

Labour market changes are expected to lead to a rise in wages

TOORU KANAHORI
KEI SHIMOZATO
ECONOMIC RESEARCH OFFICE

3 AUGUST 2017

(ORIGINAL JAPANESE VERSION RELEASED ON 26 JULY 2017)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

1. The Real Economy

Despite labour market conditions being at an all-time high, wage growth is not accelerating. The most recent data (May) shows that the effective job-to-applicant ratio is 1.49, reaching the highest level since 1974, when there was a period of swift economic growth. In the same month, the overall unemployment rate was low: 3.1%. Despite these conditions, the wage rise published in the final results of the 2017 annual labour negotiations survey this month was 1.98%, dipping below the previous year for the second consecutive year. The environment surrounding this year's negotiations was harsher than last year in terms of prices and corporate profits. Nevertheless, this year's results are thought to be positive, thanks to the rate of wage increases by small and medium-sized enterprises, which exceeds that of last year, and the high number of agreements which will contribute to working reforms. However, considering the tightness of the labour market, the sluggishness of wage growth does raise concerns.

One of the reasons for this situation is because the process of wage rises for full-time employees is centered on the annual labour negotiations, and it primarily reflects prices and corporate profits in order to focus on existing employees' lives and their working conditions. A tighter labour market does not have such a great effect on wage rises, unlike it does for part-time workers, whose labour is flexible. Furthermore, the difference in the supply and demand of labour by industry is thought to be one reason for the slowdown in the overall growth of wages. Looking at changes in the supply and demand of labour by industry, the non-manufacturing sector has been a main contributor to the tighter labour market, particularly "accommodation, eating and drinking services", "services for individuals" (e.g. nursing) and "transport and postal activities". The proportion of part-time workers in these industries is high, so wages are comparatively lower than those of the manufacturing sector and some other non-manufacturing industries. Those industries have greater weight in the labour market and, as a result, there is a possibility that they are pushing down the overall growth of wages (Chart 1).

The being said, it appears there is some positive change in the labour market. Looking at the trend in the number of regular employees, the current rise in the number of full-time workers is approaching the level of growth in part-time workers. Therefore, there is also a sharp increase in the view that there are insufficient regular employees in the labour market (Chart 2). This suggests that corporations are treating the labour shortage as a structural issue and have started to hire more full-time workers. It also suggests that there is a possibility that the link between the supply and demand of labour and the rise in wages will strengthen. Of course, an increase in the proportion of full-time workers itself will bring about a rise in overall wages. The supply and demand of labour is likely to continue to tighten due to both economic and structural factors, and overall wages are expected to increase.

Chart 1: Labour Shortage and Current Wages by Sector

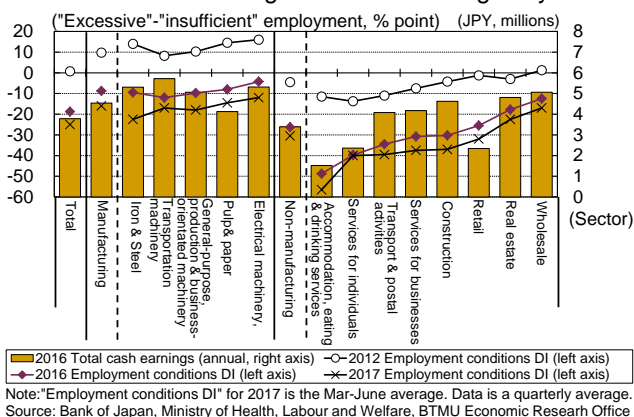
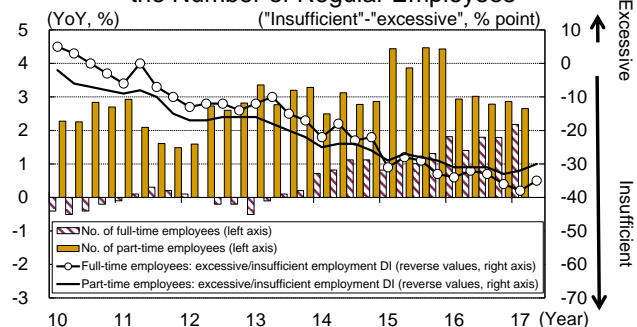


