

## Japan Viewpoint

## FY25 wage outlook: Shunto, SME, Part-timers' wages

Select Subject

**Shunto: Raise base-up estimate to c.3.5%, on par with prior year**

The focus in the FY25 Shunto spring labor negotiations (which officially begin on 6 February) is whether they result in a third consecutive year of substantial wage hikes. With inflation slowing, we previously expected the Japanese Trade Union Confederation's (Rengo) first-round tabulation for the FY25 Shunto to show a 2.5-3.0% base-up rate. We now raise our first-round estimate to around 3.5%, in line with FY24 (+5.1% including seniority-based pay increases) to reflect industry and corporate unions' aggressive wage-hike demands. This is above the economist consensus of +3.06% (+4.74%).

**Watch whether SMEs keep pace with large firms**

The weaker yen continues to drive up corporate earnings at the large manufacturers that dominate the Shunto. As a result, the labor share of income has continued to decline, creating ample scope for wage hikes. However, the labor share for smaller firms remains high, and we will be watching whether they can keep up with the level of wage hikes delivered by the blue-chip, large corporates that lead the Shunto.

Growth in scheduled cash earnings (base pay) at large and small firms diverged sharply in FY24. However, one-off increases in SME bonuses drove strong growth in their overall wages. We expect this pattern to persist in FY25, with growth in SMEs' scheduled cash earnings continuing to trail large companies. Summer bonus trends will be a key focus.

**Part-timers' wages: 4%+ growth to continue**

Meanwhile, we expect increases in the minimum wage to result in sustained, wage growth of more than 4% annualized for part-time workers, who make up 30% of the workforce. YoY growth in the minimum wage is also top of mind for the government, and we therefore see another roughly 5% minimum wage hike as likely in FY25. We note that even if the government agrees on expanding household income tax deductions, in response to intra-party negotiations on the "annual income barrier," this is unlikely to materially ease Japan's labor shortage or slow the uptrend in part-timers' wages.

**Positive real wages to support spending rebound, BoJ normalization**

We expect nominal macro wages to rise by 2.5-3.0% YoY in FY25, based on our forecast of a 3.5% Shunto base-up rate. We think this will result in a moderate increase in real wages in FY25 following a modest decline in FY24. We expect the income developments to support annualized growth of 0.5-1.0% in consumer spending. With sustained wage growth underpinning spending and further price hikes, we expect the BoJ to continue raising rates gradually and forecast two 25bp hikes in July 2025 and January 2026 (terminal rate 1%).

27 January 2025

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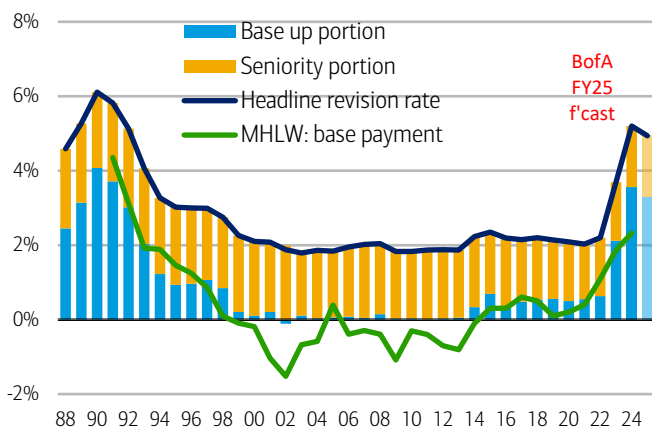
## Shunto is upon us

The FY25 Shunto spring labor negotiations officially begin on 6 February. FY23 and FY24 featured Japan's biggest pay increases since the early 1990s, with the "base-up" rate (the "pure" increase in base pay excluding the seniority-based component) reaching 2.12% and 3.56%, respectively; including the seniority-based component, pay was up by 3.69% and 5.20% (Exhibit 1). While only around 16% of workers in Japan are members of the labor unions (and thus participate in Shunto), the results of the Shunto are symbolically important and influences labor-management relationships (including wage hikes) in the rest of the economy. Shunto outcomes indeed fed into sustained strong growth in FY23-24 macro wages (which reflect the entire workforce; Exhibit 2).

