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Analysis of the Labour Economy

- Deal with Labour Shortages -

[Summary]

September 2024

Ministry of Health,
Labour and Welfare

Main point of the 2024 Analysis of the Labour Economy

【Labour economy in 2023: Trends and Characteristics】

- In 2023, employment in Japan showed a sign of improvement as job openings steadily increased. The number of regular employees increased for the ninth consecutive year, mainly among women. More businesses experienced labour shortages in the year than before the COVID-19 pandemic. (⇒Page 2)
- Total cash earnings increased for the third consecutive year. Major private sector companies increased wages by 3.6%, the figure exceeding the previous year's growth for the second straight year. However, real wages declined due to rising prices. (⇒Page 3)
 - ※ Real wages: down 2.5% from the previous year (down 1.0% in 2022, up 0.6% in 2021)

【Japan's labour shortage: past trends and background】

- Over the past half century, Japan has experienced labour shortages three times: in the first half of the 1970s, between the second half of the 1980s and the first half of the 1990s, and the 2010s to the present. Since the 2010s, more companies have experienced a worker shortage than in the past, and the shortage has lasted for a long time. (⇒Page 4)
- Multiple factors such as a growing demand for workers, shorter working hours and an increasing share of service jobs in employment have contributed to labour shortages. Since the 2010s, the shortages have persisted for a longer period of time, and such a trend is expected to continue as the country's population is projected to keep aging and shrinking. (⇒Pages 5-6)

【Labour shortages since the 2010s】

- Data on labour shortages (gaps between labour supply and labour demand) by industry and occupation shows that in general, labour supplied has been less than labour demanded since 2017, and shortages of labour were already observed across a wider range of industries and occupations in 2023. (⇒Page 7)
- Labour mobility from smaller to larger firms has been increasing. In Japan, wage growth is highly sensitive to job openings rates*, and this suggests that labour shortages could push wages higher. (⇒Page 8)
 - *Job opening rate : the proportion of unfilled job openings to the total number of general workers

【Achieve a society where everyone can play an active role】

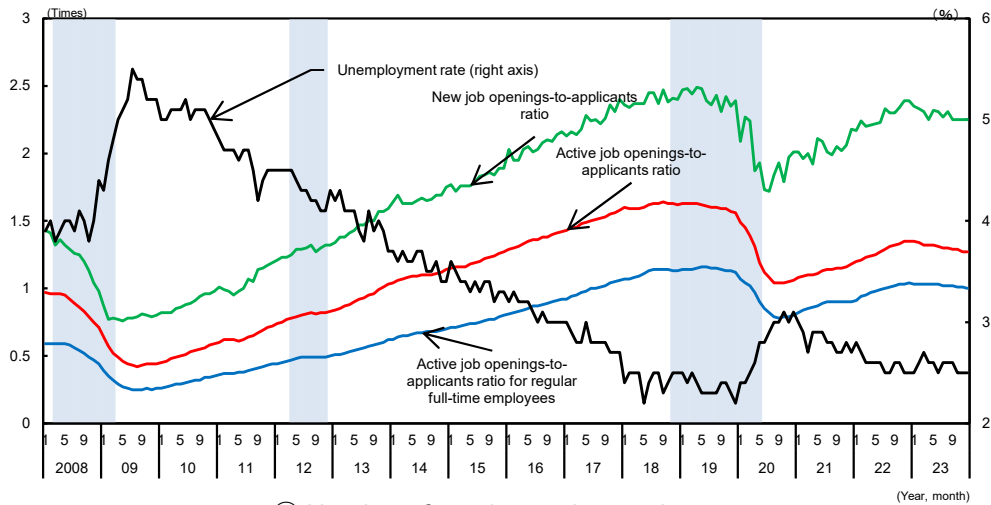
- Approximately 4.6 million people not engaged in work are not seeking employment though they wish to work while about 3.2 million people not engaged in work are looking for a job. The most common reason for not seeking employment is illness, injury, or being old, while for women age 59 and under, it is childbearing, childcare, and caring an aged or sick family member. (⇒Page 9)
- The employment rate for women in Japan is comparable to that of other countries; however, the rate of part-time employment among female workers is higher. When women who were not in the labour force and those who were unemployed join the workforce, they work mainly as non-regular employees. The employment rate of older adults is high in Japan compared to other countries. However, a decline in the employment rate is seen for those age 65. As the number of foreign workers has been increasing in recent years, it is important to comprehensively improve employee benefits such as wages and holidays to attract more foreign nationals. (⇒Pages 10-12)

【Deal with labour shortages】

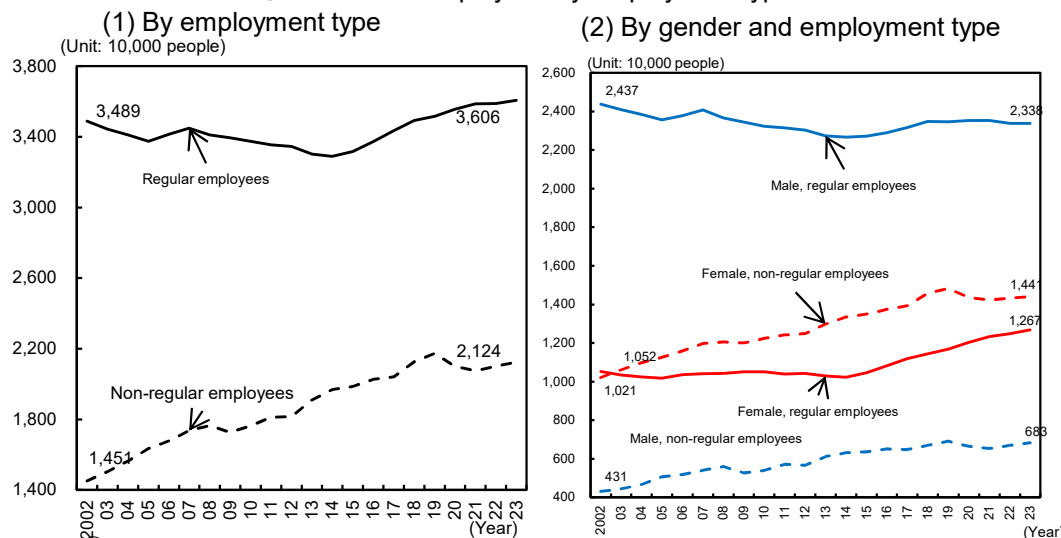
- Reducing employee turnover is vital to alleviating labour shortages in the nursing care, retail and service sectors. According to an analysis of effective efforts to address labour shortages, in general, it is important to improve the work environment and employment conditions besides raising wages and reducing overtime. Such improvements include introducing devices that can reduce workers' physical burden, providing counselling and consultation services, offering training programs, and creating a better payroll system. (⇒Pages 13-14)
 - Nursing care sector: paying wages higher than standard wages for workers in the same job, providing employee counselling and consultation, giving a bonus on a regular basis, introducing ICT devices, etc.
 - Retail and service sector: paying a monthly wage of at least 200,000 yen, providing training, improving work environments, and employment conditions such as a payroll system, etc.

- In 2023, employment in Japan showed a sign of improvement as job openings steadily increased.
- The number of regular employees increased for the ninth consecutive year, mainly among women. The number of non-regular employees, both men and women, has been increasing over the long term.
- More businesses experienced labour shortages than before the COVID-19 pandemic, especially those in the accommodation and restaurant services sector.

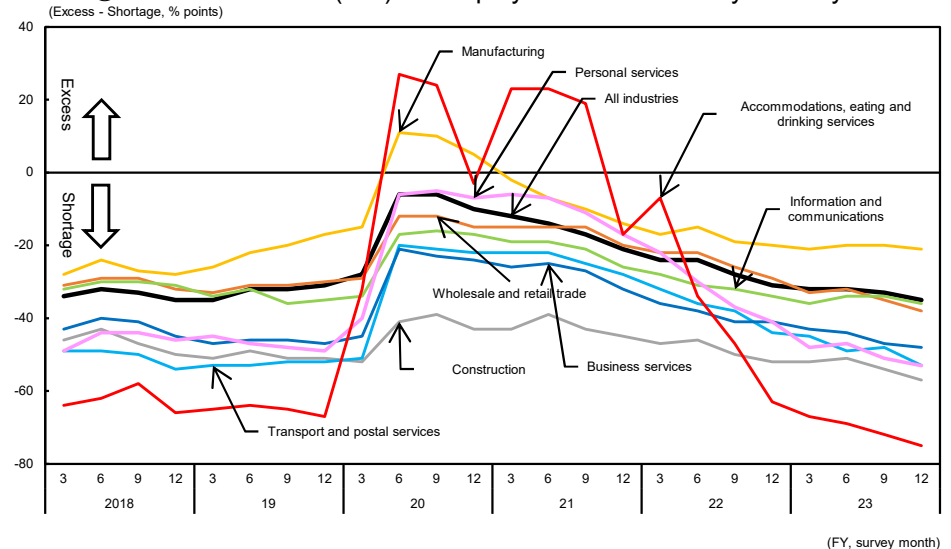
① Job-openings-to-applicants ratio and unemployment rate, etc.



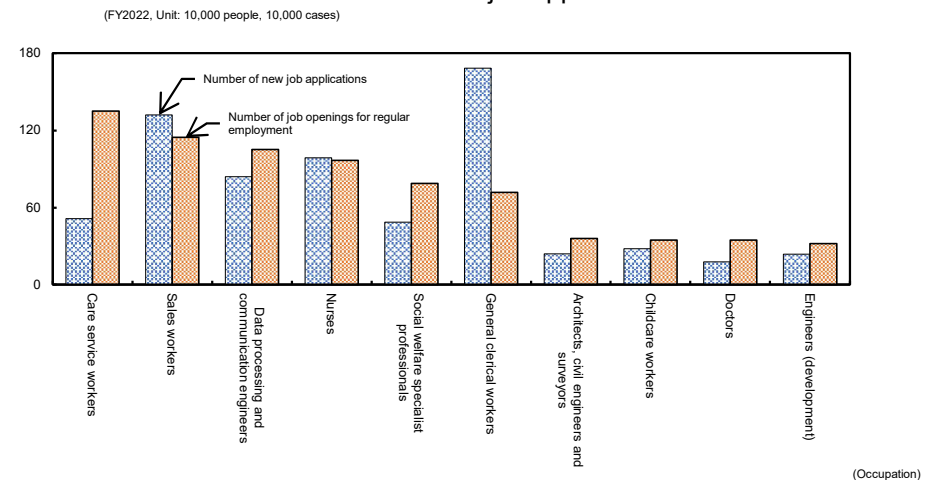
② Number of employees by employment type



③ Diffusion indexes (D.I.) for employment conditions by industry



④ By occupation: The number of job openings for regular employment / the number of new job applications

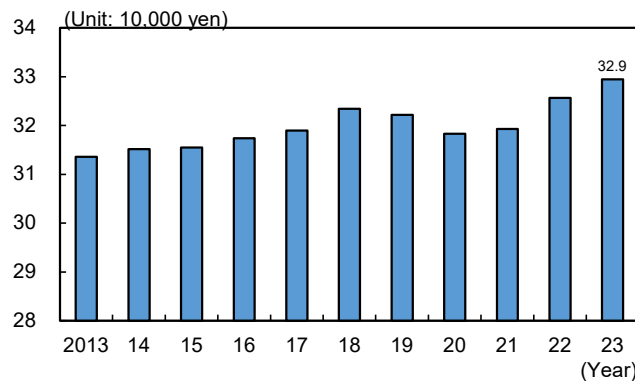


Source: ① "Employment Security Statistics," MHLW; ② "Labour Force Survey" (Basic Tabulation), Statistics Bureau of MIC; ③ "Short-term Economic Survey of Principal Enterprise in Japan," Bank of Japan; ④ "Aggregate Results of Job Placement Business Report (Preliminary Report)," MHLW. *The number of job openings for regular employment : The number of vacancies for indefinite-term jobs and fixed-term jobs for the period of four months or longer

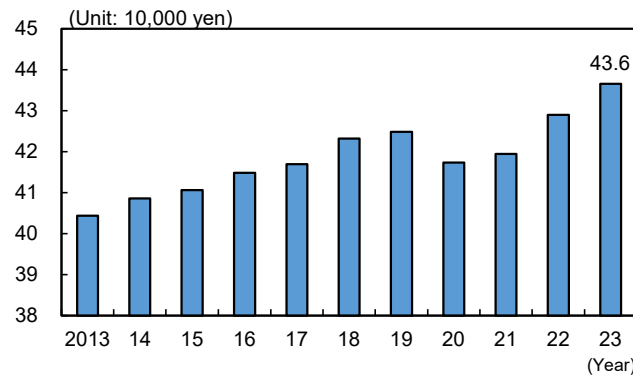
- Total cash earnings in 2023 increased for the third consecutive year.
- In December 2023, nominal wages increased for the 24th consecutive month, and real wages decreased for the 21st straight month due to rising prices.
- Major private sector companies raised wages by 3.60 percent in 2023, the second highest pay increase in 30 years following the 3.89 percent raise in 1993.
- * Companies increased wages by 5.1 percent in 2024, the biggest pay hike in 33 years since 1991 when it logged 5.66 percent. (Survey results by Japan Trade Union Confederation (Rengo)).

