

(Box 1) Review of the Annual Spring Labor-Management Wage Negotiations in 2024

In the annual spring labor-management wage negotiations this year, the rate of base pay increase further accelerated at many firms, indicating that moves to raise wages have spread to even more firms (Chart B1-1).¹⁹ This box provides a brief review of the key features of this year's wage negotiations using the most recent data.

Among large firms, "leader firms," which have a large number of union members, implemented large base pay increases. Following in their footsteps, many other firms also raised wages considerably (Chart B1-2). The distribution of the rates of base pay increase at individual firms with labor unions that belong to the Japanese Trade Union Confederation (Rengo) -- which mainly consists of labor unions at large firms -- shows that in both the manufacturing and the nonmanufacturing industries (1) the tail on the left-hand side has clearly become thinner, including at around 0 percent, and (2) the distribution has visibly shifted to the right (Chart B1-3).

For small and medium-sized enterprises (SMEs), many of which do not have labor unions, the full picture of wage revisions is not yet clear. That

Chart B1-1: Results of Spring Wage Negotiations (Aggregation by Rengo)

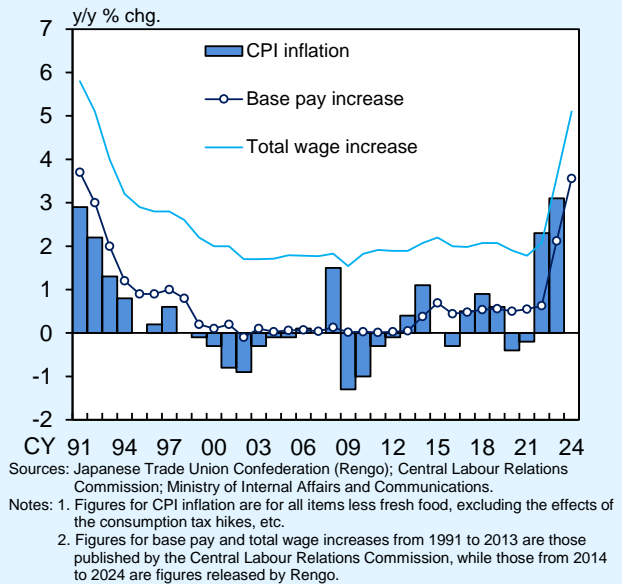
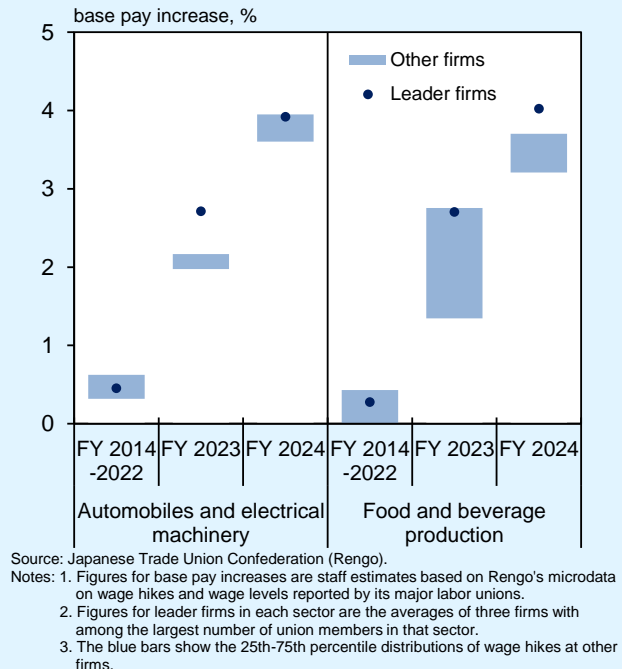


