

# Why the Wage Increase Rate in the Shunto of 2024 is Important?

## 1. Focus on the Wage Increase Rate in the Shunto of 2024

In Japan, wage growth has not kept pace with rising prices, and real wages have been negative for 21 consecutive months. There are some indications that people are now conserving money on food and other items. In order to achieve a virtuous cycle between wages and prices it is essential that real wages turn positive and people feel that their living conditions have improved.

This year's Shunto (annual spring labor-management wage negotiations in Japan) will begin on March 15 with a centralized response date for major enterprises, followed by small and medium-sized ones. The focus will be on whether sustainable wage increases that are not outpaced by rising prices can be realized, including by small and medium-sized enterprises. The outcome will play an important role in determining whether a virtuous cycle between wages and prices is achieved, which is essential for the Government's aim of completely overcoming deflation, as well as the Bank of Japan's price stability target, which has the potential to signal an end of the current monetary policy framework, including Yield Curve Control and the negative interest rate policy.

## 2. Background of Wage Increase Rate for the First Time in 30 Years

The Kishida administration has put forward the concept of structural wage increases, and says that it aims to achieve this through "integrated three-pronged labor market reform" involving re-skilling, the introduction of more role-based as opposed to traditional seniority-based wages, and transfer of labor to growth industries. By increasing the value of human capital and promoting the transfer of labor to high-productivity sectors, the government hopes to raise the productivity of the economy as a whole, which will lead to higher wages.

Amid the backdrop of these labor market reforms the wage increase rate in the Shunto (annual spring labor-management wage negotiations) of 2023 was the highest in 30 years, and in the Shunto of 2024, (1) consideration of high prices, (2) strong corporate performance, and (3) a growing sense of labor shortages will likely lead to even stronger wage growth in 2024.

There is a growing awareness of the issue that wage increases are not keeping pace with price hikes over the long term, and consideration of high prices is likely to be given in the Shunto of 2024 as well. With corporate earnings solid and profit levels high, there is ample room to accommodate wage increases, and the growing sense of labor shortages will lead to wage increases through a more competitive labor market in securing human resources. Even small and medium-sized enterprises (SMEs), whose business conditions are relatively difficult, will have no choice but to raise wages in a defensive manner from the viewpoint of (3) a growing sense of labor shortages.

Some small and medium-sized enterprises (SMEs) have said that they have not been able to pass through rising costs to prices sufficiently, making it difficult for them to raise wages at higher levels. On the other hand, the sense of labor shortage is stronger among SMEs than among large firms, and the need for defensive wage increase from the perspective of securing human resources is greater among SMEs. So, there is a strong possibility that small and medium-sized enterprises will also raise wages, although not to the same extent as large enterprises.

Japanese Trade Union Confederation (RENGO)'s policy is to aim for a wage increase of "+5% or more" (2% of regular salary increase plus 3% or more of base increase) in the 2024 Shunto, which is a slightly stronger expression than the "+5% or so" in the 2023 Shunto (+4% or so in the Shunto from 2016 to 2022). On the management side, the Japan Business Federation (Keidanren)'s "Report of the Special Committee on Management and Labor Policy," released on January 16, states that "it is the social responsibility of Japan Business Federation (Keidanren) and companies to maintain and strengthen the momentum for wage increases and contribute to achieving 'structural wage increases' amid continuing price increases". The federation has shown its acceptance of wage increases by requesting its member companies to "actively consider and implement wage increases that are appropriate for their companies with more enthusiasm and zeal than in 2023. Both the labor and management sides have strengthened their tone compared to last year, and there is no doubt that they are aware that the rate of wage increase is very likely to exceed that of the 2023 Shunto.

