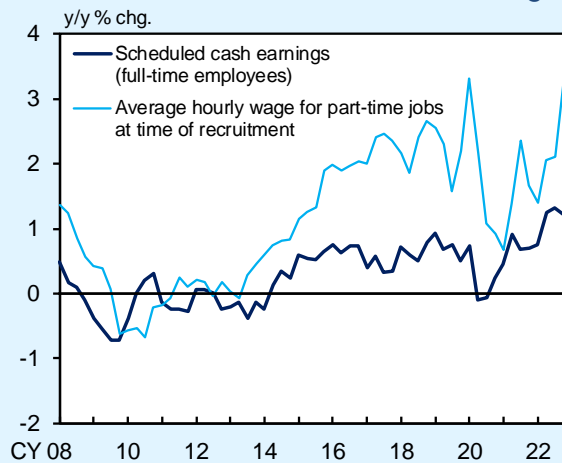


**(Box 3) Dual Structure in the Labor Market and the Outlook for Wages**

Wage growth in Japan has continued to be sluggish since the second half of the 1990s. However, different developments between wages of regular employees (full-time employees) and those of non-regular employees (part-time employees) have been seen behind the overall sluggishness: when labor market conditions tightened notably in the second half of the 2010s, growth in wages of part-time employees accelerated, while that in full-time employees' scheduled cash earnings remained modest (Chart B3-1).

This difference in wage developments between regular and non-regular employees is mainly attributable to (1) variance between the two in terms of job mobility and the degree to which a tightening of labor market conditions affects wages, and (2) the fact that for regular employees, both labor and management have tended to prioritize employment stability over wage increases, partly because of the experience of severe employment adjustments in the past.<sup>20</sup> Taking this dual structure of the labor market into account, it is projected in this Outlook Report that wage growth will accelerate gradually, albeit at a moderate pace.<sup>21</sup>

**Chart B3-1: Scheduled Cash Earnings**

Sources: Ministry of Health, Labour and Welfare; Recruit Co., Ltd., "Report on Average Hourly Wages for Part-Time Jobs at Time of Recruitment" (available only in Japanese).

Notes: 1. Figures for scheduled cash earnings from 2016/Q1 onward are based on continuing observations following the sample revisions. Figures for the average hourly wage for part-time jobs at the time of recruitment are for the three largest metropolitan areas (the Tokyo metropolitan, Tokai, and Kansai areas).  
2. Figures for 2022/Q4 are October-November averages.

<sup>20</sup> For the dual structure of Japan's labor market and its impact on wages, see also Box 1 in the July 2018 Outlook Report.

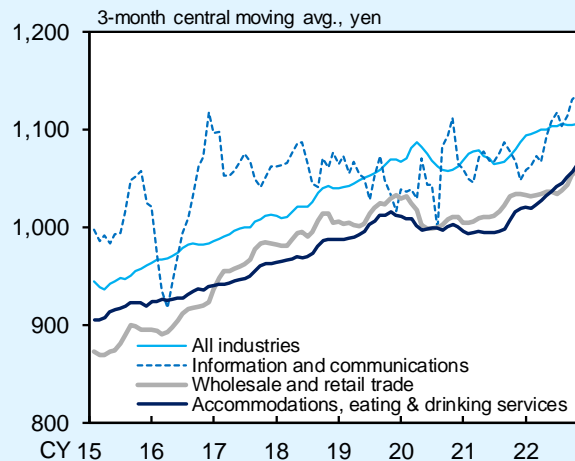
<sup>21</sup> At the Bank of Japan's workshop on "Issues Surrounding Price Developments during the COVID-19 Pandemic" held in November 2022, wage developments and the link between wages and prices in Japan were discussed, taking account of the characteristics of Japan's labor market, such as its dual structure. For a summary of the workshop, see the Bank's research paper "The Wage Formation Mechanism in Japan: Summary of the Third Workshop on 'Issues Surrounding Price Developments during the COVID-19 Pandemic,'" forthcoming in English.

