

Japan Watch

Shunto update: Raise base-up estimate to 3.5% on strong union demands

Union demands point to strong jump in FY24 wage hikes

The Japan Trade Union Confederation (Rengo) released a summary of unions' wage demands from the FY24 Shunto labor negotiations. Their demands exceeded our above-consensus estimate and imply that this year's Shunto could result in a substantial jump in pay. On average, unions are calling for a 5.85% increase in headline wages, including the seniority-based (teisho) component, up from 4.49% in 2023 and the highest since 1994 (Exhibit 2). Their demands for the more important base-up (base pay increase) component average 4.30%, also up sharply from 2.83% in 2023 (Exhibit 3).

Unions also made strong demands for members' bonuses (5.35 months' salary), and hourly wages for fixed-term, short-term, and contract employees (¥75.39, up 6.9% on the hourly wage agreed in 2023). The Rengo summary comprises data for the 3,726 unions that have submitted demands thus far, which represent 52.3% of the unions that participate in the Shunto negotiations.

Raising our bullish base-up estimate further to c.3.5%

Based on major companies' and labor unions' stated positions on wage hikes, we had expected average base pay hikes demanded by unions to exceed 3% (our estimate was around 3.3%) and for the first Shunto response round to result in a base-up rate of around 3% (see [Wages update: Revising up our f'cast for FY24 Shunto base-up rate to 3% 06 February 2024](#); the economist consensus as of 6 February was 2.2%).

However, the average base-up demand announced today was even higher than we expected, signaling unions' extremely bullish negotiating stance on wage hikes. This makes the FY24 Shunto round more likely to result in wage hikes that far exceed last year's outcome and the consensus. In 2023, the average increase in base pay agreed to by employers and unions came in at 2.33% in Rengo's first tabulation of Shunto responses, or 82.3% of the average 2.83% demanded by unions. Assuming a similar percentage in this year's first round of responses, we raise our base-up estimate from 3% to around 3.5%.

While only a few automakers, retailers, airlines and financial services firms have announced the results of their negotiations at this point, agreed to wage increases at these companies have come in close to union demands, with many accepting the union requests in full. (continued overleaf)

Exhibit 1: Shunto results – summary of comparison

Strong union demands imply substantial wage hikes in the FY24 Shunto

	FY23 Shunto		FY24 Shunto	
	Demands	Results (1st round)	Demands	Results (1st round)
Headline	4.49%	3.80%	5.85%	
of which base-up portion	2.83%	2.33%	4.30%	3.5% (BofAe)
of which seniority portion	1.67%	1.66%	1.67%	

Source: BofA Global Research, Rengo *Average of unions that have separately announced teisho and base-up portion of wage hikes.

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07 March 2024

Economics
Japan

Takayasu Kudo
Japan and Asia Economist
BofAS Japan
+81 3 6225 8592
takayasu.kudo@bofa.com

Izumi Devalier
Japan and Asia Economist
BofAS Japan
+81 3 6225 6257
izumi.devalier@bofa.com

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We expect more firms to follow suit with high offers before the Shunto intensive response round on 13 March, the day when many of the large, listed firms announce their responses (note that we will have to wait until 15 March to see Rengo's full compilation of Shunto first response round results). As in 2023, we are monitoring media reports to assess major companies' progress with negotiations; Exhibit 11 shows up-to-date trends.

However, the extent to which employers will accept unions' demands remains unclear, and we see both upside and downside risks to our 3.5% base-up forecast. If the greater impetus for wage hikes compared with 2023 makes employers more receptive to unions' demands (e.g., offering 85-90% of requested pay hikes), this could increase the base-up rate to 3.7-3.8%.

Meanwhile, if unions' bullish demands make it more difficult for employers to make offers that are close to (or in line with) requested levels, the average offer as a percentage of unions' demands could fall slightly YoY. We would not expect it to drop below 70%, but if it falls to around 75% (from 82.3% in 2023), the base-up rate could come in at 3.2-3.3%.

