

Key topic

2024 *Shunto*: The First Wage Increase Above 5% since 1991 with an Urgent Need to Spread the Trend to SMEs

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Wage negotiations between labor unions and management in the spring of 2024, or the 2024 *Shunto*, resulted in an average wage increase above 5% for the first time in 33 years. Many large companies, such as those in the manufacturing industry which has been leading the Japanese economy, accepted wage increases as demanded by labor unions. While labor shortages are becoming increasingly serious in Japan, the government and the business community aim to achieve economic growth through investing in human resources. Their intention matches that of labor union, who seeks to get rid of the prolonged deflation and make a shift to a society where wage increases naturally continue. This brought about the high-level wage increases. However, wage increases achieved at negotiations at small and medium size companies (SMEs) were below the levels of large companies. In order to develop an environment where SMEs can improve their earnings and raise wages, the government is dedicated to taking measures to ensure that SMEs will not suffer disadvantages in business-to-business transactions.

I. Final results

1. Wage increase rate was 5.10% on average, up by 1.52 percent points from the previous year.

In *Shunto*, labor unions start to present their demands in February. Those at large companies receive responses from the management side in mid-March, which takes the bargaining season to its climax. Then, negotiations are intensively held at the medium-sized companies and SMEs and are mostly

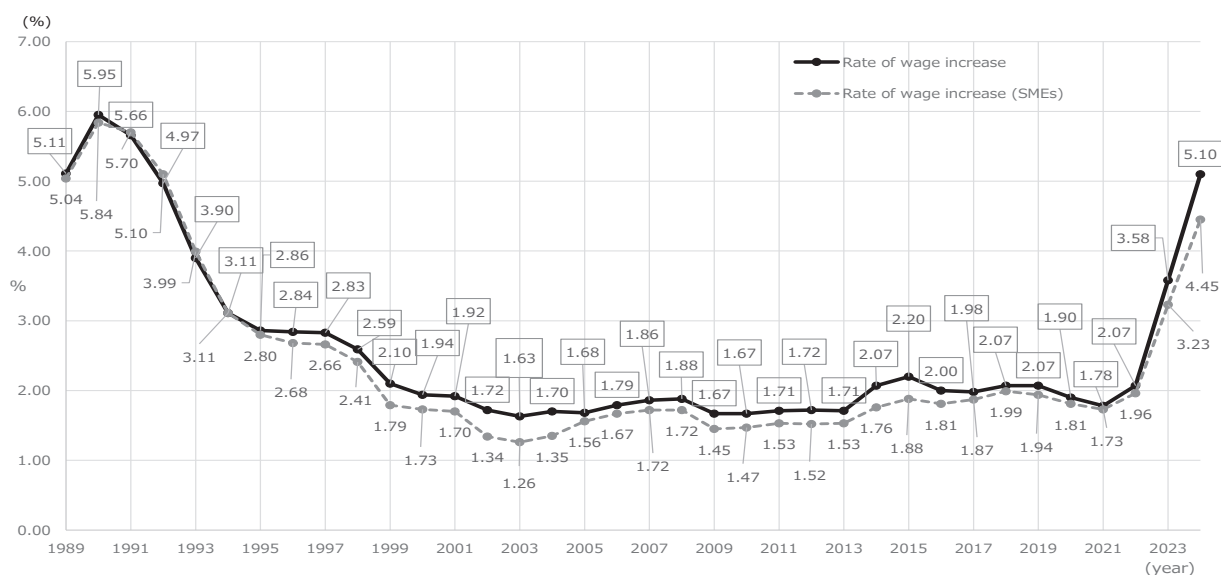
completed by around July.

On July 3, 2024, the Japanese Trade Union Confederation (JTUC-Rengo), the largest national center of labor unions with membership of 6.817 million, published the “Results of 2024 Spring Wage Negotiation Final Responses” (data tabulated for approximately 2.93 million union members). According to the results, the average increase in monthly wage per union member was 15,281 yen, with the increase rate being 5.10%. The rate was higher by 1.52 percent points than that for the previous year, 3.58%, which made news headlines as the highest level in the last thirty years. It exceeded 5% for the first time in 33 years since 1991, when the increase rate hit 5.66% (Figure 1).

