summary ~ Toward expansion of employment and income through growth ~

- It is necessary for both companies and workers to adjust themselves to the structural changes and to strengthen competitiveness and human resources, in order for us to realize a "virtuous economic cycle" in which increase of employment and income are attained.
- It is important to encourage human resources, the most important resource in Japan, to fully exert their potential ability, leading to establishment of a "society where everyone participates in social activities."
- It is important to promote the "labour policy toward growth" through cooperation among labour, management and the government, including labour mobility without unemployment and diversified ways of working.

Employment situation

The ratio of active job openings to active job applicants was 0.80, and the unemployment rate was 4.3% in 2012; the employment situation is thus showing movements of improvement recently, although it still remains severe.

(Transition of the unemployment rate and the ratios of job openings to job applicants)



Source: "Report on Employment Service," Ministry of Health, Labour and Welfare; "Labour Force Survey," Statistics Bureau, Ministry of Internal Affairs and Communications

- (Note)
- 1) The data is quarterly average (seasonally adjusted). The shadowed part in the graph indicates a recession period.
 - 2) Since 1973, the ratio of active job openings to active job applicants and the ratio of new job openings to new job applicants also cover Okinawa.
 - 3) Since July 1972, the unemployment rate also covers Okinawa.
 - 4) The ratio of active job openings to active job applicants and the ratio of new job openings to new job applicants exclude new graduates and include part-time workers.
 - 5) The quarterly figures of the unemployment rate is the simple average calculated by the Office of Counselor for Labour Policy, Ministry of Health, Labour and Welfare, based on the seasonally adjusted monthly figures. However, the figures from March to August 2011 use the complementary estimated figures by the Statistics Bureau, Ministry of Internal Affairs and Communications.

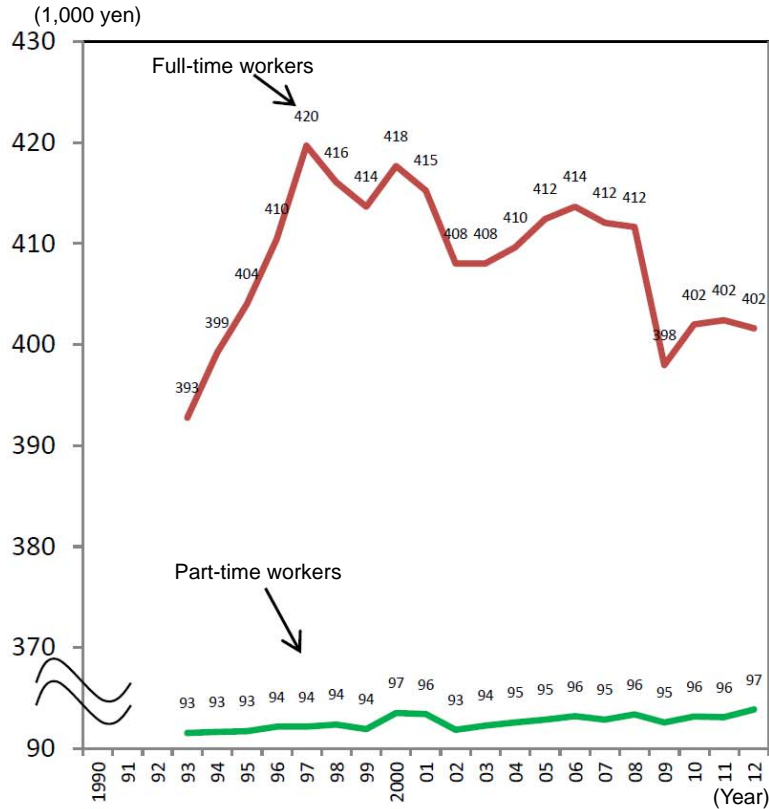
(The employment situation is showing movements of improvement recently, although it still remains severe.)

- After the financial crisis in the autumn of 2008, the Japanese economy entered a phase of expansion from 2009, overcame the temporary fall due to the Great East Japan Earthquake in 2011, and has maintained the momentum in 2012. After that, although the economy was weakened due to the decline of export and production resulted from the global slowdown and end of policy effect of eco-car subsidy program, etc. but is showing again a sign of recovery in 2013. Thanks to such factors as the stock prices rising from the autumn of 2012, the confidence of households and companies have been improving, and there is a sign of recovery in private consumption and production.
- Looking at the employment situation in 2012, the ratio of active job openings to active job applicants was 0.80, up 0.15 from the previous year, and the unemployment rate was 4.3% in 2012, down 0.3 from the previous year; the employment situation is thus showing movements of improvement recently, although it still remains severe.

