

Daiwa's View

Decline in new graduate hiring may point to rate hiking pace correction

- Decrease in new graduate hiring may indicate slower wage growth
- Slowing labor market could decelerate rate hiking pace, restrain JGB yield upside
- Easing labor supply/demand implies that SMEs may stop hiring

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Summary

According to a survey conducted by Recruit Works Institute from January to February of this year, the projected jobs-to-applicants ratio for students graduating from college and graduate school in March 2026 is 1.66X, a decrease of 0.09 point from the previous year. More than 4,100 firms responded to the survey, with 764,800 job openings, down from 797,200 for the previous year.

This drop in the jobs-to-applicants ratio suggests a changing labor market within Japan's economy. We should note that even though this survey data was collected before the Trump tariffs took effect, it still confirms a downward trend for labor demand. The fact that the hiring of new graduates, the most important factor for a company's future business activities, is declining, even as the labor shortage is said to be continuing, suggests that the overall demand for labor is declining and the labor market supply/demand conditions may be easing. (Our economist provides a detailed analysis of the job market on the following pages.)

Monetary policy implications

Easing labor demand is likely to reduce upward pressure on wages. This data suggests that wage growth over the next fiscal year could be smaller than the current level of growth. Moreover, as uncertainty about future Trump tariffs intensifies, hiring plans and wage levels could deteriorate further next year.

The BOJ is now lowering its outlook for economic growth and prices in light of the impact of the Trump tariffs on the economy. That said, the Bank is still maintaining its rate hiking stance. However, the pace for hiking rates is expected to be slower than previously assumed. A decline in labor demand and a possible slowdown for the rate of wage increases could further slow the pace of these rate hikes or even reduce the feasibility of such rate hikes.

At this stage, data on how the Trump tariffs have impacted the real economy has not yet been released, so the direct impacts cannot be confirmed from the existing data. However, if such data deteriorates in the future, the BOJ may enter a phase in which executing rate hikes becomes more challenging. Under such circumstances, the speed at which JGB yields rise will likely slow as the market struggles to factor in a higher terminal rate.

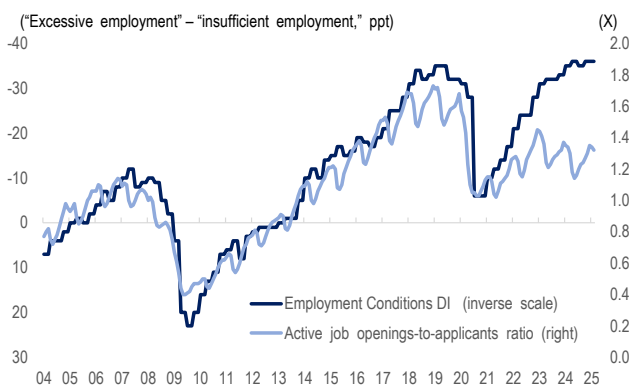
(Kawahara)

Easing labor supply/demand implies that SMEs may stop hiring (Minami)

Conventionally, the “active jobs-to-applicants ratio,” which indicates the status of job openings and job seeking at Hello Work (public employment service offices), has been the most important indicator of the Japanese labor market. However, in recent years, the number of job seekers using Hello Work has declined, resulting in a gap in the sense of labor shortage between the active jobs-to-applicants ratio and the Employment Conditions DI in the BOJ’s Tankan survey. It has been pointed out that the active jobs-to-applicants ratio is not exactly in line with the actual labor conditions. As a result, the focus on the active jobs-to-applicants ratio has declined and the use of alternative data is now becoming more important.

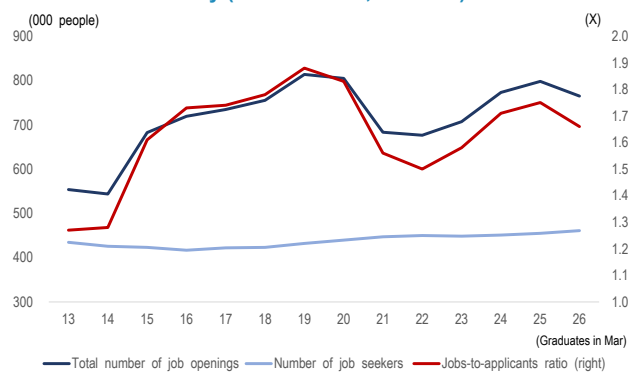
According to the latest survey by the Recruit Works Institute, the decline in the jobs-to-applicants ratio for March 2026 graduates was due to (1) the fact that the number of job seekers increased by 6,000 from the previous year (from 455,000 to 461,000) and (2) the impact of the total number of new job openings decreasing by 32,000 from the previous year (from 797,000 to 765,000), which was particularly strong. Here, the decrease in the total number of job openings (from 433,000 last year to 399,000) was the most pronounced among “companies with less than 300 employees.” Meanwhile, within the BOJ’s Tankan survey, the sense of labor shortages among small firms remains high, indicating a deviation between the two indicators.

Employment Conditions DI, Active Job Openings-to-applicants Ratio



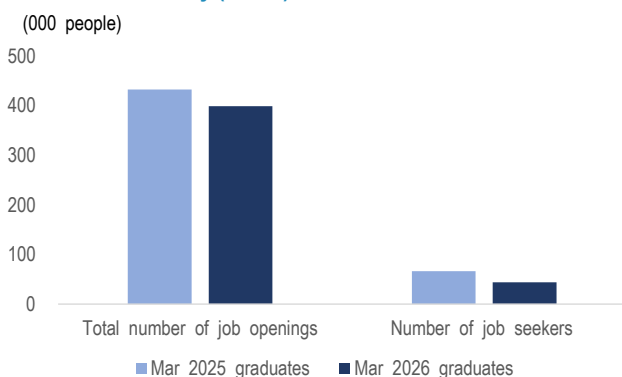
Source: BOJ, Ministry of Health, Labour and Welfare; compiled by Daiwa.

