



June 6, 2024

Bank of Japan

**Economic Activity, Prices,
and Monetary Policy in Japan**

Speech at a Meeting with Local Leaders in Sapporo

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(English translation based on the Japanese original)

I. Economic Developments at Home and Abroad

I will begin my speech by talking about recent developments in and the outlook for overseas economies.

The pace of recovery in overseas economies has slowed. Uncertainties surrounding these economies have continued to be high (Chart 1). For example, one concern is that, with inflationary pressure still looming on a global basis, there may be a resurgence in inflation triggered by wage increases. In addition, the European and Chinese economies have been slow to recover and tensions in the Middle East have increased. The U.S. economy, despite the impact of policy interest rate hikes, has been firm, mainly due to resilient private consumption, and according to projections by the International Monetary Fund (IMF) is expected to grow by 2.7 percent in 2024. However, there is a risk that, if inflation resurges, tight monetary policy will become prolonged. European economies have kept slowing moderately due to the continued impact of factors such as policy interest rate hikes. There is concern over economic recovery being delayed in Europe due to factors such as the risk of a resurgence in inflation and economic stagnation in Germany. The Chinese economy has remained on a moderate slowing trend, reflecting structural changes in the economy leading to insufficient domestic demand and excess supply capacity. These changes are mainly due to adjustments in the real estate market, an aging population, and a rise in households' thriftiness. Looking ahead, uncertainty continues to be high, as adjustment pressure in the labor and real estate markets remains, and there is concern over heightening deflationary pressure and growing trade friction, mainly reflecting excessive supply in some goods.

Let me move on to recent developments in Japan's economic activity and prices. The economy has recovered moderately, despite weaknesses in some parts. In the corporate sector, goods exports have been more or less flat despite the slowdown in the pace of recovery in overseas economies. Meanwhile, inbound tourism demand, which falls under services exports, has continued to increase, pushed up partly by the effects of the yen's depreciation. Turning to industrial production, although the underlying trend has been more or less flat, production has declined recently, due in part to the effects of a suspension of production and shipments at some automakers. Corporate profits have been on an improving trend, and business sentiment has been favorable. Likewise, business fixed investment has been on an increasing

trend. As for the household sector, private consumption, although showing some signs of resilience, has been weak recently, mainly due to the impact of price rises, given that disposable income has been growing slower than wages, and to the decline in automobile sales caused by the suspension of shipments at some automakers (Chart 2). Turning to prices, although the effects of the pass-through to consumer prices of cost increases triggered by past rises in import prices are waning, lingering indirect effects remain; in addition, the effects of government support measures against price increases have run their course and services prices have continued to rise moderately, so that the year-on-year rate of increase in the consumer price index (CPI) for all items less fresh food has been in the range of 2.0-2.5 percent recently.

As for the outlook, the April 2024 *Outlook for Economic Activity and Prices* (Outlook Report) forecasts that Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies growing moderately and the virtuous cycle from income to spending gradually intensifying against the background of factors such as accommodative financial conditions (Chart 3). However, households' disposable income may not rise as much as wages due to, for example, the heavier social burden and the increase in the number of pensioners, both of which are the result of structural issues such as the aging and declining population, and also due to the so-called annual income barrier -- that is, the fact that households' secondary earners or seniors try to adjust their working hours so that their income stays under the ceiling for tax exemption. This may lead households to reverse the reduction in their saving rate and become thriftier, while small and medium-sized firms may delay reforms aimed at boosting their earning power. My concern is that, under these circumstances, Japan's growth rate may fall below its potential and remain so. I will return to this point in more detail later. Meanwhile, the median of the Bank of Japan Policy Board members' forecasts for the year-on-year rate of increase in the CPI for all items less fresh food is above 2.5 percent for fiscal 2024 and at around 2 percent for fiscal 2025 and 2026. However, I fear that the rate in fiscal 2025 and thereafter may not reach 2 percent if private consumption becomes sluggish due to households reversing the reduction in their saving rate and becoming thriftier, and the rate of price increases slows down.

II. Conduct of Monetary Policy and Structural Changes in the Economy

At the March 2024 Monetary Policy Meeting, the Bank decided to change its monetary policy framework. With regard to this decision, I was in favor of discontinuing purchases of exchange-traded funds (ETFs) and other assets, which were mainly related to large firms proceeding with reforms, but I was opposed to terminating the negative interest rate policy and revising the policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control. My thinking was that, to ensure that the price stability target of 2 percent is achieved, the policy framework should be changed only after improvement in the earning power and capacity for raising wages of small and medium-sized firms, driven by spillovers from the benefits of reforms at large firms, which are driving economic growth, was confirmed. To this end, I consider it necessary to make sure that firms conduct active corporate reforms by avoiding any adverse impact, such as from financial market turmoil, on corporate managers' willingness to undertake reforms. Since the March 2024 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) subsequently showed that the earnings of small firms are expected to improve, and based on data available at present, I believe it is appropriate to maintain the current policy for the time being. I would now like to talk about my thoughts on the future conduct of monetary policy, taking into account recent developments in economic activity and prices.

A. The Importance of Stronger Household Purchasing Power

Looking at recent developments in prices and wages, the year-on-year rate of increase in the CPI for all items less fresh food was 2.2 percent for April 2024, marking a growth rate of 2 percent or more for 25 months in a row. Against this background, firms' and households' inflation expectations are rising, and there is a sense that large firms in particular are increasingly willing to raise wages in a sustained manner due to favorable business performance and labor shortages (Charts 4 and 5).

However, I think that the recent figures for the year-on-year rate of increase in the CPI for all items less fresh food are mainly the result of a slowdown in the year-on-year rate of decline in electricity and gas charges due to the dissipation of effects of government subsidies. Meanwhile, the rate of increase in the CPI for all items less fresh food and energy, which is not directly affected by energy price fluctuations, has fallen for eight consecutive months.

These developments indicate that inflation so far has been largely driven, with a lag, by the surge in import prices, and that the pass-through of higher wages to prices is still less than robust. That said, given that unit labor costs in the first quarter of 2024 rose by 2 percent on a year-on-year basis, I am paying close attention to developments going forward (Chart 6).

The aggregate results for the wage growth rate agreed in the 2024 annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) show a 5.2 percent wage hike for fiscal 2024, the highest level in 33 years.¹ However, since these aggregate results are mainly for large firms, how much of this wage hike spills over to small and medium-sized firms, where about 80 percent of employees in Japan work and which account for about 70 percent of labor costs, remains to be seen. Moreover, while employee compensation in 2023 rose by 1.7 percent year on year, household disposable income, which represents households' purchasing power, increased by only 0.2 percent, due in part to the heavier social burden and the expiration of government benefits provided during the previous year to households that were exempt from the resident tax. While household final consumption expenditure rose by 3.7 percent despite the lingering sluggishness in the income situation, this was largely due to households drawing down the ample savings accumulated during the pandemic, and the saving rate decreased from 3.4 percent in 2022 to 0.1 percent in 2023 (Chart 2).² Households' purchasing power remains weak, with real consumption of households in fiscal 2023 decreasing by 0.6 percent from the previous fiscal year (Chart 7). While the fixed-amount income and resident tax reduction in fiscal 2024 is expected to have positive effects, given that households may reverse the reduction in their saving rate and become thriftier, not only do real wages need to turn upward, but disposable income also needs to rise firmly for the virtuous cycle from income to spending to strengthen.

As I mentioned, the 2024 annual labor-management wage negotiations yielded the highest wage growth in 33 years. Meanwhile, from 1990 to 2023, the working age population in Japan decreased by about 10 percent, and the number of pensioners increased 2.4-fold. Furthermore, additional increases in the labor participation rate are very unlikely, given issues such as the

¹ The figure of 5.2 percent is based on the aggregate results for the fifth round of submitted responses.

² See "Quarterly Estimates of Household Disposable Income and Household Saving Ratio (Reference series)," Estimates for Oct.-Dec. 2023 (2015 base year; based on 2008SNA) released by the Cabinet Office.

annual income barrier for homemakers and seniors as well as the gradual shift to a super-aged society in which seniors aged 75 and older -- i.e., the advanced elderly -- account for more than half of the population aged 65 and older (Chart 8). As shown in the *Family Income and Expenditure Survey*, consumption expenditure declines significantly in households where the head of the household is aged 65 and older (Chart 9); therefore, as the population continues to age, there will likely be downward pressure on the overall consumption expenditure of households. To strengthen the purchasing power of households and stimulate private consumption, sustained high wage hikes for the working age population are essential. Moreover, I think that bringing about changes in the financial asset composition of Japanese households so that they, like households in the United States and Europe, derive more income from the growth of listed firms, would be an effective way of firmly increasing disposable income (Chart 10). I will elaborate on this point later.

As I have explained thus far, to achieve sustainable economic growth, it is necessary to ensure that high wage hikes lead to a solid increase in disposable income and that the virtuous cycle from income to spending becomes stronger. Therefore, in considering the future conduct of monetary policy, I would like to carefully monitor whether real private consumption makes a positive turnaround, which forms the basis of the virtuous cycle from income to spending.

