

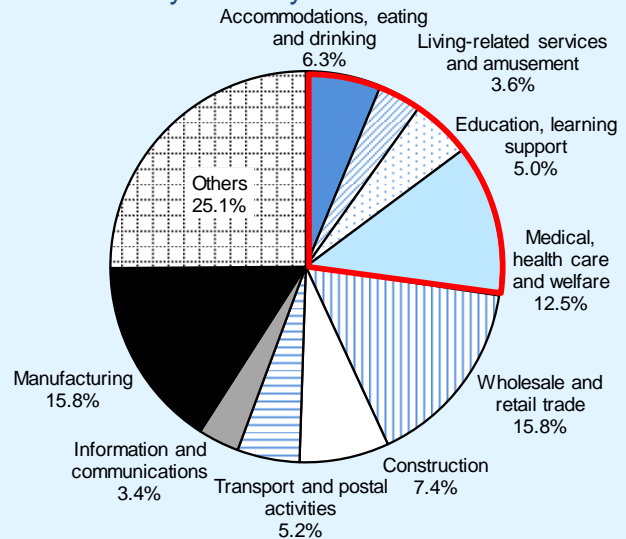
(Box 3) Employment Adjustments in the Face-to-Face Services Industry

With regard to a decline in face-to-face services consumption due to COVID-19, this box discusses how this is expected to affect the overall labor market through employment adjustments in the industry of these services. Specifically, it examines current developments and the outlook for this issue.

The face-to-face services industry is a labor-intensive industry, accounting for a relatively large share in the labor market. The share of this industry in terms of the total number of employed persons has recently reached nearly 30 percent, partly reflecting the expanding inbound tourism demand in recent years and the increasing demand for medical and elder care services due to the aging population (Chart B3-1). In addition, the face-to-face services industry -- particularly the accommodations as well as eating and drinking services industry, which has been strongly affected by COVID-19 -- has the characteristic of a decrease in demand tending to directly lead to employment adjustments because it holds a large number of micro, small, and medium-sized firms with relatively weak financial bases and has a high proportion of non-regular employees compared with other industries (Chart B3-2).

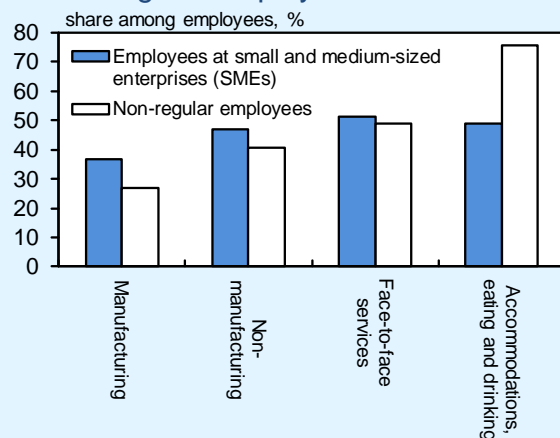
In fact, looking at the breakdown of the recent decline in the number of employed persons in the face-to-face services industry, the decline is remarkable in the number of non-regular

Chart B3-1: Composition of Employed Persons by Industry



Source: Ministry of Internal Affairs and Communications.
 Note: Figures show the percentage share of each industry in the total number of employed persons (averages for 2019).

Chart B3-2: Employees at SMEs and Non-Regular Employees



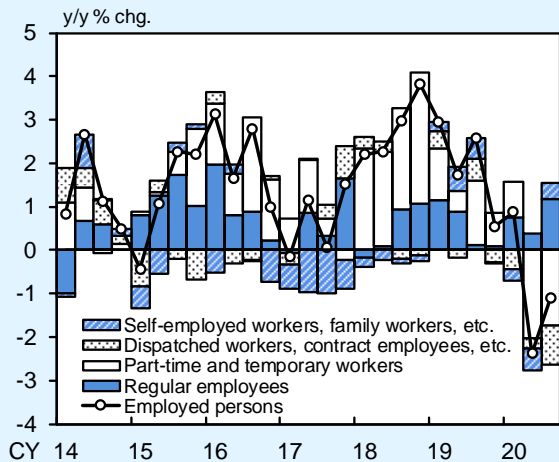
Source: Ministry of Internal Affairs and Communications.
 Notes: 1. "Face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare."
 2. Figures for employees at small and medium-sized enterprises (SMEs) represent the share of those working at firms with fewer than 100 employees among all employees. Figures for non-regular employees represent the share of non-regular employees among all employees excluding executives of companies or corporations. Figures show the averages for 2019.