① Total cash earnings (monthly)

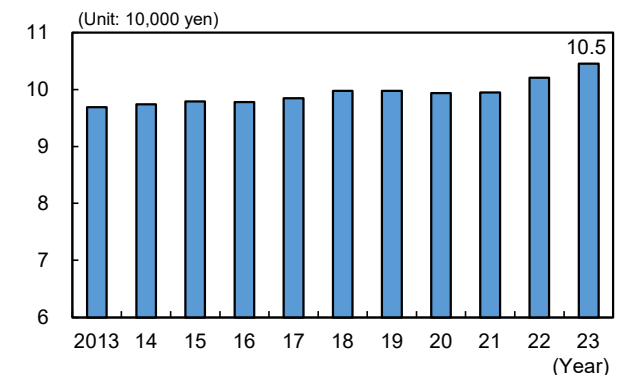
(1) All employment types



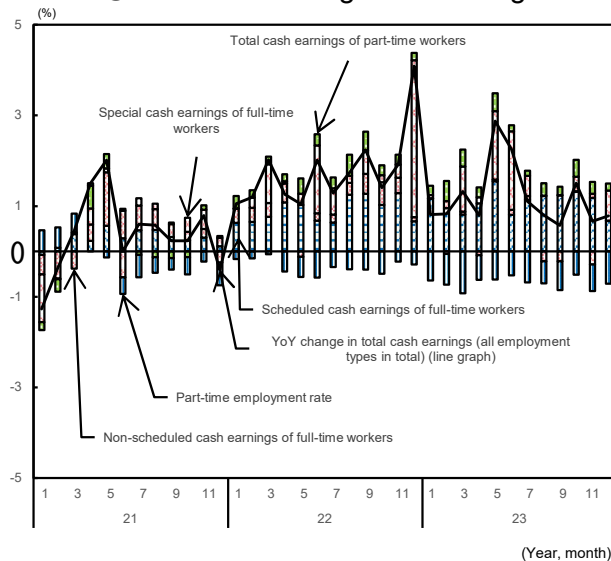
(2) Full-time workers



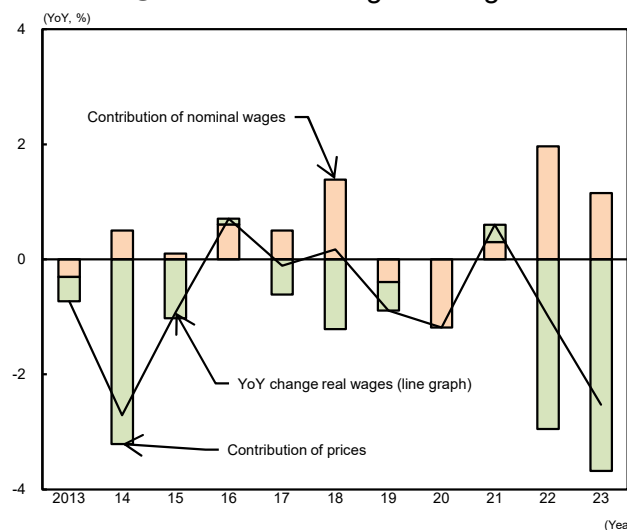
(3) Part-time workers



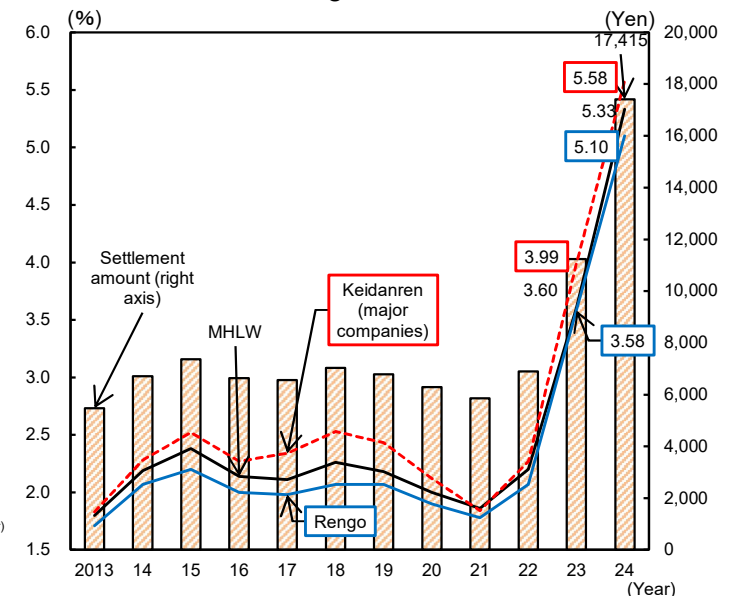
② Factors affecting nominal wages



③ Factors affecting real wages



④ Results of wage increase calculations



II. How to Address Labour Shortages

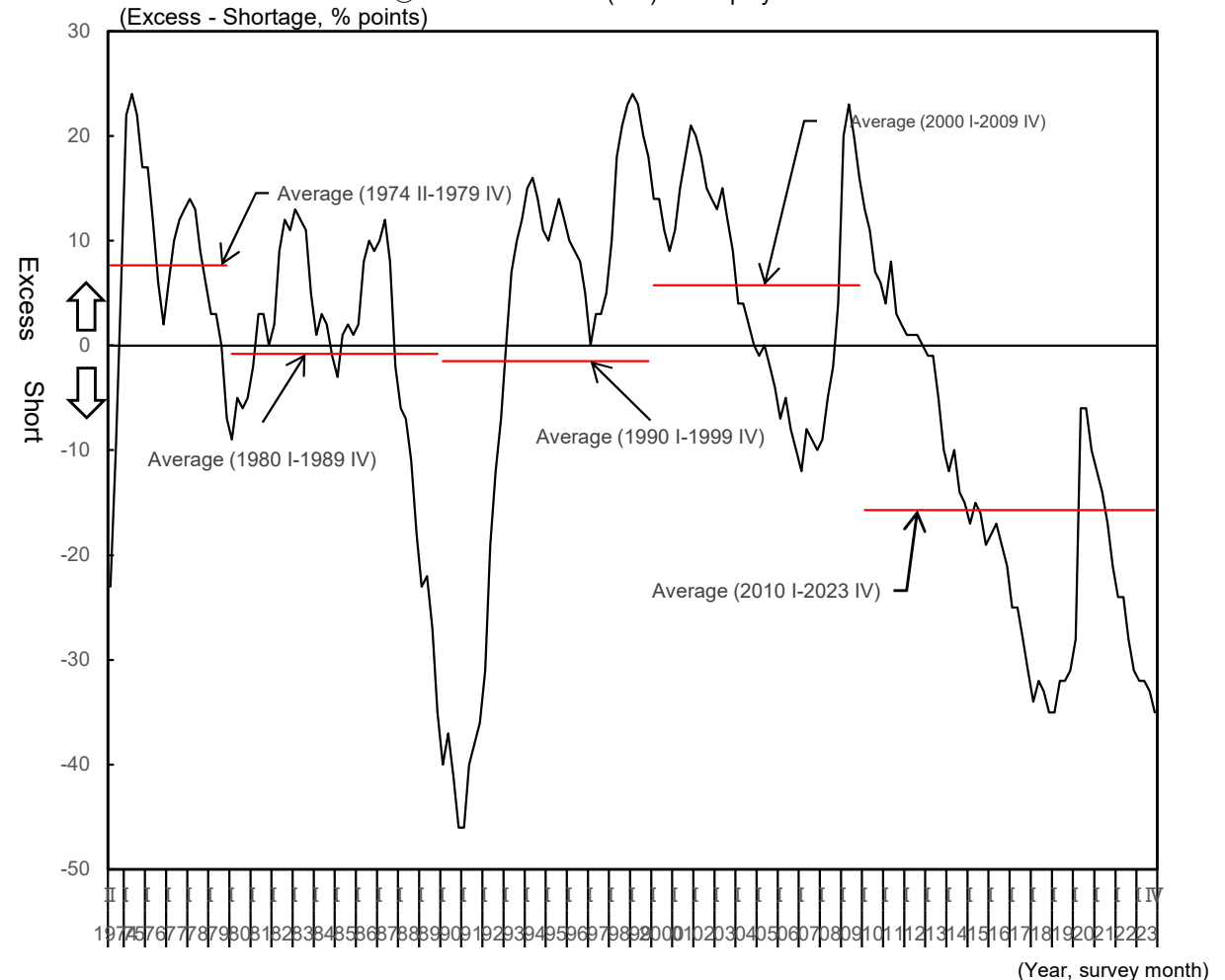
Japan's Labour Shortage: Past Trends and Background ①

- Over the past half century, Japan has experienced labour shortages three times: in the first half of the 1970s (around the end of the period of the country's rapid economic growth), between the second half of the 1980s and the first half of the 1990s (during the economic bubble), and the 2010s to the present.
- * Employment situations worsened over the long term between the late 1990s and the 2000s.
- Since the 2010s, more companies have experienced a worker shortage than in the past, and it has lasted for a long time.

① Employment and unemployment situations



② Diffusion indexes (D.I.) for employment conditions



Source: ① "Employment Security Statistics," MHLW; "Labour Force Survey" (Basic Tabulation), Statistics Bureau of MIC; ② "Short-term Economic Survey of Principal Enterprise in Japan," Bank of Japan.

➤ The past phases of labour shortages have the following characteristics.

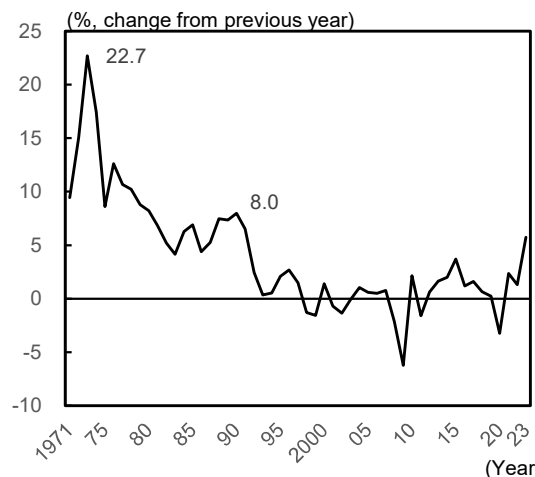
- An excess demand for labour was the main cause of the labour shortage in the early 1970s when the country experienced rapid economic growth.
- The growing importance of the service sector in the economy and a reduction in working hours among full-time workers contributed to the shortage of the workforce in the late 1980s and the early 1990s.

*Due to the factors above, the number of part-time workers, particularly female workers, has increased rapidly since the 1980s.

