

Economic policy implications of
changes in composition of Japanese employment
by region and sector

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Executive Summary



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While Japan's employed population continues to grow, its growth has been overwhelmingly concentrated in the Southern Kanto region and the healthcare and social services sector. Against such a backdrop, undifferentiated economic policies are prone to have the perverse effect of exacerbating disparities among regions and sectors.

Japanese employment growth is unevenly distributed across regions and sectors

While Japan's population continued to shrink in 2025, its employed population increased to an all-time record 68.28mn (yearly average basis; likewise below), driven by ongoing growth in employment of women and senior citizens, per Labor Force Survey data released by the Ministry of Internal Affairs and Communications' Statistics Bureau. However, when the employment data are disaggregated by region or sector, a distinctly different picture of the Japanese labor market emerges. The accompanying table's two leftmost numerical columns break down the nationwide employed population (top row) into 10 regional subtotals¹ as of 2025 versus 2007, the year immediately prior to the GFC's onset. The middle numerical column tabulates the changes in employed population over that 18-year span.

NOTE

1) The 10 regions are Hokkaido, Tohoku (Aomori, Iwate, Miyagi, Akita, Yamagata and Fukushima Prefectures), Southern Kanto (Tokyo Metropolis and Saitama, Chiba and Kanagawa Prefectures), Northern Kanto/Koshin (Ibaraki, Tochigi, Gunma, Yamanashi and Nagano Prefectures), Hokuriku (Niigata, Toyama, Ishikawa and Fukui Prefectures), Tokai (Gifu, Shizuoka, Aichi and Mie Prefectures), Kinki (Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama Prefectures), Chugoku (Tottori, Shimane, Okayama, Hiroshima and Yamaguchi Prefectures), Shikoku (Tokushima, Kagawa, Ehime and Kochi Prefectures) and Kyushu/Okinawa (Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima and Okinawa Prefectures).

Change in Japan's employed population between 2007 and 2025

(in millions)

Region	2007	2025	Change	Of which, change in healthcare & social services sector	Of which, change in all other sectors
Nationwide	64.12	68.28	4.16	3.68	0.48
Hokkaido	2.64	2.64	0.00	0.15	-0.15
Tohoku	4.69	4.38	-0.31	0.17	-0.48
S. Kanto	18.16	21.52	3.36	1.25	2.11
N. Kanto/Koshin	5.20	5.15	-0.05	0.24	-0.29
Hokuriku	2.83	2.69	-0.14	0.10	-0.24
Tokai	7.96	8.18	0.22	0.40	-0.18
Kinki	9.98	10.84	0.86	0.65	0.21
Chugoku	3.76	3.73	-0.03	0.20	-0.23
Shikoku	1.97	1.82	-0.15	0.07	-0.22
Kyushu/Okinawa	6.93	7.34	0.41	0.44	-0.03

Source: NRI, based on Ministry of Internal Affairs and Communications' Labor Force Survey (Basic Tabulation)

The nationwide employed population grew by 4.16mn between 2007 and 2025. Southern Kanto, the region where Tokyo is located, and Kinki, which includes Osaka, respectively accounted for 3.36mn and 860,000 of the 4.16mn increase. The sum of these two regions' employment gains exceeded the increase in nationwide employment. Five of 10 regions, including Tohoku and Hokuriku, experienced employment contractions over the 18-year period. The 4.16mn nationwide increase thus did not constitute balanced employment growth.

Japan's unemployment rate (not shown in the table) improved substantially between 2007 and 2025, dropping from 3.9% to 2.5%. Unemployment likewise decreased even in the five regions where employment contracted. For example, Tohoku and Shikoku's respective 2025 unemployment rates were 2.9% and 2.1%, down from 4.7% and 3.9% in 2007. These five regions saw their employed populations shrink in parallel with their total populations. Their employment declines were clearly attributable to population losses inclusive of out-migration to major metropolitan areas. Regional depopulation results in decreased total employment within the region and makes hiring more difficult than in major metropolitan areas.

The contractionary equilibrium dynamics at play in such regional economies come into even sharper focus when the 4.16mn increase in the nationwide employed population is disaggregated into two sectoral buckets: (1) healthcare and social services, which include eldercare, and (2) all other sectors in aggregate. The table (second column from right) shows that healthcare and social services accounted for a vast majority, specifically 3.68mn, of the 4.16mn increase, and experienced employment growth across all ten regions, reflecting the needs of Japan's aging society.

Meanwhile, employment outside of healthcare and social services decreased in all 10 regions except Southern Kanto and Kinki over the 18 years through 2025 (rightmost column of table). Employment in manufacturing and construction (not shown in table), previously bedrock sectors of the Japanese economy, was down across all regions while employment in wholesale/retail trade, another previously core sector, decreased in all regions except Southern Kanto. The 2.11mn increase in Southern Kanto's employed population outside of healthcare and social services was concentrated in nonmanufacturing sectors, most notably information and communications (+820,000), scientific research and professional/technical services (+420,000) and education (+310,000).

Interregional disparities undermine undifferentiated economic policies' effectiveness

In sum, the Japanese economy today may appear to be expanding in light of ongoing growth in nationwide employment, but such expansion is unevenly distributed among regions and sectors, unlike in the past, particularly the high-growth era (1955-73), when economic growth was more or less uniformly distributed geographically and sector-wise. What are the current interregional and intersectoral disparities' implications for one-size-fits-all national economic policies and institutional reforms? In the fiscal policy realm, for example, the decline in employment outside of healthcare and social services in eight of ten regions implies that traditional fiscal mobilization in the form of public works projects would likely have a smaller multiplier effect than in the past.

Additionally, the public's fiscal policy preferences seem to be organically shifting toward broadly defined redistributive policies involving taxes, benefits and/or social insurance programs, as exemplified by growing demand for broader societal support for social services such as eldercare and childcare. However, when people receive a tax cut or universal cash benefits, they decide for themselves whether or not to spend the incoming money. Policies that distribute money directly to people would consequently have an even weaker multiplier effect than public investment that pumps money into regional economies by semi-compulsorily generating incremental demand.

The government cannot overlook regional economic impacts when it contemplates reforms to social insurance programs, the future of which has become an increasingly keen concern among the public in recent years, particularly in the latest Lower House election. Any future reforms that change the intergenerational balance of benefits and burdens in Japan could have the perverse effect of exacerbating interregional disparities, depending on how the changes are done. Because highly urbanized regions have higher employment-to-population ratios than less urbanized regions, social insurance reforms would pose less of an aggregate burden, and could even lead to disposable income growth, in more urbanized regions. Meanwhile, the overall social insurance burden could increase in regions where healthcare and social services account for an outsized share of total employment. In such an event, the reforms may end up merely replacing intergenerational disparities inherent in social insurance programs with new interregional disparities. Efforts to rectify the interregional disparities could in turn

lead to growth in other forms of fiscal spending such as allocation of national tax revenue to prefectural governments.

Such a risk is not readily discernible from economic statistics for the Japanese economy as a whole. Variations among Japan's regional economies must be recognized. If the government sets out to formulate macroeconomic policies or institutional reforms, including social security reforms, without acknowledging such differences and strategizing accordingly, its policies may end up triggering adverse consequences that outweigh the policies' intended effects on the national economy.

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