B. The Importance of Improving Small and Medium-Sized Firms' Earning Power and Capacity for Higher Wages

While small and medium-sized firms employ about 80 percent of the total workforce and account for about 70 percent of labor costs in Japan, labor costs per employee at small firms are only half of those at large firms, and those at medium-sized firms only three-quarters (Chart 11). To achieve, at the national level, sustainable wage growth that can keep up with rising prices, it is essential for small and medium-sized firms to improve their earning power and capacity for raising wages. Ever since Japan fell into deflation, the prolonged stagnation of the economy, long-standing business practices making it difficult for firms to pass on higher costs to prices, and continued fierce competition have led to "risk-off management" taking hold. As a result, firms held off from expanding and fell into a cost-cutting mindset, leading to a decline in their earning power and capacity for higher wages. Meanwhile, many large firms have restructured their business portfolios and have been increasing their earning

power and capacity for raising wages. According to the *Financial Statements Statistics of Corporations by Industry, Annually*, while large firms' operating profits per employee grew 1.6-fold from fiscal 1990 to fiscal 2022, those of small firms roughly halved and those of medium-sized firms remained flat. Moreover, while the break-even ratio, which is available from fiscal 2007 to fiscal 2022 only due to data constraints, for large firms improved to about 60 percent, it remained at around 90 percent for small firms and improved only moderately to around 80 percent for medium-sized firms. These developments show that the gap between large firms and small and medium-sized firms in terms of their capacity for increasing earning power and for higher wages have been widening (Chart 12). Against this background, I am still not sure that the recent wage hikes will be sustained, given some anecdotal information indicating that they are defensive in nature to retain human capital.³ I believe that restructuring efforts at large firms, which are driving economic growth, have not yet sufficiently spilled over to small and medium-sized firms.

That said, there appears to be a growing sense of urgency among corporate managers at small and medium-sized firms. Since the start of 2024, there have been numerous reports about the growing impact of the initiatives taken by the Japan Fair Trade Commission to more actively encourage small and medium-sized firms to pass on cost increases to prices. My hope is that, in the lead-up to the price negotiation campaign in September 2024 promoted by the Small and Medium Enterprise Agency, small and medium-sized firms will make headway in their efforts to pass on higher costs to prices and secure funds for raising wages. With regard to small firms, the March *Tankan* showed a significant improvement in the diffusion index (DI) for output prices (calculated by deducting the percentage of enterprises answering that they expected output prices to "rise" from the percentage expecting them to "fall") and higher profits in the forecasts for fiscal 2024 (Chart 13). These developments suggest that it is more likely for the fruits of reforms at large firms to spill over to small and medium-sized firms because of the improved price pass-through environment. However, while the improved price pass-through environment helps firms to boost their business performance in the short term, achieving sustained wage increases requires more than simply passing on higher wages to prices. Specifically, having improved their profitability, small and medium-sized firms need

³ "Human capital" is a concept coined to express that human resources are valuable for corporate management.

to strengthen their competitiveness by leveraging their improved profit base to make investments and strengthen their business structures with the aim of increasing their productivity and value added. Meanwhile, large firms have been enhancing their growth potential by shifting from closed innovation, which relies on in-house expertise, to open innovation, which takes advantage of outside expertise, and by reinforcing their core businesses. While research by the Ministry of Economy, Trade and Industry showed that the share of listed medium-sized firms -- firms with 2,000 employees or less -- that grew into large firms in the past 10 years is much lower than in the United States and Europe, I think that by pushing ahead with the reforms I mentioned, more small and medium-sized firms will be able to enhance their growth potential of their own accord.⁴ In the March *Tankan*, firms overall expected their business fixed investment in fiscal 2023 to have grown by 10.2 percent from the previous fiscal year, while the figure for small firms was higher at 13.7 percent.⁵ However, whether business fixed investment will expand remains to be seen, since some firms, particularly small ones, have currently put fixed investment on hold due to supply-side constraints and a lack of capacity to invest. Moreover, there are also concerns that firms may not have the required capacity in place when needed to achieve their business plans, so that they may miss out on business opportunities and hence fail to secure the funds needed for raising wages.

Taking a look at growth in wages of regular employees at the time of recruitment by prefecture shows that, while the growth rate has been rising across regions since 2023, for wages to increase nationwide in a sustained manner, small and medium-sized firms need to grow (Chart 14). It is therefore critical that regional financial institutions familiar with the situation of

⁴ According to research by the Ministry of Economy, Trade and Industry, the share of listed medium-sized firms (i.e., firms with 301 to 2,000 employees) in fiscal 2011 that had grown into large firms (i.e., firms with more than 2,000 employees) by fiscal 2021 was 11 percent in Japan. This is significantly lower than the 30 percent in the United States and the 22 percent in Europe (the figure is for the United Kingdom, France, and Germany). For details, see the material regarding the policies to promote the growth of medium-sized firms with high growth potential that lead regional economies, released by the Ministry of Economy, Trade and Industry on March 13, 2024 (available only in Japanese).

⁵ The figures for business fixed investment plans include software and research and development (R&D) investment but exclude land purchasing expenses. They are based on all industries and enterprises, excluding the finance and insurance industries.

such firms and their regions play their part by strengthening their cooperation with support organizations such as the Organization for Small & Medium Enterprises and Regional Innovation, the National Center for Industrial Property Information and Training (INPIT), the National Institute of Advanced Industrial Science and Technology (AIST), and university research centers in the respective regions. Regional financial institutions also should provide value-added services, such as in-depth business matching for mergers and acquisitions (M&As) and third-party business succession. These services will help small and medium-sized firms to strengthen their core businesses, expand their scale of operations, and improve job satisfaction among their employees, which in turn will help to boost the attractiveness and revitalization of regions struggling with population outflows.

C. Sustainable and Stable Achievement of the 2 Percent Price Stability Target

With prices and wages finally starting to move, Japan's economy is approaching a critical turning point (Chart 15). The economy has almost reached the golden opportunity to break out of its long-standing stagnation, achieve the 2 percent price stability target, and realize sustainable economic growth. Large firms have begun to take the lead in raising wages at a higher rate to address labor shortages and achieve further growth, which has pushed up overall wage levels. Meanwhile, small and medium-sized firms are beginning to find it easier to pass on higher wages to prices. As a result, small and medium-sized firms are also making various efforts to enhance customer satisfaction, which is necessary to allow them to raise selling prices, and I see positive changes taking place in the economic structure. As the market and the corporate sector come to appreciate these efforts, firms can increase their selling prices in line with enhanced customer satisfaction and raise wages of employees contributing to creating added value, which in turn will boost employee engagement and growth expectations. These developments, together with productivity improvements and more innovation, will lead to a virtuous cycle from prices to wages and from wages to prices. Moreover, it is expected that, along with the sustainable and stable achievement of the price stability target, firms will become more forward-looking in their business activities and households will become more optimistic about the future. I look forward to your efforts as growth-oriented business leaders to continue to pursue reforms (Chart 16).

Nonetheless, it is hard to imagine that the cost-cutting orientation of firms, which lasted for 30 years, will suddenly change in two short years. My view is that to achieve the 2 percent price stability target in a sustainable and stable manner, changes in the economic structure are needed to turn hope for a strong economic recovery into certainty. From this perspective, I consider it critical to carefully monitor progress in the strengthening of firms' business structures and measures to achieve further growth, including how widespread small and medium-sized firms' efforts to pass on higher costs to prices are and how much their capacity for raising wages improves, along with developments in business fixed investment, investment in human capital, R&D investment, M&A activity, and third-party business succession.

III. Pursuing Sustainable Economic Growth to Overcome Structural Issues

I would now like to share my personal views from a medium- to long-term perspective on the "dynamism" of firms, employment, and households that is needed to achieve sustainable growth in Japan's economy, which is highly affected by structural issues.

A. Aspiring for Growth and Fostering the Dynamism of Firms and Employment

In societies that face structural issues such as an aging and declining population, the purchasing power of households tends to weaken and private consumption is prone to stagnating, pushing the economy into a downward spiral of contraction, leading to growing concerns about the social security system, and triggering a vicious cycle in which people are pessimistic about the future. To counter this, it is necessary to create a growth spiral on the back of the steady growth of existing firms, the increased movement of labor to growing firms, and the rapid growth of startups into so-called unicorns. In addition, wage hikes need to spread and business practices with regard to passing on cost increases need to improve, while corporate managers need to take steps to ensure that their labor force generates greater added value and to expand the scale of their business. Efforts to further step up exports to growing overseas economies are also essential. Such efforts help to strengthen the earning power of firms and to achieve "structural wage hikes" -- that is, a situation in which wages rise sustainably due to productivity improvements above and beyond any increase in the social burden imposed by structural issues -- helping to realize sustainable economic growth in which people feel better off.

Large firms in Japan have begun to channel management resources into core businesses, introduce job-based employment, and more aggressively raise scheduled wages for younger workers, which until now were kept low relative to their productivity. They are also stepping up investment in human capital, such as in reskilling and the hiring of mid-career specialists, and seeking to create a work environment that motivates employees and allows them to realize their full potential. Through these efforts, firms are increasing the capacity of individuals to generate innovations and boosting customer satisfaction with their products and services. Thus, it seems to me that these firms are making active management efforts to focus on human capital as a way of strengthening their earning power. Moreover, more than half of large firms are undertaking mid-career hiring or considering doing so.⁶ This suggests mounting competition to attract human resources, and it seems that labor is moving to large firms that continue to grow and offer high wages. Thus, forces in Japan's labor market pushing up wage levels, which are the lowest among the Group of Seven (G7) countries, are growing (Chart 17). However, the slope of wage profiles by job grade in Japan is still less steep than in other major Asian economies (Chart 18). Therefore, individuals' efforts to promote growth need to be better recognized, higher wage increases need to be achieved going forward, and wage profiles need to continue to be reformed.