Rengo is expected to publish seven rounds of responses through July, with the first on 15 March. Last year, the base-up rate was revised from 2.33% in the first round to 2.12% in the last, and we will be watching the second and subsequent rounds alongside companies' announcements. However, we think market participants will mainly focus on the first round, which will be a critical event in gauging the outlook for Japan's inflation and wages as well as BoJ policy.

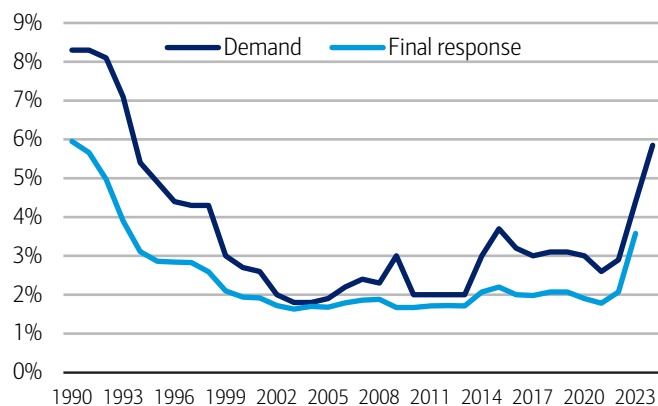
January macro wages: Headline bounce, details unchanged

The preliminary Monthly Labor Survey (MLS) for January, released on 7 March, showed a considerable bounce in total monthly cash earnings per worker to +2.0% YoY, from +0.8% in December (Exhibit 7). The main drivers of the rebound were a +16.2% YoY jump in highly volatile bonuses (December: +0.5%) and a slight decline in the percentage of low-paid part-time workers, which boosted average salaries for all employees (Exhibit 8). As a result, inflation-adjusted real wages fell 0.6% YoY, a far smaller decline than the 2-3% in 2H CY23 (Exhibit 9).

Headline wages remain highly volatile, but wages per worker continue to rise by around 2% YoY in the reference series of continuously-surveyed firms. This series excludes changes in employee composition and sampling bias, making it a much more reliable indicator of underlying momentum in wages (Exhibit 7). On the same basis, total wages including scheduled cash earnings and bonuses were up 2% YoY in January, a similar increase to December. The January data confirms that the FY23 Shunto outcome continues to drive pick-up in underlying wages.

Exhibit 2: Weighted average Shunto pay hikes (seniority portion + base-up, %)

Unions are calling for the highest increase in headline wages since 1994

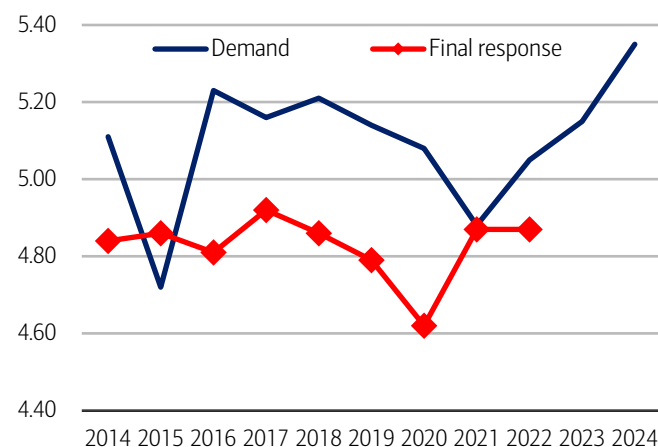


Source: BofA Global Research, Rengo

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Exhibit 4: Weighted average Shunto bonus demands (months of regular salary) vs. final outcome

Unions also made strong demands for members' bonuses



Source: BofA Global Research, Rengo

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Exhibit 6: Shunto timeline for FY23 and FY24

Shunto negotiations are ramping up in earnest

FY23 Shunto Organization

3-Mar-23 Rengo
17-Mar-23 Rengo
24-Mar-23 Rengo
5-Apr-23 Rengo
13-Apr-23 Rengo
10-May-23 Rengo
28-Apr-23 Central Labor Relations Commission (MHLW)
19-May-23 Keidanren
5-Jun-23 Rengo
23-Jun-23 Keidanren
5-Jul-23 Rengo
4-Aug-23 Keidanren
10-Aug-23 Keidanren
4-Aug-23 Ministry of Health Labour and Welfare

