How does JAPAN compare?

Employment Outlook 2018

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Labour market developments in Japan

A. Employment rate
Percentage of the population aged 15-74

B. Real hourly wage
Year-on-year percentage change, trended series

Note: OECD weighted average (based on 29 OECD countries in Panel B, not including Chile, Iceland, Korea, Mexico, New Zealand and Turkey).
Source: OECD calculations based on OECD Economic Outlook Database (No. 103), June 2018, and quarterly national accounts.

RECENT LABOUR MARKET TRENDS AND PROSPECTS
Across the OECD countries, labour market conditions continue to improve and in the first quarter of 2018, the average employment rate was about 2 percentage points above its pre-crisis peak. OECD employment and unemployment rates are also projected to keep improving in 2018 and 2019. However, at 0.6% in the fourth quarter of 2017, the year-on-year growth rate of real hourly wages remained disappointingly low, almost one percentage point lower than before the crisis for similar levels of unemployment.

- The labour market situation in Japan has strongly improved since the end of the Great Recession. The employment rate of those aged between 15 and 74 years reached 69.2% in the first quarter of 2018, its highest level since 1968. These developments are largely the result of rising labour force participation of women and older workers working on non-regular contracts.
- In the first quarter of 2018, the unemployment rate was 2.5%, the lowest level in 23 years. The job-offers-to-applicant ratio (1.59 in April 2018) is also record high, indicating serious labour shortage as a result of the declining working-age population.
- Nevertheless, real wage growth has recently decelerated after some pick up in 2016. The increasing incidence of non-regular workers in the labour market, whose wages are significantly lower than those of regular workers, is a key factor behind the wage stagnation.

DEVELOPMENTS IN JOB QUALITY AND LABOUR MARKET INCLUSIVENESS
Job quality and inclusiveness indicators show a mixed picture for the OECD countries. Improvement has occurred over the past decade, with a reduction in the gender gap in labour income, the employment gap for disadvantaged groups, and the incidence of job strain – excessive job demands combined with insufficient resources. However, labour market insecurity is not yet back to pre-crisis levels and poverty has grown amongst the working-age population.

- Japan performs well as regards labour market insecurity, reflecting very low unemployment risk. However, a relatively high share of workers experience job strain and work long hours.
- Moreover, inclusiveness in the Japanese labour market is low: many workers, especially non-regular workers, have low incomes and the gender gap in labour income is high.
- The traditional Japanese employment system, characterised by lifetime employment and strong seniority-based wage profiles, is a possible cause of labour market duality and the long working hours culture. Breaking down dualism and developing a more inclusive approach to the labour market require a comprehensive strategy, including expanding social insurance coverage and training programmes for non-regular workers, setting clearer rules for dismissal, encouraging a performance-based wage systems and combatting the culture of long working hours.
Job quality and labour market inclusiveness: key indicators for Japan in 2016-2017

<table>
<thead>
<tr>
<th>Quality</th>
<th>Bottom performer</th>
<th>Top performer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings quality (↗)</td>
<td>Mexico: 4.6 USD</td>
<td>OECD: 16.8 USD</td>
</tr>
<tr>
<td>Labour market insecurity (↘)</td>
<td>Greece: 22.7%</td>
<td>Japan: 16.1 USD</td>
</tr>
<tr>
<td>Job strain (↘)</td>
<td>Greece: 47.9%</td>
<td>OECD: 27.5%</td>
</tr>
<tr>
<td>Low-income rate (↘)</td>
<td>Greece: 18%</td>
<td>Japan: 31.2%</td>
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<tr>
<td>Gender labour income gap (↘)</td>
<td>Korea: 61%</td>
<td>OECD: 38.5%</td>
</tr>
<tr>
<td>Employment gap for disadvantaged groups (↘)</td>
<td>Japan: 57.7%</td>
<td>Japan: 24.9%</td>
</tr>
</tbody>
</table>

Note: An upward ↗ (downward ↘) pointing arrow for an indicator means that higher (lower) values reflect better performance. Earnings quality: Gross hourly earnings in USD adjusted for inequality by giving more weight to the lower end of the earnings distribution. Labour market insecurity: Expected percentage net income loss upon job loss computed taking into account the probability of becoming unemployed and the expected duration of unemployment. Job strain: Percentage of workers in jobs with a combination of high job demands and few job resources to meet those demands. Low income rate: Share of working-age persons living with less than 50% of median equivalised household disposable income. Gender labour income gap: Difference between per capita annual earnings of men and women (% of per capita earnings of men). Employment gap for disadvantaged groups: Average difference in the prime-age men's employment rate and the rates for five disadvantaged groups (mothers with children, youth who are not in full-time education or training, workers aged 55-64, non-natives, and persons with disabilities; % of the prime-age men's rate).

Source and definitions: OECD calculations using data for 2017 or latest year available from various sources. See OECD Employment Outlook 2018, Ch. 1

SKILL POLICY IS KEY TO ENSURE THAT WORKERS GET A GOOD SHARE OF PRODUCTIVITY GAINS

In half of the OECD countries the labour share – the share of national output going to labour – has continued to decline. In the OECD area, the labour share has lost more than 3 percentage points since 1995. The fall in the price of investment goods has propped up replacement of low-skilled labour with machines. However, the drop in the labour share has been modest in industries employing many workers with high numeracy- or problem-solving skills.

- Japan’s workforce is highly skilled. According to PIAAC, the share of low performers in literacy and numeracy skills is the lowest among OECD countries.
- However, participation in adult learning is below the OECD average. Japan’s low-skilled or displaced workers face a vicious cycle in which they are excluded from training opportunities and so their skills remain low.
- The Japanese government is planning to reform the higher education system and financial aid for ongoing education. Policy reforms in this area would be particularly important for Japan given the significant population decline that the country is facing.

THE GENDER GAP IN LABOUR INCOME INCREASES THROUGHOUT THE WORKING LIFE

In the OECD, women's annual labour income was still 39% lower on average than that of men in 2015. Most of this gap is generated in the first half of the career, due to intermittent employment and difficulties in reconciling work and family responsibilities around childbirth. Part-time work can prevent withdrawal from the labour force at childbirth but may also represent a career trap for women, leading to persistent gender disparities.

- Japan’s female employment rate clearly shows an 'M-curve', indicating that women tend to exit from the labour market upon childbirth but re-enter once children have grown older.
- The gender gap in labour income has been narrowing in Japan, but it remains wide relative to other OECD countries.
- Measures to remove obstacles to employment following childbirth include removing tax disincentives for spouses to work more and actions to reduce the high cost of childcare. Japan should also strengthen incentives for employers to create family-friendly workplaces and encourage more fathers to take paternity leave.

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