(Box 3) Wage Developments by Firm Size

With regard to scheduled cash earnings of full-time employees by firm size, those at small and medium-sized firms have been accelerating their pace of increase firmly of late, although those at large firms -- which are significantly affected by the effects of a base pay rise -- have been somewhat sluggish (Box Chart 7 [1]).

At small and medium-sized firms, labor shortage is felt more strongly than at large firms, mainly for full-time employees, and thus the job vacancy rate is somewhat higher (Box Chart 7 [2]). Furthermore, there are more job changers at small and medium-sized firms in pursuit of higher wages (Box Chart 7 [3] and [4]). As a result of these developments, it appears to have become easier at small and medium-sized firms for the tightening of supply-demand conditions in the external labor market to directly lead to wage increases.

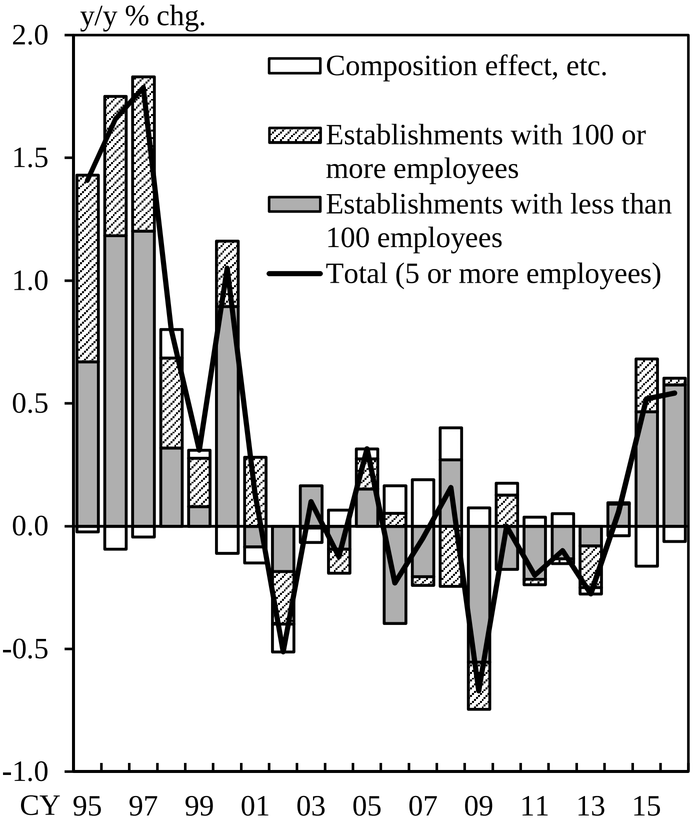
On the other hand, at large firms, where wages are set at relatively high levels and the risk of vacancy resulting from departure by their employees is lower, the responsiveness of wages to the tightening of labor market conditions remains low. Moreover, in general, the labor unions of large firms with high wages tend to place importance on job security in the long run over wage increases. In addition to these factors, it can be said that, since the base pay rise determined at the annual spring labor-management wage negotiations is largely affected by the observed CPI in the previous fiscal year, upward pressure on scheduled cash earnings at large firms remains sluggish.[39]

[39] For the importance of inflation expectations -- especially the adaptive expectation formation -- in determining base pay rises, see Appendix 4 in the Bank's *Comprehensive Assessment: Developments in Economic Activity and Prices as well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)* released in September 2016.

Box Chart 7

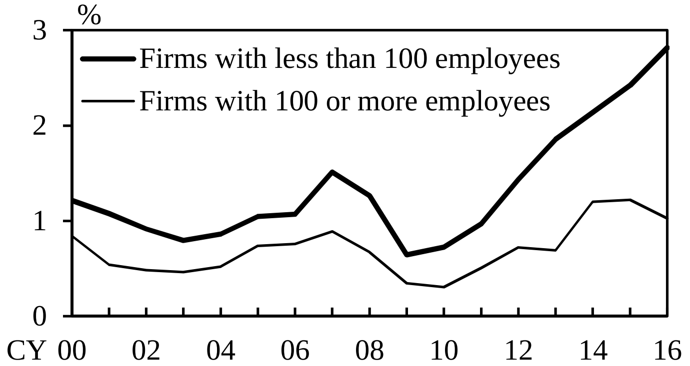
Wage Developments by Firm Size

(1) Scheduled Cash Earnings (Full-Time Employees)

