White Paper on the Labor Economy 2006

<Summary>

Diversification of Employment and Working Life

November 2006

Ministry of Health, Labour and Welfare

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Chapter 1　Trends and features of the labor economy

Section 1　Employment and unemployment trends

Looking back on the labor market in 2005, the unemployment rate declined and the ratio of active job openings to applicants trended upward as both the number of employed persons and the number of employees rose. There also emerged a growing sense of labor shortage, causing the recovery trend in the job market for new graduates to strengthen and leading to a decline in the unemployment rate among the young. Nevertheless, the unemployment rate for young people is relatively high, and there is some regional variation in the pace of improvement in the employment and unemployment situation. But while the situation remains severe, the evidence points to widening improvements.

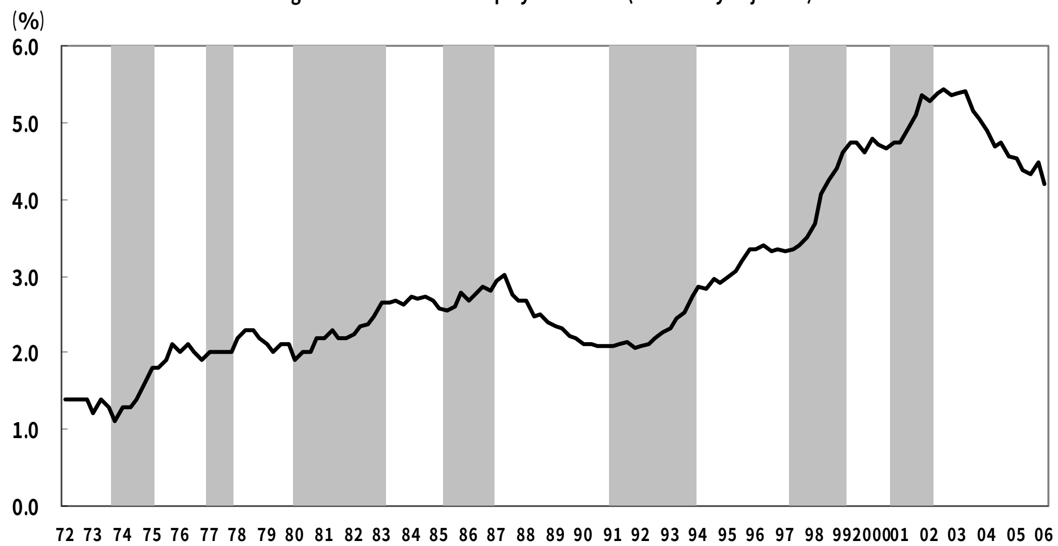
Non-regular employment of all kinds—part-timers, *arubaito* (student and side-job workers), dispatched workers (workers provided by temporary employment agencies), fixed-term contract workers, *shokutaku* (usually former employees who are rehired under fixed or part-time contracts after reaching mandatory retirement age), and so on—is also increasing, leading to a diversification of employment types and lowering regular employment's share of employment overall.

Improvement in unemployment rate and job openings ratio

The unemployment rate (seasonally adjusted) reached a record high of 5.4% between the second quarter of 2002 and the second quarter of 2003. It subsequently began to improve, however, and had declined to 4.2% by the latest quarter for which figures are available (January-March 2006). In the context of the business cycle, the unemployment rate continued to rise during the two recoveries after the collapse of the bubble economy, but has fallen during the present recovery since 2002 (Figure 1).

The ratio of active job openings (seasonally adjusted) was a low 0.51 in the first quarter of 2002, but then rose continuously to reach 1.00 in the fourth quarter of 2005, the first time it has reached this level since the third quarter of 1992. The rate of new job openings (seasonally adjusted) is also gradually rising, reaching 1.40 in the first quarter of 2005, 1.46 in the second quarter, 1.48 in the third quarter, and 1.52 in the fourth quarter. Both the ratio of active job openings and the ratio of new job openings are the highest that they have been during the three recovery stages since the collapse of the bubble (Figure 2). Recipients of employment insurance benefits are also on the way down having peaked at 1.11 million in fiscal 2001, and the number had by December fallen to an approximately 13-year low of 600,000.

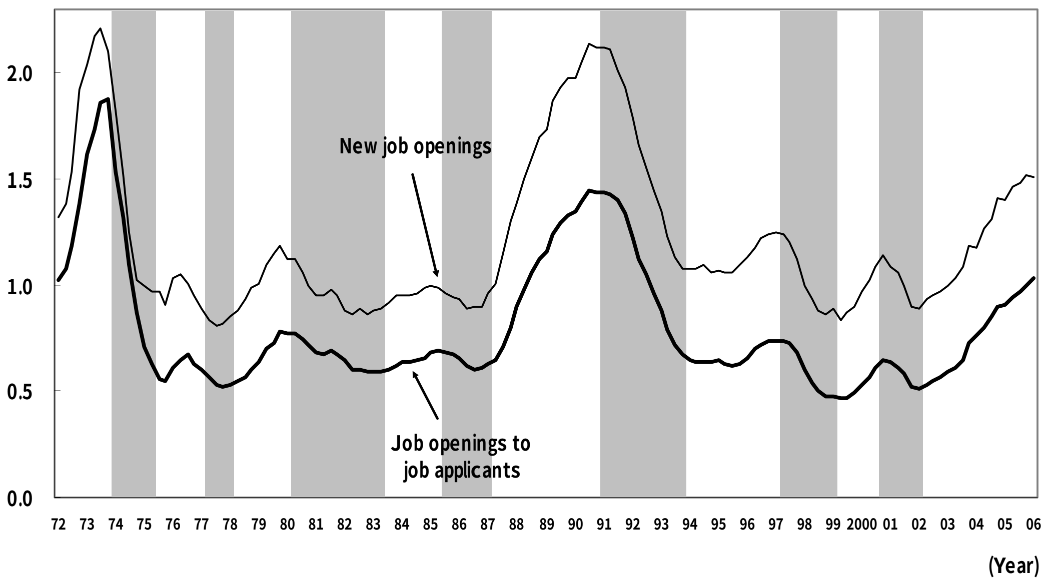
Figure 1 Trend in unemployment rate (seasonally adjusted)



Source: "Labor Force Survey" by The Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: Data are seasonally adjusted quarterly figures. Shaded areas indicate periods of recession.

