

# Wages and Prices: Past, Present, and Future

*Speech at the Meeting of Councillors of Keidanren  
(Japan Business Federation) in Tokyo*

December 25, 2023

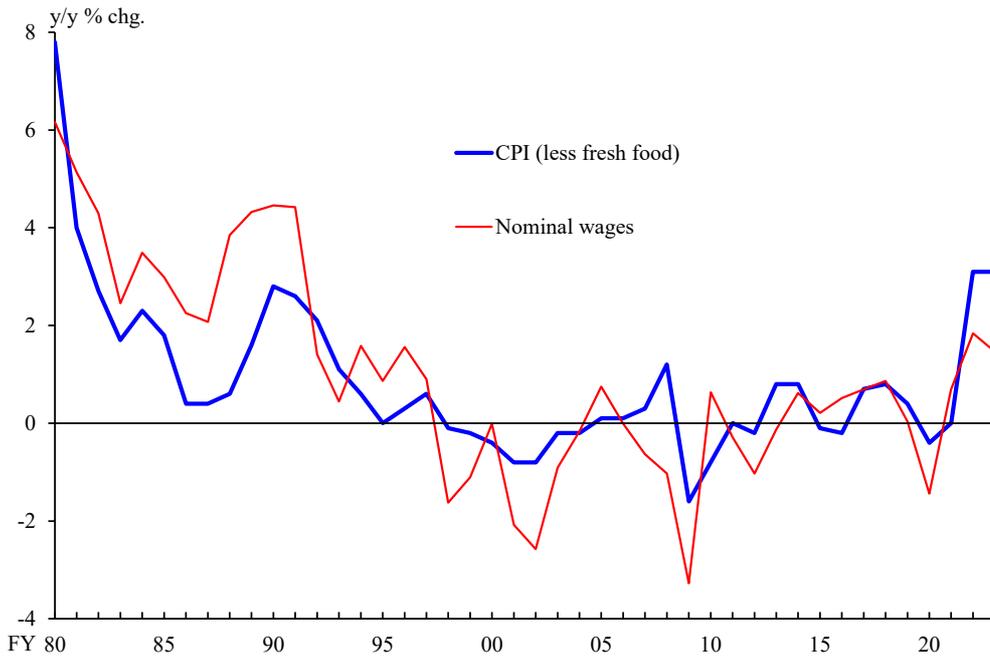
UEDA Kazuo  
*Governor of the Bank of Japan*

## Introduction

- I. The Past: Overview of and Background to the Low-Inflation Environment
- II. The Present: Changes in the Wage and Price Situation and the Bank's Thinking on the Conduct of Monetary Policy
- III. The Future: Price Stability, Firms, and the Economy

## Concluding Remarks

## Wages and Prices

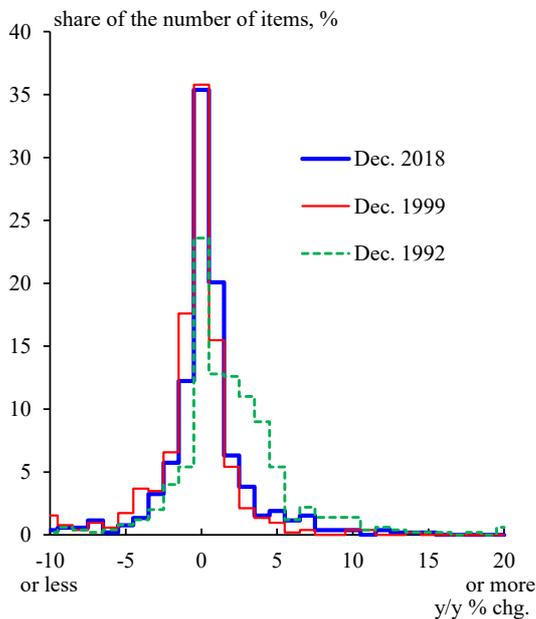


Notes: 1. The CPI figures are staff estimates and exclude the effects of the consumption tax hikes, policies concerning the provision of free education, and travel subsidy programs. Figures for nominal wages are for establishments with 30 or more employees up through fiscal 1990, and with 5 or more employees from fiscal 1991 onward.  
 2. Figures for fiscal 2023 are April-October averages.