**Figure 1: Wage Increase Requests of Trade Unions at Major Corporations**

Industry Name		2024 Request	2023 Request
<b>Automobiles</b>			
	Toyota	Total 7,940 yen to 28,440 yen/month depending on position	Total 3,570-9,370 yen/month depending on position
	Honda	Total 20,000 yen/month	Total 19,000 yen/month
	Mazda	Total 16,000 yen/month	Total 13,000 yen/month
	Nissan	Total 18,000 yen/month	Total 12,000 yen/month
	Subaru	Total 18,300 yen/month	Total 10,200 yen/month
<b>Steel and Heavy Machinery</b>			
	Nippon Steel Corporation	Total 30,000 yen/month	Total 2,000 yen/month (concluded in the 2022 Shunto)
	JFE Steel Corporation	Total 30,000 yen/month	Total 2,000 yen/month (concluded in the 2022 Shunto)
	Kobe Steel	Total 30,000 yen/month	Total 2,000 yen/month (concluded in the 2022 Shunto)
	Mitsubishi Heavy Industries	Total 18,000 yen/month	Total 14,000 yen/month
	IHI	Total 18,000 yen/month	Total 14,000 yen/month
	Mitsubishi Materials Corporation	Total 15,000 yen/month	Total 3,500 yen/month
<b>Telecommunications</b>			
	NTT	Total 5%	Total 2% , inflation allowance 100,000 yen
<b>Railway</b>			
	JR East Railway	Total 10,000 yen/month	Total 3,000 yen/month
	JR West Railway	Total 10,000 yen/month	Total 4,000 yen/month
	JR Kyusyu Railway	Total 5%	Total 3,000 yen/month
<b>Electric Utilities</b>			
	Tokyo Electric Power Company	4% in average	3% in average
	Chubu Electric Power Company	Total 12,000 yen/month	Total 3,000 yen/month
	Hokkaido Electric Power Company	Total 12,000 yen/month	Total 3,000 yen/month

Source: Japanese Trade Union Confederation, The Nikkei, The Asahi Shimbun, and TV Tokyo. Data compiled by SMDAM. Data collected on Feb. 21, 2024

Note: A weighted average of the acceleration in wage hike demands at these companies, based on union membership, shows an acceleration of about 3 percentage points, indicating that labor unions are becoming quite bullish in their demands.

The companies in the table are shown for information purposes, and should not be construed as a recommendation for purchase or sale.

Thus, both the Japanese Trade Union Confederation (RENGO) and management sides are moving toward higher wages, and the momentum towards higher wages is growing. In fact, a number of unions are demanding higher wages than in 2023, and an increasing number of companies are taking the initiative by announcing that they will implement higher wage increases in FY2024 ahead of peers and without waiting for the Shunto. Japanese companies, with their strong sense of horizontal alignment, are likely to be influenced by the trends of other companies, and it is likely that some companies will follow suit in the future. As the mood for higher wages grows, the possibility of higher wage increases than last year is increasing.