employees, such as part-time and temporary workers, dispatched workers, and contract employees (Chart B3-3). Such employment adjustments in the face-to-face services industry, mainly of non-regular employees, explain a fairly large part of the decline in the number of employed persons of the overall economy in the current phase (Chart B3-4). This is in contrast to the fact that, at the time of the GFC, employment adjustments took place mainly in the manufacturing industry and the number of employed persons in the face-to-face services industry actually increased.

In comparison with the situation at the time of the GFC, it is also notable in the current phase that, even though the extent of deterioration in overall economic activity has generally been the same, the degree of employment adjustments has remained relatively small to this point (Charts 2 and B3-4). This is largely attributable to the fact that large-scale layoffs and bankruptcies have been avoided due to the swift implementations of the substantial policy responses, such as the expansion of employment adjustment subsidies, the provision of subsidies for sustaining businesses and rent assistance subsidies, and support for financing. However, such labor hoarding also indicates that there remains potential pressure for employment adjustments, mainly in the face-to-face services industry.

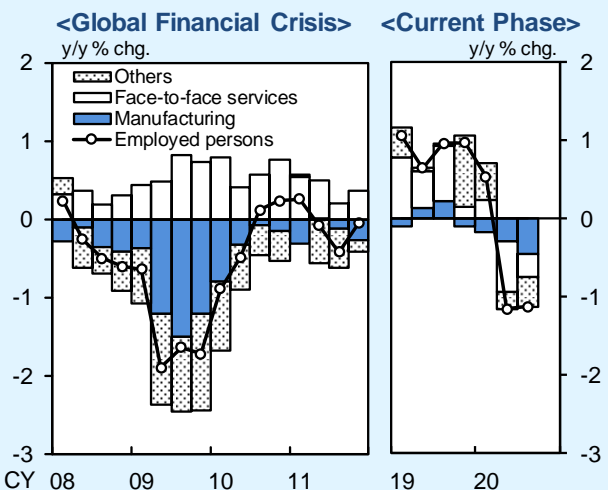
In this regard, taking a look at the number of working hours per employee, the figure for all industries has been recovering to the pre-pandemic level, but those for the accommodations as well as eating and drinking

Chart B3-3: Number of Employed Persons in Face-to-Face Services



Source: Ministry of Internal Affairs and Communications.
 Notes: 1. "Face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare."
 2. "Self-employed workers, family workers, etc." includes executives of companies or corporations. Figures for 2020/Q3 are July-August averages.

Chart B3-4: Number of Employed Persons by Industry

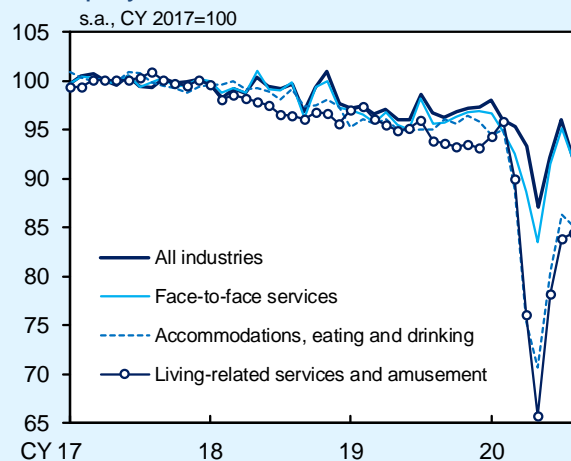


Source: Ministry of Internal Affairs and Communications.
 Notes: 1. "Face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare."
 2. Figures for 2020/Q3 are July-August averages.