My hope is that growth-oriented small and medium-sized firms, thanks to their improved profitability as a result of actively passing on higher costs to prices, boost their investment and strengthen their business structures, so that more firms, supported by government policies, have the dynamism to expand their business -- that is, for small firms to grow into medium-sized firms and medium-sized firms to grow into large firms. On the other hand, given that funding for startups that try to use new technologies to carve out new markets has been sluggish and the number of unicorns is much smaller than in other countries, Japan's economy lacks the momentum to generate a growth spiral (Chart 19). Going forward, however, I hope to see many startups grow rapidly into unicorns in line with the government's Startup Development Five-Year Plan and that this, together with the growth of small and medium-sized firms, will inspire admiration for firms and individuals pursuing growth, drawing both

⁶ In a recruitment plan survey of major firms published in April 2024 by Nikkei Inc., 54.2 percent of firms -- including those that had not yet finalized their recruitment plans as of March 12, 2024 -- gave specific numerical targets in their response with regard to their plans for mid-career hiring.

funds and talent to growth-oriented firms, and thus creating a growth spiral that reinforces the dynamism of firms and employment characterized by continuing rises in wage levels (Chart 20).

Meanwhile, the number of M&As and cases of third-party business succession have steadily increased, and the growth rate of firms that have gone through a business succession is higher than the industry average, indicating that budding developments toward a greater dynamism of firms and employment are steadily gaining traction (Chart 21). Nurturing these budding developments is vital in overcoming structural issues such as an aging and declining population, so that Japan will turn into a growth-oriented society in which young people -- the future of the country -- have hope for a better tomorrow.

B. Expectations for Improved Household Dynamism

The new Nippon Individual Savings Account (NISA) program was launched this year and has started to lead to a shift from saving to investing. Unlike in the United States, household disposable income in Japan has greatly relied on labor income from the firm where a person works for many years (Chart 2). However, this is beginning to change. To raise household disposable income, people are more actively trying to earn higher wages not only by making efforts to contribute to the growth of the firm where they work, but also by changing jobs to growing firms and/or improving their skills such as through reskilling. Furthermore, there has been an expansion in investment to increase dividend income from listed firms that drive economic growth. These developments suggest that a household dynamism is emerging (Chart 22). While it is important for households to understand the risks associated with such investment, I think that, if they have the financial capacity, efforts to shift from saving to investing -- provided it focuses on the long term, regular contributions, and risk diversification -- as well as continued efforts by households to expand their sources of income through increased dividend income are a key element of economic growth. I believe that these efforts can help to increase household wealth, including that of seniors, through economic growth (Charts 8 and 10). I will pay close attention to changes in the composition of household financial assets and disposable income amid rising inflation expectations.

However, if households increasingly accumulate financial assets because they are worried about the future and want to save for retirement, this may lead to a shift from consumption to investment, which may make households thriftier. Therefore, it is essential that asset formation by households strike the right balance between managing assets for retirement and generating income for the present. For this reason, I have high hopes for the educational outreach of the Japan Financial Literacy and Education Corporation (J-FLEC), established in April 2024, to promote a better understanding regarding the balance between consumption, savings, and investment.

Thank you.



Economic Activity, Prices, and Monetary Policy in Japan

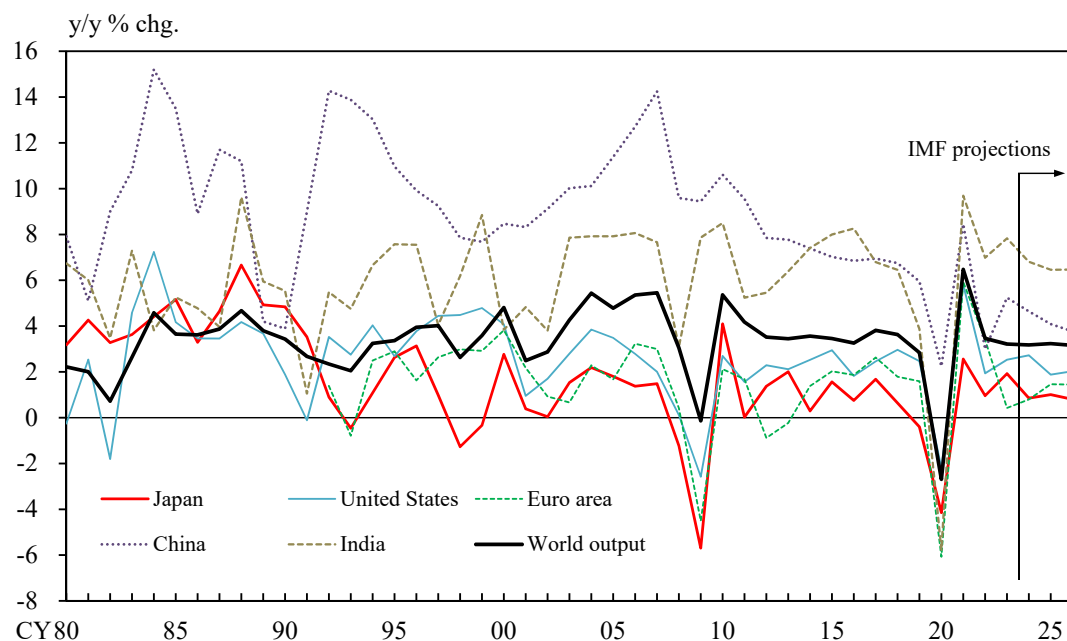
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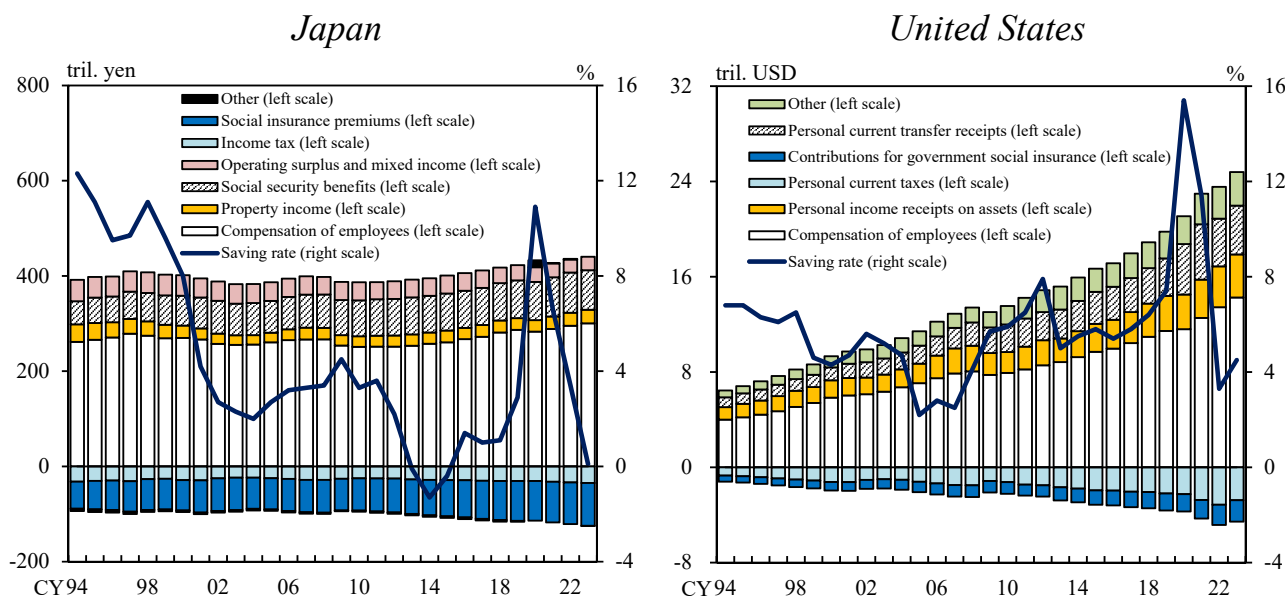
Chart 1

IMF Projections in the *World Economic Outlook* (April 2024)



Source: IMF.

Household Disposable Income Breakdown and Saving Rates



Sources: Cabinet Office; U.S. Bureau of Economic Analysis (BEA).