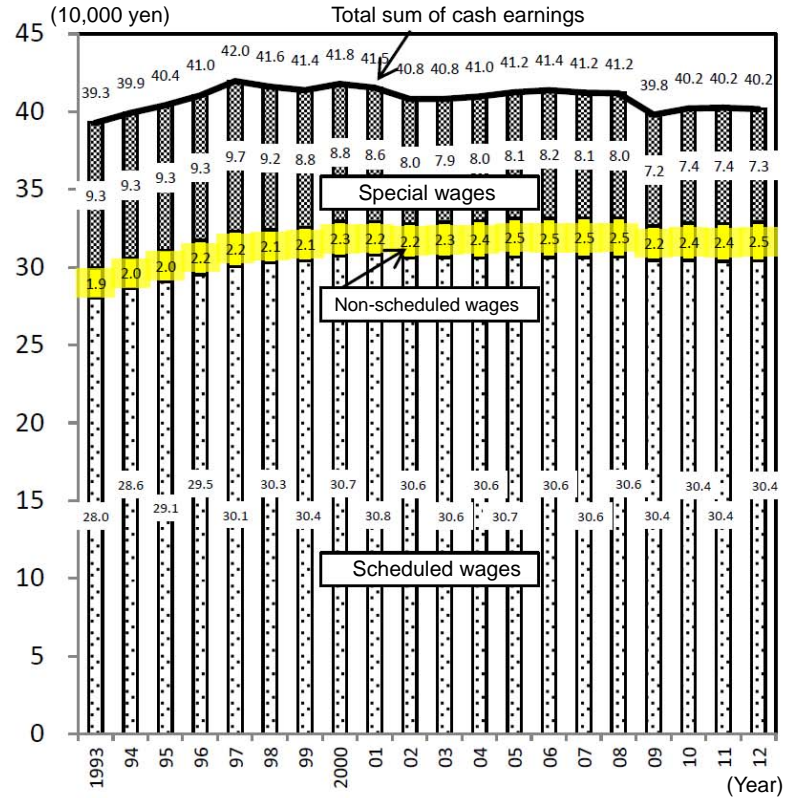
Trends of wages

Looking at the breakdown of full-time workers' total sum of cash earnings, we can see that the fluctuation of scheduled wages is generally small.

(Transition of the total sum of cash earnings by employment form)



(Transition of the breakdown of total sum of cash earnings of full-time workers)



Source: Prepared by the Office of Counselor for Labour Policy, MHLW, based on the "Monthly Labour Survey" Ministry of Health, Labour and Welfare

- (Note) 1) Total of the surveyed industries; business establishments with five or more employees.
 2) These figures are real-valued ones, which are modified to enable time-series linkage, and which are obtained by multiplying the index by a standard value (average in 2010).

Source: Prepared by the Office of Counselor for Labour Policy, MHLW, based on the "Monthly Labour Survey" Ministry of Health, Labour and Welfare

- (Note1) 1) These figures are real-valued ones, which are modified to enable time-series linkage, and which are obtained by multiplying the index by a standard value (average in 2010).
 2) The calculation was made in accordance with the following formulas: Non-scheduled wage = Contractual wage - Scheduled wage; Special wage = Total cash wage - Contractual wage.
 3) The analysis by employment form has been made in and after 1993.