Figure 2 Trends in ratio of active job openings to applicants and ratio of new job openings (seasonally adjusted)



Source: "Report on Employment Service" by the Ministry of Health, Labour and Welfare.

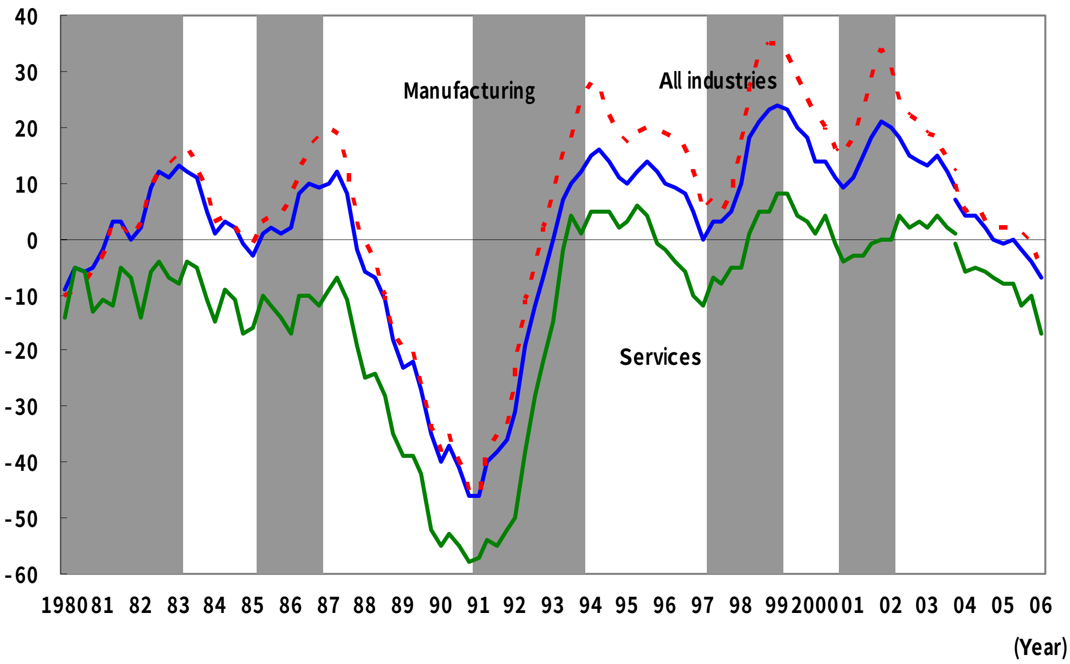
Note: Shaded areas indicate periods of recession.

Easing of sense of over-employment and emerging sense of shortages in manufacturing

According to the Bank of Japan's (BOJ) *National Short-Term Economic Survey of Enterprises in Japan*, known as the "Tankan," the sense of excess employment as measured by the employment diffusion index ("excessive" minus "insufficient"), or DI, is steadily improving in all industries as a whole, and there emerged overall a sense of shortage in 2005. Looking at the situation in the main categories of industry, we find that the DI according to the March 2006 survey was -17 points in services and -5 points in manufacturing (Figure 3). As business conditions improve, the sense of employment shortages in manufacturing and services is strengthening, and the latest evidence indicates that this is translating into an upward trend in the number of new job openings and an improvement in the job-finding environment for new graduates.

Figure 3 Trends in employment DI

("excessive" - "insufficient", Unit: % point)



Source: "National Short-Term Economic Survey of Enterprises in Japan" by Bank of Japan.

Notes: 1. Shaded areas indicate periods of recession.

2. The figures are not continuous due to revisions made to survey coverage, etc. from the time of the March 2004 survey.

Upward trend in number of employed persons and employees

The number of employed persons (seasonally adjusted) followed a downward trend from the fourth quarter of 2000 to the first quarter of 2003, but subsequently began to gradually increase to reach 63.70 million in the third quarter of 2005 (an increase of 90,000), 63.55 million in the fourth quarter (a decline of 150,000), and 63.76 million in the first quarter of 2006 (an increase of 210,000). The number of employees (seasonally adjusted) has likewise continued to climb since the beginning of 2005, and stood at 54.18 million in the fourth quarter of that year (up 170,000), and 54.68 million in the first quarter of 2006 (up 500,000).

The labor force population, meanwhile, has continued to decline since peaking at 67.93 million in 1998, and in 2004 stood at 66.42 million. In 2005, there was an increase of 80,000 to 66.50 million as people who had left the labor market returned to employment or began job hunting in response to the improvement in business conditions.

Job-finding rate for new graduates improving

Amid the rise in the job-seeking rate from the previous fiscal year, the job-finding rate for new university graduates was up 1.8% points to 95.3% as of April 1, 2006. The trend in the percentage of senior high school graduates who have found work is also improving, rising 1.7% points to 95.8% as of March 2006 against the backdrop of two consecutive annual increases since 2005 in both the number of job seekers and the number of graduates receiving job offers (Figure 4). On the hiring front, companies are becoming more interested in hiring new graduates owing to the strengthening economic recovery and the impending mandatory retirement of the post-war baby boomers, who make up a high proportion of their workforces.