**Figure 2: Assumed Schedule for Shunto**

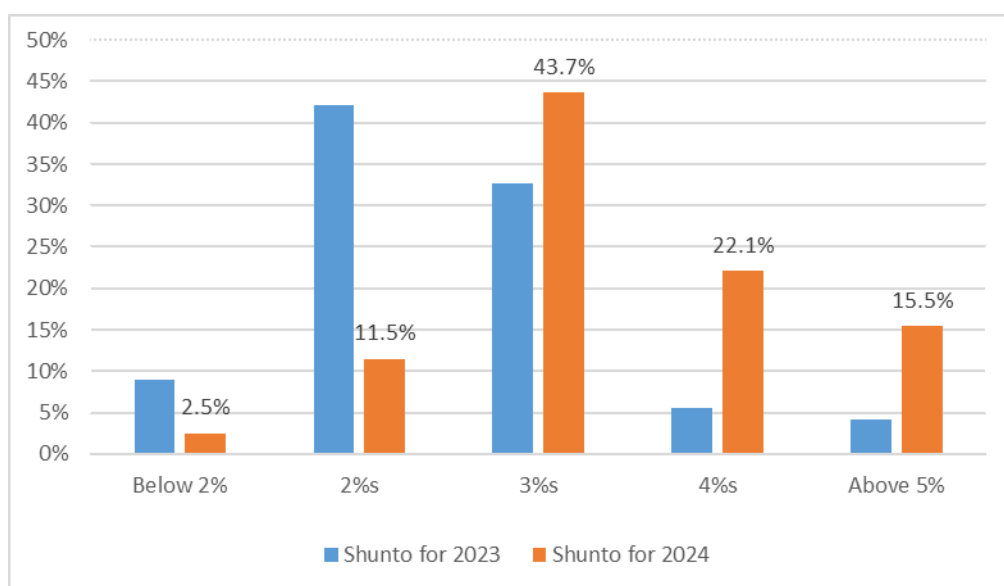
Shunto for 2024			
Year	Date	Company name	Contents
2024	Jan. 5	ITOCHU Corporation	Total 6% wage increase in FY2024
	Jan. 5	Mizuho FG	Total 7% wage increase in FY2024 (+6% in FY2023)
	Jan. 5	Lawson	Total 5% or more wage increase in FY2024 (+4.9% in FY2023)
	Jan. 11	Kirin HD	Total 6% wage increase in FY2024
	Jan. 11	JTB	Starting salary increase of approximately 14% (32,000 yen) from FY2024
	Jan. 16	Asahi Soft Drinks	Total wage increase of more than 5% in FY2024
	Jan. 18	Dai-ichi Life HD	Increase starting salary by 45,000 yen (+16%) in FY2024
	Jan. 18	Dentsu Research Institute	Average 10.7% wage increase from Jan. 2024
	Jan. 23	AOYAMA TRADING Company	Total 4.2% wage increase in FY2024 (first time since the transition to the current wage system in 2018)
	Jan. 24	NIDEC	Total 5% wage increase in FY2024, 15% increase in starting salary
	Jan. 30	Daichi Sankyo	Total wage increase of over 7% in FY2024
	Jan. 31	Ibiden	Average 8-10% wage increase in FY2024
	Feb. 1	Kokuyo	Increase starting salary by up to 20% in FY2024
	Feb. 2	Hulic	Total 10% wage increase in FY2024 (+9% in FY2023)
	Feb. 2	USJ	Increase of 50 yen (approximately +4%) per hour for part-time workers in FY2024
	Feb. 7	Kojima	Total 8.8% wage increase in FY2024
	Feb. 7	ASICS	Increased starting salary by 53,000 yen (+24%) in FY2024
	Feb. 7	Daifuku	Total wage increase of over 10% in FY2024
	Feb. 8	McDonald's Holdings Company (Japan)	Total 4% wage increase in FY2024 (same level as in FY2023)
	By Feb.	—	Determine the level of each company's requirements and begin negotiations with management
	Mar. 7	—	Release of "Requested Summary Results" by Confederation
	Mar. 12 - Mar. 14	—	Intensive response day of Shunto
	Mar. 15	—	Release of "First Response Tabulation Results" by Confederation
	Mar. 22	—	Release of "Second Response Tabulation Results" by Confederation
	Apr. 4	—	Release of "Third Response Tabulation Results" by Confederation
	Mid Apr.	—	Release of "Fourth Response Tabulation Results" by Confederation
	Early May	—	Release of "Fifth Response Tabulation Results" by Confederation
	Early Jun.	—	Release of "Sixth Response Tabulation Results" by Confederation
	Early Jul.	—	Release of "Seventh Response Summary Results" by Confederation

Source: Japanese Trade Union Confederation, Japan Business Federation, The Nikkei, The Asahi Shimbun, and TV Tokyo. Data compiled by SMDAM. Data collected on Feb. 21, 2024.

Note: Many of the companies that have announced wage increases so far are not included in Japanese Trade Union Confederation (RENGO)'s calculation of the wage increase rate for the Shunto. It will be even more important to follow the trends of the major companies currently negotiating (most of which are expected to respond between March 12 and 14).

The companies in the table are shown for information purposes, and should not be construed as a recommendation for purchase or sale.

**Figure 3: Percentage of each forecasted wage increase**



Source: The Institute of Labour Administration. Data compiled by SMDAM. Data collected on Feb. 21, 2024

The possibility of higher wage hikes in the 2024 Shunto is good news for the Japanese economy, with current regular payment hovering around 2%, reflecting the wage hikes in the 2023 Shunto. Nominal wages in FY2024 are expected to slightly exceed +2% year-on-year. Prices, which have continued to rise at a high rate and have reduced the purchasing power of households, are also expected to slow down in 2024, and are expected to fall below +2% in the second half of the year. The combination of this rise in nominal wages and the slowdown in prices will likely result in real wages turning positive in the fall of 2024. Personal consumption is also expected to gradually pick up around that time.

