

17 March 2025

Fixed Income | Japan

Macro Information

## Japanese economy: How will slightly larger spring wage hikes weigh into the BOJ's thinking on further policy rate normalization?

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Last Thursday and Friday saw three major announcements relating to spring 2025 labor-management pay negotiations.

◆ The Japan Council of Metalworkers' Unions (JCM) reported on 13 March (based on information available as of 10AM) that the average increase in base pay (net of "increases required to maintain the wage structure") offered to 53 unions had come in at JPY14,598, down from JPY14,638 at the same stage last year.

◆ The Japanese Federation of Textile, Chemical, Commerce, Food and General Services Workers' Unions ("UA Zensen") reported on 13 March (also based on information available as of 10AM) that an average total wage increase of JPY17,046 (5.37%) had been negotiated for full-time workers from 139 unions including a base-pay increase of JPY12,064 (3.75%). The accompanying statement noted that the first figure came in below that of JPY18,198 (5.91%) for 127 unions at the same stage last year.

Those two announcements had suggested to us that the first tally reported by the Japanese Trade Union Confederation ("Rengo") would also point to a slight deceleration in wage growth from last year. But that did not turn out to be the case.

◆ Rengo reported on 14 March (based on information available as of 10AM) that the weighted average increase in total pay for 760 unions had come in at JPY17,828 (5.46%), up JPY1,359 (0.18%pt) from the same stage last year. The available figures also showed a JPY12,571 (3.84%) increase in base pay across 649 unions, up JPY1,064 (0.14%pt) from 2024.

The BOJ has of course indicated that it will be focusing particular attention on wage hikes for small and midsize enterprises. Allowance obviously needs to be made for the limited sample size (with workers at many smaller and micro businesses not represented by unions), but it nevertheless bears noting that the Rengo tally for 351 unions with fewer than 300 members showed a JPY14,320 (5.09%) increase in total pay to mark the first hike exceeding 5% since 1992.

It would thus appear that pay increases ended up being larger than in 2024 for Rengo-represented unions that were not covered by the JCM and UA Zensen announcements. This amounts to somewhat of an upside surprise given that manufacturers typically take the lead in spring wage negotiations and in a number of sectors—such as motor vehicles and iron & steel—are expected to book year-on-year declines in their profits for the fiscal year ending this month.

Speaking on 5 March, BOJ Deputy Governor Shinichi Uchida declared that "Anecdotal information, various surveys, and other sources collected so far suggest that, in the annual spring labor-management wage negotiations currently in process, wages are likely to continue rising steadily, following last year's solid wage increases. This is also expected to support private consumption". The Rengo tally can be considered very much "on track" from that perspective and should accordingly serve to further to boost the central bank's "confidence" as to the achievability of its baseline scenario and thereby bolster the case for proceeding with additional policy rate normalization).

Global financial markets have been rocked by "Trump risk" of late and there are also growing concerns about downside risk to the US economy, but the BOJ meanwhile appears well placed to strike while the iron is hot—provided of course that overseas developments do not prove to be too much of a hindrance—and might thus be willing to contemplate a comparatively near-term rate hike rather than holding off until July for the sake of maintaining a "roughly half-yearly" cadence.

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This report was completed and first disseminated at approximately March 17, 2025, 11:57 (Japan Standard Time).

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