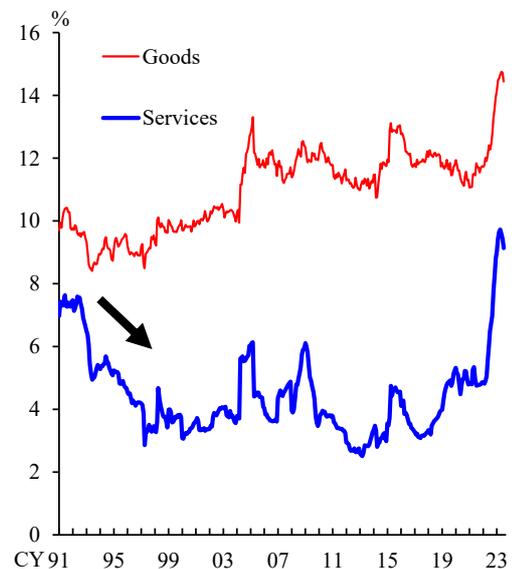
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

## Price-Setting Trends

*Price Change Distribution*



*Frequency of Price Changes*

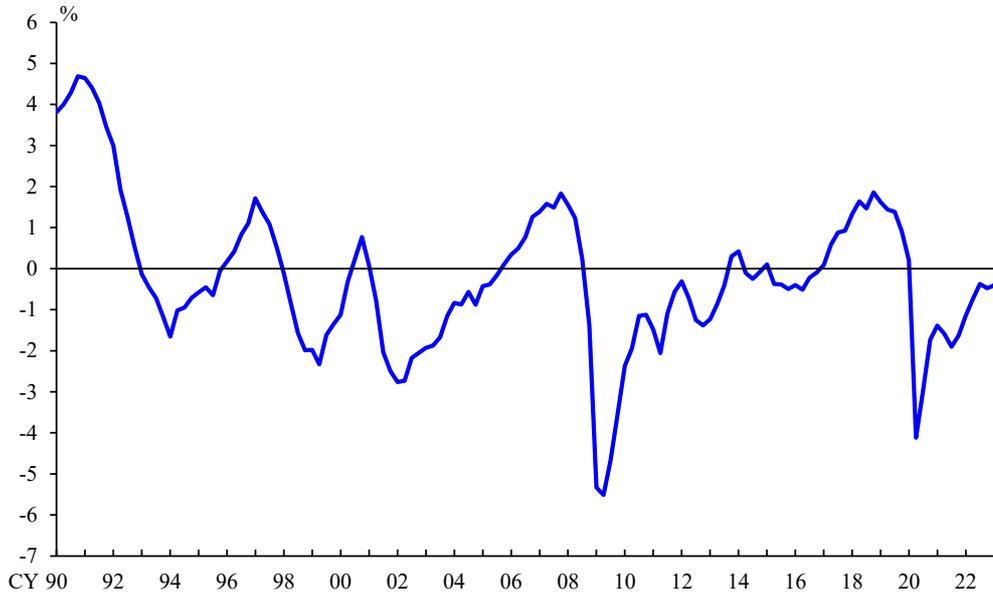


Notes: 1. In the left-hand chart, figures are based on the CPI for all items less fresh food.

2. In the right-hand chart, figures are the share of prices (based on the average for each item and city) that changed from the previous month (12-month backward moving average).

Data excludes fresh food, electricity, manufactured and piped gas, water charges, housing rent, periods of consumption tax hikes, and temporary price changes mainly due to special sales.  
 Source: Ministry of Internal Affairs and Communications.

