

## ***2017's Annual Labor Negotiations Saw Wage Growth in Small to Medium-Sized Enterprises and Progress in Work-Style Reform***

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### 1. The Real Economy

According to the preliminary results (as of April 11) of a survey on annual labor negotiations, the average wage increase of Japanese companies is 2.02% in 2017, a relatively high increase rate of about 2% for the fourth consecutive year (see Table 1). Looking at a comparative table of wage increase rate within the same labor unions over last year released by Japanese Trade Union Confederation (Rengo), the wage growth rate of labor unions with 300 or more members stood at 2.02%, falling below last year's level, while that of labor unions with less than 300 members was 1.98%, slightly up from last year (see Table 2). Since small and medium-sized enterprises (SMEs) are more concerned about labor shortage compared to large companies, many of them seem to have decided to raise wages to secure their workforces. Wage increases at SMEs, in contrast to large enterprises, are expected to help boost household income as a whole.

Additionally, this year's annual labor negotiations saw Japanese companies' positive stance on work-style reform. According to Rengo's survey on 2017's annual labor negotiations and year-round actions for improving working conditions, the number of positive responses to a question "Have you introduced child and nursing care leave to be available to all employees regardless of their employment status?" has substantially exceeded those of last year (see Chart 1). Looking at specific examples, companies accelerate their efforts to adopt diverse working styles or improve their working environments by: i) starting childcare allowance system ahead of schedule, ii) extending flexible working hours, or iii) introducing a minimum interval between working hours.

Although the environment surrounding this year's annual wage negotiations was harsher than last year in terms of corporate earnings and consumer prices, relatively high wage increases will be maintained. This as well as increasing number of employees is expected to support the underlying strength of private consumption growth. Furthermore, progress in the work-style reform is also important for achieving Japan's long-term economic growth. Japan's future population projection, which was released on April 10, indicated again that the working-age population would face a decline in the future. In order to secure the workforce under declining population, it is vital to increase birth and employment rates by developing a better working environment which helps employees juggle work and family responsibilities. Progress in the

work-style reform highlighted in this year's annual labor negotiations is a favorable driving force or the future Japanese economy.

Table 1: Results of 2017's Annual Wage Negotiations (average wage formula)

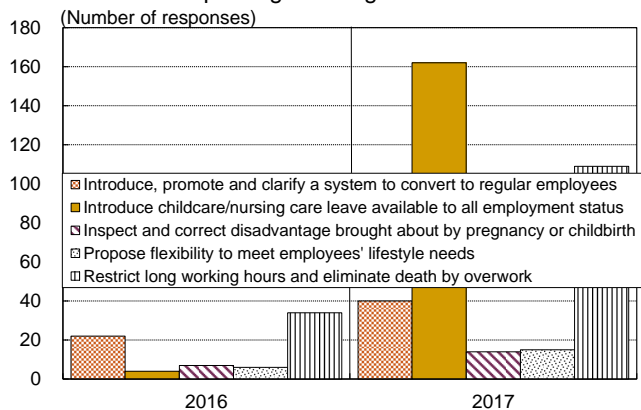
Total number of labor unions	2017 (as of Apr 11)	
Total number of labor union members	Wage increase amount	Wage increase rate
3,039 labor unions	5,940 yen	2.02%
2.31 million members		

Table 2: Comparative Table of Wage Negotiations within Same Labor Unions

Total number of labor unions	2016		2017	
Total number of labor union members	Wage increase amount	Wage increase rate	Wage increase amount	Wage increase rate
Labor unions with 300 or more members				
596 labor unions	6,260 yen	↓	6,092 yen	
1.36 million members	2.06%	↓	2.02%	
Enterprises less than 300 employees				
651 labor unions	5,015 yen	↑	5,024 yen	
85 thousand members	1.97%	↑	1.98%	

Source: Japanese Trade Union Confederation (Rengo), BTMU Economic Research Office

