

Daiwa's Economic View

Does initial momentum of *Shunto* still need great caution?

- *Shunto* results are heavily weighted toward large firms and manufacturing sector
- *Shunto* importance diminishing with robust domestic earnings and progress on establishment of wage hike norm
- Concern is whether wage hikes will extend to regional areas and SMEs

FICC Research Dept.

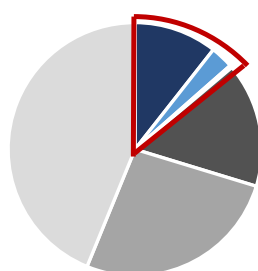
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At the regular press conference following the October Monetary Policy Meeting, (MPM), BOJ Governor Kazuo Ueda positioned the “initial momentum” of spring management-labor wage negotiations (*Shunto*) as a key checkpoint for judging the timing of the next interest rate hike. This is an approach to ascertain the sustainability of “the mechanism in which wages and prices rise moderately in interaction with each other.” However, questions remain about the importance of basing policy decisions on *Shunto* amid robust corporate earnings and sustained domestic momentum in wage hikes via the *Shunto* process. This report will outline our views on the current state of policy operations emphasizing *Shunto*, and future points of discussion from three perspectives: (1) the characteristics of wage indicators, (2) trends of corporate earnings, and (3) the establishment of a norm.

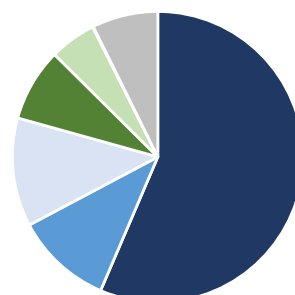
Characteristics and limitations of wage indicators

According to the Ministry of Health, Labour and Welfare's “Basic Survey on Labor Unions,” the number of labor union members in 2024 was 8.695mn, accounting for only 15.5% of all employees (excl. the public sector). In addition, in the final tally of the 2025 *Shunto* responses, the manufacturing sector accounted for 1.672mn people (56.4%) out of the 2.962mn people covered, a significantly higher ratio compared to the 2024 sectoral employment share shown in the Labour Force Survey (manufacturing sector: 16.0%). In other words, the *Shunto* tally has limited coverage and is an indicator heavily weighted toward large companies and the manufacturing sector.

Breakdown of Employees (by union affiliation, by company size)

- Union members at large companies
- Union members at mid-sized companies
- Union members at SMEs
- Non-union members at large companies
- Non-union members at mid-sized companies
- Non-union members at SMEs

Source: Ministry of Health, Labour and Welfare (MHLW); compiled by Daiwa.

Response Ratios in 2025 *Shunto* (by sector, based on union membership)

- Manufacturing
- Commerce & Distribution
- Transportation
- Services & Hotels
- Information & Publishing
- Finance & Insurance
- Others

Source: Japanese Trade Union Confederation (Rengo) compiled by Daiwa.

Looking at recent wage trends, we find that the growth rates of scheduled cash earnings for full-time workers and nominal compensation per employee are below the levels in FY24, although the wage increase rate for base salaries in the 2025 *Shunto* rose to +3.7% (+3.56% in previous year).

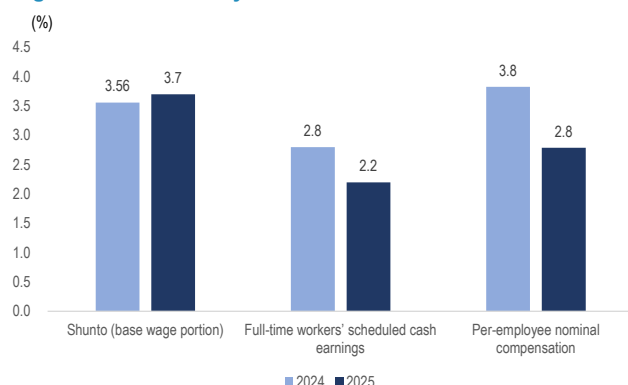
The reason why the *Shunto* wage increase rate is high compared to other wage statistics is its low coverage of SMEs. According to the Monthly Labour Survey, the growth in scheduled cash earnings at establishments with 5-29 employees is lower than that at establishments with 30 or more employees, indicating a disparity in wage growth rates by company size.

