

# Corporate Intentions Continue to Signal Reduction in Employment

Nissay Business Conditions Survey Team

## Introduction

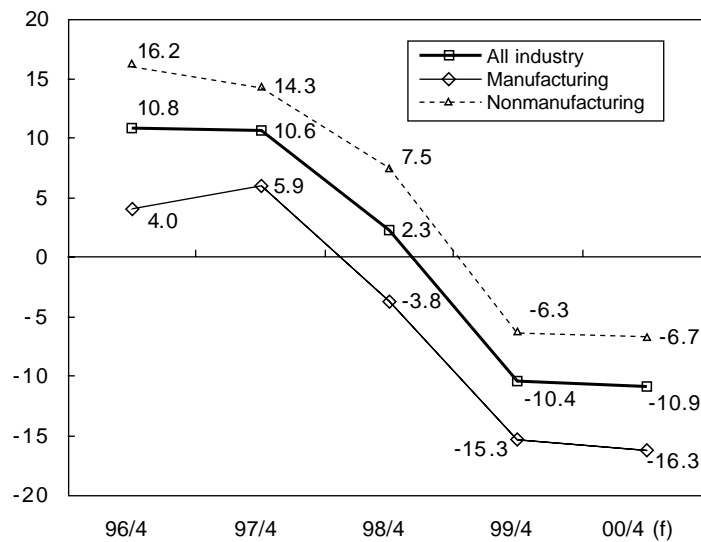
Although the perception of business conditions among companies appears to be bottoming out, Japan's unemployment rate as of last August remained stubbornly high at 4.7%, with 3.2 million jobless persons.

In the context of this severe macroeconomic situation, this paper briefly examines the employment picture at the company level based on results from the Nissay Business Conditions Survey. The latest semiannual survey, conducted last August by Nippon Life Insurance Co. and NLI Research Institute, covered 3,677 mostly small and mid-sized companies nationwide. We analyzed the results pertaining to employment and human resource management strategies to determine present employment conditions and future trends.

## 1. Corporate Intentions to Reduce Payrolls Remain Strong

In April 1999, the DI (diffusion index) for actual change in employment (proportion of companies who "increased employment" minus those who "decreased employment") registered -10.4, edging out our estimate of -12.5 in the previous survey (February 1999). However, compared to April 1998 when the DI was 2.3, many more companies have reduced employment. By industry, particularly large declines occurred in transportation & warehousing (-34.9) and raw materials (-23.2), while services saw an improvement (20.1; Figure 1).

**Figure 1 DI for Change in Employment**



Note: The DI is defined as the proportion of companies who increased (or will increase) employment minus the proportion who decreased (or will decrease) employment.  
 Source: Nissay Business Conditions Survey (FY 1999 1H).

The estimated DI for April 2000 is -10.9, indicating that intentions to reduce employment remain strong. By company size, while employment will improve slightly among small and mid-sized companies, at large and second-tier companies, many companies expect to reduce employment further compared to April 1999.

## 2. The Strong Perception of Excess Employment in Hokkaido

In the April 1999 survey, the DI's for change in employment by region show large employment cuts in Hokkaido (-29.1), Kinki (-15.7), and Chugoku (-13.4), and small declines in Shikoku (-1.2), Kyushi (-4.9). Compared to the February estimate, the greatest improvement was in Koshinetsu/Hokuriku (from -16.2 to -9.9).

The DI estimates for April 2000 show large negative values for Hokkaido (-24.4) and Chugoku (-21.4), indicating that a large proportion of companies expect to reduce employment. On the other hand, the DI estimate for Kyushu (1.2) turns positive, providing a sign of improvement in the employment environment. Compared to the actual results in April, Kyushu and Hokkaido show an improvement trend, while Chugoku and Tokai expect the employment situation to worsen (Figure 2).

**Figure 2 DI for Change in Employment by Region**

	DI for April 1999		04/00 prediction (made 08/99)
	Forecast (made 02/99)	Actual (measured 08/99)	
Nationwide	-12.5	-10.4	-10.9
Hokkaido	-26.4	-29.1	-24.4
Tohoku	-10.2	-6.8	-9.6
Kanto	-7.5	-7.5	-7.4
Koshinetsu/Hokuriku	-16.2	-9.9	-9.6
Tokai	-11.3	-8.4	-14.3
Kinki	-18.1	-15.7	-13.6
Chugoku	-17.3	-13.4	-21.4
Shikoku	-5.1	-1.2	-5.8
Kyushu	-5	-4.9	1.2

### 3. Perception of Excess Employment to Continue for Next 1 to 2 Years

With regard to employment cuts in the next one to two years, while almost half responded they would maintain present levels (48.4%), almost 40% said they would reduce employment. The expected DI declines significantly in transportation equipment, steel, mining, petroleum, glass and ceramic, transportation, and warehousing, suggesting that major employment adjustments will continue in these industries over the next two years. On the other hand, employment intentions are expected to remain strong in information technology industries such as information services and communications, where more companies expect to increase rather than decrease employment due to strong growth in IT investment and sales of mobile communications equipment.