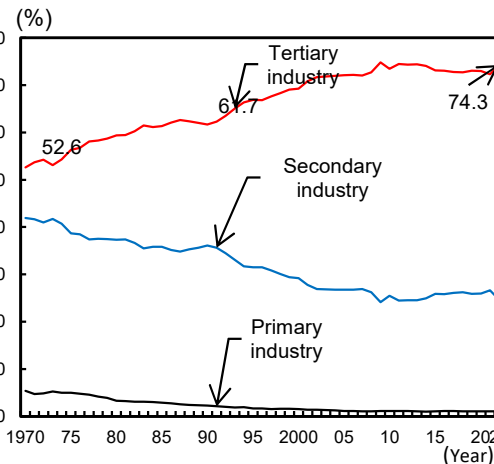
- Since the 2010s, the demand for labour has increased due to the economic recovery. The aging of society is expected to continue.

➤ Boosting labour productivity and increasing labour force participation rates are necessary to tackle the labour shortage as the country's population is expected to continue shrinking and aging.

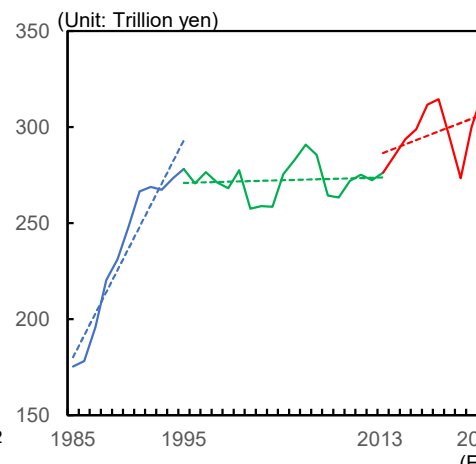
① GDP growth rate



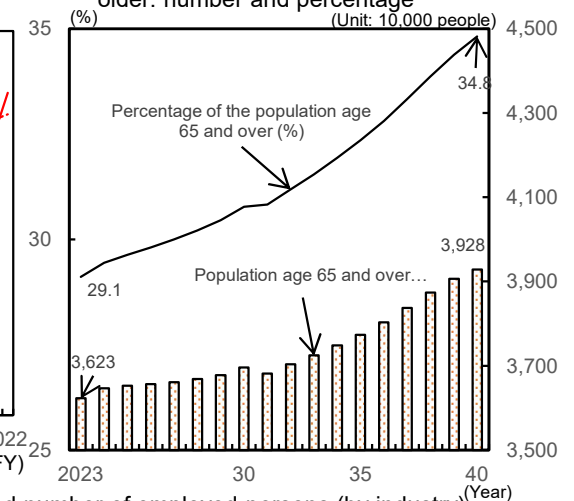
② GDP composition by industry



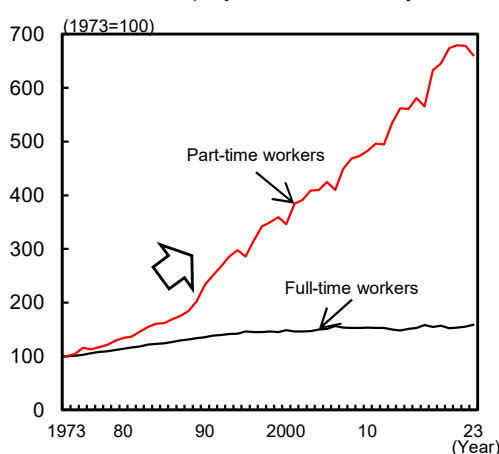
⑤ Added value generated by companies



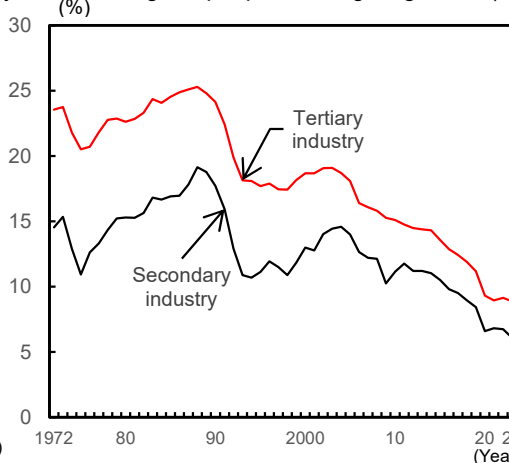
⑥ Projection of the population 65 years and older: number and percentage



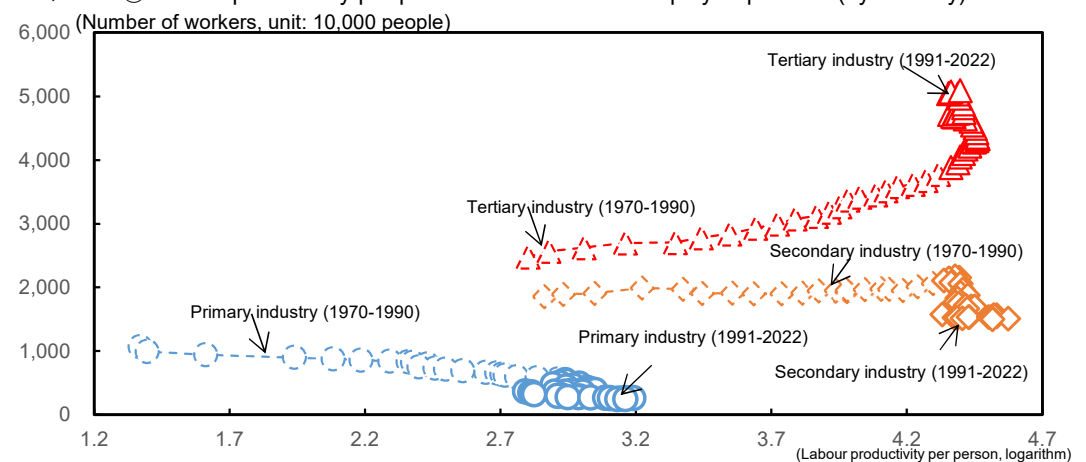
③ Number of employees in the tertiary industry



④ Percentage of people working long hours (full-time)



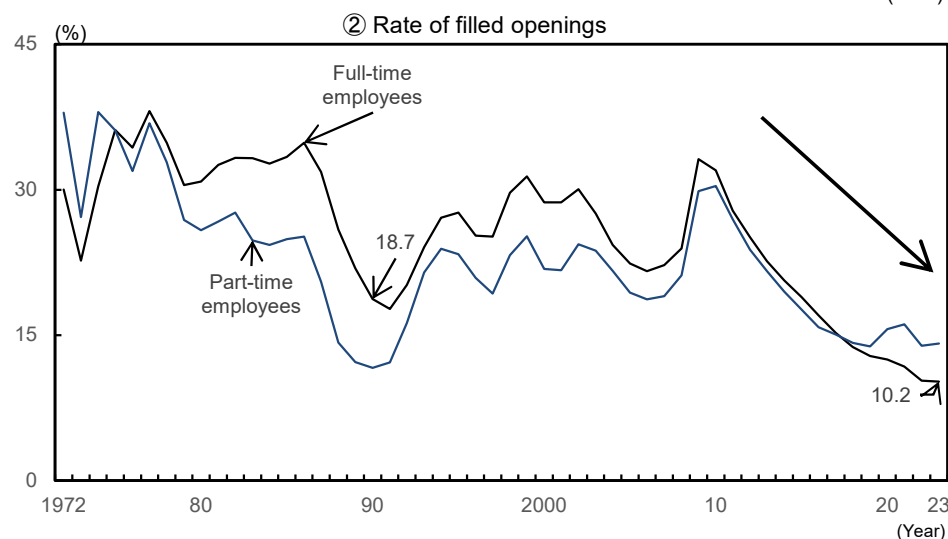
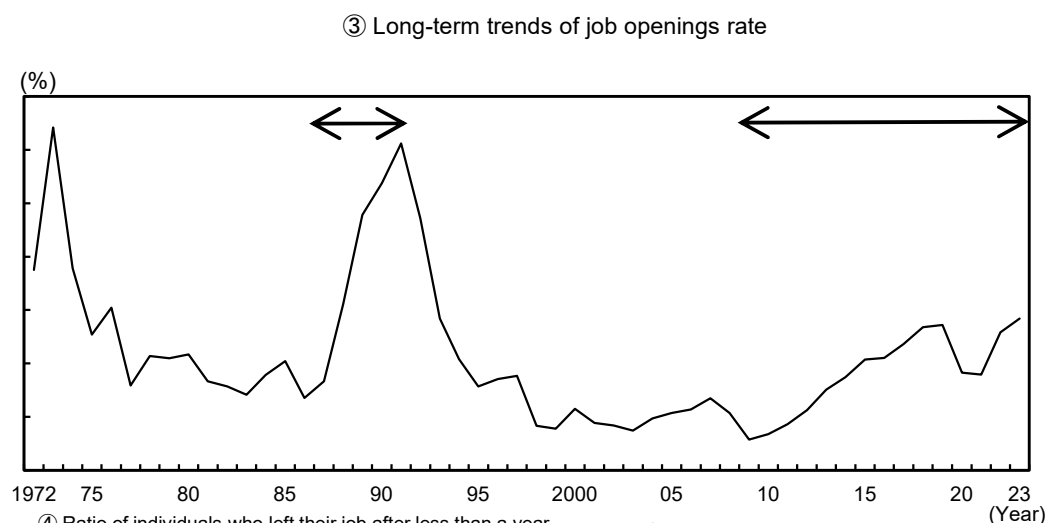
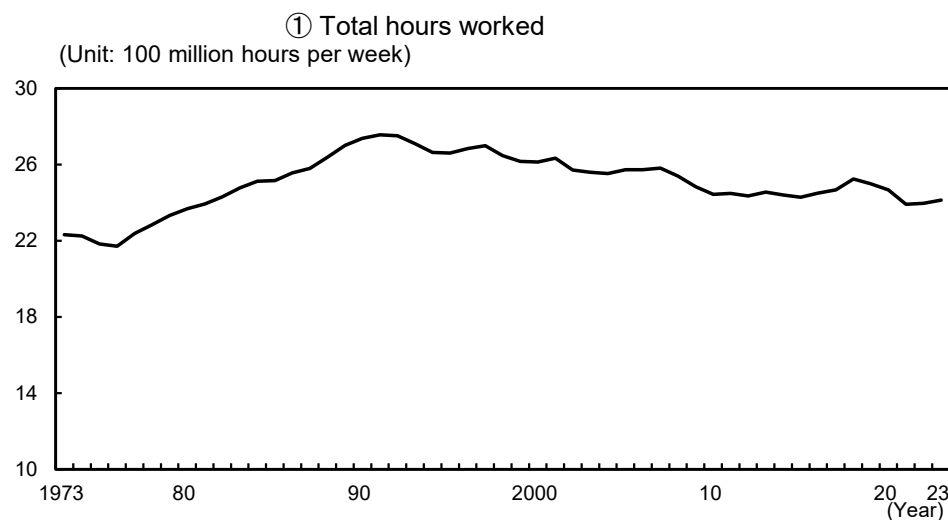
⑦ Labour productivity per person and number of employed persons (by industry)



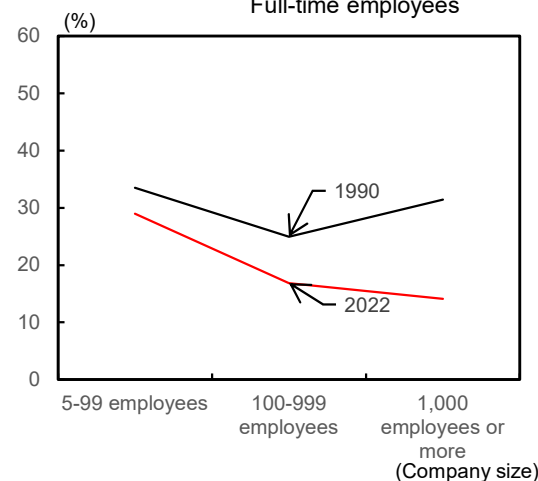
Japan's Labour Shortage: Past Trends and Background ③

- Comparing the labour supply based on the total hours worked (number of employed persons × hours worked), the total hours worked in 2023 was below the level in 1990. This is because weekly hours worked declined despite an increase in the number of employed persons.
- The job openings rates for companies in the 2010s were not as high as those in the previous years. However, the rate of filled openings in 2023 was the lowest level in half a century. Given the expected population decline in the future, labour shortages are likely to persist for a longer period of time than in the past.

