

## Can Wage Hikes Spark a Virtuous Cycle in Japan?

The wage increase rate in this year's *shunto* spring wage negotiations recorded a high level for the first time in many years. According to Japanese Trade Union Confederation calculations as of May 8, the wage increase rate at labor unions that had already concluded agreements was 3.67%, greatly surpassing the 2.07% recorded last year (on a July final aggregation basis). This was the highest rate of increase since the bubble economy period (1986–1991). Base pay increases also reached 2.14%, which was 1.51 points higher than last year and a huge gain compared with the 0.4–0.7% recorded over the eight years through last year, for which data can be traced back (see Figure 1).

The momentum toward wage increases is picking up at small and medium-sized enterprises (SMEs), where wage hike trends are considered difficult to spread, as well. According to the *Survey on Minimum Wages and Small and Medium Enterprises Wages and Employment* released by the Japan Chamber of Commerce and Industry in April, 58.2% of SMEs responded that they “plan to implement wage hikes” (compared to 45.8% last year). Looking at the wage increase rate policies as well, most are 2% or more but less than 4%, and as much as 10% of the companies are planning on wage hikes of 4% or more (see Figure 2).

The cause which could be considered as accelerating the wage hikes is first and foremost the spike in consumer prices. The Consumer Price Index inflation rate (overall) was 4.3% year-on-year in January. It was most recently 3.2% in March as well, and has now been above 2% for 12 consecutive months. Also, the labor shortage is becoming more severe once again from both the supply and the demand sides as Covid-19 subsidies, and this is having a large impact. In fact, the Bank of Japan's Short-Term Economic Survey of Enterprises in Japan (*Tankan*) “employment conditions diffusion index

(DI)” (excessive – insufficient) was minus 32 in April, indicating that the level of labor shortage has returned to its pre-pandemic level. The negative DI was particularly large at small and medium non-manufacturing firms, at minus 43. Consequently, the sense of crisis that personnel cannot be secured without a certain level of wage increases is spreading.

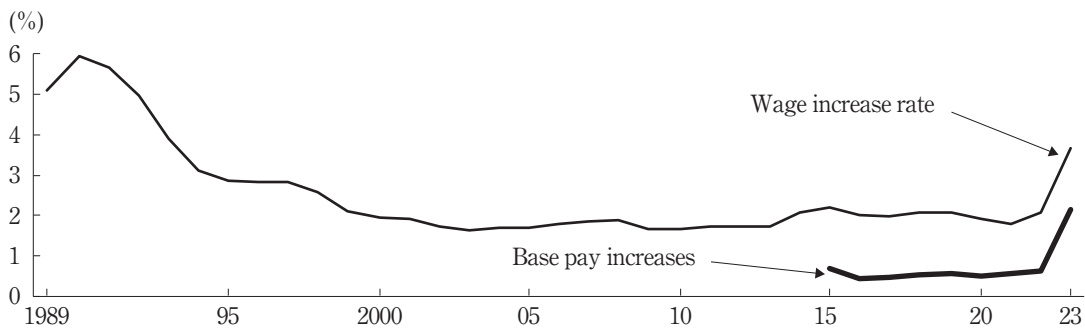
However, it is by no means true that the wage hikes have reached an adequate level. To begin with, given the fact that wages at Japanese companies have hardly risen at all over the past 30 years, the wage increases this year are still paltry. Furthermore, the wage increases are not keeping up with inflation, as real wages declined 4.1% in January and 2.9% in February and March year-on-year. So, consumer purchasing power is sharply declining. The majority opinion is that consumer price increases will ease in the second half of this year and if that is the case, together with this year's wage hikes, the erosion of the value of real wages will be limited somewhat, but it is unclear whether real wages will turn positive once again. Also, from the perspective of the continuity and comprehensiveness of wage increases, the fact that quite a few companies have reluctantly decided on wage increase policies is a cause for concern. In the above-mentioned Japan Chamber of Commerce and Industry survey, around 60% of the companies planning to implement wage hikes responded that these were defensive wage increases under conditions where their business results are not improving. It is also a problem that most non-regular workers remain outside the framework of the spring wage negotiations.

Then, what should be done to advance continuous wage increases from now on? Labor and management are both gaining a stronger awareness that continuous wage increases including higher base pay invite greater

consumption through income increases and lead to economic growth. But, there is also the aspect of the assertion that “productivity improvements must come before wage hikes” being dominant on the corporate side to date. To further enhance the momentum of wage increases, it is necessary to bring forward the idea that “to boost productivity, wage increases are necessary as labor incentives, and wage increases are part of investment in people.” Also, to ensure wage increases at SMEs, the optimization of transaction prices and the smooth

price pass-throughs are essential. Fortunately, among leading companies there is an emerging trend of firms that take on the financial burden for base pay hikes at partner companies and make early announcements of base pay hikes for the following year, and this trend needs to spread. With a shift in the corporate mindset as the starting point, continuous wage increases that contribute to growth, of course, but also lead to resolving Japan’s problem of not always setting suitable prices for products and labor are strongly expected.

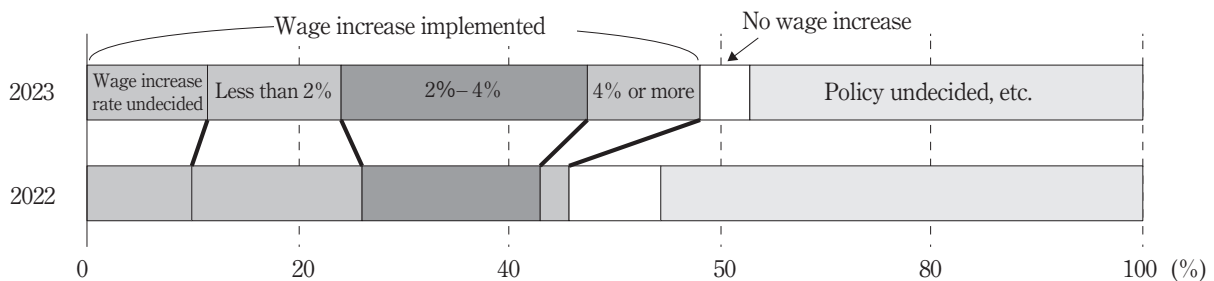
**Figure1: Transition of *Shunto* Wage Increase Rate**



Note: 2023 figures are calculated as of May 8.

Source: *Spring Labor Offensive Fifth Calculation* by Japanese Trade Union Confederation

**Figure 2: Wage Increase Outlook at Small and Medium-Sized Enterprises**



Source: *Survey on Minimum Wages and Small and Medium Enterprises Wages and Employment* by the Japan Chamber of Commerce and Industry