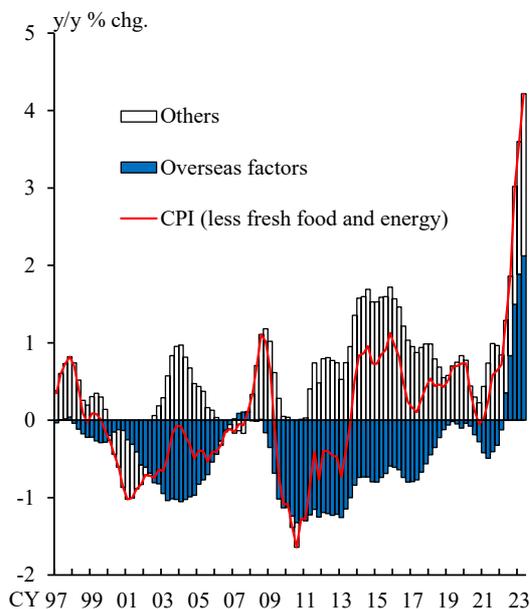
## Output Gap



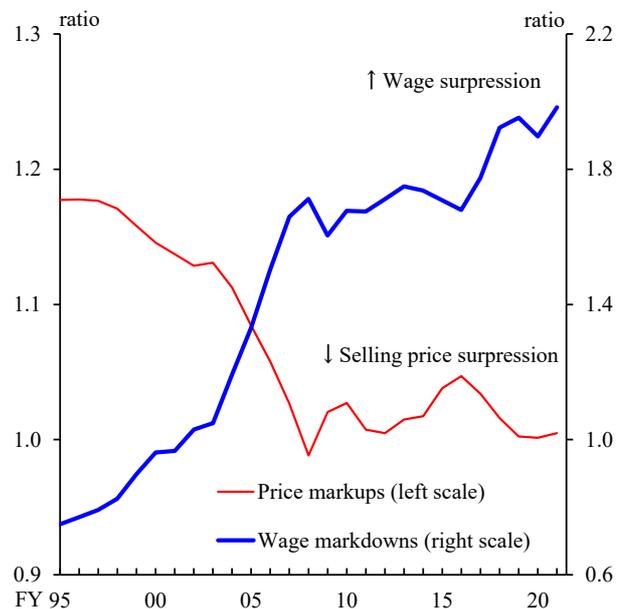
Note: Figures are staff estimates.  
Source: Bank of Japan.

## Impact of Globalization

### Prices and Overseas Factors



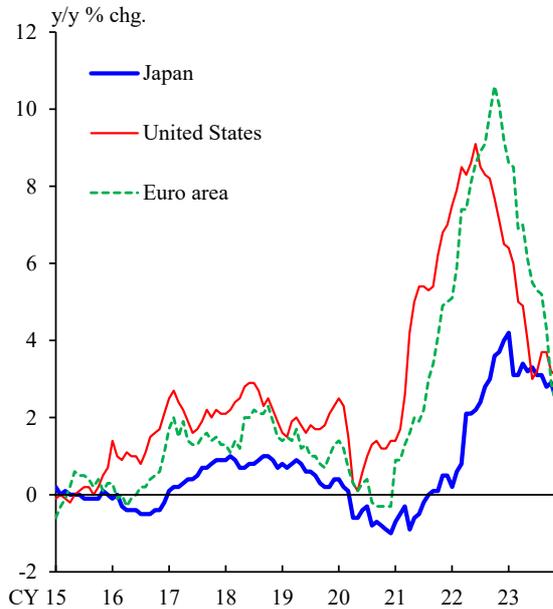
### Changes in Wage and Price Setting



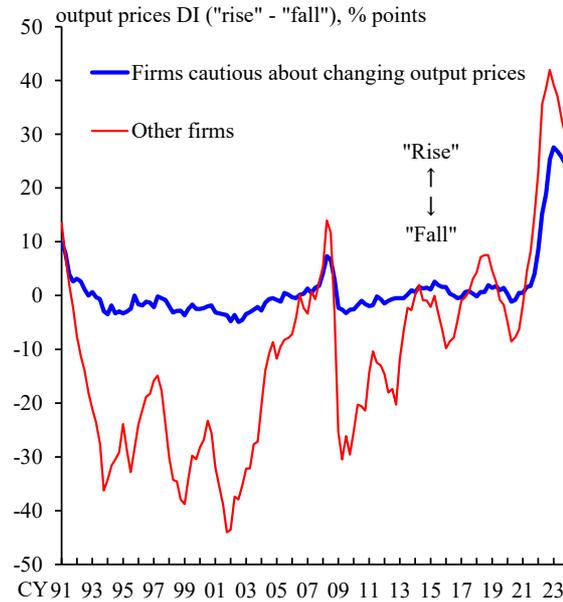
Notes: 1. In the left-hand chart, shocks are identified by combining short- and long-term zero and sign restrictions using a structural VAR model with domestic and international macro data.  
2. In the right-hand chart, figures are estimated based on the approach used by Aoki, Hogen, and Takatomi (2023).  
Price markups = Output prices / Marginal costs, and Wage markdowns = Marginal revenue product of labor / Marginal wage costs.  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan; Development Bank of Japan (DBJ); Cabinet Office.