Rate of filled openings : The ratio of hires to new job openings



④ Ratio of individuals who left their job after less than a year of getting hired to employees who were hired in the past year
Full-time employees

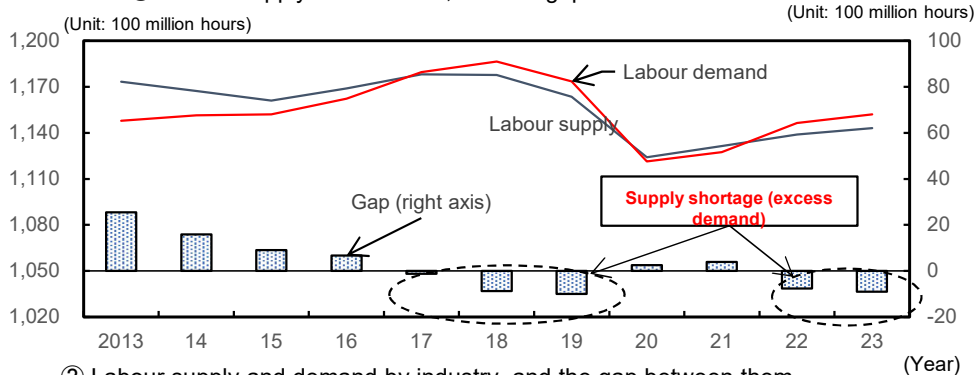


⑤ Comparison of hiring rates

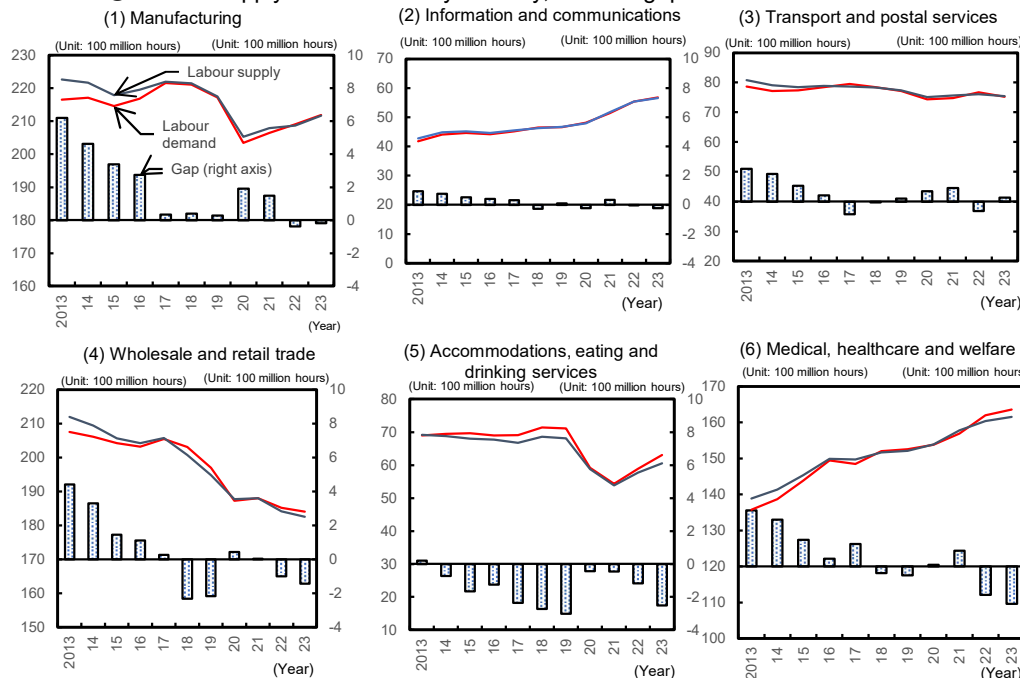


- Labour supplied has been less than labour demanded in general since 2017. This means that demand for labour exceeds supply of labour needed even if the maximum available quantity of labour is supplied.
- The gap between labour supply and demand (shortfall in labour supply) has been in negative territory in many years since the 2010s in industries such as wholesale and retail trade, accommodations, eating and drinking services, and medical, health care and welfare. The gap is calculated based on hours worked by industry and occupation by subtracting labour demand from labour supply.
- Labour shortages occur across a wider range of industries and occupations.

① Labour supply and demand, and the gap between them



② Labour supply and demand by industry, and the gap between them



③ Gap between labour supply and demand
(1) 2013

	Administrative and managerial workers	Professional and engineering workers	Clerical workers	Sales workers	Service workers	Security workers	Manufacturing process workers	Transport and machine operation workers	Construction and mining workers	Carrying, cleaning, packaging, and related workers	Total
2013											
Mining and quarrying of stone and gravel	-	-	-	-	-	-	-	-	-	-	0
Construction	79	474	-	-	381	-	7,663	-	7,033	-	15,630
Manufacturing	-	-	-	-	-	-	-	-	-	-	0
Electricity, gas, heat supply and water	-	-	-	-	-	-	-	-	-	-	0
Information and communications	-	-	-	155	-	-	-	-	-	-	155
Transport and postal services	-	92	-	-	-	-	-	616	-	-	708
Wholesale and retail	-	-	-	-	-	-	-	-	-	-	0
Finance and insurance	-	-	-	-	-	-	-	-	-	-	0
Real estate and goods rental and leasing	-	-	-	-	-	-	-	-	75	-	75
Scientific research, professional and technical services	-	-	-	-	-	-	-	-	-	-	0
Accommodations, eating and drinking services	56	391	-	757	-	-	-	-	-	-	1,205
Living-related and personal services and amusement services	-	-	-	-	-	-	-	-	-	-	0
Education, learning support	-	-	-	-	-	-	-	-	-	-	0
Medical, health care and welfare	9	-	-	-	-	119	-	-	-	-	128
Compound services	-	-	-	-	-	-	-	-	-	-	0
Services, n.e.c.	-	-	-	-	-	-	1,214	-	44	-	1,258
Total	145	957	0	912	381	119	8,877	616	7,152	0	19,159

(2) 2023

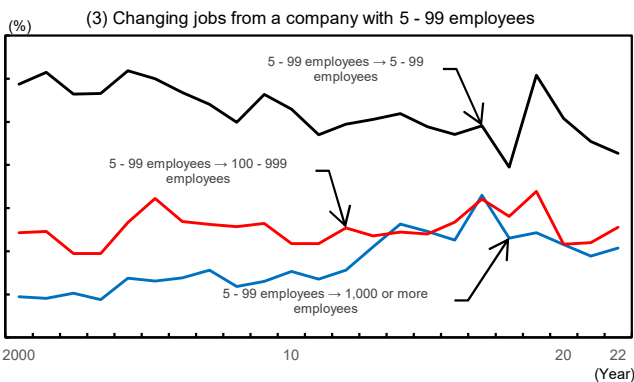
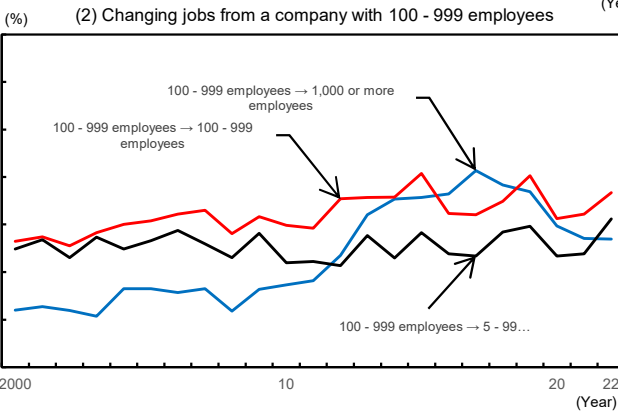
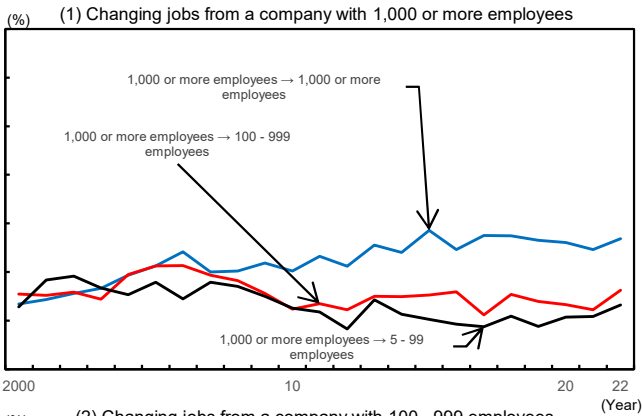
	Administrative and managerial workers	Professional and engineering workers	Clerical workers	Sales workers	Service workers	Security workers	Manufacturing process workers	Transport and machine operation workers	Construction and mining workers	Carrying, cleaning, packaging, and related workers	Total
2023											
Mining and quarrying of stone and gravel	-	-	-	-	-	-	-	88	-	-	88
Construction	1,139	4,123	-	1,134	-	-	1,365	3,132	17,563	-	28,456
Manufacturing	83	33	-	2,314	15	1	9,395	29	249	-	12,118
Electricity, gas, heat supply and water	-	-	-	-	-	-	-	-	-	-	0
Information and communications	20	4,406	-	789	-	-	-	-	-	63	5,279
Transport and postal services	-	-	-	-	167	-	383	4,371	-	-	4,921
Wholesale and retail	-	2,396	-	16,153	58	-	1,701	110	-	-	20,417
Finance and insurance	-	-	-	-	-	-	-	-	-	-	0
Real estate and goods rental and leasing	50	103	-	1,022	978	-	147	335	80	-	2,716
Scientific research, professional and technical services	-	1,596	-	-	-	-	-	-	-	220	1,816
Accommodations, eating and drinking services	117	216	-	1,952	23,001	-	206	-	-	196	25,687
Living-related and personal services and amusement services	-	755	-	1,014	6,922	-	-	282	-	-	8,973
Education, learning support	-	-	-	487	-	-	-	281	-	-	767
Medical, health care and welfare	57	7,009	-	-	12,732	-	-	5,492	-	-	25,290
Compound services	-	-	-	-	-	-	-	-	-	-	0
Services, n.e.c.	-	987	-	794	135	4,746	5,834	1,449	76	-	14,021
Total	1,465	21,623	0	25,660	44,008	4,747	19,031	15,568	17,969	480	150,550

Source: "Survey on Employment Trends" and "Employment Security Statistics," MHLW, and "Labour Force Survey" (Basic Tabulation), MIC.

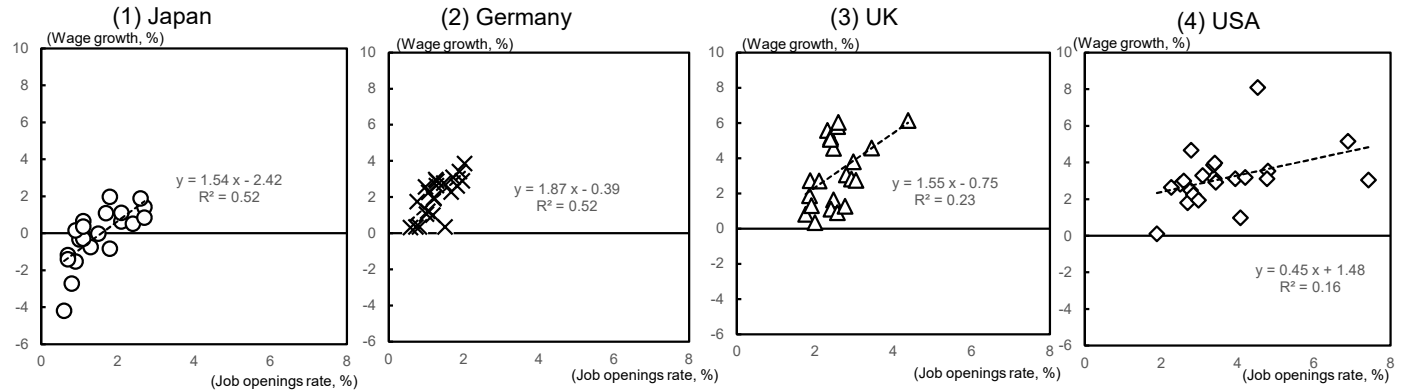
(Note) The "gap in labour supply and demand" is considered to be adjusted over the long term by changes in wages, etc. Also, "labour supply" refers to "the labour that those currently participating in the labour market may supply to the maximum extent." Please note that this does not include the potential labour supply of persons who are not in the labour force at that time but wish to participate in the labour force.