2. Wage increases achieved by unions of SMEs were below the levels of large companies.

Let us look at the amount of increase and the increase rate by size of labor union. For labor unions with 300 or more members, the amount of increase was 15,874 yen (up by 4,917 yen annually) and the increase rate was 5.19% (up by 1.55 percent points annually), while for labor unions with less than 300 members, the amount of increase was 11,358 yen (up by 3,337 yen annually) and the increase rate was 4.45% (up by 1.22 points annually). In the final overview of 2024 *Shunto*, JTUC-Rengo stated the evaluation that small and medium-sized labor unions made vigorous efforts (JTUC-Rengo 2024b). However, both the amounts and rates were higher for larger sized labor unions.

Figure 1. Wage increase rate based on the average wage method in *Shunto*, 1989–2024 (changes since the foundation of JTUC-Rengo)



Source: JTUC-Rengo, “Results of Spring Wage Negotiation Final Responses.”

Note: Wage increase rate (including portions equivalent to automatic raises of monthly basic wage) based on the average wage method (weighted average). Data as of the end of June for each year.

3. Government statistics also shows wage increase rate exceeded 5% at large companies.

Other statistics published later by the government and an employers’ association also support responses admitting high wage increases in the 2024 *Shunto*. In August, the Ministry of Health, Labour and Welfare (MHLW) published the “Results of 2024 Spring Wage Negotiations by Major Private Companies,” which compiles the results for companies with stated capital of 1 billion yen or more and with 1,000 or more employees. According to this publication, the average agreed amount of increase was 17,415 yen, which was the highest level since 1975. The average wage increase rate was 5.33%, exceeding 5% for the first time since 1991. By type of business, the increase rate reached as high as 12.49% for the iron and steel industry (Figure 2). According to the Japan Federation of Economic Organizations (Keidanren)’s aggregated results as of August based on the data for 135 large companies with 500 or more employees, the wage increase rate was 5.58%.

The latest wage increase over 5% affects discussions on the minimum wage revision and on

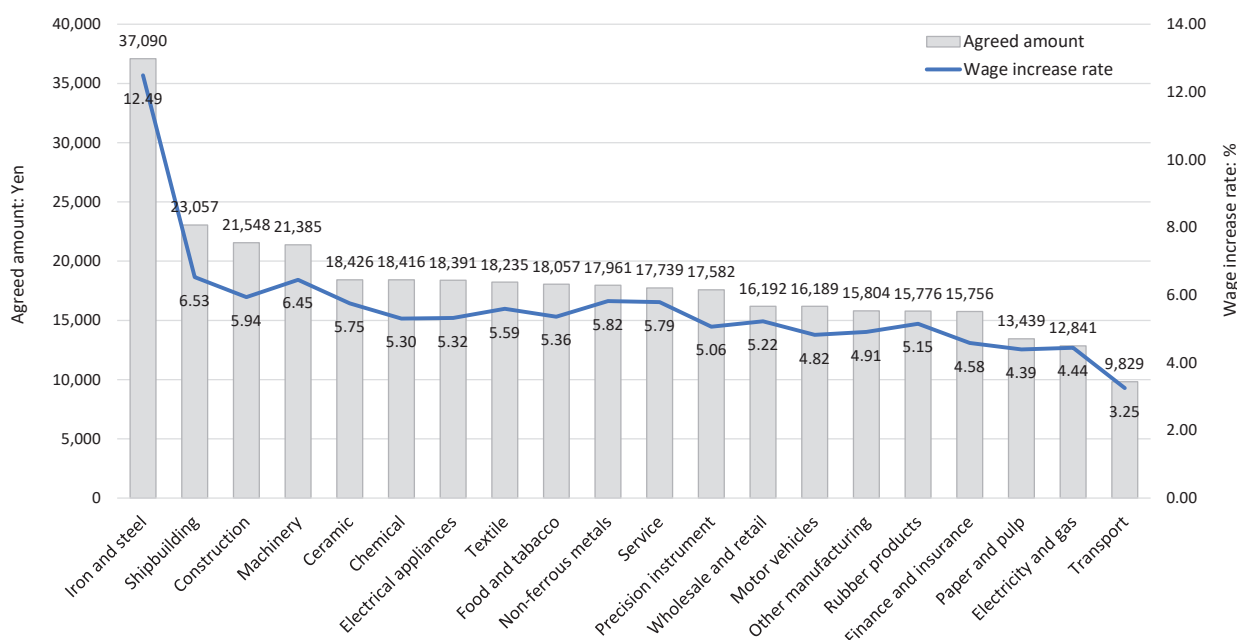
the wage decisions for the government employees. In July, the Central Minimum Wages Council of the government, which had been discussing the revision of the minimum wages by region for FY2024, recommended a wage increase equivalent to a 5.0% increase (1,054 yen) as a national average to the Minister of Health, Labour and Welfare. The increase rate is higher by 0.5 percent points from the previous year. Additionally, in August, the National Personnel Authority recommended the government and the Cabinet to achieve base-pay increases for government employees by 2.76% on average, the highest level in approximately 30 years.