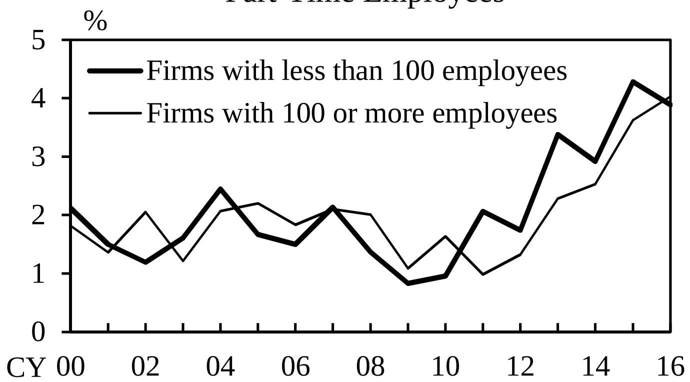


(2) Job Vacancy Rate by Firm Size

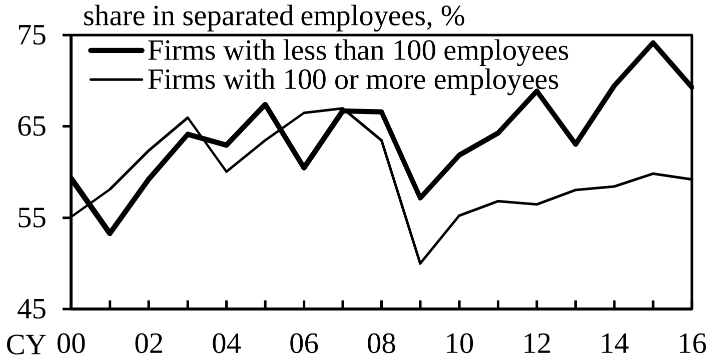
<Full-Time Employees>



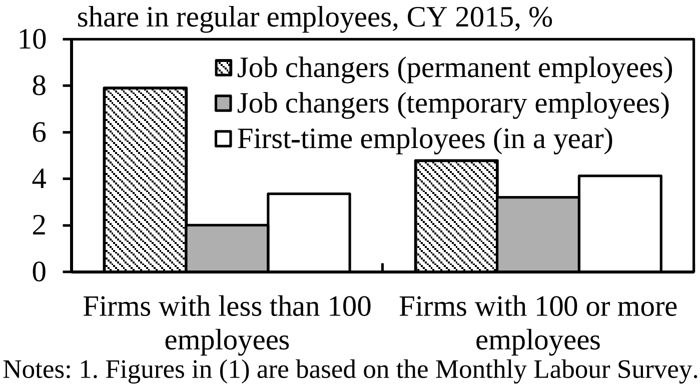
<Part-Time Employees>



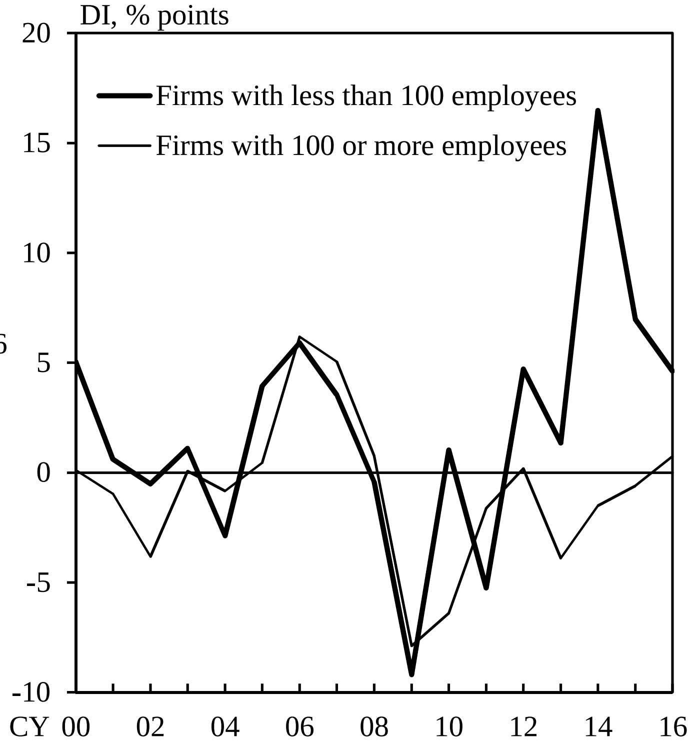
(3) Voluntary Separation Ratio (Full-Time Employees)



(4) Newly Hired Employees (Full-Time Employees)



(5) Wage Changes DI of Job Changers



Notes: 1. Figures in (1) are based on the Monthly Labour Survey. The other charts are based on the Survey on Employment Trends.
2. Job vacancy rate (at the end of June each year) = number of unfilled vacancies / number of regular employees.
3. The voluntary separation ratio is the share of those leaving their job for personal reasons (excluding family reasons).
4. Wage changes DI = share of job changers whose wage increased - share of job changers whose wage decreased.
5. Figures for CY 2016 in (3) and (5) are the average of the second half of CY 2015 and the first half of CY 2016.

Source: Ministry of Health, Labour and Welfare.