Japan's ability to sustain strong wage hikes in FY25 will be critical as it works to overcome two and a half decades of low inflation. We expect real wage growth to support Japan's economic recovery and think the BoJ will continue to gradually normalize monetary policy on the assumption that a self-sustaining cycle of inflation and wage growth will continue (see [Year Ahead 2025: Domestic resilience vs. external risks](#), 28 November 2024).

### Exhibit 1: Shunto revision rate and macro level base payment growth (FY basis yoy%)

We expect above-consensus base-up rate of 3.5% in FY25 Shunto, in line with FY24

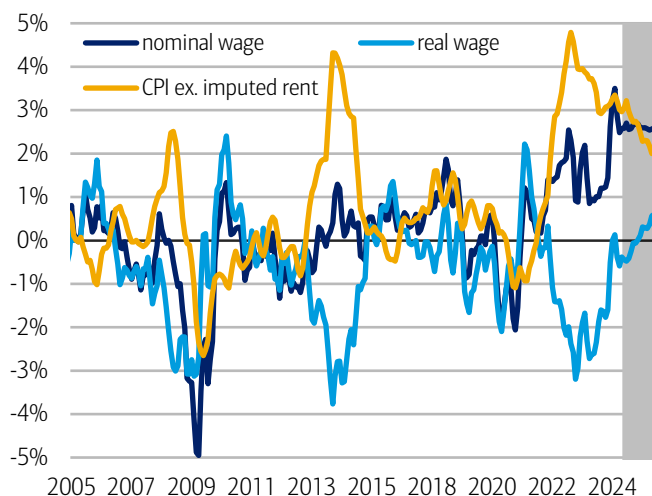


Source: BofA Global Research, MHLW, Rengo \*Rengo base revision rate, data until 2014 are BofA estimates based on headline revision rate from Rengo and base-up portion from Central Labor Relations Commission, Base payment for FY2024 is Apr-Nov '24 average

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### Exhibit 2: Inflation and wage growth (yoy%, 3mma)

We expect nominal macro wages to rise by 2.5-3.0% YoY in FY25, and real wages to continue modestly growing in YoY term



Source: BofA Global Research, Cabinet Office, MIAC, MHLW \*Figures since December 2024 are BofA estimates

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## Shunto: Raise base-up estimate to c.3.5%, on par with FY24

The Japanese Trade Union Confederation (Rengo), individual unions, the Japan Business Federation (Keidanren), and corporate employees and management all target "sustainable" wage hikes in the FY25 Shunto (see [Wages update: Progress toward sustainable wage hikes in FY25 Shunto](#), 7 November 2024). Further evidence of this comes from the basic wage-hike policies announced by industry union umbrella groups at end-2024, with many unions calling for pay hikes on par with or above FY24 levels (Exhibit 3).

The focus now shifts to the pay hikes that individual corporate unions demand in view of these basic policies. In 2024, some corporate unions demanded stronger pay hikes than the relatively conservative increases requested by industry groups. With industry unions making more aggressive demands this year, we think individual company unions will likely push for similar wage hikes to FY24 (when Rengo's tabulation shows that they demanded a 4.3% increase in base pay).



**Exhibit 3: Wage demands and response (monthly, yen)**

Many unions calling for pay hikes on par with or above FY24 levels

	# of members	Share	2024		2025		Demand Union's policy
			Demand		Wage increased		
			Union's policy	Companies' ave.	Actual	Response rate	
Rengo	6,888,162	100.0%	3.0%	4.3%	3.6%	84.4%	3.0%
JCM	1,993,696	28.9%	10,000	-	9,055	-	12,000
JAW	786,673	11.4%	-	-	9,448	-	12,000
JEIU	564,615	8.2%	13,000	13,000	13,000	100.0%	17,000
JAM	350,513	5.1%	12,000	13,131	11,576	88.2%	15,000
JBU	266,836	3.9%	12,000	22,849	17,157	75.1%	15,000
JFEW	25,059	0.4%	10,000	13,502	-	-	13,000
UA Zensen	1,878,853	27.3%	12,000	-	-	-	12,000
Jichiro	690,519	10.0%	-	-	-	-	-
LIU	230,176	3.3%	-	-	-	-	-
JP GROUP UNION	219,126	3.2%	10,000	10,000	5,100	51.0%	5% (total)
JTU	200,298	2.9%	-	-	-	-	-
Denryoku Soren	198,828	2.9%	over 3%	10,513	-	-	over 3%
ICTJ	190,603	2.8%	over 3%	-	-	-	over 3%
JEC rengo	125,060	1.8%	4.0%	-	-	-	over 4%
Unyu Roren	121,532	1.8%	4.5%	-	-	-	4.5%
JFU	112,197	1.6%	10,000	8,800	-	-	13,000
PRU	110,988	1.6%	14,600	-	-	-	13,400
Others	816,286	11.9%	-	-	-	-	-