services industry and the living-related and amusement services industry have remained at low levels (Chart B3-5). As the background to this, firms facing a decrease in demand seem to have been constraining the numbers of working days per employee and working hours per day while continuing with labor hoarding. Given this, looking at the average hourly wage for temporary and part-time jobs at time of recruitment -- which is sensitive to labor market conditions -- while there is no significant change in the wages for clerical jobs, a decline in the pace of wage increase has been evident for food-related jobs as well as sales and services jobs since early spring, when the impact of COVID-19 materialized (Chart B3-6). In addition, in the food services industry, amid concern that weak sales due to COVID-19 may prolong, there has been an increasing number of store closures with the aim of reducing fixed costs such as personnel expenses and rent payments (Chart B3-7). Besides the store closures, given the possibility that an increasing number of firms will choose to discontinue their businesses, it is necessary to be aware of the risk that there will be a greater-than-expected expansion in employment adjustments in the face-to-face services industry, mainly for the accommodations as well as eating and drinking services industry, which has been strongly affected by COVID-19.

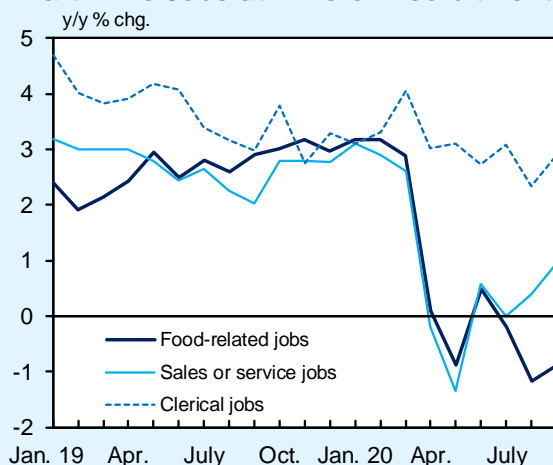
In considering the outlook for labor market conditions in the overall economy, another important point is the extent to which such employment adjustments in the face-to-face services industry will be absorbed by an increase in employment in other industries. In this regard, the DI in the *Tankan* for employment conditions by industry shows that, while firms' perception of

Chart B3-5: Total Hours Worked per Employee



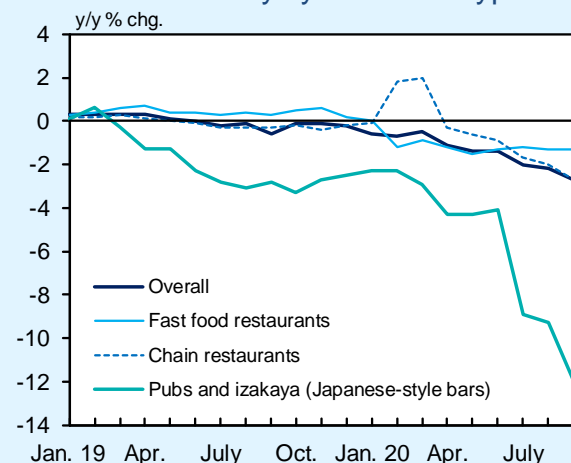
Source: Ministry of Health, Labour and Welfare.
 Note: "Face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare."

Chart B3-6: Average Hourly Wage for Part-Time Jobs at Time of Recruitment



Source: Recruit Jobs Co., Ltd., "Report on Average Hourly Wages for Part-Time Jobs at Time of Recruitment" (available only in Japanese).
 Note: Figures are for the three largest metropolitan areas (the Tokyo metropolitan, Tokai, and Kansai areas).

