

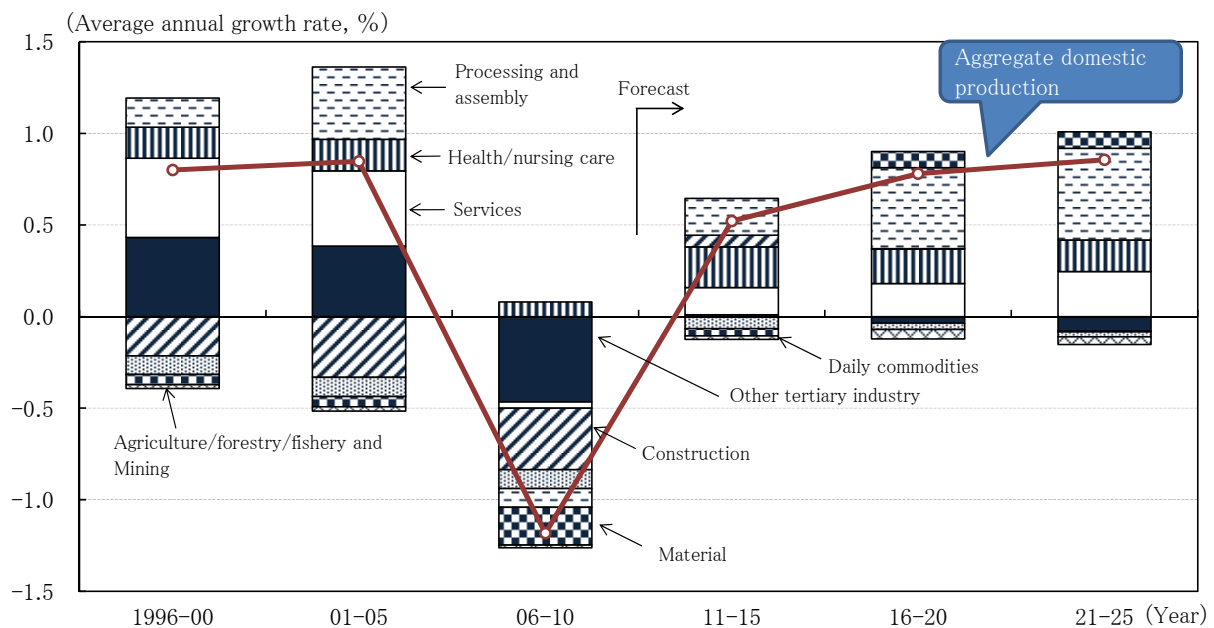
Production and Job Growth Driven by Different Engines

– For Growth Outlook by Prefecture, Mie Comes Top Followed by Aichi and Ishikawa
 JCER Medium-Term Economic Forecast Team

<Industrial Outlook Summary>

Sectors underpinning production growth are transport machinery and general machinery, while job-creating sectors are health, nursing care and business services sectors.