## Consumer Prices and Output Prices

*Consumer Prices in Japan, the United States, and the Euro Area*



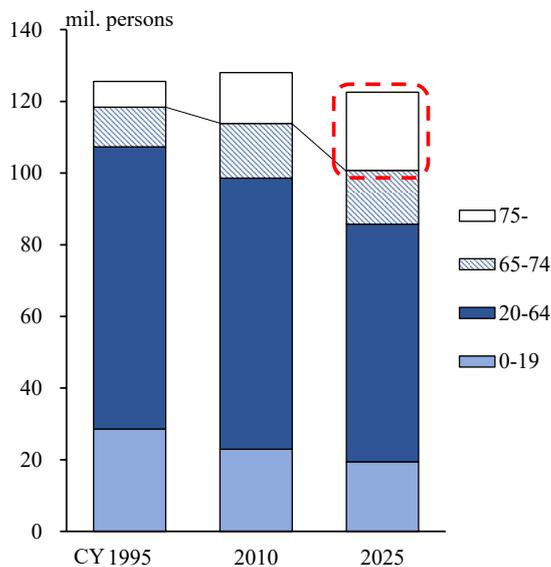
*Pass-Through of Cost Increases to Output Prices*



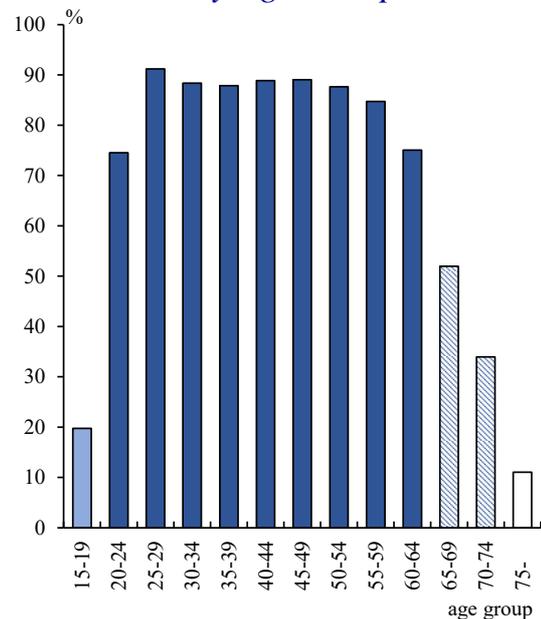
Notes: 1. In the left-hand chart, figures for Japan are the CPI for all items less fresh food, excluding the effects of the consumption tax hike, while those for the United States and the euro area are the CPIs for all items.  
 2. In the right-hand chart, figures are based on the *Tankan* (all industries and enterprises). Figures for "firms cautious about changing output prices" are for firms that for at least about 95 percent of the period from 1991 to 2019 replied that their output prices were "unchanged."  
 Sources: Ministry of Internal Affairs and Communications; Haver; Bank of Japan.

## Structural Changes in the Labor Market

*Population by Age Group*



*Labor Force Participation Rate by Age Group*



Notes: 1. In the left-hand chart, figures are based on the *Population Pyramid for Japan* released by the National Institute of Population and Social Security Research.  
 2. In the right-hand chart, figures are based on the *Labour Force Survey* (2022).  
 Sources: National Institute of Population and Social Security Research; Ministry of Internal Affairs and Communications.

