

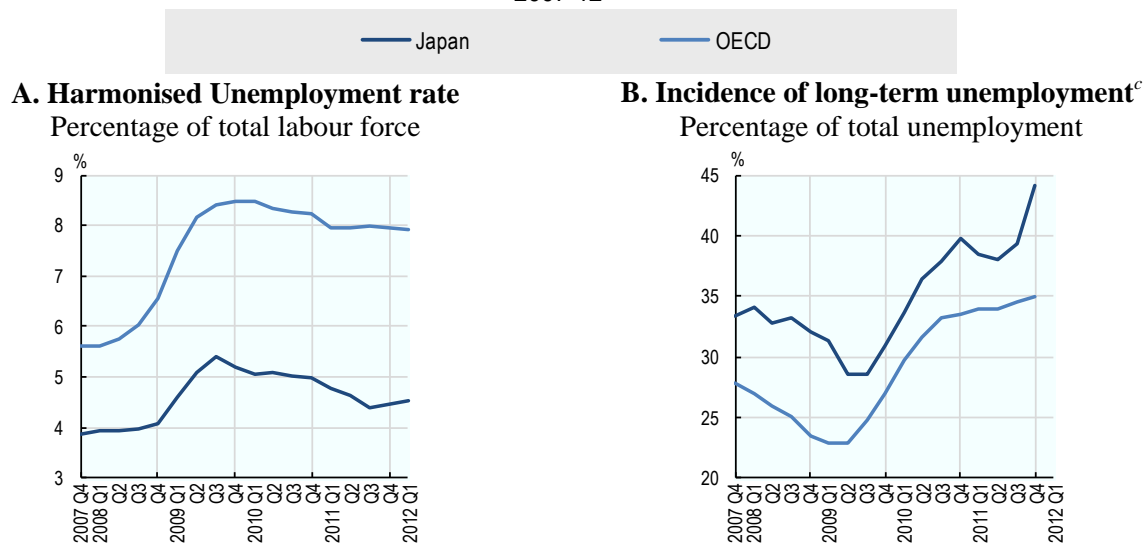


OECD Employment Outlook 2012

How does Japan compare?

The labour market recovery in Japan began strongly but has weakened since (see Figure, Panel A). Since the start of the global financial crisis, the harmonised unemployment rate in Japan increased from 3.9% in the last quarter of 2007 to a cyclical peak of 5.4 % in the third quarter 2009 but subsequently declined rapidly to 4.4 % in the third quarter of 2011. However, the labour market recovery has slowed since and may even have come to a halt. This largely reflects the general slowdown in economic growth in Japan and many other OECD countries since the beginning of 2011. As of May 2012, the unemployment rate stood at 4.4 %, half-a-percentage point higher than at the onset of the crisis. According to the OECD's projections of May 2012, the unemployment rate is expected to remain largely stable throughout the rest of 2012.

Unemployment rate and incidence of long-term unemployment in Japan^a and the OECD area^b 2007-12



a) The data for Japan exclude three prefectures (Iwate, Miyagi and Fukushima) during the period 2011 Q1 to 2011 Q3 as a result of the Great East Japan earthquake due to the temporary suspension of the Japanese labour force survey.

b) OECD area unemployment rate is a weighted average of all 34 OECD countries; the OECD area incidence of long-term unemployment is a weighted average of 32 countries (excluding Chile and Korea).

c) Persons unemployed for 12 months or more as a share of the total number of unemployed persons.

Source: OECD estimates based on *OECD Main Economic Indicators*, *OECD Labour Force Statistics Databases* and national labour force surveys.

The resilience of the Japanese labour market to adverse economic shocks reflects to an important extent the role of specific policies and institutions. The Japanese labour market has performed well by OECD standards, especially given the unprecedented scale of the economic crisis and the Earthquake that struck Japan. The *OECD Employment Outlook 2012* shows that also during previous economic downturns it has been consistently among the most resilient in the OECD in terms of limiting the rise in unemployment and the fall in labour income. The resilience of the Japanese labour market reflects to an important extent: the importance of the long-term employment system which tends to be associated with a strong commitment by employers to preserve jobs during economic downturns; the widespread use of public short-time work schemes during the crisis (over 4% of dependent employment at its peak); and strong employment incentives for the unemployed. Although the OECD warns in its report that labour



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market reforms that promote the use of temporary contracts can have adverse consequences for labour market resilience, there is little evidence as of yet that the gradual liberalisation of the use of temporary contracts in the late 1990s in Japan has had a major negative impact on the resilience of its labour market.

However, long-term unemployed has risen sharply and may still be increasing. The share of workers who have been unemployed for over a year increased from 33 % at the onset of the crisis to an unprecedented high of 44 % in the last quarter of 2011 (see Figure, Panel B). There has also been an increase in the number of workers who have become marginally attached to the labour force, *i.e.* workers who would like to work, but have given up actively searching for a job. This most likely reflects the possibility that job-finding opportunities remain depressed. However, there also is a risk that some of the increase in labour market slack becomes entrenched, as a growing share of jobless workers become increasingly disconnected from the labour market and may have difficulty finding a job, even once the labour market fully recovers. Labour market policies can help contain the risk of rising unemployment by: *i)* making sure that job-losers do not see their skills depreciate as a result of prolonged joblessness and will be readily employable once the labour market recovers; and *ii)* addressing any emerging structural obstacles that prevent unemployed seekers from finding jobs and employers from filling job openings.

The labour share in national income has fallen substantially during the past two decades in Japan and considerably more than in most other OECD countries. Between 1990 and 2009, the labour share fell by 5.3 percentage points in Japan compared with 3.8 percentage points for the OECD area as a whole. Moreover, this trend has coincided with a substantial increase in earnings inequality. While the overall labour share declined sharply, the income share of the top 1% of earners increased. Consequently, the decline in the labour share would be even larger excluding the earnings of the top 1% of earners.

OECD Employment Outlook 2012 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For questions on Japan, journalists are invited to contact Mark Keese (+33 1 45 24 87 94; mark.keese@oecd.org) or Paul Swaim (+33 1 45 24 19 77; paul.swaim@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.