Chart B3-7: Number of Stores in the Food Services Industry by Business Type

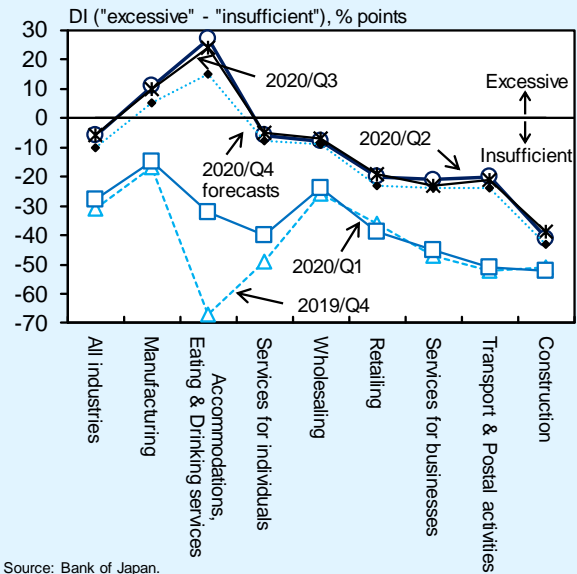


Source: Japan Foodservice Association, "Market Trend Survey of the Food Services Industry."

excess employment has been intensifying to a large extent in the accommodations as well as eating and drinking services industry, there continues to be a perception of insufficient employment, albeit easing, in other nonmanufacturing industries, such as the retail and construction industries (Chart B3-8). Despite being affected by COVID-19, firms are highly likely to continue securing employment, taking into account developments after the impact of COVID-19 subsidies, including the medium- to long-term trend of labor shortage under the circumstance of a declining population. Looking at the situation for job changing by industry, it has been observed in the past that employed persons in the accommodations as well as eating and drinking services industry tended to make a relatively smooth move to another industry (Chart B3-9). This is mainly because a large number of them are non-regular employees whose mobility is relatively high and reservation wage (the minimum wage level at which a worker will accept employment) tends to be low.

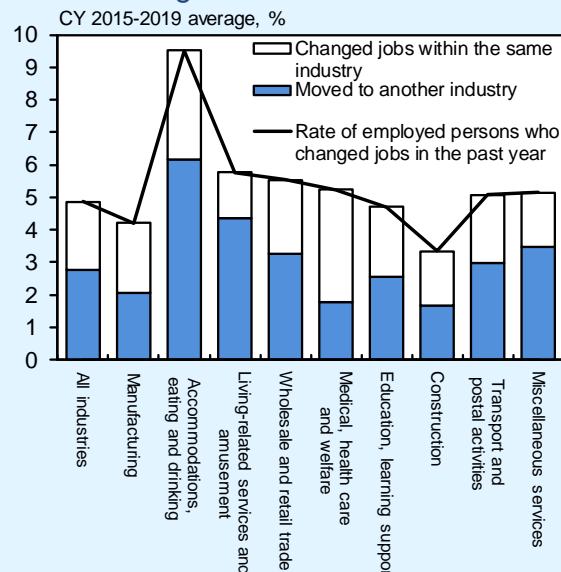
Taking into account these points, in the current phase, it is projected that a decline in employment, mainly in the accommodations as well as eating and drinking services industry, will be absorbed to some extent by an increase in employment in other industries, partly underpinned by the policy responses made for the time being. With regard to labor market conditions in the overall economy, although they are likely to remain deteriorated for a while, they are expected to turn to an improvement thereafter as the impact of COVID-19 wanes. However, attention should be paid to the risks that the employment stance taken by a wide range of firms will become

Chart B3-8: Employment Conditions by Industry



Source: Bank of Japan.
Note: Figures are based on the *Tankan* and are for all enterprises.

Chart B3-9: Rate of Employed Persons Who Changed Jobs



Source: Ministry of Internal Affairs and Communications.

cautious and that labor transfers between industries will not proceed as smoothly as expected, given, for example, that (1) uncertainties over future developments due to COVID-19 have been high in not only the face-to-face services industry but also other industries and (2) the workforce skills required by firms may significantly change from the conventional ones, partly due to advances in digital transformation.