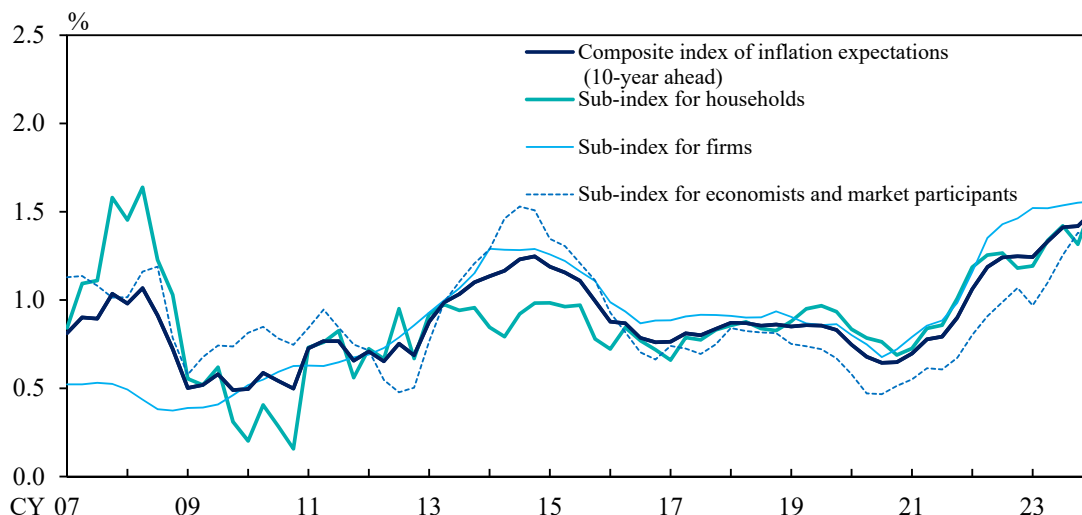
Forecasts of the Majority of the Policy Board Members

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+1.3 to +1.4 [+1.3]	+2.8	+3.9
Forecasts made in January 2024	+1.6 to +1.9 [+1.8]	+2.8 to +2.9 [+2.8]	+3.7 to +3.9 [+3.8]
Fiscal 2024	+0.7 to +1.0 [+0.8]	+2.6 to +3.0 [+2.8]	+1.7 to +2.1 [+1.9]
Forecasts made in January 2024	+1.0 to +1.2 [+1.2]	+2.2 to +2.5 [+2.4]	+1.6 to +2.1 [+1.9]
Fiscal 2025	+0.8 to +1.1 [+1.0]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Forecasts made in January 2024	+1.0 to +1.2 [+1.0]	+1.6 to +1.9 [+1.8]	+1.8 to +2.0 [+1.9]
Fiscal 2026	+0.8 to +1.0 [+1.0]	+1.6 to +2.0 [+1.9]	+1.9 to +2.1 [+2.1]

- Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
 2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
 3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

Source: Bank of Japan.

Composite Index of 10-Year-Ahead Inflation Expectations, by Type of Economic Agents

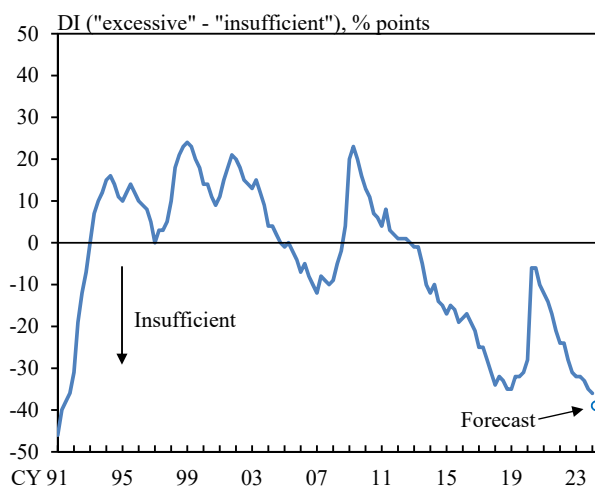


Note: The composite index is calculated by extracting the common components, based on the first principal component, of the inflation expectations of firms, households, and economists and market participants. For details on the calculation method, see Box 4 in the April 2024 Outlook Report.

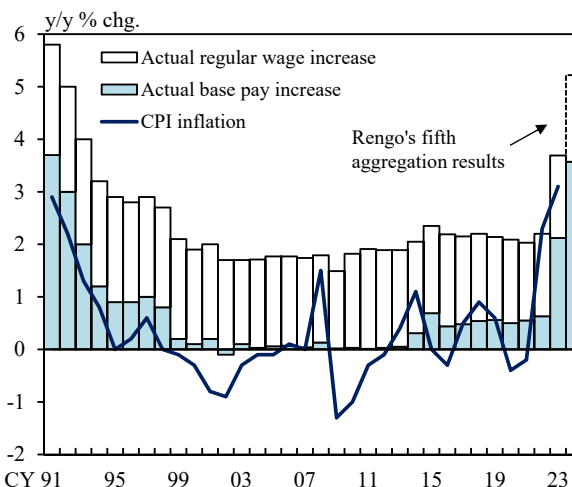
Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Firms' Willingness to Raise Wages

Employment Conditions DI



Results of the Annual Spring Labor-Management Wage Negotiations

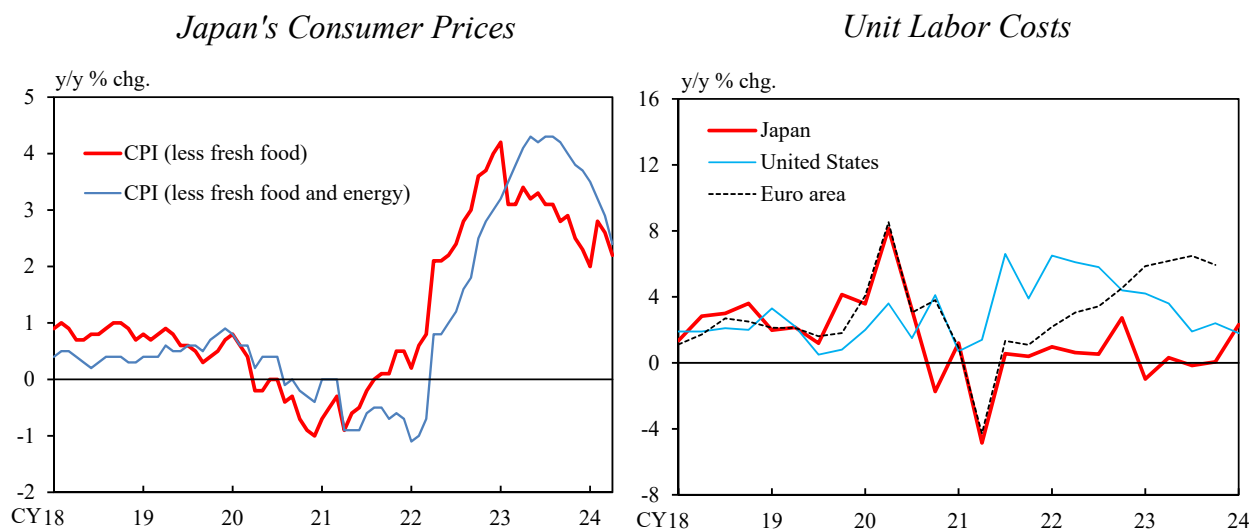


Notes: 1. In the left panel, figures are for all industries and enterprises, excluding financial institutions.

2. In the right panel, figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes. Figures for the actual base pay increase and the actual regular wage increase from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 onward are figures released by Rengo. Figures are based on the wage negotiation results submitted by labor unions for which the base pay increase is clear. The figures for 2024 are from Rengo's fifth aggregation.

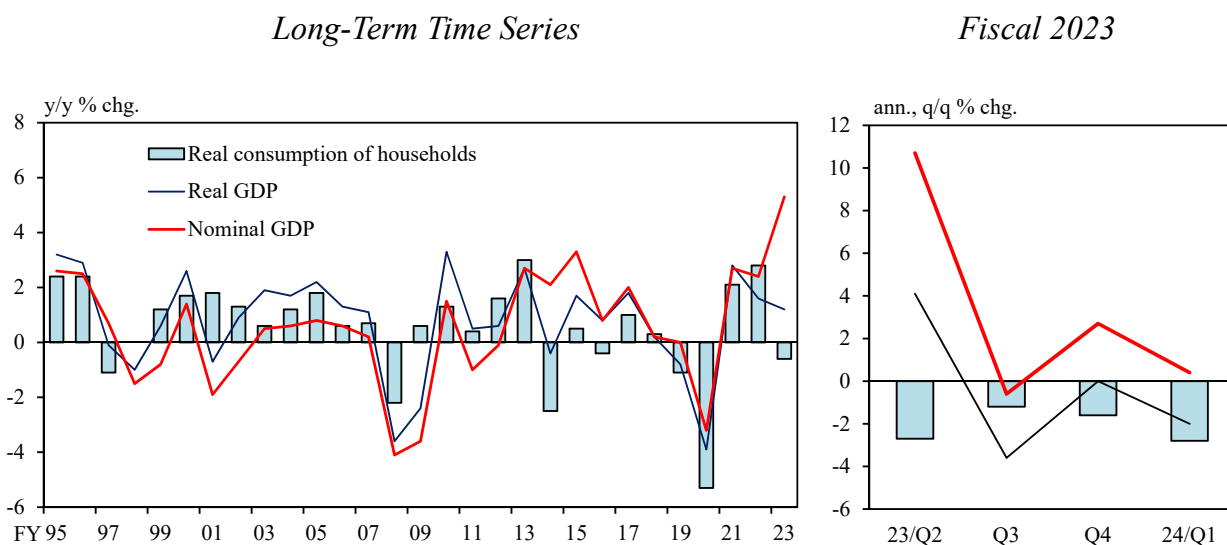
Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo; Bank of Japan.