Event

Tabulation of wage demands from member unions
First response of *Shunto* results
Second response of *Shunto* results
Third response of *Shunto* results
Fourth response of *Shunto* results
Fifth response of *Shunto* results
"Basic Survey on Wage Structure" covers base pay and bonus developments of preceding fiscal year
First response for large firms
Sixth response of *Shunto* results
First response for SMEs
Seventh (final) response of *Shunto* results
Final response for large firms
Final response for SMEs
Results of spring wage increases in major private companies (results of FY23 *Shunto*)

FY24 Shunto Organization

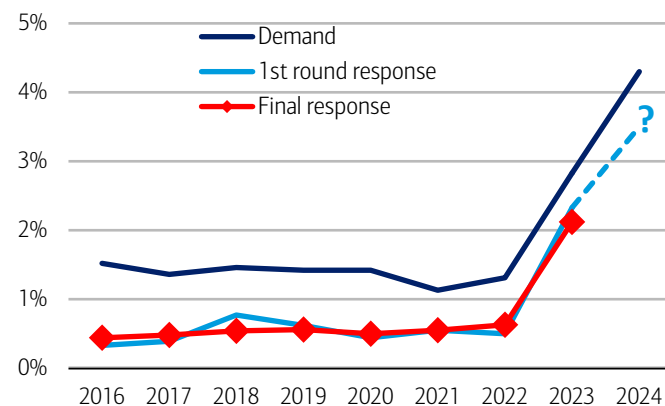
19-Oct-23 Rengo
17-Jan-24 Keidanren
31-Jan-24 Institute for Labor Administration

Event

Rengo announces "Basic concept of 2024 *Shunto*" (outlining general negotiating stance)
"Stance on FY24 *Shunto*" (outlining general negotiating stance)
FY24 Survey on wage increases" with answers from 1) labor unions, 2) management, and 3) experts in the labor market field

Exhibit 3: Weighted average Shunto pay hikes (base-up, %)

Strong union demands imply substantial wage hikes in FY24 *Shunto*

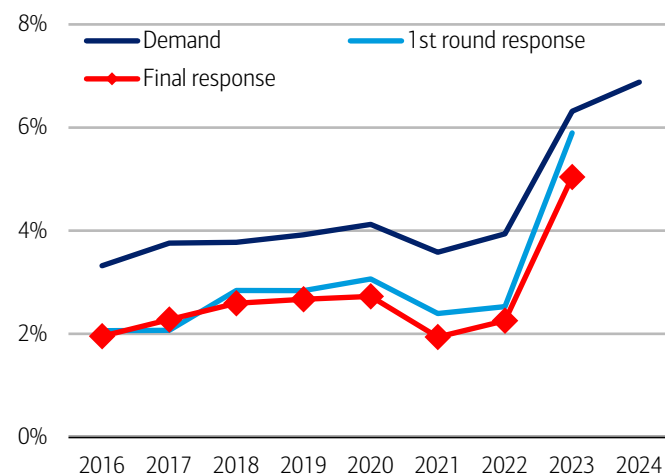


Source: BofA Global Research, Rengo *Demands in 2016-18 and Responses in 2016-17 are calculated based on the headline wage revision rate

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Exhibit 5: Weighted average Shunto part-timers' hourly pay hikes

Unions also made strong demands for part-timers' hourly wages



Source: BofA Global Research, Rengo

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Exhibit 6: Shunto timeline for FY23 and FY24