However, the Monthly Labour Survey also has the issue of susceptibility to sample bias. In its October *Outlook Report*, the BOJ pointed out that the slowdown in the pace of wage growth was due to weakness in some industries (sample bias) and a decrease in working hours. In addition, nominal employee compensation includes employer-paid social insurance contributions and other components not linked to *Shunto* wage increases, such as bonuses.

Consequently, each wage statistic has its own issues. Thus, it is necessary to make a comprehensive judgment on data (incl. the *Shunto* results), and it is difficult to grasp the entire corporate wage-setting behavior based on the *Shunto* results alone. (Note that the BOJ also confirms the wage increase momentum, including at SMEs, through its hearings with companies).

That said, the trends in the manufacturing sector, especially export companies (mainly large ones), are important from the standpoint of determining whether companies will maintain their proactive wage-setting behavior under the influence of tariffs. This is shown by Governor Ueda's remarks at the October press conference regarding wage hikes—"In terms of sectors, I would like to carefully watch the manufacturing industry, particularly autos, where tariffs exert downward pressure on earnings." From this viewpoint, the *Shunto* results can be regarded as highly useful.

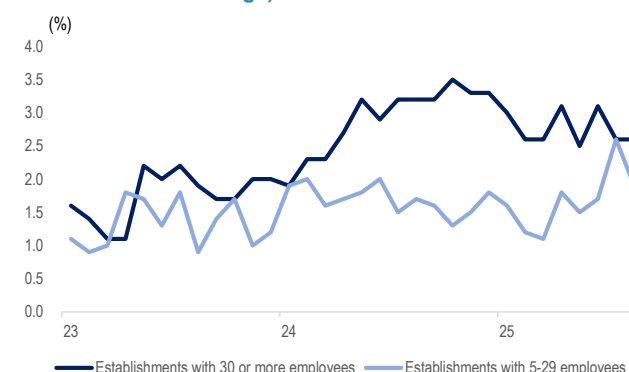
Wage Increase Rates by Indicator



Source: Rengo, MHLW, Cabinet Office, Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

Note: Full-time workers' scheduled cash earnings figures represent Sep 2025 data in the Monthly Labour Survey (data continuously collected from same establishments). Per-employee nominal compensation shows figures for Apr-Jun 2025.

Wage Growth Rate by Company Size (full-time workers' scheduled cash earnings)



Source: MHLW; compiled by Daiwa.

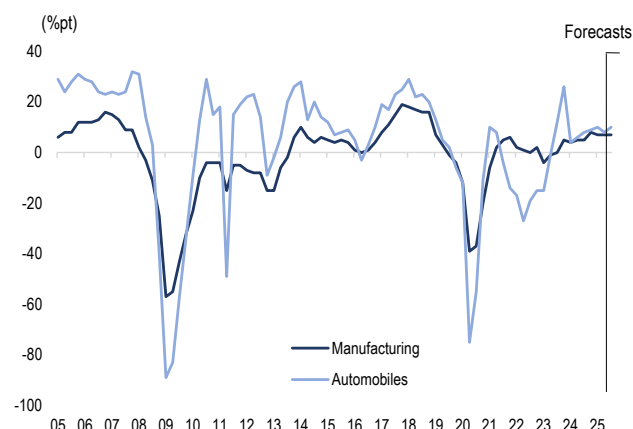
For domestic factors, the need to wait for *Shunto* results is diminishing

However, as Governor Ueda mentioned that he would emphasize the "initial momentum of *Shunto*," we think that the BOJ recognizes it can grasp the wage increase momentum without waiting for the first tally of *Shunto* responses (in Mar). Indeed, the minutes of the September MPM showed that one member expressed the view that it was important whether it could be predicted with some degree of certainty that the trend of wage hikes observed over the past few years would continue, based on, for example, corporate profits and prior information on the 2026 annual spring labor-management wage negotiations.

