

## Will 2018 spring wage negotiations trigger a “true dawn”?

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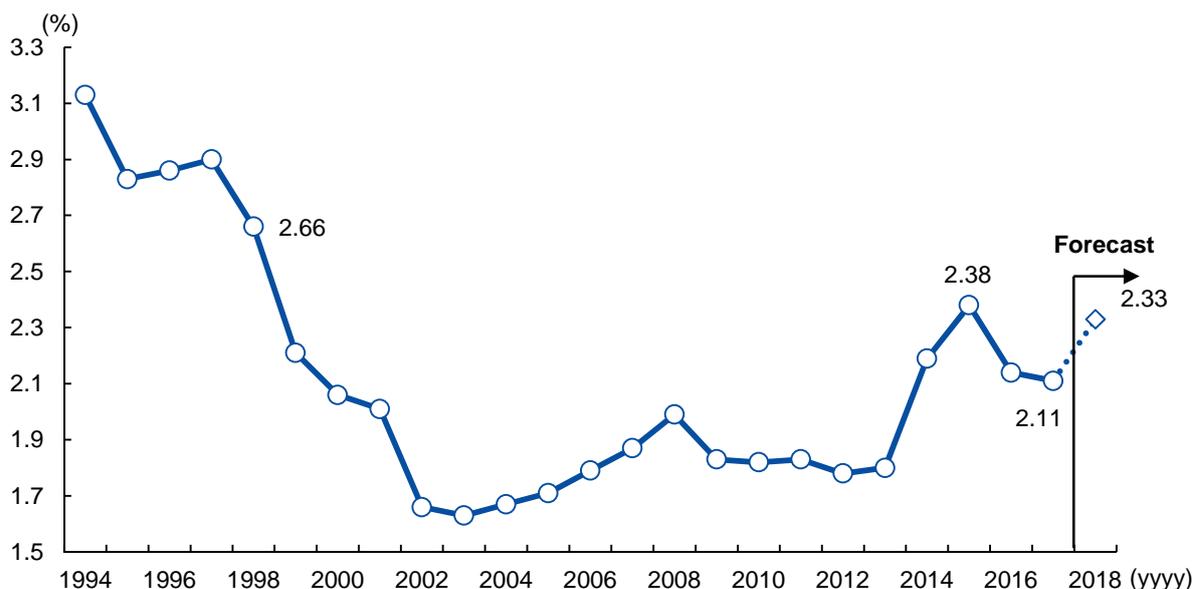
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The Japanese economy is currently showing signs of a “true dawn” with improvements in employment, demand and supply, and price trends. However, various issues persist. Easily identifiable issues include the sluggish consumer spending and the poor improvement in corporate investment. Nevertheless, favorable corporate earnings raise questions about the ability to achieve a virtuous cycle with such favorable corporate earnings spreading to consumer spending and corporate investment.

The following chart shows the rate of spring wage increases. Our forecast for 2018 is an increase of 2.33%, based on the improvement in prices and improvement in corporate earnings. While this would exceed the increase recorded in 2017, it would not reach the 3% levels achieved up until the early 1990s. The reality is very different from the 3% targeted by the government. The “reverse” of the “income policy” implemented during the 1970s i.e., the reverse of the policy for both the public and private sectors to curb wages to suppress inflation, is required to boost wage levels. Therefore, we expect there will be discussion about a “reverse income policy” for the public and private sectors to hike wages for the purpose of curbing deflation. Looking back, asset deflation coincided with the very strong yen that followed the burst of the bubble in the 1990s and companies continued to restructure their balance sheets “without having to have management” in order to overcome the headwinds. Wage growth was held back in this process, and there was demand to turn personnel costs into variable costs. Moreover, this situation has continued for more than 20 years, and hopes for higher wages have disappeared each year. Although a government-managed spring wage offensive would be criticized for contravening capitalist principles, a ritual required to normalize awareness of both the public and private sectors is considered a necessary evil to reboot the original mindset.

Stock prices have risen with the improved corporate earnings. Consequently, a virtuous economic cycle is likely if this benefit spreads. Therefore, despite the many issues impeding a “true dawn”, we can point to several signs indicating expectation of a “true dawn” such as wage hikes and ongoing increases in asset prices while corporate earnings continue to improve. The BOJ has recently reduced the size of its outright purchase operations and there are also signs of adjustment to its yield curve control and hikes in long-term interest rates, but expectations for an exit that would raise concerns about a strong yen must be suppressed if there are going to be expectations for improvement with the spring wage negotiations. US and European central banks are aiming for exit policies, yet the BOJ dares to resist. We expect that targeting a high-pressure economy through disparity in monetary policies will continue for a while.

[ Chart: Rate of spring wage increases ]



Source: Made by Mizuho Research Institute, Inc. (MHR) based upon Ministry of Health, Labour and Welfare, *Survey on agreements for wage increases at major private sector companies*

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