

Higher wages, not bonus needed: experts

Record winter payout expected but it won't boost consumer spending

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Record winter bonuses at Japan's biggest companies, including JFE Holdings Inc. and Honda Motor Co., may not be enough to kick-start consumer spending, the missing link in the country's longest period of growth since World War II.

The average winter bonus could increase 2 percent to ¥363,932 this year, the Nihon Keizai Shimbun reported last week, making it the highest amount on record, which the paper started to keep in 1975.

The economy grew at double the expected pace in the third quarter, as an increase in corporate investment and exports outweighed a decline in personal consumption.

Consumer spending, which accounts for more than half of the economy, may not pick up until companies reward workers with permanent pay increases rather than one-off payments.

"A higher bonus is good but what we really need to see is a pickup in core wages" said Hiroshi Shiraiishi, an economist at Lehman Brothers Japan Inc. "People need to be confident that the increase is permanent before they loosen their purse strings."

Wages have risen less than ¥10,000 this year, after declining more than ¥400,000 between 1997 and 2005, a cut of almost 10 percent, according to Health, Labor and Welfare Ministry reports. Household spending, which has fallen every month this year, plunged 6 percent in September, the biggest drop in more than five



MEN CROSS a Tokyo street in March. Many companies are expected to raise their employees' winter bonuses as the economy picks up. **BLOOMBERG PHOTO**

years.

"There's a hesitancy to hire full (timers) and to raise base pay," said Thomas Nevins, president of Technics in Management Transfer, a Tokyo-based executive search firm. "Companies are shifting the risks onto employees," he said, adding that the cost of settling wrongful termination disputes makes contract workers and part-timers more attractive.

Although the jobless rate is hovering near an eight-year

low, the economy is generating part-time and contract positions at twice the rate of full-time jobs, labor ministry reports show. Thirty percent of workers held part-time or temporary positions in 2005 compared with 19 percent in 1994, according to the Organization for Economic Cooperation and Development.

Flexibility in employment and in compensation is good for the economy, "but uncertainty could prompt people to save more," said Jan Lam-

bregts, head of Asia research at Rabobank International in Hong Kong. "Let's go to basic economic theory: People don't like to spend money they're not certain about."

While bonuses are at a record, they're increasing at a slower rate. Payments at the biggest companies will rise 2.8 percent this December, down from 5.1 percent last year, according to a survey last month by the Japan Business Federation (Nippon Keidanren), the largest business

lobby.

"The point isn't the level of bonuses; it's the rate of increase that matters," said Hiromichi Shirakawa, chief economist at Credit Suisse in Tokyo. "This argument about historical highs is ridiculous. They don't brag about record highs in China."

Japan's economy grew at a 2 percent annual clip in the three months to Sept. 30, buoyed by corporate investment and exports. Consumer spending fell 0.7 percent, the biggest decline in almost two years.

Not all economists are skeptical this year's bonuses will help to reverse the slide in private consumption.

"Strong yearend bonuses should lead to a fourth-quarter rebound in consumer spending," said Tomoyuki Ota, an economist at Mizuho Research Institute Ltd. in Tokyo.

Aggressive hiring means there are more employees receiving bonuses, multiplying the effects of this year's increase, according to a report this month by Mitsubishi UFJ Research and Consulting Co. The number of workers receiving bonuses will climb 2.3 percent from last year, the report said.

Steelmaker JFE Holdings will reward workers for earnings growth with an average payment of ¥1.29 million, the Nikkei reported yesterday. Honda will pay an average ¥1.12 million per worker, the newspaper said.

Full-time employees typically receive a summer and winter bonus equal to four to five months of base pay.