II. Characteristics of negotiations at large companies

Labor unions’ demands were fully met.

As characteristics of negotiations by major large companies for the 2024 *Shunto*, the following three outcomes can be pointed out. First, many reached agreements with demands by labor union fully met, ahead of the deadlines designated by labor unions.

Figure 2. Results of 2024 spring wage negotiations at major private companies (by industry)



Source: MHLW, Results of 2024 Spring Wage Negotiations by Major Private Companies.

Second, some made responses above demands by labor union. Third, there was intentions observed in the management efforts to raise wages for younger workers in particular. Furthermore, quite a few companies, mainly large companies, announced through their press releases the significant increases in starting salary for new graduates of April 2024.¹

Regarding the first point, ten out of eleven major automobile manufacturers (such as Toyota and Nissan) that made responses in mid-March responded with fully meeting or even exceeding demands by labor unions. Honda and Mazda presented management's intention to fully meet demands by labor unions at the negotiation tables as early as in February.

As a representative example of the second characteristic, the case of Nippon Steel, the largest iron and steel company, can be cited. In their negotiation, the labor union demanded a monthly wage increase of 30,000 yen per person on average, and the management presented an increase of 35,000 yen, exceeding the demand by 5,000 yen.

The third is as seen in the case of a major beer

maker Asahi Breweries, in which the company responded that it would raise monthly wage by 13,500 yen per person on average and would further add 3,500 yen each to employees aged 32 or younger.

III. Backgrounds and factors for high-level wage increases

Since the 2000s, labor unions in Japan had refrained from demanding wage increases amid economic stagnation under the deflationary trend. It was only from 2014 that wages started to be raised again. For around ten years since then, wages have been raised continuously but the increase rate remained around 2% until 2022. Based on data by JTUC-Rengo, the increase rate marked above 3% (3.58%) in 2023, but at the same time, the price increase rate rose, and it was doubtful whether workers were able to perceive increases in their wages.

Why was it suddenly possible to achieve the wage increase over 5% in the 2024 *Shunto*? Of course, robust corporate performance was one factor

as pointed out in the “FY2023 Report on Japanese Economy” (Cabinet Office) with the achievement of record-high ordinary and operating profits in the July–September term of 2023 (Tankan survey by the Bank of Japan). However, what exerted the largest influence is the shared stance to place importance on wage increases among government, management side, and labor unions. The government intends to promote the “structural wage increases” for economic growth. The management side seeks to secure human resources by improving terms and conditions while a labor shortage is becoming more and more serious and the career-change market is growing. And labor unions, taking this opportunity, aim to achieve a shift to a society where wages increase continuously without being subject to yearly economic conditions and corporate performance.

