
Mizuho Economic Outlook & Analysis

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2021 Summer Bonus Forecast

Year-on-year decline continues from last winter; bipolarization becomes even clearer

< Summary >

- ◆ Special cash earnings (referred to as “bonus”, “bonuses” or “bonus payments”) per private company employee are forecast to decline 1.3% year-on-year in the summer of 2021, maintaining the same downward trend since last winter. While scheduled wages are expected to remain flat, the number of months basing the bonus calculation is also projected to fall centering on the service industry that involves interpersonal contact.
- ◆ While bonuses this summer are expected to recover mainly in the manufacturing industry, bonuses in the service industry that involves interpersonal contact will likely continue to fall, making the bipolarization trend even clearer.
- ◆ We forecast total bonus payments in the private and public sectors to drop 2.8% year-on-year. Amid a slump in the overall income environment, personal consumption during the summer is expected to remain sluggish.

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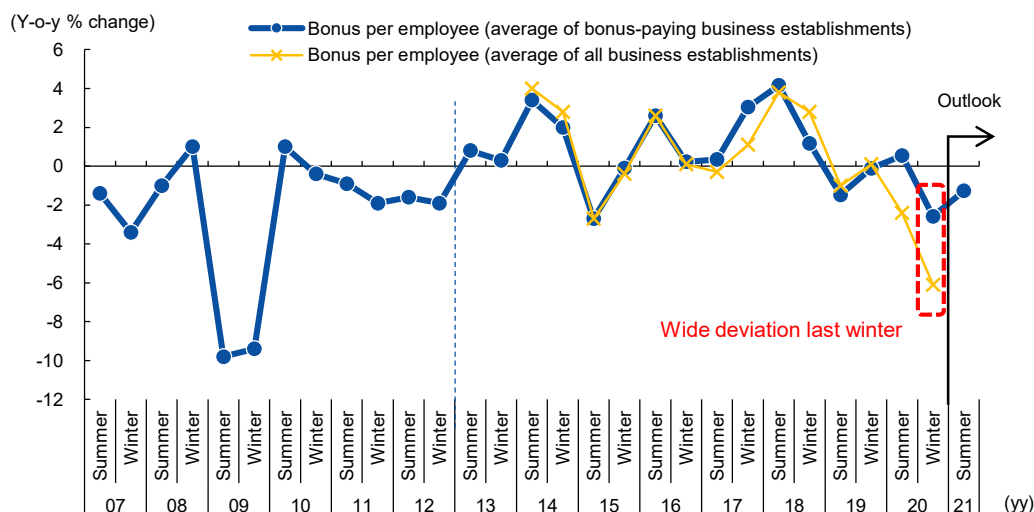
1. Bonus payments per employee of private companies continue to fall year-on-year as it did last winter

According to estimates by Mizuho Research & Technologies (MHRT), bonus per private company employee (average bonus paid per employee in bonus-paying business establishments) will drop 1.3% in the summer of 2021 (Chart 1). Although this means two consecutive declines since last winter, the degree of fall is expected to narrow.

(1) Last winter, the number of companies that stopped paying bonuses surged centering on the service industry involving interpersonal contact

First, let's look at the actual amount of bonuses paid last winter. In the winter of 2020, the bonus per employee paid by business establishments fell by 2.6% on average from the previous year. While the degree of decline was smaller compared with the drop registered after the collapse of Lehman Brothers (summer of 2009: -9.8% year-on-year), the service industry that involves interpersonal contact,¹ which was particularly hit by the coronavirus pandemic, saw its bonus payments fall almost 20% year-on-year, with the decline concentrated on specific industries such as the accommodations, eating and drinking services industry (-20.0%), living-related and personal service and amusement service industry (-17.1%), and transportation/postal service industry (-17.2%) (Chart 2).

