

Section 2

THE COVID-19 PANDEMIC AND THE RESPONSES OF FIRMS: A DETERIORATING REVENUE ENVIRONMENT AND EMPLOYMENT ADJUSTMENT

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1. Impact of the COVID-19 Pandemic on Corporate Finance

With the spread of COVID-19, the revenue of firms has deteriorated significantly. As a result, firms have been forced to adjust their employment considerably. In this section, we will focus on the deterioration of firms' revenue environment during the COVID-19 pandemic and their employment adjustment.

First, we will look at the impact of the COVID-19 pandemic on the revenue of firms by analyzing the revenue index and financial index by industry. In particular, we will go over the financial data of the accommodations, food and beverage services industries to see how the revenue situation has deteriorated significantly among firms in the face-to-face services industry. In the second subsection, we will compare the economic shock and movements in the labor market with those of the 2008 global financial crisis. In the third subsection, we will discuss the characteristics of employment adjustment during the COVID-19 pandemic, and in the fourth subsection, about the Employment Adjustment Subsidy. The fifth subsection is the conclusion and outlook.

(1) Revenue and Financial Situation of the Face-to-Face Service Industry

A “K-shaped” economic recovery, where recovery is polarized depending on the industry of the firm, has been noted as one of the characteristics of the recent COVID-19 shock. [Figure 2-2-1](#) shows the change in ordinary profits of all industries, manufacturing industries, and non-manufacturing industries nationwide.

Looking at the recovery process from 2020 Q2 when the economy hit bottom, manufacturing was supported by the recovery of the world economy and ordinary profits recovered to increase after 2020 Q4. Thanks to strong external demand, ordinary profits had increased for three consecutive quarters as of the most recent 2021 Q2. Meanwhile, non-manufacturing saw a decline in the decrease rate after hitting bottom in 2020 Q2, but the decrease in ordinary profits was continuing as of 2021 Q2, showing contrasting trends.

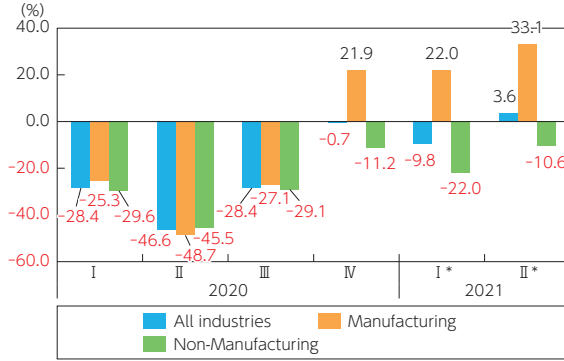


Figure 2-2-1 YoY change in ordinary profits by industry

Note: * change is relative to the same period of the pre-pandemic 2019.
 Source: based on Survey of Corporate Business Statistics (Ministry of Finance)

Next, Figure 2-2-2 compares the ordinary profit to sales ratio, which shows the profitability of firms, by industry, for the 2020 Q2 period when the economy hit bottom. It shows that the ratios of decrease were large in the “Accommodations, eating and drinking services,” “Living-related and personal services and amusement services,” and “Transport and postal activities,” in descending order, indicating that the revenue situations have been deteriorating in the face-to-

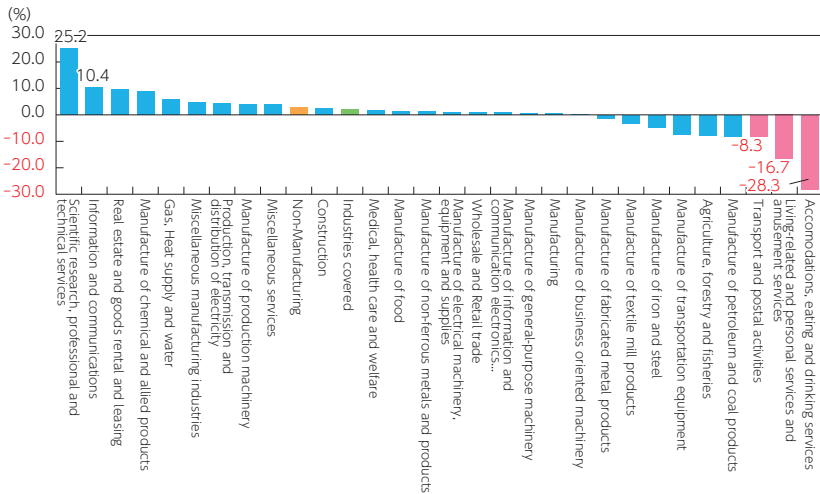


Figure 2-2-2 Ordinary profit to sales ratio by industry (all scales, 2020 Q2)

Source: based on Survey of Corporate Business Statistics (Ministry of Finance)

face service industries that have been hit hard by the decrease in flow of people due to the declarations of a state of emergency¹⁾. Below, we will analyze in detail the accommodation and eating and drinking services industries that have been among those particularly impacted among the face-to-face service industries.