Starting with wages of part-time employees, the growth rate is expected to accelerate clearly, reflecting a tightening of labor market conditions. In the face-to-face services industry -- such as accommodations as well as eating and drinking services -- where the resumption of economic activity has started to become full-fledged, hourly wages have seen a clear rise recently in reflection of labor market conditions (Chart B3-2). Regarding the outlook, wages of part-time employees are likely to increase to a greater extent than before, since labor market conditions are expected to tighten from both the demand and supply sides and hence labor shortages are projected to intensify, as pointed out in Box 2. On this point, a survey suggests that the "reservation wage" of non-workers has risen recently, partly due to the effects of an increase in minimum wages (Chart B3-3).<sup>22</sup>

Such upward pressure on wages against the backdrop of the tightening of labor market conditions has spilled over to scheduled cash earnings of some full-time employees. Specifically, signs of change reflecting recent labor market conditions and other factors have been seen in wages in segments where the job mobility of full-time employees is considered to be relatively high, such as in certain industries including face-to-face services, at small and medium-sized firms, and among younger employees.

<sup>22</sup> The reservation wage is the wage level above which non-workers would accept a job and below which they would not. For Chart B3-3, non-workers' answers to the following question in Osaka University's *Japan Household Panel Survey on Consumer Preferences and Satisfaction* are used as a proxy variable for the reservation wage: "If you were working, what do you estimate you would be making per hour?"

**Chart B3-2: Hourly Wage for Part-Time Jobs at Time of Recruitment**



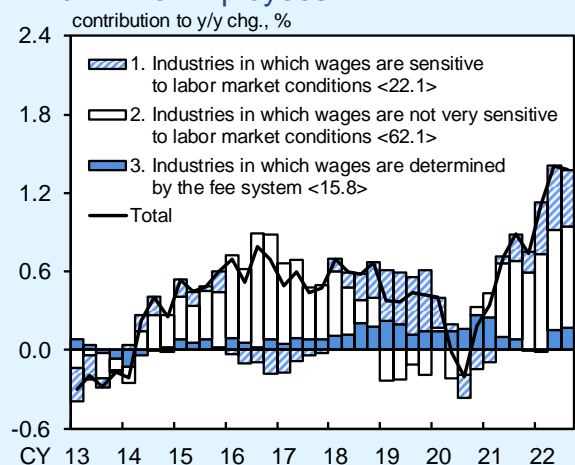
Source: HRog Co., Ltd.  
 Note: Figures are calculated using hourly wages for part-time jobs at the time of recruitment, posted on major private job-search services. Job offers paying 3,000 yen an hour or more are excluded.

**Chart B3-3: "Reservation Wages"**



Source: Osaka University's Global COE Program, "Japan Household Panel Survey on Consumer Preferences and Satisfaction."  
 Note: Figures are staff estimates using data from the survey by Osaka University and trimming the data at the 3rd and 97th percentiles.

**Chart B3-4: Scheduled Cash Earnings of Full-Time Employees**

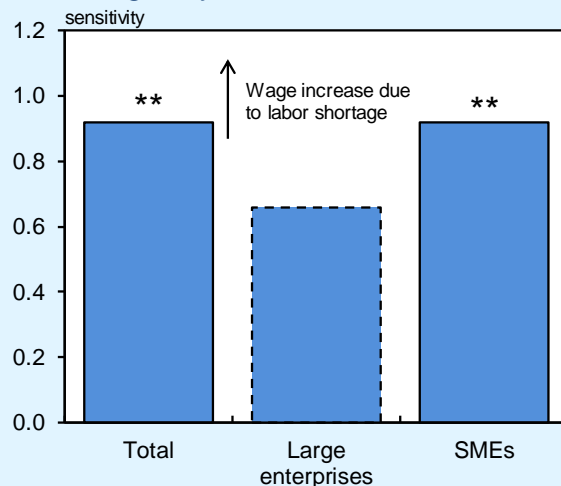


Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.  
 Note: Group 3 comprises the medical, health care, and welfare services industries. Group 1 consists of industries in which wages are highly correlated with the unemployment rate (industries for which the correlation coefficient for the period from 2016 to 2019 is minus 0.25 or smaller). Group 2 comprises all other industries. Figures are estimated adjusting for the impact of sample replacement. The figures in angular brackets show the shares in the total number of full-time employees in 2021.