Chart 1: Survey Responses regarding Annual Labor Negotiations and Year-round Actions for Improving Working Conditions



Source: Japanese Trade Union Confederation (Rengo), BTMU Economic Research Office

## 2. Financial Markets

### (1) Monetary Policy

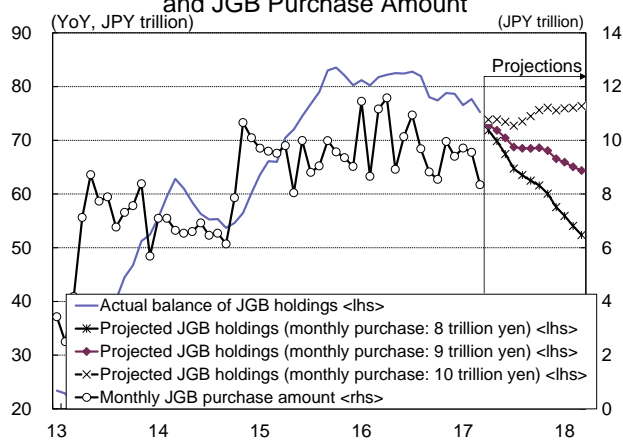
The balance of Bank of Japan's (BoJ) holdings of long-term Japanese government bonds (JGBs) was 377 trillion yen as of end-March 2017, increasing by 75 trillion yen compared with a year ago. It does not stray far from BoJ's target to increase the balance by about 80 trillion yen per annum. On the other hand, the BoJ announced, in the Outline of Outright Purchases of Japanese Government Bonds released at end-March, that it will trim the purchase amount of one-to three-year and three-to five-year JGBs in April. BoJ's purchase amount of JGBs in March was more than eight trillion yen, significantly down from its peak of 11 trillion yen last April, but the BoJ might further reduce JGB buying in April. If the BoJ continues to buy 8 trillion yen worth of JGBs per month, which is roughly the same as March, the YoY increase in its JGB holdings will slow to 50 trillion yen a year later (see Chart 2). If the BoJ intends to maintain the current level of YoY increase, it will need to continue its JGB purchases of 10 trillion yen per month. This monthly JGB purchase amount is equal to the average purchase amount in 12 months before the BoJ introduced the framework of "Quantitative and Qualitative Monetary Easing with Yield Curve Control" last September to shift the focus of its monetary stimulus from "quantity" to "interest rates". From the perspective of the sustainability of monetary policy, as long as interest rates are kept within the target range, the BoJ is unlikely to revert to its monthly JGB purchases of about 10 trillion yen. Going forward, the increase in the balance of BoJ's JGB holdings is highly likely to slow down and the time is approaching when the BoJ will revise its current policy to increase its JGB holdings at an annual pace of roughly 80 trillion yen.

### (2) Long-Term Yields and Exchange Rate

Financial markets continue to be influenced by the situation in the US. With increasing geopolitical risks due to the US actions toward North Korea and Syria, and President Trump's

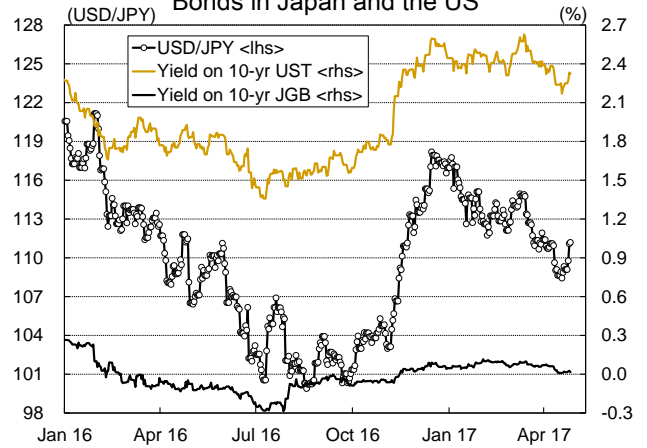
words of concern for higher dollar and interest rates, yield on 10 year JGBs declined to zero % in the middle of April for the first time since last November, pushing JPY higher against USD to the 108 yen-per-dollar level (see Chart 3). Going forward, amid widening gap in interest rates between the US and Japan, downward pressure on JPY against USD will persist. Meanwhile, there are many risk factors which could significantly change the weaker yen trend, such as growing geopolitical risks, the ability of the US government to implement economic and fiscal policies, as well as the direction of elections in various European countries.