**Source:** BofA Global Research, BofA Global Research, Rengo, news reports \*JCM=Japan Council of Metalworkers' Unions, JAW=Japan Automobile Workers' Unions, JEIU=Japanese Electrical Electronic & Information Union, JAM= Japanese association of Metal, Machinery, and Manufacturing Workers, JBU= Japan Federation of Basic Industry Worker's Union, JFEW=Japan Federation of Electric Wire Worker's Union, Jichiro= All-Japan Prefectural and Municipal Workers Union), LIU=National Federation of Life Insurance Worker's Union, JTU=Japan Teacher's Union, Denryoku Soren=The Federation of Electric Power Related Industry Worker's Unions of Japan, ICTJ=The Federation of Information and Communication Technology Service Workers of Japan, JEC rengo=Japanese Federation of Energy and Chemistry Workers' Unions, Unyu Roren=All Japan Federation of Transport Workers' Unions, PRU=General Federation of Private Railway Workers' Unions of Japan

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Inflation has slowed since the FY24 Shunto, but companies are showing a growing desire to raise wages defensively to secure personnel (see [Shunto update: Union wage hike demands stronger than last year](#), 9 January). The early announcements of substantial wage hikes by some major companies will likely ramp up pressure on their peers (and competitors), as was the case in 2024. We think companies will again be forced to drastically increase wages in the FY25 Shunto round to secure workers, despite growing uncertainty about earnings and macro conditions.

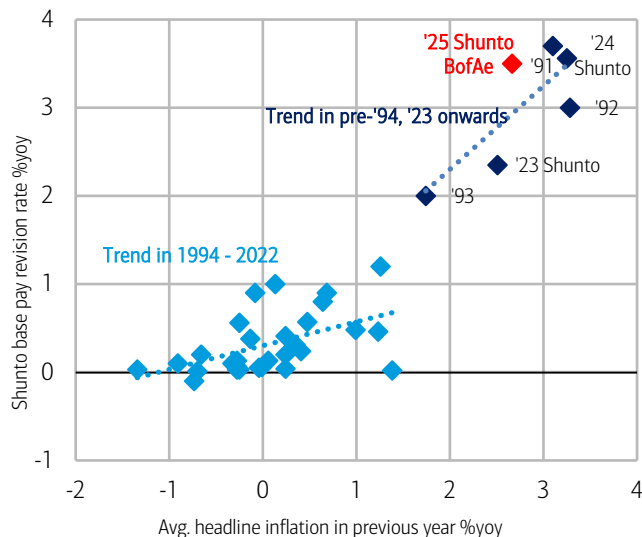
With inflation slowing, we previously expected Rengo's first-round tabulation for the FY25 Shunto to show a 2.5-3.0% base-up rate (versus 3.70% in the first and 3.56% in the final rounds for FY24). We now raise our base-up estimate to around 3.5%, in line with 2024, to reflect both unions and management's strong desire to increase wages by the same amount as last year (we estimate +5.1% including seniority-based pay increases; Exhibit 1, Exhibit 4).

A survey by the Japan Center for Economic Research shows that private economists forecast an average base-up rate of 3.06% and a total pay increase of 4.74%, putting our estimates above the consensus.

We would note that our forecasts are for Rengo's first-round tabulation of employers' responses to unions' wage demands, and the average figures for pay hikes typically edge down in subsequent rounds. For example, in 2024 the average base-pay increase in the first round of responses was 3.70%, but this was down 0.14ppt to 3.56% by the seventh and final reporting round (Exhibit 5). As we discuss below, we expect the gap between smaller and larger companies to widen in FY25, and forecast a final base-up rate of 3.2-3.3%.