Chart B1-2: Spillover of Wage Hikes from Leader Firms

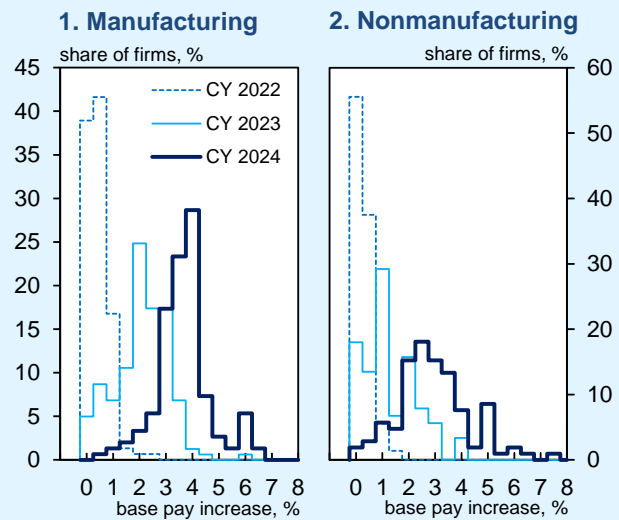


¹⁹ See also Box 2 of the April 2024 Outlook Report for developments in wage revisions of regular employees in labor unions that belong to the Japanese Trade Union Confederation. Meanwhile, for details on labor-management negotiations in 2023, see Box 1 of the April 2023 Outlook Report and Box 1 of the October 2023 Outlook Report.

said, some surveys of SMEs and other sources indicate that the positive wage-setting behavior of large firms is steadily spreading to SMEs. For example, using the results of a special survey conducted by the Ministry of Finance to compare the rates of base pay increase with the previous year shows that (1) while a certain fraction of SMEs have not yet increased base pay, the share of such firms has decreased from the previous year, and (2) the distribution of the rates of base pay increases at individual SMEs has shifted to the right, although the shift is not as pronounced as in the distribution for large firms (Chart B1-4). In this context, interviews conducted by the Bank's Head Office and branches with SMEs also suggest a spread of wage hikes across all regions, industries, and firm sizes, with many respondents saying that wage increases exceeded or were on par with those in the previous year.²⁰

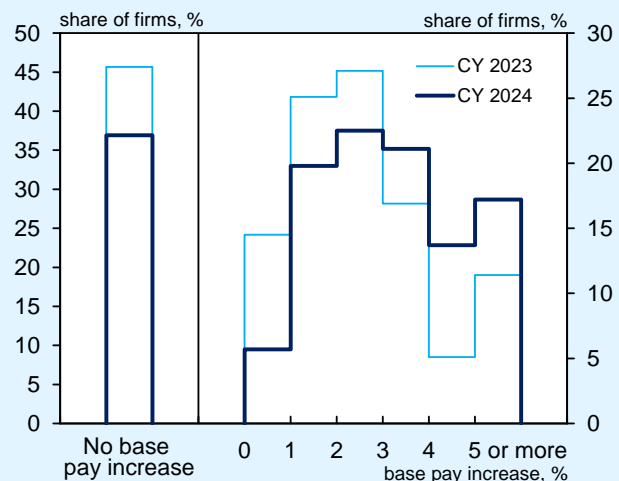
Going forward, whether firms' positive wage-setting behavior continues needs to be monitored closely. In this context, it is likely that, with labor market conditions becoming increasingly tight, wages are becoming more susceptible to upward pressure. For example, the growing market for job changers is likely to lead not only to higher wages for those looking to change jobs but also for existing employees as firms seek to retain workers. Moreover, in industries and firms where the differential between wages of full-time and part-time employees is small, increases in the minimum

Chart B1-3: Base Pay Increase Distribution, Large Firms



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.

Chart B1-4: Base Pay Increase Distribution, Small and Medium-Sized Firms



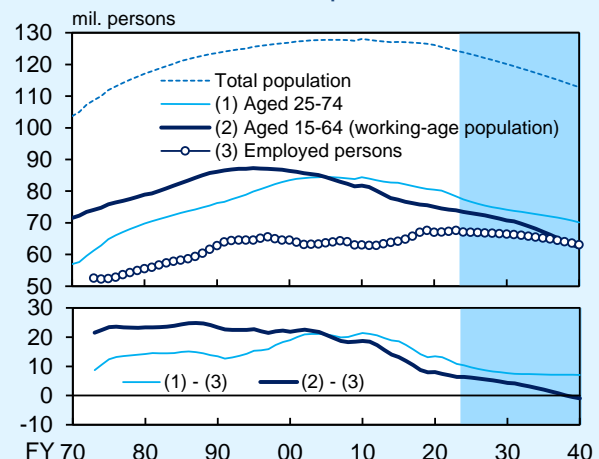
Source: Ministry of Finance.
 Notes: 1. Based on the results of a special survey conducted by the Ministry of Finance. Small and medium-sized firms are firms with a capitalization of less than 1 billion yen.
 2. The left-hand side of the chart shows the share of firms that did not raise base pay. The right-hand side shows the distributions of the rates of base pay increase for firms that raised base pay.

