

Japan Event Flash

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**Mitsubishi UFJ Trust and Banking
Corporation**

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Negotiations on Wages for 2025 Begin

On November 28, RENGO officially decided on its policy for the Spring Labor Offensive 2025 at the Central Committee meeting. The policy calls for wage increases of “5% or more,” which is the same as last year’s base salary increase and regular salary increase, and “6% or more” for small and medium-sized labor unions, aiming to correct the disparity in the size of companies. The rate of wage increase in the Spring Labor Offensive had remained around 2% until 2023, but it was 3.6% in 2024 and 5.1% in 2024. The rate of increase in scheduled cash earning wages within a given year has also remained in the upper 2% range (Exhibit 1). Wage negotiations will be in full swing from the beginning of the year, and wages are expected to maintain an upward trend based on the following points.

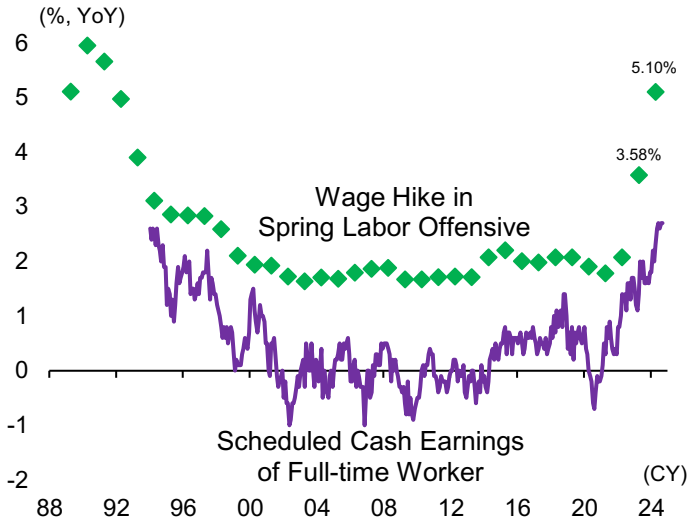
First, the labor market is very tight. The unemployment rate and the effective job openings ratio are 2.5% and 1.25 times, respectively (October 2024). In the background are structural changes in the labor market. In Japan, the labor participation rate of women has risen from 59.6% in 2000 to 75.1% in 2023, one of the highest rates among major developed countries (Exhibit 2). Companies have hired women who have completed child rearing as part-time and other non-regular employees in this process, but the environment is now such that it is impossible to secure qualified employees without improving their compensation. Looking at women of working age (15-64), the ratio of regular employees increased by 0.6% pt year-on-year to 50.5% in the first half of 2024, exceeding the ratio of non-regular employees (Nihon Keizai Shimbun, December 2, 2012). This is one proof that the treatment of women is improving.

Second, companies are reviewing their traditional pricing strategies. According to the BOJ’s “Tankan” survey, the outlook for output price increases has reached 5.0% in five years, the highest level since the survey began (Exhibit 3). Of course, individuals do not like price hikes, but the percentage of respondents who would accept a product price hike has risen in Japan to the same level as in major developed countries (An Internet survey by Prof. Tsutomu Watanabe of the University of Tokyo). Companies were unable to raise product prices a few years ago for fear of declining sales volumes, but now they are adopting pricing strategies that ensure adequate margins.

Third, Small companies also appear to be raising product prices and wages. Comparing the DI for the change in output prices of large and small firms, both have been in positive territory since 2021, unlike in the 2000s and early 2010s, and have remained at about the same level (BOJ’s “Tankan”, Exhibit 4). Small and medium-sized companies have lower wage levels than large companies, but their wage growth rate over the past decade has been higher than that of large companies (Monthly Labor Survey). This is likely due to minimum wage increases and industry restructuring. The minimum wage has been rising at an annual rate of 4.0% since 2020, which has pushed up wages in some small companies. In addition, in the midst of a chronic labor shortage, small companies with low productivity and unable to raise salaries are likely to be forced to exit the industry.