(i) Trends in the Accommodation Industry

Table 2-2-1 summarizes the revenue of firms and the financial situation in the accommodation industry. In terms of revenue, items such as sales and ordinary profits have significantly decreased. Additionally, the decrease rate was somewhat smaller during the 2020 Q3 and Q4 periods, which is when the Go To Travel program was implemented. However, the decrease rate increased in 2021 Q1 after the program was suspended and when infections spread once again (the third wave), and also in Q2, which is when the third declaration of a state of emergency was issued.

The accommodation industry has many employees and has a higher ratio of fixed costs to sales (the fixed costs ratio) compared to the manufacturing industry²⁾, and many of its firms recorded losses due to significant decreases in sales due to the COVID-19 pandemic. With regards to employment adjustment, it is worth noting that labor costs decreased by double digits for five consecutive

Table 2-2-1 Earnings and financial trends in the accommodation industry

Unit: %

		Total					
		20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*
Revenue	Sales	-25.1	-80.0	-59.0	-46.9	-61.7	-70.4
	Ordinary profits	-1,025.6	-624.0	-245.9	-116.4	-1,531.5	-371.0
	Labor costs	1.9	-42.6	-38.6	-40.3	-23.2	-46.2
	Fixed costs ratio**	40.6	92.7	54.3	41.0	77.1	59.5
Assets	Cash/deposits	-25.2	-2.3	6.0	15.7	-4.9	-2.5
	Tangible fixed assets	-0.5	-29.7	-10.2	-15.4	-9.6	-30.6
Liability /Net assets	Short-term debts	-10.8	-32.7	-2.7	-24.7	15.9	-27.8
	Corporate bonds	-35.4	-27.6	-31.4	-36.0	-47.9	-34.5
	Long-term debts	26.4	-23.6	2.0	4.7	24.0	-18.0
	Total net assets	-0.7	13.9	-12.5	-52.2	-54.8	-49.3
	Retained earnings	-39.7	-8.1	-46.0	-66.8	-110.4	-120.7

Note: *relative to the same period in 2019 **Raw figures

Source: based on Survey of Corporate Business Statistics (Ministry of Finance)

- 1) See Section 1 of this chapter regarding flow of people and trend in household consumption.
- 2) The fixed costs ratio for the manufacturing industry after 2020 Q2 was approximately 20% for all scales.

quarters from 2020 Q2. With the likelihood of an improvement to the decreases in sales looking uncertain due to the prolonged spread of infections, it appears that firms are keeping down labor costs by adjusting work hours and personnel to reduce fixed costs.

With regards to finance, the retained earnings is decreasing significantly. Additionally, due to concerns over worsening finances due to the decrease in sales, it appears that firms are securing their liquidity from hand as cash and deposits by financing through interest-bearing debt, mainly borrowing.

(ii) Trends in the Eating and Drinking Services Industry

Next, looking at the revenue-related index for the eating and drinking services industry in Table 2-2-2, we see the continued worsening of sales and ordinary profits, although not to the extent seen in the accommodation industry. In particular, due to requests for shorter business hours and for suspension of restaurants serving alcohol under the second and third declarations of a state of emergency, the decrease rate grew in 2021 Q1 and Q2. Additionally, similar to the accommodation industry, the eating and drinking services industry is also an industry with high fixed costs, such as labor costs and rent, and many firms are believed to have recorded a loss due to decreased sales. Even with support from the Employment Adjustment Subsidy, the pressure to adjust employment due to deteriorating revenue must have been high.

In terms of finance, the earned surplus has decreased significantly. Another

Table 2-2-2 Earnings and financial trends in the eating and drinking services industry

Unit: %

		Total					
		20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*
Revenue	Sales	-2.1	-29.6	-8.0	-6.1	-19.2	-24.5
	Ordinary profits	-182.6	-435.6	-237.6	-103.8	-300.1	-145.7
	Labor costs	7.3	-17.4	-7.6	-3.9	-5.0	-39.2
	Fixed costs ratio**	34.7	34.0	31.4	31.7	37.5	25.8
Assets	Cash/deposits	23.6	19.2	41.9	32.7	69.6	67.4
	Tangible fixed assets	12.6	-11.5	5.4	13.3	-4.5	0.2
Liability / Net assets	Short-term debts	-10.1	-28.8	-15.7	-13.0	-8.2	-7.5
	Corporate bonds	-22.7	-39.7	-44.9	-39.3	-24.0	-30.2
	Long-term debts	15.5	6.3	47.2	32.8	27.2	132.7
	Total net assets	30.8	-13.4	-7.0	-27.7	5.0	-18.2
	Retained earnings	53.9	-15.1	-54.7	-51.9	-45.1	-58.4

Note: *relative to the same period in 2019 **Raw figures

Source: Based on Survey of Corporate Business Statistics (Ministry of Finance)

er characteristic is an increase in financing through long-term debt. Government-affiliated financial institutions are increasing their financial support in response to the prolonging of the COVID-19 pandemic, and such policy factors may have also backed the financing of firms³⁾.