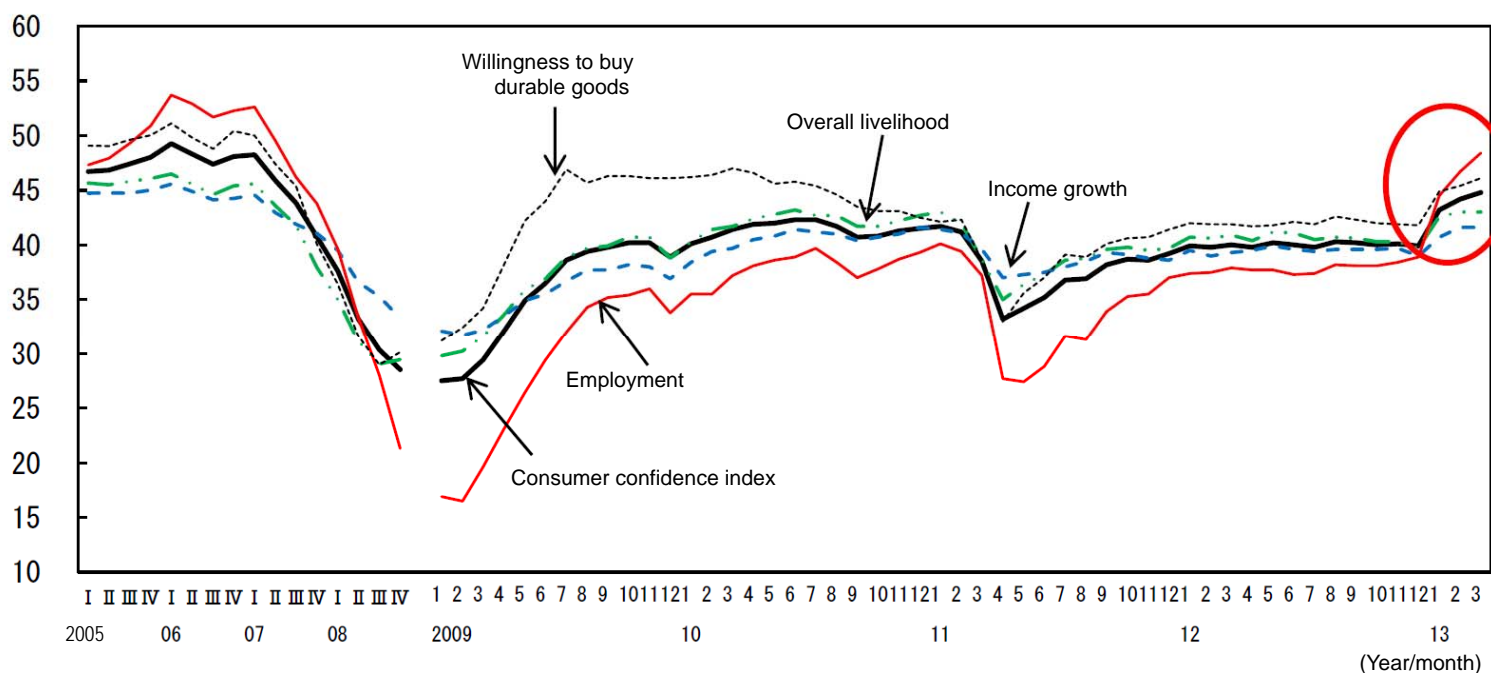
(Transition of total sum of cash earnings)

- Looking at the transition of total sum of cash earnings, the amount decreased by 4.3% for full-time workers and increased by 3.4% for part-time workers in 2012 compared to 1997.
- Focusing on the breakdown of full-time workers' total sum of cash earnings, we can see that the fluctuation of scheduled wages is generally small and the fluctuation of special wages is generally large after 1998 when the total sum of cash earnings began to decrease.
- As a result of the labour-management negotiations in the spring of 2013, many companies maintained the wage profiles, and some companies whose business performance was improving agreed to raise the bonus compared with the previous year.

Situation of consumer confidence

The consumer confidence index has improved from January, 2013, as consumer expectations have become higher, in particular in terms of the employment environment.

(Transition of the consumer confidence index)



Source: "Consumer Confidence Survey" Cabinet Office

(Note) 1) The consumer confidence index was prepared as follows:

- (1) The consumer perceptions are surveyed on about four items: "overall livelihood," "income growth," "employment" and "willingness to buy durable goods." At which time, the respondents are requested to provide their answers, on a 5-point scale, about how they thought each survey item would change during the next half year.
 - (2) Points were given to each survey item according to the 5-point scale, and the consumer confidence index was calculated for each survey item. More specifically, in the case of the answers classified as positive about consumption, (+1) was given to "will improve" and (+ 0.75) was given to "will improve slightly," in the case of the answers classified as neutral, (+ 0.5) was given to "will not change" and in the case of the answers classified as negative, (+ 0.25) was given to "will worsen slightly" and (0) was given to "will worsen"; then the points in each answer classification were multiplied by each composition ratio (%) and then the results were totalized.
 - (3) By using the simple average of 4 consumer perception indexes (unadjusted), the consumer confidence index (unadjusted) was calculated.
- 2) General households, seasonally adjusted.