The number of “freeters” (young people who move from one part-time job to another without entering full-time employment) grew to 2.17 million in 2003, but then declined over the next two years to 2.14 million in 2004 and 2.01 million in 2005. In the 15- to 34-year-old age group, however, the scale of the decline has been smaller and the number remains high (Figure 5). If non-employed young people, defined as 15- to 34-year-old members of the non-labor force population who are not engaged in housework or enrolled in education (making them similar in concept to “NEETs,” i.e., not in education, employment or training), are included, the figure rises 640,000 to the same level as in the previous year. A breakdown by age group shows that while the number of freeters aged under 25 is declining, the number aged 25 and over is rising. The age profile of freeters is thus growing older.

Figure 4　Trends in new graduate employment rate

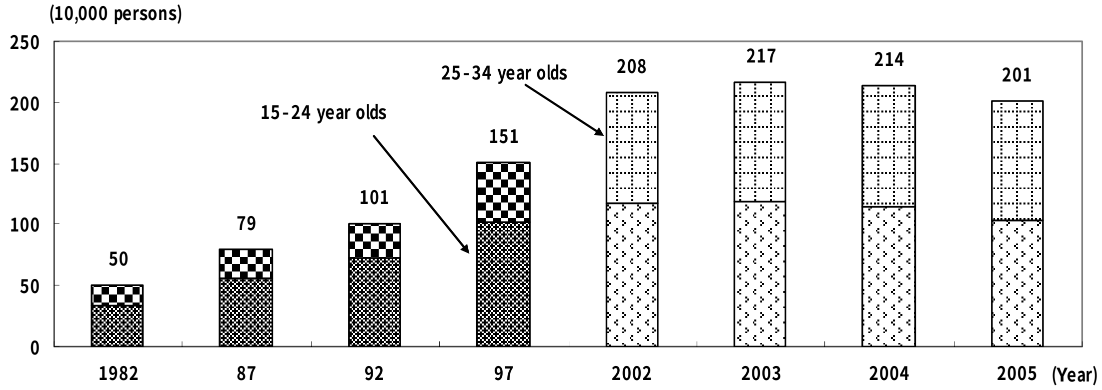
(Unit: %)

Year of graduation	Junior high school	Senior high school	Advanced vocational school	Higher advanced professional school	Junior college	University
(Employment rate)						
Graduated March 1997	96.7	98.5	91.5	100.0	90.5	94.5
1998	95.5	98.2	89.5	100.0	86.6	93.3
1999	92.1	96.8	86.3	100.0	88.4	92.0
2000	86.7	95.6	83.2	100.0	84.0	91.1
2001	84.7	95.9	84.1	100.0	86.8	91.9
2002	78.6	94.8	83.3	98.3	90.2	92.1
2003	76.5	95.1	85.0	95.7	89.6	92.8
2004	78.7	95.9	90.3	100.0	89.5	93.1
2005	82.8	97.2	92.5	98.5	89.0	93.5
2006	—	—	91.8	96.7	90.8	95.3
	(72.3)	(95.8)				

Source: Surveyed by the Ministry of Health, Labour and Welfare/the Ministry of Education, Culture, Sports, Science and Technology.

Notes:
1. The employment rate is the proportion of job finders to job seekers.
2. The employment rates for junior and senior high school graduates are as of the end of June in each year according to research by the Ministry of Health, Labour and Welfare.
3. The employment rates for advanced vocational school, higher advanced professional school, junior college, and university graduates are as of April 1 of each year.
4. The figures in parentheses indicate the informal job offer rates, and are as of the end of March of each year.
5. Junior college graduates include only women.

Figure 5　Changes in number of freeters



Sources: Data for the years 1982, 1987, 1992, and 1997 are taken directly from "Analysis of the Labor Economy 2005".
Data for 2002 onward are from "Labor Force Survey (Detailed Tabulation)" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: 1. In 1982, 1987, 1992, and 1997, freeters are defined as 15- to 34-year-olds who are (1) employed persons who are designated “part-timers” or “arubaito” at their place of work and who have been employed from 1 year to less than 5 years (if male) or are mainly working and unmarried (if female), and (2) persons who are not currently in employment, who are not engaged in housework or enrolled in education and who want to do “part-time or arubaito” work.

2. From 2002 to 2005, freeters are defined as 15- to 34-year-old graduates (males) or unmarried graduates (females) who are (1) employed persons who are designated “part-timers” or “arubaito” at their place of work,
(2) unemployed persons who are looking for “part-time or arubaito” work, and (3) “other” members of the non-labour force who are not engaged in housework or enrolled in education and who are seeking “part-time or arubaito” work.
3. It should be noted that the figures for 1982 to 1997 are not contiguous with the figures for 2002 to 2005 due to differences in the definitions of freeters.

Growth in non-regular employment

According to the *Labor Force Survey (Detailed Tabulation)* produced by the Statistics Bureau of the Ministry of Internal Affairs and Communications (MIC), whereas the proportion of regular staff and employees among all employees (excluding directors) is on the decline, the proportion of non-regular staff and employees, such as part-time and *arubaito* workers, fixed-term contract workers, and dispatched workers, is climbing (Figure 6). If we break down employees (excluding directors) by working hours and type of employment in order to examine in detail the factors presently behind this increase, we find that while there has been a decline in the proportion of regular staff and employees since 2003 (this being the period for which continuous year-on-year monthly statistics are available), there has been an increase in dispatched, fixed-term contract, *shokutaku*, and other non-regular workers, and a particularly marked increase in non-regular staff and employees whose style of work is practically the same as that of full-time workers in that they work 35 or more hours per week.