(2) Revenue and Financial Situation of Firms in Kansai

Next, we will discuss the revenue and financial situation of firms in Kansai, categorizing them into manufacturing and non-manufacturing industries and describing their characteristics compared to the nationwide situation.

First, in the manufacturing industry, sales and ordinary profits after 2020 Q2 not only declined less significantly compared to other companies nationwide, but they recovered to increase in Q4 and 2021 Q1 (Table 2-2-3). This may be because in Kansai, production among firms recovered thanks to increase in exports such as semiconductors.

In the non-manufacturing industry, the decrease rate was larger compared to nationwide for both sales and ordinary profits in 2020 Q2 and Q3 (Table 2-2-4). It then gradually contracted until the decrease rate grew again with the issuing of the third declaration of a state of emergency, and the difficult revenue environment is continuing. As seen in Table 2-2-3, since sales and ordinary

Table 2-2-3 Earnings and financial trends in the manufacturing industry

Unit: %

		Kansai							Japan						
		20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*	20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*		
Revenue	Sales	-4.5	-11.3	-8.9	0.7	1.1	-0.2	-3.3	-19.1	-11.6	-2.6	-4.3	-2.7		
	Ordinary profits	-7.5	-5.7	-18.5	11.5	71.5	49.7	-22.6	-37.2	-26.8	21.9	29.5	38.3		
	Fixed costs ratio	-4.2	-4.4	-3.4	-1.7	-1.8	-0.2	-0.2	-2.2	-2.9	-2.8	-3.3	-0.7		
Assets	Cash/deposits	-9.1	18.2	12.0	13.7	15.2	29.4	1.4	25.6	26.1	22.6	20.0	19.3		
	Short-term debts	11.4	27.0	20.5	-9.3	32.6	21.4	14.0	23.2	21.7	10.1	14.9	9.1		
Liability / Net assets	Corporate bonds	22.4	12.8	31.4	34.4	64.2	44.5	23.4	15.9	28.0	23.9	51.5	41.8		
	Long-term debts	11.7	17.3	5.6	-6.3	3.5	-6.9	10.1	18.8	18.7	8.0	9.4	9.0		
	Total net assets	1.0	11.9	7.6	-1.4	6.4	10.1	-0.6	1.2	0.8	0.3	3.2	6.0		
	Retained earnings	9.9	19.0	14.7	-0.1	16.3	13.0	2.7	3.1	2.1	0.7	7.2	7.5		

Note: *relative to the same period of 2019

Source: Based on Survey of Corporate Business Statistics (Kinki Local Finance Bureau, Ministry of Finance)

- 3) As an example, unsecured, interest-free loans are available through both the COVID-19 Special Loan Program by Japan Finance Corporation and the Special Interest Subsidy Program. The deadline is expected to be extended from the end of December 2020 to March of next year.

Table 2-2-4 Earnings and financial trends in the non-manufacturing industry

		Kansai						Japan					
		20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*	20Q1	20Q2	20Q3	20Q4	21Q1*	21Q2*
Revenue	Sales	-5.8	-19.8	-12.2	-5.0	-2.5	-14.0	-8.6	-16.5	-11.8	-7.0	-8.0	-12.1
	Ordinary profits	-41.4	-48.2	-26.3	-62.0	-6.6	-20.2	-45.2	-26.7	-25.8	-35.7	-25.9	-3.0
	Fixed costs ratio	-1.3	-6.0	-1.1	-2.7	-0.0	-3.2	-3.2	-7.3	-4.4	-3.5	-7.7	-5.5
Assets	Cash/deposits	0.4	26.1	24.8	26.7	26.7	36.9	-0.8	28.5	19.4	24.4	18.5	18.5
	Short-term debts	10.1	19.7	10.7	10.3	33.1	42.0	7.0	29.7	29.3	25.8	24.8	24.8
Liability / Net assets	Corporate bonds	6.9	10.6	24.2	25.7	42.2	43.5	9.7	15.9	18.4	16.3	31.2	31.2
	Long-term debts	1.3	3.6	6.4	3.8	4.5	8.7	2.4	9.3	8.8	8.9	10.2	10.2
	Total net assets	4.6	2.8	1.8	0.1	6.3	4.6	1.5	3.5	1.4	0.0	3.2	3.2
	Retained earnings	7.0	5.3	2.8	0.3	6.7	7.2	-0.0	2.1	-0.3	-2.4	0.9	0.9