Consumer Prices and Unit Labor Costs



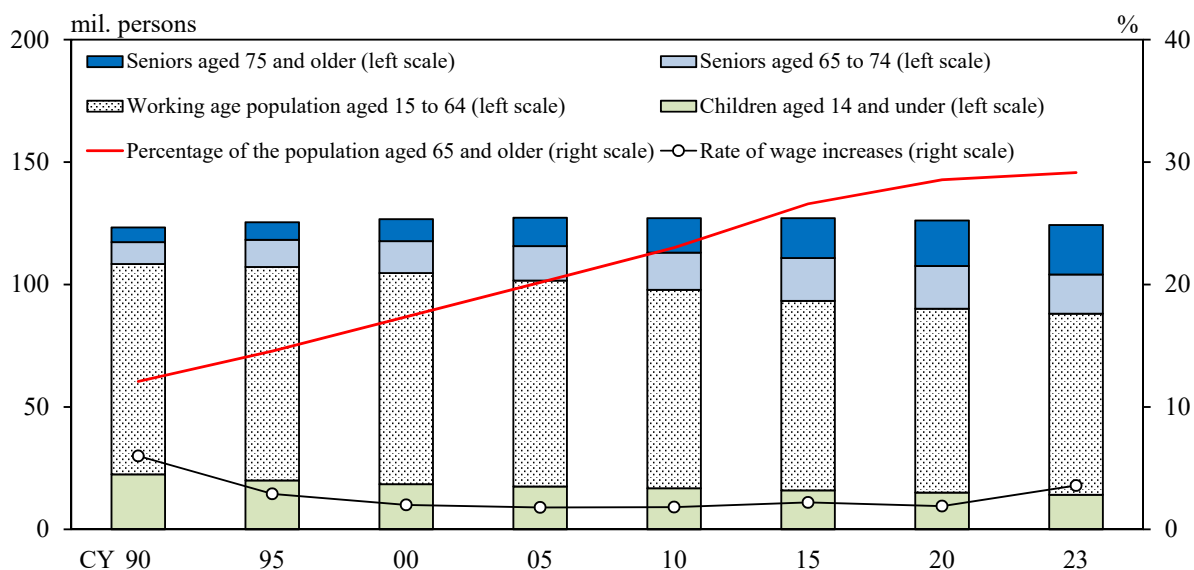
Sources: Cabinet Office; Haver; Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics (BLS).

Consumption of Households and GDP



Source: Cabinet Office.

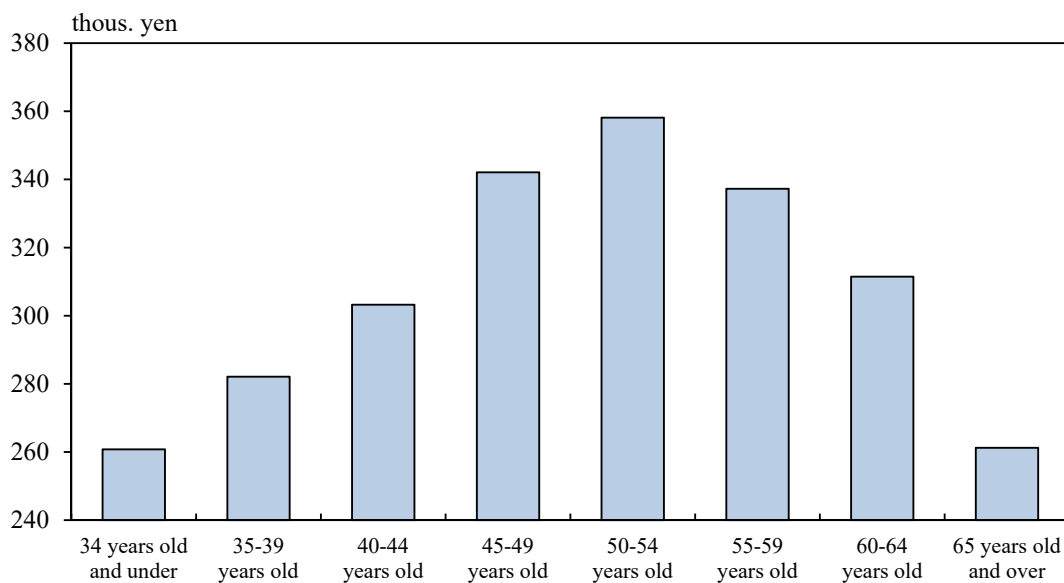
Japan's Demographic Composition and Rate of Wage Increases



Note: Figures for the rate of wage increases until 2010 are those released by the Central Labour Relations Commission, while those from 2015 onward are figures released by Rengo. Figures for the demographic composition through 2020 are based on the *Population Census* and those for 2023 are based on the final estimates of *Population Estimates* (as of December 1, 2023), both of which are released by the Ministry of Internal Affairs and Communications.

Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

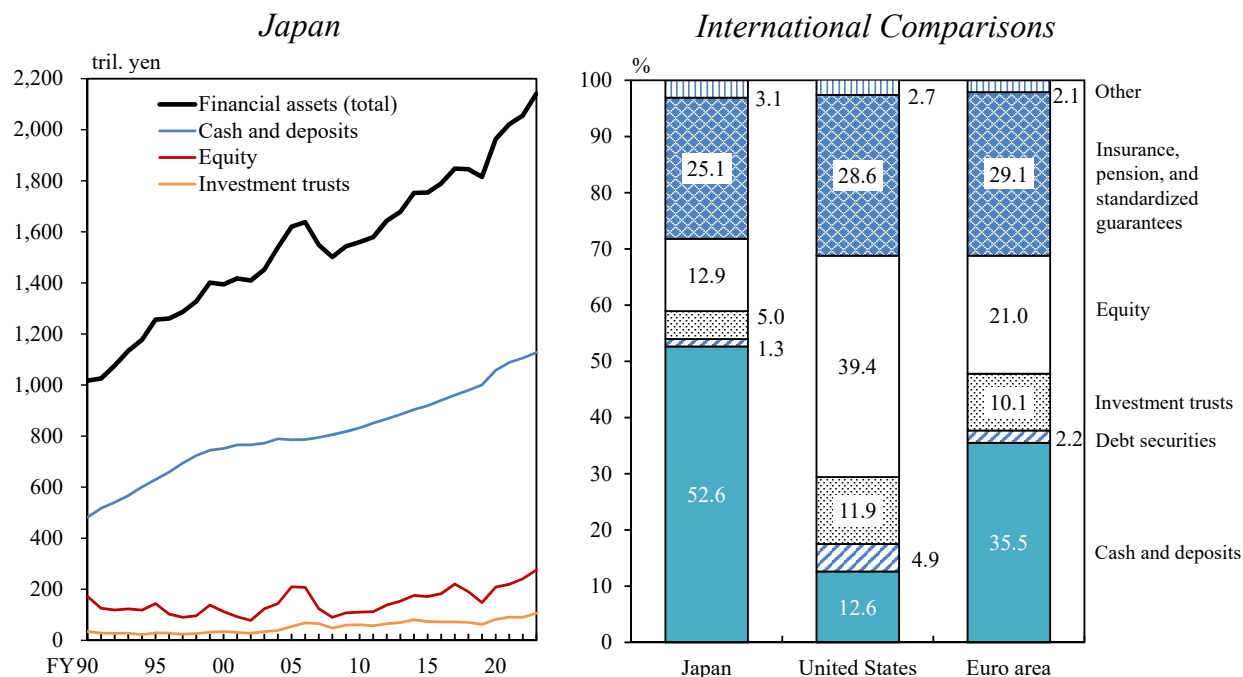
Average Consumption Expenditure by Age Group of Household Head (as of 2023)



Note: Average monthly amount for two-or-more-person households.

Source: Ministry of Internal Affairs and Communications.

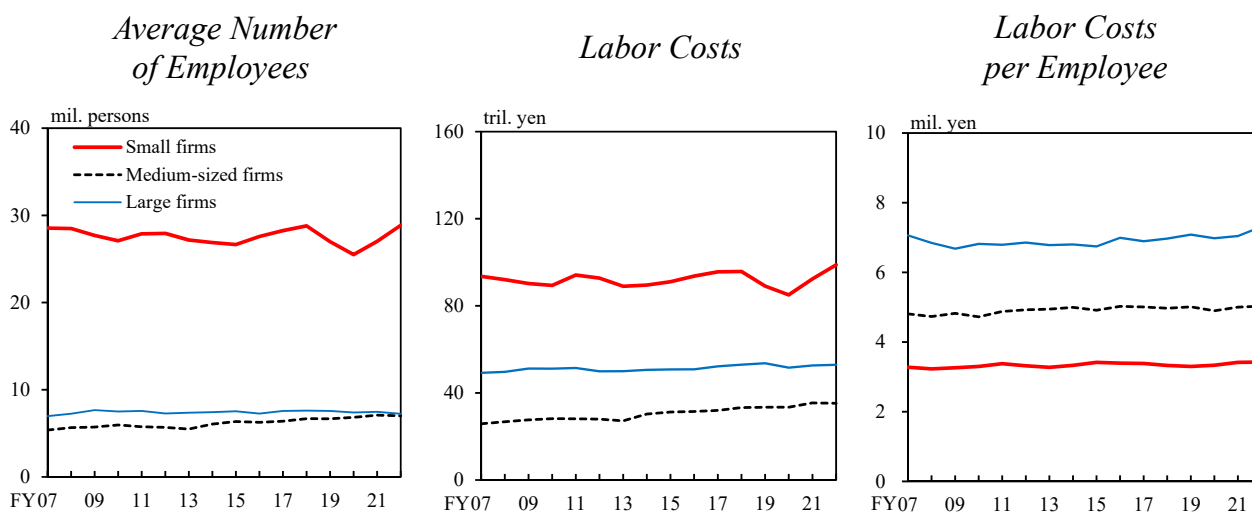
Household Financial Assets



Notes: 1. In the left panel, figures for fiscal 2023 are as of end-December 2023.
2. In the right panel, figures for Japan are as of end-December 2023. Figures for the United States and the Euro area are as of end-March 2023, based on "Flow of Funds: Overview of Japan, the United States, and the Euro area," released by the Bank's Research and Statistics Department on August 25, 2023.

