

'This newsletter is translated from the Japanese edition distributed on November 27th.  
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

# Global Risk Watch Newsletter

## The Consequences of “stagnant prices”, etc.

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### 3. Highlight of Indicator for this Month

#### # A Brief Look at Wage Trends (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Japan's 3Q GDP growth was up +1.4% QoQ (1st preliminary), continuing the trend of bullish results. While still quite tentative, the fact that this is the 2nd longest economic expansion in recent history has also become a topic of discussion. Conversely, it has also been pointed out that this could be a recovery in name only – in that it has been widely reported in the media that commensurate wage increases are yet to be seen. Therefore, this month's article will look more closely at the changes in wages to investigate the issue more fully.

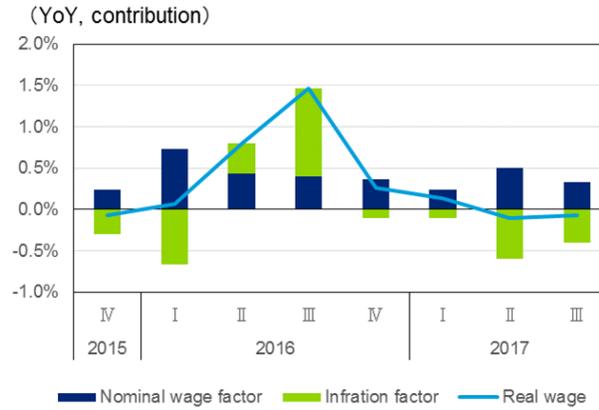
First, we should separate nominal wages (total cash earnings) and the rate of price rises (all items, less inputted rent) and look at the causes of change for each. Wages have been rising nominally, but the prices for goods and services have risen above these gains. This leads to consumers feeling a cost crunch in their everyday lives. Looking at graph 1, we can see that while nominal wages have been rising slowly over the past two years, for the past two quarters the rise in the cost of goods and services have outpaced nominal wage gains leaving real wages gains in the red.

Next, let's focus on the movers of nominal wages. While prices have been rising, the gains have in fact not been very strong. Nominal wages gains have also been sluggish which can help explain why real wages have not risen. Looking at graph 2, we can see that the hours worked of both full time and part time workers are also a reason for why wages are not rising. Recently the topic of reforming work styles and reducing overtime hours has been widely talked about, but it is also one of the factors which is holding down wages for the last two years.

On the other hand, hourly wages have continued to rise. This has reversed the trend for the first half of the year where the rising percentage of part time workers was pushing wages down. Now with the gains in hourly wages it has popped the 3Q numbers up positively. This perhaps can be seen as an early sign that the labour market is starting to tighten.

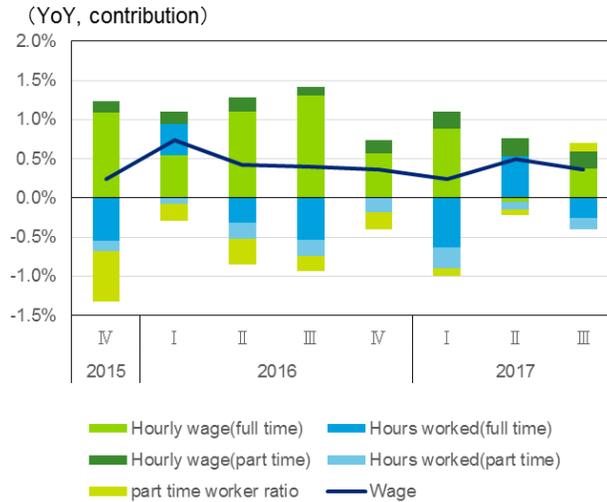
While it is difficult to think that working hours will rise in the current climate, other shifts in the labour market will depend on how tight it gets. Whether or not the shift towards more full time workers will continue, and whether or not this will precipitate commensurate wage rises are trends to watch in the future.

## Chart 1 : Changes in Real Wage Rises



Source: Ministry of Health, Labour and Welfare, Deloitte Touche Tohmatsu LLC  
 \* The September data included in the 2017 3Q figure is preliminary.

## Chart 2 : Analysis of Nominal Wages (Total Cash Earnings)



Source: Ministry of Health, Labour and Welfare, Deloitte Touche Tohmatsu LLC  
 \*1 The sum of respective coefficients does not exactly match the total sum.  
 \*2 The September data included in the 2017 3Q figure is preliminary.

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