First, developments by industry are examined. Year-on-year changes in scheduled cash earnings of full-time employees are divided into those in (1) industries in which wages are relatively sensitive to macro-level labor market conditions, (2) industries in which wages are not very sensitive to macro-level labor market conditions, and (3) industries in which wages tend to be determined by the fee system (medical, health care, and welfare services industries) (Chart B3-4).<sup>23</sup> The results show that wages in industries that are sensitive to labor market conditions, such as face-to-face services, have seen a relatively significant increase recently.

Next, the impact of labor market conditions on wages is examined by firm size. Matching microdata from the *Tankan* and the *Basic Survey on Wage Structure*, released by the Ministry of Health, Labour and Welfare, and looking at the relationship between each firm's assessment of employment conditions and its rate of change in wages shows that for large firms, labor market conditions have had no statistically significant impact on wages, while for small and medium-sized firms, a tightening of labor market

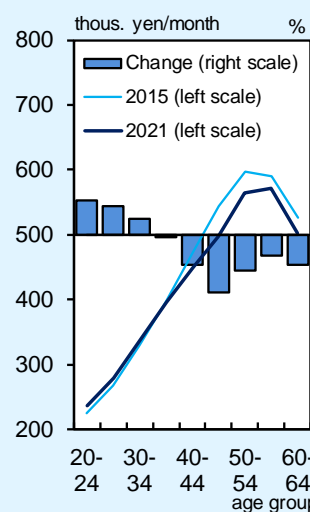
**Chart B3-5: Sensitivity of Wages to Labor Shortages by Firm Size**



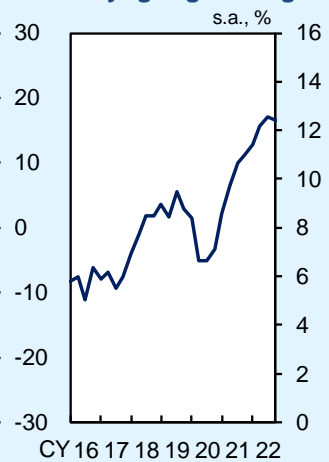
Sources: Ministry of Health, Labour and Welfare; Bank of Japan; Ministry of Internal Affairs and Communications.  
 Note: The dependent variable is the year-on-year rate of change in scheduled cash earnings of full-time employees in the *Basic Survey on Wage Structure*. Explanatory variables include the following: a dummy for firms reporting "insufficient employment" in the *Tankan*; inflation expectations (five years ahead), also from the *Tankan*; the rate of change in the CPI (all items less fresh food, excluding the effects of the consumption tax hikes, etc.) in the previous year; and real labor productivity growth. The estimation period is from fiscal 2014 to 2021. The bars marked with \*\* show that the results are statistically significant at the 5 percent level, while the broken line means that the result is not statistically significant.

**Chart B3-6: Wages at Large Enterprises**

**1. Wage Profile**



**2. Share of Job Offers Paying Higher Wage**



Sources: Ministry of Health, Labour and Welfare; HRog Co., Ltd.  
 Notes: 1. In the left-hand chart, figures are calculated using the scheduled cash earnings of regular employees with an undergraduate or graduate degree working for a private enterprise with 1,000 or more employees.  
 2. In the right-hand chart, figures are the share of job offers for regular employees posted on major private job-search services paying a higher wage than in the previous year. Job offers are examined by establishment, job type, etc.

<sup>23</sup> The analysis is conducted as follows. First, after adjusting for gaps resulting from sample revisions in the *Monthly Labour Survey*, industries in which wages are closely linked to medical and nursing care fees, such as hospitals and nursing care services, are selected. All other industries are then divided into two groups based on the degree of sensitivity to macro-level labor market conditions. Namely, industries in which the correlation coefficient between the unemployment rate and industry-level scheduled cash earnings is greater than minus 0.25 are regarded as "industries in which wages are not very sensitive to labor market conditions" (e.g., manufacturing), and industries in which the correlation coefficient is minus 0.25 or smaller are regarded as "industries in which wages are sensitive to labor market conditions" (e.g., face-to-face services).

