

“Real Wages” turned positive after 5 years (Japan)

“Real Wages” is the inflation adjusted wage, which can be found in the Monthly Labor Survey released every month by the Ministry of Health, Labour & Welfare. For example, “Real Wages” are considered to not have risen when income rises by 3% and inflation rises by 3% at the same time, as one can only purchase the same quantity of goods despite the rise in one’s wages. 2016 “Real Wage” announced on 6th February 2017 increased by 0.7% YoY. It turned positive for the first time in 5 years since year 2011.

Point 1

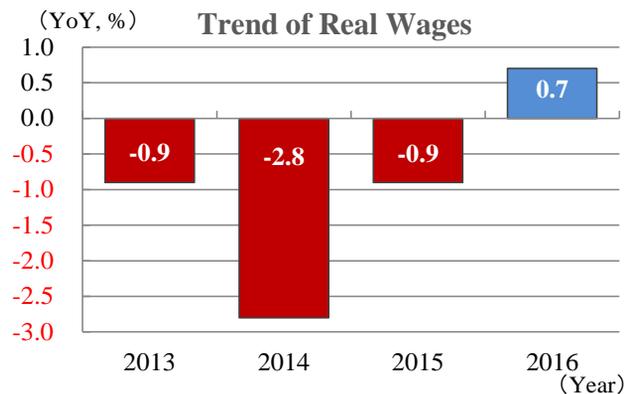
December 2016 Real Wages declined - 0.4% YoY Nominal Wages remained positive

- According to December 2016 Monthly Labor Survey, “Real Wages” decreased - 0.4% YoY for the first time in 1 year since December 2015. Meanwhile, total cash earnings (nominal wages) increased + 0.1% YoY led by increase in scheduled wages (+ 0.5% YoY).

Point 2

2016 Real Wages turned positive for the first time in 5 years Scheduled wages and bonus increased

- 2016 “Real Wages” increased + 0.7% YoY, turned positive for the first time in 5 years since 2011. “Real Wages” increased as (i) nominal wages increased + 0.5% YoY for 3 years in a row and (ii) the prices declined by stronger JPY and lower crude oil price.
- Although non-scheduled wages such as overtime allowance declined - 0.6% YoY, scheduled wages such as basic salary and special cash earnings such as bonus rose + 0.2% and + 2.0% both YoY respectively.



(Source) SMAM, based on Ministry of Health, Labour and Welfare data.

Future Outlook

Wage growth is expected to continue due to tighter labor supply and demand going forward

- Abe administration has been urging industrial leaders to increase wages since 2014, which resulted in 3 consecutive years of wage growth. In 2017 Shunto (wage negotiation between labor unions and company managements in spring), labor union called for pay scale increase, and it is likely to be about the same amount of the previous year. Taking a look at employment environment, labor supply and demand is getting tighter as average jobs-to-applicants ratio increased + 0.16 points YoY to 1.36 times in 2016, recording highest level for the first time in 25 years since 1991, in the bubble economy period. Also, expansion of corporate earnings is expected to continue. Under these environment, scheduled wages and special cash earnings are expected to increase going forward. However, we believe weaker trend of non-scheduled wages will continue because Japanese government is undertaking Work-style reform such as curving long working hours. Meanwhile, we need to watch carefully whether “Real Wages” will continue to rise or not as well as prices, that are expected to rise due to (i) rise in crude oil price and (ii) weakening JPY against USD.

■ Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and

Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management

SMAM