Chart 2: Changes in Balance of BoJ's JGB Holdings and JGB Purchase Amount



Source: Bank of Japan, BTMU Economic Research Office

Chart 3: USD/JPY and Yields on 10-yr Government Bonds in Japan and the US



Source: Bloomberg data, BTMU Economic Research Office

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Apr. 20, 2017

	Fiscal	Fiscal	2016			2016		2017		
	2014	2015	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.4	1.3	2.2 (0.9)	1.2 (1.1)	1.2 (1.6)	***	***	***	***	***
Index of All Industries Activity	-1.1	0.9	0.4 (0.1)	0.5 (0.7)	0.3 (1.0)	0.4 (2.2)	-0.2 (1.2)	0.1 (1.3)		
Industrial Production Index	-0.5	-0.9	0.3 (-1.8)	1.6 (0.4)	1.8 (2.1)	1.0 (4.4)	0.7 (3.1)	-2.1 (3.2)	3.2 (4.7)	
Production										
Shipments	-1.2	-1.1	0.5 (-1.9)	1.0 (-0.5)	2.4 (1.8)	1.0 (5.0)	0.0 (2.4)	-1.1 (4.2)	1.4 (3.7)	
Inventory	6.1	1.1	-1.6 (-0.5)	-2.2 (-2.7)	-2.4 (-5.3)	-1.8 (-5.5)	0.7 (-5.0)	0.1 (-5.0)	0.7 (-3.9)	
Inventory/Shipments Ratio (2010=100)	112.0	114.9	116.0 [113.8]	114.3 [114.7]	109.7 [114.9]	108.0 [115.5]	108.9 [116.3]	111.6 [117.5]	111.3 [115.3]	117.5
Domestic Corporate Goods Price Index	2.8	-3.3	-0.6 (-4.5)	-0.3 (-3.8)	0.4 (-2.1)	0.4 (-2.3)	0.7 (-1.2)	0.6 (0.5)	0.3 (1.1)	0.2 (1.4)
Consumer Price Index(SA, total, excl.fresh foods)	2.8	0.0	0.4 (-0.4)	-0.2 (-0.5)	0.2 (-0.3)	0.1 (-0.4)	0.1 (-0.2)	0.3 (0.1)	0.0 (0.2)	
Index of Capacity Utilization (2010=100)	100.6	98.0	96.3 [98.0]	98.0 [97.6]	100.1 [97.9]	100.5 [98.2]	101.1 [97.2]	98.3 [96.4]	101.4 [95.4]	96.4
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	0.8	4.1	-6.4 (-6.5)	5.5 (6.5)	0.3 (3.6)	-2.8 (10.4)	2.1 (6.7)	-3.2 (-8.2)	1.5 (5.6)	
Manufacturing	7.0	6.2	-8.5 (-12.9)	1.9 (-0.5)	2.7 (3.5)	8.1 (8.3)	0.8 (10.9)	-10.8 (-22.0)	6.0 (9.5)	
Non-manufacturing										
Excl.Electric Power & Ship building	-3.3	2.5	-3.5 (-1.0)	6.2 (11.8)	-1.0 (3.3)	-5.6 (11.6)	2.1 (3.5)	0.7 (5.7)	1.8 (2.7)	
Shipments of Capital Goods (Excl.Transport Equipment)	4.4	-2.2	2.7 (-2.5)	1.3 (0.7)	2.4 (4.7)	2.0 (7.6)	-0.7 (4.9)	-2.3 (4.4)	1.7 (4.0)	
Construction Orders	8.2	-0.9								
Private	4.8	7.9								
Public	22.9	-15.6								
Public Works Contracts	-0.3	-3.8								
Housing Starts										
10,000 units at Annual Rate, SA	88.0	92.1	99.1	97.9	95.3	95.4	92.3	100.1	94.0	
Total floor	(-10.8)	(4.6)	(5.4)	(7.1)	(7.9)	(6.7)	(3.9)	(12.8)	(-2.6)	
Sales at Retailers	-1.2	0.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-5.1	-1.2	0.0 (-1.2)	-0.4 (-2.4)	-0.9 (-0.7)	-0.1 (-1.5)	-0.8 (-0.3)	0.5 (-1.2)	2.5 (-3.8)	
Propensity to Consume (SA, %)	74.2	73.6	72.8 [74.2]	70.7 [73.6]	71.8 [73.0]	72.4 [72.6]	71.8 [73.2]	71.0 [72.3]	75.4 [74.0]	71.6
Overtime Hours Worked (All Industries, 5 employees or more)	2.0	-1.3	-0.2 (-1.2)	-0.2 (-1.5)	0.1 (-1.2)	-0.3 (-0.9)	-0.7 (-1.8)	2.0 (0.7)	0.1 (1.5)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	0.2	(0.6)	(0.5)	(0.4)	(0.5)	(0.5)	(0.3)	(0.4)	
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	77	98	93	102	105	106	107	109	113	
Ratio of Job Offers to Applicants (SA, Times)	1.11	1.23	1.35 [1.18]	1.37 [1.22]	1.41 [1.26]	1.41 [1.26]	1.43 [1.28]	1.43 [1.29]	1.43 [1.29]	1.31
Unemployment Rate (SA, %)	3.5	3.3	3.2	3.0	3.1	3.1	3.1	3.0	2.8	
Economy Watcher Survey (Judgment of the present condition D.I.%)	46.6	48.8	42.6 [52.6]	45.2 [49.5]	48.7 [47.7]	48.6 [46.1]	51.2 [48.7]	48.6 [46.6]	48.5 [44.6]	50.6 [45.4]
Bankruptcies (Number of cases)	9,543 (-9.4)	8,684 (-9.0)	2,129 (-7.3)	2,087 (-0.2)	2,086 (-3.1)	693 (-2.5)	710 (1.6)	605 (-10.4)	688 (-4.8)	786 (5.4)