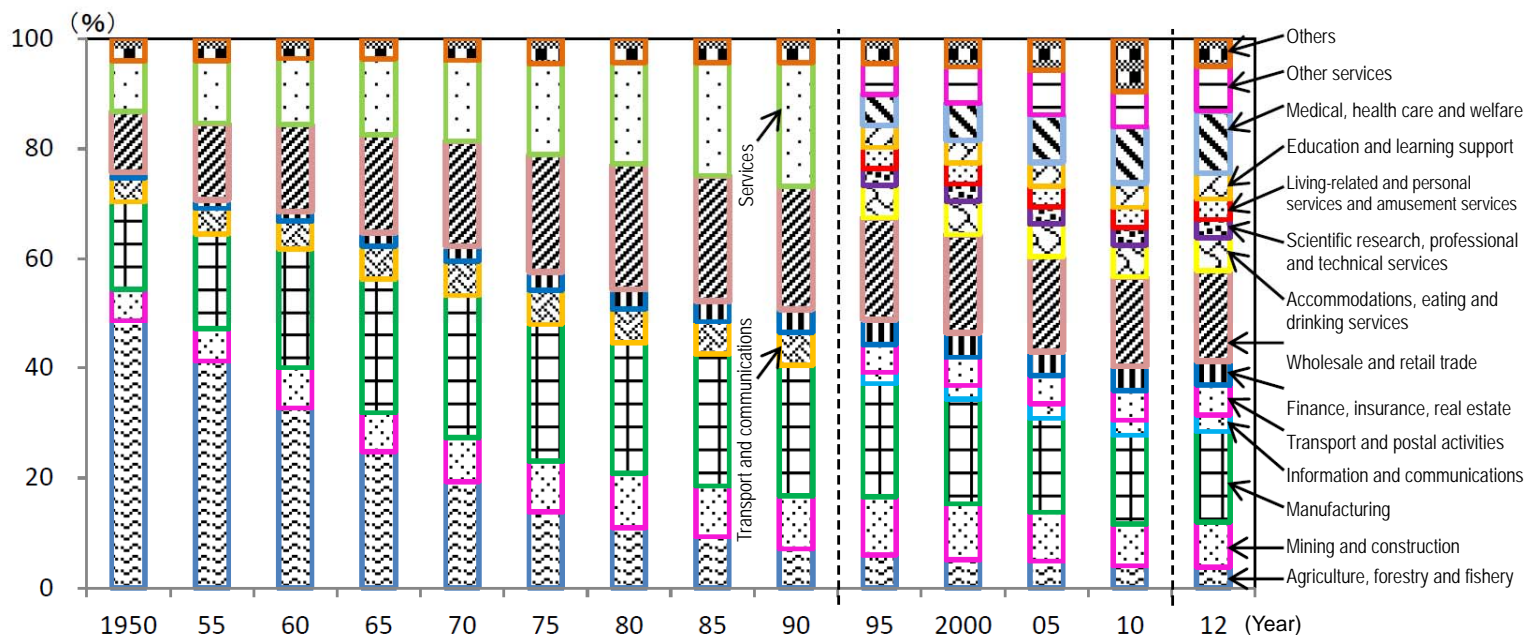
(Consumer confidence has improved from the beginning of 2013)

- The consumer expenditure of workers' households in 2012 decreased in the fields of housing, etc. due to the Great East Japan Earthquake in the previous year and the rebound of the eco-point system for housing; however, consumer expenditure increased in the fields of transportation, communication, etc. and both nominal and real consumer expenditures increased by 1.6% compared to the previous year.
- On the other hand, looking at the retail sales (except new stores) in 2012 by business category, sales decreased by 1.4% in super markets and by 0.3% in convenience stores, but department stores increased for the first time in 16 years, by 0.4%, compared to the previous year.
- The consumer confidence index (general households; seasonally adjusted) which represents consumer mind showed the lowest decline on a month-to-month basis in March 2011, and then gradually recovered to the level around 40; however, the index did not return to the level before the earthquake. As consumer expectations have become higher mainly in terms of the employment environment in response to the rise in stock prices, the emergency economic measures, etc., the index increased by 3.3 points in January 2013, and continued to increase for consecutive three months until March, showing the sign of recovery in consumer confidence.

Employment structure showing the trend toward service economy

In line with the further expansion of the service economy, the employment structure is also showing the trend toward the service economy. The ratio of employees who work in the primary and secondary industries tends to decrease.

(Transition of employment composition by industry)



Source: Prepared by the Office of Counselor for Labour Policy, MHLW, based on the "Population Census" (1950~2010) Statistics Bureau, Ministry of Internal Affairs and Communications and "Labour Force Survey" (2012) Statistics Bureau, Ministry of Internal Affairs and Communications