Unit: %

Note: *relative to the same period in 2019

Source: Survey of Corporate Business Statistics. (Kinki Local Finance Bureau, Ministry of Finance)

profits recovered to increase in the manufacturing industry, a “K-shaped” recovery has been observed in Kansai as well. Additionally, fixed costs continue to decrease both nationwide and in Kansai, indicating that employment adjustment has been implemented. Financially, cash and deposits grew more in the non-manufacturing industry in Kansai compared to nationwide, showing that they are carefully accumulating funds on hand.

2. Economic Shock and the Labor Market

(1) Spread of Infections and Characteristics of the Labor Market

With employment adjustments increasing in response to the worsening performance of firms, the local employment situation is also increasingly deteriorating. Here, we will outline the movement of the labor market in Kansai in FY 2020, when it was greatly impacted by the COVID-19 pandemic.

On average in FY 2020, the labor force in Kansai decreased by -30,000 compared to the previous year to 10.82 million people, while the non-labor force population increased by +10,000 for the same period to 7.18 million people. The number of employed persons decreased by -90,000 for the same period to 10.49 million people, while unemployed persons increased by +60,000 for the same period to 340,000 people. The unemployment rate was 3.1%, up +0.5%pt from the previous year (2.6%).

Particularly noteworthy is the number of employed persons not at work⁴⁾, which increased by +140,000 from the previous year (290,000 people) to 420,000 people on average in FY 2020. Such an increase in the number of employed persons not at work may have suppressed the rise in the unemployment rate to some extent. Consequently, the rate of employed persons not at work (no. of employed persons not at work / no. of employed persons) was 4.0%, up +1.3%pt from the previous year (2.7%). The nationwide average rate of employed persons not at work for FY 2020 was 3.9%, thus the rate was higher in Kansai.

Next, we will divide the period of analysis into three as we did in Section 1 of this chapter to look at the movements in the labor market in Kansai during the COVID-19 pandemic and describe the characteristics. The three periods are (i) The early phase of the spread of infections to the declaration of a state of emergency period (January to June 2020), (ii) The period of recovery from bottom (July to December 2020), and (iii) The period of infection resurgence (January to September 2021).

(i) Early Phase of the Spread of Infections to the Declaration of a State of Emergency Period: January to June 2020

Table 2-2-5 shows the movements in the labor market in Kansai based on quarterly data for the period being discussed.

Since 2020 Q1, the employment environment in Kansai, which had been favorable, changed for the worse. In particular, the number of employed persons that previously had continued to increase changed to a decrease and the unemployment rate, which was in the low 2% range, rose to 2.8%, beginning to show the impact of COVID-19.

The biggest change occurred in 2020 Q2. Due to an increase in new infections, people began refraining from job seeking activities to avoid being infected, leading to a significant +210,000 increase in the non-labor force population compared to in the previous period (out of the labor force). Additionally, with the issuing of the declaration of a state of emergency and restricted economic activities, demand for labor dropped rapidly and the number of employed persons decreased significantly, down -240,000 people for the same period. However, unemployed persons increased by only +20,000 for the same period (the unemployment rate was up +0.2%pt for the same period), which was a small increase

4) An employed person not at work refers to a person who did not work at all during the week of the survey despite having a job, who is (1) an employee who received or is expected to receive salary or wages (including leave allowance) or who is (2) a self-employed worker who has kept his/her business and for who 30 days have not passed since being absent from the job.

Table 2-2-5 Movements in the labor market in Kansai during the COVID-19 pandemic

[Real Number]

(Unit: 10thousand people, %pt)

		Labour force	Not in labour force	Employed persons	Employed person not at work	Unemployed persons	Unemployment rate
2019	Ⅲ	1,087	715	1,062	28	26	2.4
	Ⅳ	1,091	711	1,063	32	27	2.5
2020	Ⅰ	1,092	710	1,062	30	30	2.8
	Ⅱ	1,071	731	1,038	72	32	3.0
	Ⅲ	1,074	728	1,041	34	32	3.0
	Ⅳ	1,089	710	1,054	33	36	3.3
2021	Ⅰ	1,096	703	1,062	30	35	3.2
	Ⅱ	1,088	711	1,051	37	35	3.3
	Ⅲ	1,081	714	1,049	35	32	3.0

[Difference]

(Unit: 10thousand people, %pt)