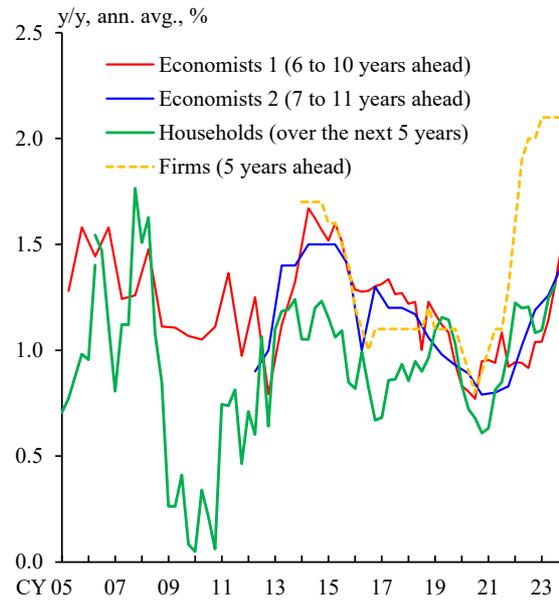
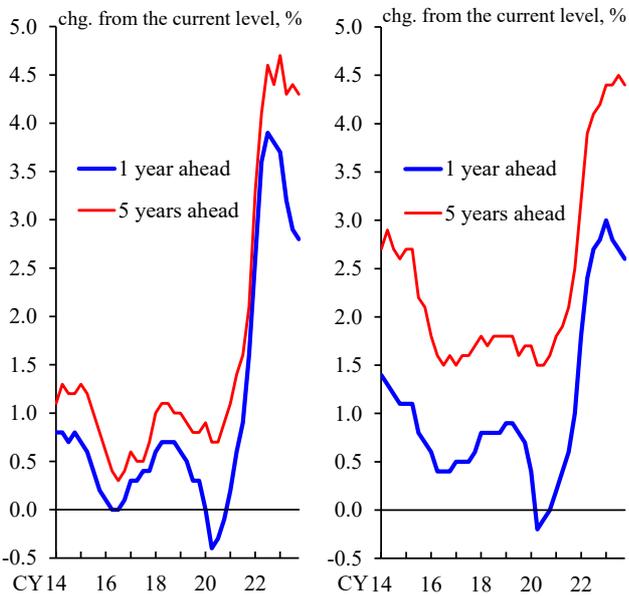
## Changes in Price-Setting Behavior

### Firms' Outlook for Output Prices in the Tankan

### Inflation Expectations

#### Manufacturing

#### Nonmanufacturing

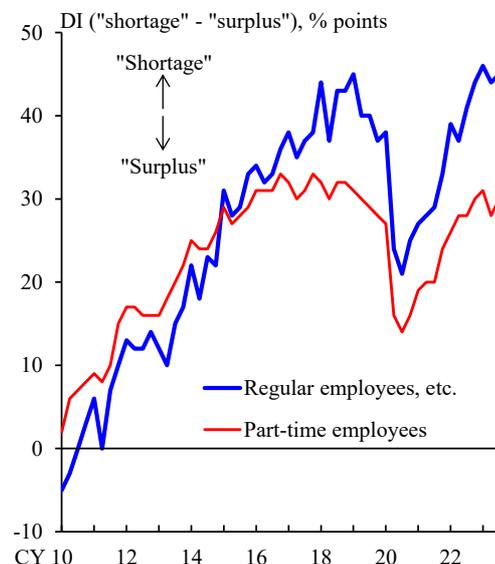
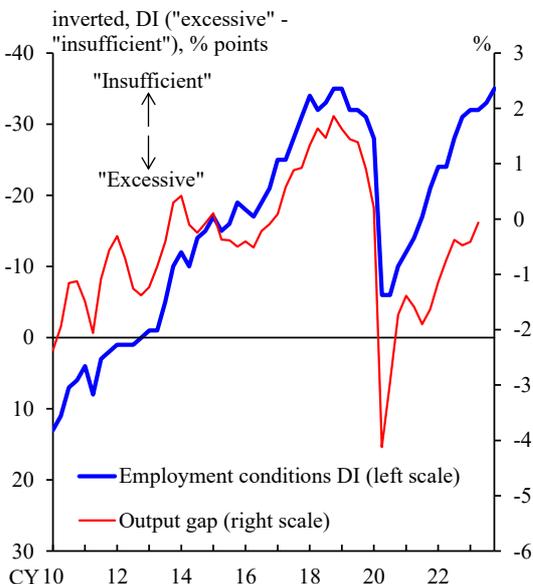


Note: In the right-hand chart, "Economists 1" shows the forecasts of economists in the *Consensus Forecasts*, while "Economists 2" shows the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.  
Sources: Bank of Japan; JCER, "ESP Forecast"; Consensus Economics Inc., "Consensus Forecasts."

## Labor Market Conditions

### Firms' Perception of Labor Shortage

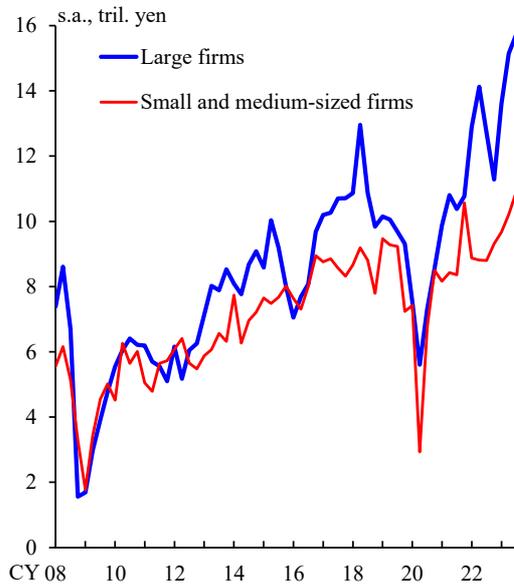
### Firms' Perception of Labor Shortage by Employment Status