Shunto negotiations are ramping up in earnest

FY23 Shunto Organization

5-Feb-24 Rengo
7-Mar-24 Rengo
15-Mar-24 Rengo
22-Mar-24 Rengo
4-Apr-24 Rengo

Event

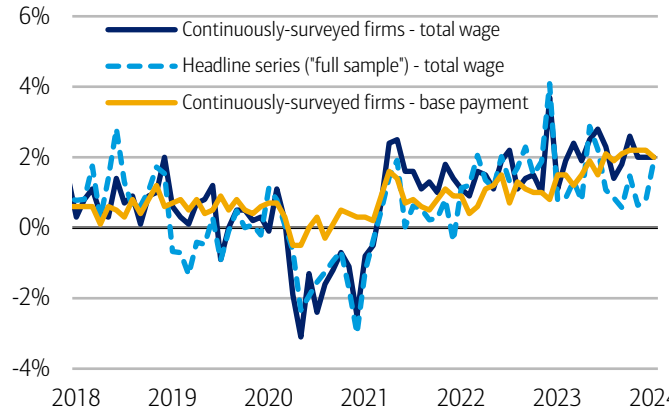
Rengo kickoff assembly (Shunto start, cancelled)
Tabulation of wage demands from member unions
First response of *Shunto* results
Second response of *Shunto* results
Third response of *Shunto* results

Source: BofA Global Research

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Exhibit 7: Monthly cash payment per worker (yoy%)

Headline growth has been volatile but upward momentum continues

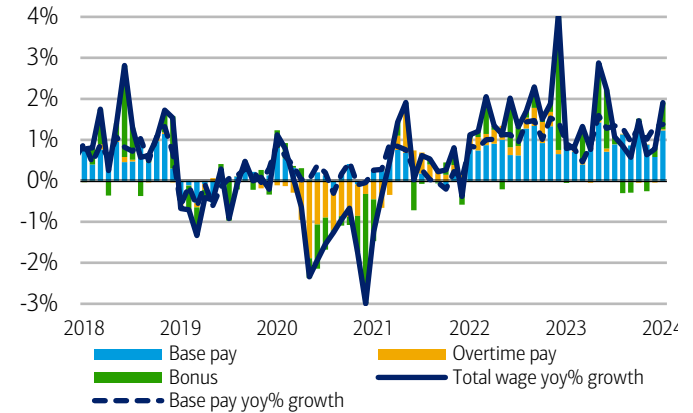


Source: BofA Global Research, MHLW

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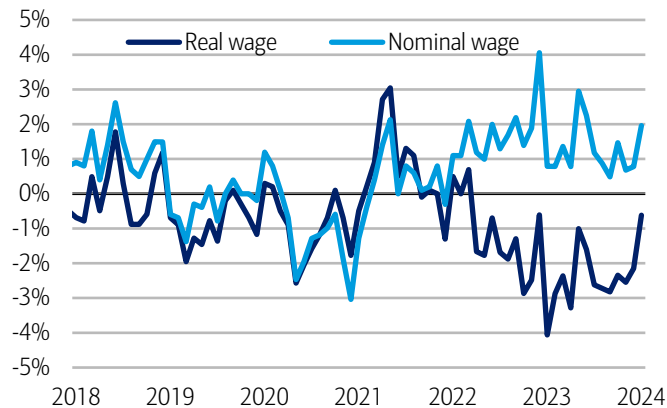
Exhibit 8: Contribution to %YoY growth in nominal wages per worker (ppt)

Headline growth has been volatile



Source: BofA Global Research, MHLW

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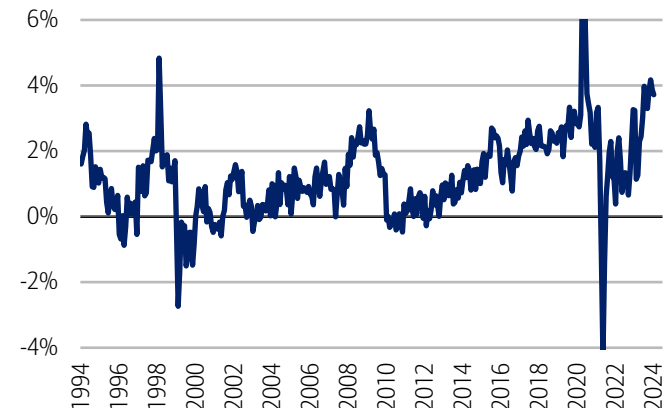
Exhibit 9: YoY growth of nominal/real wage (yoy%, over 5ppl)The 22nd consecutive monthly decline of real wage

