

Feature Articles

This month's focus: Corporate Behavior in Post-deflationary Japanese Economy

Corporate Performance and Behavior during Inflation: An Analysis of Corporate Performance and Behavior under Inflationary Conditions from the 1940s to the Most Recent Inflationary period

Kenichi Miyamoto, CMA

This paper reviews past inflationary phases and analyzes fluctuations in corporate performance and capital investment. By focusing on the inflationary period, the postwar period, the oil shock, the IT bubble, and the period of the spread of the new coronavirus, it analyzes firms' performance and behavior during each period. This paper then points out that Japan, now on the verge of overcoming deflation, has experienced changes different from those in the past.

Japanese Firms' Price and Wage Setting Behavior during the low Inflation Era

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Japan has experienced a quarter-century of low price and wage inflation since the mid-1990s. During this period, declining price markups due to severe competition were accompanied by increasing wage markdowns, which stabilized corporate profits. This mechanism undermines the long-term stability of the labor share and is a reason for low inflation in Japan. Regarding the determinants of price markups, investment in intangible assets has pushed up price markups, while in the manufacturing sector, changes in the international competitive environment and, in the non-manufacturing sector, the excessive number of stores per capita have tended to push down price markups. As the Japanese economy moves into positive inflation territory, it will be interesting to see whether the adjustment mechanism that has been compensating for the decline in price markups with an increase in wage markdowns will change due to factors such as structural changes in the labor market.

Japanese Companies Forced to Transform

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The structural and irreversible shifts in the external environment, such as the serious labor shortage, increasing demands for capital efficiency, and policy and institutional changes, are forcing Japanese companies to change their behavior. This change in corporate behavior will positively impact the Japanese economy, as firms will be more active in investing in human resources, capital expenditures, and mergers and acquisitions to achieve growth and strengthen competitiveness. However, the process is likely to lead to a sharpening of the polarization of the corporate sector, with an increase in bankruptcies of companies with inferior profitability. It is important to prevent a sharp increase in bankruptcies by expanding support for business revitalization and restructuring, and to promote smooth turnover across the corporate sector, leading to higher productivity in the overall economy.

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Sustainable Wage Growth and the Role of Human Capital Investments

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Investment in human capital is essential for sustained wage hikes. Wage increases are not a means to increase productivity; they are the result of productivity and value-added growth. The stagnation of wages during the last 30 years is largely attributable to a lack of investment in human capital. During the recession, companies viewed employees as a cost and prioritized cost-cutting. Regaining international competitiveness requires a shift in the mindset of stakeholder capitalism, from protecting employees to investing in and developing them. Human capital investment is the foundation for economic growth and wage increases