Chart 2: Excessive/Insufficient Employment DI and the Number of Regular Employees



Note: "Excessive/Insufficient Employment DI" is survey results from Feb, May, Aug and Nov. "Number of Regular Employees" is the quarterly average. Source: Ministry of Health, Labour and Welfare, BTMU Economic Research Office

2. Financial Markets

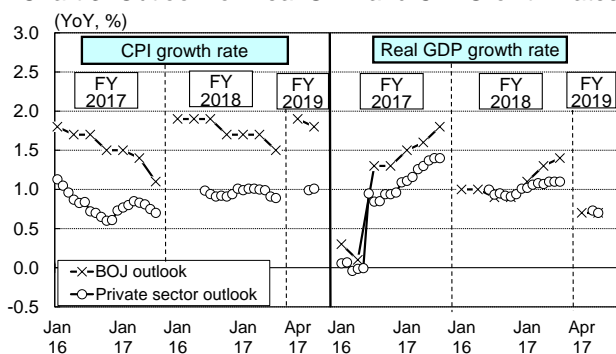
(1) Monetary Policy

The Bank of Japan decided to maintain its current monetary policy at its Monetary Policy Meeting on 19th – 20th July. In its Outlook for Economic Activity and Prices published alongside the meeting, Policy Board members' forecast for the real GDP growth rate was revised upwards. However, the Consumer Price Index (CPI) growth rate forecast was lowered due to temporary factors such as a reduction in the prices and charges of mobile phones, as well as household and corporations' deeply-entrenched mindset that prices will not increase easily. Therefore, the period when the Price Stability Target of 2% will be reached has been moved forwards from FY2018 to FY2019 (Chart 3). In this situation, where the period to achieve the CPI target has been postponed, additional monetary easing would normally be necessary if the Bank of Japan aims to reach its Price Stability Target of 2% "at the earliest possible time", as it announced when introducing its Quantitative and Qualitative Monetary Easing policy. However, the main monetary easing options available to the BoJ are to lower negative interest rates further, or to lower the long-term interest rate target, both of which would have a large adverse effect. Market participants' expectations of additional monetary easing usually increase in such circumstances, but in light of the adverse effects mentioned above, along with a trend in the US and Europe to normalise monetary policy, expectations are not that high currently. Therefore, it is forecast that the BoJ will maintain its current monetary policy and wait for prices to rise due to the somewhat limited additional easing measures available and the low pressure from outside the BoJ for additional easing.

(2) Long-Term Yields and Exchange Rate

The BoJ carried out a fixed rate purchasing operation of an unlimited amount of 10-year Japanese Government Bonds (JGB) and increased the volume of its regular purchasing operation of JGBs with a 5- to 10-year maturity after a temporary rise in the 10-year Japanese Government Bond yield to 0.105% on 7th July. This was the BoJ's second fixed-rate purchasing operation of 10-year JGBs (the first took place on 3rd February) and it offered to buy at a yield of 0.11%, the same level as the last operation. Through these actions, the market could reaffirm that the BoJ's target yield for 10-year JGBs, which is "around zero percent", has an upper limit of approximately 0.1%. This fixed-rate bond purchase occurred at a time when there was upward pressure on interest rates in Japan due to an apparent trend towards the normalization of European and US monetary policy, highlighting the difference in direction of monetary policy between Japan and the US/Europe. As a result, the JPY continues to follow a trend of depreciation against the USD and the EUR (Chart 4). Currently, the JPY stands at around JPY111 per dollar, returning to a trend of appreciation; however, if the US Fed starts to shrink its balance sheet or the European Central Bank starts to taper its monetary policy, it seems that the difference in monetary policy could easily put downward pressure on the JPY.