Source: BofA Global Research, MHLW

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Exhibit 10: Part-timers' hourly wages (yoy%)

Part-timers' hourly wages accelerated from the beginning of 2023



Source: BofA Global Research, MHLW

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Exhibit 11: Tracking FY24 Shunto wage negotiations of major labor unions and corporates

Major firms' demands and responses in Shunto negotiations

Major labor unions and member firms	Number of union members*	Share% of Rengo	Demand in FY23 (media reports)		Response in FY23 (media reports)			Demand in FY24 (media reports)		Response in FY24 (media reports)		
			Base up amount (JPY, monthly)	Wage revision rate (base up)	Base up amount (JPY, monthly)	Wage revision rate (base up)	% of response to demand	Base up amount (JPY, monthly)	Wage revision rate (base up)	Base up amount (JPY, monthly)	Wage revision rate (base up)	% of response to demand
UA ZENSEN (chemical/textile)	1,867,000			3.0%					6.2%			
Toray	8,930	0.1%	9,420	3.0%	8,200	2.6%	87.0%					
Asahi Kasei	9,078	0.1%	10,471	3.0%	9,100	2.6%	86.9%					

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Kuraray	4,019	0.1%	10,044	3.0%	20,000	6.0%	199.1%					
Toyobo	4,049	0.1%	9,463	3.0%	3,000	1.0%	31.7%					
Teijin	2,925	0.0%	10,132	3.0%	8,200	2.4%	80.9%					
Unitika	1,695	0.0%	8,490	3.0%	4,000	1.4%	47.1%					
Gunze	1,529	0.0%	9,643	3.0%	5,893	1.8%	61.1%					
Mizuno	1,533	0.0%	10,109	3.1%	10,000	3.0%	98.9%					
Kanebo	1,175	0.0%	8,258	3.0%	8,260	3.0%	100.0%					
Kurabo	1,034	0.0%	8,746	3.0%	5,000	1.7%	57.2%					
Nitto Boseki	643	0.0%	9,120	3.0%	9,120	3.0%	100.0%					
Daiwabo	572	0.0%	7,843	3.0%	5,000	1.9%	63.8%					
UA ZENSEN (commerce/service)				3.0%				6.2%				
Aeon Retail	21,861	0.3%	11,404	3.8%	11,404	3.8%	100.0%			19,751(total)	3.3%	
Ito-Yokado	4,988	0.1%	7,563	2.1%	3,040	0.9%	40.2%					
Life	5,432	0.1%	9,605	3.3%	3,000	1.0%	31.2%			17,400	5.9%	
Skylark	3,222	0.0%	10,200	3.0%	10,200	3.0%	100.0%					
Heiwado	2,974	0.0%	8,806	3.0%	5,464	1.9%	62.0%					
Joshin Denki	2,862	0.0%	17,567	5.0%	6,585	1.9%	37.5%					
Maruetsu	2,544	0.0%	7,500	2.4%	5,050	1.6%	67.3%					
Kasumi	2,176	0.0%	9,258	3.4%	5,359	2.0%	57.9%					
Daiei	1,827	0.0%	9,424	3.0%	9,424	3.0%	100.0%					
Alpen	1,849	0.0%										
Axial Retailing	1,400	0.0%	10,012	3.6%	6,275	2.3%	62.7%					
Kisoji	810	0.0%	12,425	4.0%	5,000	1.6%	40.2%					
Jolly-Pasta	233	0.0%	11,587	3.9%	10,262	3.5%	88.6%					