- As businesses face shortages of workers, labour mobility between companies, especially from smaller to larger firms, has been increasing.
- In Japan, wages are highly sensitive to the job openings rate compared to the US. Therefore, higher job openings rates in the future could lead to wage hikes.

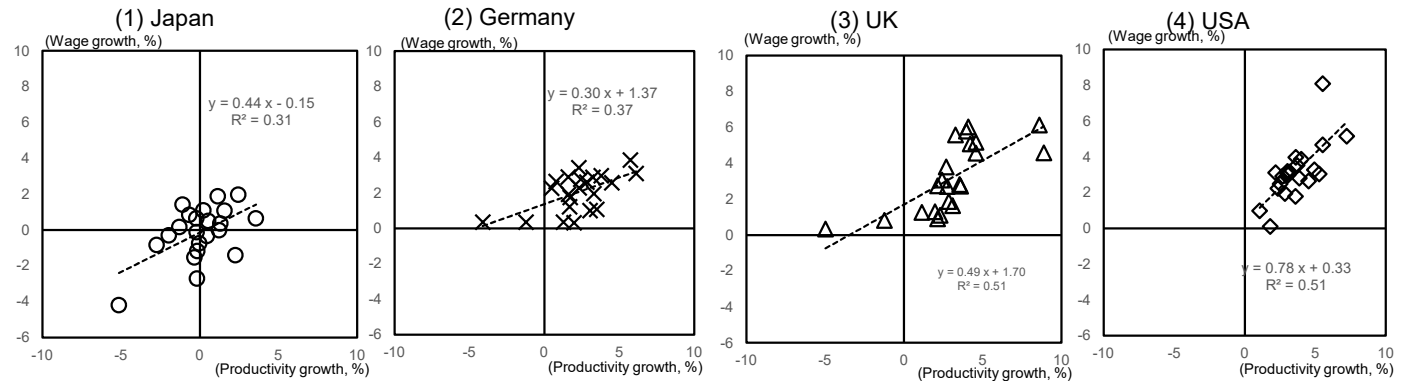
① Labour mobility between companies of different sizes



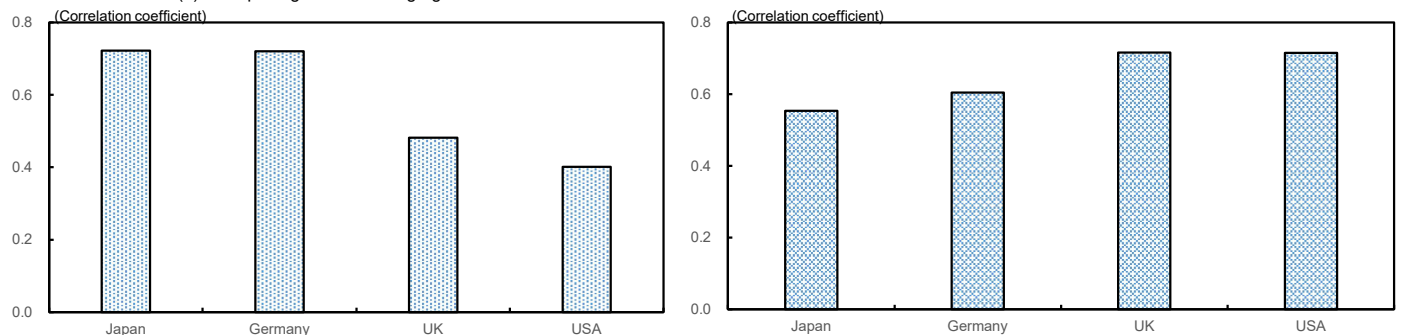
② Labour shortages and wages



③ Productivity and wages



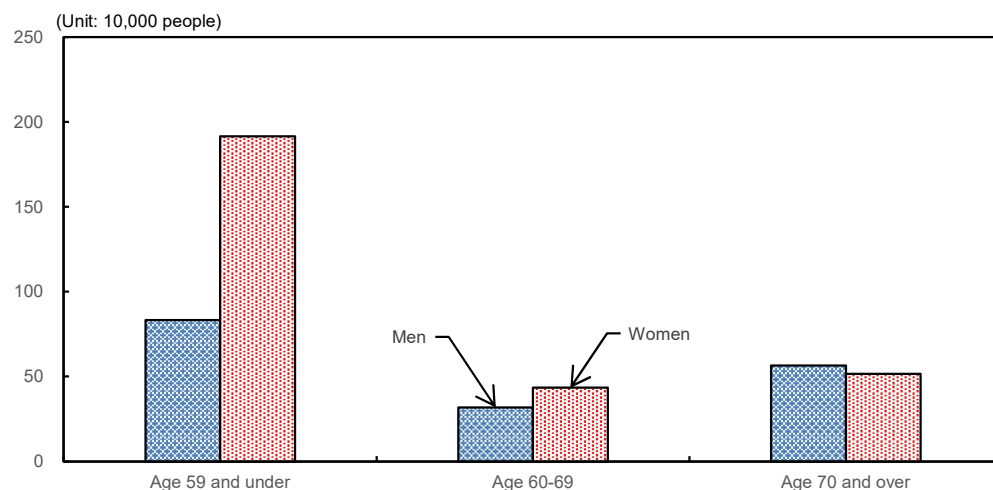
④ Correlation coefficient between job openings rate and wage growth and between productivity growth and wage growth



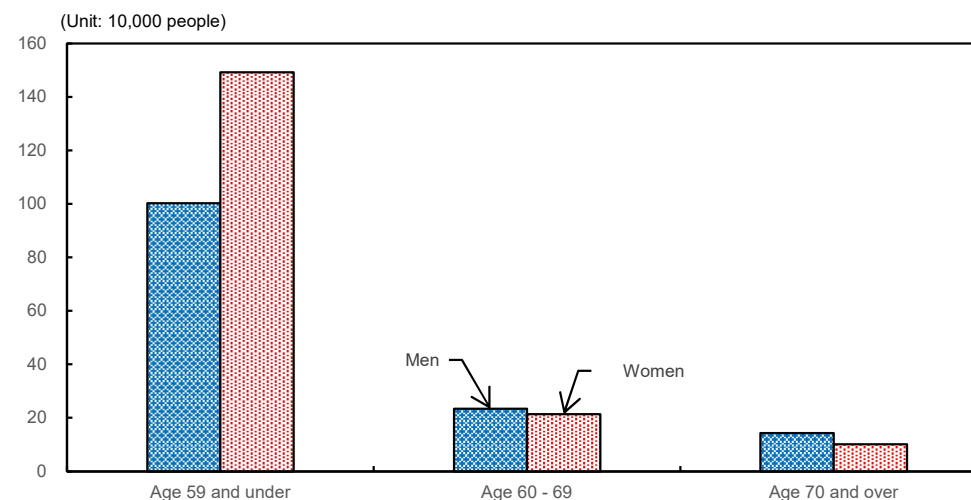
- About 8million people are not engaged in work, and they are either looking for a job or not seeking employment though they wish to work. The most common reason for not seeking employment is illness, injury, or being old, while for women age 59 and under, it is childbearing, childcare, and caring an aged or sick family member.
- A total of about three million regular and nonregular employees want to increase their working hours. Also, about five million workers wish to have a job in addition to their main occupation. Meanwhile, approximately 7.5 million employees prefer working fewer hours.
- (*) The most common reason given by those who do not wish to work is illness, injury, or being old, with just under 50% of both men and women age 60-69, and over 80% of those age 70 and over. Also, approximately 1 million women, or about 40 % of the total number of women age 59 and under are not engaged in work due to childbearing, childcare, caring an aged or sick family member or housework.

① Potential labour force

(1) Persons not engaged in work who wish to work but are not seeking employment

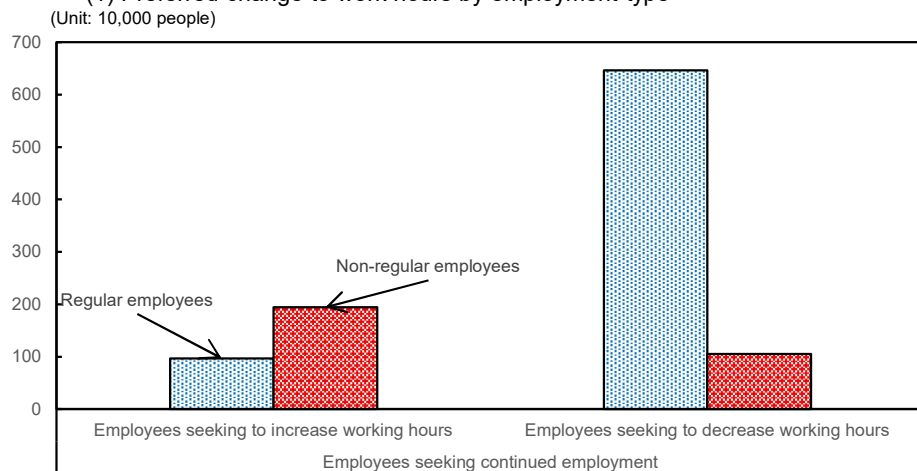


(2) Persons not engaged in work who seek employment

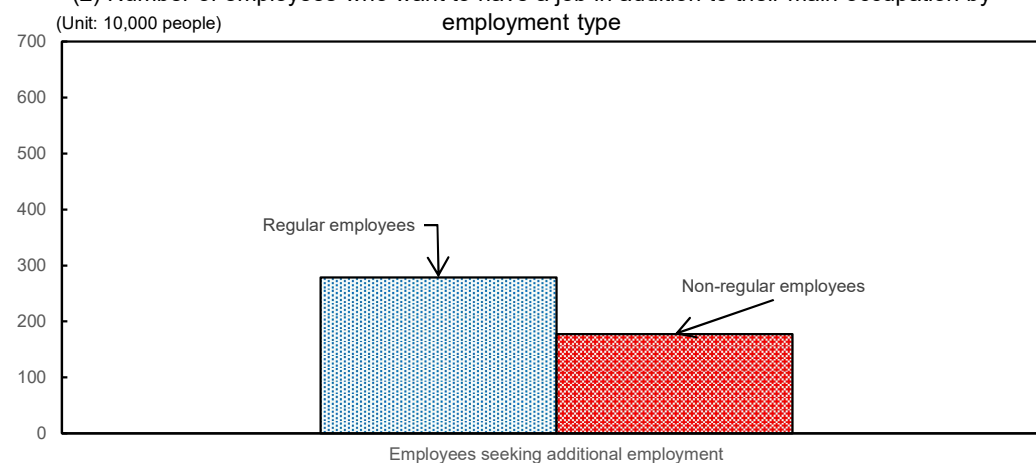


② Preferred change to work hours

(1) Preferred change to work hours by employment type



(2) Number of employees who want to have a job in addition to their main occupation by employment type



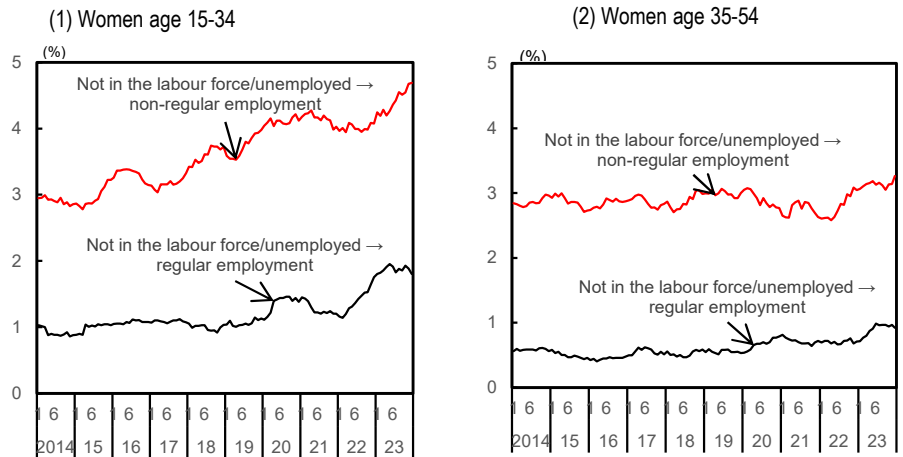
- The employment rate for women in Japan has risen to a level comparable to that of other countries. Meanwhile, the rate of part-time employment among female workers has also increased, reaching a higher level than in other countries.
- The share of female regular employees among all workers has increased, especially among the younger generation, and the percentage of women in regular employment who have continued to work after taking childcare leave has also been on the rise. Meanwhile, women who were not in the labour force or who were unemployed have joined the workforce (or have been re-employed), mostly as non-regular employees.
- Wage gaps between full-time female standard employees* and other full-time female employees widen after age 40. The share of female standard employees also declines after that age.