(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 Apr. 20, 2017

	Fiscal	Fiscal	2016			2016		2017		
	2014	2015	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	5.4	-0.7	(-9.5)	(-10.2)	(-1.9)	(-0.4)	(5.4)	(1.3)	(11.3)	(12.0)
Value	3.9	2.0	(-8.3)	(-11.1)	(-6.3)	(-7.3)	(-2.7)	(1.6)	(2.8)	(5.0)
Volumes	1.3	-2.7	(-1.3)	(1.0)	(4.7)	(7.4)	(8.4)	(-0.3)	(8.3)	(6.6)
Imports (In Yen terms)	-1.0	-10.2	(-18.7)	(-19.3)	(-9.3)	(-8.7)	(-2.5)	(8.4)	(1.2)	(15.8)
Value	1.2	-8.4	(-17.5)	(-18.8)	(-10.7)	(-11.9)	(-5.9)	(2.0)	(5.7)	(11.2)
Volumes	-2.1	-1.9	(-1.3)	(-0.7)	(1.6)	(3.6)	(3.6)	(6.3)	(-4.3)	(4.1)
Current Account (100 mil. yen)	86,954	178,618	45,502	57,743	40,876	14,267	11,143	655	28,136	
Goods (100 mil. yen)	-66,389	3,296	14,758	14,860	17,146	3,400	8,087	-8,534	10,768	
Services (100 mil. yen)	-27,728	-13,527	-4,876	-3,470	-5,520	635	-2,886	-2,357	-639	
Financial Account (100 mil. yen)	142,052	238,492	69,796	104,960	22,119	11,842	2,412	-15,351	17,752	
Gold & Foreign Exchange Reserves (\$1mil.)	1,245,316	1,262,099	1,265,402	1,260,145	1,216,903	1,219,291	1,216,903	1,231,573	1,232,340	1,230,330
Exchange Rate (¥/\$)	109.92	120.13	108.17	102.40	109.32	108.18	115.95	114.73	113.06	113.01