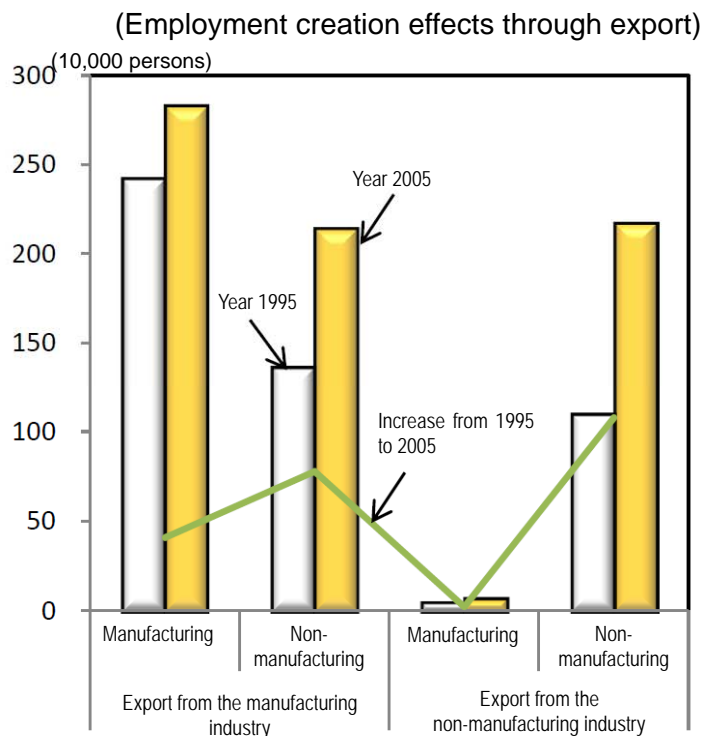
- (Note)
- 1) The data of 1995, 2000 and 2005 are the estimate and tabulation based on the extracted details tabulation by the Statistics Bureau, Ministry of Internal Affairs and Communications. The data of 1990 and before use different notations and linkage is not possible.
 - 2) The transport in and after 1995 includes the postal activities and the finance, insurance and real estate sectors including goods rental and leasing. The eating and drinking places, accommodations are referred to as the accommodations, eating and drinking services in and after 1995.
 - 3) Up to 1990, the wholesale and retail sector included eating and drinking places.
 - 4) In 2010, the "dispatched workers of labour dispatching undertakings" are classified into the industries of clients; this must be noted when the data of 2010 is compared to the data of other years in which the dispatched workers are classified into "Other services" to which the dispatching undertakings belong.

(Employment increased in social insurance, social welfare and care services, and decreased in construction, manufacturing and wholesale)

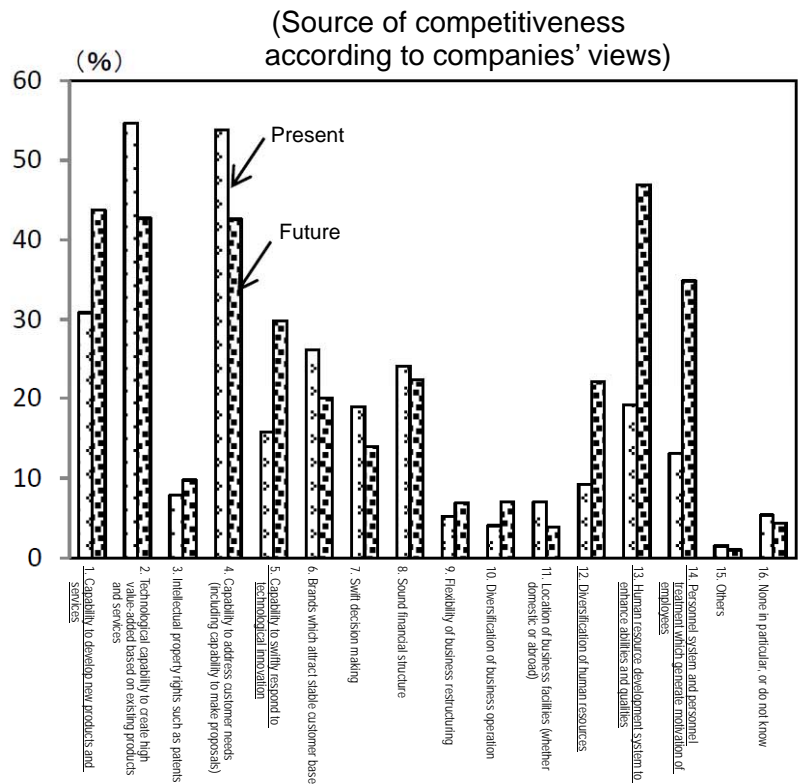
- In line with the slowdown of the economic growth rate, the labour demand has been stagnant. The main reason for the slowdown of the economic growth rate after the 1990s was the downturn of capital amount and total factor productivity (TFP); on the other hand, improved quality of labour supported growth. Export is important, as the contribution of external demand to growth is roughly half that of internal demand and is never small.
- While the employment structure is showing the trend toward the service economy, the number of the employed increased in the industries of social insurance, social welfare and care services, and decreased in the industries of construction, manufacturing, wholesale, etc.
- Reduction in public capital formation had a profound effect on the decrease of the number of the employed in the regional blocks including Hokkaido, Tohoku and Shikoku.
- The entry rate tended to decrease until 1998 and remained at the same level after that year; the entry rate was higher than the exit rate until 2000, but the gap between the entry rate and the exit rate has been closing in recent years.
- After the 1990s, self-employed individuals in the industries other than agriculture, forestry and fishery started to decrease; before that, they were supplying a certain level of employment opportunity.
- It is necessary for the whole government to make efforts toward economic growth by improving productivity of the service industries, etc. and by increasing the entry rate, and thereby to create employment; and to promote creation and maintenance of high value-added businesses in strategic fields, etc. and labour mobility without unemployment.