By size, large companies tend to expect a decrease, while small and mid-sized companies expect to leave employment unchanged.

By region, intentions to decrease employment are particularly strong in Chugoku (44.1%) and Tokai (42.6%), and the DI values of Chugoku, Kinki and Tokai regions are low compared to the rest of the nation. On the other hand, a large proportion of companies in Kyushu, Kanto, and Shikoku expect to increase employment.

Thus aside from a few industries such as IT, corporate employment intentions tend to be rather soft over the next one to two years. In particular, large companies face strong pressure to adjust employment, while the materials manufacturing industry strongly perceives excess employment. Despite perceptions that business conditions are improving, persistent employ-

ment adjustment pressures at second-tier and small and mid-sized companies raise concerns regarding the impact on personal consumption.

Interestingly, the demand for professional human resources appears to remain sound; almost 20% of companies say that despite reductions in overall employment, they intend to increase professional hiring in specific areas (Figure 3).

**Figure 3 Employment Intentions in the Next 1 to 2 Years (%)**

	Future employment intentions				Decrease overall, but increase professionals
	Increase ①	No change	Decrease ②	D.I. ① - ②	
All industries	11.2	48.4	39.3	-28.1	18.7
<b>Selected industries</b>					
Mining, oil, ceramic	4.4	36.8	54.4	-50	19.1
Steel	3.1	43.8	53.1	-50	15.6
Transport. equip.	6.8	32.7	58.5	-51.7	28.6
Transport., warehous.	5.9	42.7	49.8	-43.9	15.3
Communications	36	40	24	12	4
Restaurant	32.1	32.1	33.9	-1.8	8.9
Information services	44.3	42.9	12.9	31.4	10
<b>Size</b>					
Large	12.8	32.2	53.8	-41	21.6
2nd tier	8.9	42.9	47.2	-38.3	21.8
Small & med.	11.9	52.5	34.5	-22.6	17.2
<b>Region</b>					
Hokkaido	8.1	52.3	39.6	-31.5	
Tohoku	10	47.9	41.1	-31.1	
Kanto	13.8	48.5	36.9	-23.1	
Koshinetsu/Hokuriku	10.5	49.7	38.6	-28.1	
Tokai	10.6	46.4	42.6	-32	
Kinki	8.1	50.3	40.8	-32.7	
Chugoku	10.3	44.1	44.1	-33.8	
Shikoku	11.6	41.9	31.4	-19.8	
Kyushu	16.5	51.4	31.7	-15.2	

Notes: DI measures the percentage of companies answering they will increase employment minus those who answer they will decrease employment. The latter includes companies who will reduce employment, and companies who will reduce overall employment but increase professional hiring in specific areas. Numbers may not add up to 100% due to uncounted responses.

#### 4. Labor Availability Improves as Job Market Eases

In the past year, hiring trends while many companies increased hiring of young employees (31.4%), few companies increased hiring of women and older persons.

Compared to the previous survey (August 1998), more companies have been able to hire good employees (up 2.4-percentage points), while fewer companies failed to hire the desired employees (down 5.1-percentage points) or fulfill hiring plans (down 2.5-percentage points). These results suggest that the easing job market has made it easier to find the desired workers. On the other hand, 11.4% of companies say they lag behind in reducing employment (up 3.2-percentage points), suggesting that progress remains slow in adjusting present employment levels (Figure 4).

