MHRT Brief April 1, 2025

The growing labor shortage in Japan

Two types of labor market mismatches are contributing factors

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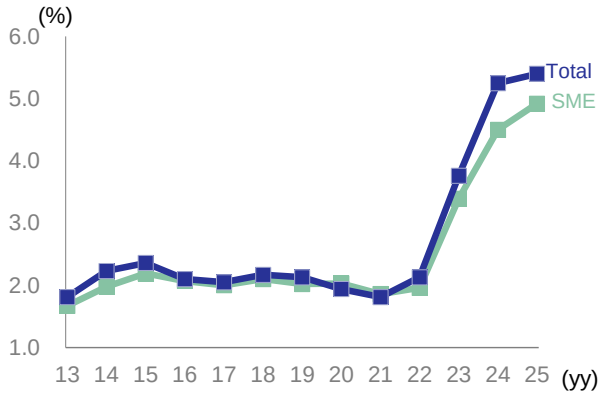
Wage increase rate in the 2025 annual Spring Labor Offensive will exceed the same period's rate in 2024

In the second round of responses to the 2025 Spring Labor Offensive, the overall rate of wage increases, including regular pay hikes, was 5.4% for all labor unions, exceeding the rate of increase for the same period in 2024 (5.25%) (Chart 1). Based on this result, the final tally of responses, which is usually released around July, is expected to show an overall wage increase of around 5.3%,[1] making it highly likely that the 5% mark will be exceeded for two consecutive years.

Furthermore, the second round of responses to the 2025 Spring Labor Offensive showed the wage increase rate for small and midsize labor unions was 4.92%, a significant jump from the 4.5% in 2024. Although RENGO's policy target of "6% or more" was not attained, the increase was nevertheless high at just under 5%, showing a narrowing gap in pay raises among different-sized labor unions.

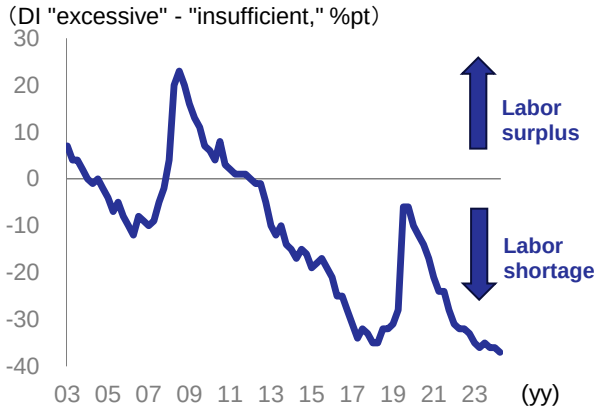
Behind the high wage increase rate is the growing shortage of labor. The Bank of Japan's Tankan survey shows that the employment conditions diffusion index (DI), which reflects corporate perceptions of labor surpluses and shortages, was on average -36%pt for all industries and firm sizes in FY2024, lower than before the COVID-19 pandemic, indicating that firms were feeling a very strong sense of labor shortage (Chart 2). In addition, the number of bankruptcies due to labor shortages, as reported by Teikoku Databank, rose significantly in 2023 and 2024, reaching a record high since the survey began in 2013 (Chart 3).

[Chart 1: Wage increase rate including regular salaries in the second round of responses to the Spring Labor Offensive]



Note: Second-round response figures for each year.
Source: Made by MHRT based on RENGO.

[Chart 2: Employment conditions DI]



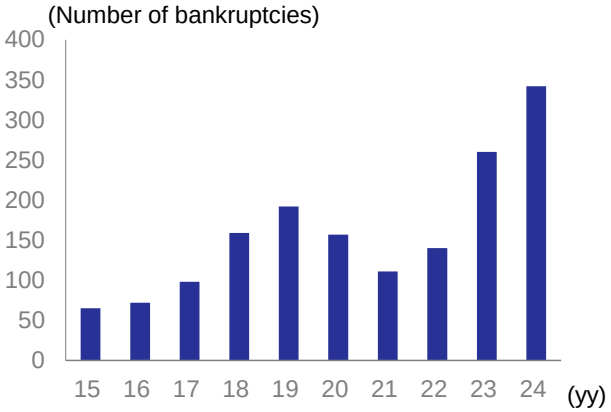
Source: Made by MHRT based on the Bank of Japan, *Tankan* (Short-term Economic Survey of Enterprises in Japan).