*Standard employees: workers who were hired immediately after graduation from school and are considered to have worked for the same company

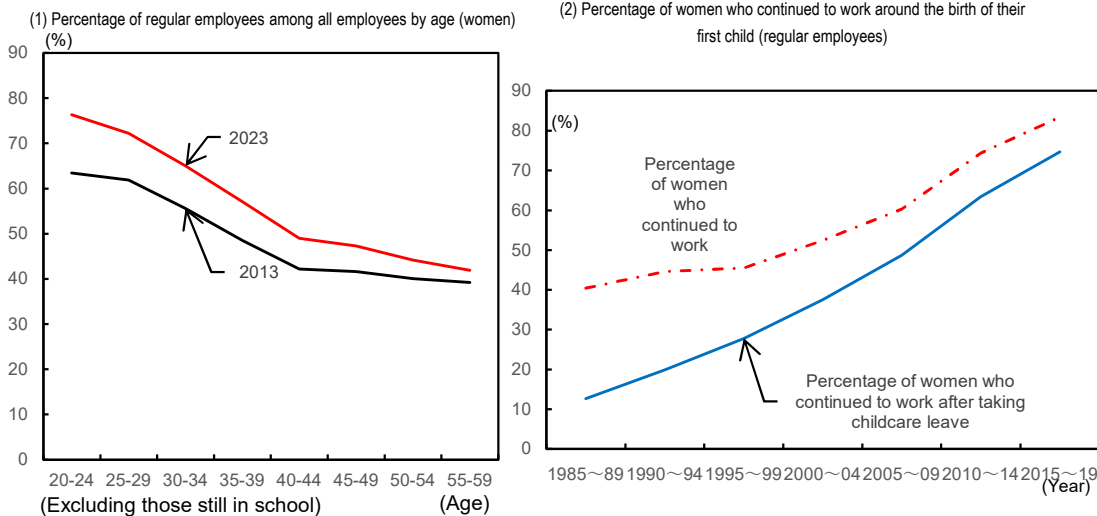
① International comparison of women's employment rate and part-time employment rate



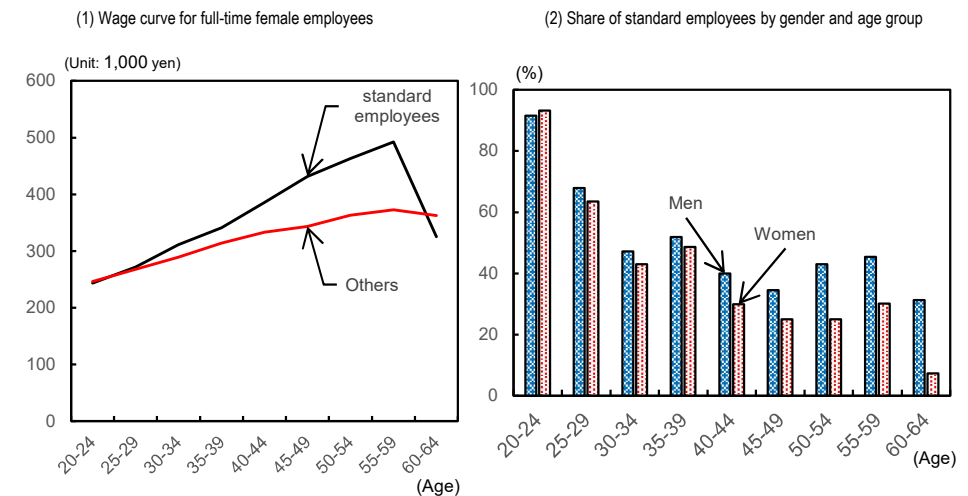
③ Probability of returning to the workforce for women after being not in the labour force or being unemployed



② Women and employment

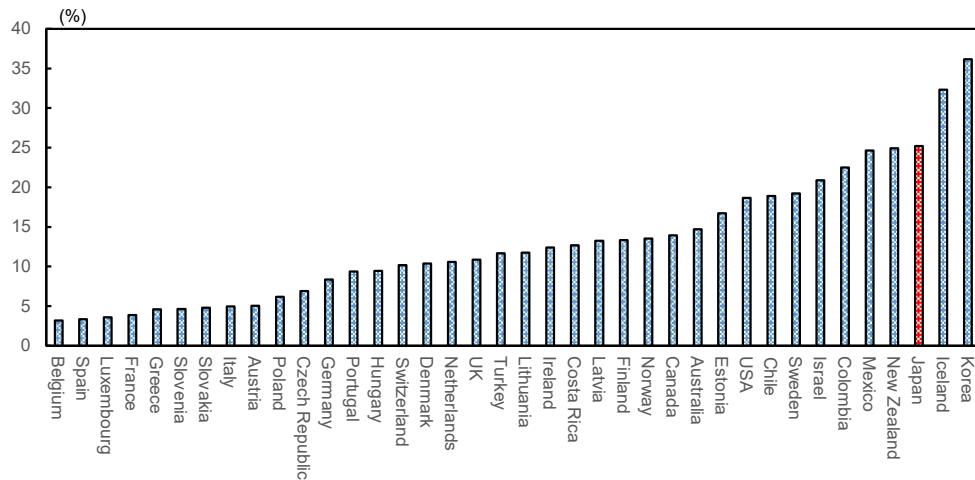


④ Women and wages, etc. (enterprises with 1,000 or more employees)

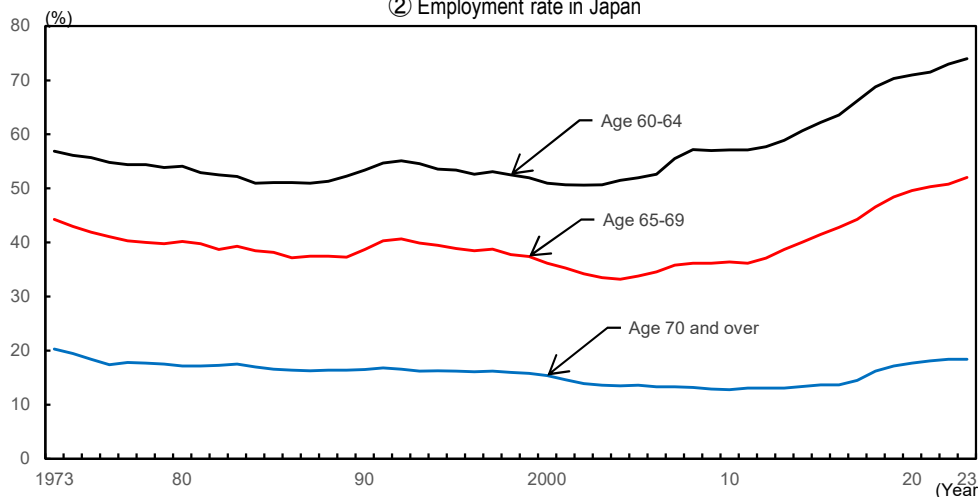


- The employment rate for older adults in Japan is higher than that of other countries.
- The employment rate for older adults has increased since 2013. The increase is significant, particularly among those ages 60-64 and 65-69.
- The so-called “cliff (sudden drop) in the employment rate” used to occur among people aged 60. However, it takes place today among people aged 65 due to government initiatives such as measures to ensure employment of older adults. The share of older people working as nonregular employees tend to increase after they reach age 60, and the tendency is significant among men.

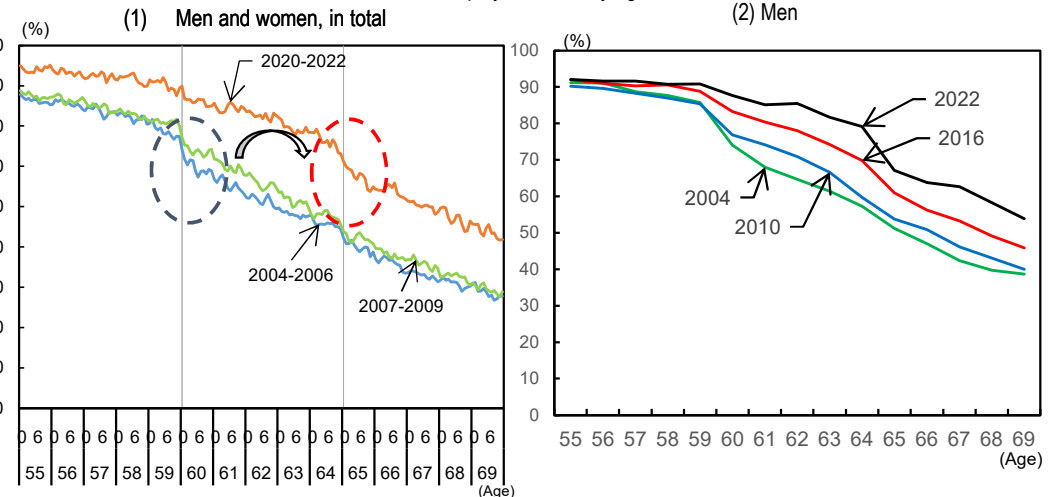
① International comparison of employment rate for persons age 65 and over



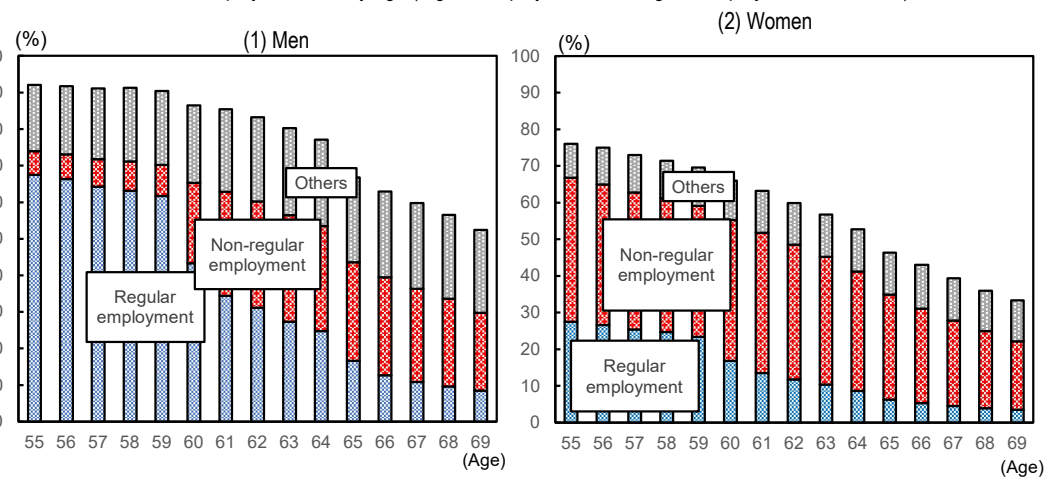
② Employment rate in Japan



③ Employment rate by age



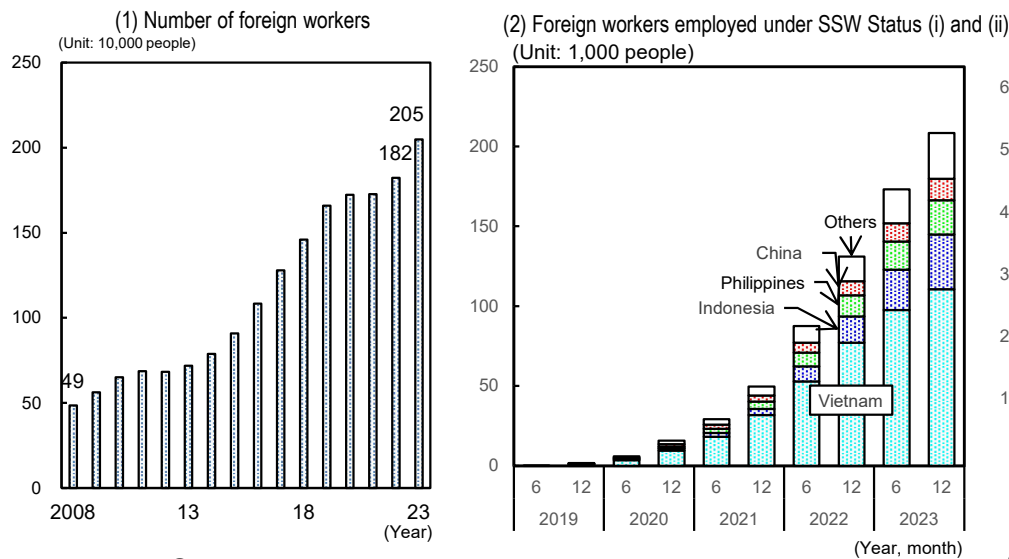
④ Breakdown of employment rate by age (regular employment, non-regular employment and others)



