

**(Box 2) Current Situation and Outlook for Labor Market Conditions**

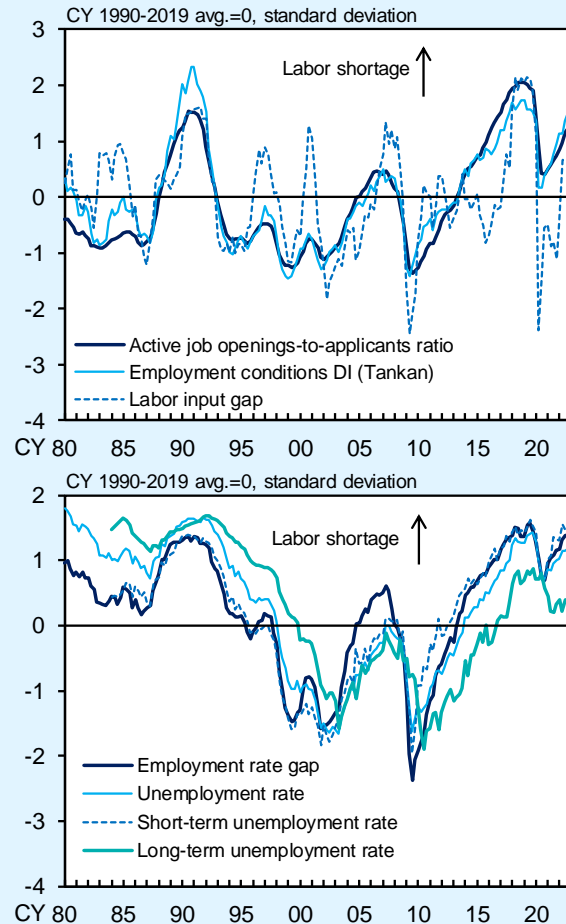
Labor market conditions have been tightening in Japan with economic activity continuing to improve. Looking at various measures of labor market conditions, some of them show that the degree of tightness has been close to the pre-pandemic level and to the peak during the bubble period at the end of the 1980s (Chart B2-1).<sup>19</sup>

The outlook for labor market conditions depends on how much labor demand will rise, reflecting improvement in economic activity, as well as on developments in labor supply. In this regard, looking at the 2010s, before the pandemic, while labor demand increased along with an economic recovery, the number of labor force participants rose on the labor supply side even amid a decreasing total population because labor force participation of seniors and women had advanced (Chart B2-2). This eased upward pressure on wages stemming from tight labor market conditions and supported economic growth. The following outlines whether an increase in labor supply as seen in the 2010s can be expected going forward.

First, the labor force participation rate for seniors, which had continued on an uptrend, has remained more or less flat recently, partly reflecting moves to temporarily put off participation in the labor market due to the pandemic (Chart B2-3). The

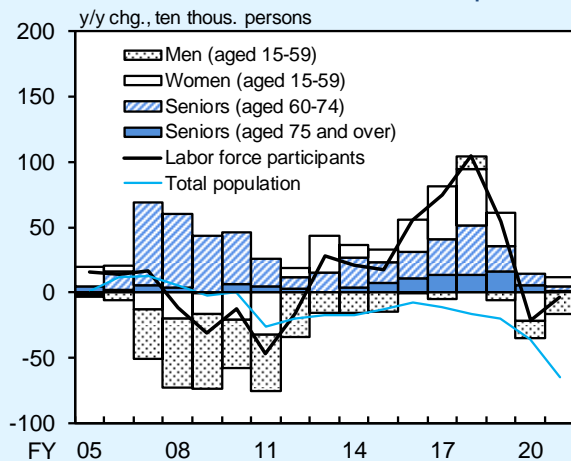
<sup>19</sup> For details on each measure, see Box 1 in the July 2017 Outlook Report.

**Chart B2-1: Various Measures of Labor Market Conditions**



Sources: Ministry of Health, Labour and Welfare; Bank of Japan; Ministry of Internal Affairs and Communications, etc.  
 Notes: 1. Figures for each measure of labor market conditions are normalized by the standard deviation from 1990 to 2019.  
 2. Figures for the active job openings-to-applicants ratio and the unemployment rate for 2022/Q4 are October-November averages.  
 3. The labor input gap and the employment rate gap are staff estimates.  
 4. Figures for the short- and long-term unemployment rates up through 2001 are on a semiannual or annual basis.

**Chart B2-2: Labor Force Participants**



Source: Ministry of Internal Affairs and Communications.  
 Note: Figures for labor force participants are staff estimates adjusted for gaps due to revisions of the benchmark population.