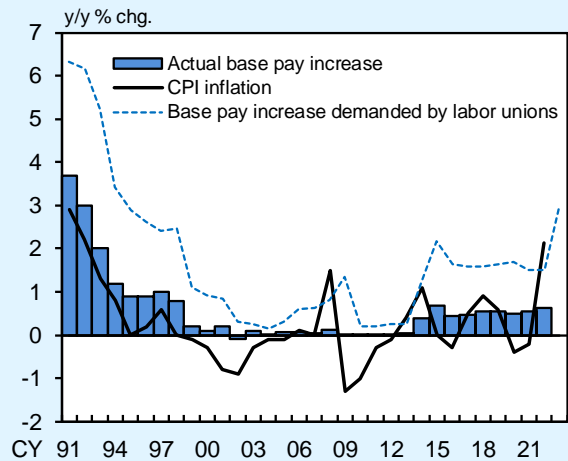
conditions has tended to push up wages (Chart B3-5).

Furthermore, the wage profile by age has flattened in recent years. Even at large firms, wages of younger employees, for which there is a large labor shortage and whose job mobility is considered to be relatively high, have risen, albeit slightly. In terms of offered wages in the market where regular employees search for a new job, more firms have raised their wage levels in response to the growing labor shortage (Chart B3-6).

Thus, moves toward raising wages have been observed recently, even for regular employees. Going forward, in order for wage increases to become full-fledged from a macroeconomic perspective, a broad-based rise in wages is needed, including for segments where job mobility is relatively low.

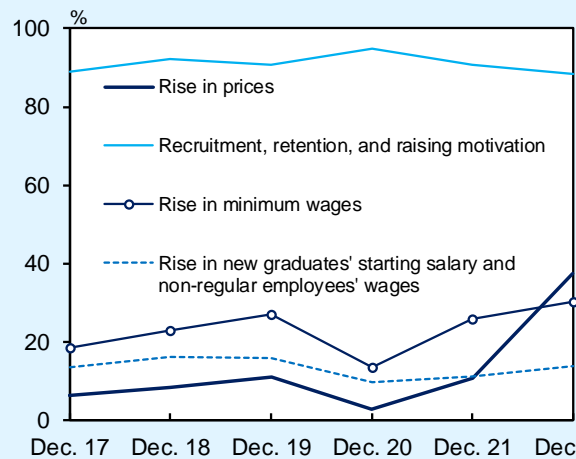
On this point, wage increases, including base pay increases, demanded by labor unions for the annual spring labor-management wage negotiations this year have become higher, and the outcome of these negotiations warrants close attention (Chart B3-7). A recent survey shows that the number of firms pointing to price rises as a reason for their wage increases has risen (Chart B3-8). With labor market conditions tightening, as examined in Box 2, it is necessary to pay close attention to the extent to which recent price rises will be reflected in wages through the labor-management wage negotiations.

**Chart B3-7: Prices and Wage Negotiations**



Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission; Ministry of Internal Affairs and Communications.  
 Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc. The figure for 2022 is the January-November average.  
 2. Figures for actual base pay increase from 1991 to 2013 are those published by the Central Labour Relations Commission, while those from 2014 to 2022 are figures released by Rengo. Figures for the base pay increase demanded by labor unions before 2023 are calculated by subtracting seniority-related wage increases from the total increase in wages demanded. The figure for 2023 is from Rengo's policy for the spring 2023 wage negotiations.

**Chart B3-8: Reasons for Wage Increase**



Source: Japan Chamber of Commerce and Industry, "LOBO survey."  
 Note: The chart shows the percentage of small and medium-sized firms that in the LOBO survey cited each reason as one for increasing the scheduled cash earnings of regular employees.