

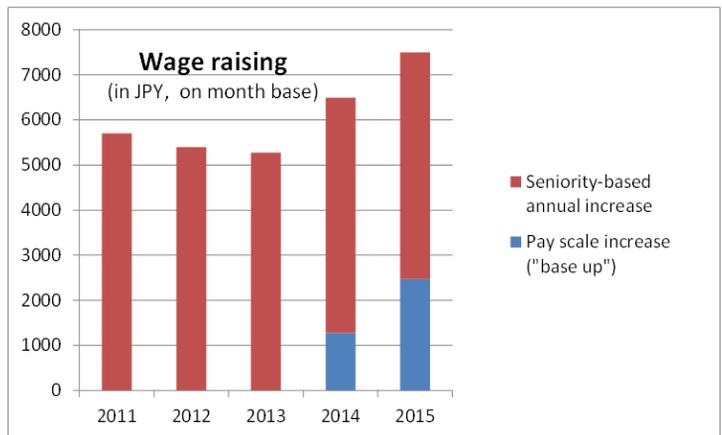
2015 spring wage negotiation (Shunto), +2.43% wage gain, exceeding the previous year

Seniority-based annual wage raises basic salary every year based on the company's salary scale alongside the working period of employees. In contrast, Pay scale increase results in revising the entire salary scale upward. From employers' point of view, companies have been likely to raise bonus payment rather than pay scale increase that leads to a higher personnel cost over a period of time. On the other hand, employees prefer pay scale increase as it picks up their future base salary and is more likely to stimulate consumer sentiment.

Point 1

Higher wage increase than last year Unclear for mid-to-small companies to follow

- On March 20th, Japan Trade Union Confederation (JTUC) that bundles labor unions across all industries released the preliminary survey of the employers' (mostly those of large companies) replies for "Shunto" wage negotiation round" for this year. The average total wage gain adding pay scale increase, called "base-up" in Japan, to seniority-based annual wage increase rose to JPY7,497 per month, JPY1,006 more than that of the last year, or gained by +0.27% point to +2.43% YoY. Both of the amount and the rate for the gain were the highest since 2001. The higher wage increase than last year is spreading to all employee levels including part-time workers.
- Many mid-to-small companies, suffering from serious labor shortage, are ready to accept some wage raising. But many of the high domestic sales companies cannot afford to raise wages due to the weak earnings, suffered from the increase in materials and electricity costs by weak JPY. Consequently, it seems unclear for mid-to-small companies to follow such favorable wage increases as large companies did, at the following wage negotiation round that most of non-large companies are scheduled to reply.



As of 20th of March 2015
 (Source) Japan Trade Union Confederation (JTUC), ("RENGO") and Nikkei
 (Note) Preliminary summary data at March every year.
 Pay scale increase has not made before 2014 as unions did not negotiate it during the period.

Point 2

80% of companies accepted the pay scale rise Government has requested for the wage increase this year too

- According to the survey by the Nikkei Newspaper, 80% of the researched companies that replied to raise the wages accepted the pay scale increase request this year, while 60% of them did it last year. In addition, more than 20% of those companies have decided to raise the pay scale, while more than half companies have committed to pay the full amount of bonus as the union claimed.
- About 90% of the companies answered that their decision was affected by the government's request for the wage increase this time. Moreover, the tax reform in FY2015 might be an incentive to push the companies forward to raise wages as the tax regulation has been amended to expand the tax credit for the amount of wage increase.

Sustainable economic growth through a virtuous cycle (wage gain ⇒ consumption increase ⇒ corporate earnings expansion ⇒ further wage gain) is expected

■ **Real wage gain would help consumption recovery**

Inflation is subdued by the fall in energy prices. Negative influence of the tax hike is anticipated to fade away from this April. Therefore, real wages that have been subsiding since last July are likely to recover positive growth and the purchasing power of households is expected to improve as the increase of nominal wages and subdued inflation are likely support the consumer sentiment.

■ **Successive wage increase might be helped by government measures**

Now, the issue would be whether the wage gain leads to increase the consumption expenditures and then grow the corporate earnings, which could result in a sustainable growth for the economy. Also, further economic stimulus measures by Abe government is expected to expand wage gains to small-to-medium enterprises and to help such favorable wage gains to continue in the following years.

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