**Exhibit 4: Shunto base pay revision rate and inflation**

Sensitivity of spring wage revisions to inflation is increasing

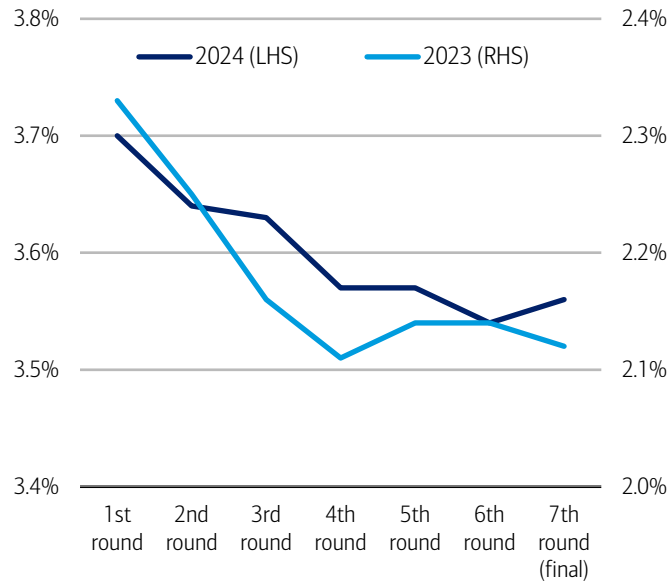


**Source:** BofA Global Research, MHLW, MIAC Note: Shunto base pay revision rate is based on results compiled by the MHLW Central Labour Relations Commission. FY25 is Rengo-based wage hikes (BofAe). Inflation data excludes impact of consumption tax hikes.

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**Exhibit 5: Base-up rate by response round in Shunto**

Average figures for pay hikes typically edge down in subsequent rounds



**Source:** BofA Global Research, Rengo

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**Shunto timeline**

The 22 January meeting of Keidanren and Rengo leaders effectively kicked off the FY25 Shunto round, with negotiations set to officially start after Rengo's 6 February general rally.

In the near term, we will be monitoring the momentum of wage hikes from the Shunto talks based on surveys from the Institute of Labour Administration (to be released between end-Jan and early Feb) and Teikoku Databank (late Feb). However, these surveys have not been a particularly good predictor of wage hikes over the past two years, and we therefore await Rengo's compilation of union demands (which we expect on 7 March) and first-round tabulation of responses (which we expect on 14 March, given that most employers will respond on the 12th).

Companies that employ around 50% of Japan's union members will unveil their pay hikes on the 12<sup>th</sup> March, when Shunto responses tend to cluster (these will be reflected in Rengo's first-round tabulation of responses). We will then be watching how the overall picture of the Shunto outcome develops through Rengo's seventh-round tabulation in July. We will also be watching monthly macro wage data (the Monthly Labor Survey), to confirm how Shunto outcomes feed into actual pay growth (Exhibit 14 shows the future timeline for wage-related events).

**Watch whether SMEs keep pace with large firms**

One reason why we expect the FY25 Shunto round to result in another substantial jump in wages is the sustained decline in the labor share of income at Japanese firms<sup>1</sup> (Exhibit 6). Particularly at the large manufacturers that dominate the Shunto negotiations, recent years' yen weakness has boosted earnings and depressed the labor share of income (see Yen's decline: Structural drivers and policy responses, 10 July 2024).

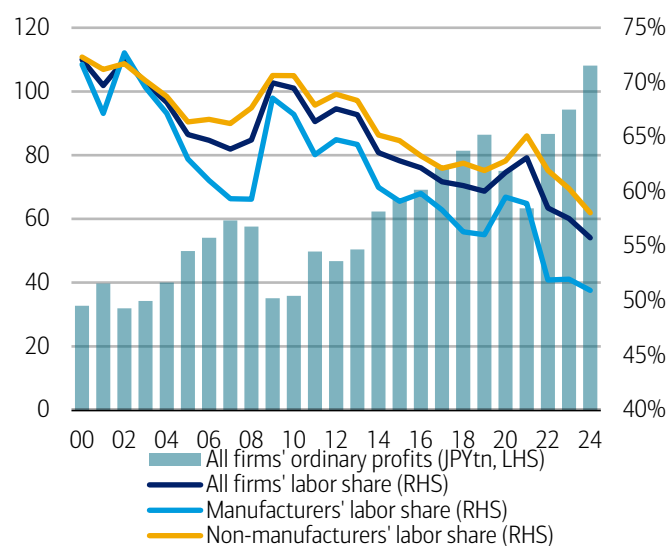
<sup>1</sup> There are two main approaches to calculate the labor share of income: the first relies on the MoF's Corporate Survey, and the second on the SNA; the latter does not show a clear downtrend, as per Exhibit 6. That said, the labor share of income according to the SNA has also remained consistently low. In this report, we analyze the labor share of income using data by sector and company size from the MoF's Corporate Survey.