However, an examination of the job placement situation for full-time employees at public job centres reveals that the number of new job openings continued to rise year-on-year from November 2005 (the first month for which statistical comparisons are possible) until March 2006. Moreover, the number of jobs found is also rising.

Regional variation in pace of improvement in employment and unemployment situation

Breaking the ratio of active job openings down into regional blocks reveals that the national average rose 0.12 points from the previous year to 0.95 in 2005, and that the ratio is rising in all blocks. However, while there was a large 0.19 point increase to 1.41 in the Tokai region, the increase in Hokkaido was just 0.03 points to 0.57, showing that there is a gap in the pace of recovery between regional blocks.

Figure 6　Number of employed persons by type of employment

(Units: 10,000 persons, %)

Year/quarter		Employed persons excluding directors	Regular staff and employees		Non-regular staff and employees							
							Part-time and arubaito		Dispatched workers, fixed-term contract workers, shokutaku workers, and others			
											Of which dispatched workers	
1984		3936	3333	(84.7)	604	(15.3)	440	(11.2)	164	(4.2)	-	-
85		3999	3343	(83.6)	655	(16.4)	499	(12.5)	156	(3.9)	-	-
86		4056	3383	(83.4)	673	(16.6)	523	(12.9)	150	(3.7)	-	-
87		4048	3337	(82.4)	711	(17.6)	561	(13.9)	150	(3.7)	-	-
88		4132	3377	(81.7)	755	(18.3)	599	(14.5)	156	(3.8)	-	-
89		4269	3452	(80.9)	817	(19.1)	656	(15.4)	161	(3.8)	-	-
1990		4369	3488	(79.8)	881	(20.2)	710	(16.3)	171	(3.9)	-	-
91		4536	3639	(80.2)	897	(19.8)	734	(16.2)	163	(3.6)	-	-
92		4664	3705	(79.4)	958	(20.5)	782	(16.8)	176	(3.8)	-	-
93		4743	3756	(79.2)	986	(20.8)	801	(16.9)	185	(3.9)	-	-
94		4776	3805	(79.7)	971	(20.3)	800	(16.8)	171	(3.6)	-	-
95		4780	3779	(79.1)	1001	(20.9)	825	(17.3)	176	(3.7)	-	-
96		4843	3800	(78.5)	1043	(21.5)	870	(18.0)	173	(3.6)	-	-
97		4963	3812	(76.8)	1152	(23.2)	945	(19.0)	207	(4.2)	-	-
98		4967	3794	(76.4)	1173	(23.6)	986	(19.9)	187	(3.8)	-	-
99		4913	3688	(75.1)	1225	(24.9)	1024	(20.8)	201	(4.1)	-	-
2000		4903	3630	(74.0)	1273	(26.0)	1078	(22.0)	195	(4.0)	33	(0.7)
01		4999	3640	(72.8)	1360	(27.2)	1152	(23.0)	208	(4.2)	45	(0.9)
02		4891	3486	(71.3)	1406	(28.7)	1023	(20.9)	383	(7.8)	39	(0.8)
03		4941	3444	(69.7)	1496	(30.3)	1092	(22.1)	404	(8.2)	46	(0.9)
04		4934	3380	(68.5)	1555	(31.5)	1106	(22.4)	449	(9.1)	62	(1.3)
05		4923	3333	(67.7)	1591	(32.3)	1095	(22.2)	496	(10.1)	95	(1.9)
03	I	4941	3444	(69.7)	1496	(30.3)	1092	(22.1)	404	(8.2)	46	(0.9)
	II	4929	3445	(69.9)	1483	(30.1)	1069	(21.7)	414	(8.4)	46	(0.9)
	III	4987	3480	(69.8)	1508	(30.2)	1094	(21.9)	414	(8.3)	53	(1.1)
	IV	4936	3407	(69.0)	1528	(31.0)	1103	(22.3)	425	(8.6)	53	(1.1)
04	I	4934	3380	(68.5)	1555	(31.5)	1106	(22.4)	449	(9.1)	62	(1.3)
	II	4986	3433	(68.9)	1554	(31.2)	1081	(21.7)	473	(9.5)	90	(1.8)
	III	4967	3404	(68.5)	1563	(31.5)	1091	(22.0)	472	(9.5)	88	(1.8)
	IV	5010	3425	(68.4)	1585	(31.6)	1107	(22.1)	478	(9.5)	99	(2.0)
05	I	4923	3333	(67.7)	1591	(32.3)	1095	(22.2)	496	(10.1)	95	(1.9)
	II	5032	3408	(67.7)	1624	(32.3)	1108	(22.0)	516	(10.3)	102	(2.0)
	III	5021	3372	(67.2)	1650	(32.9)	1132	(22.5)	518	(10.3)	113	(2.3)
	IV	5053	3384	(67.0)	1669	(33.0)	1145	(22.7)	524	(10.4)	114	(2.3)
06	I	5002	3340	(66.8)	1663	(33.2)	1121	(22.4)	542	(10.8)	121	(2.4)

Sources: "Special Survey of the Labor Force Survey (February survey)" (1990-2001), "Labor Force Survey (Detailed Tabulation)" (2002-2005) (January-March averages) by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: 1. Figures in parentheses indicate the percentage as a proportion of the total number of employed persons (excluding directors).

2. The decline in the number of “part-time and arubaito” workers and large increase in the number of “dispatched workers, fixed-term contract workers, shokutaku workers, and others” in 2002 may be due to the fact that the questionnaire for *the Labor Force Survey (Detailed Tabulation)* differs from the previous *Special Survey of* the *Labor Force Survey*. Consequently, persons such as those that answered “part-time” or “arubaito” up to 2001 may have answered “fixed-term contract or shokutaku worker” in 2002.

