

The Japanese economy: topic of the month

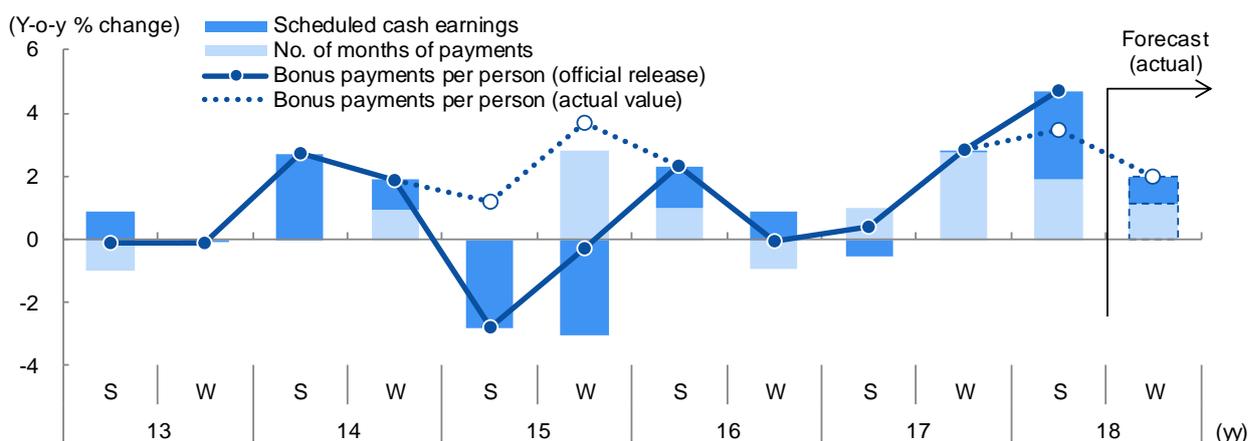
Forecast on private-sector bonus payments in the winter of 2018

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According to forecasts by Mizuho Research Institute Ltd. (MHRI), 2018 winter bonus payments (seasonal bonus payments are paid twice a year in the summer and winter) in the private sector are set to rise +2.0% y-o-y (actual value¹). In terms of winter bonus payments, this will mark an increase for the second year in a row (c.f. +2.8% y-o-y in the winter of 2017).

Looking closer at the components of the bonus payments, both scheduled cash earnings and number of months of payments are predicted to rise in the winter of 2018. The rise of scheduled cash earnings should accelerate to +0.9% y-o-y amid the tightening of the labor market (c.f. +0.1 y-o-y in the winter of 2017). Furthermore, the number of months should rise to 1.13 months, rising slightly above last year (1.12 months) which was the highest since 2009. Even though the ordinary profits to sales ratio, which tends to lead the number of months of bonus payments, is forecast to decline from a year ago, we are inclined to believe that the number of months will be subject to upward pressures due to corporate enterprises feeling short of labor.

[Chart 1: Amount of bonus payments per person among private-sector companies]



Note: 1. "Scheduled cash earnings" are calculated by dividing the amount of bonus payments per person by the number of months of payments. The "no. of months" is the number of months of payments of scheduled cash earnings.
 2. The amount of bonus payments per person in the summer of and winter of 2015 and the summer of 2018, the amount of bonus payments per person, scheduled cash earnings, and number of months of payments in the winter of 2018 are based upon actual values according to MHRI.

Source: Made by MHRI based upon Ministry of Health, Labour and Welfare, *Monthly Labour Survey*, Ministry of Finance, *Financial Statements Statistics of Corporations by Industry*

¹ Estimates by MHRI which excludes the effects of methodological changes in the *Monthly Labour Survey*

The total amount of bonus payments in the private sector should also continue to follow an uptrend, rising +2.9% y-o-y (c.f. +3.4% y-o-y in the winter of 2017). This stems from the expected rise in number of employees eligible for bonus payments in addition to the rise of payments per person. The improvement of the household income environment due to the rise of the total amount of bonus payments should serve to support personal consumption for the time being.

However, in view of the ongoing weakening of the consumer confidence index – a gauge of consumer sentiment – consumer spending might not rise as much as the increase of bonus payments this winter. One reason for the weakening of consumer confidence is the rise of prices. Despite prospects that gasoline prices are will gradually settle down, electrical utility fees are expected to rise, providing reasons to believe that prices will remain on an upward trend. Should consumer confidence continue to cool down amid the erosion of real incomes due to the rise of prices, this would serve as restraints upon the rise of consumer spending in the household sector.

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