Chart 1: Bonus per employee of private companies



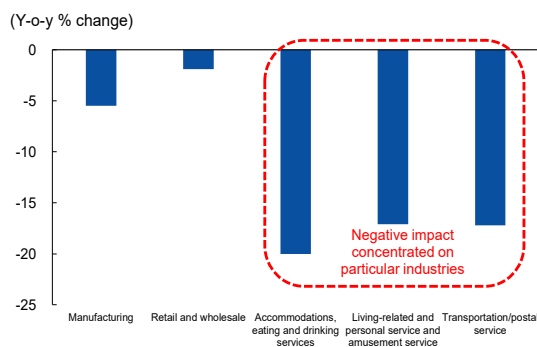
Note: Year-on-year % change data up until 2012 are based on originally published data. Data after 2013 are based on the main series data that include recalculated data, so the 2012 and 2013 data are not connected.
Source: Made by MHRT based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey*, among others.

¹ In this report, service industry involving interpersonal contact is defined as accommodations, eating and drinking services industry, living-related and personal service and amusement service industry, and transportation/postal service industry.

We need to recognize that the average bonus paid per employee by business establishments mentioned above does not include workers employed by business establishments that stopped paying bonuses. If we look at the average bonus paid per employee in all business establishments, the year-on-year decline jumps to -6.1%, substantially deviating from the yearly decline of bonus-paying business establishments (-2.6%) (**Chart 1**). This situation can be attributed to the surging number of business establishments that stopped paying bonuses (or business establishments with zero bonus payments) mainly in the service industry involving interpersonal contact, and we hold that the yearly decline recorded by all business establishments should be viewed as reflecting the actual income environment. **Chart 3** depicts the share of workers employed by bonus-paying business establishments out of total regular workers. Last winter, the share dropped more significantly (-3.1%pt year-on-year) compared with the time of the global financial crisis (summer of 2009: -2.5%pt), stemming from an increase in the number of business establishments with zero bonus payments.

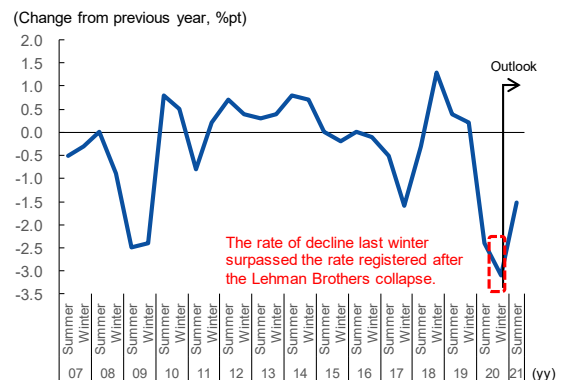
Thus, looking at the situation last winter, while the impact from workers who received a bonus was limited thanks to a small decline in the amount of bonus, there was a serious downside from the surge of workers who did not receive any bonus (many of them are considered to be engaged in the service industry involving interpersonal contact), and this has emphasized the bipolarization trend even further.

Chart 2: Bonus by industry in 2020 winter



Source: Made by MHRT based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey*.

Chart 3: Share of workers employed by bonus-paying business establishments



Note: Data up until 2012 are year-on-year changes of originally published data. Data after 2013 are year-on-year changes of the main series data that include recalculated data.

Source: Made by MHRT based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey*.

(2) This year's summer bonus will continue falling, but the rate of decline will be smaller

The amount of bonus paid by private companies is usually expressed by multiples of monthly scheduled wages. In the summer of 2021, not only are scheduled wages expected to show almost zero growth, but the number of months basing the bonus calculation is also expected to fall.

