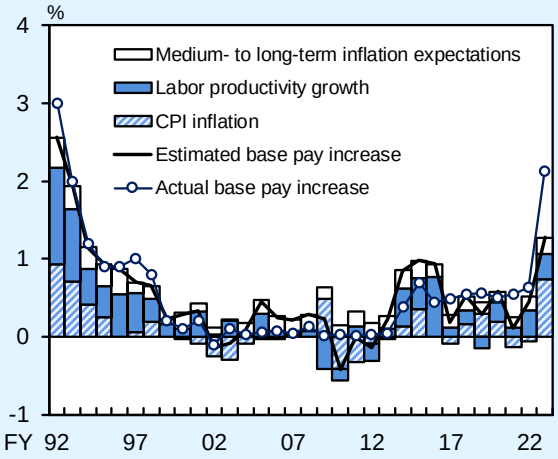
(Box 1) Reflection on Annual Spring Labor-Management Wage Negotiations in 2023

In the annual spring labor-management wage negotiations in 2023, relatively high base pay increases were achieved at many firms. Estimating a simple base pay function using long-term time-series data shows that the actual base pay increase this year is far larger than the estimated value. This suggests that firms' wage-setting behavior has shifted more toward raising wages (Chart B1-1).

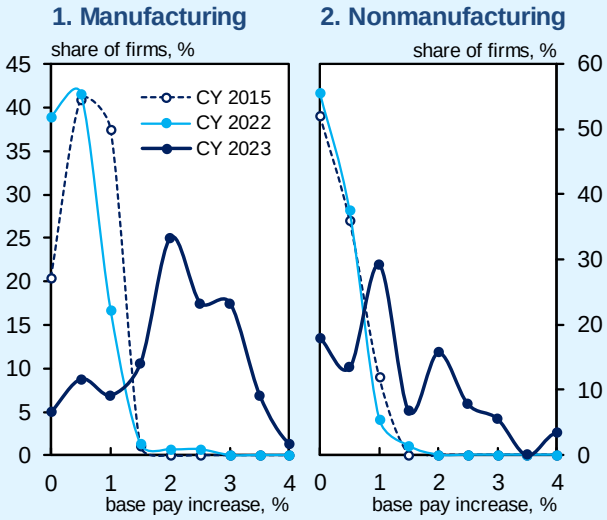
Chart B1-1: Base Pay Increase



Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Internal Affairs and Communications, etc.
Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc. Figures for actual base pay increases from fiscal 1992 to 2013 are those published by the Central Labour Relations Commission, while those from fiscal 2014 to 2023 are figures released by Rengo.
2. The wage growth function for the estimation of base pay increases is specified as shown below. Estimation period: FY 1992-2022. *** indicates that the coefficient estimates are statistically significant at the 1 percent level.
Base pay increase = 0.32*** × CPI inflation (t-1)
+ 0.24*** × Nominal labor productivity growth (t-1)
+ 0.15*** × Medium- to long-term inflation expectations (t-1)

For individual firms having labor unions that belong to the Japanese Trade Union Confederation (Rengo) -- which mainly consists of labor unions of large firms -- the distribution of the rates of base pay increase shows that, first and foremost, base pay increases at many firms were not achieved, and the observed rates of increase were concentrated in the range of 0-1 around 2015 and last year, when relatively higher base pay increases were realized on the whole, although not as high as the increases this spring (Chart B1-2). On the other hand, a wider range of firms in both the manufacturing and nonmanufacturing industries simultaneously conducted high levels of base pay increases this spring.

Chart B1-2: Base Pay Increase Distribution



Source: Japanese Trade Union Confederation (Rengo).
Note: Figures for base pay increases are staff estimates based on Rengo's microdata on wage hikes and wage levels reported by its major labor unions.

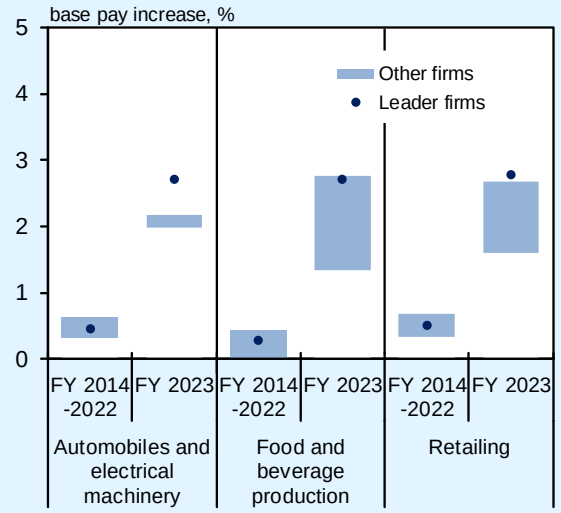
Looking back on it in detail, "leader firms," which have a large number of union members, conducted high levels of base pay increases and many other firms followed suit (Chart B1-3). Some surveys and other sources show that a wide

range of SMEs also implemented base pay increases.[19]

Possible factors behind such active base pay increases by many firms are a rise in the inflation rate and intensifying labor shortages at a macroeconomic level that are partly due to the declining birthrate and aging population. Labor shortages have been evident especially among workers who are younger or highly skilled. Driven by the developments among these workers, the job market for regular employees, who were considered to have low mobility and to be recruited and retained without putting high pressure on firms to raise wages, has expanded rapidly in recent years (Chart B1-4).