[1] The value of the final response for the 2025 Spring Labor Offensive was estimated by applying the range of adjustment from the second-round response (5.25%) to the final response (5.1%) in the 2024 Spring Labor Offensive.

Two types of mismatches" are contributing to the labor shortage

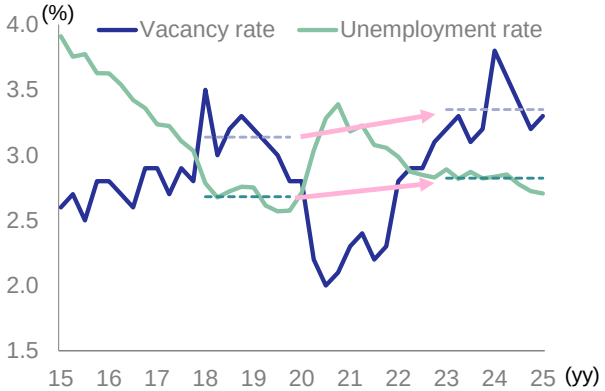
This strong sense of labor shortage can also be seen in the higher job vacancy rate (the number of unfilled job openings divided by the number of regular workers). The job vacancy rate averaged 3.38% for the most recent one-year period (FY2024), higher than the pre-pandemic peak (2018: average 3.25%), implying that companies are currently experiencing difficulties in hiring workers (Chart 4). On the other hand, despite the strong sense of labor shortage, the unemployment rate has not declined much, and is actually slightly higher than before the pandemic. In short, a curious situation has arisen in the labor market, in which the surplus of workers (rising unemployment rate) is higher than before the COVID-19 pandemic, despite current business complaints of a growing shortage of labor (rising job vacancy rate).

[Chart 3: Number of bankruptcies due to labor shortages]



Note: Of the companies that underwent legal liquidation (liabilities of 10 million yen or more), bankruptcies due to labor shortages caused by employee turnover, recruitment difficulties, etc. are counted as labor shortage bankruptcies.
Source: Made by MHRT based on Teikoku Databank.

[Chart 4: Job vacancy rate and unemployment rate]



Note: Unemployment rate = calculated as the number of unemployed / (number of employees + number of unemployed) x 100. The unemployment rate is seasonally adjusted. The dotted lines indicate averages for 2018-2019 and 2023-2024, respectively.
Source: Made by MHRT based on the Ministry of Health, Labour and Welfare, *Survey on Labour Economy Trend*, and the Ministry of Internal Affairs and Communications, *Labour Force Survey*.

To uncover the factors behind this situation, Chart 5 shows a heat map of company perceptions of labor shortages by industry and job type, using the Ministry of Health, Labour and Welfare's "Survey on Labour Economy Trend." As noted above, while companies as a whole have a strong sense of labor shortage, the extent of this shortage varies widely, implying there may be a mismatch between labor supply and labor demand due to the insufficient movement of workers between industries and job categories that have a strong labor shortage and those that do not. For example, the shortage of clerical workers appears to be mild across a wide range of industries, suggesting that the lack of progress in the movement of labor from "labor surplus" areas to "labor shortage" areas (see below) is likely contributing to the above-mentioned economy-wide trends in job vacancy rates and unemployment rates.

Chart 5 shows the labor shortage to be particularly strong in seven industries: construction, information and communications, transportation and postal services, academic research and professional/technical services, accommodation and restaurant services, medical care and welfare, and other services. These industries with a strong sense of labor shortage can be generally divided into two categories, depending on trends by type of work. In the construction, information and communications, and academic research and professional/technical services sectors, the sense of labor shortage is strong mainly among professional/technical and skilled workers. On the

other hand, transportation and postal services and other services face strong labor shortages in transportation/machine operation, service jobs, and simple laborers, indicating that the characteristics of labor shortages differ among industries (accommodation and restaurant services and medical care and welfare face shortages in both professional/technical and service positions).

In the first category, construction, information and communications, and academic research and professional/technical services, the shortage of highly skilled personnel, such as professional and technical workers and skilled technicians, appears to be the underlying factor driving the sense of labor shortage. These industries in fact have relatively high wage levels,[2] higher than the average for all industries (Chart 6). While wage levels are high, the skills and technical qualifications required by employers are also reasonably high, resulting in a "skills mismatch" that may be causing a labor shortage.