JAW	796,000	11.6%	-	-	-	-	-	-	-	-	-	-
Toyota	59,527	0.9%	Raise wages by job category		Raise wages by job category	100.0%		Raise wages by job category				
Honda	34,763	0.5%	19,000 (total)		19,000 (total)	100.0%		13,500 3.5%		13,500 3.5%	100.0%	
Mazda	20,500	0.3%	13,000 (total)		13,000 (total)	100.0%		16,000(total) ttl about 5%		16,000(total) total 6.8%	100.0%	
Nissan	19,970	0.3%	12,000 (total)		12,000 (total)	100.0%		12,000 3.4%				
Suzuki	16,627	0.2%	12,200 (total)		12,200 (total)	100.0%		21,000(total)				
SUBARU	16,060	0.2%	10,200 (total)		10,200 (total)	100.0%		18,300(total) ttl over 5%				
Mitsubishi motors	11,753	0.2%	13,000 (total)		13,000 (total)	100.0%		20000(total) ttl about 6%				
Daihatsu	10,420	0.2%	11,200 (total)		11,200 (total)	100.0%		No demand				
Hino	10,421	0.2%	7,500 (total)		7,500 (total)	100.0%		10,500 2.7%				
Yamaha motors	8,563	0.1%	7,000	-	9,000 2.6%	128.6%		11,400 3.3%		11,400 3.3%	100.0%	
Isuzu	6,652	0.1%	12,000 (total)		12,000 (total)	100.0%		13,000 3.4%		13,000 3.4%	100.0%	
JICHIRO	734,000	10.7%	10,000 3.0%									
JEIU	565,000	8.3%	7,000	-				over 13,000 4.0%				
Panasonic	-	-	7,000 2.1%		7,000 2.1%	100.0%		13,000 3.8%				
Hitachi	-	-	7,000 2.2%		7,000 2.2%	100.0%		13,000 4.1%				
Fujitsu	-	-	7,000 2.1%		7,000 2.1%	100.0%		13,000 3.8%				
Toshiba	-	-	7,000 2.2%		7,000 2.2%	100.0%		13,000 4.0%				
Mitsubishi Electric	-	-	7,000 2.2%		7,000 2.2%	100.0%		13,000 4.0%				
NEC	-	-	7,000 2.1%		7,000 2.1%	100.0%		13,000 3.9%				
Sharp	-	-	7,000 2.1%		7,000 2.1%	100.0%		13,000 3.9%				
JAM	367,000	5.4%	9,000	-				12,000	-			
Komatsu	10,207	0.1%	13,000 4.1%		12,149 3.8%	93.5%						
Kubota	9,163	0.1%	10,000 3.1%		10,000 3.1%	100.0%						
NSK	8,162	0.1%	9,000 3.1%		9,000 3.1%	100.0%						
Daikin	7,208	0.1%	17,000 (total)		17,000 (total)	100.0%						
Yazaki	6,550	0.1%	5,194 1.5%		5,194 1.5%	100.0%						
NTN	5,218	0.1%	9,000 3.3%		4,100 1.5%	45.6%						
NOK	5,012	0.1%	13,391 (total)		13,391 (total)	100.0%						
Azbil	3,859	0.1%	5,500 1.6%		5,500 1.6%	100.0%						
Bosch	3,628	0.1%	9,000 2.5%		9,350 2.6%	103.9%						
Hamamatsu Photonics	3,214	0.0%	6,500 2.3%		6,500 2.3%	100.0%						
Shimadzu	2,899	0.0%	11,200 3.0%		11,200 3.0%	100.0%						
Stanley Electric	3,305	0.0%	9,000 3.1%		4,700 1.6%	52.2%						
GS Yuasa	2,673	0.0%	6,000 1.9%		7,000 2.2%	116.7%						

Exhibit 11: Tracking FY24 Shunto wage negotiations of major labor unions and corporates