Figure 1 Real Domestic Production Growth Rate and Its Components

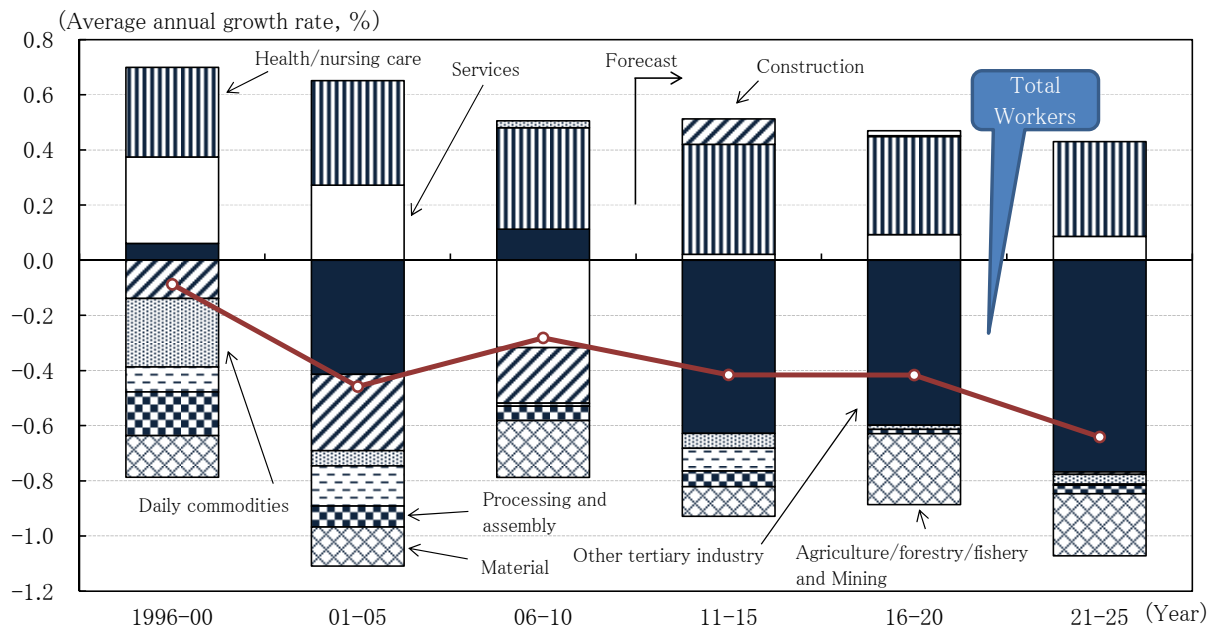


Sources: Ministry of Internal Affairs and Communications “1995, 2000, 2005 Link Input-Output Tables”, Ministry of Economy, Trade and Industry “The 2010 Updated Input-Output Table”

The drivers of production growth from 2011 through 2025 are processing and assembly type manufacturing sectors, such as transport machinery and general machinery, and the health and nursing care and business services sectors. Construction industry output will also increase due to the recovery of private sector capital spending and the stability of public works projects. In the meantime, agriculture, forestry and fishing output will decrease due to aging of the workforce and increased imports following conclusion of the Trans-Pacific Strategic Economic Partnership Agreement (TPP). Output in the retail trade and personal services sectors is expected to decline, reflecting a fall in consumption.

Due to population decline and aging, workforce decline is inevitable. While domestic manufacturing production will remain generally firm, labor demand is likely to decline due to improvement in labor productivity. The sectors that will create new jobs are the health and nursing care sector, which will meet the needs of an aging population, and the business services sector, which will tap into the outsourcing trend. The construction industry is also expected to exit its contractionary phase and start to absorb labor due to growth in demand. Labor shortages are already emerging on the health and nursing care frontline and on construction sites, and development of human resources to meet expected long-term labor demand is required.

Figure 2 Workers Growth Rate and Its Components



Sources: Ministry of Internal Affairs and Communications “1995, 2000, 2005 Link Input-Output Tables”, Ministry of Economy, Trade and Industry “The 2010 Updated Input-Output Table”

(1) Manufacturing

Domestic crude steel production volume is likely to increase, albeit at a modest pace, with domestic demand remaining unchanged but expansion in exports expected due to the growth of emerging economies and a weaker yen. Pulp & paper production volume is likely to decline moderately as a result of shrinking demand reflecting the switch to electronic media. Domestic ethylene and BTX production volumes are likely to remain flat, reflecting a tussle over market share even in an expanding global market. Sheet glass production is expected to fall as a result of decline in domestic automobile production volume. With the first phase of earthquake reconstruction demand over, cement production is likely to remain at the same level, reflecting stable domestic demand as maintenance and update investment demand offsets weaker demand for new construction. We anticipate that, in real terms, the value of total automobile production will increase due to the next-generation shift. Likewise in the machinery section, we predict that increased exports owing to the weaker yen will help push up the value of orders received.

(2) Non-manufacturing

In the transport sector, internal transport is likely to be weighed down by population decline, but international transport will grow due to an increase in tourists from overseas and, overall, domestic output is likely to increase. New housing starts - especially new privately owned housing units - are likely to decrease, as the number of households starts to fall. However, the nominal value of construction output is expected to remain unchanged, as there will be investment to update the social infrastructure. As for power demand, energy savings will be made and we expect that it will be possible to achieve 20% energy savings by 2030. Town gas demand is expected to increase, with more widespread use of gas cogeneration systems among other factors. We anticipate that the health and nursing care sector will continue its growth trend, fueled by the progressive aging of Japan's population, and emerge as the biggest sector. In the tourism industry, the number of foreign visitors to Japan is likely to maintain its current upward trend, bolstered by the correction of the strong yen and the effect of the Olympics.