However, the labor share (which indicates companies' capacity to raise wages) is diverging by sector and company size; at large companies with capital of ¥100mn or more, it has steadily fallen to around 50%, whereas for small companies capitalized at less than ¥10mn it remains at around 80%. The figure for the services industry is roughly 90% (Exhibit 7).

The BoJ's recent Regional Economic Report (Sakura Report) also includes comments from companies stating that they would "follow suit [with wage increases], even if it requires some strain, in order to secure and retain talent", while others "intend to scale back wage hikes in FY25 as cost pass-throughs fail to keep pace with rising labor costs" (see [Shunto update: Union wage hike demands stronger than last year](#), 9 January). One key focus in the FY25 Shunto will be whether smaller firms can keep pace with larger companies' wage hikes.

#### Exhibit 6: Domestic companies' ordinary profit and labor share

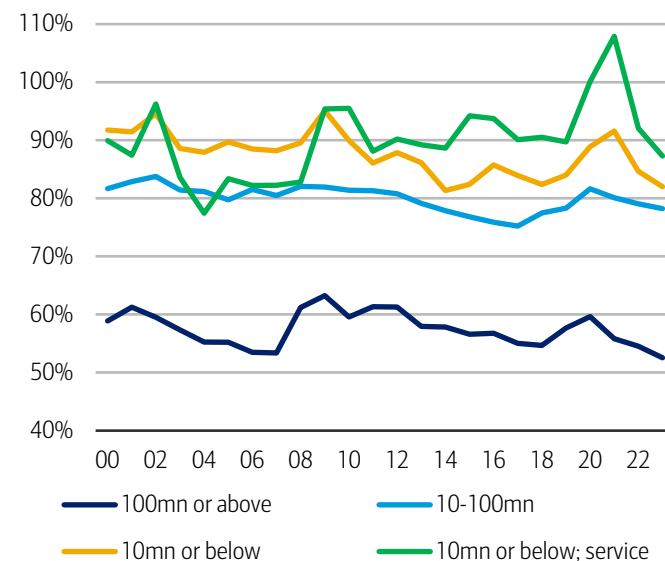
Sustained decline in the labor share of income at Japanese firms



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#### Exhibit 7: Labor share of income (by firm size in terms of capital)

Labor share for smaller firms remains high (FY base)



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## SMEs hesitant to raise base pay, boosting bonuses instead

Macro wage data shows that a gap between pay hikes at large and small firms was already emerging in FY24. Growth in scheduled cash earnings (base pay) at firms with 30 or more employees accelerated to around 3% YoY, in line with the FY24 Shunto results. In contrast, growth at small firms with 5-29 employees has stayed at roughly 2% (Exhibit 8).

However, there is no major divergence between large and small firms in terms of overall wages, consisting of scheduled cash earnings, bonuses, overtime pay, etc. Smaller firms with a pressing need to secure personnel are cautious about raising scheduled cash earnings given their downward rigidity, but they did pay out much larger one-time bonuses in FY24, supporting substantial growth in overall wages (Exhibit 9; see [Wages update: Long-awaited return to positive real wage growth](#), 6 August 2024).

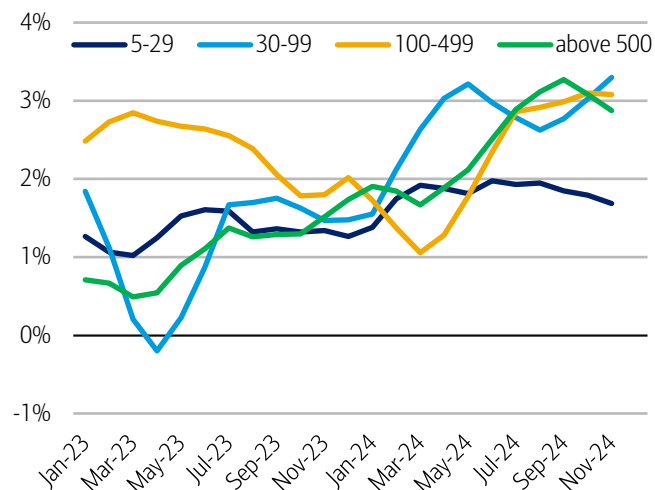
We think growth in scheduled cash earnings at SMEs is likely to continue trailing large companies in FY25 as rising wages increasingly squeeze their earnings. We therefore expect growth in scheduled cash earnings for all workers to remain at 2.5-3.0%, versus the 3.5% base-up rate we forecast for this year's Shunto (and around 3% in 2H FY24).