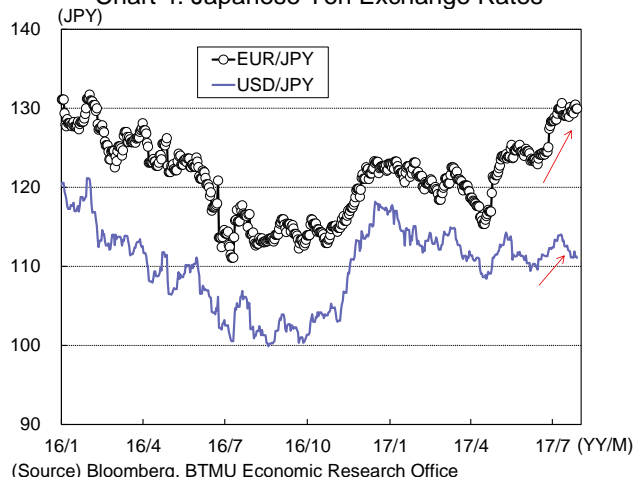
Chart 3: Outlook for Real GDP and CPI Growth Rates



Notes: *BoJ outlook* is the median of policy board members' outlooks; *Private sector outlook* is the average of private research institutions' outlooks (approximately 40) responding to ESP Forecast Survey. Direct impact of consumption tax hike is excluded.

Source: BoJ, Japan Center for Economic Research, BTMU Economic Research Office

Chart 4: Japanese Yen Exchange Rates



(Source) Bloomberg, BTMU Economic Research Office

(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of July. 26, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.2	1.2	1.0 (1.1)	1.4 (1.6)	1.0 (1.3)	***	***	***	***	***
Index of All Industries Activity	0.9	0.6	0.6 (0.7)	0.4 (1.1)	-0.1 (0.8)	0.6 (0.0)	-0.7 (0.9)	2.3 (2.1)	-0.9 (3.0)	
Industrial Production Index	-0.9	1.1	1.6 (0.4)	1.8 (2.1)	0.2 (3.8)	3.2 (4.7)	-1.9 (3.5)	4.0 (5.7)	-3.6 (6.5)	
Production										
Shipments	-1.1	0.8	1.0 (-0.5)	2.4 (1.8)	-0.1 (3.7)	1.4 (3.7)	-0.8 (3.5)	2.7 (4.9)	-2.9 (5.4)	
Inventory	1.1	-4.0	-2.2 (-2.7)	-2.4 (-5.3)	2.2 (-4.0)	0.7 (-3.9)	1.5 (-4.0)	1.5 (-1.1)	0.0 (-1.3)	
Inventory/Shipments Ratio (2010=100)	114.9	112.9	114.3 [114.7]	109.7 [114.9]	111.5 [116.8]	111.3 [115.3]	111.5 [117.5]	114.7 [115.9]	112.5 [116.7]	115.4 [115.4]
Domestic Corporate Goods Price Index	-3.3	-2.3	-0.3 (-3.8)	0.4 (-2.1)	1.6 (1.0)	0.3 (1.1)	0.2 (1.4)	0.2 (2.1)	0.0 (2.1)	0.0 (2.1)
Consumer Price Index(SA, total, excl.fresh foods)	0.0	-0.2	-0.2 (-0.5)	0.2 (-0.3)	-0.1 (0.2)	0.3 (0.2)	0.0 (0.2)	0.0 (0.3)	0.1 (0.4)	
Index of Capacity Utilization (2010=100)	98.0	98.6	98.0 [97.6]	100.1 [97.9]	99.8 [96.1]	101.4 [95.4]	99.8 [96.4]	104.1 [96.4]	99.8 [95.9]	96.6 [96.6]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	4.1	0.5	5.5 (6.5)	0.3 (3.6)	-1.4 (-1.0)	1.5 (5.6)	1.4 (-0.7)	-3.1 (2.7)	-3.6 (0.6)	
Manufacturing	6.2	-4.6	1.9 (-0.5)	2.7 (3.5)	-4.2 (-6.8)	6.0 (9.5)	0.6 (-4.9)	2.5 (9.8)	1.0 (6.3)	
Non-manufacturing Excl.Electric Power & Ship building	2.5	4.3	6.2 (11.8)	-1.0 (3.3)	0.0 (3.1)	1.8 (2.7)	-3.9 (2.2)	-5.0 (-2.1)	-5.1 (-4.0)	
Shipments of Capital Goods (Excl.Transport Equipment)	-2.2	1.5	1.3 (0.7)	2.4 (4.7)	-2.4 (3.1)	1.7 (4.0)	-4.4 (1.6)	6.5 (4.2)	2.1 (9.5)	
Construction Orders	-0.9	4.0								
Private	7.9	5.1								
Public	-15.6	8.4								
Public Works Contracts	-3.8	4.1								
Housing Starts 10,000 units at Annual Rate, SA	92.1	97.4	97.9	95.3	97.5	94.0	98.4	100.4	99.8	
Total floor	(4.6)	(5.8)	(7.1)	(7.9)	(3.5)	(-2.6)	(0.2)	(1.9)	(-0.3)	
Sales at Retailers	0.8	-0.2								
Real Consumption Expenditures of Households over 2 persons (SA)	-1.2	-1.6	-0.4 (-2.4)	-0.9 (-0.7)	0.8 (-2.0)	2.5 (-3.8)	-2.0 (-1.3)	0.5 (-1.4)	0.7 (-0.1)	
Propensity to Consume (SA, %)	73.6	72.1	70.7 [73.6]	71.8 [73.0]	73.1 [72.6]	75.4 [74.0]	72.8 [71.6]	73.1 [74.2]	78.8 [74.7]	69.6 [69.6]
Overtime Hours Worked (All Industries, 5 employees or more)	-1.3	-0.7	-0.2 (-1.5)	0.1 (-1.2)	1.5 (1.2)	0.1 (1.5)	0.1 (1.5)	-0.9 (0.6)	0.6 (1.6)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.2	0.4								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	98	103	102	105	112	113	114	127	137	
Ratio of Job Offers to Applicants (SA, Times)	1.23	1.39	1.37 [1.22]	1.41 [1.26]	1.44 [1.29]	1.43 [1.29]	1.45 [1.31]	1.48 [1.33]	1.49 [1.35]	1.36 [1.36]
Unemployment Rate (SA, %)	3.3	3.0	3.0	3.1	2.9	2.8	2.8	2.8	3.1	
Economy Watcher Survey (Judgment of the present condition D.I.%)	48.8	46.4	45.2 [49.5]	48.7 [47.7]	49.2 [45.6]	48.5 [44.6]	50.6 [45.4]	50.4 [43.5]	50.1 [43.0]	49.9 [41.2]
Bankruptcies (Number of cases)	8,684	8,381	2,087	2,086	2,079	688	786	680	802	706
	(-9.0)	(-3.5)	(-0.2)	(-3.1)	(-3.0)	(-4.8)	(5.4)	(-2.2)	(19.5)	(-7.4)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of July. 26, 2017