Employment creation effects of the manufacturing industry and source of competitiveness

The manufacturing industry has a major effect on employment; in order to strengthen the competitiveness in the midst of global competition, it is necessary to establish the systems to elevate the capability of developing new products and services, and to cultivate abilities and qualities of human resources as well as diversification of human resources.



Source: Prepared by the Office of Counselor for Labour Policy, MHLW, based on the "Year 1995-2000-2005 Input-Output Table" Statistics Bureau, Ministry of Internal Affairs and Communications



Source: The "Survey on the Corporate Management and Human Resources in the Midst of Structural Changes" (February 2013) Japan Institute for Labour Policy and Training

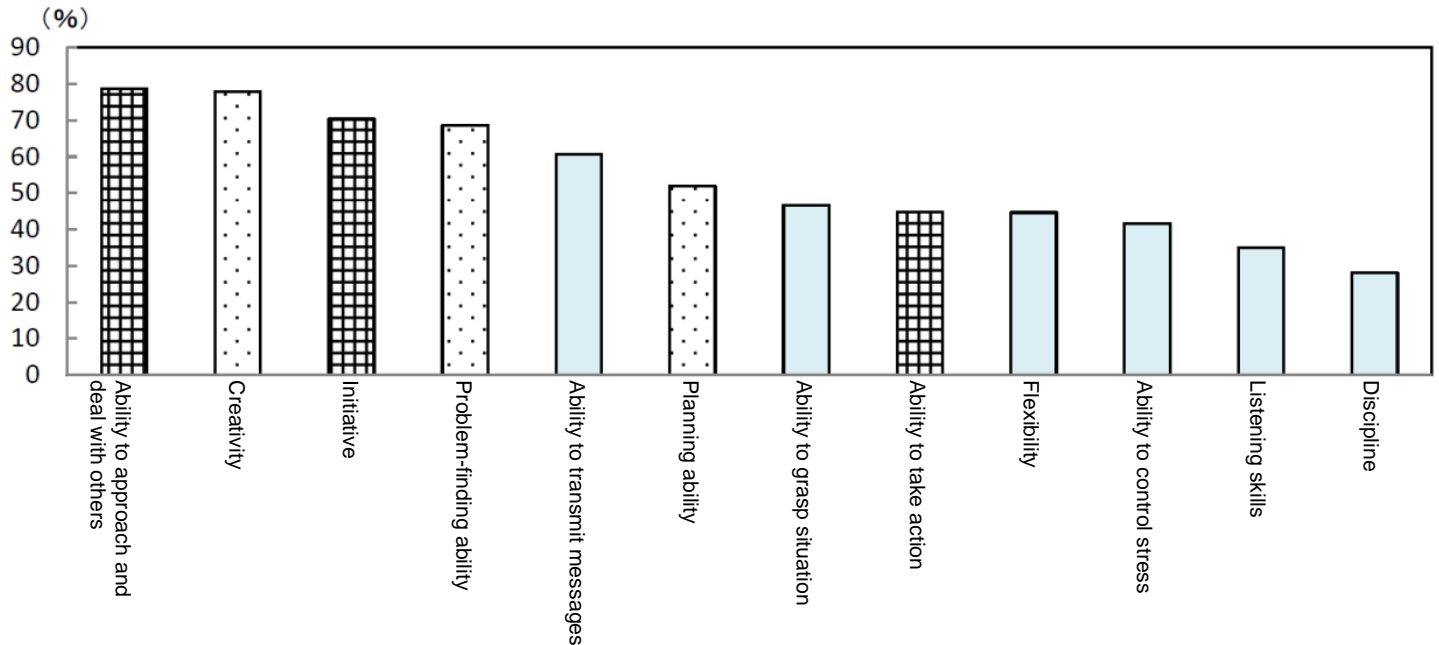
(From the viewpoint of employment, our challenge is to strengthen the competitiveness of the manufacturing industry)

