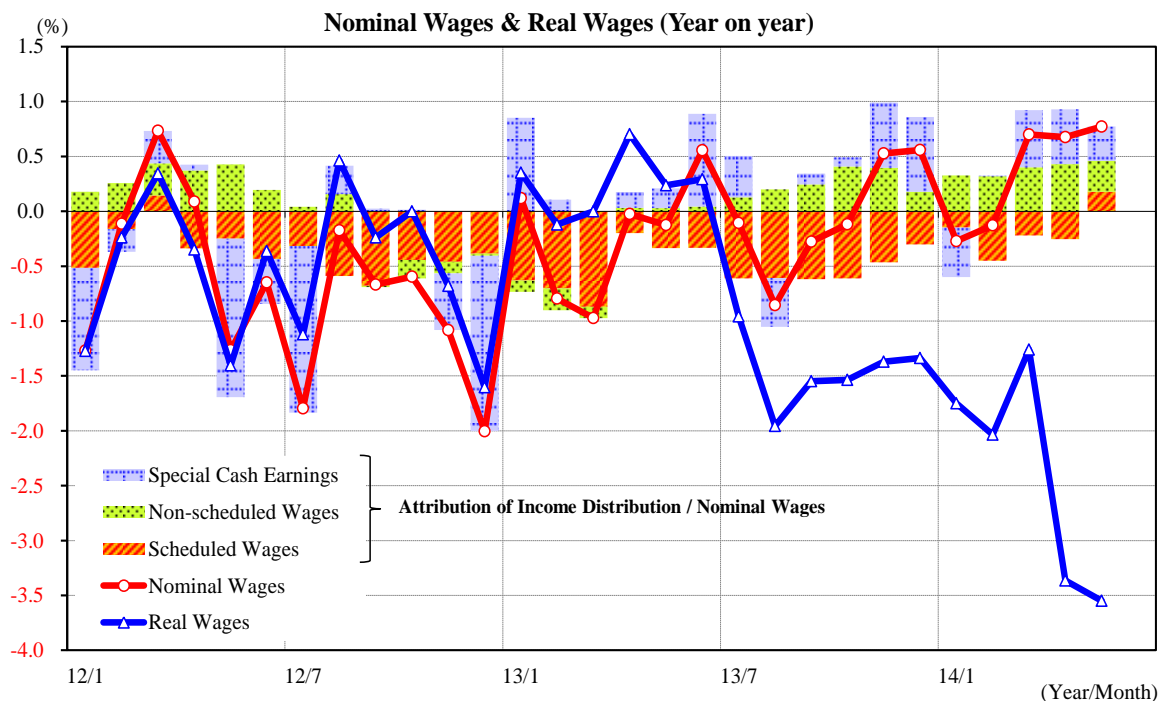


Basic Salary Increased, “Will Consumer Spending also Increase ?”

Increased “Basic salary”

According to the “May Monthly Labour Survey (preliminary information)” released by the Ministry of Health, Labour & Welfare on July 1, the “Total Cash Earnings” (hereafter referred to as nominal wages) rose 0.8% y-o-y for three consecutive months. The number of months with positive growth of nominal wages y-o y has increased since 2013 along with the recovery of the Japanese economy. However, it was only brought by the increase in “Non-scheduled Wages” (overtime allowance etc.) and “Special Cash Earnings” (bonus etc.) while the scheduled wages (basic salary) has been declining in amount. This time, the scheduled wages finally rose 0.2% y-o-y, first time in two years and two months. Steady increase of the scheduled wages is the key to build consumer confidence.



(Note) Data period is from January 2012 to May 2014.

(Source) SMAM, based on the Ministry of Health, Labour & Welfare & Datastream data



Real wage is worse than 1997 (previous tax hike year)...

However, the current wage environment is not that good as was explained above, as the real wages, nominal wages' growth rate minus inflation rate, declined 3.6% this time. The reason for this decline was the sharp increase of CPI (all items less imputed rents), 4.4% y-o-y. On the other hand, it is anticipated that the summer private consumption will be strong as the consumption during the Golden Week holiday period (late April to early May) was strong and the agreed bonus amount of large-scaled corporations rose 8.8% y-o-y according to the survey (announced on May 29) of the Federation of Economic Organizations. I think, however, that people will be inclined to spend less than expected if the real wages were reduced unless they feel confident that their basic salary will continue to rise in future. In order to avoid such negative situation, I think the Japanese government should maintain the current demand increase trend with the required economic stimulative measures in order to keep people's expectation and make consumers feel more confident of the persistence of the economic recovery.

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