

## Japan Watch

# What's behind the bear-flattening of Japan's wage curve?

## Structural factors driving higher wage growth for younger workers

Underlying wage growth in Japan has been rising at the fastest pace in three decades, but not at a uniform pace across all age groups: pay for workers aged 34 or below is growing faster than other age groups. This is causing the wage curve (i.e., the plot of average pay for different age groups) to bear-flatten as salaries rise faster at the front (younger) end of the curve, than at the long end.

We think companies are prioritizing raising pay for younger workers, both to redress consistently low wages caused by traditional seniority-based employment practices, and to improve retention in a demographic that is more likely to switch jobs in search of higher pay. In contrast, wage growth for employees in their 40s who joined the workforce during Japan's post-bubble hiring freeze remains relatively muted.

We estimate that the FY24 Shunto spring labor negotiations will result in a roughly 3% increase in base pay, far exceeding 2023 (see [Wages update: Revising up our f'cast for FY24 Shunto base-up rate to 3%](#), 6 February). We expect broad-based wage growth going forward, but expect per worker wage growth for younger employees to continue outpacing that of older age groups.

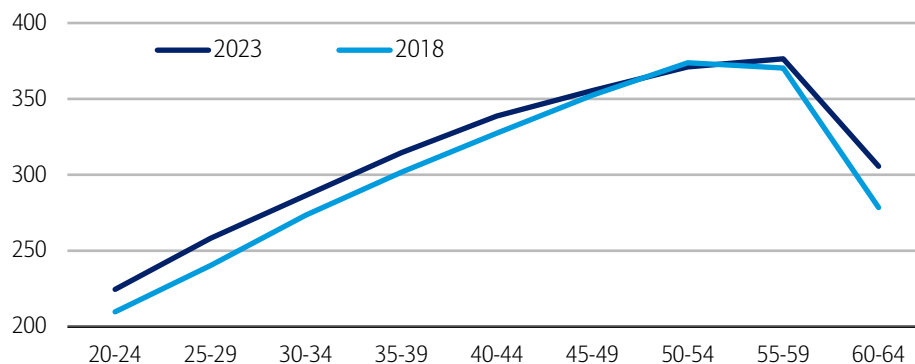
## Younger demographics to continue supporting spending/inflation

Younger age groups' low population weighting limits their presence in the overall spending picture, but their high propensity to consume means that rising incomes tend to feed through to higher spending.

Coupled with the rise in female labor participation, wages and disposable income for households aged 34 or below have been increasing by more than 3% on average annually since 2018. Young people drove the spending recovery as the economy reopened, and we expect a sustained uptrend in incomes and resulting rebound in sentiment to support overall spending and inflation.

### Exhibit 1: Average monthly wage by age group (thousand yen, per worker)

Japan's wage curve is bear-flattening



Source: BofA Global Research, MHLW

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## Wages to continue rising rapidly through FY24

Momentum for wage hikes in Japan has remained strong since the FY23 Shunto round, which resulted in the largest jump in wages in 30 years. According to the December 2023 Monthly Labour Survey, growth in headline total monthly cash earnings per employee remained subdued at just +1.0% YoY. But wages continued to grow at a solid +2.2% in the more reliable reference series for continuously-surveyed firms (see [Wages update: Revising up our f'cast for FY24 Shunto base-up rate to 3%](#) for details).

Recent headlines around the FY24 Shunto remain positive, supporting our view that wage growth will remain strong at least during FY24 (i.e., through March 2025).

## Stronger wage growth in younger demographics

However, wages are not rising at a uniform pace across all age groups. Unlike the Monthly Labour Survey, which tracks wage trends on a monthly basis, the Basic Survey on Wage Structure is released annually and offers more detailed information on wages by attributes (see Appendix for more details).

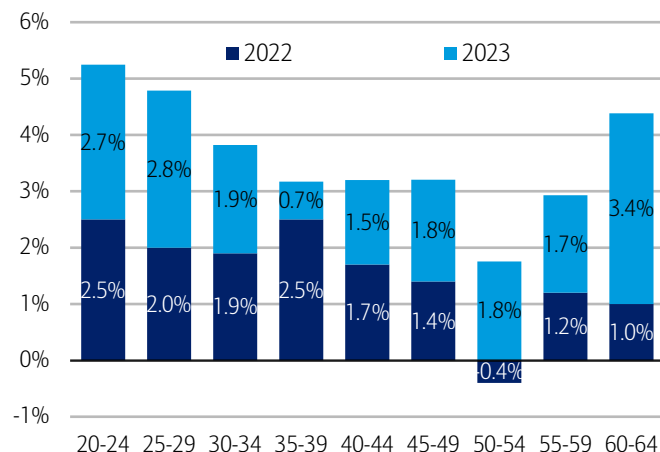
According to this survey, the average monthly wage per worker rose +2.1% YoY to ¥318,000 in 2023, in line with the FY23 Shunto outcome.