<Regional Outlook Summary>

The JCER assessed the average growth outlook in terms of the real value of production and workforce by prefecture for FY2011-2025 by reflecting the medium-term industrial outlook of Japan as a whole in the industry distribution of each region. Key points are as follows:

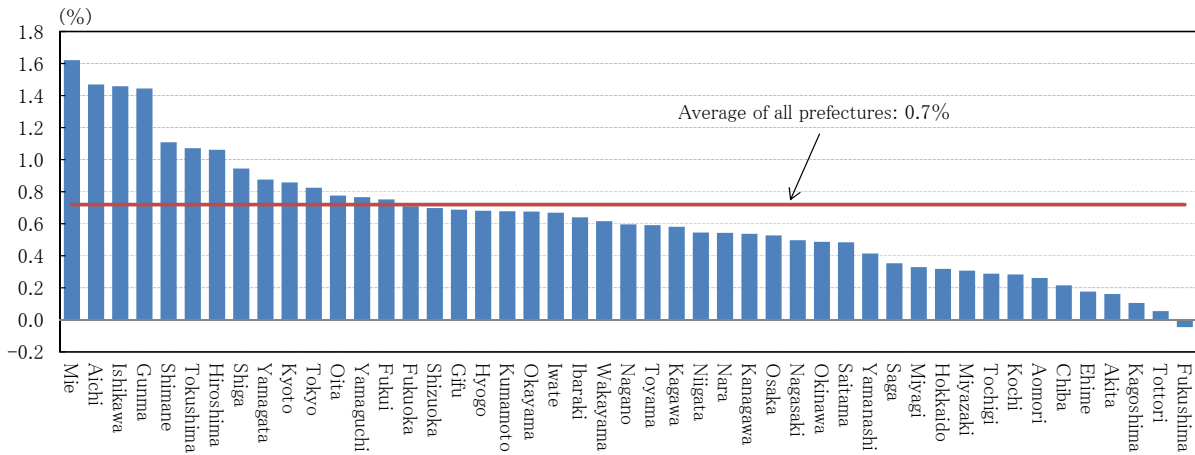
- (i) For the growth outlook by prefecture, Mie came top, followed by Aichi and Ishikawa. Growth is higher in prefectures with a higher proportion of high-growth processing and assembly type sectors such as transport machinery and semiconductors, electronics and electrical equipment.
- (ii) Even among the prefectures where growth is anticipated, in regions driven by industries where labor productivity will improve such as processing and assembly type sectors, the workforce will not necessarily increase. For example, prefectures such as Shimane will show high growth driven by the semiconductors, electronics and electrical equipment sectors, but the rate of decrease in the workforce will rise because the labor productivity of these industries will improve.
- (iii) Growth in regions severely hit by the Great East Japan Earthquake will slow. Since this prediction takes the recent fall in production and production capacity into account, growth may be raised depending on the nature of future reconstruction investment.
- (iv) If we compare labor demand estimated based on the real value of production and labor force population (labor supply) estimated based on population predictions, for some regions there is concern about labor shortages. Labor demand in areas such as health and nursing care is expected to increase, and it is imperative to introduce technologies to increase productivity and to increase workforce participation of women and the elderly, to avoid growth decline due to the labor supply constraint.

Figure 3 Growth Rate(2011-25) of Real Production and Workers, Top 5

Real value of production			The number of workers		
Rank	Prefecture	(%)	Rank	Prefecture	(%)
1	Mie	1.6	1	Tokyo	▲ 0.2
2	Aichi	1.5	2	Ishikawa	▲ 0.2
3	Ishikawa	1.5	3	Kanagawa	▲ 0.2
4	Gunma	1.4	4	Hiroshima	▲ 0.3
5	Shimane	1.1	5	Osaka	▲ 0.3

(▲ means decrease)

Figure 4 Growth Rate of Real Production of Each Prefecture (2011-25)



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Japan Center for Economic Research (JCER)

Nikkei Inc. Bldg. 11F 1-3-7 Otemachi, Chiyoda-ku, Tokyo 100-8066, Japan

Phone: +81-3-6256-7710 / FAX: +81-3-6256-7924