On the other hand, wages are relatively low in transportation and postal services, accommodation and restaurant services, medical care and welfare, and other services (Chart 6), which seems to be another reason for the labor shortage. As pointed out by Sakai et al. (2025), labor-saving investment has not progressed in these industries, despite the growing labor shortage, and sluggish growth in labor productivity has led to low wages. (In the medical care and welfare sector, the medical and nursing care remuneration system makes it difficult to raise wages flexibly.) A "wage mismatch," in which it is difficult to attract workers with low wage levels amid rising prices, is likely behind the labor shortage in these industries.

[Chart 5: Heat map of labor shortages by industry and job type]

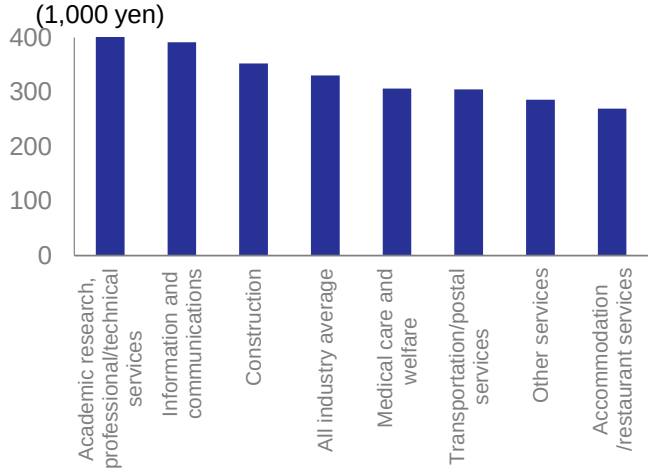
Job type \ Industry	Total	Construction	Manufacturing	Information and communications	Transportation /postal services	Wholesale	Retail	Finance /insurance	Real estate /leasing	Academic research, professional /technical services	Accommodation /restaurant services	Living-related and amusement services	Medical care /welfare	Other services
Total	52	57	47	56	63	45	39	28	46	60	54	39	62	61
Management	21	22	21	28	27	19	12	13	20	23	28	23	16	29
Clerical	24	18	18	25	32	22	15	19	32	27	32	25	31	19
Professional/technical	50	62	42	62	26	35	33	30	39	64	54	33	64	46
Sales	31	25	27	32	5	37	52	35	46	35	35	26	3	20
Service	37	14	11	12	20	17	31	17	49	19	67	44	56	59
Transportation /machine operation	25	20	15	0	62	29	6	0	16	11	11	14	4	30
Skilled technicians	35	55	45	0	28	18	3	0	27	31	13	12	4	30
Simple laborers	31	34	36	0	35	20	9	0	17	18	6	24	0	50

Note: The numbers in the table represent the percentage of establishments that reported a shortage of workers; higher numbers indicate a stronger sense of labor shortage. The data for regular workers are used for all job types; February 2025 survey.
Source: Made by MHRT based on the Ministry of Health, Labour and Welfare, *Survey on Labour Economy Trend*.

Thus, looking at trends by industry and by job category, we can see there are multiple factors behind the mere term "labor shortage" or "mismatch." To address the "skills mismatch," the shortage of highly skilled workers, it is necessary to promote reskilling and increase the supply of workers with the skills and qualifications demanded by companies. At the same time, the solution to the "wage mismatch" caused by low wage levels is to increase labor productivity through the promotion of labor-saving investments and other measures to strengthen corporate earning power and secure the resources for wage increases. It is essential to take different measures depending on the factors that create shortages in labor.

[2] This report uses the Basic Survey on Wage Structure to treat the construction industry as an industry with relatively high wage levels, but it should be noted that the survey does not cover establishments with a small number of workers or so-called "solo proprietors," which may result in higher wage levels in the construction industry than in reality.

[Chart 6: Wage levels by industry (2024)]



Note: Level of scheduled cash earnings by industry for general workers at establishments with 10 or more workers.
Source: Made by MHRT based on the Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure*.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.

https://www.mizuho-rt.co.jp/publication/2025/pdf/express-jp250401.pdf

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