		Labour force	Not in labour force	Employed persons	Employed person not at work	Unemployed persons	Unemployment rate
2019	Ⅲ	15	-16	20	3	-3	-0.3
	Ⅳ	4	-4	2	4	1	0.1
2020	Ⅰ	1	-1	-1	-1	3	0.3
	Ⅱ	-21	21	-24	42	2	0.2
	Ⅲ	3	-3	2	-38	0	0.0
	Ⅳ	15	-18	13	-0	3	0.3
2021	Ⅰ	7	-6	8	-3	-1	-0.1
	Ⅱ	-8	7	-10	7	0	0.1
	Ⅲ	-7	3	-2	-1	-3	-0.3

Note: Seasonal Adjusted by APIR

Source: Labour Force Survey. (Statistics Bureau, MIC)

compared to the decrease rate in the number of employed persons. This was possibly due to the fact that in addition to labor supply side factors, such as an increase in the non-labor force population, the number of people losing their job remained within the number of employed persons not at work, which is included in the number of employed persons, due to the expansion of the Employment Adjustment Subsidy that is described later (the number of employed persons not at work increased by +420,000 for the same period).

(ii) Period of Recovery from Bottom: July to December 2020

In 2020 Q3, the decrease rate of the number of employed persons declined due to activities of firms resuming on the lifting of the declaration of a state of emergency. Additionally, the number of employed persons not at work, which

had increased rapidly in Q2, decreased by -380,000 to 340,000 people. In the meantime, the labor force and unemployed persons increased slightly, indicating that some people had resumed job seeking activities and shifted to being unemployed persons.

In Q4, there was an increase in the number of employed persons. The reason for this was that demand for labor recovered in the service industries, such as food service and travel, as a result of consumer stimulus programs like Go To Travel (began on July 22) and Go To Eat (began on October 1).

(iii) Period of Infection Resurgence: January to September 2021

In 2021 Q1, the labor force recovered above the 2019 Q4 pre-COVID-19 level. Additionally, the number of employed persons increased by 210,000 in 2020 Q4 and 2021 Q1 thanks in part to the resumption of economic activities and the government's consumer stimulus programs. However, because the number of employed persons fell by -230,000 from 2020 Q1 to Q3 due to the COVID-19 shock, there is still about 20,000 people needed in order to recover from the decline.

After that, in 2021 Q2, which was affected by the fourth wave of infections and the third declaration of a state of emergency, the labor force and the number of employed persons both decreased down to levels below those in 2020 Q4. The number of employed persons not at work increased again to 370,000 people. In the most recent 2021 Q3, unemployed persons decreased while the number of employed persons also decreased at a similar level, which was by no means good. Behind this was the downward pressure on employment caused by economic activities being suppressed because of infection control measures taken in response to the surge in the number of new positive cases due to the spread of a COVID-19 variant⁵⁾. The employment situation in Kansai continues to be harsh.

(2) Comparison with the Global Financial Crisis

Figure 2-2-3 compares how the key labor indicators recovered in Kansai from this COVID-19 shock and from the global financial crisis. In particular, we will focus on the range of declines after the shocks occurred and how long it took to recover to levels similar to the peaks before the crises occurred. The peak

5) Since the economic share in Kansai of the three prefectures (Kyoto, Osaka, and Hyogo) where infection control measures were implemented exceeds 80%, the impact on economic and social activities is believed to have been greater compared to the nationwide share of prefectures (60%) in which infection control measures were implemented.

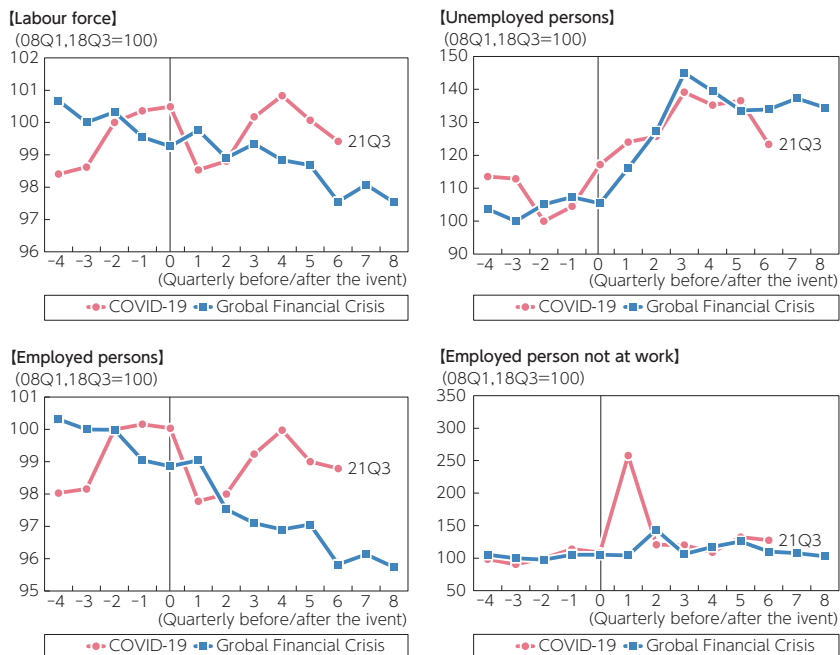


Figure 2-2-3 Changes in labor-related indicators after the economic shock

Note: Seasonal Adjusted by APIR
Source: Labour Force Survey. (Statistics Bureau, MIC)

