

*Workforce to Exceed 10 million People in Health and Nursing Care  
and Decline 0.5% Annually in Manufacturing*

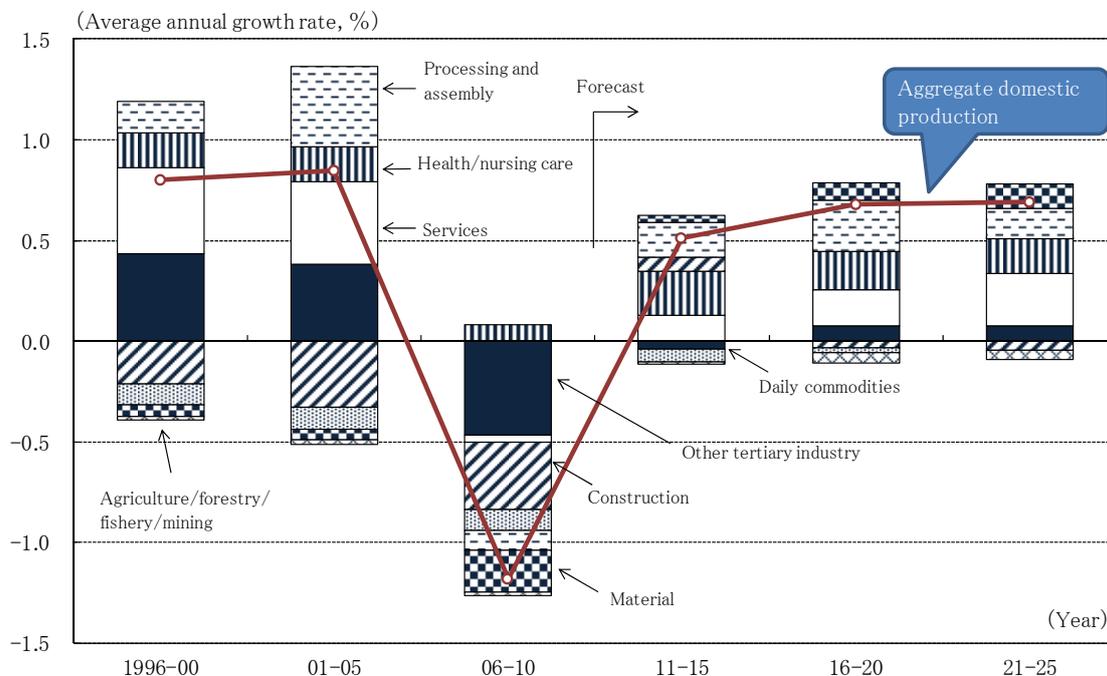
*— Industry Trends until 2025*

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1. Industry outlook: Production will be led by general machinery and transport machinery, and the workforce will exceed 10 million people in the health and nursing care sector<sup>1</sup>

The sectors in which real domestic production will grow from 2011 to 2025 are processing and assembly type manufacturing sectors, including general machinery and transport machinery, and the health and nursing care and business services sectors. In the meantime, agriculture, forestry and fishing output will decrease due to an aging workforce and increased imports following the conclusion of the Trans-Pacific Strategic Economic Partnership (TPP). Output in the retail trade and personal services sectors is expected to decline, reflecting sluggish growth in consumption (Figure 1).