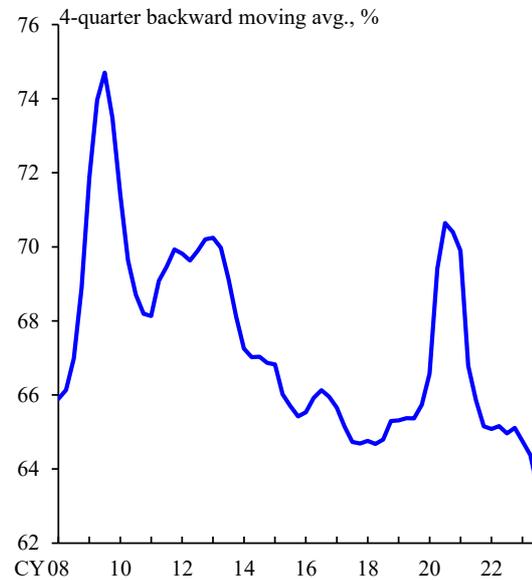
Notes: 1. In the left-hand chart, the employment conditions DI figures are based on the *Tankan*.  
2. In the right-hand chart, figures are the DIs for firms' employment conditions in the *Survey on Labour Economy Trend*.  
Sources: Bank of Japan; Ministry of Health, Labour and Welfare.

## Corporate Profits and Labor Share

*Current Profits*



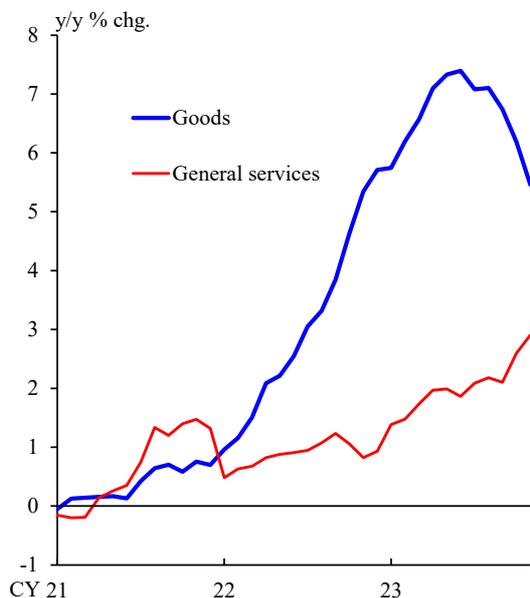
*Labor Share*



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.  
 2. In the right-hand chart, Labor share = Personnel expenses / Value-added, and Value-added = Operation profits + Personnel expenses + Depreciation expenses.  
 Source: Ministry of Finance.

## Developments in Prices

*Consumer Price Index  
(Goods/Services)*



*Passing on Higher Labor Costs  
to Output Prices*

**Firms experiencing difficulty in passing on higher labor costs to output prices**

- We have been forced to pass on increases in raw material costs to our output prices and have continued to raise prices. On the other hand, we have absorbed higher labor costs by raising productivity and have not passed them on to output prices (eating and drinking).
- Further output price hikes could lead to a decline in demand. Given the ongoing labor shortages, we intend to continue raising wages from next spring onward but plan to keep prices unchanged (hotel).
- Although upward pressure on labor costs has continued, since we are concerned about losing customers, we do not plan to pass on higher labor costs to output prices (services for individuals).

**Firms making progress in passing on higher labor costs to output prices**

- We plan to raise wages next fiscal year. In light of this, we have raised prices for the first time since our establishment (services for individuals).
- In response to rising electricity charges as well as higher labor costs partly due to the effects of the increase in minimum wages this fall, we have raised output prices (pharmacy).

Notes: 1. In the left-hand chart, figures for goods exclude fresh food and energy, while those for general services exclude mobile phone charges.  
 2. The box on the right shows responses by firms in interviews with the Bank of Japan. The industry of the interviewee is shown in parentheses.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.