Source: Bank of Japan.

Importance of Small and Medium-Sized Firms



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries. Large firms are commercial corporations with capital of 1 billion yen or more. Medium-sized firms are commercial corporations with capital of 100 million yen or more but less than 1 billion yen. Small firms are commercial corporations with capital of less than 100 million yen.

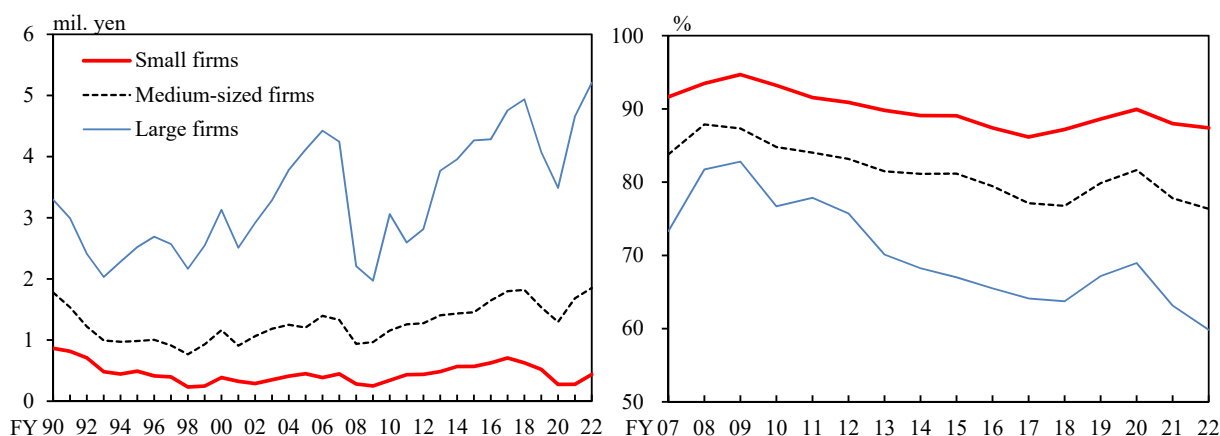
2. Labor costs include salaries and wages, bonuses, and welfare expenses.

Source: Ministry of Finance.

Earning Power and Capacity for Raising Wages by Firm Size

Operating Profits per Employee

Break-Even Ratio



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries. Large firms are commercial corporations with capital of 1 billion yen or more. Medium-sized firms are commercial corporations with capital of 100 million yen or more but less than 1 billion yen. Small firms are commercial corporations with capital of less than 100 million yen.

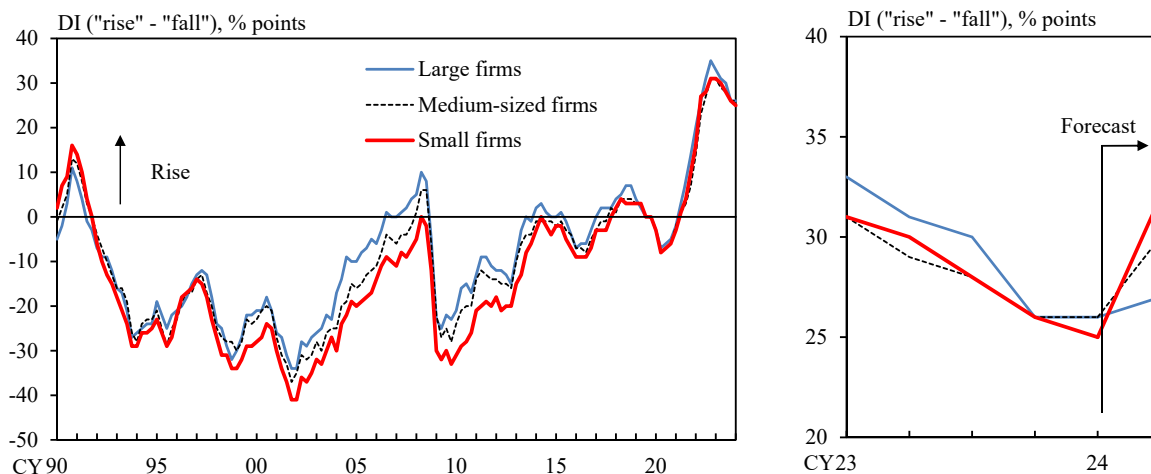
2. Break-even ratio = break-even sales / sales. Break-even sales = fixed costs / marginal profit ratio. Fixed costs = labor costs + interest expenses, etc. + depreciation and amortization expenses + rent on movable property and real estate. Marginal profit ratio = (sales - variable costs) / sales. Variable costs = sales - fixed costs - current profits.

Source: Ministry of Finance.

Improvement in Price Pass-Through Environment (DI for Output Prices)

Long-Term Time Series

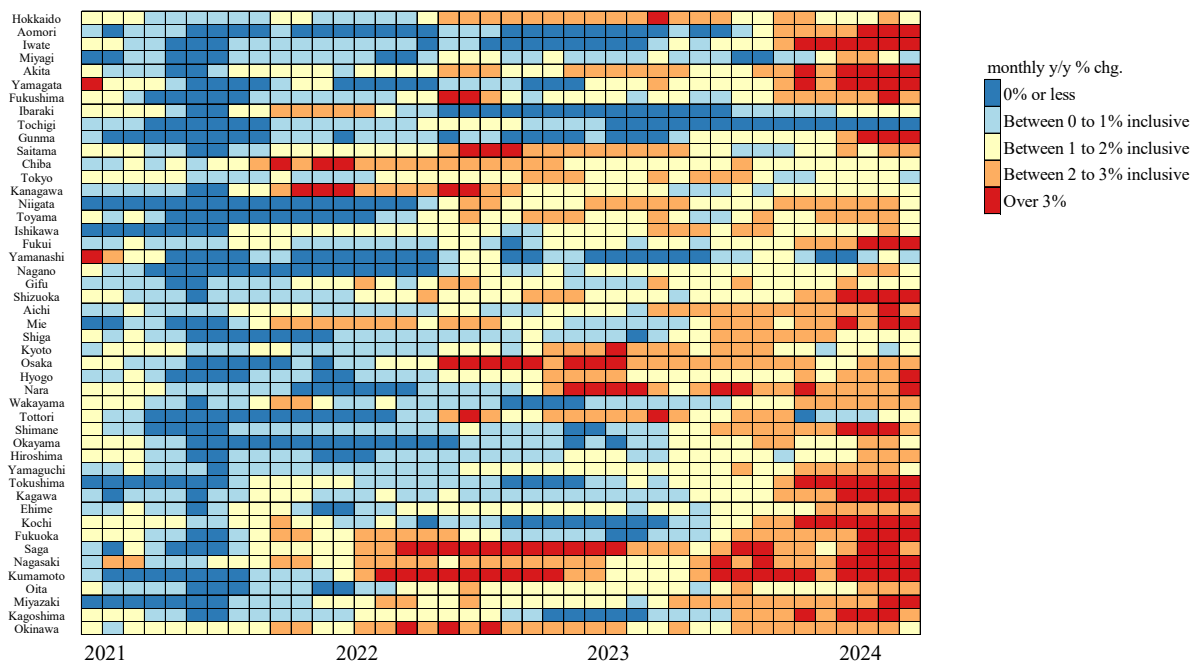
2023 Onward



Note: Figures are for all industries and enterprises, excluding financial institutions.

Source: Bank of Japan.