Major firms' demands and responses in Shunto negotiations

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Nachi-Fujikoshi	2,384	0.0%	2,500	0.8%	8,000	2.7%	320.0%					
Japan Steel Works	2,140	0.0%	8,100	2.9%	5,500	2.0%	67.9%					
Murata Machinery	2,004	0.0%	7,500	2.5%	8,500	2.9%	113.3%					
Nabtesco	1,962	0.0%	9,000	2.8%	9,000	2.8%	100.0%					
Okuma	1,682	0.0%	12,344	4.5%	9,098	3.3%	73.7%					
Yanmar	1,696	0.0%	9,000	2.9%	8,100	2.6%	90.0%					
Casio	1,710	0.0%	10,500	2.8%	7,000	1.9%	66.7%					
Tadano	1,283	0.0%										
ISEKI&CO	1,184	0.0%	8,130	3.1%	9,000 (total)		110.7%					
Shibaura Machine	1,087	0.0%	9,000	3.1%	7,820	2.7%	86.9%					
IBU	268,000	3.9%	-	-				over 12,000	-			
Nippon Steel	24,229	0.4%	-		2,000	0.7%		30,000	10.2%			
Mitsubishi Heavy Industries	24,571	0.4%	14,000		14,000		100.0%	18,000	4.8%			
JFE Steel	14,353	0.2%	-		2,000	0.7%		30,000	10.2%			
Kawasaki Heavy Industries	13,198	0.2%	14,000		14,000		100.0%	18,000	7.1%			
Kobe Steel	9,775	0.1%	-		2,000	0.7%						
IHI	5,469	0.1%	14,000		14,000		100.0%	18,000				
Mitsubishi Materials	3,519	0.1%	3,500		3,500		100.0%					
Sumitomo Metal Mining	2,189	0.0%	6,000		10,000		166.7%					
Mitsui Mining&Smelting	3,182	0.0%	4,000		8,000		200.0%					
Sumitomo Heavy Industries	2,662	0.0%	14,000		14,000		100.0%					
Hitachi Zosen	2,475	0.0%	14,000		14,000		100.0%					
JX Nippon Mining&Metals	2,282	0.0%	10,000		6,543		65.4%					
Mitsui E&S Machinery	1,794	0.0%	14,000		10,000		71.4%					
Nippon Caterpillar	1,173	0.0%	14,000		14,000		100.0%					
LIU	238,000	3.5%	-	-				-	-			
Nippon Life Insurance	-	-						Avg. 7% wage hike for salespeople		Avg. 7% wage hike for salespeople		
The Dai-ichi Life Insurance	-	-						Avg. 7% increase in yearly salary for in-house staff		Avg. 7% increase in yearly salary for in-house staff		
Meiji Yasuda Life Insurance	-	-						3% base pay hike for 10,000 in-house staff		3% base pay hike for 10,000 in-house staff		
Sumitomo Life Insurance	-	-		3.0%		3.0%	100.0%	Avg. 7% wage hike for salespeople		Avg. 7% wage hike for salespeople		
JPGU	234,000	3.4%	-	-				-	-			
ITU	206,000	3.0%	-	-				-	-			
The Federation of Electric Power Related Industry Worker's Unions of Japan	203,000	3.0%	-	-				-	-			
Tokyo Electric Power	20,246	0.3%						Demands avg. 4% increase				
Kansai Electric Power	14,377	0.2%	3,000	1.0%	0			12,000	4.1%			
Chubu Electric Power	9,978	0.1%	3,000	1.0%	3,000	1.0%	100.0%					
Tohoku Electric Power	9,192	0.1%	3,000	1.0%	0							
Kyushu Electric Power	6,599	0.1%	3,000	1.1%	1,000	0.4%	33.3%					
ICTJ	193,000	2.8%	9,000	3.0%				-	over 3%			
NTT East	25,627	0.4%	-	2.0%	3,300	1.0%		Demands 5% increase in monthly wages (= base up)				
NTT West	23,993	0.4%	-	2.0%	3,300	1.0%			2.0%			
NTT Docomo	16,348	0.2%	-	2.0%	3,300	0.9%			2.0%			
NTT Data	19,381	0.3%	-	2.0%	3,300	0.9%			2.0%			
All Japan Federation of Transport Workers' Unions	155,000	2.3%	13,700	4.0%				15,000	6.0%			
Yamato	79,354	1.2%	13,700 (total)		7,328 (total)		53.5%					
Nippon Express	28,154	0.4%	13,700 (total)		10,550 (total)		77.0%					
JEC	116,000	1.7%	9,000	3.0%				-	4.0%			
Mitsubishi Chemical	11,389	0.2%	10,423	3.0%	10,423	3.0%	100.0%					
Tosoh	3,404	0.0%	13,600		13,600		100.0%					
FUJIFILM	3,026	0.0%			8,000							