corresponds to the adjusting of the Japanese economy after the shock⁶⁾.

Looking at these graphs, the difference between the two economic shocks is clear. In relation to the labor force, the decline immediately following the shock was greater with the COVID-19 shock than with the global financial crisis. However, looking at the time it took to recover, a gradual decrease continued for a long period with the global financial crisis, but with the COVID-19 shock, the pre-COVID-19 peak had been exceeded by four quarters after the shock occurred (2021 Q1). The number of employed persons shows a similar trend, more or less recovering to the pre-COVID-19 peak four quarters after the shock occurred. With the COVID-19 shock, a major evaporation of demand occurred within a short period, impacting the labor market as well. However, the recovery after the shock occurred much faster than after the global financial crisis. These results show that the COVID-19 shock has the characteristics of being a “supply

6) The peak prior to the crisis is 2008 Q1 for the global financial crisis and 2019 Q3 for the COVID-19 shock. See Section 3 of this chapter for the adjustment process of real GDP, etc.

shock” caused by suppressed economic activity due to the avoidance of personal contact to prevent infections.

However, despite such sudden pressure to adjust employment, the increase rate in unemployment persons with the COVID-19 shock has been more gradual than with the global financial crisis. Additionally, it is different in that the number of employed persons not at work has been increasing significantly. It appears that through support, such as the Employment Adjustment Subsidy, the number of employed persons not at work, which is a category in the breakdown of the number of employed persons, increased, preventing a sudden increase in the number of unemployed persons in Kansai as well.

3. Trends in Employment Adjustment during the COVID-19 Pandemic

In the first subsection, we saw from national financial data that the COVID-19 shock can be characterized by its significant impact on the non-manufacturing industry, particularly the face-to-face services industry, as a result of the suspension of economic activity. While an improvement of the sales-decrease situation seems uncertain, firms are adjusting employment to reduce fixed costs. In this subsection, we will analyze the characteristics of employment adjustment in Kansai during the COVID-19 pandemic.

(1) Characteristics by Industry: Impact Is Significant in Face-to-Face Services and among Women

First, we will look at the characteristics by industry in Kansai. Figure 2-2-4 shows the contribution by industry for the number of employed persons (YoY) in Kansai. Looking at the total for males and females, in Kansai, employment had been increasing in industries such as “Accommodations, eating and drinking services” and “Living-related and personal services and amusement services” supported by strong inbound demand. However, when inbound-related demand evaporated due to the COVID-19 shock, it changed to a decrease, down -0.5% YoY in 2020 Q2. In the order of contribution, they were “Accommodations, eating and drinking services” (-0.9% pt), “Education, learning support” (-0.7% pt), and “Wholesale and retail trade” (-0.4% pt), and they account for a large portion of the decrease in the overall number of employed persons, which was mainly in the face-to-face service industry.

Similarly, looking at the contribution by industry for females, in 2020 Q2, there was a -0.9% decrease YoY, which is a greater decrease compared to the male and female total. By industry, the contributions were greater in the order of

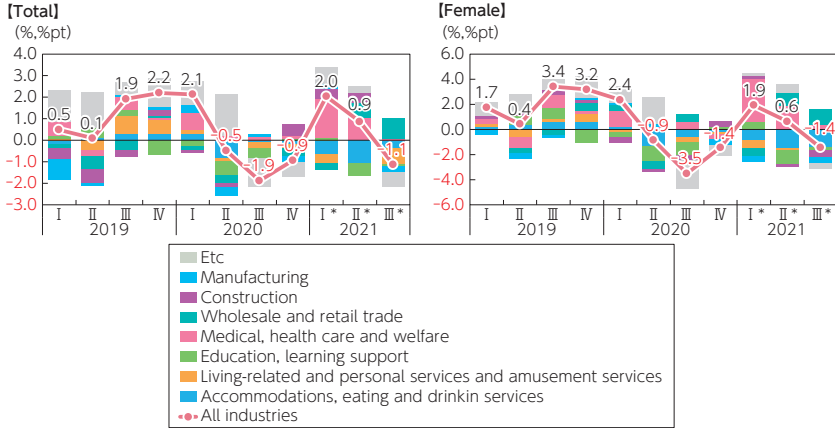


Figure 2-2-4

Contribution by industry for the number of employed persons in Kansai

Note: *relative to the same period of 2019
 Source: Labour Force Survey. (Statistics Bureau, MIC)

“Accommodations, eating and drinking services” (-1.3%pt), “Education, learning support” (-1.3%pt), and “Wholesale and retail trade” (-0.6%pt). So, even by industry, females have been particularly impacted.