Whether or not SMEs increase summer bonuses by a similar amount to 2024 will therefore be key to assessing overall wage growth. We will be monitoring surveys

released around the time summer bonuses are paid (Jun-Jul) and macro wage data to get a read on overall trends in SMEs' wage hikes.

#### Exhibit 8: General worker's scheduled wage (yoy%, 3mma)

Growth in SMEs' base pay continuing to trail large companies

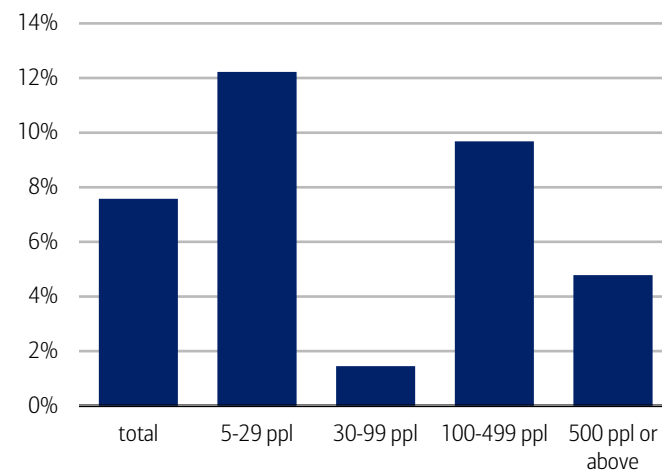


Source: BofA Global Research, MHLW

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#### Exhibit 9: Bonus increase for regular workers in FY24 (yoy%, by firm size in terms of number of employees)

SMEs hesitant to raise base pay, boosting bonuses instead



Source: BofA Global Research, MHLW

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## Part-timers' wages: 4%+ growth to continue

We looked above at wages for full-time workers (around 70% of the workforce), but the part-timers who make up the remaining 30% are also key to overall wage trends. Hourly wages for part-time workers are sustaining record-high growth of 4-5% YoY (Exhibit 10), and we expect a similar uptrend to continue over the long term.

### Rapid uptrend in minimum wage to continue

The main drivers of rapid growth in part-time wages are increasingly severe labor shortages and an increase in minimum wage. The government has pledged to raise the minimum wage from ¥1,055 (nationwide weighted average) to ¥1,500 by the mid-2030s (an increase of 3.6% per year), but Prime Minister Shigeru Ishiba is exploring ways to achieve this by 2030 (resulting in 7.3% annual growth). Over the past three years, the government has raised the minimum wage to its highest ever and at a record YoY pace (Exhibit 11; e.g., it raised the minimum wage to an all-time high of ¥1,055 in FY24, an YoY increase of ¥51). We think it will likely aim for another substantial increase in FY25 given its vulnerable political base. Assuming a ¥52 hike (slightly larger YoY increase than 2024), the minimum wage would rise by another 5% YoY.

The government plans to continue raising the minimum wage for at least the next five years, and we expect its aggressive stance toward pay hikes and Japan's increasingly severe labor shortages to support long-term growth of at least 4% per year in part-timers' wages (see [¥1,500 minimum wage shock: Another driver of persistent inflation](#), 30 October 2024).

### "Annual income barrier" debate another unknown for labor supply

If the increase in the annual income barrier that the ruling LDP/Komeito coalition has been discussing with the Democratic Party for the People (DPFP) since autumn 2024 comes to pass, this could help ease Japan's shortage particularly of part-time workers. Roughly 3.48mn people (around 15% of non-regular workers) are currently limiting their working hours to stay below the annual income barrier. If a higher barrier resulted in a

10% increase in working hours, this would boost Japan's labor supply by the equivalent of 348,000 people.

However, the outcome of inter-party negotiations is unclear at this point, and they focus only on the annual barrier for income tax. Given that similar barriers exist for residential tax and social insurance, it is unclear how much part-timers would increase their working hours in response to a higher income tax exemption (see [Fiscal policy debates deadlocked under minority government](#), 23 December 2024). With Japan's population falling by 0.5% every year, an increase in the annual income barrier would simply cause the workforce to shrink more slowly for a while, rather than easing the shortage of labor per se. We therefore see growth in part-time wages as unlikely to stall.

