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## EcoBrief

### Japan: After Price Inflation, Time for Wages?

**After inflation, would it be the turn of wages to change gear in Japan? The report published by the Ministry of Health, Labour and Welfare on July 7<sup>th</sup> shows indeed a notable increase in (scheduled) base wages in May, up 1.0% m/m, the largest monthly increase since the start of current statistics in 1990.**

The annual rate of 1.8% is still limited if we compare with the evolution in other developed countries (see [July 2023 inflation tracker, July 6, 2023](#)). Nevertheless, in some sectors, the acceleration seems already under way: this is the case for real estate activity (+7.2% y/y), finance and insurance (+5.7%), and transport and postal activities (+3.6%). In total, including bonuses, wages in the country are up 2.5% y/y.

This increase, already visible in April but which intensified in May, reflects the effects of the annual wage negotiations (*Shunto*), concluded in April, and which resulted in wage increases of 3.6% in large companies, according to Rengo, the country's largest trade union. That said with inflation running at 3.2% y/y in May, this increase is just enough to stabilise the purchasing power of Japanese household, based on wages.

Although these figures may be revised later (they often are), they reflect the unprecedented dynamics that Japan's economy is facing today, against a backdrop of rising inflation and acute labour shortages. The extent of these two phenomena was once again highlighted by the latest Tankan survey published at the beginning of the week of July 3. Faster wage increases over the next few months is therefore a credible scenario that the Bank of Japan will scrutinise.

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