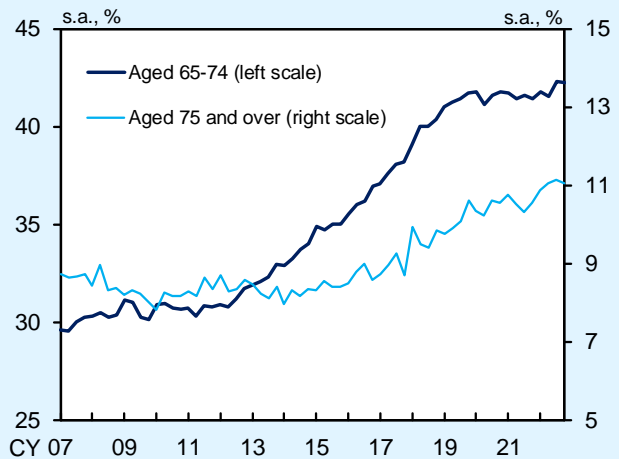
labor force participation rate for seniors aged 75 and over has been significantly lower than those aged between 65 and 74, and the so-called baby boomer generation (born between 1947 and 1949), which supported the increase in labor supply in the 2010s, has reached their mid-70s. Considering these factors, the pace of increase in labor force participation of seniors is projected to decelerate, as it is highly likely that the labor force participation rate for the baby boomer generation will decline (Chart B2-4).

Second, room for additional labor supply seems to have shrunk for women as well. Specifically, although a so-called M-shaped curve -- which indicates a low labor force participation rate for women in their child-bearing and child-rearing phases -- had been observed in Japan, it has started to flatten in recent years (Chart B2-5). The labor force participation rate for women in Japan has been comparable to those in the United States and Europe, as seen in the rate for women aged between 25 and 34 already exceeding those in the United States and Germany and rising to a level close to that in Sweden.

Taking account of these factors, it is highly likely that labor market conditions will tighten further as labor demand is expected to rise due to an economic recovery and as labor supply is unlikely to increase to the extent that it did in the 2010s. That said, uncertainties regarding this outlook, both upside and downside, are high.

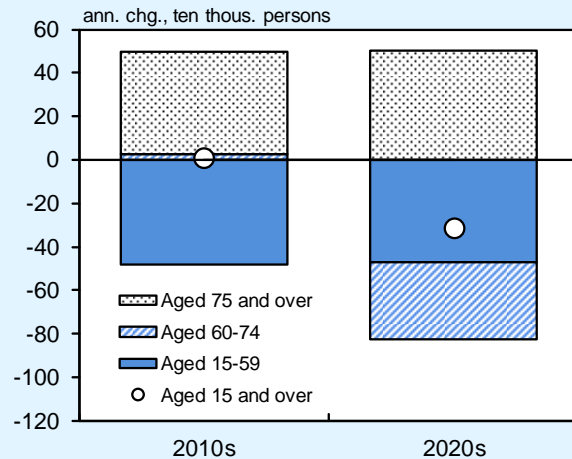
Specifically, labor demand is projected to be affected by factors such as the pace of economic

**Chart B2-3: Labor Force Participation Rate of Seniors**



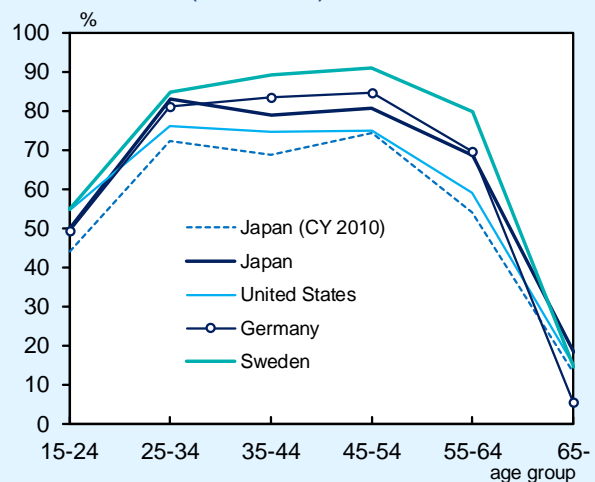
Source: Ministry of Internal Affairs and Communications.  
 Note: Figures are staff estimates adjusted for gaps due to revisions of the benchmark population. Figures for 2022/Q4 are October-November averages.

**Chart B2-4: Change in Population by Age**



Sources: Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research.  
 Note: Figures for the 2020s are calculated using forecasts for the period from 2020 to 2024.

**Chart B2-5: Labor Force Participation Rate of Women (CY 2021)**



Source: OECD.

recovery, which depends partly on the degree of pent-up demand. On the labor supply side, although the labor force participation rate for women has risen to some extent, as mentioned earlier, the total hours worked per female employee have remained low compared with those per male employee. Considering that labor market reform has progressed and government measures such as those to support employment have been enhanced since the 2010s, there still seems to be room for labor supply of women to increase in the form of a rise in the number of working hours. In addition, labor supply in such industries as face-to-face services (e.g., accommodations as well as eating and drinking services) is susceptible to whether the number of foreign workers, for which the growth rate has decreased since the outbreak of COVID-19, will recover. It is necessary to pay close attention to developments in labor supply, since it is an important factor that affects wage developments.