

The Japanese economy: topic of the month

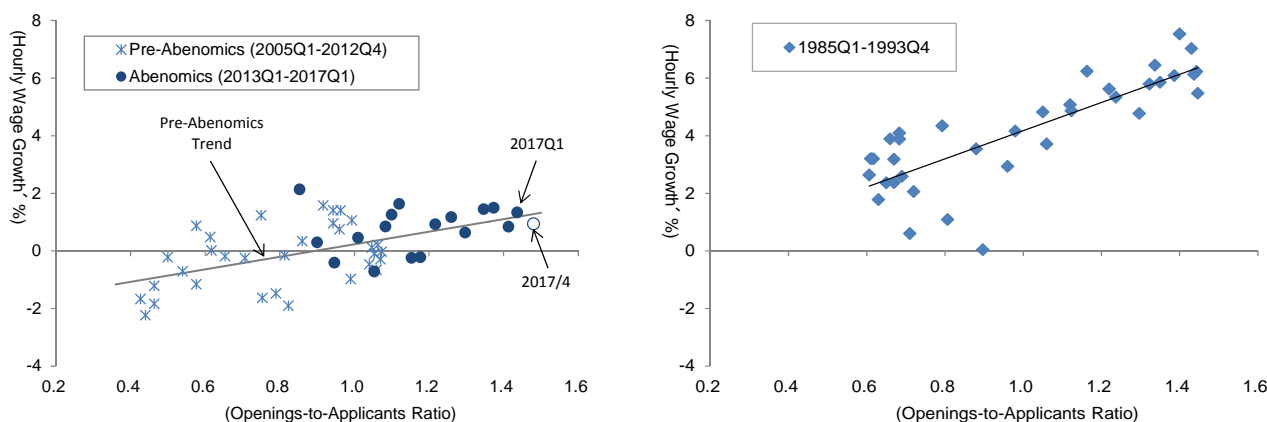
Is Japan’s wage recovery really tepid?

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The ratio of job openings to applicants rose to 1.48 in April, surpassing the peak during Japan’s bubble economy (1.46 in July 1990) and recording the highest level since February 1974 (1.53). On the other hand, nominal wage growth is still close to +0% y-o-y, giving rise to the widespread notion that wages are not rising despite the labor shortage.

However, even though it is difficult to discern from monthly headline data, the mechanism transmitting labor market tightness to the rise of wages is still functioning. If we put the openings-to-applicants ratio (representing labor market tightness) on the horizontal axis and hourly wage growth on the vertical axis, we find that there is a positive correlation between the two (**Chart 1** left panel). This correlation (the Phillips curve using the openings-to-applicants ratio) shows that the current rate of wage rise matches the level forecast on the basis of the trend prior to Abenomics (“pre-Abenomics”), and that the strength of recovery would be assessed as normal. The impression that wages are not rising stems from fact that the high openings-to-applicants ratio brings about a *deja vu* of the bubble period, when the correlation between the labor tightness and wages was stronger, i.e., that the slope of the line was steeper (**Chart 1** right panel).

[Chart 1: The openings-to-applicants ratio and the rate of wage growth]



Source: Made by MHRI based upon the Ministry of Health, Labour and Welfare, *Monthly Labour Survey*, *Employment Security Bureau Report on Employment Service*

While the weaker correlation between the two requires further analysis, the absence of a significant change in the slope after the start of Abenomics implies that labor market tightness alone may not lead to a strong rise of wages. In order to achieve a full-fledged recovery, it would be necessary to secure the source for wage hikes through the improvement of productivity.

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