

Japan Watch

Wages update: Revising up our f'cast for FY24 Shunto base-up rate to 3%

December wage data: No change in underlying trend

Preliminary December labor data released today was broadly in line with trends through November. Headline monthly wages per employee rose just 1.0% YoY, up slightly from +0.7% in November but below the consensus of +1.4% (Exhibit 1). However, the downside surprise mainly reflected the rising percentage of part-timers and lower-than-expected unscheduled cash earnings. In addition, unfavorable base effects from the unusually strong +4.1% YoY gain in December 2022, driven by special cash earnings, also depressed YoY growth in December 2023 (Exhibit 2).

Despite this, scheduled cash earnings for full-time workers (more or less equivalent to base pay) rose +1.9% YoY, and part-timers' hourly wages maintained their historic uptrend with another 4.0% jump (Exhibit 4). Similarly, growth in total cash earnings slowed to +1.5% YoY but scheduled cash earnings continued to rise by a strong +2.2% (Exhibit 1).

In big-picture terms, headline wages remain subdued but underlying wage growth continues to reflect the solid FY23 Shunto outcome.

More unions demand for base pay hikes of 3% or higher

The FY24 Shunto spring labor negotiations officially began yesterday, though the Japanese Trade Union Confederation (Rengo) cancelled a major rally due to bad weather. Over the past month, numerous large companies and labor unions have announced even more bullish demands for wage hikes ahead of the start of negotiations.

As well as calls from the Japan Council of Metalworkers' Unions (JCM) and Japan Federation of Basic Industry Worker's Union (JBU) for wage hikes far exceeding that in 2023 (see [Wages update: Momentum building further for FY24 Shunto](#), 10 January), the Japan Railway Trade Unions Confederation (JRTU), Japan Federation of Service and Tourism Industries Workers' Union (STU), and Japan Federation of Aviation Industry Unions (JFAIU) are demanding base salary hikes of 3% or more. Individual company unions, mainly in the auto and beverage industries, are also requesting far larger pay hikes than in 2023 (Exhibit 7).

Raising our above-consensus FY24 Shunto f'cast further

Negotiations will proceed ahead of the 7 March compilation of union demands and 15 March release of the first round of employers' responses (Exhibit 8), but announcements thus far suggest that unions in general are increasingly likely to call for base salary increases of more than 3%.

In the FY23 Shunto negotiations, the first round of responses showed employers offering a 2.33% increase in base pay in response to unions' demand for +2.83% (Exhibit 6; this was 82.3% of the increase demanded by unions; note that following subsequent revisions, the final tally for the average base pay revision rate settled at 2.12%). If we provisionally assume that unions demand a 3.3% increase in base pay in FY24, this would imply that companies respond with a 2.7% increase, even if pay offers as a percentage of union demands are flat YoY; if companies offer 90% of the requested increase, the base-pay revision rate would improve to 3.0% (continued on next page).

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Despite ongoing uncertainty about the average union demand and subsequent pay offers from companies, we would not be surprised if both are up versus 2023 given the considerable pressure from the JTUC-Rengo, government, and Keidanren for larger pay increases.

We previously forecast the FY24 Shunto base pay revision rate to come in at an above-consensus “2.5%-3.0%.” But based on the latest newsflow, we raise our forecast further, to a provisional estimate of “around 3%.”

Shunto surprise to strengthen expectations for BoJ normalization

Note that our forecasts refer to the average base pay hikes that employers offer in the Rengo’s initial Shunto respond round, whose results will be published on 15 March. As in previous years, we think the initial figure could be trimmed by around 0.2ppt by the time final responses are collected in July.