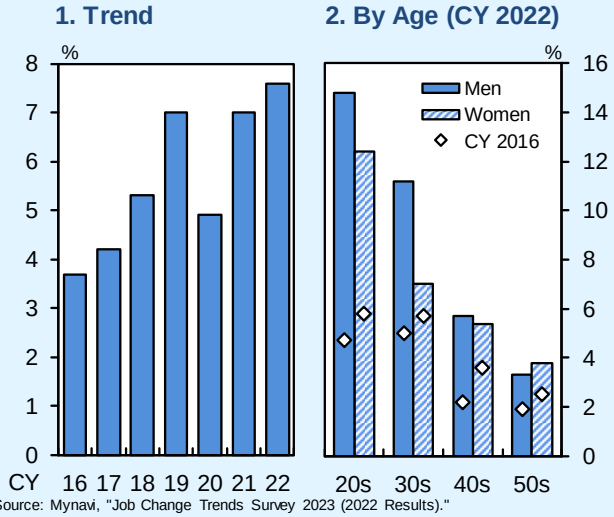
Such intensifying labor shortages have been spreading even to firms that are considered to have advantages in recruiting and retaining workers -- which seem to include many leader firms -- and it is likely that this has resulted in these firms shifting their wage-setting behavior more toward raising wages. In fact, an analysis of microdata from the *Tankan* surveys indicates that labor shortages have recently intensified rapidly, including among firms that did not experience such shortages even when macro-level labor market conditions became tight (Chart B1-5).

Chart B1-3: Spillover of Wage Hikes from Leader Firms



Source: Japanese Trade Union Confederation (Rengo).
Notes: 1. Figures for base pay increases are staff estimates based on Rengo's microdata on wage hikes and wage levels reported by its major labor unions.
2. Figures for leader firms in each sector are the averages of three firms with among the largest number of union members in that sector.
3. The blue bars show the 25th-75th percentile distributions of wage hikes at other firms.

Chart B1-4: Job-Switching Rates among Regular Employees

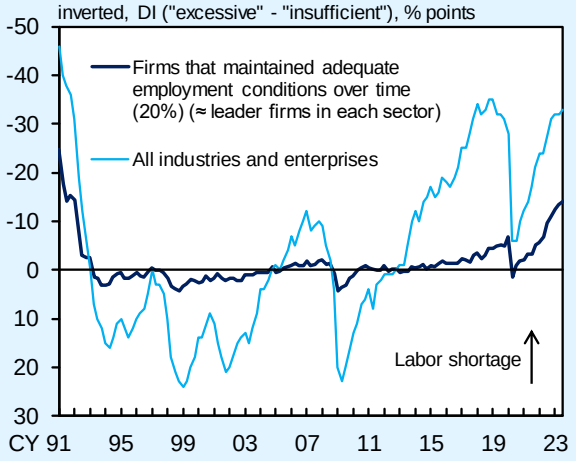


Source: Mynavi, "Job Change Trends Survey 2023 (2022 Results)."
Note: Figures are the share of regular employees in their 20s to 50s who switched jobs in the past year.

[19] For example, a survey released by Tokyo Shoko Research Ltd. in August 2023 and the LOBO survey (May 2023), which is conducted by the Japan Chamber of Commerce and Industry -- both of which mainly cover SMEs -- show that the percentage of firms that raised or would raise base pay went up significantly from last year.

As explained, it is likely that many firms simultaneously shifted their wage-setting behavior more toward raising wages at the annual spring labor-management wage negotiations in 2023, triggered by a rise in consumer prices that was led by an increase in import prices, as shortages of regular employees became acute for many firms, including leader firms in each sector. It is necessary to pay close attention to what extent wages will rise, given that labor shortages at a macroeconomic level are projected to continue, partly due to the declining birthrate and aging population.

Chart B1-5: Employment Conditions



Source: Bank of Japan.
Note: Based on the *Tankan*. Figures for "firms that maintained adequate employment conditions over time" are for firms that for at least about 90 percent of the period from 1991 to 2019 replied that their employment conditions were "adequate."