By age group, wages rose 2.7% YoY for 20-24 year olds and 2.8% for 25-29 year olds, significantly exceeding the 35-59 age group (which ranged from +0.7% to +1.8%). While data for a single year can be affected by noise from changes in sample size, cumulative 2022-23 wage growth was also higher for younger demographics (Exhibit 2).

This has resulted in bear-flattening of the wage curve of average pay for different age groups, as salaries rise faster at the front end of the curve (younger demographics) than at the long end (Exhibit 1).

**Exhibit 2: The yoy growth of wage per worker by age group in 2022-23**

Wages for younger workers are growing faster than other age groups

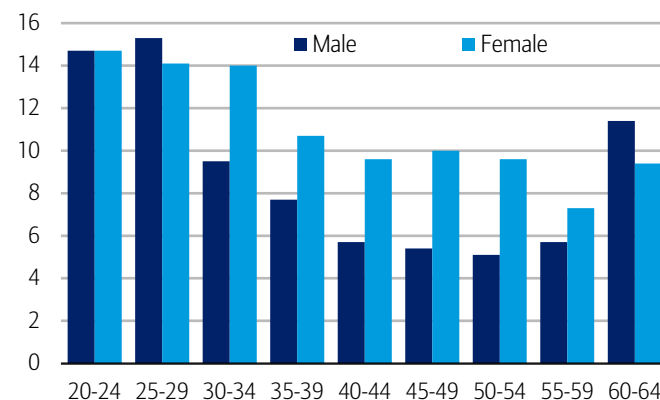


Source: BofA Global Research, MHLW

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**Exhibit 3: Ratio of workers changing jobs by age group (% , 2022, including part-timers)**

Higher employment mobility among younger workers



Source: BofA Global Research, MHLW \*Ratio of workers changing jobs = Share of employees who changed jobs in the past 1 year

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## Structural tailwinds for younger workers' wages

The faster wage growth among younger has a structural, logical underpinning and should come as no surprise.

**(1) Change in Japanese employment practices:** Traditionally, Japan's wage curve has been steeply upward-sloping, reflective employment practices predicated on seniority-

based pay and life-time employment.<sup>1</sup> In short, younger demographics have been paid far lower salaries in exchange for future wage increases.

However, Japanese companies are beginning to downplay these practices and raise wages for younger demographics, where they have greater leeway to increase pay.

**(2) Higher employment mobility among younger workers:** Related to the above, a far higher percentage of younger workers change jobs than the (still low) workforce average (Exhibit 3). This is consistent with our recent consumer survey, which showed that the youngest workforce demographic (20-39) is most inclined to change jobs (see [BofA Japan Consumer Survey \(Jan 2024\)](#), 30 January). Employees often seek higher salaries when changing jobs, putting greater pressure on companies to raise wages for younger workers both to attract new hires and to retain existing employees.

**(3) Sluggish wage growth for the 40s “ice-age generation”<sup>2</sup>:** In contrast, wages are not rising appreciably for employees in their 40s who joined the workforce during Japan's post-bubble “ice age” for hiring. While employees themselves are negotiating raises, helped by a concerted push from the government<sup>3</sup>, average wage levels for this generation have been suppressed due to a higher proportion of non-regular workers, and lack of vocational training opportunities early in these employees’ careers.<sup>4</sup>

**(4) Companies remain skeptical about basis for wage hikes:** We also think companies’ lack of confidence in a self-sustaining cycle of inflation and wage growth is impeding a broad-based upward shift for the overall wage curve. With some companies still concerned that they may not be able to pass on the increase in labor costs to prices, and that this would squeeze margins, they may be prioritizing pay raises for relatively low-cost younger employees before they embark on across-the-board hikes.

## Wage curve to continue bear-flattening for now

We think Japan's chronic worker shortage will cause wage hikes to spread from younger demographics to the entire workforce. However, we think wage hikes for younger employees will continue to drive overall wage growth given that the above factors look likely to remain entrenched for now. We therefore expect the wage curve to continue bear-flattening for the foreseeable future.

As in FY23, some companies’ FY24 Shunto policy announcements have included greater increases for new-grad salaries than for wages in general. Our latest consumer survey also found that the recent improvement in income expectations is especially pronounced among younger workers (see [BofA Japan Consumer Survey \(Jan 2024\)](#), 30 January).

## Younger demographics to continue supporting spending/inflation

This trend is not necessarily bad news for overall consumer spending. Younger demographics’ low population weighting limits their presence in the overall spending picture, but their high propensity to consume means that rising incomes tend to feed through to higher spending.

Income growth by age group since 2018 shows that disposable income for households aged 34 or below has risen by an average of a little over 3% annually, which was outpaced only by households aged 60-64 that saw a jump in employment caused by an increase in retirement age (Exhibit 4). As well as the bear-flattening of the wage curve,

<sup>1</sup> For example, the BoJ published an October 2010 research paper examining regular employees’ job mobility and the wage curve.

<sup>2</sup> This refers to this generation of workers seeking employment during the tough hiring conditions that followed the collapse of Japan's bubble economy (1993-2004).