	Fiscal	Fiscal	2016		2017	2017				
	2015	2016	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Customs Clearance (Exports in Yen Terms)	-0.7	-3.5	(-10.2)	(-1.9)	(8.5)	(11.3)	(12.0)	(7.4)	(14.9)	(9.6)
Value	2.0	-5.8	(-11.1)	(-6.3)	(3.1)	(2.8)	(5.0)	(3.2)	(6.9)	(5.5)
Volumes	-2.7	2.4	(1.0)	(4.7)	(5.1)	(8.3)	(6.6)	(4.1)	(7.5)	(4.0)
Imports (In Yen terms)	-10.2	-10.2	(-19.3)	(-9.3)	(8.6)	(1.3)	(15.9)	(15.2)	(17.8)	(15.5)
Value	-8.4	-10.7	(-18.8)	(-10.7)	(6.2)	(5.8)	(11.3)	(9.8)	(11.8)	(11.0)
Volumes	-1.9	0.5	(-0.7)	(1.6)	(2.2)	(-4.3)	(4.2)	(4.9)	(5.4)	(4.1)
Current Account (100 mil. yen)	178,618	203,818	57,743	40,876	59,697	28,940	29,805	19,519	16,539	
Goods (100 mil. yen)	3,296	57,726	14,860	17,146	10,961	10,742	8,718	5,536	-1,151	
Services (100 mil. yen)	-13,527	-13,816	-3,470	-5,520	50	53	2,160	-2,947	421	
Financial Account (100 mil. yen)	238,492	249,299	104,960	22,119	52,424	17,379	49,396	10,705	21,847	
Gold & Foreign Exchange Reserves (\$1mil.)	1,262,099	1,230,330	1,260,145	1,216,903	1,230,330	1,232,340	1,230,330	1,242,295	1,251,868	1,249,847
Exchange Rate (¥/\$)	120.13	108.37	102.40	109.32	113.60	113.06	113.01	110.06	112.21	110.91