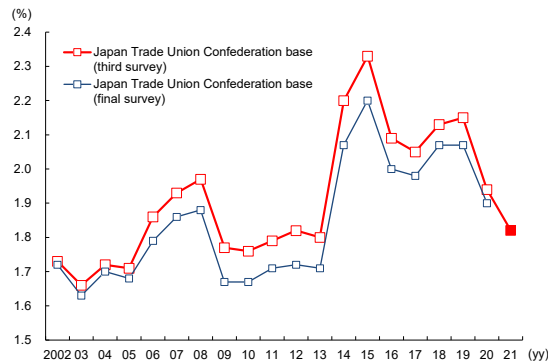
We forecast that scheduled wage growth (average from June to August) will slow down and remain flat year-on-year (versus +0.1% in the same period last year). Since many companies tend to reflect their earnings performance in the previous fiscal year in their scheduled wages, the deterioration of corporate earnings in FY2020 driven by the coronavirus pandemic is considered to be a downside factor. In addition, if we look at the current labor supply and demand in the Bank of Japan's *Tankan* (Short-Term Economic Survey of Enterprises in Japan) of March 2021, while the employment conditions DI of companies of all sizes/all industries recorded a negative figure of -12%pt (insufficient employment), the DI of companies in the accommodations, eating and drinking services industry, which is more affected by the ongoing shortening of operation hours, is in a substantially excessive employment condition (+23%pt). We hold that the rate of wage increase will slightly improve in the manufacturing and nonmanufacturing sectors other than the service industry involving interpersonal contact, but the wage increase is expected to be subdued in the service industry involving interpersonal contact, and hence the overall growth of scheduled wages will likely be sluggish. If we study the results of the 2021 spring labor-management negotiations (*Shunto*), the rate of springtime wage increase (regular pay raise + base pay raise [*base-up*]) at the current stage (third survey base) was 1.82%, a level implying an almost zero *base-up* (**Chart 4**).² By industry, while the *base-up* request was either deferred or faced difficulties in the aviation/railway, tourism, and food service industries, the request generated relatively favorable results in the electronics, automobile, and retail industries, demonstrating a widening gap between different industries.

We project the number of months basing the bonus calculation to be 1.05 months (-0.01 months from the previous year), a decline from last summer (**Chart 5**). The current profit margin (all sizes/all industries) that tends to precede the number of months that base the bonus calculation by about half a year is expected to drop 0.56%pt year-on-year in the latter half of FY2020, another fall after the first half of that year (-2.00%pt) (from the March *Tankan* survey). The manufacturing industry saw its ordinary profit margin improve (5.26% in the second half of FY2019 to 5.70% in the second half of FY2020, +0.44%pt

² In general, the wage increase rate of regular pay raises is around 1.8%.

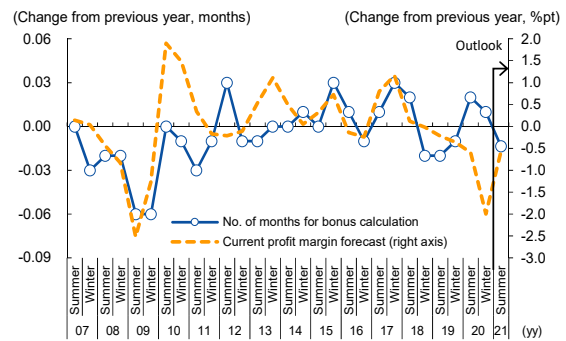
improvement). The overall profit margin, however, worsened extensively with some industries even falling into negative territory; the profit margin fell in the services for individuals industry (3.07% to 0.43%, -2.64%pt deterioration), accommodations, eating and drinking services industry (0.57% to -6.55% [deficit], -7.12%pt downturn), and transportation/postal service industry (3.97% to -5.34% [deficit], -9.31%pt decline), resulting in pushing down the overall trend. It is naturally expected that the number of months basing the bonus calculation on an industry-wide basis will also decrease driven by the service industry that involves interpersonal contact, albeit some improvement is expected in the manufacturing industry.³

Chart 4: Rate of *Shunto* wage increase (third results of the survey)



Source: Made by MHRT based upon the Japan Trade Union Confederation, *The third results of the survey on the 2021 spring labor-management negotiations*.

Chart 5: Number of months basing the bonus calculation and current profit margin



Notes: 1. There is a half-year lag for current profit margin.
2. The number of months for bonus calculation up until 2012 is the year-on-year change of originally published data. Data after 2013 are year-on-year changes of the main series data that include recalculated date.

Source: Made by MHRT based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey* and the Bank of Japan, *Short-Term Economic Survey of Enterprises in Japan*, among others.