Figure 1 Real Domestic Production Growth Rate and its Components

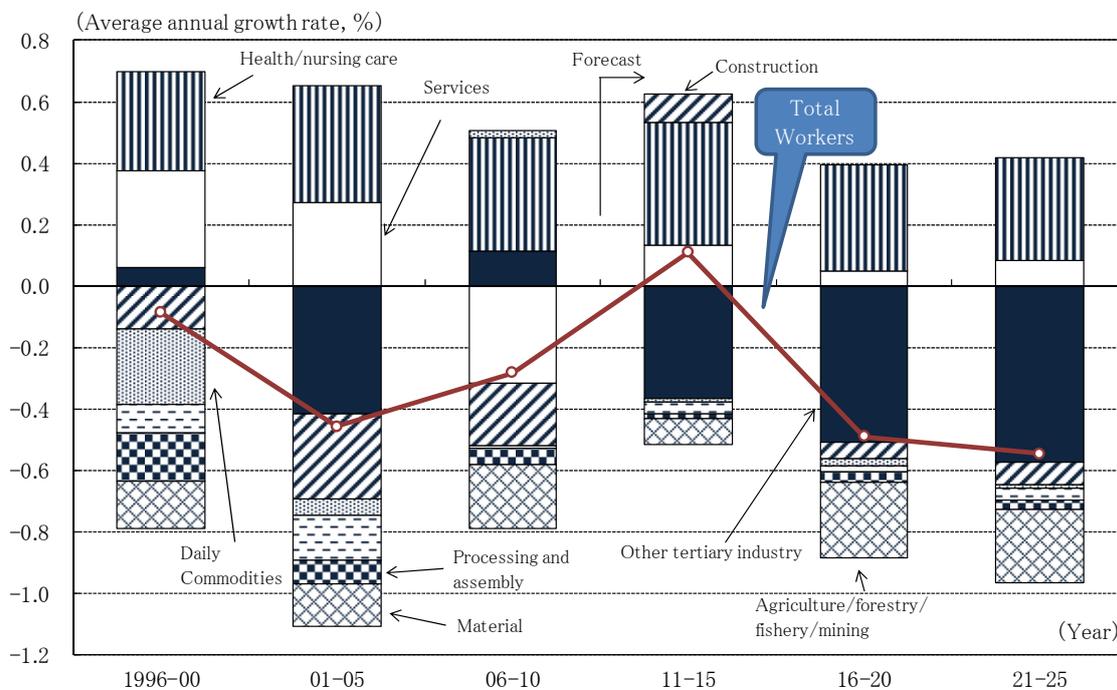


(Sources) Ministry of Internal Affairs and Communications “1995, 2000, 2005 Link Input-Output Tables”, Ministry of Economy, Trade and Industry “The 2010 Updated Input-Output Table”

<sup>1</sup> We forecasted real domestic output and the number of employees by industry until 2025 using input-output analysis. Assumptions for the macroeconomic environment, the operation of nuclear power plants and the consumption tax hike are based on the baseline scenario in the medium-term economic forecast.

Due to the population decline and aging, a decline in the workforce is inevitable. Although domestic manufacturing production will remain firm, labor demand is likely to decline due to an improvement in labor productivity. Particularly in the electronic computing and communication equipment sector and the semiconductor devices and integrated circuit sector, the workforce will decrease at an annual rate of more than 5%. 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 services sector, including business services, which will tap into the outsourcing trend (Figure 2). Labor shortages are already emerging on the health and nursing care frontline and on construction sites, and the development of human resources to meet expected long-term labor demand is necessary. Although the workforce will decrease at an annual rate of 5% in manufacturing as a whole, jobs will increase in general machinery and electrical machinery in association with production growth.

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”

## 2. Outlook by business sector

The domestic sales volume of automobiles is expected to decline by about 20% in the next 10 years, as the number of households will turn downward. Demand for Japanese cars overseas will increase along with growth in the world economy, but the shift of production bases overseas by Japanese automakers will continue, although its pace is slowing due to the effect of the weak yen. As a result, the export volume will turn downward in the 2020s. As a result, the domestic production volume is expected to decline by more than 10% in FY2025, compared with the level in FY2011, as exports, which will underpin the domestic production in the immediate future, will take a downward turn in the 2020s amid a fall in domestic sales.

Housing will follow a contracting trend against the backdrop of the number of households turning downward after 2018. If the number of households begins to decline, housing construction will be limited to rebuilding aging infrastructure; there will no longer be a need to increase housing stock. In prefectures such as Akita and Kochi, the number of households has already begun to decrease. If such data are incorporated into the analysis, housing starts in 2025 are expected to decline to the 600,000-unit level.

Construction in the non-housing sector, such as offices and stores, will remain flat. Increased earnings in the private corporate sector are a boosting factor. As factories and warehouses are particularly sensitive to economic conditions, construction is expected to gather strength in the immediate future. On the other hand, offices and stores are susceptible to the population decline, and construction is expected to decrease. The floor area will hit a peak even if investment increases, given that construction costs are rising.

The passenger transport volume will remain flat or increase moderately, backed by income increases and the opening of low-cost carriers (LCC) and new Shinkansen lines, although population decline will impose a strain both domestically and internationally. The number of foreign visitors to Japan will continue to increase steadily, supported by the weak yen, relaxed visa requirements and the coming 2020 Summer Olympics in Tokyo. Although the number of foreign visitors will not reach 20 million people in 2020, around that time, visitor arrivals is expected to exceed the number of Japanese people leaving Japan for the first time in about 50 years.

Due to further progress in energy efficiency in the household and the commerce and industry sectors after the Great East Japan Earthquake, electricity demand will decline by about 22% from the level in FY2010 in FY2030. Demand for city gas will increase at an annual rate of about 1% in total as the shift from electricity and oil, etc. for industrial use will continue for the time being, although demand will decrease in households associated with the population decline.

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