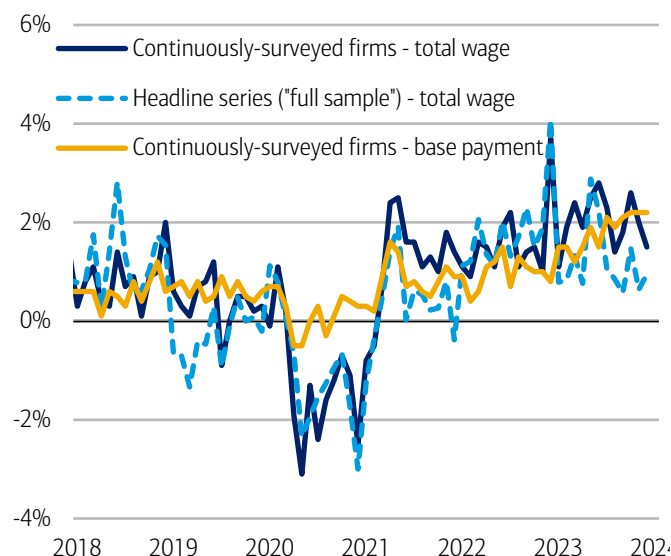
However, this still puts our estimate well above the recent economist consensus (compiled by the Japan Center for Economic Research) of 2.15% as of 29 January. Though we sense that the consensus among market participants is slightly higher and some investors expect base salaries to rise by 2.5% or more. However, if the base-up rate comes in at roughly 3% in the first Shunto respond as we now expect, we think this would be an upside surprise for markets.

In terms of market reaction, we think this could drive up front-end and intermediate JGB yields and cause a near-term bounce in JPY as the Shunto outcome prompts causes some market participants to begin factoring in further BoJ rate hikes.

Indeed, we think the increased prospect of further wage gains, driven by this year’s spring wage negotiations, should deepen the BoJ’s confidence in the likelihood of sustained and stable 2% inflation. We therefore expect the BoJ to exit its negative interest rate policy (NIRP) and yield-curve control (YCC) as early as the 18-19 March monetary policy meeting (MPM) immediately after the first round of Shunto responses is published on 15 March, though our base case is the 25-26 April meeting (for details, see [BoJ Watch: Jan MPM Summary of Opinions: further signals for Mar/Apr policy change](#), 31 January).

Exhibit 1: Monthly cash payment per worker (yoy%)

Headline growth has been volatile but upward momentum continues

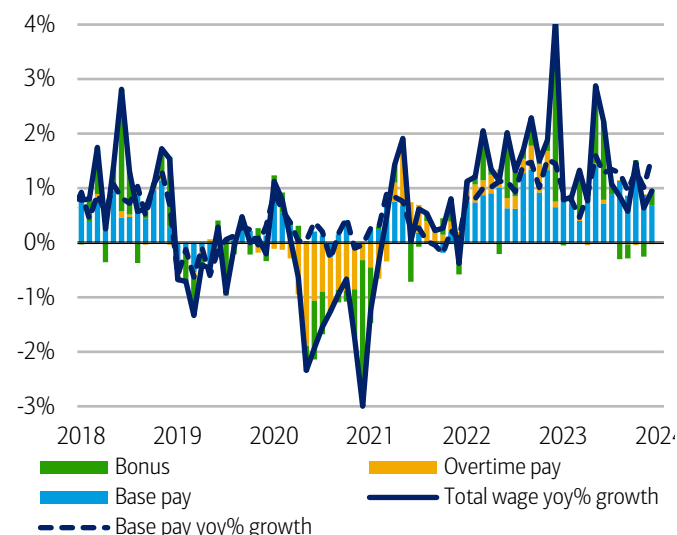


Source: BofA Global Research, Ministry of Health Labour and Welfare (MHLW)

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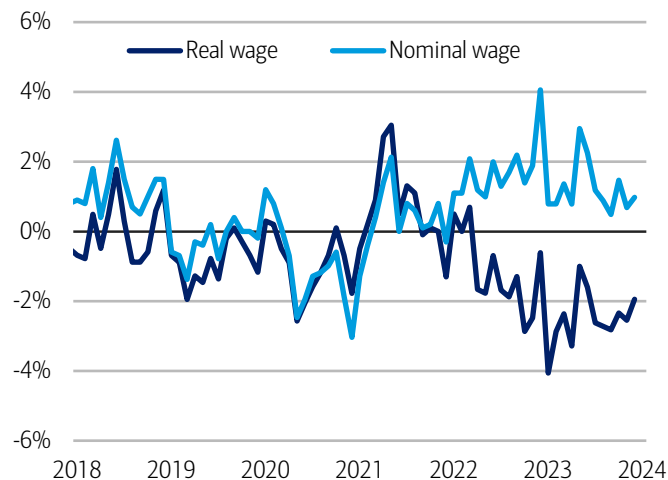
Exhibit 2: Contribution to %YoY growth in nominal wages per worker

