"Real Wages" show improvement

"Real Wages" is a kind of yard stick to figure out how much can a consumer be able to buy goods in real terms that is calculated by excluding impact of inflation from actually paid salary (Nominal Wages). For example, the "Real Wages" are not considered to rise when income rises by 10% and inflation rises by 10% at the same time. The "Real Wages" are practically referred to the "Real Wages Index" released by the Ministry of Health, Labour & Welfare, which is calculated by "Nominal Wages Index" based on total amount of salary divided by CPI Index.

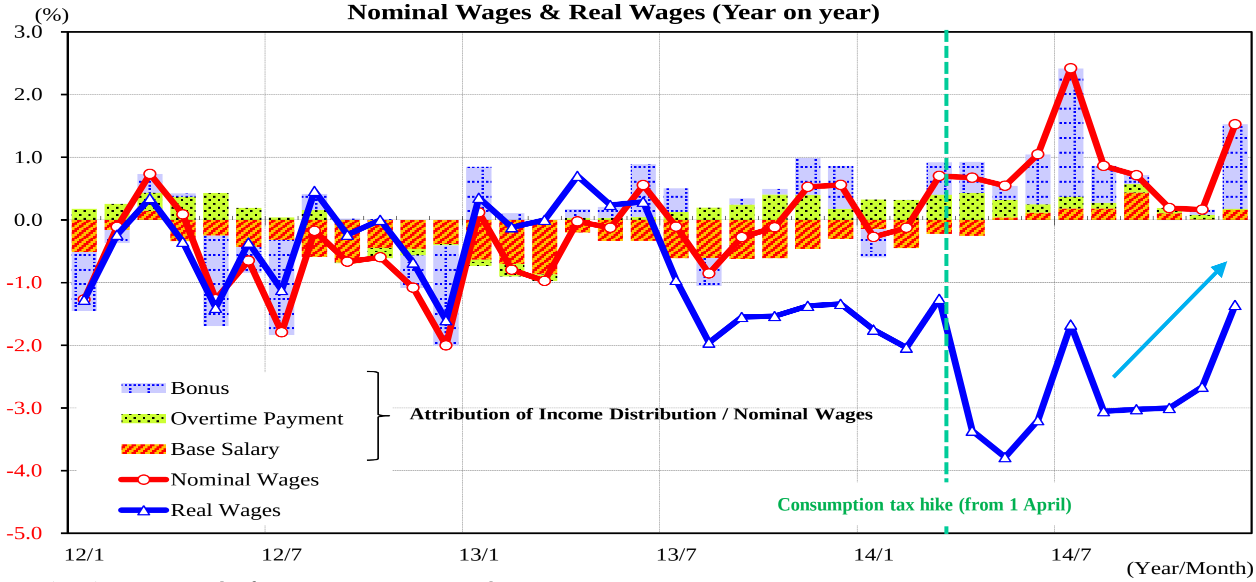
Point 1

Decreasing negative gap in Real Wages growth

Improved to the level before the consumption tax hike

- According to the December Monthly Labour Survey (flash data) released by the Ministry of Health Labour & Welfare on February 4, the real wages declined 1.4% y-o-y for eighteen consecutive months. However, the rate of decline has narrowed sharply. Since the consumption tax raised to 8% in last April, the real wages have been decreasing more than 3% y-o-y every month until October except for July. The rate of decline had narrowed to - 2.7% y-o-y in November and - 1.4% y-o-y in December and improved to the level just before the consumption tax hike.

Nominal Wages & Real Wages (Year on year)



(Note) Data period is from January 2012 to December 2014.
(Source) SMAM, based on the Ministry of Health, Labour & Welfare & Datastream data

Point 2

Still higher inflation rate than salary growth , however, the gap is narrowing

Salary has been increasing y-o-y since March 2014

- The Total Salary increased by 1.6% y-o-y in December 2014 and its growth has turned to a positive trend since March 2014. On the other hand, CPI (excluding fresh food) turned to positive in June 2013 and has been rising more than 3% y-o-y every month for the period from April to September 2014 since the consumption tax hike. The index has been down since October 2014 and declined to + 2.5% y-o-y in December, due to fall in energy prices.

■ The inflation rate has been outpacing wage increase, which resulted in decreasing real wages. Good news, however, is that the difference between them is gradually narrowing.

Future Outlook

With easing inflation and raising wages, further improvement in real wages can be expected

■ **Trend of lowering inflation is expected to continue**

Taking a close look at key components of the CPI, the contribution of Energy related goods to the inflation declined due to lower oil price and that of Culture & recreation and Furniture & household goods also declined. The CPI is expected to fall to around + 2% y-o-y sometime in May or June this year.

■ **Further wages hike is expected**

The Japan Trade Union Confederation, the central organisation of the labour unions in Japan, and the Confederation of Japan Automobile Workers' Union plan to claim to raise their base salary higher than that in the previous year at the coming Spring Wage Negotiation. The nominal wages are expected to further increase thanks to expanding corporate earnings and proposal of wage rise by the government. Thus, the "Real wages" are expected to improve more than nominal base considering the favorable effect by deceleration of inflation.

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