- The manufacturing industry provides quality work opportunities for high school graduates, supports regional employment and creates employment for all industries through export, thus plays an important role in the Japanese economy.
- Due to the change of manufacturing technologies, the value-added through "fine-tuning" which is the strength of the Japanese manufacturing industry has been reduced, and modularized assembly processes are now being transferred to overseas. On the other hand, companies in Europe and in the United States are yielding profits by effectively managing intellectual property.
- Although there is a movement of establishing R&D centers in foreign countries, an increasing number of companies are considering to make new business investment domestically, in order to prevent leakage of technology, etc.
- Domestic plants can play a role as "mother plants" (the base plants having the functions to develop and accumulate the technologies and skills for overseas markets), and cultivation of core human resources, who will be dispatched to overseas bases, is required. While Japan has its expertise and strength in production goods (including parts), maintenance of base technologies is essential for innovation. It is also important to protect the manufacturing companies, which are producing final consumer goods, through domestic demand stimulation. In addition, it is important to create value added through such means as entry into new industrial fields, and to secure competitiveness, backed by systems to cultivate abilities and qualities of human resources as well as diversification of human resources.
- In terms of all industries, the power of expanding employment is weak in the high-income sectors (such as finance and insurance industries), and is strong in sectors with relatively lower income (such as the welfare industry); this is one reason for the decline of income level. Increased labour productivity contributes to the increase of wages; it is important for us to increase labour productivity, by creating industries with high value-added, by allocating labour to such industries through labour mobility without unemployment, and by effectively using technological advancement. Furthermore, we should also improve terms of trade by promoting R&D investment, business investment, business restructuring, etc. and ensuring export prices, and reflect the increased productivity to wages.

Human resources sought by companies

Among the fundamental competencies for working persons, which are considered important by companies, a competency that companies consider is lacked by young employees is the ability to approach and deal with others, followed by creativity, initiative, problem-finding ability, ability to transmit messages and planning ability.

(Fundamental competencies for working persons, which companies consider are lacked by young employees)



Source: Calculated by the Office of Counselor for Labour Policy, MHLW, based on the "Survey on Human Resources Sought by Companies 2007 ~ Relationship with "Fundamental Competencies for Working Persons" (March 2007) Ministry of Economy, Trade and Industry

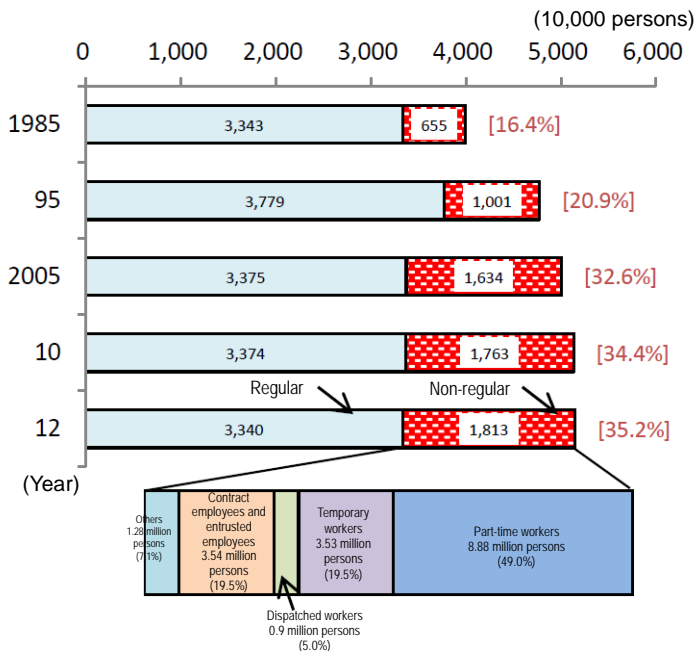
- (Note)
- 1) The ratio of the companies which consider that a competency is "lacked by young employees" is divided by the ratio of the companies which consider such competency is required.
 - 2) Under the survey, the ability to approach and deal with others, initiative and ability to take action are classified as the "ability to step forward," the creativity, ability to find problems and planning ability are classified as the "ability to think through," and the other 6 abilities are classified as the "ability to work as a team."