The “structural wage increases” is an official term used by the government, which represents the idea to consider wages as not as a cost but an investment endeavoring to improve workers’ capabilities while raising wages, and thereby enhance corporate productivity and achieving economic growth. The government started to use this term in the “Basic Policy on Economic and Fiscal Management and Reform 2023” (Cabinet Office).

Looking at wage increases presented by large companies in mid-March, Prime Minister Kishida (at the time) said, “I’m encouraged to see a strong trend of wage increases.” Tokura Masakazu, Chairperson of Keidanren, said, “I am glad to see that many large companies, mainly those in the manufacturing industry, achieved base-pay increases exceeding 10,000 yen and wage increases of over 5%, which significantly exceed the levels in the previous year” (Keidanren website).

In its final overview, JTUC-Rengo summarized the 2024 *Shunto* as follows: “Sharing the awareness that it is the time to eliminate the deflationary mindset and bring the Japanese economy and society to a new stage, labor and management negotiated persistently and sincerely with a medium- to long-term perspective regarding the importance of investment in human resources, which will lead to the growth of industry and companies and eventually of the

Japanese economy as a whole, while considering the impact of high prices on the household economy and increasing burden on workers due to a labor shortage. They brought about a trend in a responsible manner and achieved a big success” (JTUC-Rengo 2024).

IV. Remaining challenges towards the 2025 *Shunto*

1. Passing cost increases on to prices of goods and services.

While achieving high-level wage increases, one of the remaining challenges is weaker wage increases among SMEs. Labor unions have endeavored to correct wage gaps by corporate size, but the gaps rather expanded in the 2024 *Shunto*.

It is a common awareness between the government and the economic and labor circles that SMEs are unable to raise wages at a level equivalent to that for large companies partly because they often find it difficult to obtain sufficient profits in business-to-business transactions and cannot secure enough funds for raising wages. SMEs find it difficult to ask for client companies, often larger in business size, for understanding for reflecting increases in material costs or labor costs to the prices of their goods and services. There are cases where their requests for such understanding are rejected by clients. According to the results published in June 2024² of the “Questionnaire Survey on Price Negotiations and Price Pass-Throughs,” conducted among SMEs biannually by the Small and Medium Enterprise Agency (SMEA), 20% have not been able to pass cost increases on to product or service prices at all.

The government has already been taking various measures to break through this situation. It investigates the status of price negotiations and price pass-throughs and publishes a ranking by industry of the degree of implementation, for example. The ranking clearly shows which industries are negative concerning price negotiations and price pass-throughs.

2. Guidelines to facilitate price pass-throughs.

In October 2023, the Cabinet Secretariat and the

Fair Trade Commission jointly established guidelines for actions required for ordering parties, for order recipients, and for both, with the aim of helping companies pass labor cost increases due to wage increases on to prices. The guidelines state that ordering parties should decide on their policies for accepting price pass-throughs with the involvement of top management, and that order recipients that intend to provide ordering parties with explanations concerning the grounds for labor cost increases do not have to present their internal data but can use publicly available data. In the meantime, an initiative in collaboration between the business community and labor unions has been carried out, in which companies declare compliance on desirable transaction practices with their contractors under the name of their top executives.³ Over 50,000 companies have already made a declaration.