## 3. Financial Market Indicators

	Fiscal	Fiscal	2016			2016		2017			
	2014	2015	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR	
Uncollateralized Overnight Call Rates	0.068	0.063	-0.050 [0.067]	-0.046 [0.074]	-0.043 [0.076]	-0.049 [0.078]	-0.044 [0.075]	-0.045 [0.074]	-0.038 [0.033]	-0.042 -0.003	
Euro Yen TIBOR (3 Months)	0.194	0.157	0.060 [0.169]	0.057 [0.169]	0.056 [0.169]	0.056 [0.169]	0.056 [0.169]	0.056 [0.169]	0.056 [0.098]	0.056 [0.098]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.400	-0.050	-0.230 [0.455]	-0.085 [0.350]	0.040 [0.270]	0.020 [0.300]	0.040 [0.270]	0.085 [0.095]	0.050 -0.065	0.065 [-0.050]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.006	0.924	0.886 (-0.038)	0.865 (-0.021)	0.853 (-0.012)	0.864 (-0.002)	0.853 (-0.011)	0.855 (0.002)	0.852 (-0.003)		
The Nikkei Stock Average (TSE 225 Issues)	19,207	16,759	15,576 [20,236]	16,450 [17,388]	19,114 [19,034]	18,308 [19,747]	19,114 [19,034]	19,041 [17,518]	19,119 [16,027]	18,909 [16,759]	
M2(Average)	(3.3)	(3.6)	(3.4)	(3.4)	(3.9)	(3.9)	(4.0)	(4.0)	(4.2)	(4.3)	
Broadly-defined Liquidity(Average)	(3.3)	(3.9)	(2.2)	(1.6)	(1.9)	(1.9)	(2.2)	(2.3)	(2.6)	(2.6)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.3)	(2.4)	(2.1)	(2.1)	(2.5)	(2.4)	(2.6)	(2.5)	(2.8)	(3.0)
	Banks	(2.5)	(2.5)	(2.1)	(2.1)	(2.5)	(2.4)	(2.6)	(2.6)	(2.9)	(3.0)
	City Banks etc.	(1.4)	(1.2)	(0.8)	(0.7)	(1.4)	(1.2)	(1.8)	(1.7)	(2.1)	(2.4)
	Regional Banks	(3.8)	(3.7)	(3.4)	(3.5)	(3.6)	(3.6)	(3.5)	(3.5)	(3.6)	(3.8)
	Regional Banks II	(2.9)	(3.2)	(3.2)	(2.9)	(3.1)	(3.1)	(3.1)	(3.1)	(3.2)	(3.2)
Deposits and CDs (Average)	Shinkin	(1.4)	(2.2)	(2.2)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.5)	(2.6)
	Total(3 Business Condition)	(3.3)	(3.7)	(3.3)	(3.4)	(4.2)	(4.2)	(4.3)	(4.5)	(4.4)	(4.6)
	City Banks	(3.4)	(4.5)	(4.7)	(4.8)	(6.0)	(6.1)	(6.3)	(6.4)	(6.1)	(6.6)
	Regional Banks	(3.3)	(3.0)	(1.9)	(2.2)	(2.3)	(2.5)	(2.3)	(2.6)	(2.7)	(2.7)
	Regional Banks II	(3.1)	(2.5)	(1.9)	(1.9)	(2.2)	(2.2)	(2.2)	(2.3)	(2.4)	(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.

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