

Daiwa's Economic View

Labor shortages by industry

- Drivers of labor shortages differ by industry
- Labor supply/demand expected to tighten further in certain industries

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Labor shortages in Japan are becoming increasingly acute. The Bank of Japan (BOJ) is monitoring labor supply constraints as a driver of upside risks to inflation and has indicated that these constraints could intensify upward pressure on prices, including in a recent working paper titled "Supply Constraints and Price Fluctuations" (only available in Japanese).

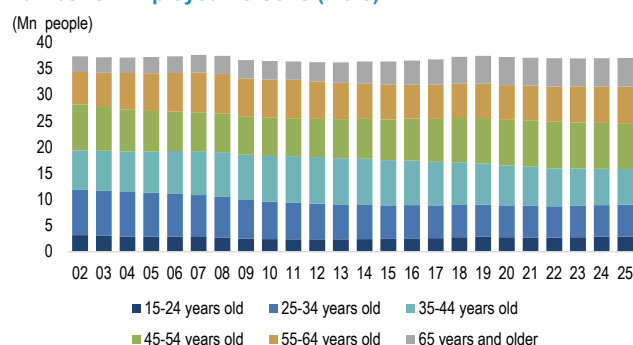
◆ Summary of Opinions at Jan Monetary Policy Meeting (2 Feb 2026)

- With Japan's economy facing labor supply constraints, risks to prices have become more skewed to the upside, as seen in, for example, the pass-through to prices of the yen's depreciation, an expansion in demand driven by fiscal policies, and China's restrictions on exports to Japan.

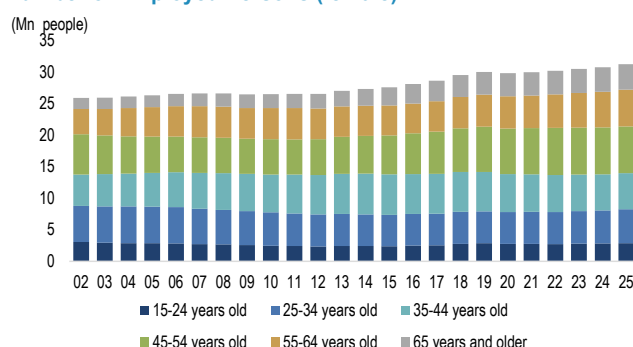
Companies are raising wages to secure workers and passing through the resulting increase in labor costs, resulting in higher prices. However, the extent to which this dynamic is playing out varies considerably by industry.

Perceived labor shortages differ by industry

The number of employed persons in Japan has been rising steadily, driven mainly by increased labor force participation among women and older workers.

Number of Employed Persons (male)

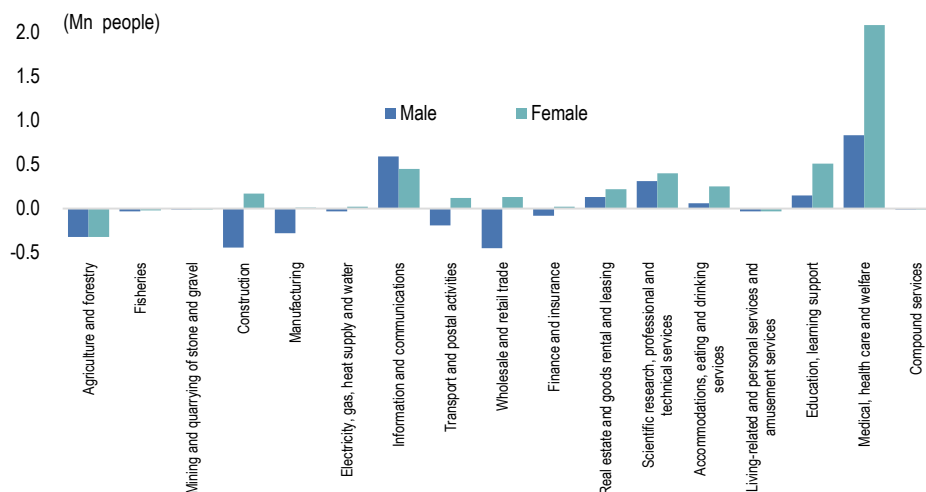
Source: Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

Number of Employed Persons (female)

Source: MIC; compiled by Daiwa.

However, the picture varies considerably at the industry level. In medical/health care and welfare, women have led a sharp increase in the number of employed persons, and the expansion of female labor force participation appears to be underpinning labor supply. Meanwhile, employment in construction and wholesale/retail has declined among men. In information and communications, employment has risen for both men and women. While female labor force participation is easing supply constraints in specific industries such as medical/health care and welfare the male workforce is shrinking as the population declines, and this appears to be creating structural supply constraints in certain sectors.

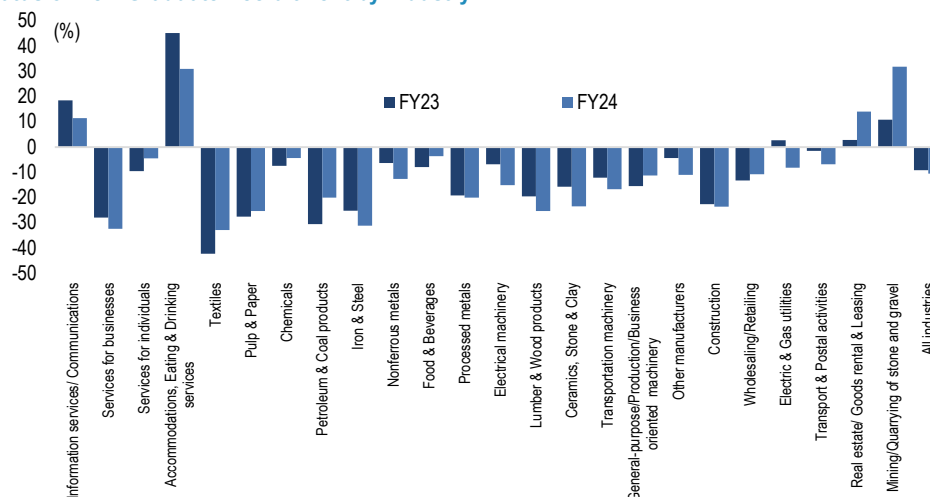
Change in Number of Employed Persons by Industry (2010–2025)



Source: MIC; compiled by Daiwa.