- When recruiting young people, companies are placing more emphasis on personality, such as enthusiasm, ability to take action and cooperation.
- Among the fundamental competencies for working persons, which are considered important by companies, a competency that companies consider is lacked by young employees is the ability to approach and deal with others, followed by creativity, initiative, problem-finding ability, ability to transmit messages and planning ability.
- For the recruitment of young regular employees, the ratio of the companies placing emphasis on the immediate usefulness decreased, and the ratio of the companies which place the same level of emphasis on both the potential and the immediate usefulness is increasing.
- University students generally have high motivation for employment. In response to the actual economic trends, the students who have a willingness to enter a small and medium-sized company tend to increase.
- In a macro perspective, there is a concern that academic skills of university students are declining; students must make efforts for improvement of basic academic skills, etc. during their school lives, in order to have the opportunity to reach the real recruitment process including job interviews.
- Universities should endeavor to improve students' abilities and promote student internships, and companies should make further efforts to more clearly define what kind of human resources they are seeking. The government should promote employment of young people, by strengthening collaboration and information sharing among organizations of small and medium-sized enterprises, Hello Works, universities, and other entities.

Structural changes and non-regular employment

While regular employment remains at the same level, non-regular employment is increasing. We should promote the ways of working which enable companies to secure human resources and stability of workforce, enable employees to develop their careers, and attain stable employment.

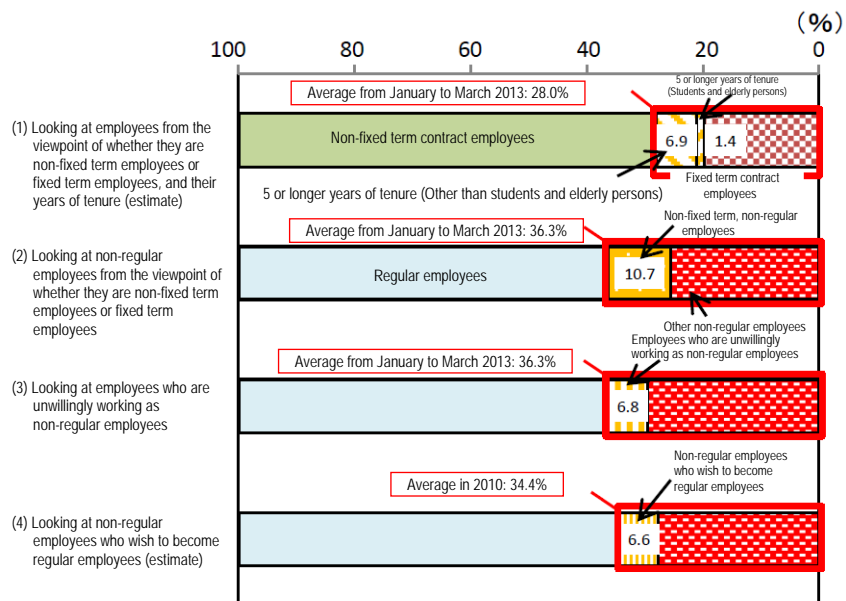
(Transition of employees by employment form)



Source: "Labour Force Survey (Special Survey)" (February survey, until 1995) and "Labour Force Survey (Details Tabulation)" (Annual average, in and after 2005) Statistics Bureau, Ministry of Internal Affairs and Communications

- (Note)
- [] indicates the ratio of non-regular employees to all employees excluding executives.
 - The real numbers and ratios in and after 2005 use the figures which are retroactively tabulated by using the estimated population (new criteria) based on the population under the Population Census 2010.
 - The classification of employment form is determined on the basis of how it is called at the workplace.

(Breakdown of employees)



Source: Prepared by the Office of Counselor for Labour Policy, MHLW, based on the "Survey on Actual Situation of Fixed-Term Labour Contracts 2011" Ministry of Health, Labour and Welfare, "General Survey on Diversified Types of Employment" (2010) Ministry of Health, Labour and Welfare, and "Labour Force Survey (Details Tabulation)" Statistics Bureau, Ministry of Internal Affairs and Communications

(Increased non-regular employment and necessity of "diversified ways of working")

- During the period of 25 years from 1985 to 2010, while the regular employment has not been decreasing, the ratio of non-regular employees increased, owing to the increase of non-regular employment in many industries, which resulted from the measures taken by the labour demand side in saving human cost and in dealing with business fluctuation.
- While the use of non-regular employees by companies is more and more diversified, we observe cases that the non-regular employees have come to play a core role and have become a substantial part of workforce; however, the percentage of companies planning to increase the ratio of regular employees in the future exceeds the percentage of companies planning to increase the ratio of non-regular employees.
- Most of the non-regular employees are fixed-term employees. Also, the fixed-term employees account for 28% of all employees, and it is expected that more employees will move from fixed-term employment to permanent (or non-fixed term) employment.
- From the companies' viewpoint of motivating employees and improving productivity through securing of human resources and increasing their stability, and from the workers' viewpoint of developing careers of non-regular employees and securing more stable employment, we need to facilitate "diversified ways of working" which will lead to the expansion of employment and income through growth.