**Figure 4 Hiring Trends in the Past Year (%)**

	Hiring situation			Increased hiring of			Other trends		
	Able to hire good employees	Unable to hire desired employees	Unable to fill plan	Young	Middle aged & older	Women	More young workers left	Lag behind in making cuts	Exceeded planned cuts
<b>All industries</b>	<b>22</b>	<b>9.7</b>	<b>1.9</b>	<b>31.4</b>	<b>5.5</b>	<b>5.5</b>	<b>6.3</b>	<b>11.4</b>	<b>7.5</b>
<b>Selected industries</b>									
Steel	15.6	4.7	1.6	40.6	6.3	7.8	9.4	18.8	10.9
Transport. equip.	19	8.2	2.7	27.2	2.7	8.2	4.8	19	6.8
Communications	28	16	0	44	8	4	8	0	0
Real estate	13.7	5.9	0	15.7	15.7	5.9	5.9	3.9	3.9
Restaurant	28.6	10.7	5.4	39.3	1.8	7.1	12.5	10.7	16.1
Information serv.	42.9	14.3	4.3	58.6	2.9	11.4	0	2.9	2.9
<b>Region</b>									
Hokkaido	19.8	7	1.2	20.9	4.7	2.3	11.6	7	10.5
Tohoku	18.7	10	2.3	31.1	5.9	5	5.9	12.8	4.6
Kanto	26.1	9.4	2	33.5	4.6	6.5	5.6	10.7	7.8
Kosh./Hokuriku	21.1	10.8	2.4	34.6	4.5	5.4	7.8	10.5	10.2
Tokai	23.4	7.3	1.8	31.8	5.1	5.9	5.1	12.2	7.7
Kinki	20.5	11.6	1.8	30.2	7.2	4.8	6.6	12.8	8.5
Chugoku	17.2	7.6	2.1	25.9	6.2	6.9	6.2	11.7	6.9
Shikoku	23.3	4.7	1.2	30.2	1.2	3.5	8.1	9.3	2.3
Kyushu	18.5	11.9	2.1	30.9	5.3	4.9	5.8	8.6	4.1
<b>08/98 survey</b>	<b>19.6</b>	<b>14.8</b>	<b>4.4</b>	<b>39.8</b>	<b>5.5</b>	<b>8.3</b>	<b>7.1</b>	<b>8.2</b>	<b>5.5</b>

Note: Numbers do not add up to 100% due to multiple responses.

By industry, information services (58.6%) and communications (44.0%) increased hiring of young employees, real estate (15.7%) increased hiring of older employees, information services (42.9%) was able to hire good employees, transportation equipment (19.0%) and steel (18.8%) lag behind in reducing employment, and communications (16.0%) failed to hire desired employees.

By future hiring intentions, companies that intend to increase employment tend to have increased hiring of young employees and expressed satisfaction with the employees hired.

Also, companies that intend to increase professional employment tend to be slightly less able to hire desired employees (14.7%).

By region, the percentage of companies who increased hiring of young employees was high in Koshinetsu/Hokuriku (34.6%) and Kanto (33.5%) areas, and low in Hokkaido (20.9%) and Chugoku (25.9%) areas. The percentage of companies who were able to hire good employees was high in Kanto (26.1%) and low in Chugoku (17.2%). Also notable is the high percentage of companies in Hokkaido (11.6%) reporting an increase in young employees leaving the company.

## 5. Three Key Issues: Availability of Good Employees, Rising Personnel Expenses, and Aging of Employees

The most common employment issues at present are availability of good employees (38.1%), followed by rising personnel expenses (32.7%) and aging of employees (28.8%). As in the previous survey, small and mid-sized companies are more concerned about the availability of good employees than rising personnel costs and aging (Figure 5).

**Figure 5 Present Issues Regarding Employment (%)**

	Availability / Competence				Cost			Organization / management		
	Hiring good workers	Gap b/w duties & abilities	Young worker shortage	Worker shortage	Rising personnel cost	Aging of workers	Increase of surplus workers	Rigid org./ personnel	Job assign. changes	Shortage of posts
All industries	38.1	14.2	4.9	2.3	32.7	28.8	8.8	12	11.4	2.9
<b>Selected industries</b>										
Textile/apparel	36.8	8.8	10.5	0	36.8	45.6	8.8	5.3	10.5	1.8
Transport. equip.	29.9	10.2	4.1	0.7	39.5	28.6	13.6	18.4	9.5	2.7
Communications	60	12	0	8	20	20	0	4	12	16
Retail	34.9	18.3	3.2	3.4	40.5	31	7.7	10.6	12.2	2.4
Information serv.	65.7	10	4.3	14.3	24.3	10	4.3	1.4	11.4	2.9
Elec./gas/water	28.6	2.4	0	2.4	42.9	19	4.8	7.1	16.7	4.8
<b>Size</b>										
Large	29.3	12.8	3.7	3.7	42.9	28.2	15.4	11.4	8.4	4
2nd tier	36.4	11.5	2.8	2	37.4	32	10.4	13	13.3	2.3
Small & med.	39.8	15.4	5.8	2.3	29.6	27.7	7.3		11	3
<b>Change in employees</b>										
No change	40.8	13.1	4.8	1.3	31.3	28.1	4	11.5	10.6	3.3
Decrease	56.4	31.9	9.2	1.2	75.8	70.3	33.5	28.5	26.1	5.3
Increase	65.9	14.4	6.3	12.2	21.7	11	1	7.1	10	2.7
Increase profess.	37.4	21.2	5.1	0.7	33.4	33.4	10.4	14.4	13.2	2.5
08/99 survey	41.4	12.8	6.9	2.3	34.6	29.2	7.1	11.8	10.5	2.9

By industry, the prominent issues are availability of good employees in information services (65.7%) and communications (60.0%), rising personnel expenses in electric/gas/water utilities (42.9%) and retail (40.5%), and aging of employees in textile/apparel (45.6%).

