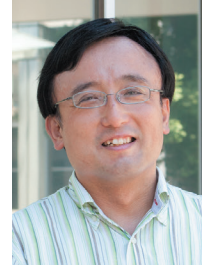


Japan's Unemployment Rate — Will It Reach the 2% Level After 22 Years?



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Unemployment Rate in Japan

The unemployment rate is an indicator that shows the relationship between demand and supply in the labor market. It is the ratio of unemployed persons defined as a percentage of the labor force. Japan's unemployment rate climbed to the 3% level in January 1995. Since then it has jumped to the mid-5% level in mid-2002 at the height of the financial crisis after the burst of the bubble economy, and also in the fall of 2009 after the Lehman Shock, and has remained at the above 3% level for a long time. But now it is on the verge of sinking below 3%. The unemployment rate for December 2016 published on Jan. 31, 2017 was 3.1%. The 2016 average was 3.1%, which makes it the lowest since 1995 at 3.2%.

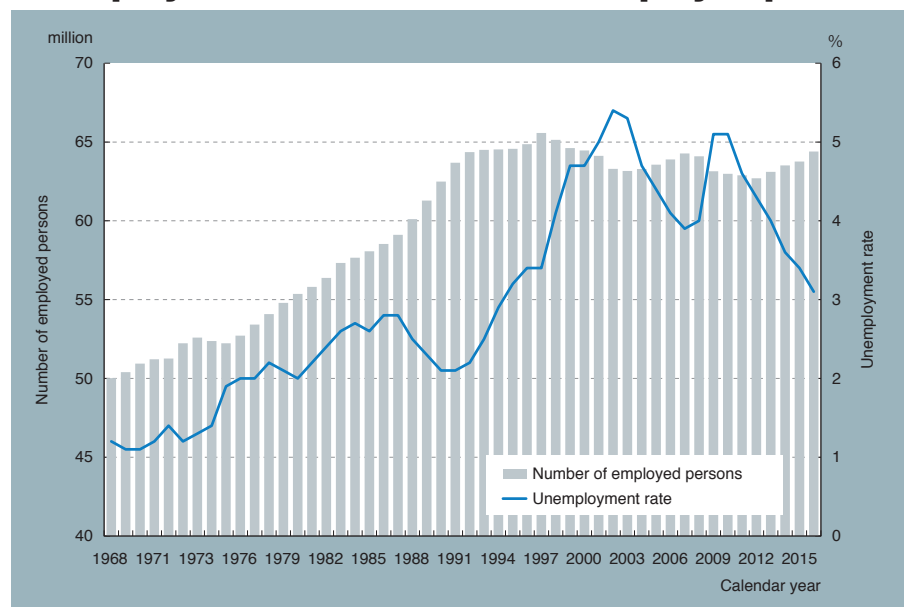
Chart 1 shows the trend in the annual average of Japan's unemployment rate and the number of employed persons. The unemployment rate, which continued to rise during the 1990s after the burst of the bubble, shows a clear downward trend from the early 2000s when the economy showed an expansion, and this time round for the second time. The bottom during the economic expansion in the 2000s was 3.9% in 2007, higher than the current rate by a little less than 1 percentage point. On the other hand, the number of employed persons was the same for the 2007 average and for the 2016 average at roughly 64 million people. The number of employed persons is not enough compared to the low unemployment rate for the same period.

Increase in Labor Force Under Decreasing Population

What is behind this phenomenon is the decrease in the Japanese labor force. The labor force peaked at 68 million people in 1998 and has been decreasing drastically since then. This is because the labor force participation rate, which is the percentage of the labor force within the population aged 15 years and over, has been declining (Chart 2). Until then, the rise in the labor force participation rate of women was able to offset the decline in the labor force participation rate due to the aging society, but the impact of an aging society now seems to be stronger. The 2016 average for the labor force was roughly over 66 million people, and shows a decrease of nearly 1.5

CHART 1

Unemployment rate & number of employed persons



Source: "Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications

million people compared to its peak in 1998. When the labor force itself is decreasing, unless the number of employed persons falls, the number of unemployed persons will decrease. Japan has become an economy where the unemployment rate falls easily, or in other words, an economy where the gap in demand and supply of labor is close.

