

Will Wages Increase?

- Concerns that Unreasonable Wage Hikes Will Impact Employment Unfavorably

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During the latter half of the 1990s, the domestic economy deteriorated, and, because corporations restrained labor costs, wages (nominal total cash earnings) began to decline. As a result of the transition in the compensation system from setting wages by seniority to wages based on employee performance, it became more difficult to raise scheduled cash earnings, and, as a consequence, wages did not sufficiently reflect corporate profitability, and bonuses also declined.

Data by industry shows that wages in manufacturing industries have risen gradually, but that wages in non-manufacturing industries have decreased significantly. In manufacturing, companies reduced labor costs by cutting the number of employees, but in non-manufacturing, companies restrained their labor costs by shifting from full-time to part-time workers. As a result, in the non-manufacturing sector, wages of part-time workers were level, and wages of full-time employees did not show much decline, but, despite this, wages decreased because the percentage of the workforce accounted for by part-time workers, who earn lower wages, increased.

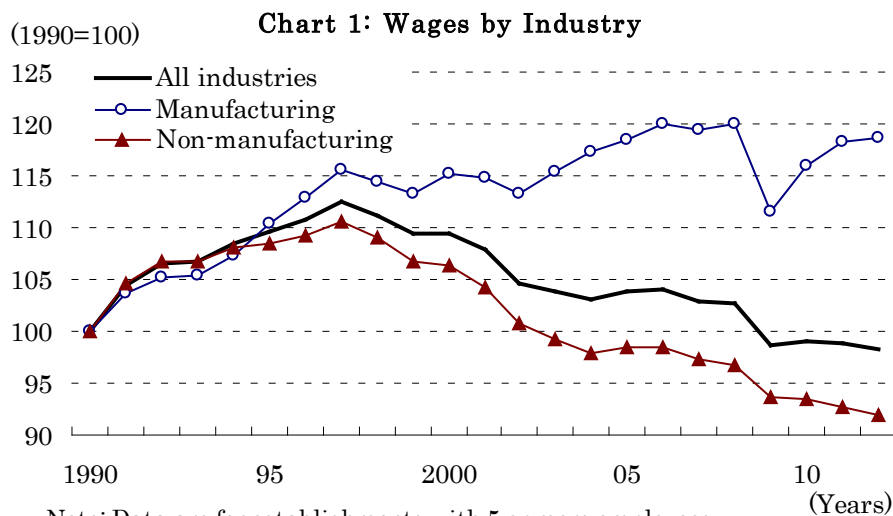
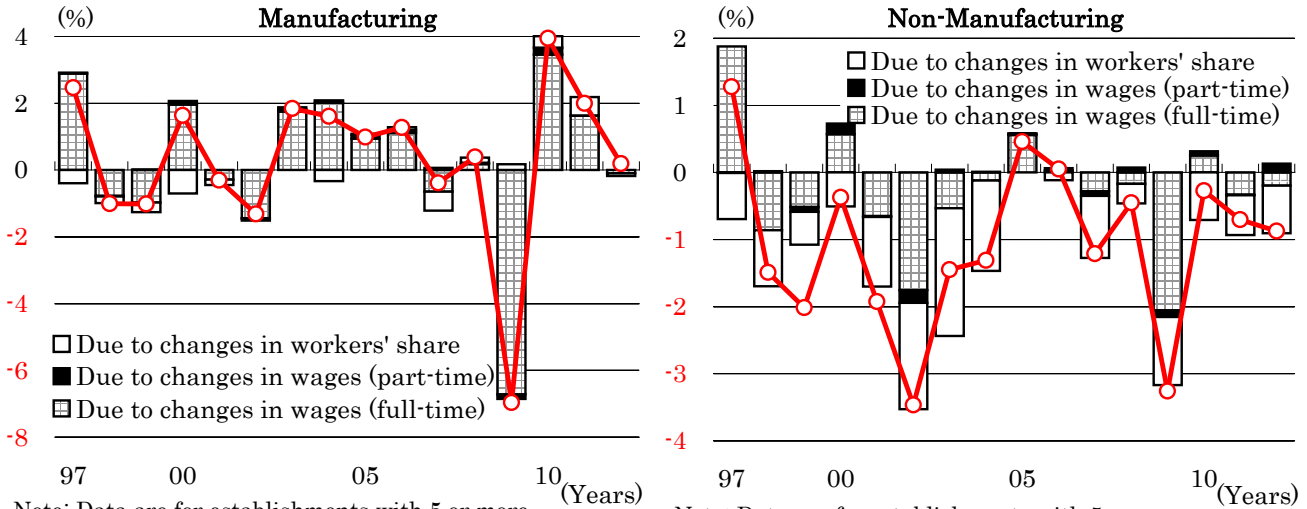