Exhibit 11: Tracking FY24 Shunto wage negotiations of major labor unions and corporates

Major firms' demands and responses in Shunto negotiations

Major labor unions and member firms	Number of union members*	Share% of Rengo	Demand in FY23 (media reports)		Response in FY23 (media reports)			Demand in FY24 (media reports)		Response in FY24 (media reports)		
			Base up amount (JPY, monthly)	Wage revision rate (base up)	Base up amount (JPY, monthly)	Wage revision rate (base up)	% of response to demand	Base up amount (JPY, monthly)	Wage revision rate (base up)	Base up amount (JPY, monthly)	Wage revision rate (base up)	% of response to demand
PRU	116,000	1.7%	9,900	-				-	-			
Tokyo Metro	9,671	0.1%	9,900		3,800		38.4%					
Kintetsu Railway	6,132	0.1%	9,900									
Tobu Railway	5,105	0.1%	9,900									
IFU	114,000	1.7%	9,000	3.0%				10,000	-			
JT	5,190	0.1%										
Meiji	5,204	0.1%	9,000	2.6%	6,500	1.9%	72.2%					
Suntory	3,937	0.1%	10,000	2.5%	10,000	2.5%	100.0%	13,000	3.3%	13,000	3.3%	100.0%
Shikishima Baking	3,587	0.1%	15,000 (total)		9,698	3.7%						
Fuji Baking	3,100	0.0%	14,000 (total)		6,000	2.4%						
Megmilk Snow Brand	2,797	0.0%	9,000	2.9%	5,570	1.8%	61.9%					
Nichirei	2,500	0.0%	9,000	3.4%	6,000	2.3%	66.7%					
Maruha Nichiro	1,650	0.0%	9,000	3.0%	10,000	3.3%	111.1%					
Kirin (Kirin Breweries)	1,700	0.0%	10,000	3.1%	10,000	3.1%	100.0%	About ¥10,000 increase in monthly wages (= base up)		About ¥10,000 increase in monthly wages (= base up)		
Lotte	1,662	0.0%	11,200	4.0%	6,942	2.5%	62.0%					
Sapporo Breweries	1,469	0.0%	9,000	2.7%	9,000	2.7%	100.0%	12,000	3.6%	12,000	3.6%	100.0%
Nisshin Seifun	1,301	0.0%	9,000	2.7%	7,000	2.1%	77.8%					
Itoham Foods	1,194	0.0%										
NH Foods	1,144	0.0%	9,000	2.5%	4,000	1.1%	44.4%					
Kikkoman	1,150	0.0%	9,000	2.5%	10,000	2.8%	111.1%					
Morinaga&Co	1,138	0.0%	14,031 (total)		5,401	1.7%						
Fujiya	1,019	0.0%	10,017 (total)		7,461	2.9%						
Nissui	975	0.0%	9,000	2.9%	7,500	2.4%	83.3%					
FNIU	87,000	1.3%	-	-				-	-			
Tokio Marine & Nichido Fire Ins.	15,642	0.2%		3.0%								
AIG Japan	6,026	0.1%										
Sompo Himawari Life Insurance	2,009	0.0%		3.0%								
MS&AD Business Service	952	0.0%		3.0%								
JRTU	85,000	1.2%	3,000	1.0%				10,000	-			
JR West	23,000	0.3%	3,000	1.0%	3,000	1.0%	100.0%	10,000	3.3%			
JR Tokai	18,000	0.3%										
JR Kyushu	4,700	0.1%	3,000	1.0%	3,000	1.0%	100.0%					
JR Shikoku	1,900	0.0%	3,000	1.0%	2,000	0.7%	66.7%					
JPSU	69,000	1.0%	-	-				-				
Japan Federation of Aviation Industry Unions	45,000	0.7%	-	-				over 10,000	-			
ANA	12,248	0.2%	6,000		6,000		100.0%	11,000				
JAL	8,592	0.1%	6,000		7,000		116.7%	15,000				
JALGS	1,790	0.0%	9,500		7,000		73.7%					
JSU	45,000	0.7%	-	-				-				

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