On the other hand, we believe there is only a very limited likelihood that the wage-setting behavior of large corporations and the manufacturing sector will be interrupted by domestic factors. This view is supported by robust corporate sentiment and solid earnings.

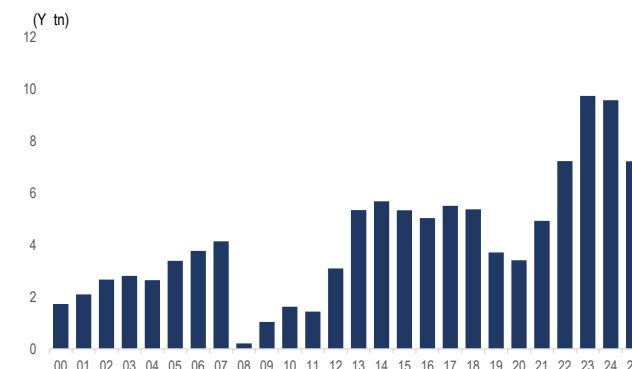
In the BOJ Tankan (Sep survey), released on 1 October, the business conditions DI for large manufacturers improved to +14 (previously +13), and for automobiles to +10 (previously +8). In addition, total recurring profit in the automotive sector (all sizes) remained at a high level, despite a projected 24.6% decline y/y.

Business Conditions DI (large companies)



Source: BOJ; compiled by Daiwa.

Recurring Profit Level (all-size automakers)



Source: BOJ; compiled by Daiwa.

Moreover, in its basic concept for *Shunto* in 2026 (released on 23 Oct), the Japanese Trade Union Confederation (*Rengo*) set a wage hike target at the same level as 2025 and explicitly stated a policy to aim for a 1% rise in real wages as the “wage hike norm.” The draft from Japan Business Federation’s Committee on Management and Labor Policy report also highlighted “entrenching strong wage hike momentum” and “stabilizing real wages in positive territory” as social demands, showing a clear shift in perspective on the wage norm among labor and management, particularly at large companies.

Given these factors, we can say that the need to place heavy emphasis on *Shunto* results for policy decisions is diminishing when limited to domestic factors. If this situation were to change, it would likely depend heavily on whether we face an external shock, centered on the US.

As pointed out in [our report dated 31 October](#), we still think that the main factors influencing the timing of the next rate hike are the US economy and price trends. However, the Tokyo core CPI for October showed a stronger-than-expected willingness to pass higher costs on to prices, increasing the risk of prolonged inflation, especially for food products. The initial momentum of *Shunto* will become clear over time, but considering forex rates and price trends, the BOJ’s has little room to continue postponing a rate hike. We still assume the next hike will be in December.

BOJ likely to look for extension of norm to regional areas and SMEs

As mentioned above, the draft from Japan Business Federation’s Committee on Management and Labor Policy report clearly indicated a change in the wage hike norm at large corporations. On the other hand, the same report also pointed out that SMEs are experiencing “wage hike fatigue” —i.e., worries about the continuation of wage hikes, due to uncertainty about future earnings under US tariff measures.

Under the circumstances, even if a solid wage increase rate is confirmed in the 2026 *Shunto*, concerns would remain about whether it would extend to regional areas and SMEs. If the BOJ implements a rate hike to 0.75% in response to strong initial momentum of the 2026 *Shunto*, the focus will likely shift to whether the wage increase movement is also spreading to regional areas and SMEs.

If large corporations maintain the wage increase norm even in an environment affected by tariffs, this will raise the likelihood that “there has already been a shift away from the deflationary norm,” as pointed out by BOJ policy board member Hajime Takata. The existence of a wage increase norm at large companies may already be becoming a prerequisite, and it is conceivable that we are moving into a phase where the establishment of such a norm in regional areas and SMEs will be more heavily emphasized. In that case, the importance of *Shunto*, a tool to gauge wage trends centered on large companies, may diminish to some extent.

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