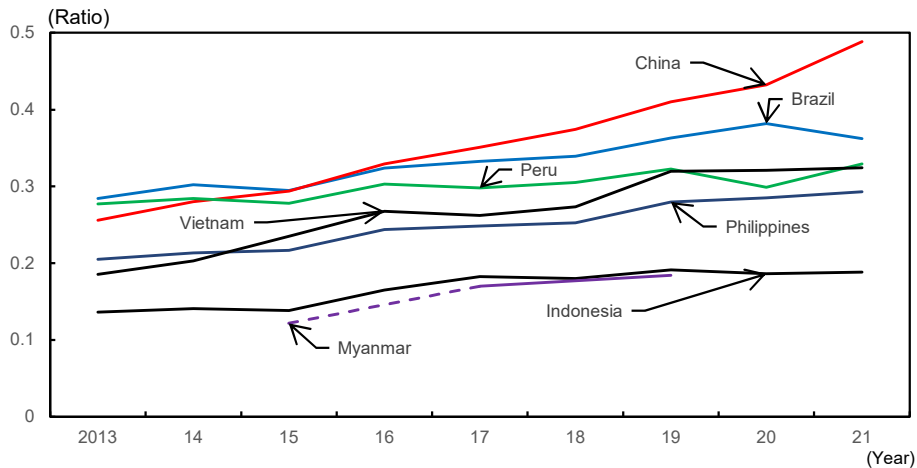
Source: Prepared based on individual questionnaires from ① OECD, Stat, ② Statistics Bureau of MIC “Labour Force Survey (Basic Tabulation)”, ③④ “Labour Force Survey (Basic Tabulation),” Statistics Bureau of MIC.

- A growing number of foreigners, mainly Vietnamese, are working under the Specified Skilled Worker (SSW) System in Japan.
- Wage gaps have been narrowing between Japan and sending countries since wage growth has been slow in Japan.
- According to data on applications for job offers by the Public Employment Security Office, known as Hello Work, the biggest factor for increasing the number of job applications from foreigners is wages. What is more, the number of days off per year also affects job applications, and therefore applications from foreigners might be expected to increase if at least 120 days off per year is provided.

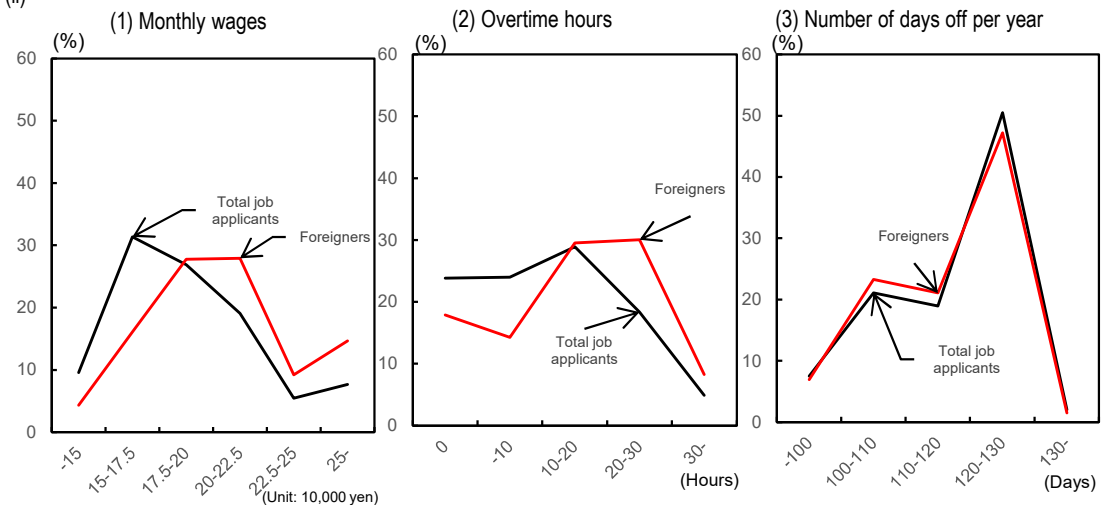
① Foreign workers



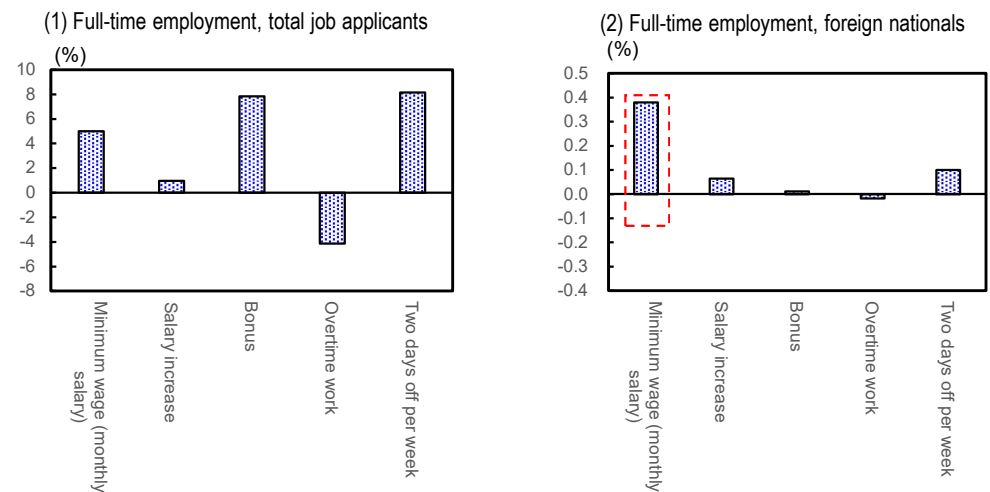
② Ratio of the average wages between major sending countries and Japan



③ Data distribution of job applications to job postings at Hello Work (Total job applicants, foreign nationals)



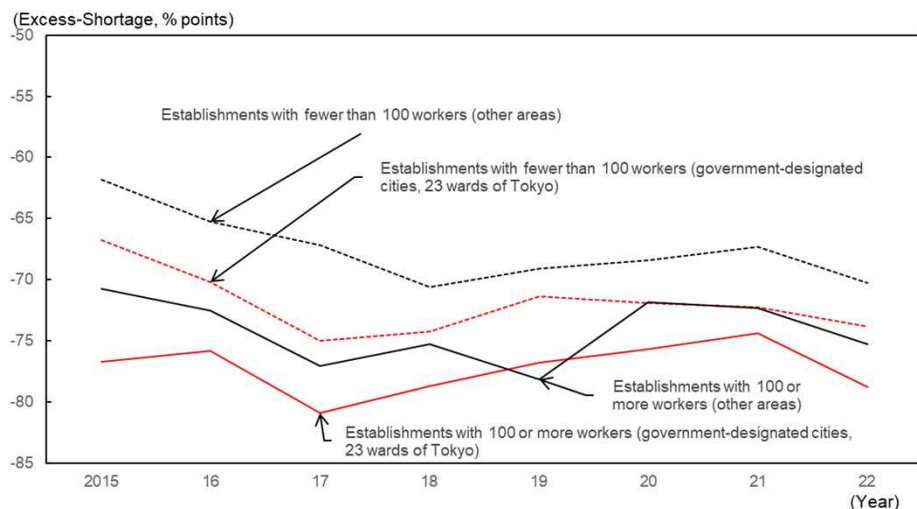
④ Impact of employment conditions outlined in job postings at Hello Work on the applications-to- job openings ratios



Deal with labour shortages (Labour Shortages in the Nursing Care Sector and the Effects of Efforts)

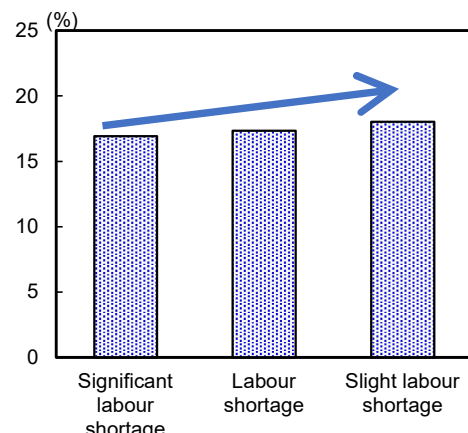
- In the nursing care sector, establishments in urban areas and large-scale facilities face labour shortages.
- Since the hiring rate has been on the decline, reducing employee turnover is the key to addressing the labour shortage in the sector.
- Effective efforts to deal with labour shortages vary depending on how serious the shortages are for establishments providing nursing care services for older adults. However, it is important for establishments facing labour shortages to pay higher wages to their employees than standard wages for workers in the same job, provide employee counselling and consultation, give a bonus on a regular basis and introduce ICT devices.

① Labour shortages in the nursing care sector

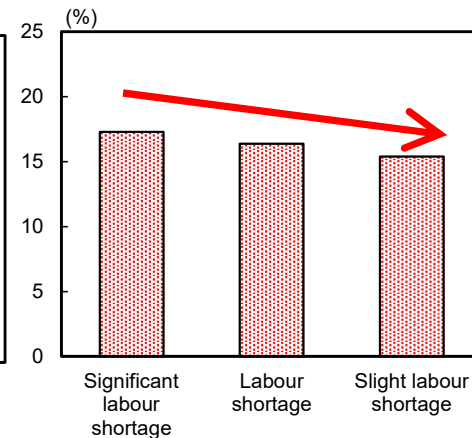


② Correlations between labour shortages and hiring rates and between labour shortages and turnover rates at establishments providing nursing care services for older adults

(1) Correlation between labour shortages and hiring rates

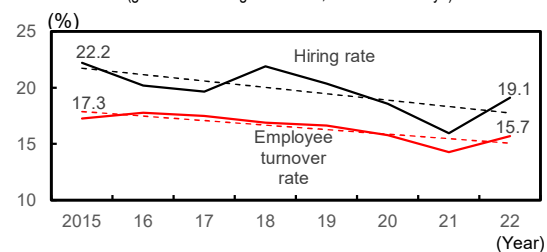


(2) Correlation between labour shortages and turnover rates

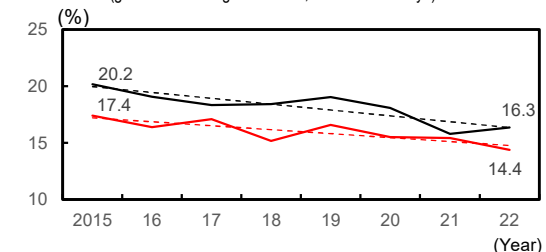


③ Hiring and employee turnover rates at establishments providing nursing care services for older adults