Headline growth has been volatile



Source: BofA Global Research, MHLW

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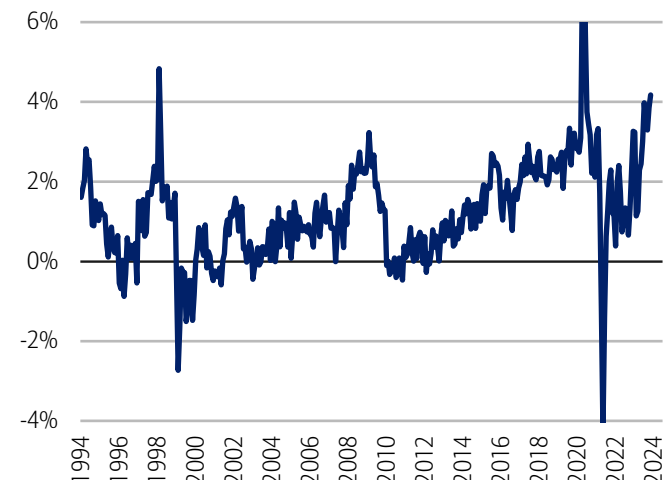
Exhibit 3: YoY growth of nominal/real wage (yoy%, over 5ppl)The 21st consecutive monthly decline of real wage

Source: BofA Global Research, MHLW

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Exhibit 4: Part-timers' hourly wages (yoy%)

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

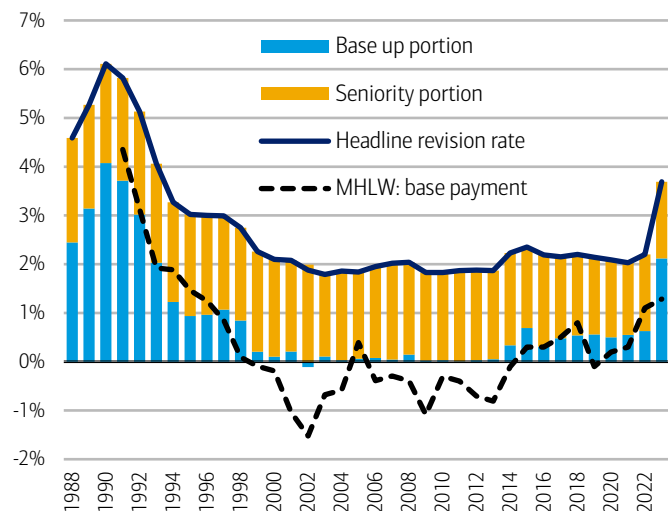


Source: BofA Global Research, MHLW

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Exhibit 5: Shunto revision rate and macro level base payment growth (FY basis yoy%)

FY23 Shunto wage negotiations marked very strong results

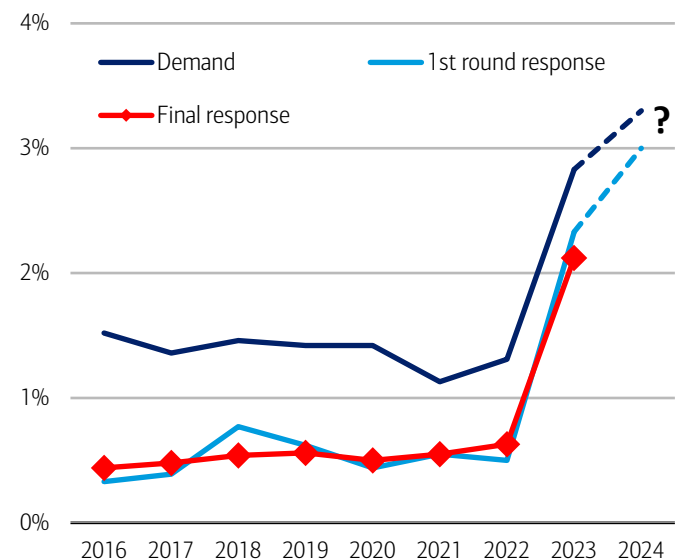


Source: BofA Global Research, MHLW, Rengo *Rengo base revision rate, data until 2014 are BofA estimates based on headline revision rate from Rengo and base-up portion from Central Labor Relations Commission

