

# 【Fundamentals Navigator】 Japan's recovering job market and worker numbers still under pressure

(original Japanese report issued on November 9, 2020)

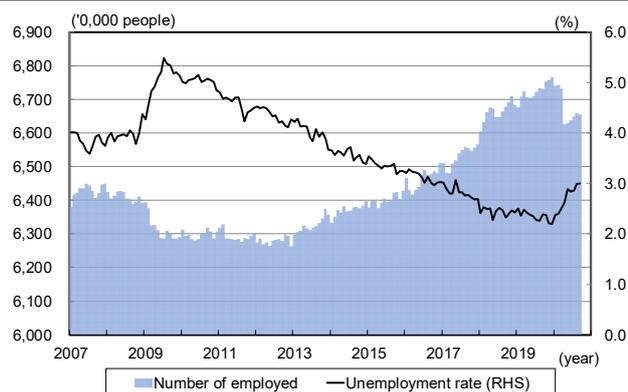
## Worker on leave data hint at labor market slack, government looks to extend job adjustment aid

Japanese unemployment reached a three-year high of 3.0% in August and September. The number of workers is picking up but at a mild pace. Those who had stopped looking for jobs during the pandemic are returning to the labor market, but with jobs not easy to come by immediately, unemployment continues to climb. The number of workers on temporary leave, though down from April when the state of emergency was declared, still exceeds the previous year, suggesting that employment adjustment pressures remain strong. We believe the government will extend subsidies for employment adjustments and add extra funding, which should temper the falloff in consumption.

Recent employment indicators

Japanese unemployment stood at a seasonally adjusted (SA) 3.0% in September for a second straight month, the highest level since May 2017. This represents a 0.8ppt rise from the recent low of 2.2% in December last year. Jobless numbers during that period rose from SA 1.52mn to 2.06mn persons. At the same time, the number of workers has also increased. The figure plunged by SA 1.07mn MoM in April but soon turned back upward. September fell for the first time in five months but only by a modest 40,000 persons.

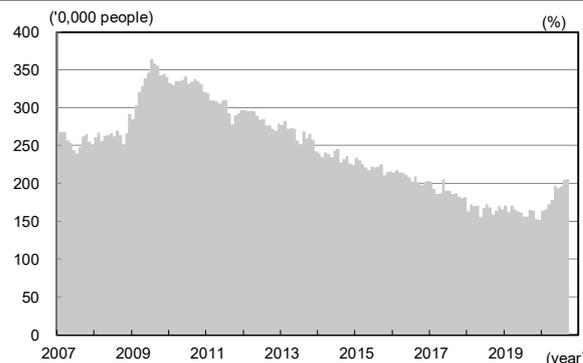
**Figure 1. Unemployment rate, no. of employed**



Note: Seasonally adjusted.

Source: MUMSS, from MIC "Labor Force Survey"

**Figure 2. Number of unemployed**



Note: Seasonally adjusted

Source: MUMSS, from MIC "Labor Force Survey"

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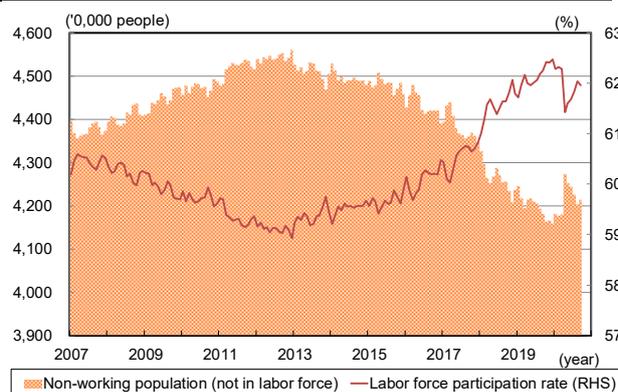
Worker number recovery buoyed by self-employed

Worker numbers over the past few months have been underpinned largely by the comeback in non-employees, such as self-employed and family workers. The sudden reversal in the long-term downtrend in the self-employed may reflect a growing number of workers who, having left their jobs during the pandemic, drifted to gig jobs or other such work<sup>1</sup>. However, the self-employed recovery came to a halt in September. Company employee numbers have turned upward, but the accommodations and dining service sectors, hard hit by the pandemic, remain sluggish, while manufacturers have yet to see a genuine revival.

Jobs remain hard to find despite recovering labor markets

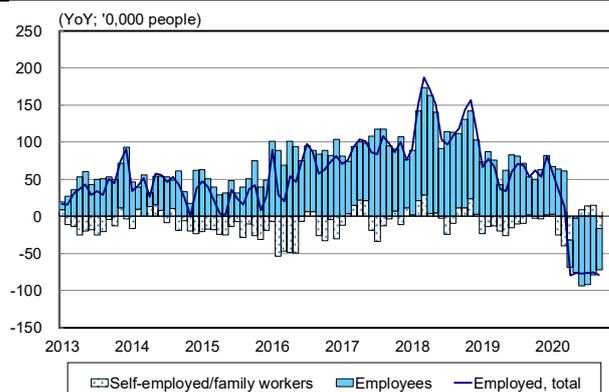
The recovery in worker numbers has been bolstered by the return to the labor markets of those who had left their jobs amid the pandemic. Those out of the labor force surged SA 940,000 MoM in April. We suspect that many potential workers held back from looking for jobs due to the uncertain outlook after the state of emergency declaration and calls by the government to reduce contact with others. More people have since begun to seek employment, and the number of those not in the labor force has declined since May. Still, many appear to have found it difficult to secure work right away. The number of people outside the labor force fell by 610,000 from April to September while new workers grew by 300,000, but the number of jobless rose at a similar pace of 280,000.

