

27 February 2023 (No. of pages:1)

Japanese report: 22 Feb 2023

Will Cyclical Rise in Wages and Prices Accelerate?

Continued behavioral changes, large wage increases during spring wage negotiations, and smooth pass-through of cost increases are key

Economic Research Dept.

Keiji Kanda**Shotaro Kugo****Wakaba Kobayashi**

Summary

- Recent inflation has a major aspect of "cost-push inflation". However, when we look at unit labor costs and the distribution of the rate of increase in prices of CPI component items, and the price trends of "sticky price" items (items with low frequency of price revisions) that are closely related to the price expectations of corporations, we can see changes in household consumption behavior and price revision behavior of corporations. The background to this seems to be the rise in upward pressure on prices in both demand and supply due to supply shocks stemming from the COVID-19 pandemic and Russia's invasion of Ukraine, normalization of domestic economic activity, high levels of household savings, and tight labor market conditions approaching trends seen during the asset bubble period.
- If the change in behavior of households and corporations continues and a wage increase of 3.0% is achieved in the spring wage negotiations in 2023, the rate of increase in CPI in the same year is expected to exceed 2% due to the rise in resource prices and the rise upward pressure on prices in wages. Even in the spring labor negotiations of 2024, the rate of wage increases may remain at the same level as the previous year as the situation continues to demand wage increases that keep pace with high prices. In fact, in order for corporations to accept such large wage increases every year in the spring wage negotiations, it is necessary to develop an environment that enables them to smoothly pass on the increase in labor costs. In order to predict whether the Japanese economy will return to an inflationary equilibrium for the first time in about a quarter of a century, attention should be paid not only to wage increases but also to trends in price pass-through among corporations and between corporations and households.

Attention

This report is a summary translation. The official document is only in Japanese.