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Exhibit 6: Weighted average Shunto pay hikes (base-up, %)

Unions are increasingly likely to call for base pay hikes of more than 3%



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 7: 2024 Shunto: Announcements from companies, industry bodies, trade unions

Over the past month, numerous large companies and labor unions have announced even more bullish demands for wage hikes

Entity/company name	Announced/reported date	FY23 negotiation stance	FY23 results	FY24 negotiation stance	Details
AGC	28-Jun	6.4%	6.4%	6.4%	6.36% wage hike including 3.35% increase in base pay; 4.2% increase in initial salary for career-track new university grads; will continue raising wages through 2030
Toppan Printing	28-Jun	4%	4.3%	4%	Will continue raising wages by 4% over next five years, including base pay hikes
JTUC	19-Oct	around 5% (base pay: around +3%)	3.6%	5% or above (base pay: 3% or above)	At least 5% wage hikes (base pay at least 3%, seniority-based pay +2%)
Bic Camera	19-Oct	-	-	7%	7%+ base pay hike for 4,600 regular employees; raising initial salaries by 13.5% for university grads, 16% for high-school grads

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Meiji Yasuda Life	19-Oct	-	-	7%	7% increase in yearly salary (including 3% base pay hike) for 10,000 in-house staff.
Suntory	20-Oct	7%	7%	7.0%	Average 7% wage hike including 3% increase in base pay for all regular employees.
Kajima	5-Nov	around 5%	5%	-	Will raise starting salary for new grads by ¥30,000 to ¥280,000.
Keidanren	6-Nov	-	3.6%	-	Will negotiate more aggressively than in 2023 to achieve wage hikes that at least align with inflation
UA Zensen	6-Nov	around 6%	-	6% target	Targets 6% wage hike (base pay +4%, seniority-based pay +2%)
Panasonic Connect	10-Nov	5% (average)	5%	5% (average)	Average 5% increase in yearly salary for all domestic staff.
Dai-ichi Life Holdings	15-Nov	5% (average)	5%	7% (average)	Average 7% increase in yearly salary (including stock compensation) for 50,000 in-house staff.
WORKMAN	16-Nov	-	5.0%	5.1% (average)	Average 5.1% increase in yearly salary for full-time and part-time staff.
Sumitomo Life	18-Nov	-	5.0%	7% (average)	Average 7% increase in yearly salary for 32,000 sales staff.
JAM	21-Nov	¥9,000/month	-	¥12,000/month	¥12,000/month increase in base pay
Japan Council of Metalworkers' Unions (JCM)	6-Dec	¥6,000/month (+2%) or more	-	¥10,000/month (+3%) or more	¥10,000/month (+3%) increase in base pay
All Japan Federation of Transport Workers' Unions	6-Dec	¥13,700/month (base pay +4%)	-	¥15,000/month (base pay +4.5%)	Wage hike of +6.0%, including +4.5% for base pay, higher seniority-based pay
Japan Federation of Basic Industry Worker's Union (JBU)	7-Dec	¥3,500/month (base pay +1%)	-	¥12,000/month (base pay +4.0%)	Wage hike of +6.0%, including +4.0% for base pay, higher seniority-based pay; first-ever single-year request