²⁰ See the annex paper to the Regional Economic Report, "Chiiki no chūken chūshō kigyō ni okeru chingin dōkō -- saikin no kigyō kōdō no henka wo chūshin ni" [Wage developments in regional SMEs: Focusing on changes in firms' behavior] released in July 2024 (available only in Japanese).

wage are likely to lead to wage increases not only for part-time employees but also for full-time employees.²¹ Furthermore, from a somewhat medium- to long-term perspective, given the demographic outlook, the room for further increases in the labor supply is likely to gradually shrink, which will continue to push up wages through tightening labor market conditions (Chart B1-5).

It should be noted, however, that the labor share at SMEs is higher than at large firms, and the pace of decline in the labor share is slower than at large firms, which may act to hold down wages. In this context, analysis of microdata from the *Tankan* and other sources shows that even SMEs with a high labor share have tended to implement relatively large wage increases in an environment in which profits can be expected to improve as a result of higher output prices (Chart B1-6). Going forward, whether firms, including SMEs, make further progress in passing on price increases and improving profits and this leads to sustained increases in wages warrants careful attention.

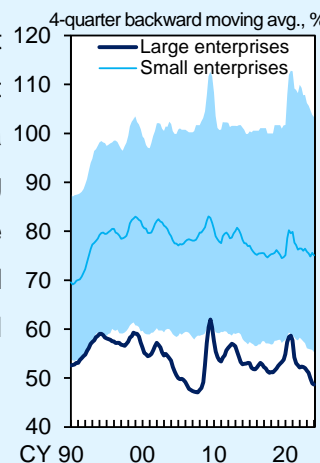
Chart B1-5: Labor Input



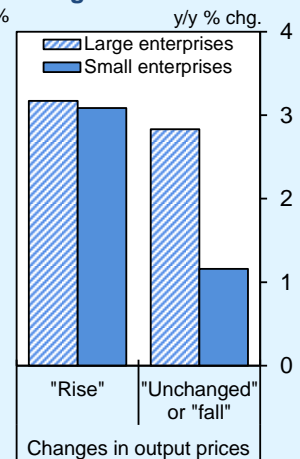
Sources: Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training.
 Note: The shaded areas denote projection periods. The population projections are by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.

Chart B1-6: Labor Share and Wage Increases

1. Labor Share



2. Enterprises with a High Labor Share



Sources: Ministry of Finance; Bank of Japan.

- Notes: 1. Large enterprises are enterprises with a capitalization of 1 billion yen or more. In the left-hand chart, small enterprises are enterprises with a capitalization of 10 million yen or more but less than 100 million yen. In the right-hand chart, small enterprises are enterprises with a capitalization of 20 million yen or more but less than 100 million yen.
- 2. In the left-hand chart, the shaded area denotes the 25th-75th percentile distribution for small enterprises, based on staff calculations using microdata from the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude "finance and insurance" and those for 2009/Q2 onward also exclude pure holding companies.
- 3. In the right-hand chart, figures show the year-on-year percentage changes in labor costs per employee in 2023/Q4. Figures are the medians of wage increases at enterprises with a high labor share and are calculated by matching microdata for enterprises that responded to both the survey for the *Financial Statements Statistics of Corporations by Industry, Quarterly* (wage increases) and the *Tankan* survey (the output prices DI). Enterprises with a high labor share are enterprises whose labor share falls into the top 50 percent in their size group.

²¹ The government has indicated that it intends to raise the minimum wage to 1,500 yen per hour (national weighted average) by the mid-2030s. At SMEs and in accommodations services and eating and drinking services, the differential between wages of full-time and part-time employees tends to be small (see Box 2 of the April 2024 Outlook Report).