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The Japanese economy: topic of the month

The necessary condition for further wage hikes

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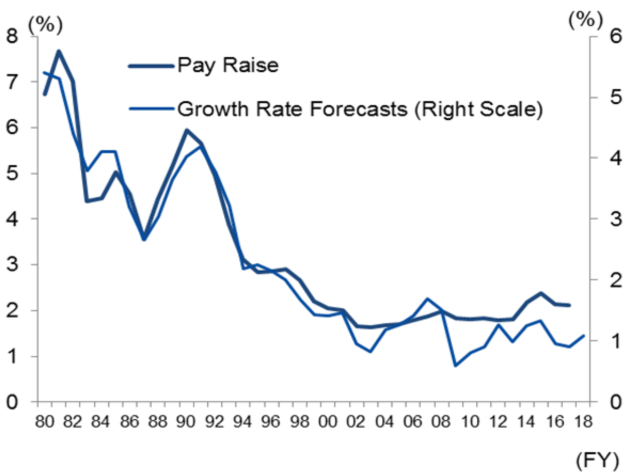
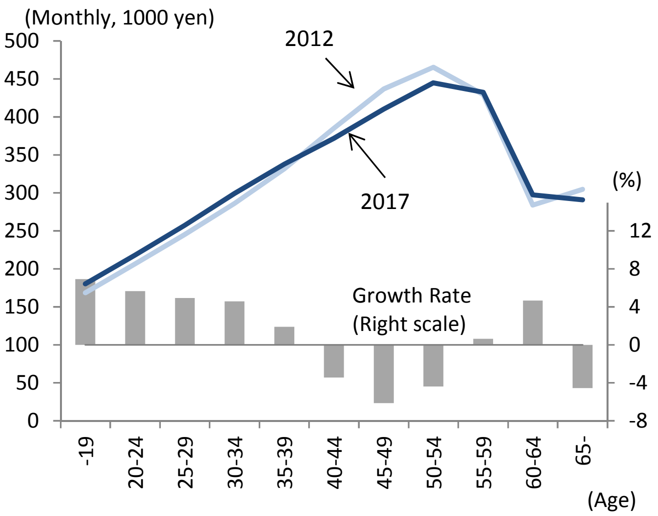
Many companies seem to have agreed to wage hikes surpassing the levels of last year, in the annual spring labor-management wage negotiations (*Shunto*) that peaked on March 14th. However, given that wage growth had decelerated for two consecutive years, this year's results are generally not strong enough to be evaluated as an entire success. The reason why firms remain wary in full-fledged wage hikes despite favorable earnings and chronic labor shortage stems from the fact that pay raises reflect not only current conditions but also companies' confidence regarding the future. Corporate growth rate forecasts (industry demand for the next five years) in the *Annual Survey of Corporate Behavior* of the Cabinet Office reveal a close relation between pay raises and growth rate forecasts (**Chart 1**). The latest growth rate forecast as of January (released on March 2nd) was barely above 1% and has not lifted off from the doldrums since the start of Abenomics, indicating that the environment is not yet conducive for the acceleration of pay rises.

[Chart 1: Trends in pay raise and growth rate forecasts]



Note: Growth rate forecasts refer to industry demand for the next five years (based on survey conducted in the previous fiscal year). Data for pay raise refer to major companies.
Source: Made by MHRI based upon Cabinet Office, *Annual Survey of Corporate Behavior,* Ministry of Health, Labour and Welfare, *Survey on agreements for wage increases at major private sector companies* (in Japanese)

[Chart 2: Shifts in the wage curve (large enterprises)]



Note: Basic salary for enterprises with 1,000 employees or over. The figure for 65 years and over is the weighted average of "65-69 years old" and "70 years and over".
Source: Made by MHRI based upon Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure*

In addition to the lack of a clear rise in growth rate forecasts, requirements to extend the employment of older workers appear to be serving as a heavier burden upon corporate labor costs. Under such conditions, a tightening of the labor demand-supply balance encourages companies to allocate labor costs in accordance with the ease of securing workers rather than increasing base wages (scheduled cash earnings) through upward shifts of the wage curve. According to the *Basic Survey on Wage Structure* (released on February 28th), base wages have risen for workers in their 30s or younger compared with five years ago but have generally fallen for workers in the 40s or older (**Chart 2**). In order to enlarge the entire pie (= the increase of base wages) and not only dividing and allocating the pie among workers, it is necessary to raise growth expectations through such measures as deregulation, labor market reform and reformation of the social security system.