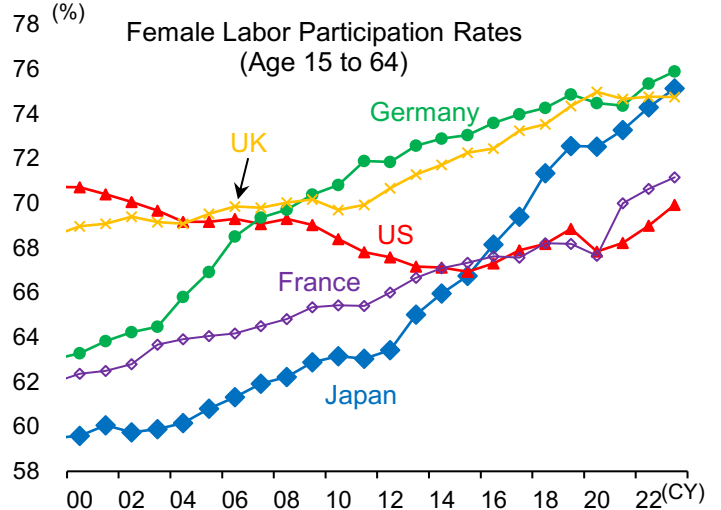
The BOJ is said to be looking at a neutral policy rate of around 1-2%, and if price and wage increases take hold, the BOJ will proceed with a cautious rate hike. In the foreign exchange market, the yen is unlikely to weaken significantly, and we expect the dollar/yen rate to remain between 140-155 yen per dollar..

Exhibit 1: Wage Growth of Full-time Worker



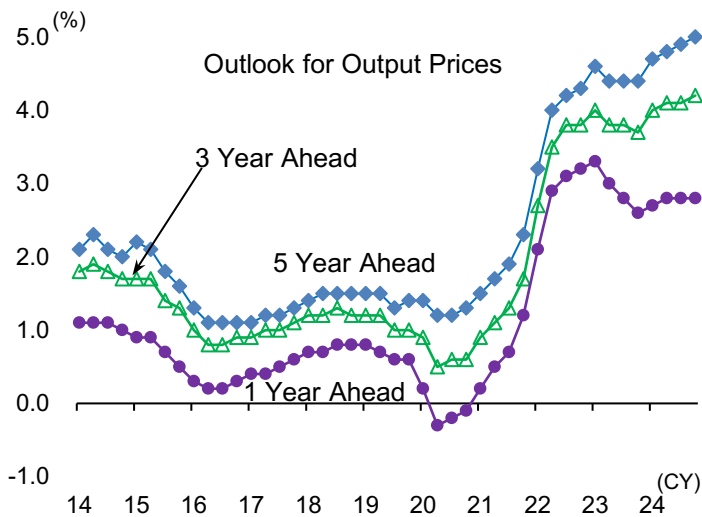
Note: Wage hike includes regular salary increases; scheduled cash earnings are for full-time workers in establishments with five employees or more; data as of September 2024.
Source: JTUC-RENGO, MIC, MUFG: Trust Bank

Exhibit 2: Female Labor Participation Rates in Major Countries



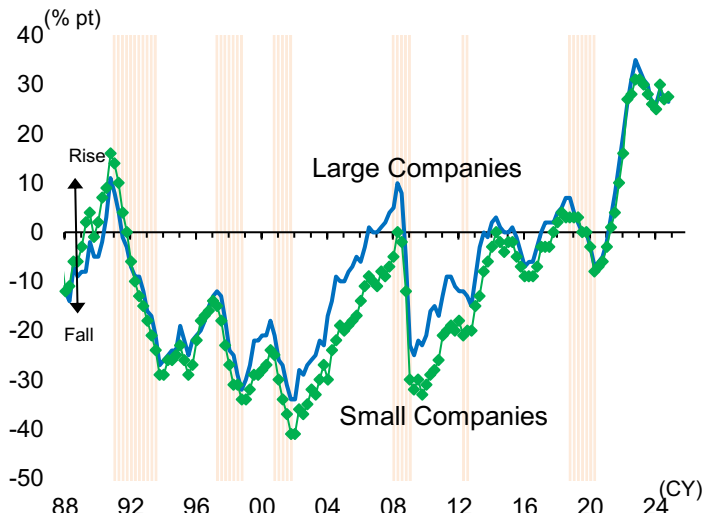
Note: Data as of 2023.
Source: OECD, MUFG: Trust Bank

Exhibit 3: Inflation Outlook of Companies



Note: Universe is all industries, all enterprises; data as of December 2024.
Source: BOJ, MUFG: Trust Bank

Exhibit 4: Output Price DI at Large and Small Companies



Note: Universe is all industries; shaded areas indicate economic recessions; data as of December 2024.
Source: BOJ, MUFG: Trust Bank

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