<sup>3</sup> In 2020, the Japanese government launched an intensive three-year employment support program targeting this generation (subsequently extended through 2024), which included employment subsidies, vocational training, and civil service hiring.

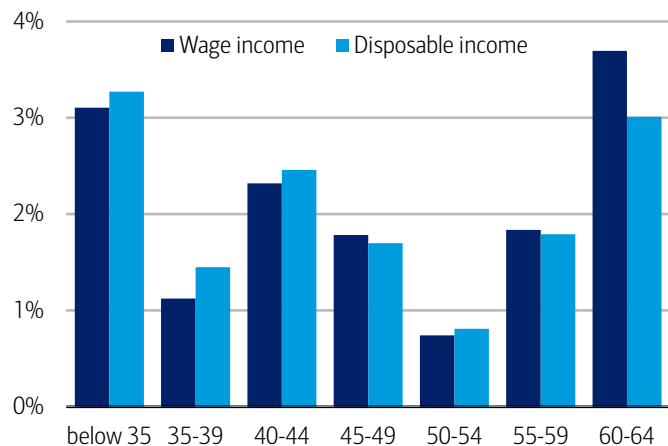
<sup>4</sup> For example, see 「人手不足なのになぜ賃金が上がらないのか？」 (“Why are wages not rising despite labor shortages”), edited by Yuji Genda, April 2017.

we think a sustained increase in women's workforce participation is contributing to growth in younger households' incomes.

Younger households drove the spending recovery during Japan's post-COVID reopening in 2022-23 (Exhibit 5). We expect their spending to remain strong in 2024 and beyond as incomes continue rising, which should also boost sentiment. This should support overall consumption, acting as a tailwind for the BoJ's self-sustaining cycle of inflation and wage growth.

#### Exhibit 4: Changes of wage income and disposable income by age of head of household (CAGR, part 5 years)

Disposable income for households aged 34 or below has risen by an average of a little over 3% annually since 2018

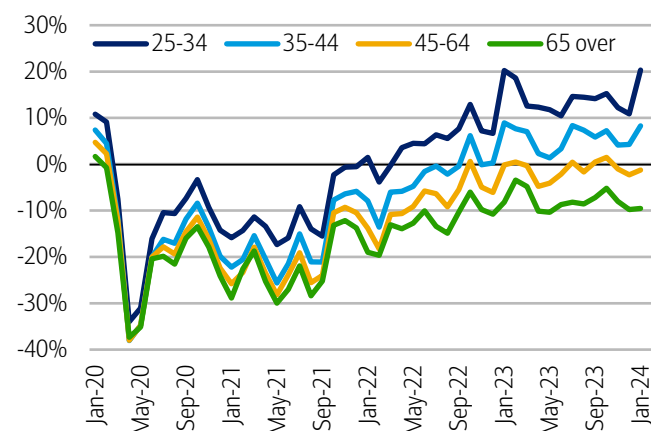


Source: BofA Global Research, MIAI

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#### Exhibit 5: Trends in service consumption by age group (vs pre-COVID-19, %, nominal)

Younger households drove the spending recovery in 2022-23



Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

\*Same period from Jan 2019 to Dec 2019. JCB renewed data at 2021 November. Refer to below URL for details. <https://nowcast.co.jp/news/20211111/> (Japanese only)

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## Appendix

The lack of detailed wage data in Japan compared with the US and other economies makes it difficult to accurately grasp wage trends. The most frequently used wage data all comes from the Monthly Labour Survey and Basic Survey on Wage Structure published by the Ministry of Health, Labour and Welfare (Exhibit 6).

The Monthly Labour Survey is designed to capture changes in wages, working hours, and employee numbers, and is released monthly (see [Wages update: Revising up our f'cast for FY24 Shunto base-up rate to 3%](#) for our discussion of the latest data). Despite issues created by changes in the companies sampled, the survey is useful in gauging average workforce wages and changes from month to month. However, it targets business locations, and details are therefore limited to industry, type of employment, and business size.

In contrast, the Basic Survey on Wage Structure that we draw on in this report covers both businesses and workers and gives insights into wage data by gender, age, length of service, academic qualifications, and other attributes. However, its once-yearly publication and changes in sample mean that it is less useful in gauging headline wage trends.

The strengths and shortcomings of these surveys mean a need to monitor both to gain an overall picture of wage trends.

**Exhibit 6: Comparison of Japan's major wage statistics**  
The strengths and shortcomings of Japan's major wage surveys

	Basic Survey on Wage Structure	Monthly Labor Survey
Key uses	Wage structure by attribute (gender/age/years of service/academic qualifications, etc.)	Headline wage levels and trends
Scope	Private-sector businesses with five or more regular employees Public-sector businesses with 10 or more regular employees	Private-/public-sector businesses with five or more regular employees
Number of businesses sampled	c.80,000	c.33,000
Changes in companies sampled	Entirely different each year	Same firms surveyed for three consecutive years (18 months for firms with 5-29 regular employees)
Survey frequency	Annual (June each year)	Monthly
Survey method	Surveys both businesses and individual workers	Surveys businesses only

Source: BofA Global Research, MHLW

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