Section 2 Trends in wages and hours worked

Against the background of three consecutive years of growth in non-scheduled cash earnings, scheduled cash earnings and special cash earnings began to increase, resulting in total cash earnings registering their first growth in five years. The rate of wage increases during the spring round of wage negotiations also rose year-on-year for a second consecutive year as wages benefited from the improvement in corporate earnings. However, the allocation of corporate earnings to wages is increasingly taking the form of performance-linked bonuses, and wider changes are afoot with companies increasingly linking base pay, too, to performance and results.

Regarding hours worked, the rise in non-scheduled hours slowed and the decrease in scheduled hours accelerated compared with 2004, causing total hours worked to decline from the previous year. At the same time, however, the proportion of middle-aged regular workers working longer hours is increasing, potentially putting them at risk of mental and physical fatigue.

Wage trends

Total cash earnings grew for the first time in five years in 2005, rising 0.6% from the previous year on the back of a third year of growth in non-scheduled cash earnings (by 1.6%), together with increases in scheduled cash earnings for the first time in five years (by 0.2%) and in special cash earnings for the first time in eight years (by 2.1%). In real terms as well, total cash earnings were up 1.0%, their first increase in five years (Figure 7).

The rate of spring time wage increases at major private-sector corporations also grew year-on-year for a second consecutive year to grow by 1.71% in 2005, and strong demands for “wage improvements” during the 2006 spring round of wage negotiations for the first time in four or five years provided evidence that the improvement in corporate earnings is starting to spill over into wages. However, the trend in labor’s share suggests that the recovery in business conditions is not being fully reflected in expenditures on employees by enterprises, and it is hoped that the benefits of the recovery will translate into further improvements in wage levels in the future.

Looking at bonuses, which account for the majority of special cash earnings, summer bonuses increased 1.3% from the previous year, and winter bonuses increased for the second year running, this time by 1.0%. Regarding how bonuses are determined, record numbers of enterprises are introducing performance-linked systems, and corporate performance is increasingly being reflected in the level of bonuses (Figure 8). A growing proportion of enterprises are also stressing performance and results in setting base pay, shifting from across-the-board wage increases to wage structures that are affected more by corporate and individual performance, reflecting the changing shape of wage systems.

Figure 7 Trends in breakdown of wages

(Units: ¥, %)

Year/quarter		Total cash earnings		(full-time employees)	(part-time employees)	Contractual cash earnings		Scheduled cash earnings		Non-scheduled cash earnings		Special cash earnings		Real wages
Amount														
2001		351,335		419,480	94,074	281,882		263,882		18,000		69,453		
2002		343,480		413,752	93,234	278,933		261,046		17,887		64,547		
2003		341,898		414,089	94,026	278,747		260,153		18,594		63,151		
2004		332,784		413,325	94,229	272,047		253,105		18,942		60,737		
2005		334,910		416,452	94,514	272,802		253,497		19,305		62,108		
Difference from previous year														
2001		-1.6		-0.6	-0.2	-1.1	(-0.9)	-0.9	(-0.7)	-4.6	(-0.2)	-3.5	(-0.7)	-0.7
2002		-2.9		-1.8	-3.0	-1.7	(-1.4)	-1.7	(-1.3)	-1.3	(-0.1)	-7.9	(-1.6)	-1.9
2003		-0.7		0.1	0.8	-0.4	(-0.3)	-0.7	(-0.5)	3.5	(0.2)	-2.5	(-0.5)	-0.4
2004		-0.7		0.3	0.6	-0.4	(-0.3)	-0.7	(-0.5)	4.8	(0.3)	-1.8	(-0.3)	-0.7
2005		0.6		0.7	0.5	0.3	(0.3)	0.2	(0.2)	1.6	(0.1)	2.1	(0.4)	1.0
Difference from same period of previous year														
2004	**I**	-1.7	[94.2]	-1.0	2.6	-0.2	(-0.2)	-0.7	(-0.6)	5.0	(0.3)	-30.7	(-1.4)	-1.7
	II	-1.0	[94.4]	0.3	0.8	-0.4	(-0.3)	-0.9	(-0.7)	5.5	(0.3)	-3.2	(-0.7)	-0.6
	III	-0.4	[93.7]	0.5	0.5	-0.4	(-0.3)	-0.8	(-0.6)	5.0	(0.3)	0.5	(0.1)	-0.3
	IV	0.0	[94.6]	1.2	-1.0	-0.5	(-0.4)	-0.7	(-0.5)	3.9	(0.2)	1.2	(0.4)	-0.6
05	**I**	0.0	[94.1]	0.5	-1.1	-0.2	(-0.2)	-0.2	(-0.2)	0.8	(0.1)	7.9	(0.3)	0.2
	II	1.0	[95.1]	0.9	0.8	0.5	(0.4)	0.4	(0.3)	2.1	(0.1)	3.1	(0.6)	1.1
	III	0.4	[94.1]	0.4	0.8	0.4	(0.3)	0.3	(0.2)	1.8	(0.1)	0.2	(0.0)	0.9
	IV	1.1	[95.4]	0.9	1.3	0.6	(0.4)	0.5	(0.3)	1.9	(0.1)	1.9	(0.6)	2.0

Source: "Monthly Labour Survey" by the Ministry of Health, Labour and Welfare.

Notes: 1. Figures in square brackets are seasonally adjusted indices of total cash earnings.