As explained above, with the scheduled wage growth in the summer of 2021 becoming almost zero, coupled with a reduced number of months basing the bonus calculation, the bonus per private company employee (average bonus paid per employee in bonus-paying business establishments) is estimated to be slashed by -1.3% from the preceding year. The total bonus paid by private companies (number of workers receiving bonus payment × bonus paid per employee) will shrink by -3.0% year-on-year, a greater deterioration than

³ It should be noted that the number of months for bonus calculation rose by +0.01 months from the previous year in the winter of 2020. But since many firms seem to have revised the number of months for bonus calculation timed with the 2021 spring labor-management negotiations, we expect the number of months basing the summer bonus calculation to be reduced overall.

the bonus per employee. This is because more business establishments are expected to halt bonus payments due to bad earnings results, leading to fewer workers receiving a bonus.⁴ As mentioned earlier, the share of workers employed by bonus-paying business establishments dropped significantly last winter and surpassed the decline recorded during the global financial crisis (**Chart 3**). We also expect the upward trend in the number of business establishments stopping bonus payments to continue unchanged on a year-on-year basis centering on the service industry involving interpersonal contact (-1.5%pt from the previous year).

2. Bonus per civil servant employee to fall for the first time in eight years

We forecast that the bonus per civil servant employee (central and municipal) will decrease by 1.6% year-on-year, marking the first summer bonus decline in the past eight years.⁵ This is because the 2020 recommendation by the National Personnel Authority revealed that the monthly wage for national civil servants was unchanged for the first time in the past seven years, and the number of months basing the bonus calculation was reduced by 0.025 months (2.25 months to 2.225 months) for the summer bonus. Since many regional municipalities determine their civil servants' salary level based on the decision made for national civil servants, we can naturally presume that the bonus for regional civil servants will also be smaller.

3. Bonus payments will decline, but the rate of decline will improve over bonuses paid last winter. Personal summertime consumption will likely slow down

We estimate that the total amount of bonuses for both private company employees and civil servants will continue to contract, with the rate of decline this summer expected to be -2.8% year-on-year, but the rate of decline will likely improve from last winter (-5.3%) (**Chart 6**).

With the bonus decline putting downward pressure on the income environment, personal consumption is expected to slump this summer. Dragged down by the delay in vaccinations, spending on travel and dining out is likely to remain subdued, and although some products such as home appliances are performing well, we believe these sales will not be strong enough to buoy overall personal consumption. Recently, the spread of new variants of the coronavirus is raising the possibility of a state of emergency declaration for

⁴ In the Monthly Labour Survey, "average bonus per worker in bonus-paying business establishments" is defined as the average bonus per employee of all permanent workers belonging to bonus-paying business establishments (including workers who did not receive a bonus in these business establishments). Therefore, the number of workers receiving a bonus is calculated by "number of permanent workers × share of workers employed by bonus-paying business establishments (including those who did not receive a bonus from these business establishments)."

⁵ The actual amount of bonus per civil servant employee (national + regional) is estimated by MHRT.

Osaka. A third state of emergency may also have to be declared for the Tokyo metropolitan area, and under such circumstances, the risk of personal consumption slowing down this summer has become ever higher.

Chart 6: Summer bonus outlook

Year	Bonus per employee (yen)				Total bonus payment (billion yen)					
	Private companies		Civil servants		Private companies		Civil servants		Total	
		Y-o-y % change		Y-o-y % change		Y-o-y % change		Y-o-y % change		Y-o-y % change
2018	387,048	4.2	706,318	2.2	15,776	3.2	2,128	2.0	17,903	3.0
2019	381,343	-1.5	738,668	4.6	15,911	0.9	2,227	4.7	18,138	1.3
2020	383,431	0.5	742,863	0.6	15,637	-1.7	2,241	0.6	17,878	-1.4
2021	378,562	-1.3	731,290	-1.6	15,168	-3.0	2,206	-1.6	17,374	-2.8

- Notes: 1. Private companies refer to business establishments with five or more employees.
 2. Bonus per employee is defined as the average bonus paid per employee in bonus-paying business establishments.
 3. Bonus for civil servants (excluding field workers engaged in the forestry industry, etc.) does not include cases where bonus payments are behind the scheduled payment date. The actual bonus amount is estimated by MHRT.

Source: Made by MHRT based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey* and the National Personnel Authority, *Recommendation by the National Personnel Authority*, among others.