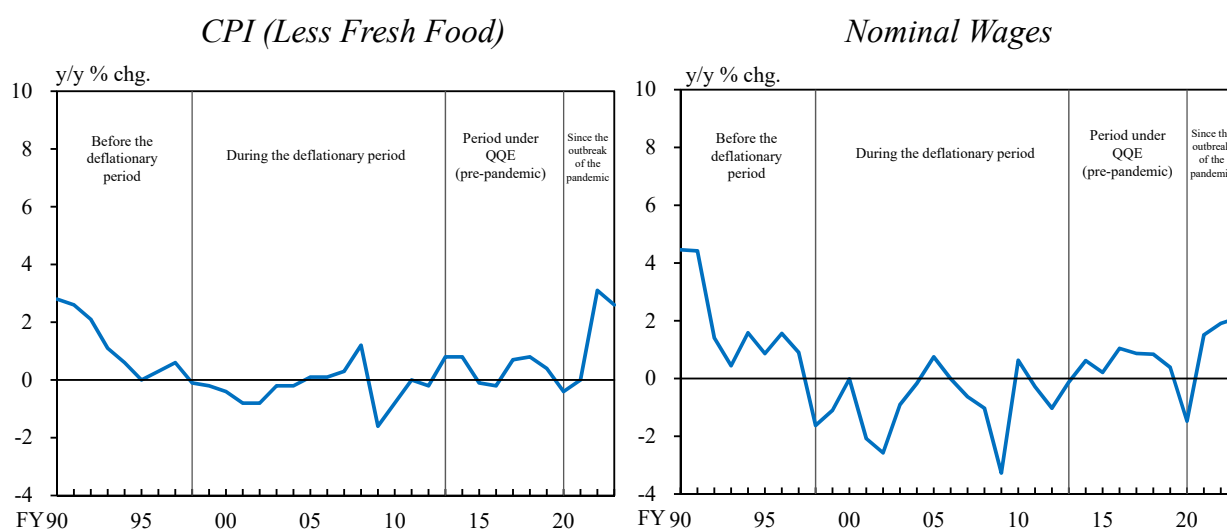
Growth in Wages of Regular Employees at Time of Recruitment by Prefecture



Note: This heatmap is based on analysis by Dai-ichi Life Research Institute Inc., using *HRog Wage Now* released by Nowcast Inc.

Source: Dai-ichi Life Research Institute Inc.

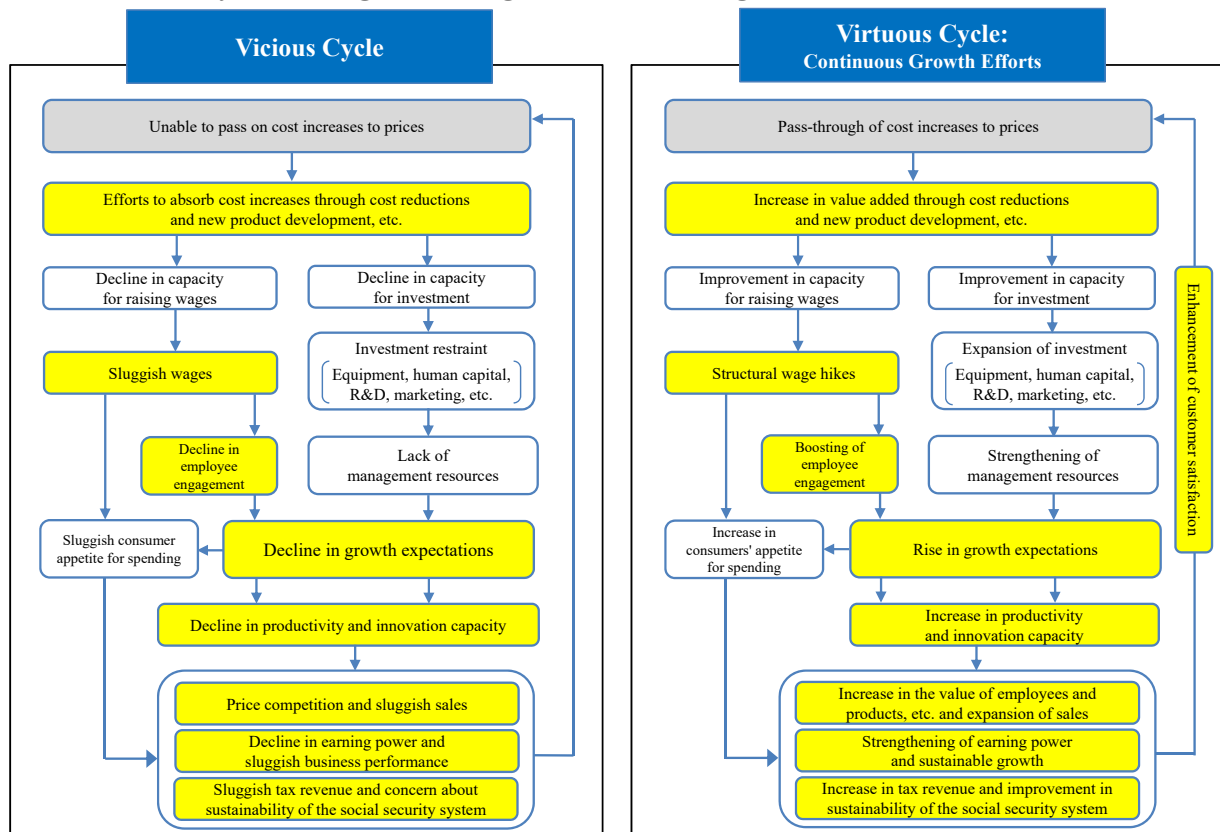
Prices and Wages



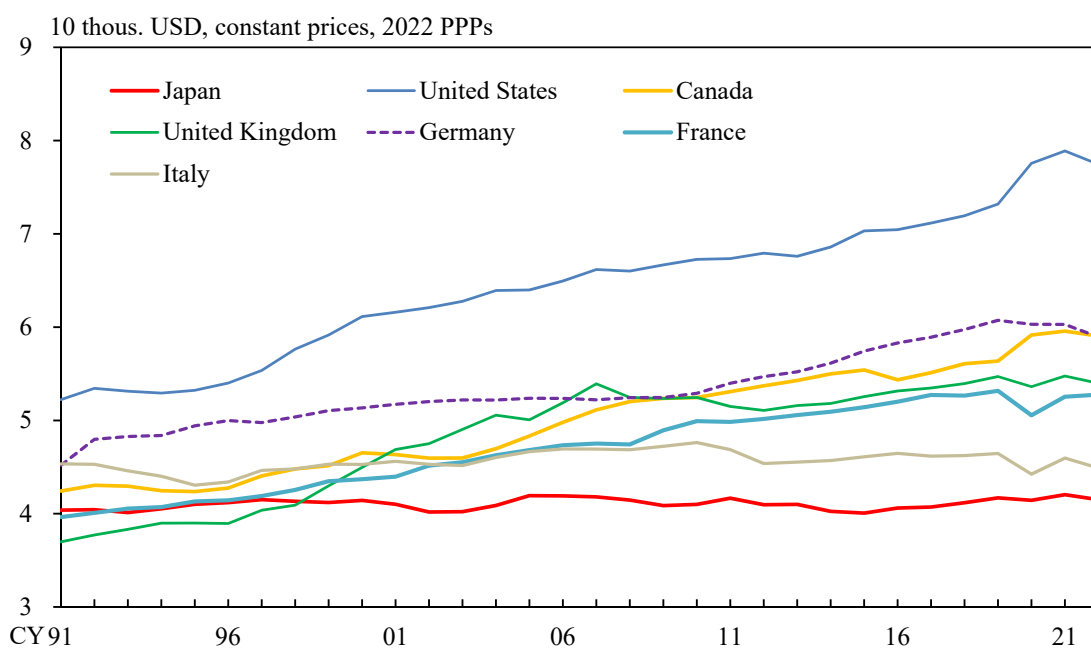
- Notes: 1. Figures for the CPI (less fresh food) are Bank staff estimates and exclude the effects of consumption tax hikes, policies concerning the provision of free education, travel subsidy programs, and the reduction in mobile phone charges.
2. Figures for nominal wages are for establishments with 30 or more employees for fiscal 1990, and with 5 or more employees from fiscal 1991 onward. Figures from fiscal 2016 onward are based on continuing observations following the sample revisions.

Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Promoting a Virtuous Cycle by Strengthening the Earning Power of Firms

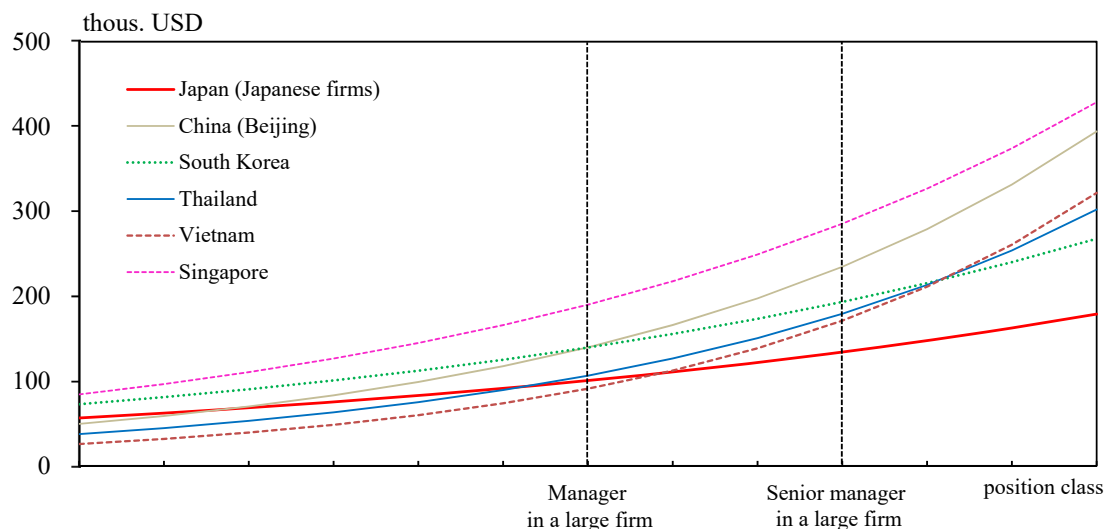


Comparison of Average Annual Wages in G7 Countries



Note: Average annual wages in full-time equivalent.
Source: OECD.