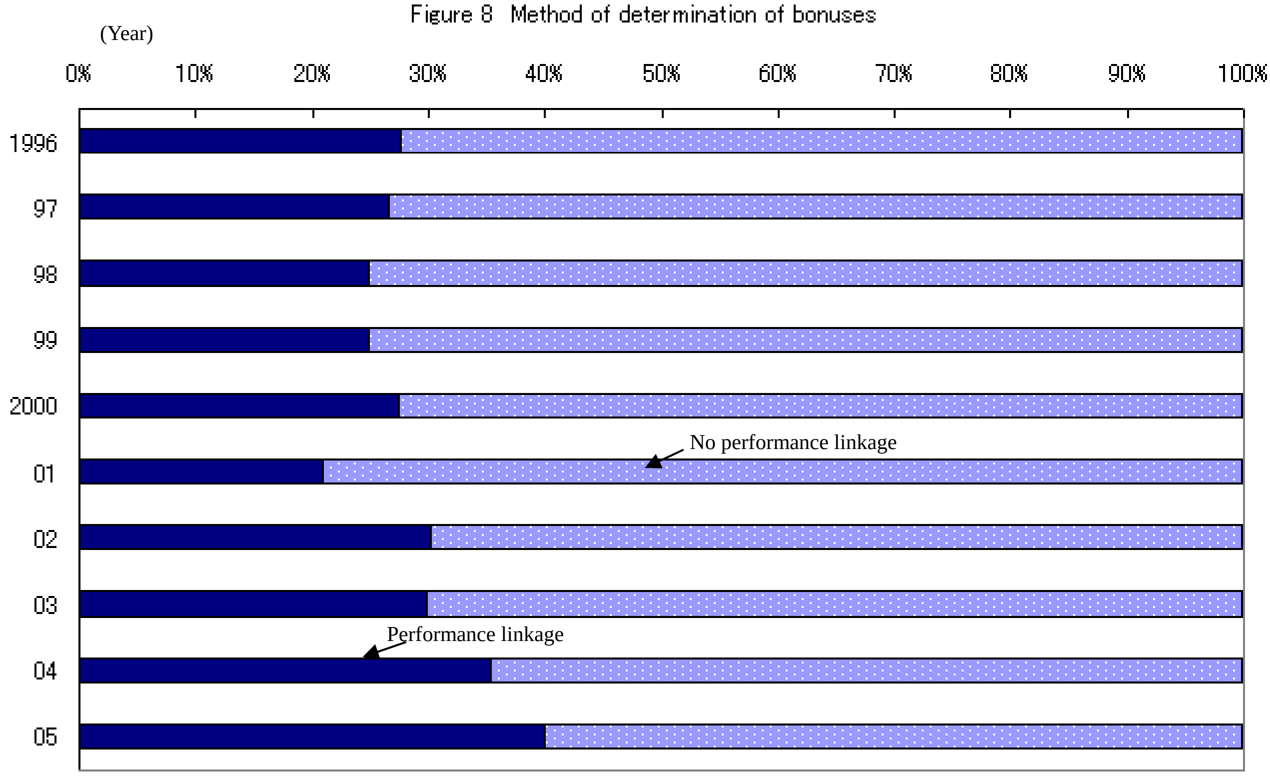
2. The method of seasonal adjustment is the Census Bureau method (X-11 default within X-12-ARIMA).

Figures in parentheses represent the level of contribution to the change in total cash earnings from the previous year (or the same quarter in the previous year), calculated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, and is the ratio to the total cash earnings in the previous year of the change from the previous year in each element (type of earning). The total equals the rate of change in total cash earnings, though it may not coincide exactly due to rounding.

3. Figures are for establishments with at least five employees in all industries surveyed.

4. Rates of change from the previous year are calculated using index figures (year 2000 = 100) by correcting for gaps, etc. generated from the change in the sampling of establishments surveyed.

Figure 8 Method of determination of bonuses



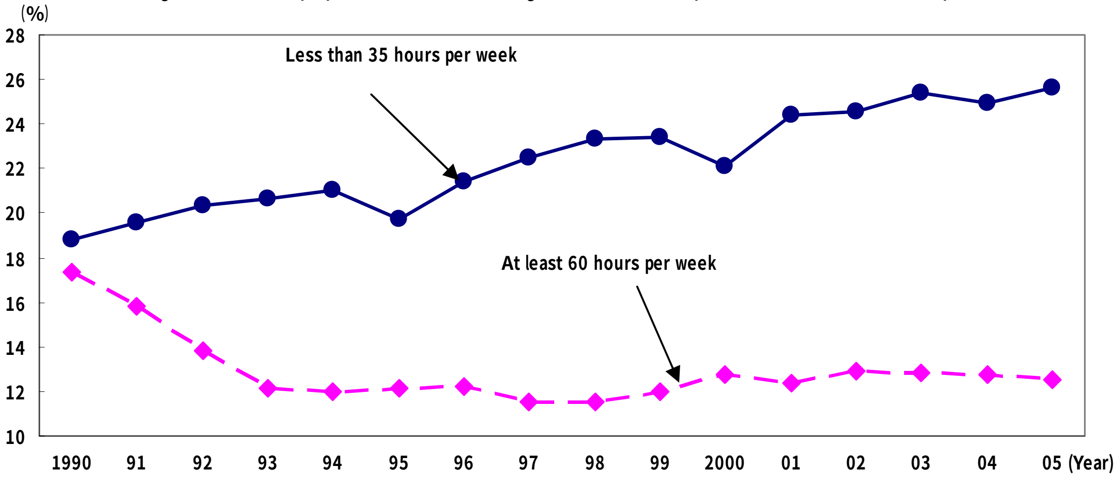
Source: "Findings of a Survey of Bonuses and Lump-Sum Payments" by Nippon Keidanren.
Notes: Winter payments up to 2002, and summer payments from 2003 onward.