On the other hand, the fall in the unemployment rate which began in 2011 is accompanied by an increase in the labor force, and makes it different from the previous downward trend in the early 2000s. The labor force had increased by nearly 1 million people by 2016 from the bottom in 2012. The main reason behind this increase is aged persons over 65 years old, whose labor force participation rate has increased by nearly 2 points. In a country where a decreasing population has long been said to lead to growth constraints, this may be considered good news.

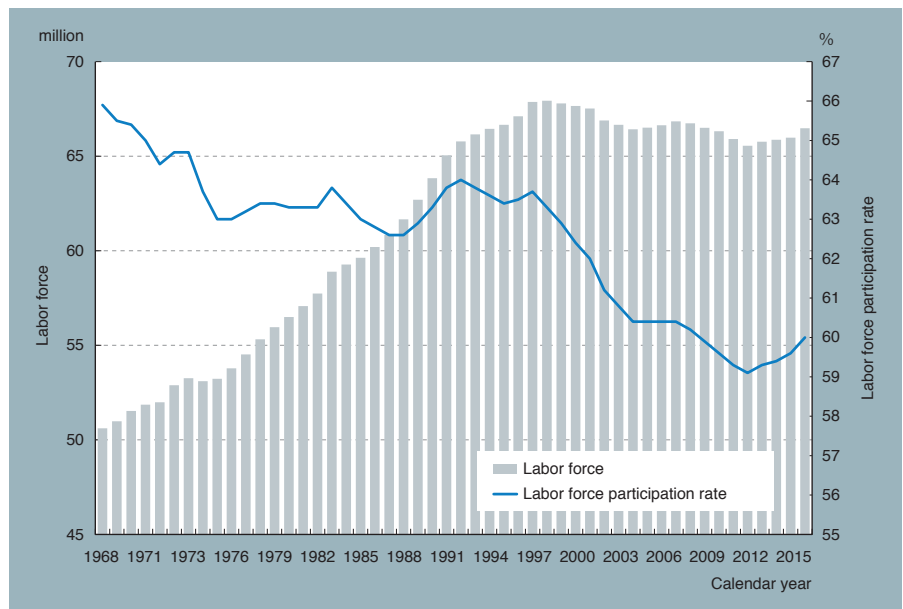
Increase in Employment in Services Industry

Which industry is absorbing the increase in employment? The number of employed persons had increased by 1.7 million people by 2016 from the bottom in 2012, of which 1 million were persons in the medical, healthcare and welfare sectors. One can also see the impact of an aging society here as well. There was also an increase of 200,000 people in the information and communications sector, but other than that there are no major increases, and there are many industries showing decreases. In terms of increase in employment opportunities as a result of creation of new industries, Japan still seems to be facing challenges.

To begin with, the definition of employed persons in the Labour Force Survey is a person who undertook paid work for more than

CHART 2

Labor force & labor force participation rate



Source: "Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications

one hour within a given survey period (normally the last week of every month of the year), and covers a wide range of workers. It also includes many part-time workers. Of the employed persons excluding corporate executives, the percentage of part-time staff was 37.5% in 2016, up by more than 2% compared to 2012. This also includes elderly workers who worked in their spare time to earn non-pension income, but in terms of an increase in permanent staff to pursue a stable life there are still challenges to be met.