Annual Pay Comparison with Asian Economies (as of 2023)

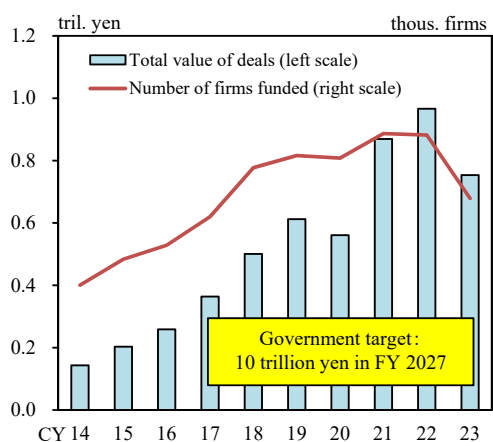


Notes: 1. The horizontal axis shows the level of the position class as defined by Mercer. Position classes below the executive level at large firms are shown in this chart. The further to the right, the higher the position class.
 2. Figures include incentives paid for 100 percent achievement of performance targets and are the medians for each position class.

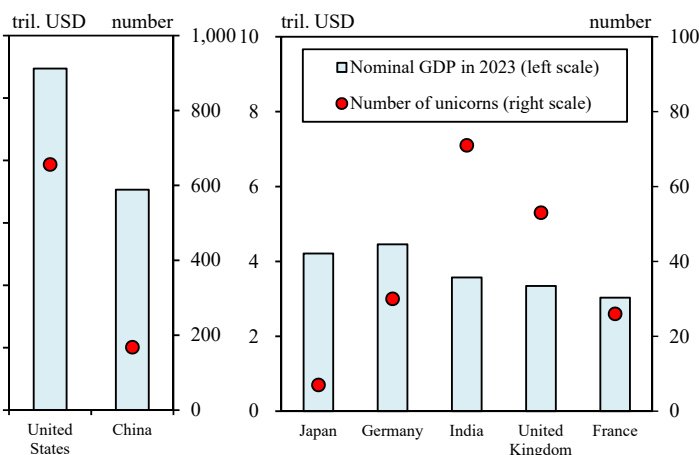
Source: Mercer, 2023 Total Remuneration Survey.

Startups

*Startup Funding in Japan:
Total Value and Number of Firms Funded*



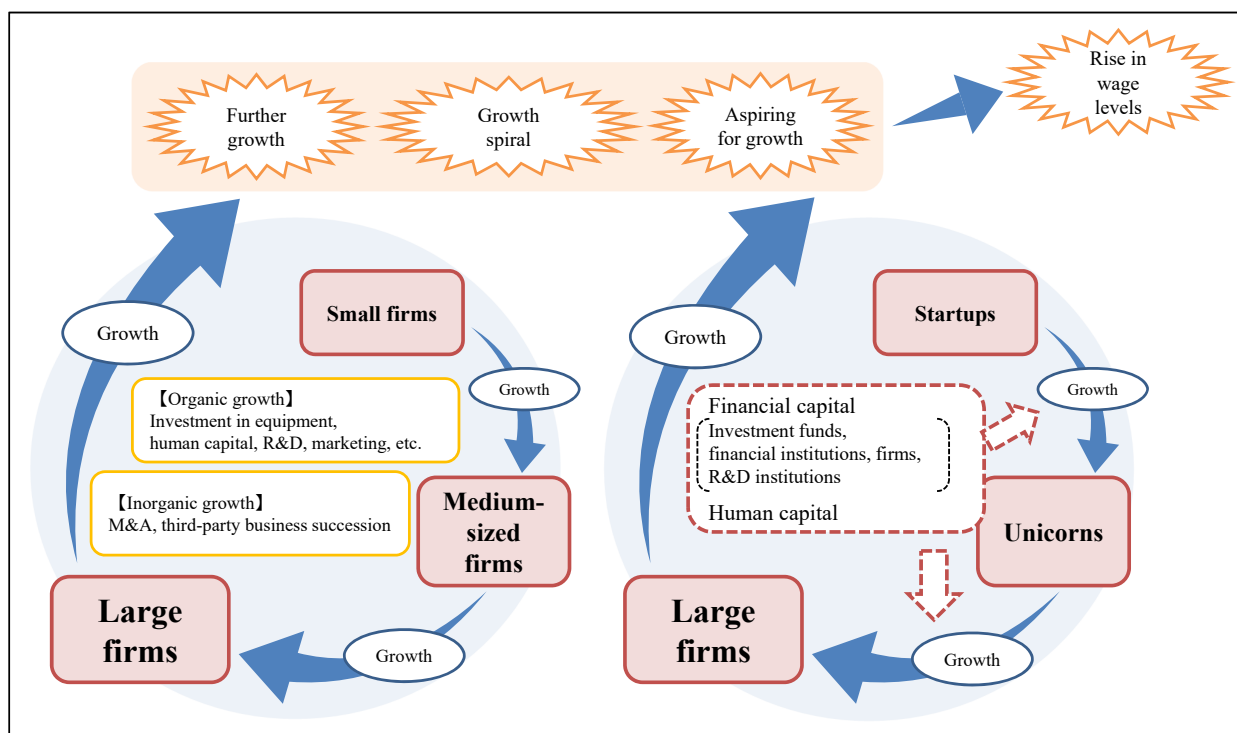
GDP Size and Number of Unicorns



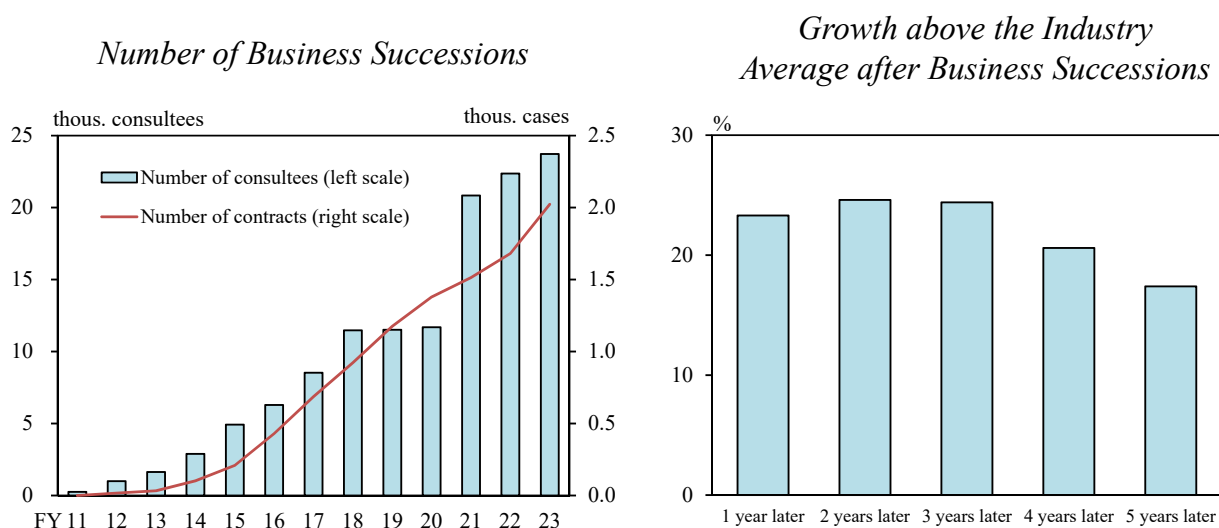
Notes: 1. In the left panel, the total value of deals is defined as follows: for unlisted startups, the amount of funds raised since their establishment to the time of the survey, in terms of equity or other financial instruments that may be converted into equity; for startups that launched initial public offerings (IPOs), the amount of funds raised immediately before the IPO.
 2. In the right panel, the number of unicorns is calculated based on CB Insights, "Global Unicorn Club: Private Companies Valued at \$1B+ (as of March 20th, 2024)," <https://www.cbinsights.com/research-unicorn-companies>.

Sources: CB Insights; IMF; INITIAL, *Japan Startup Ecosystem Report 2023*.

Dynamism of Firms and Employment



Progress in Structural Reforms by Small and Medium-Sized Firms



Notes: 1. The left panel shows the number of consultees and the number of contracts concluded at the Business Successions Support Center.

2. The right panel shows the difference of the net income growth rate between the industry average and the average of firms that underwent a change in management between 2010 and 2015, in the first five years after the business succession.

Sources: Organization for Small & Medium Enterprises and Regional Innovation, JAPAN; Small and Medium Enterprise Agency, 2021 White Paper on Small and Medium Enterprises in Japan.

Dynamism of Households

