

Feature Articles

This month's focus: The Impacts of Population Decline on Stock Markets

Declining Population and Economic Growth

Koichi Ando & Hiroshi Yoshikawa

The declining population is the biggest issue facing the Japanese economy and society. In advanced economies like Japan's, the primary driver of economic growth is increase in GDP per capita rather than population growth. Thus, enhancing labor productivity is essential. Labor productivity is driven by high demand for new goods and services created through innovation, which entails structural changes in industries and sectors.

We found a positive correlation between economic growth and structural change. To revitalize the Japanese economy, increasing productivity through innovation is crucial. In Japan, the fundamental cause of stagnated productivity growth is not a lack of skilled labor but rather a shortage of risk-taking or "entrepreneurship" among private firms and government.

Aging and Small Business Performance

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If more profitable new small firms enter the market, less profitable ones will exit due to higher resource costs. Consequently, small firm profitability increases as firm dynamics improve, and vice versa. Older individuals are less likely to engage in entrepreneurship. As a result, aging reduces both entry and exit rates, which in turn depresses small firm performance. Japan has been experiencing low entry and exit rates due to substantial aging. This paper investigates the effect of population aging on small business performance in Japan. Aging across prefectures lowers the profitability, investment, and growth of small firms, with differential impacts depending on firm size.

Human Resources Management in a Declining Population: Managing Diversity and Inclusion in Way that Respects the Individual and Enhances Organizational Capability

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This paper examines human resource management in an era of declining population. The human resources management framework is reviewed and three strategies are presented. The first strategy is to increase individual productivity amid labor shortages and institute labor-saving measures, even with a small number of employees. The second strategy involves securing human resources with diverse backgrounds, often overlooked in the market, by refining criteria for employment status and employee attributes. The third strategy focuses on converting individual capabilities into organizational power. Additionally, to enhance human capital within companies, it is crucial to increase the social capital of the HR department and encourage close collaboration with other departments.

Feature Articles

The Impacts of Population Aging on Excess Stock Returns

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This paper examines the impact of demographic changes on excess returns (risk premiums) for Japanese TSE industry indexes (industry portfolios). The analysis shows that the proportion of the population aged 20-39 has a significant positive impact on excess stock returns, while the proportions of those aged 40-59, 60-65, and over 70, along with the average age (median), have significant negative impacts. This result supports the life cycle investment hypothesis, which suggests that population aging increases stock prices and lowers risk premiums due to the accumulation of financial assets after age 40, when the demand for housing and durable consumer goods has subsided. Moreover, based on this result, the "meltdown hypothesis"—that stock prices will decrease as the postwar baby boom generation retires and shifts their assets from equities to safer investments—is not valid.

The Impact of Population Decline on Public Pension Finance in Japan

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Public pensions play a significant role in Japan's capital markets. It is widely anticipated that public pension finances will undergo substantial changes as the population decreases. However, the impact of population decline is complex due to the incorporation of an automatic adjustment mechanism, known as "macroeconomic indexing," in Japan's public pension system. This paper reviews the path and magnitude of the impact of Japan's population decline on public pension finance, based on future projections released by the government in July 2024. The review shows that if the rates of price and real wage increases remain positive to some extent, and if the automatic adjustment mechanism can continue to be applied until the fiscal situation becomes stable, the long-term balance of pension finance will be maintained.

Articles

The Impact of Discerning Investors on Subsequent Financing of Startups

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Using statistical models based on investment network data, we conducted an empirical analysis to examine the characteristics contributing to the EXIT, or subsequent fundraising, of startups and discussed implications for decision-making in startup investments. We developed a "discerning investor" factor and demonstrated its statistically significant contribution to EXIT. By using this model, it may be possible to assist in decision-making for investments by identifying startups with a high likelihood of subsequent fundraising.

Articles

The Effect of Financial Reporting Quality on the Association between Dividend Policy and Investment Decisions: Empirical Evidence in Japan

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This article provides evidence that high-quality financial reporting affects investment decisions in high-dividend-paying firms. The investigation shows that high-dividend-paying firms tend to have higher investment levels. Additionally, empirical evidence indicates that in high-dividend-paying firms with high-quality financial reporting, the quality of financial reporting reduces moral hazard problems due to information asymmetry and plays an important role in mitigating the positive impact of dividends on investments.