(2) Characteristics by Employment Type: Adjustment Pressure Is High for Part-Time Workers

Next, we will look at the characteristics by employment type. Figure 2-2-5 looks at the YoY changes in the overall number of regular employees, full-time employees, and part-time employees in the six Kansai prefectures.

The overall number of regular employees changed to a decrease YoY in April 2020 when the first declaration of a state of emergency was issued and subsequently remained negative. Looking at the breakdown, the number of full-time employees dropped below the previous year in Kansai in January 2020 and continued to decrease until recovering with the return of production activities. On the other hand, the number of part-time employees continue to remain below the number in the previous year since May 2020. Comparing nationwide and Kansai, the decrease rate in part-time employees was larger in Kansai. This suggest that employment adjustment pressure was higher in Kansai than nationwide mainly for part-time employees who are relatively easier to adjust compared to full-time employees.

In general, the face-to-face service industry has a high ratio of non-regular employees and part-time employees and is more likely to be impacted when the

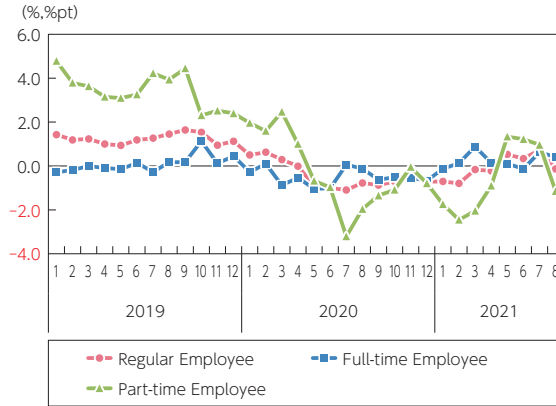


Figure 2-2-5 Employment indices in Kansai

Note: Establishment with 5 or more employees, YoY % change
 Source: Monthly Labour Survey. (Ministry of Health, Labour and Welfare)

revenues of firms deteriorate. Since the ratio of part-time employees is higher in Kansai than nationwide, the impact may have been significant. In Figure 2-2-4 shown previously, we mentioned that female employees in face-to-face service industries such as “Accommodations, eating and drinking services” decreased due to the COVID-19 pandemic. Looking at the decrease in female employees by age group (Figure 2-2-6), in 2020 Q2, the 35 to 44 years group decreased most significantly, but with the economy worsening, we can see that the decrease has spread to more age groups, such as the 25 to 34 years group. These age groups include many women who work part-time or as temporary or contracted workers on who the impact is believed to have been significant.

In summary, due to decrease in the sales of firms, the COVID-19 pandemic hit women in Kansai particularly hard, as they work as non-regular part-time employees in face-to-face service industries in which the fixed costs ratio is high.

4. Trends in Employment Adjustment Subsidy

The Employment Adjustment Subsidy (hereinafter referred to as “EAS”) is a subsidy program to support firms that were forced to downsize their businesses due to reasons such as economic fluctuations but that strived to retain their employees. EAS subsidizes the costs of reduction in working time in the form of temporary leave, training, or secondment. The purpose of this subsidy is to avoid layoffs during temporary recessions to prevent social unrest caused by a rising unemployment rate.

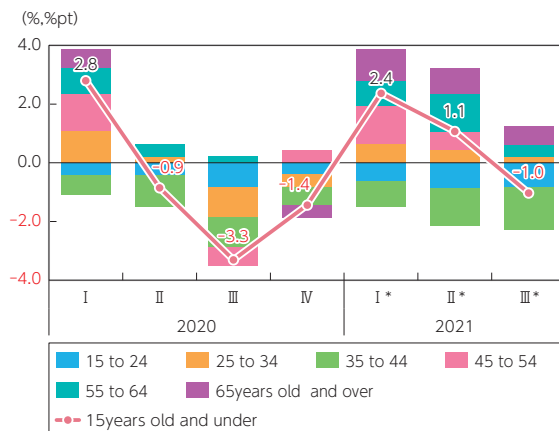


Figure 2-2-6 Contribution by age of employed women in Kansai

Note: *relative to the same period of 2019

Source: Labour Force Survey. (Statistics Bureau, MIC)

