

## (BN) Japan's Wage Jump Offers Fuel to Ignite Stalled Consumption

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By Yoshiaki Nohara

(Bloomberg) -- Japanese wages grew in May at the fastest pace in nearly 15 years, adding to hopes that the tightest labor market in decades is finally spurring the kind of wage gains that could light a fire under persistently sluggish consumption and inflation.

Total cash earnings jumped 2.1 percent in May from a year ago, matching the gain of June 2003, the labor ministry said Friday. Regular scheduled pay also strengthened, growing 1.4 percent for the sharpest increase in 18 years.

The figures come at a critical time for Japan's mission to generate stable inflation. Price growth has softened in recent months and household consumption continues to show signs of weakness. Separate data released Friday showed household spending slid 3.9 percent in May from a year earlier.

Atsushi Takeda, chief economist at Itochu Corp., says strong gains in wages will be needed for many more months before consumption is likely to show a response.

"There's no question that wages are improving," he said, commenting on the latest figures and citing the results of annual wage negotiations earlier this year. "But people need a substantial period of wage gains to be convinced that wages will keep rising."

The gain in overall wages was partly attributable to a 15 percent jump in bonus pay that reflects continued strength in Japanese corporate earnings.

Still, Bank of Japan Governor Haruhiko Kuroda will likely welcome the 1.4 percent gain in full-timers' base pay, a measure of stickier gains in wages. The sharpest advance since March 2000 should add pressure on companies to increase product and service prices. Japanese labor customs make it hard for companies to cut full-timers' regular pay once it is raised.

Policy makers in Japan have repeatedly cited the need for a cycle of strong wage gains, consumption and price gains to help achieve the stable 2 percent inflation that is front-and-center of the Abenomics policy platform to revitalize Japan's economy.

Wage gains have so far been limited even as economic growth and Japan's shrinking population keep the labor market exceptionally tight. The jobless rate fell to 2.2 percent in May, the lowest since 1992.

Household incomes have been improving with the positive results of spring wage negotiations trickling in, but it remains to be seen how much people want to save rather than spend, according to the internal affairs ministry. A ministry official blamed the weak May result in household spending on bad weather.

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