3. Financial Market Indicators

	Fiscal	Fiscal	2016		2017	2017					
	2015	2016	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	0.063	-0.045	-0.046 [0.074]	-0.043 [0.076]	-0.042 [0.035]	-0.038 [0.033]	-0.042 [-0.003]	-0.054 [-0.037]	-0.053 [-0.059]	-0.056 -0.055	
Euro Yen TIBOR (3 Months)	0.157	0.057	0.057 [0.169]	0.056 [0.169]	0.056 [0.122]	0.056 [0.098]	0.056 [0.098]	0.056 [0.060]	0.056 [0.060]	0.056 [0.059]	
Newly Issued Japanese Government Bonds Yields (10 Years)	-0.050	0.065	-0.085 [0.350]	0.040 [0.270]	0.065 [-0.050]	0.050 [-0.065]	0.065 [-0.050]	0.015 [-0.085]	0.040 -0.120	0.075 [-0.230]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.924	0.847	0.865 (-0.021)	0.853 (-0.012)	0.847 (-0.006)	0.852 (-0.003)	0.847 (-0.005)	0.850 (0.003)	0.849 (-0.001)		
The Nikkei Stock Average (TSE 225 Issues)	16,759	18,909	16,450 [17,388]	19,114 [19,034]	18,909 [16,759]	19,119 [16,027]	18,909 [16,759]	19,197 [16,666]	19,651 [17,235]	20,033 [15,576]	
M2(Average)	(3.5)	(3.6)	(3.3)	(3.8)	(4.1)	(4.1)	(4.2)	(4.0)	(3.8)	(3.9)	
Broadly-defined Liquidity(Average)	(3.7)	(1.8)	(1.4)	(1.6)	(2.2)	(2.3)	(2.4)	(2.6)	(2.8)	(3.1)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.4)	(2.4)	(2.1)	(2.5)	(2.8)	(2.8)	(3.0)	(3.0)	(3.2)	(3.3)
	Banks	(2.5)	(2.4)	(2.1)	(2.5)	(2.8)	(2.9)	(3.0)	(3.0)	(3.3)	(3.3)
	City Banks etc.	(1.2)	(1.2)	(0.7)	(1.4)	(2.0)	(2.1)	(2.3)	(2.4)	(2.9)	(3.1)
	Regional Banks	(3.7)	(3.5)	(3.5)	(3.6)	(3.6)	(3.6)	(3.8)	(3.6)	(3.8)	(3.7)
	Regional Banks II	(3.2)	(3.1)	(2.9)	(3.1)	(3.2)	(3.2)	(3.2)	(2.9)	(3.0)	(3.0)
	Shinkin	(2.2)	(2.3)	(2.3)	(2.3)	(2.5)	(2.5)	(2.6)	(2.8)	(2.9)	(2.8)
Deposits and CDs (Average)	Total(3 Business Condition)	(3.7)	(3.8)	(3.4)	(4.2)	(4.5)	(4.4)	(4.7)	(4.4)	(4.5)	(4.7)
	City Banks	(4.5)	(5.5)	(4.8)	(6.0)	(6.4)	(6.1)	(6.6)	(6.4)	(6.3)	(6.7)
	Regional Banks	(3.0)	(2.3)	(2.2)	(2.3)	(2.7)	(2.7)	(2.7)	(2.5)	(2.6)	(2.7)
	Regional Banks II	(2.5)	(2.1)	(1.9)	(2.2)	(2.4)	(2.4)	(2.5)	(2.2)	(2.5)	(2.4)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in () indicate % changes from previous year. [] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Tooru Kanahori <tooru_kanahori@mufg.jp>

Kei Shimozato <kei_shimozato@mufg.jp >

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.