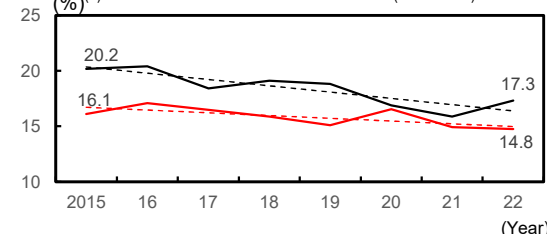
(1) Establishments with fewer than 100 workers
(government-designated cities, 23 wards of Tokyo)



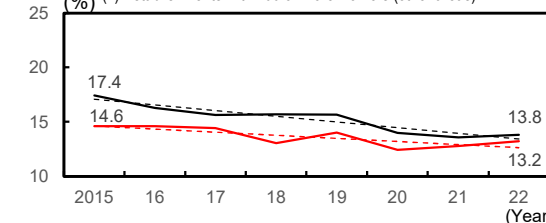
(2) Establishments with 100 or more workers
(government-designated cities, 23 wards of Tokyo)



(3) Establishments with fewer than 100 workers (other areas)



(4) Establishments with 100 or more workers (other areas)



<Results of quantitative analysis>

○ Effective approaches taken by establishments facing a significant labour shortage or a labour shortage

- Introduce assistive products to provide physical relief for care workers
* Assistive products such as bathing aids, wheelchair lifts and wheelchair scales are especially useful.
- Ensure that workers can consult with an employment manager or the person in charge

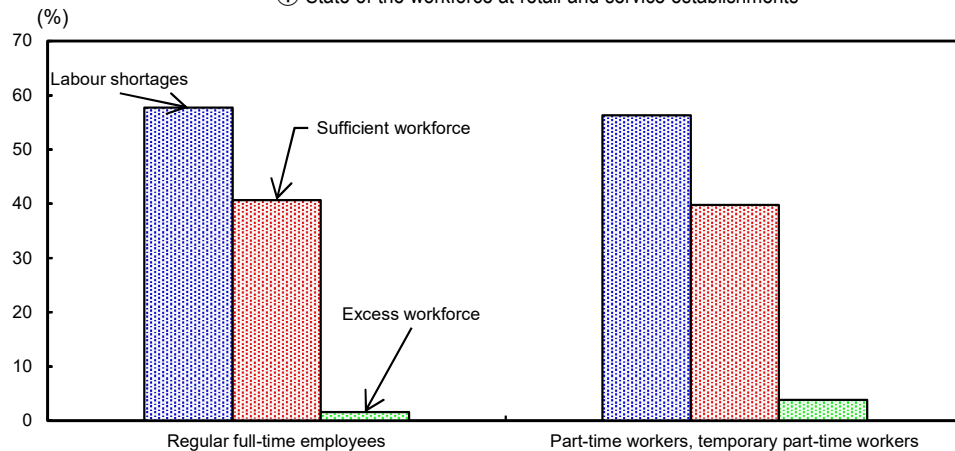
○ Effective approaches taken by establishments facing a slight labour shortage

- Pay wages that are around 10 % higher than wages paid by typical establishments providing nursing care services for older adults
- Provide bonuses on a regular basis
- Introduce ICT devices that reduce administrative workload
* For instance, adopt an integrated payroll and HR management system or a data linkage system through information sharing

Del with Labour Shortages (Labour Shortages and the Effects of Efforts in the Retail and Service sectors)

- More than 50 percent of establishments in the retail and service sectors face labour shortages — both regular employees and part-time workers.
- Establishments with labour shortages have higher turnover rates than those with a sufficient or an excess workforce, and this suggests that labour shortages are affected by turnover rates rather than hiring rates. Thus, it is important for establishments to work hard on improving work conditions and keeping workers from leaving to overcome labour shortages.
- Effective efforts to address shortages of workers, especially regular full-time employees, include offering monthly wages higher than a certain level, providing training, improving work environments, and employment conditions such as a payroll system.

① State of the workforce at retail and service establishments

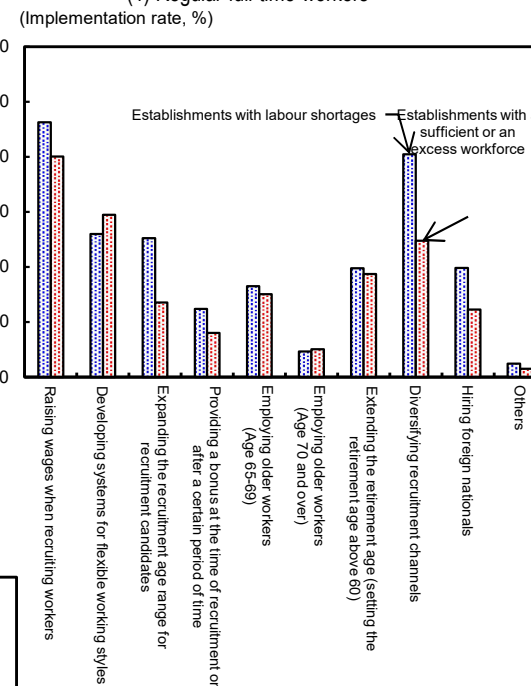


② Correlations between labour shortages and the hiring rate and between labour shortages and the employee turnover rate at retail and service establishments

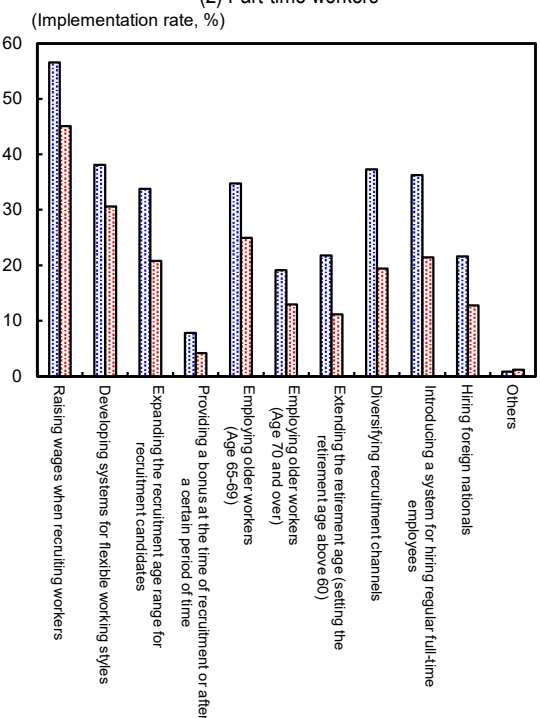


③ Establishments' efforts to secure workforce and recruit workers in the retail and service sectors

(1) Regular full-time workers



(2) Part-time workers

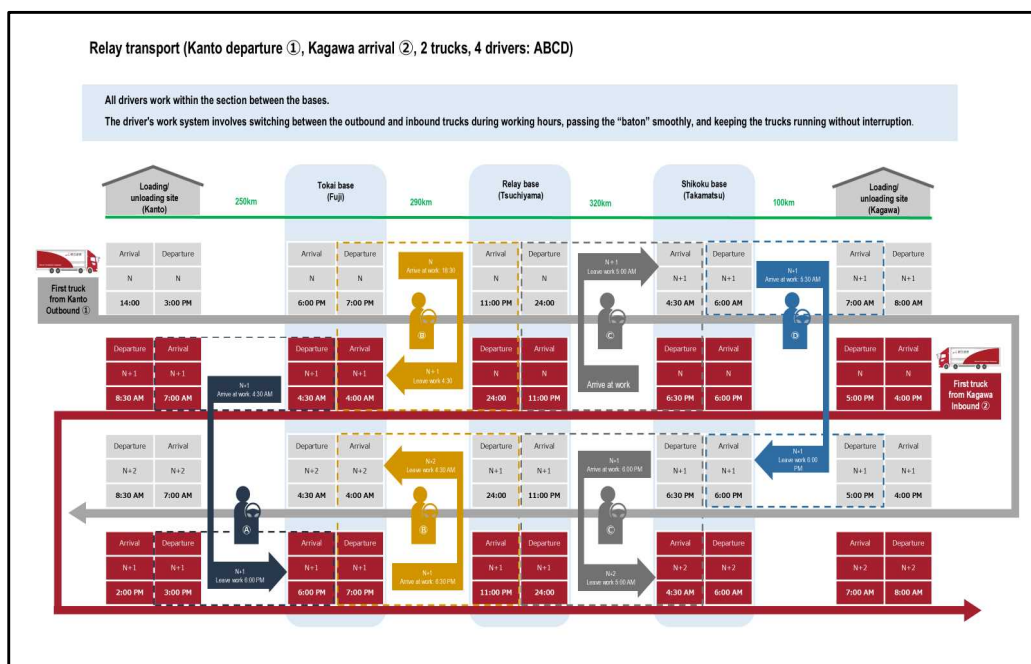


<Results of quantitative analysis>

- Paying a monthly wage of at least 200,000 yen (excluding overtime pay and bonuses) for regular full-time workers can have a positive effect on maintaining a sufficient workforce.
- In addition to offering a certain level of salary, the following efforts may help address shortages of regular full-time workers: ① **reducing administrative work and back-office operations**; ② **creating an environment in which a wide variety of people can demonstrate their skills and abilities at work**; ③ **establishing a pay-for-performance policy and a skill-based pay system**.
- Requiring employees to work 20 hours or more of monthly overtime has a negative impact on maintaining a sufficient workforce.

- (1) Efforts to address the 2024 issue in the logistics industry
 - Asahi Tsusho Japan Co., Ltd. (relay trucking, etc.) *Image ①
 - Sankyu Inc. (modal shift)
- (2) Securing human resources for local public transportation by a bus company
 - Ibaraki Kotsu Co., Ltd.
- (3) Promoting Digital Transformation, or DX, by a local small and medium-sized enterprise
 - Fujiwara Techno-Art Co., Ltd. ※Image ②
- (4) Diversity, equity and inclusion in the workplace
 - ~ A taxi company with drivers of over 20 nationalities ~
 - Hinomaru Kotsu Co., Ltd.

*Image ① “Image of relay trucking” Asahi Tsusho Japan Co., Ltd.
The “N” in the diagram refers to the departure date.



- (5) Introducing job specialization and a permanent night shift system in a nursing care facility
 - Welfare Mie Inc.
- (6) Securing and developing human resources to create added value ~ IT industry ~
 - Members Co., Ltd.
- (7) Promoting the retention of human resources in the game industry
 - KOEI TECMO HOLDINGS Co., LTD. *Image ③

*Image ② “Vision Promotion System and Efforts” Fujiwara Techno-Art Co., Ltd.

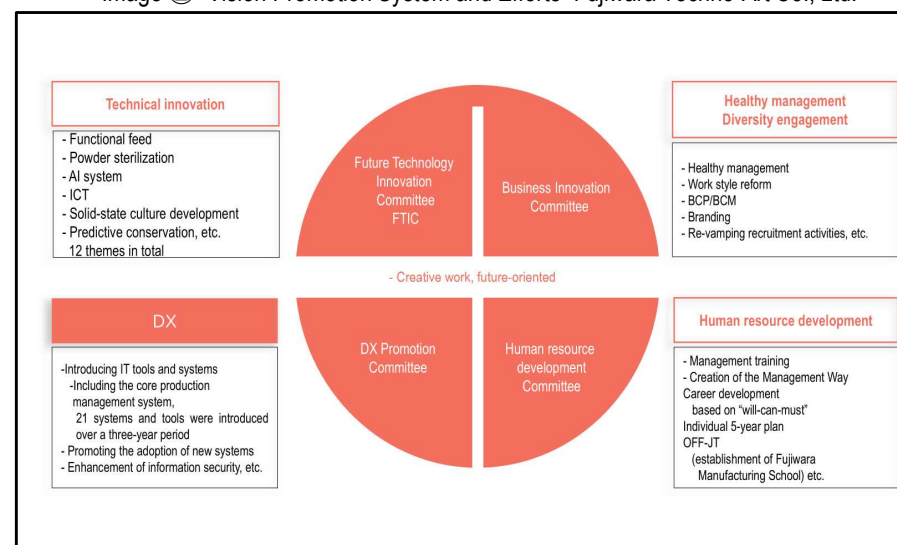


Image ③
“CG production in progress”
KOEI TECMO HOLDINGS CO., LTD.