Mitsui Fudosan	8-Dec	-	5%	10% (average) or more	Average 10% increase in yearly salary (including base pay, seniority-based pay and bonus)
Matsuya Foods	12-Dec	-	8%	10.9%	10.9% wage hike (incl. base up/teisho)
Nippon Life	19-Dec	Avg. 7%	Avg. 7%	Avg. 7%	Avg. 7% wage hike for 50,000 salespeople
Daiwa Securities	22-Dec	-	Avg. 4%	At least 7%	At least 7% wage hike
Taiyo Life	26-Dec	-	c.5% avg.	c.7% avg.	c.7% avg. wage hike for 9,000 salespeople
Asahi Breweries	28-Dec	-	5%	c.6% avg.	c.6% avg. wage hike (including c.3% base up)
Aeon	1-Jan	-	Avg. 4.85%	4.85%-7%	4.85-7.00% wage hike for full-timers, 7% for part-timers
Nomura Securities	4-Jan	-	-	c.3% avg.	Avg. wage hikes of 16% for junior (<3yrs) employees, 7-8% for non-managers, 3% for domestic workforce incl. managers
Mizuho Financial Group	6-Jan	-	6%	c.7%	c.7% wage hike incl. base up
Itochu	6-Jan	-	-	Avg. 6%	Avg. 6% wage hike for all employees
Lawson	6-Jan	-	5%	At least 5%	At least 5% including base up
JEIU	6-Jan	At least ¥14,000 per month	-	At least ¥20,000 per month	At least ¥20,000 per month, teisho ¥7,000, base up at least ¥13,000
Iris Ohyama	8-Jan	c.5% avg.	c.5% avg.	c.5%	c.5% wage hike (incl. c.3.5% base up) for c.4,400 employees (70% of workforce), excluding those subject to annual pay scheme
Kirin Holdings	11-Jan	-	7% (average)	c.6%	c.6% wage hike incl. base up
Japan Railway Trade Unions Confederation (JRTU)	11-Jan	¥3,000/month increase in base pay	-	5% (¥10,000/month base pay hike, avg. 3%+)	Demands ¥10,000/month base pay hike (avg. 3%+), 5% increase incl. teisho
Choushimaru	12-Jan	-	-	¥30,000/month	¥30,000/month increase for 430 regular employees
IwaiCosmo Holdings	13-Jan	-	5%	7% (base up 3%+)	7% salary increase incl. base pay (3%+ base up, c.4% teisho)
Nagoya Railroad	16-Jan	-	c.5% (average)	At least 7% (average)	Average increase of at least 7% incl. base pay for 4,500 regular railway division employees
Asahi Soft Drinks	17-Jan	-	5%	5%+	5%+ increase including base pay
Sega Sapporo Studio	18-Jan	-	-	16.7%	16.7% increase for 19 regular employees
Kewpie	18-Jan	-	3.5% (average)	6% (average)	Raised base pay for 2,300 employees by avg. of 6%
Meitetsu Bus	18-Jan	-	3% (average)	7% (average)	c.7% avg. increase including base pay for all regular employees
Bank of Yokohama	19-Jan	-	c.6% (avg. 2.5% base up)	c.7% on avg. (3.2% base up)	3.2% base up, avg. c.7% incl. teisho
Japan Federation of Service and Tourism Industries Workers' Union (STU)	22-Jan	At least 1% base up	-	5% (base up 3%)	Base up 3%, 5% incl. teisho; unions with no teisho component demand 5% base up
Mazda Motor	22-Jan	-	¥13,000/month	¥16,000/month	Demands ¥16,000/month incl. base up
Aoyama Trading	23-Jan	-	-	4.2% (average)	Avg. 4.2% increase for c.2,700 employees excluding some middle managers
Honda Motor	24-Jan	¥19,000/month	¥19,000/month	¥20,000/month (base up ¥13,500)	Demands ¥20,000/month wage hike (base up ¥13,500, teisho ¥6,500)