3. Price shift underway, yet labor unions see “halfway.”

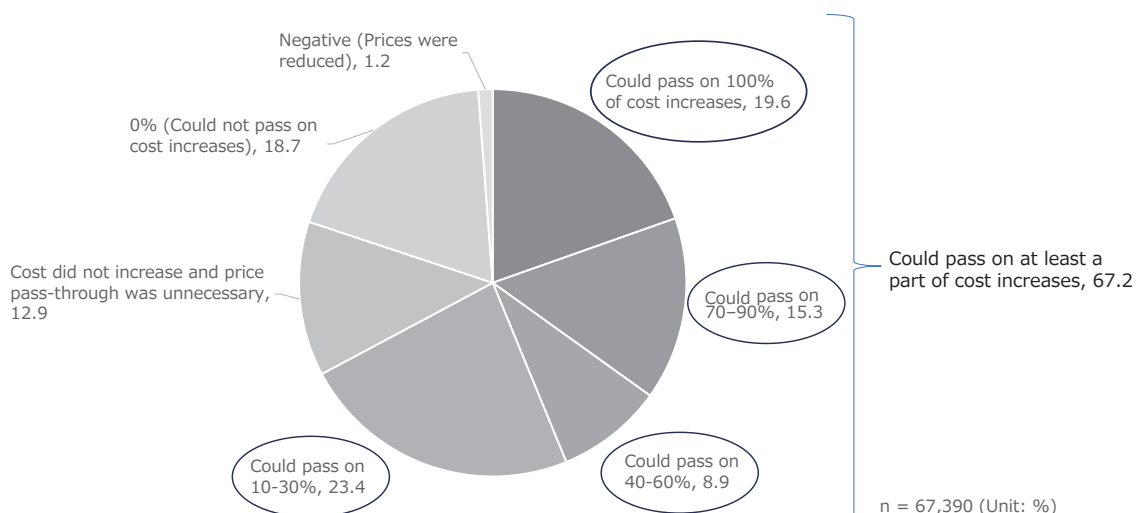
Through these efforts, some progress is observed in price pass-throughs. According to the results of the aforementioned SMEA survey (2024), the percentage of order recipients that were able to pass “at least a part of” general cost increases on to prices increased

to 67.2%, up by approximately 4 percent points from the previous survey conducted half a year before (Figure 3). As for labor costs to pass on to prices, the percentage was 56.7%, up also by 4 percent points. However, Katahiro Yasukochi, President of Japanese Association of Metal, Machinery and Manufacturing Workers (JAM membership of 367,000), an industrial union consisting of labor unions of many metal-related SMEs, regards the current status of price pass-throughs, expressing that they are “still only half-way.”

4. The collaboration between government, labor, and management continues.

The government cited “wage increases above price increases” and efforts for price pass-throughs as priorities in the “Basic Policy on Economic and Fiscal Management and Reform 2024” (Cabinet Office). The basic policy states that the key for transition of the Japanese economy to a new, growth-oriented stage is “higher income and productivity driven by wage increases,” and aims to expand the strong momentum toward wage increases observed in the *Shunto* to SMEs and local economies, thereby achieving and maintaining “wage increases above price increases.”

Figure 3. Status of passing general cost increases on to prices in the last 6 months



Source: SMEA, “Results of the Follow-up Survey of Price Negotiation Promotion Month (March 2024).”

With regard to price pass-through approach, it declared to “achieve ‘structured price pass-throughs’ to maintain proper price pass-throughs across the supply chain as a new business practice.” Industries showing low price pass-through rates are required to formulate or revise voluntary action plans and consider remediation measures.

The attitude and stance of management side for wage increases will remain the same as those in the 2024 *Shunto*. In response to the basic policy, Keidanren published Chairperson Tokura’s comment, “In order to completely break away from deflation and achieve a virtuous cycle, we will work valiantly to expand domestic investment and to maintain and further strengthen efforts for raising wages in the next year onward.”

Against such a background, it is expected that positive efforts for wage increases in a close collaboration among the government, labor, and management will be continued for the 2025 *Shunto*. Whether the wage increase rate can be achieved above this year’s level will depend on to what extent SME’s price pass-throughs can be practically achieved through collaborative efforts by labor and management with support by the government.

1. For example, NTT Group, one of the major corporations in the telecommunications business, has announced that it will raise wages for university graduates of Spring 2024 at NTT Docomo and other major group companies to over 300,000 yen (standard cases).
2. Surveyed the status as of the period from October 2023 to the end of March 2024.
3. “Declaration of Partnership Building.” Companies that made this declaration can receive subsidies and preferential tax treatment.

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