Note: This article was written based on information obtained as of Jan. 31, 2017. **JS**

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ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2008	499.3	-1.1	520.7	-2.1	-3.4	1.5
2009	472.2	-5.4	489.5	-6.0	-21.9	-1.3
2010	492.0	4.2	500.4	2.2	15.6	-1.0
2011	491.5	-0.1	491.4	-1.8	-2.8	-0.3
2012	498.8	1.5	495.0	0.7	0.6	-0.1
2013	508.8	2.0	503.2	1.7	-0.8	0.4
2014	510.5	0.3	513.7	2.1	2.1	2.6
2015	516.7	1.2	530.5	3.3	-1.2	0.5
2016	521.8	1.0	537.3	1.3	-0.2	-0.3
2016/1st Qtr.	519.0	0.6	535.3	0.8	-1.0	-0.1
2nd Qtr.	521.3	0.4	536.8	0.3	0.2	-0.4
3rd Qtr.	523.1	0.3	537.8	0.2	1.3	-0.5
4th Qtr.	524.3	0.2	539.4	0.3	2.0	-0.3
2016/May	—	—	—	—	-2.6	-0.4
Jun.	—	—	—	—	2.3	-0.4
Jul.	—	—	—	—	-0.4	-0.5
Aug.	—	—	—	—	1.3	-0.5
Sep.	—	—	—	—	0.6	-0.5
Oct.	—	—	—	—	0.0	-0.4
Nov.	—	—	—	—	1.5	-0.4
Dec.	—	—	—	—	0.7	-0.2
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2008	81.0	-3.5	79.0	8.0	14.2	-15.9	8.0	-3.7	11.4	-7.8
2009	54.2	-33.1	51.5	-34.8	8.7	-38.6	5.5	-31.4	6.7	-41.0
2010	67.4	24.4	60.8	18.0	10.4	18.8	5.9	7.2	7.6	12.8
2011	65.5	-2.7	68.1	12.1	10.0	-3.4	5.9	0.3	7.6	0.0
2012	63.7	-2.7	70.7	3.8	11.2	11.7	6.1	2.5	6.5	-14.7
2013	69.8	9.5	81.2	14.9	12.9	15.6	6.8	12.0	7.0	7.7
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	7.6	8.4
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	8.0	5.3
2016	70.0	-7.4	66.0	-15.9	14.1	-7.1	7.3	-9.3	8.0	-0.0
2016/1st Qtr.	17.5	-7.9	17.2	-15.7	3.7	-3.5	1.8	-9.4	2.1	6.0
2nd Qtr.	17.0	-9.5	15.5	-18.8	3.4	-9.6	1.8	-14.7	1.9	1.9
3rd Qtr.	17.0	-10.2	16.0	-19.5	3.3	-11.6	1.8	-10.4	1.9	-2.3
4th Qtr.	18.5	-1.9	17.2	-9.3	3.8	-3.9	1.9	-2.2	2.0	-5.3
2016/May	5.1	-11.3	5.1	-13.7	1.0	-10.7	0.6	-8.5	0.6	-4.0
Jun.	6.0	-7.4	5.3	-18.7	1.2	-6.5	0.6	-17.1	0.7	-0.4
Jul.	5.7	-14.0	5.2	-24.6	1.2	-11.8	0.6	-15.2	0.7	-6.5
Aug.	5.3	-9.6	5.3	-17.2	1.0	-14.5	0.6	-9.5	0.6	-0.7
Sep.	6.0	-6.9	5.5	-16.2	1.2	-8.7	0.6	-6.0	0.7	0.7
Oct.	5.9	-10.3	5.4	-16.4	1.2	-11.2	0.6	-9.8	0.7	-9.5
Nov.	6.0	-0.4	5.8	-8.8	1.2	-1.8	0.6	-5.0	0.6	-2.2
Dec.	6.7	5.4	6.0	-2.6	1.4	1.3	0.7	9.7	0.7	-4.0