Recruit Works Institute's College Graduate Jobs-to-Applicants Ratio Survey (all industries, all sizes)



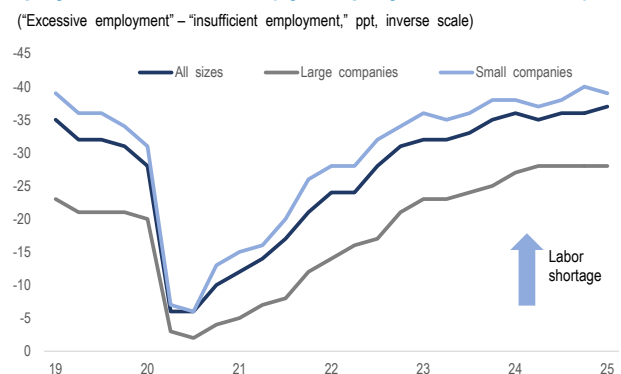
Source: Recruit Works Institute; compiled by Daiwa.

Recruit Works Institute's College Graduate Jobs-to-Applicants Ratio Survey (SMEs)



Source: Recruit Works Institute; compiled by Daiwa.

Employment Conditions DI (by company size, BOJ Tankan)



Source: BOJ; compiled by Daiwa.

The reasons behind this deviation between the decrease in the number of job openings and the sense of high labor shortages are (1) Cautious hiring stance due to worsening business performance of SMEs (decreased capacity to invest in human resources), (2) Workers leaving SMEs due to widening salary gap, and (3) Curtailed job advertisements in anticipation of recruitment difficulties (withdrawal of recruitment).

According to the BOJ's March 2025 Tankan survey, performance among small firms is sluggish. For example, even though recurring profit at small firms was up 2.6% y/y in FY24, it is expected to decrease 4.9% in FY25. Also, the growth rate for wage increases at small and medium-sized enterprises (SMEs) is smaller than that at large companies. The Recruit Works Institute's survey also showed a significant decrease in the number of job seekers at "companies with less than 300 employees" (from 66,000 last year to 44,000), indicating a marked decline in the number of applicants for SMEs.

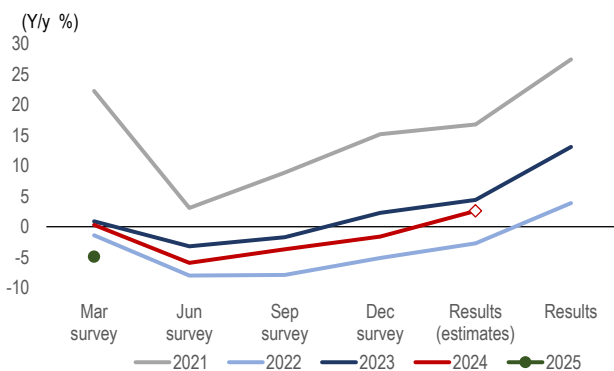
SMEs have been raising wages defensively, but their wage levels remain low and they are still struggling to secure workers. Nevertheless, the reason for the decline in the total number of job openings is very likely to be a growing trend toward "withdrawal from recruitment" as companies find it difficult to secure human resources deserving the cost of hiring. If this hypothesis is valid, it would suggest that the capacity of SMEs to raise wages is already approaching its limit.

Given this situation, an easing of the labor supply-demand balance against the backdrop of deteriorating business performance for SMEs and their tendency to withdraw from hiring is likely to impact future wage hiking trends. SMEs, which already have limited capacity to invest in human resources, will find it even more difficult to respond to demands for higher wages during the annual spring labor-management wage negotiations. It is assumed that wage increase rates among SMEs in the 2026 annual spring labor-management wage negotiations is likely to be lower than that in 2025.

The BOJ's June Tankan survey (due out on 1 July) should also provide some clarity regarding companies' plans for hiring new graduates for FY26. Here, we plan to carefully monitor (1) the actual extent to which the trend of SMEs withdrawing from hiring, as suggested by this analysis, is spreading and (2) Tankan's Employment Conditions DI.

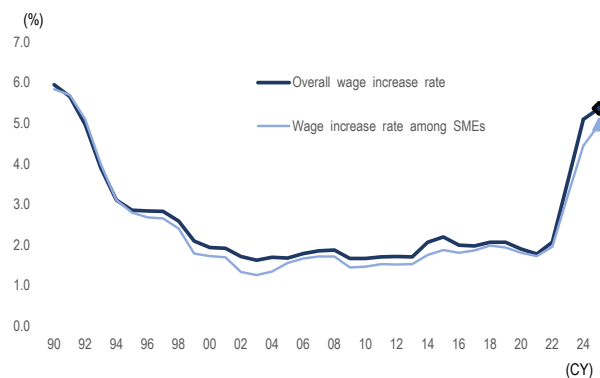
(Minami)

Recurring Profit Plans at Small Companies (BOJ Tankan)



Source: BOJ; compiled by Daiwa.

Wage Hikes at Spring Labor-management Negotiations



Source: Japanese Trade Union Confederation; compiled by Daiwa.
Note: Result of the fourth round of response tabulation for 2025.

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