Notably, a high percentage of large companies (42.9%) cites rising personnel expenses. By future employment intentions, the issue of availability of good employees is cited among a large proportion of companies who intend to increase employment, while the issues of rising personnel expenses and aging employees are cited by an overwhelming percentage of companies who intend to reduce employment.

## **6. Almost Half of Companies Revise Wage Structure**

Asked what employment or personnel measures they have taken in the past year or plan to take in the coming year, almost half of the companies mentioned the revision of wage structures (47.4%).

Compared to the previous survey, this represents an increase of 4.6 percentage points. In addition, a freeze or reduction in new hiring was mentioned by 18.7%, up significantly from 13.9% in the last survey. These results support the observation that as competition intensifies, more companies are revising their wage structures to better secure professional employees and contain personnel expenses.

By industry, retail (56.3%), specialized services (56.1%), and information services (54.3%) are most active in revising wage structures, while personal business services (30.1%) is expanding part-time employment, and steel is freezing or reducing new (32.8%).

From the perspective of future employment intentions, companies who intend to increase professional hiring tend to be more inclined to revise wage structures. Compared to small and mid-sized companies, large companies act with greater urgency in revising the treatment of employees and adjusting employment (Figure 6).

**Figure 6 Recently Implemented Employment and Personnel Measures (%)**

	Employment / personnel system				Personnel strategies				
	Revise wage structure	Revise office org.	Revise welfare plan	Create system for profess.	Enhance T&D	Expand part-time workers	Use staffing agency	Freeze/restrain hiring	Allow vol. retirement, leave
All industries	47.4	22.2	11.4	2.6	24.1	12.6	10.1	18.7	4.9
<b>Selected industries</b>									
Steel	46.9	17.2	9.4	1.6	17.2	4.7	3.1	32.8	18.8
Retail	56.3	22.2	5.6	3.2	24.6	21.4	4	22.5	5.3
Information serv.	54.3	30	14.3	4.3	30	10	8.6	5.7	1.4
Specialized serv.	56.1	14.6	19.5	7.3	19.5	7.3	7.3	26.8	0
Prsonal bus. Serv.	37.3	26.5	8.4	2.4	24.1	30.1	9.6	19.3	6
<b>Change in employees</b>									
No change	45.2	22.2	11.5	2.4	26.1	11	10.2	14.1	2.4
Increase	47.2	23	9.2	1.7	13.3	14	7.8	38	12.8
Decrease	47.1	24.1	10.7	5.1	33.7	13.2	15.6	1.2	1.2
Increase profess.	55.4	21.3	14.7	2.8	26	15.5	9.7	21	5.4
<b>Company size</b>									
Large	55.7	20.1	15.8	4	17.9	11.4	9.5	27.1	9.9
2nd tier	52.3	23.8	13.6	3.2	23.7	11.5	9.7	19.1	6
Small & med.	44.4	21.8	10.1	2.2	24.9	13.2	10.4	17.6	4
08/99 survey	42.8	21.9	10	3.7	29.4	14.3	9	13.9	2.3

Note: Numbers may not add up to 100% due to multiple responses.

In summary, the prevalent view is that employment adjustments will continue for about another two years. Other findings of our survey are as follows.

1. Corporate employment intentions have steadily declined from April 1998 to April 1999, and the prediction for April 2000 shows no signs of improvement.
2. While employment adjustment pressures remain strong in materials manufacturing, the information technology industries (information services and communications) tend to experience labor shortages.
3. Large companies continue to struggle with personnel cost reductions, and almost 30% are limiting new hiring.
4. Although the easing of the labor market is advantageous to companies seeking to hire employees, approximately 40% of small and mid-sized companies have problems finding good employees.
5. Almost half of the companies are taking action to revise their wage structure.



## *The Nissay Business Conditions Survey (FY 1999 1H)*

*Survey period: August 1999*

*Geographic coverage: All 47 prefectures*

*Number of responses received: 3,677 companies*

### *Distribution of companies by size*

	No. of companies	Composition (%)
Large	273	7.4
Second-tier	956	26.0
Small & mid-sized	2,437	66.3
No answer / other	11	0.3
Total	3,677	100.0

Definitions: Large companies have over 1,000 employees; second-tier companies have 301 to 1,000 employees; small and mid-sized companies have up to 300 employees.

### *Distribution of companies by industry*

	No. of companies	Composition (%)
Manufacturing	1,676	45.6
Materials	548	14.9
Processing	1,128	30.7
Non-manufacturing	1,915	52.1
No answer	86	2.3