#### Exhibit 10: Part-timers' hourly wages (yoy%, 3mma)

Sustaining record-high growth of 4-5% YoY

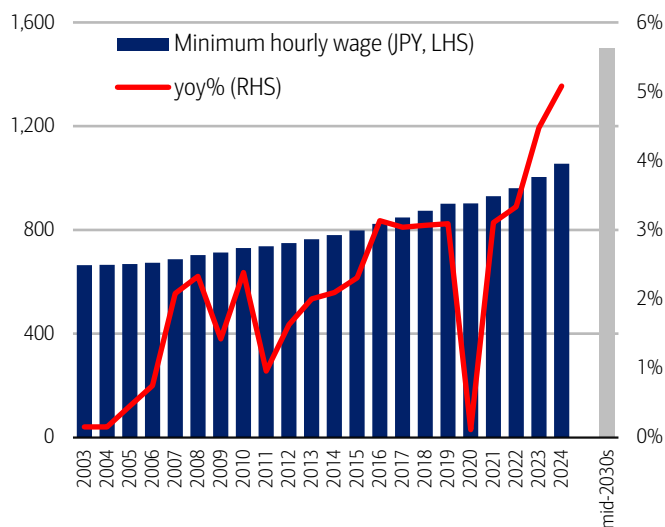


Source: BofA Global Research, MHLW

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#### Exhibit 11: Minimum hourly wage trend (Nationwide, weighted average)

Rapid uptrend in minimum wage to continue



Source: BofA Global Research

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## Macro wage forecasts: Real wage growth to stay just above zero

Based on the above, we revise our macro wage forecasts.

We expect macro wage growth to remain upbeat, on the view that the FY25 Shunto round will deliver strong wage hikes on par with FY24. Shunto outcomes only show up in actual wages at a several-month lag; they have usually fed through at around 50% of companies by late April through early May, and at 90% or more by August (Exhibit 12). However, we expect this year's Shunto to result in pay hikes that are on par with 2024, in contrast to the past two years' substantial YoY increases, and therefore do not see these timing differences as a major issue. We expect the roughly 3% growth in scheduled cash earnings at large companies seen in 2H FY24 to continue in FY25.

However, as noted, we think wage growth at SMEs could slow from around 2% in FY24, resulting in growth of just 2.5-3.0% in overall scheduled cash earnings. We expect overall macro wage growth to stay at 2.5-3.0% YoY, supported by bonuses and part-time wages.

We think real wages will rise slightly YoY as inflation remain stable (Exhibit 2; for our latest inflation forecasts, see [Year Ahead 2025: Domestic resilience vs. external risks](#), 28 November 2024).



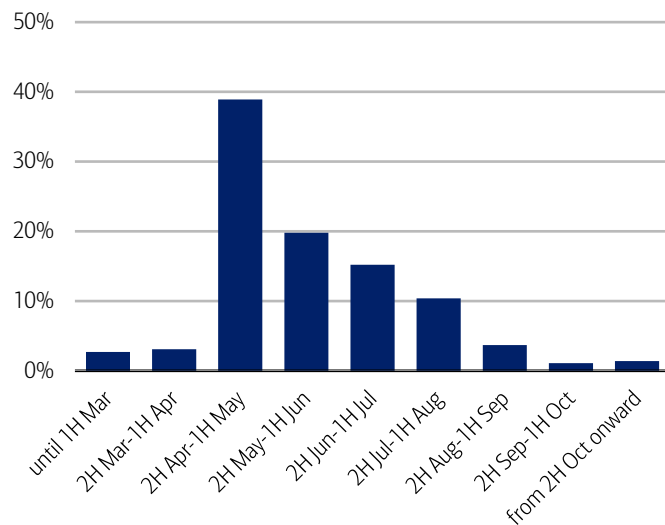
## Gradual spending rebound to support BoJ rate hikes

We expect the shift from a moderate decline in real wages in FY24 to a moderate increase in FY25 to support a gradual recovery in consumer spending. We think real consumer spending will continue increasing by 0.5-1.0% annualized, driven by a gradual uptrend in real employee compensation (Exhibit 13; see [Year Ahead 2025: Domestic resilience vs. external risks](#), 28 November 2024).