Figure 3. Non-working population



Note: Seasonally adjusted.  
Source: MUMSS, from MIC "Labor Force Survey"

Figure 4. Changes in worker numbers



Note: Raw data  
Source: MUMSS, from MIC "Labor Force Survey"

Unemployment looks to rise in 4Q

We expect unemployment to reach 3.1% in 4Q 2020, followed by a gradual retreat to an average 2.9% for FY21. Several factors suggest that the labor markets still have considerable slack.

Workers on leave decline but remain higher than last year

First is the number of workers on leave from their jobs. Much attention was given to the steep rise in such workers amid the deterioration in the labor market. The term refers to employees who did not work during the survey period (final week of the month). Many companies refrained from firing workers despite business suspensions and plummeting sales under the state of emergency, maintaining employment to ensure their standing once the state of emergency was lifted. Workers on leave came to 1.97mn persons (raw data) in September, below 2mn for the first time in seven months but still up 350,000 YoY. In addition, the number of those shifting from leave of absence to unemployed or out of the labor force is high

<sup>1</sup> The statistics may be categorizing the growing number of food delivery workers as self-employed. The *Nikkei* reported on 10 October that there are now over 40,000 food delivery workers. Still, that would be less than 1% of the 7.28mn self-employed and family workers, so the booster effect would be minimal.

on average. The data suggest that companies remain under heavy pressure to adjust employment, especially those in industries suffering a long sales drought.

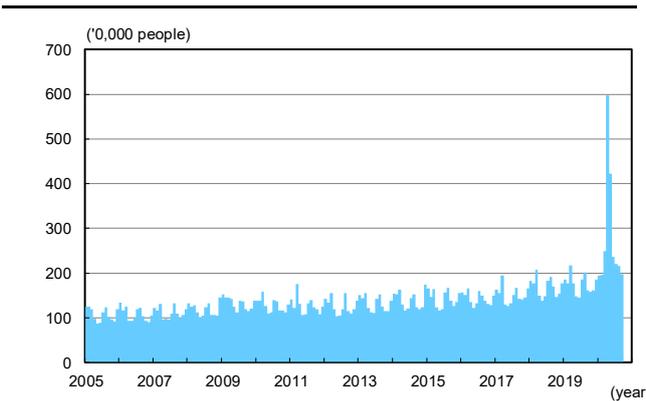
Substantial employment adjustment subsidies

A second factor is employment adjustment subsidies. These payments are designed to help defray layoff costs at businesses that have temporarily suspended operations and can also be used for educational purposes or temporary transfers of workers to other companies. The government has eased the requirements and raised the cap as part of its pandemic response, attracting more companies. Weekly payment data by the Labor Ministry indicate that the figures have peaked but remain formidable. This would seem to contradict the clear downtrend in workers on leave shown in the Monthly Labor Survey. The survey is conducted in the final week of each month, so the workers are not treated as on leave if no time off is taken at that time. However, the worker is paid an allowance even for a single day off or any leave taken outside that period. Such cases would suggest that a significant number of people are still eligible for the subsidies.

Government aims to curb drop in household income/spending via subsidy extensions and new funding

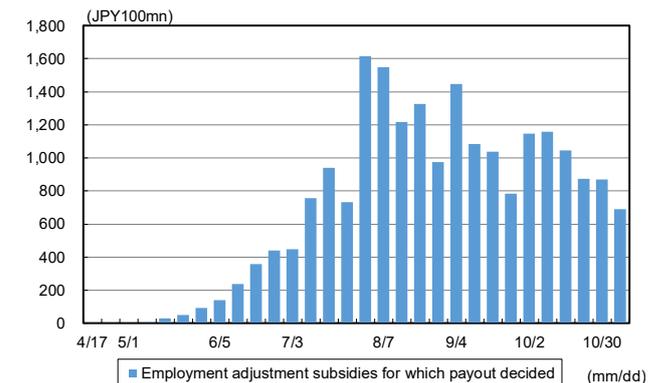
It has been reported that Prime Minister Yoshihide Suga intends to compile another stimulus package and third supplementary budget to counter the effects of the pandemic. This is to include extending the employment adjustment subsidies beyond their December expiry. The first two supplementary budgets for this fiscal year had set aside JPY2trn for these subsidies, but cumulative payouts had nearly reached that amount as of end-October. We therefore anticipate further budgetary measures, including the use of reserve funds. This should help curb the drop in household incomes and spending. If the government adds another JPY2trn, the resulting total payouts of JPY4trn would be equivalent to 1.4% of employee compensation in FY19 (macroeconomic wages factoring in number of workers) and 1.3% of household disposable income including social security benefits. Assuming a somewhat high 0.8 propensity to spend at recipient households, the measure should boost consumption by around 1.1%.

Figure 5. Number of workers on leave



Note: Raw data  
Source: MUMSS, from MIC "Labor Force Survey"

Figure 6. Employment adjustment subsidy payments



Note: Weekly data  
Source: MUMSS, from MHLW data

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## Appendix A

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