Chart 2: Analysis of Factors Accounting for Changes in Wages by Industry

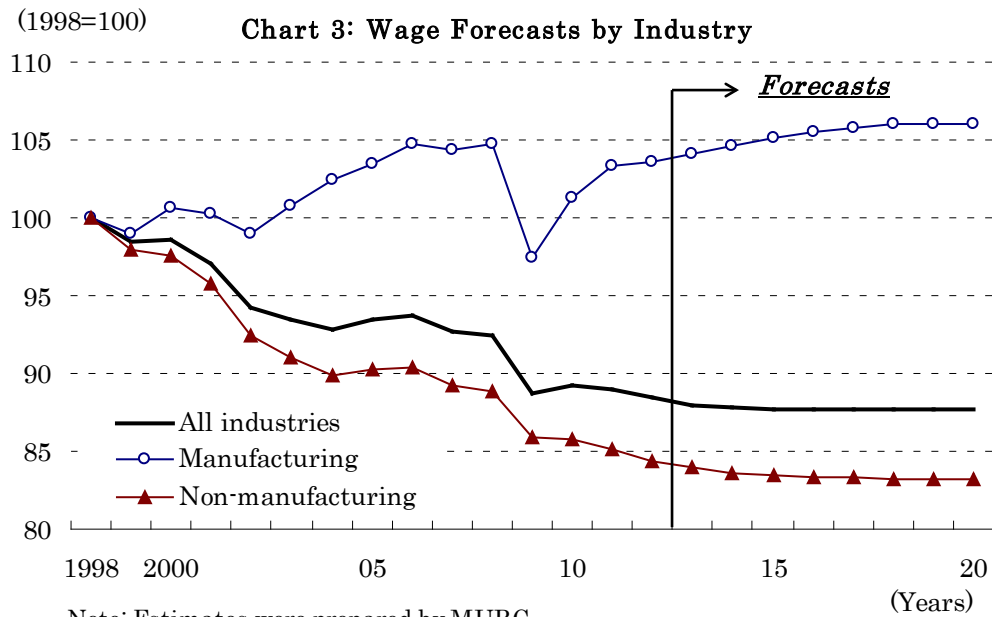


Note: Data are for establishments with 5 or more employees. Estimates were prepared by MURC.
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In the manufacturing sector, which is exposed to severe international competition, labor costs are declining. Although productivity, as measured on the basis of employed persons, is rising, the number of employees is declining, and the gross domestic product accounted for by the manufacturing sector is declining. On the other hand, in the non-manufacturing sector, labor costs are gradually rising. Though the gross domestic product of this sector per employed person is lower, the number of employees has increased and, therefore, the gross domestic product of the sector is virtually level. As a consequence, labor is shifting to the non-manufacturing sector where productivity is lower.

At the present time, expectations about economic recovery are rising, but it is unlikely that companies will ease their stance on restraining increases in labor costs. Therefore, it is viewed as probable that the number of employees in manufacturing will decline, and the shift toward hiring a higher percentage of part-time employees in the non-manufacturing sector will continue. The gap between supply and demand for part-time workers will narrow, mainly in the non-manufacturing sector, and there is a possibility that pressures for increasing wages may grow. For this reason, while there is a possibility that the decline in wages overall will stop, it is unlikely that wages will rise. Moreover, in part because of the planned increase in the consumption tax, wages in real terms may show a substantial decline.



Under “Abenomics,” some companies are seen as likely to increase wages, but, because corporate performance has not fully recovered, if companies place priority on increasing wages, there are concerns that this may have an adverse impact on employment. This is because there is a possibility that the movement among manufacturing companies to reduce the number of employees and the trend among non-manufacturing companies to shift to more part-time workers may accelerate.

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*This is an English language summary of a report originally published on March 27, 2013. The full report is available only in Japanese, but the author will answer questions regarding the topic by e-mail.

*The information and the views contained herein are subject to change without notice.