Trends in hours worked

Total hours worked went into decline in 2005 to shrink by 0.6% from the previous year, notwithstanding a fourth consecutive year of growth in non-scheduled hours worked. This was due to the fact that despite increasing for a fourth consecutive year, the rate of growth in non-scheduled hours worked slowed to 1.1% from the previous year, and the scale of the decrease in scheduled hours worked widened to 0.7%. Regarding the factors underlying the slowing pace of growth in non-scheduled hours worked, an examination of the relationship between production and employment reveals that growth in industrial production has been flat since the third quarter of 2004, and the response in terms of labor input into production activity is beginning to translate from growth in non-scheduled hours worked to growth in full-time employment.

While the number of young male and female workers working less than 35 hours per week is increasing, the proportion of middle-aged men working at least 60 hours per week is also increasing (Figure 9). The trend toward working longer hours among the middle-aged suggests that they are being forced to work longer because of the qualitative and quantitative burden of work, posing the risk of both physical and mental fatigue.

Figure 9 Trends in proportion of workers working less than 35 hours per week and at least 60 hours per week



Source: "Labor Force Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: 1. Proportion of total number of workers excluding persons not at work.

2. The dips in 1995 and 2000 may be due to the fact that the number of workdays is one day longer in these years than in ordinary years.

Section 3 Trends in prices and workers' household expenditures

Domestic corporate goods prices increased over the previous year for a second year running, but consumer prices, which in 2004 had remained at the same level as in the previous year for the first time in six years, again went into decline. However, given that the composite index excluding perishable foods began to increase in November 2005, and the composite index as a whole began to increase year-on-year in January 2006, the indications are that deflation is ameliorating.

Living expenditures of workers' households declined in both nominal and real terms in 2005. Sustained by the fall in prices and buoyed also by improving sentiment, however, real living expenditures are holding firm overall.

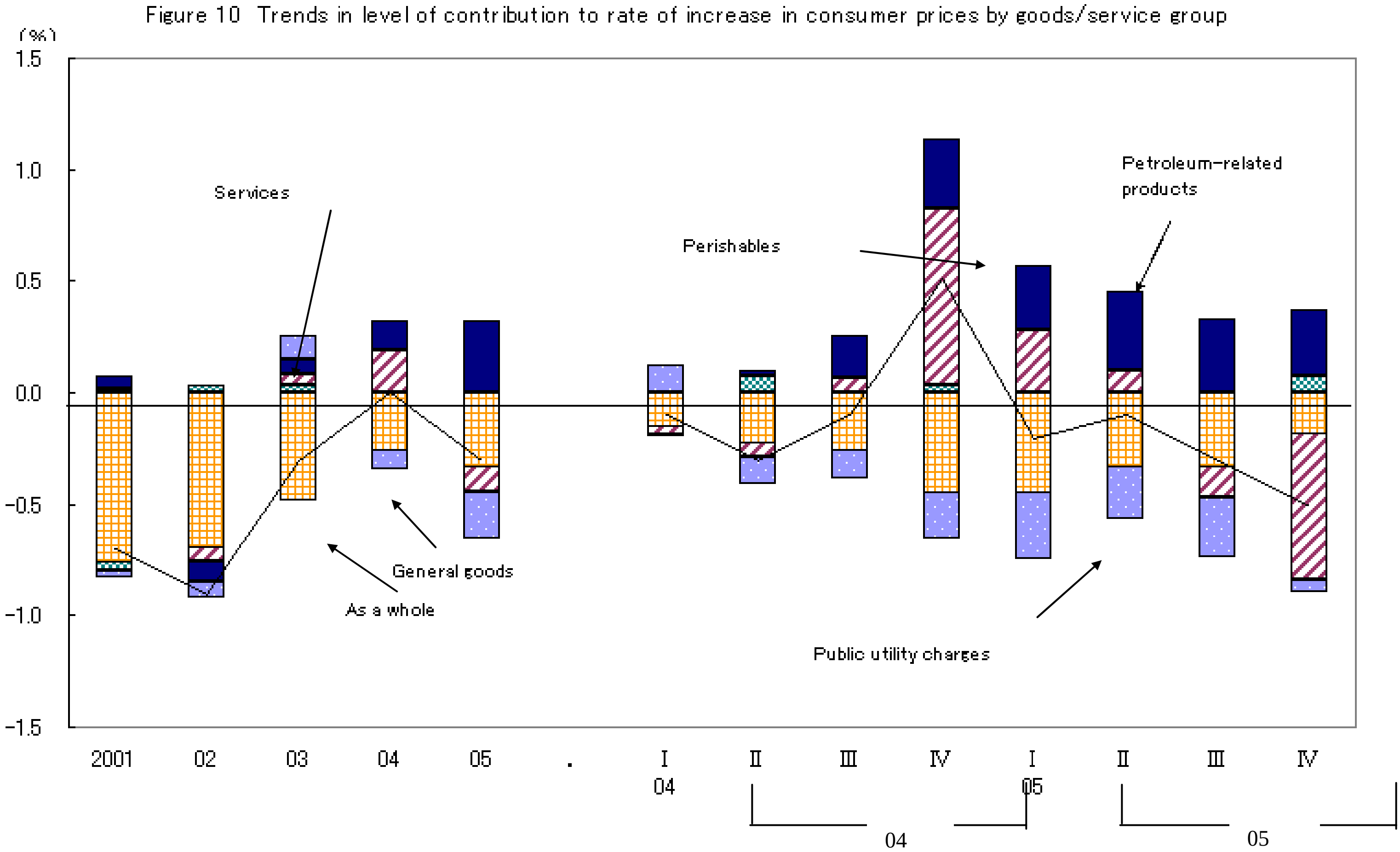
Price trends

During 2005, domestic corporate goods prices rose from the previous year for a second consecutive year, due in large part to soaring material prices pushed up by the recovery of the global economy and the still high price of crude oil. Breaking this trend down by stage of demand, we find that the rise in material prices has impacted as far as intermediate goods, but that the price of final goods has yet to increase. Little of the increase in raw material prices thus appears to have been passed on to the price of manufactured goods.