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/ the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2008	-0.3	0.88	4.0	2.1	5.8	14.9	103.3
2009	-3.9	0.47	5.1	2.7	5.4	13.6	93.5
2010	0.5	0.52	5.1	2.8	9.5	19.4	87.8
2011	-0.2	0.65	4.6	2.7	-0.3	10.4	79.8
2012	-0.9	0.80	4.3	2.5	-4.3	4.8	79.8
2013	-0.4	0.93	4.0	3.6	-8.8	4.5	97.6
2014	0.4	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.7	-0.6	16.4	121.0
2016	0.5	1.36	3.1	3.5	5.6	20.6	108.8
2016/1st Qtr.	0.7	1.29	3.2	3.2	0.9	6.0	115.4
2nd Qtr.	0.6	1.36	3.2	3.4	1.5	4.6	108.1
3rd Qtr.	0.5	1.37	3.1	3.4	1.5	5.8	102.4
4th Qtr.	0.2	1.41	3.1	3.9	1.7	4.2	109.4
2016/May	-0.1	1.36	3.2	3.4	0.0	1.8	109.2
Jun.	1.4	1.37	3.1	3.5	0.8	1.0	105.4
Jul.	1.2	1.37	3.0	3.4	0.6	2.0	104.0
Aug.	0.0	1.37	3.1	3.3	0.2	2.0	101.3
Sep.	0.0	1.38	3.0	3.5	0.7	1.9	102.0
Oct.	0.1	1.40	3.0	3.7	0.6	1.7	103.8
Nov.	0.5	1.41	3.1	3.9	0.3	1.4	108.3
Dec.	0.1	1.43	3.1	4.0	0.8	1.1	116.0
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2008	7.3	-4.8	27.0	-2.0	17.2	4.1	12.9	0.9	14.8	-1.4
2009	5.5	-24.3	19.1	-29.3	11.6	-32.8	10.2	-21.0	11.4	-22.9
2010	5.8	5.5	24.7	29.5	14.1	22.0	13.1	27.8	13.4	17.3
2011	6.4	10.1	23.8	-3.9	15.7	11.7	12.9	-1.4	14.6	9.2
2012	6.6	3.6	23.3	-1.8	16.3	3.3	11.5	-10.8	15.0	2.7
2013	7.6	15.2	25.2	8.1	18.3	12.6	12.6	9.7	17.7	17.4
2014	8.2	6.8	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	8.6	5.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	8.1	-5.7	24.7	-8.7	16.2	-14.6	12.4	-6.5	17.0	-12.4
2016/1st Qtr.	2.1	5.2	6.0	-13.1	4.3	-14.4	2.9	-7.1	4.5	-7.5
2nd Qtr.	1.9	-5.5	6.0	-11.9	3.8	-17.2	3.0	-10.8	4.0	-13.0
3rd Qtr.	2.0	-10.9	6.1	-10.5	3.9	-17.5	3.0	-10.8	4.2	-17.8
4th Qtr.	2.1	-10.1	6.6	1.3	4.2	-9.1	3.5	2.4	4.4	-11.1
2016/May	0.7	-1.5	1.9	-12.1	1.3	-11.5	0.9	-14.9	1.3	-9.7
Jun.	0.7	-6.6	2.1	-10.9	1.3	-17.8	1.0	-10.0	1.4	-12.3
Jul.	0.7	-15.6	2.0	-14.4	1.3	-24.2	1.0	-12.7	1.3	-21.6
Aug.	0.7	-12.4	2.0	-9.7	1.3	-11.9	1.0	-8.8	1.3	-15.3
Sep.	0.7	-3.7	2.1	-7.3	1.3	-15.7	1.0	-10.6	1.5	-16.6
Oct.	0.7	-11.9	2.0	-10.3	1.3	-16.7	1.1	-9.2	1.4	-17.9
Nov.	0.7	-13.2	2.1	2.9	1.4	-5.1	1.1	4.4	1.5	-7.9
Dec.	0.7	-4.8	2.4	11.8	1.4	-5.0	1.3	12.4	1.5	-5.0
Sources	"Trade Statistics of Japan", Ministry of Finance									