Turning to new graduate hiring, most industries appear to be struggling to attract young talent, though some sectors such as information and communications and accommodation and food services have been relatively successful. We would note that the data on employment levels and new graduate hiring are drawn from different releases, and the companies and time periods covered are not consistent.

Status of New Graduate Recruitment by Industry



Source: BOJ; compiled by Daiwa.

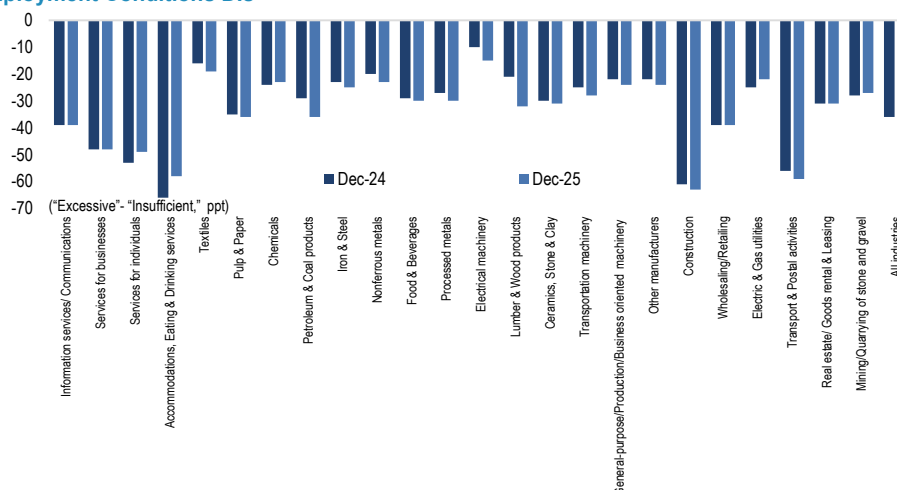
Note: This indicates the actual number of hires relative to the number initially planned. A value greater than 0 signifies that actual hires exceeded the plan, a value of 0 signifies that actual hires were equal to the plan, and a value less than 0 signifies that actual hires were below the plan.

The BOJ's Regional Economic Report (*Sakura Report*) features the comment from one company that it "implemented generous wage increases targeting younger workers to increase new graduate hiring in FY25, and plans to bring overall wage growth in line with industry peers in FY26 while improving compensation for mid-career and senior employees (Osaka, wholesale)." This suggests that companies are using wage increases to compete for young talent.

The employment conditions DI shows perceived labor shortages intensifying across all industries. In information and communications, despite rising employment levels and success with hiring young workers, labor supply/demand remains tight. We think this reflects a qualitative labor shortage—a lack of workers with the skills needed to meet expanding demand—rather than a quantitative shortfall in headcount. It is this qualitative mismatch, rather than an outright shortage of labor, that appears to be the key driver of perceived labor shortages in the information and communications sector.

Meanwhile, employment in construction and transportation is falling, and companies are struggling to hire new graduates. Perceived labor shortages in these sectors appear to stem from an inability to secure the workforce needed to meet demand. The introduction of overtime caps (the "2024 problem") has also shortened working hours, making it harder to handle work that was previously manageable. The impact of these working-hour restrictions is spilling over to other industries as well, adding to perceived labor shortages. This in turn is intensifying the need to raise productivity per hour.

Employment Conditions DIs



Source: BOJ; compiled by Daiwa.

As the above illustrates, the drivers of labor shortages differ across industries. However, with shortages intensifying in all industries, we expect wage increases aimed at securing workers to continue. Given the difficulty of hiring new graduates, we think wage increases targeting younger workers in particular will become increasingly aggressive.

We would also note that, as one firm put it, "new graduate hiring has become more difficult and the number of younger employees who quit is also rising, so we are expanding mid-career hiring, including rehiring former employees (Sendai, food products)." This suggests that companies unable to secure young talent are also ramping up hiring of experienced workers. However, rehiring is only practical in a limited subset of industries. In sectors such as construction that involve physical labor, there is a limited pool of suitable workers.

One company also noted that "given persistent and acute labor shortages, we are working to reduce headcount requirements at our stores by introducing a mobile app and tablet-based ordering (Nagoya, food services)," which is emblematic of the growing number of companies that are pursuing labor-saving strategies. However, labor-intensive companies' ability to leverage investment in labor-saving technologies is limited.

Labor demand in medical/health care and welfare is expected to continue rising as Japan's population ages. However, labor force participation among women and older workers has now reached its theoretical limit, and it is unclear whether these groups can adequately offset future labor shortages. Some industries are structurally less accessible to women and older workers, making it difficult to count on significant inflows from these groups. The "17 strategic sectors" put forward by the Takaichi cabinet are also expected to see growing demand, which will further intensify labor shortages.

We think wages are likely to continue rising rapidly as companies compete for workers. The number of bankruptcies caused by labor shortages is also rising, and the environment for companies that are unable to pass through higher labor costs will likely remain challenging.

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