This should also support the BoJ's sustained 2% inflation goal, and we expect it to continue gradually raising policy rates while monitoring domestic and overseas conditions. Following its hike from 0.25% to 0.5% at last Friday's January MPM, we expect the BoJ to raise rates again at its meetings in July 2025 (from 0.5% to 0.75%) and January 2026 (from 0.75% to 1.0%), bringing the terminal rate at end-FY25 to 1% (see [BoJ review: A 25bp hike, with more to come 24 January 2025](#)).

### Exhibit 12: Timing at which revised pay rate hits salaries

Shunto outcomes only show up in actual wages at a several-month lag

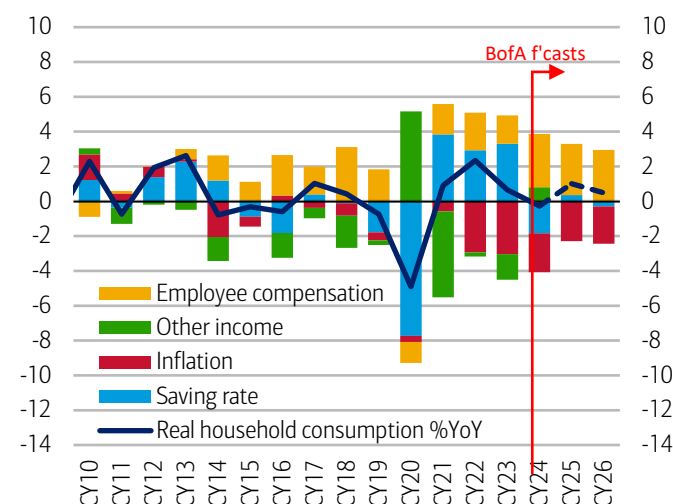


Source: BofA Global Research, MHLW survey in 2023

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### Exhibit 13: Contribution to real household consumption (%YoY, %ppt)

We expect a gradual recovery in consumption, supported by a rise in employee compensation



Source: BofA Global Research, CAO \*Other income includes adjustment for the change in pension entitlements, receivable

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### Exhibit 14: Wage-related timeline for FY25

Shunto is upon us

Date*	Organization	Event
22-Jan	Keidanren	"Stance on FY25 Shunto" (outlining general negotiating stance)
end-Jan to early-Feb	Institute for Labor Administration	FY25 Survey on wage increases* with answers from 1) labor unions, 2) management, and 3) experts in the labor market field
5-Feb	MHLW	Monthly Labor Survey for December '24
6-Feb	Rengo	Rengo kickoff assembly (Shunto start)
late Feb	Teikoku Data Bank	Corporate survey on wage developments
<b>7-Mar</b>	<b>Rengo</b>	<b>Tabulation of wage demands from member unions</b>
10-Mar	MHLW	Monthly Labor Survey for January
12-Mar	-	Concentration of Shunto responses
<b>14-Mar</b>	<b>Rengo</b>	<b>First response of Shunto results</b>
21-Mar	Rengo	Second response of Shunto results
7-Apr	MHLW	Monthly Labor Survey for February
7-Apr	Rengo	Third response of Shunto results
April	BoJ	Publication of Regional Economic Report (Sakura Report)
21-Apr	Rengo	Fourth response of Shunto results
end-Apr	Central Labor Relations Commission (MHLW)	"Basic Survey on Wage Structure" covers base pay and bonus developments of preceding fiscal year
9-May	MHLW	Monthly Labor Survey for March
early May	Rengo	Fifth response of Shunto results





**Exhibit 14: Wage-related timeline for FY25**

Shunto is upon us

Date*	Organization	Event
5-Jun	MHLW	Monthly Labor Survey for April
early June	Rengo	Sixth response of <i>Shunto</i> results
7-Jul	MHLW	Monthly Labor Survey for May
early July	Rengo	Seventh (final) response of <i>Shunto</i> results
end-July	MHLW	Announcement of target to raise minimum wage in FY25
6-Aug	MHLW	Monthly Labor Survey for June
mid-August	MHLW	Decision to raise minimum wage in FY25
5-Sep	MHLW	Monthly Labor Survey for July
early-October	MHLW	Increase in minimum wage in FY25
8-Oct	MHLW	Monthly Labor Survey for August

**Source:** BofA Global Research \*BofA forecasts for undisclosed dates

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