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Entity/company name	Announced/reported date	FY23 negotiation stance	FY23 results	FY24 negotiation stance	Details
Tokyo Electric Power Company Holdings	24-Jan	-	3% (average)	4% (average)	Demands avg. 4% increase
Aflac Life Insurance	24-Jan	-	-	5.5% (average)	5.5% avg. increase for c.3,000 non-managerial employees
NTT	24-Jan	-	2% increase in monthly wages	5% increase in monthly wages	Demands 5% increase in monthly wages (= base up)
Asahi Group Foods	25-Jan	-	-	5%+	5%+ increase including base up
Japan Federation of Aviation Industry Unions (JFAIU)	25-Jan	-	At least ¥6,000/month increase in base pay	Avg. 5.87% (¥10,000/month base pay hike, avg. 3.6%)	Demands at least ¥10,000/month base pay hike (avg. 3.6%), 5.87% incl. teisho
Rakus	26-Jan	-	-	Avg. 8.5% (base up 5.5%)	5.5% base up, avg. 8.5% incl. teisho
Hino Motors	27-Jan	-	¥7,500/month	¥16,800/month	Demands ¥16,800/month incl. base up
Toyota Motor	29-Jan	-	-	Up to ¥28,440/month	Demands up to ¥28,440/month increase
Subaru	30-Jan	¥10,200/month	¥10,200/month	¥18,300/month	Demands ¥18,300/month increase incl. base up/teisho
Nishi-Nippon City Bank	30-Jan	-	-	5% (average)	Considering avg. 5%/month increase incl. base up
Ibiden	31-Jan	-	-	8-10% (average)	Avg. 8-10% pay increase incl. base up for c.3,500 union members
Daiichi Sankyo	31-Jan	-	¥5,000/month base up	7%+ (average)	Avg. 7%+ hike pay increase incl. base up for all c.9,000 employees incl. domestic group companies
Hulic	2-Feb	-	9% (base up 4%)	c.10% incl. base up	c.10%+ increase incl. base up
Hashimoto	5-Feb	-	-	3% (average)	Avg. 3% pay increase (base up ¥5,000/month) for c.190 employees
JBU shipbuilding subcommittee	5-Feb	Base up ¥10,000	-	Base up ¥18,000	Demands ¥18,000 base up

Source: BofA Global Research, news reports *announcements over the past one month are highlighted by yellow

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Exhibit 8: Shunto timeline for FY23 and FY24

Shunto negotiations will ramp up in earnest from late January

FY23 Shunto Organization	Event
3-Mar-23 Rengo	Tabulation of wage demands from member unions
17-Mar-23 Rengo	First response of <i>Shunto</i> results
24-Mar-23 Rengo	Second response of <i>Shunto</i> results
5-Apr-23 Rengo	Third response of <i>Shunto</i> results
13-Apr-23 Rengo	Fourth response of <i>Shunto</i> results
10-May-23 Rengo	Fifth response of <i>Shunto</i> results
28-Apr-23 Central Labor Relations Commission (MHLW)	"Basic Survey on Wage Structure" covers base pay and bonus developments of preceding fiscal year
19-May-23 Keidanren	First response for large firms
5-Jun-23 Rengo	Sixth response of <i>Shunto</i> results
23-Jun-23 Keidanren	First response for SMEs
5-Jul-23 Rengo	Seventh (final) response of <i>Shunto</i> results
4-Aug-23 Keidanren	Final response for large firms
10-Aug-23 Keidanren	Final response for SMEs
4-Aug-23 Ministry of Health Labour and Welfare	Results of spring wage increases in major private companies (results of FY23 <i>Shunto</i>)
FY24 Shunto Organization	Event
19-Oct-23 Rengo	Rengo announces "Basic concept of 2024 <i>Shunto</i> " (outlining general negotiating stance)
17-Jan-24 Keidanren	"Stance on FY24 <i>Shunto</i> " (outlining general negotiating stance)
31-Jan-24 Institute for Labor Administration	FY24 Survey on wage increases" with answers from 1) labor unions, 2) management, and 3) experts in the labor market field
5-Feb-24 Rengo	Rengo kickoff assembly (<i>Shunto</i> start, cancelled)
7-Mar-24 Rengo	Tabulation of wage demands from member unions
15-Mar-24 Rengo	First response of <i>Shunto</i> results
22-Mar-24 Rengo	Second response of <i>Shunto</i> results
4-Apr-24 Rengo	Third response of <i>Shunto</i> results

Source: BofA Global Research

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