### 3. Sustainable Wage Increases at the Shunto and Other Types of Income

We cannot claim a virtuous cycle to be in progress unless wage increases lead to an increase in consumption, which in turn further boosts growth. In order to establish a virtuous cycle between wages and prices firms must systematically guarantee that widespread base salary increases in the Shunto will be realized over the long term in a sustainable manner. During this year's Shunto the key point to watch will be the shift in corporate attitude towards long-term wage setting behavior, not simply announcing high levels of wage increases relative to last year.

Alongside income from wages, financial income could also play a role. Household financial wealth in Japan grew to a record 2,121tn JPY as at September 2023, although because over half the amount is in yen cash savings earning a very low return, this represents a YoY after tax gain of just 0.99%. As this cash balance begins to shift into risk assets and the economy transitions into a more normal rising nominal GDP environment, it could produce a wealth effect which is common in other developed economies as dividends and capital gains on assets supplement wage incomes.

# General Disclaimer

This material is for general information purposes only without regard to any particular user's investment objectives or financial situation. It is educational in nature and should not be interpreted or constituted as an offer, solicitation or recommendation or advice to buy or sell securities or pursue any particular investment strategy or investment product in any jurisdiction or country, nor is it a commitment from Sumitomo Mitsui DS Asset Management Company, Limited or any of its subsidiaries ("SMDAM Group") to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. No representation or promise as to the performance of funds or the return on any investment is made. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, and are based on certain assumptions and current market conditions that are subject to change without prior notice.

The material is correct to the best of our knowledge at the date of issue and subject to change without notice. We do not guarantee its accuracy, completeness, fairness or timeliness, and make no representations or warranties, express or implied, as to the accuracy or completeness of the statements or any information contained therein and any liability for any error, inaccuracy or omission is expressly disclaimed. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. Nothing in this material constitutes accounting, legal, regulatory, tax or other advice.

It should be noted that investment involves risks, including the possible loss of the principal amount invested, and the value of your investment may rise or fall. Past performance and yields are not necessarily indicative of current or future results.

This material is issued by the following entities:

In the European Economic Area, this product is not available, nor available to any EEA domiciled investors.

In Japan, by Sumitomo Mitsui DS Asset Management Company, Limited. It is for non-Japanese institutional investors only and is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.

In the United Kingdom, by Sumitomo Mitsui DS Asset Management (UK) Limited. It constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at Guidance.

In Hong Kong, by Sumitomo Mitsui DS Asset Management (Hong Kong) Limited. The contents of this material has not been reviewed by the Securities and Futures Commission.

In Singapore, by Sumitomo Mitsui DS Asset Management (Singapore) Ptd. Ltd. It is only for accredited investors and institutional investors as defined in the Securities and Futures Act 2001 ("SFA"). You may wish to seek advice from an independent professional and financial advice before investing in any investment, and if you choose not to seek such advice, you should consider carefully whether the investment is suitable for you.

In the United States and Canada, by Sumitomo Mitsui DS Asset Management (USA) Inc. Some statements contained in this material concerning goals, strategies, outlook or other nonhistorical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements or opinions of the author speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities.

The organizations and/or financial instruments mentioned are for reference purposes only. The content of this material should not be construed as a recommendation for their purchase or sale. Charts and graphs are provided for illustrative purposes only. This document may not be copied, redistributed or reproduced in whole or in part without prior written approval from Sumitomo Mitsui DS Asset Management (USA) Inc. The content of this document should not be interpreted as a solicitation for business and is intended as background information for professional institutional investors only. Please contact us should you require further information. Both Sumitomo Mitsui DS Asset Management Company, Limited and Sumitomo Mitsui DS Asset Management (USA) Inc. are registered as investment advisory firms under the US Investment Advisor's Act of 1940.

## General Terms

The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals. The material itself or the contents of the material may not be copied, redistributed, reproduced or relied upon by any person, in whole or in part, without prior written approval from SMDAM Group. All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMDAM Group, except as otherwise stated.