Business service prices, meanwhile, have continued to trend downward since 1998, declining for an eighth consecutive year in 2005.

Consumer prices again went into decline in 2005 due primarily to the impact of large drops in the price of fresh fruit, vegetables, and rice after sharp increases in 2004, despite continued increases in the price of petroleum-related products due to escalating crude oil prices (Figure 10). To summarize, the overall trend in 2005 was deflationary, but there were upturns in the composite index excluding perishables in November 2005, and the composite index overall in January 2006, indicating that deflation is easing.

Figure 10 Trends in level of contribution to rate of increase in consumer prices by goods/service group



Source: Calculated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, from "Consumer Price Index" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: Consumer price indices (by goods/service group) are partially reclassified as follows: General goods: Industrial products excluding petroleum-related products, rice, publications, etc. Services: Services excluding public service Perishables: Fresh vegetables, fresh fruit, fresh fish and shellfish, meat, etc. Petroleum-related products: Kerosene, liquefied propane, gasoline (regular, premium) Public utility charges: Public services, electricity, city gas, water supply

Trends in workers' household expenditures

Living expenditures of workers' households fell 0.7% in nominal terms and 0.3% in real terms in 2005 as real incomes dropped for the first time in two years (Figure 11). Considered quarter by quarter, however, there was a slight increase in the first quarter, followed by a decline for two quarters, and then an increase for the first time in three quarters in the fourth quarter.

Average propensity to consume increased by an annual average of 0.3% points to 74.4% in 2005 from the previous year. The consumer confidence index, a major indicator of consumer sentiment that has a strong influence on propensity to consume, rose continuously until September 2004 after its upturn in June 2003. Although subsequent declines in December 2004 and September 2005 suggested it might be levelling off, it again climbed sharply in December.

On the supply side, the value of sales in the retail trade in 2005 increased 1.1% from the previous year. This was due mainly to an increase in petroleum product prices due to escalating crude oil prices, despite growth in beverage sales stagnating on account of temperature factors.

Figure 11 Main items of household expenditures (all workers' households nationally) and factors contributing to changes in real living expenditures

(Unit: %)

Year/quarter		Living expenditure		Real income				Average propensity to consume	Consumer price index
						Disposable income	Non-living expenditures		
		Nominal	Real	Nominal	Real	Nominal	Nominal		
Difference from previous year (contribution to real living expenditure)									
2003		-1.5	-1.2	-2.6 [-3.1]	-2.3	-2.7	-2.0 [0.4]	74.0 [1.2]	-0.3 [0.3]
2004		1.5	1.5	1.0 [1.2]	1.0	1.0	1.2 [-0.2]	74.4 [0.5]	0.0 [0.0]
2005		-0.7	-0.3	-1.4 [-1.7]	-1.0	-1.2	-2.5 [0.5]	74.7 [0.4]	-0.4 [0.4]
Change from same quarter in previous year									
2005	I	0.1	0.3	-0.2	0.0	-0.1	-0.7	0.2	-0.2
	II	-1.8	-1.7	-0.3	-0.2	0.3	-3.1	-1.6	-0.1
	III	-2.1	-1.7	-3.3	-2.9	-3.2	-4.1	0.8	-0.4
	IV	1.1	1.9	-1.7	-0.9	-1.7	-1.7	1.9	-0.8
Index (seasonally adjusted)									
2004	I	97.6	99.9	94.7	97.0	95.1		73.7	
	II	98.4	101.0	94.9	97.4	94.6		74.9	
	III	96.8	99.2	94.7	97.1	94.8		73.3	
	IV	95.6	97.5	93.3	95.2	92.7		74.1	
2005	I	97.5	100.0	94.4	96.7	94.8		73.9	
	II	96.5	99.1	94.4	97.0	94.6		73.3	
	III	94.8	97.6	91.6	94.3	91.8		74.2	
	IV	96.7	99.5	91.8	94.4	91.1		76.4	

Sources: Calculated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, using "Family Income and Expenditure Survey" (workers' households of two or more persons (excluding agricultural, forestry, and fishery households)) and "Consumer Price Index" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Notes: 1. Figures indicate levels in the "Difference from previous year" and "Index (seasonally adjusted)" columns, and percentage point differences in the "Difference from same quarter in previous year."

2. The consumer price index is the general index excluding imputed rent.

3. The figures in square brackets indicate the degree of contribution to the rate of change in real living expenditure, and the combined total equals the rate of change in real living expenditure. (Due to calculation errors and rounding, however, they do not always coincide.) Specifically, they are calculated as follows:

$$C/P = Yd \cdot C/Yd \cdot (1/P) \quad \text{and} \quad Yd = I - N = I\,(1-H)$$

Accordingly,

$$\underline{(C/P)} = \underline{I} + \underline{(1-H)} + \underline{(C/Yd)} - \underline{P}$$

Rate of change in real living expenditure   Rate effect of proportion of non-living expenditure

Real income effect   Propensity to consume effect   Effect of consumer price index

C: Living expenditure

Yd: Nominal disposable income

P: Consumer price

I: Real income

N: Non-living expenditure

H: Proportion of non-living expenditure (non-living expenditure/real income)
where the underlined portions over each variable indicate the rate of change in each from the previous year.