Since its establishment in 1975, the EAS has been utilized as a means of retaining employment, and a temporary relaxation of its payment requirements and expansion of the subsidy have been implemented whenever a major economic shock hit⁷⁾. Faced with the sudden deterioration of the employment situation due to the COVID-19 pandemic, the government implemented measures, such as simplifying the application process, in addition to extending eligibility to non-standard workers and easing the payment requirements. Other unprecedented expansions were implemented as well. The eligibility criterion which requires the decline in production or sales of an establishment in the last three months to reach a certain threshold is relaxed to one month. Moreover, the eligibility is extended to non-standard workers who are not enrolled in employment insurance, and the maximum amount of the subsidy received is significantly increased. These special measures were extended until March 2022.

As a result, the number and amount of EAS payments have been rising rapidly. Looking at the cumulative number of EAS payment decisions for the global financial crisis and the COVID-19 pandemic shown in Figure 2-2-7, the rapid increase in payments due to the COVID-19 pandemic is striking. In one year since

7) Expansions in the past include special measures for the global financial crisis in 2008, special measures for the Great East Japan Earthquake in 2011, relaxing of requirements in response to the appreciation of the yen in the same year, and special measures for typhoons No. 15 and 19 in 2019.

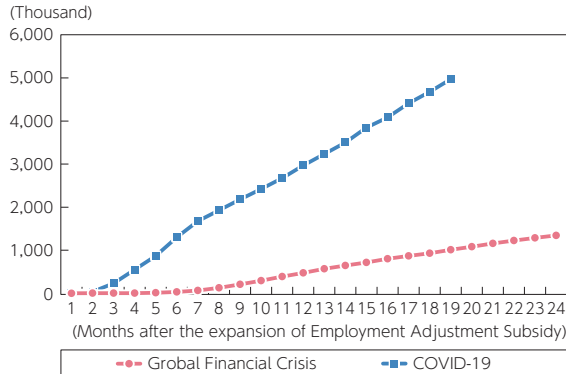


Figure 2-2-7

Cumulative number of EAS payment decisions due to the global financial crisis and the COVID-19 pandemic

Source: Based on open data. (Ministry of Health, Labour and Welfare)

May 2020, the cumulative number of payment decisions reached 3.23 million cases, far exceeding the 790,000 cases in FY 2009 when the impact of the global financial crisis was at its greatest. The cumulative number of payment decisions in Osaka Prefecture (EAS and Emergency Employment Stabilization Subsidy combined) increased from zero cases in the previous year to 270,000 cumulative cases in FY 2020⁸⁾.

On a macro basis, EAS is said to have suppressed the rise in the unemployment rate because the increase in the unemployment rate was small relative to the significant decrease in working hours and production during the COVID-19 pandemic, but these effect needs to be investigated further using statistical methods. Additionally, special measures, which are positioned as measures for a short-term recession, have been extended multiple times due to the prolonged COVID-19 pandemic and continued for over a year and a half. The exhaustion of financial resources for EAS and damage from its prolonged use are concerned. In the future, the focus must be shifted to policies that move surplus labor to growth sectors, such as support for firms that change their business, job placement and training for job seekers, etc.

5. Conclusion

In this section, we looked at the trends relating to the deteriorating revenue

8) Based on materials from Osaka Labour Bureau distributed in a regular press conference on March 29, 2021.

environment and employment adjustment in firms during the COVID-19 pandemic. COVID-19 significantly decreased the revenue of firms in the non-manufacturing industry. Among them, fixed costs are high in the face-to-face service industries such as the accommodation industry and eating and drinking services industry, and many firms have incurred large deficits. With an improvement to the decreasing sales situation looking unlikely due to the prolonged spread of infections, firms are cutting labor costs by reducing personnel, etc. Particularly in Kansai, employment had been increasing in industries such as the accommodation industry and eating and drinking services industry thanks to the strong inbound demand. However, with the COVID-19 shock, significant employment adjustment pressure has been imposed mainly on women working as non-regular part-time employees in these industries.

As of the time of writing this report on November 9, the fifth wave that became the biggest spread of infections due to a highly contagious variant has subsided and the infection situation has improved nationwide. However, the situation in face-to-face service industries continues to be harsh. In order for sales to increase in the face-to-face service industries, the number of new infections must continue to remain low while tourism demand recovers. Under these circumstances, the government announced on October 26 that the vaccination rate of the second dose of the COVID-19 vaccine has exceeded 70%. With the vaccination program making good progress, economic activities are expected to normalize and employment adjustment pressure to ease. Meanwhile, at the same time surplus labor that has stagnated due to EAS, which is meant to be a short-term measure for maintaining employment, must be shifted to growth sectors and industries with labor shortages.