

Country Market Profile: Japan

Euromonitor reports that during 2021, the Japanese economy started to recover, aided by strong government policy support, robust exports and recovering industrial production. Economic growth is forecast to accelerate in 2022, owing to stronger household consumption, rising capital spending, and accommodative fiscal and monetary policies. However, pandemic-related uncertainty, global supply chain disruptions, rising oil prices, and ballooning public debt present challenges to sustainable economic development.

- Following a contraction of gross domestic product (GDP) of 4.6% in 2020, due to the coronavirus pandemic shock, real GDP in Japan increased by 1.7% over 2021, underperforming the average growth of 6.4% in Asia Pacific. For 2022 GDP growth in Japan is forecast at 1.6%.
- Inflation in Japan is forecast to increase to 0.8% in 2022, from 0.2% in 2021.
- Japan's exports increased by 18.2% and imports rose by 21% during 2021, with the country being a net importer.
- As foreign direct investment (FDI) inflows into Japan decreased over 2020, FDI intensity reached 0.2% of GDP.
- Public debt in Japan rose to 262% of GDP in 2021 from 254% in 2020, and is expected to remain elevated over the medium term, due to substantial government fiscal support.

Over 2022, economic growth is forecast to accelerate, underpinned by stronger household consumption, rising capital spending, and accommodative fiscal and monetary policies. In addition, labor market conditions are expected to improve in Japan. The unemployment rate is predicted to fall to 2.7% in 2022 – above the pre-pandemic level, but lower than the average of 5% in Asia Pacific in 2022. However, pandemic-related uncertainty, global supply chain disruptions, rising oil prices and rising fiscal sustainability risks pose downside risks.

Population began to fall around 2009 and in 2022 stood at 124.2 million (CIA World Factbook Est.) – about 2.8 million less than in 2000. The median age is 48.6 years – significantly higher than for other large economies in the region. The steady ageing of Japanese society is a significant drag on economic performance. In 2021, the number of those over 65 years amounted to 36.6 million or 29.2% of the population.

Japan suffers from a shrinking labor force and is one of the fastest-ageing economies globally. As result, the country has one of the highest old-age dependency ratios in the world, which stood at 49.1% in 2021 and is expected to reach 65.6% by 2040, placing increasing pressure on public finances and the social security system. To address these issues, the Japanese authorities amended the employment law in 2020, requiring companies to retain their workers until they are aged 70. Furthermore, the government decided to expand the range of part-time workers that can join the kosei nenkin public pension program and enacted a bill to gradually raise the retirement age of public sector workers from 60 in 2021 to 65 by 2031. Nevertheless, owing to the rapid ageing of society and strong technological infrastructure, Japan is well-placed to become a global

hub for Age-Tech companies, which offer digital solutions to improve the lives of senior citizens.

In January 2022, the Regional Comprehensive Economic Partnership (RCEP) came into force, creating a new Asia Pacific trading bloc between the 10 ASEAN (Association of Southeast Asian Nations) countries, Australia, China, Japan, New Zealand and South Korea. The RCEP is expected to boost Japan's economic development and promote stronger trading relationships between members through tariff reductions and simplification of trading rules.\

Tokyo and the European Union (EU) have concluded a free trade agreement which took effect early in 2019. The EU has agreed to a gradual phase out of all tariffs on cars imported from Japan. In turn, Europe's farmers face far lower tariffs when exporting to Japan. Japan is a member of the new 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was formally created in March 2018. The decision could provide an especially important boost to non-U.S. food exporters.

USDA's Agricultural Trade Office or ATO in Osaka hereinafter referred to as "FAS Osaka" reports that the United States is the largest foreign supplier of food and agricultural products to an import reliant Japan (22% of import market share)—the fourth largest market for U.S. agricultural and related products in 2021 (US\$15.6 billion). On January 1, 2020, the U.S.-Japan Trade Agreement (USJTA) entered into force, providing preferential tariff access for many U.S. agricultural products. Japan's food industries are well-developed and innovative in all sectors, including, retail, food service, food processing, and distribution

The U.S. exported US\$14.2 billion in agricultural products to Japan in 2021, outstanding growth of 21% from that of 2021. There are tremendous opportunities for U.S. exporters willing and able to follow the strict Japanese product regulations and keep up with the latest trends in this market. Under the USJTA nearly 90% of U.S. food and agricultural imports into Japan are either duty free or receive preferential tariff access.

Market Opportunities and Key Issues in the Japanese Market

Market Opportunities

- U.S. products have a good quality reputation and are generally priced lower than domestic products.
- Recognized as global leader in high standards for food safety and animal/plant health.
- Perception of the United States as a reliable supplier with large production capacity.
- Diverse range of product availability from bulk to intermediate to consumer-oriented.
- Increasing westernization and health consciousness of consumer food preferences.

Key Issues

- Some U.S. products face higher tariffs than competitor suppliers due to preferential trade agreements such as RCEP, CPTPP and the Japan-EU EPA.
- Japanese consumers generally prefer domestic products over imports and are willing to pay a premium for “made in Japan”.
- Strict regulatory standards for imports that sometimes exceed U.S. domestic regulations.
- Desire for Japanese importers to diversify risk by sourcing from multiple countries.
- High costs for marketing in Japan and the need to adjust packaging size for the retail market.
- Deliberate pace of business decision-making and the expectation of long-term commitment from foreign suppliers.

In 2021 U.S. exports of consumer ready foods totaled US\$7 billion, an increase of 10% and a new record high. Japan is the 3rd largest market for U.S. consumer food products after Canada and Mexico. Japan is also the 3rd largest U.S. export market for processed foods, totaling US\$2.8 billion in 2021, up 10% from the previous year. Top U.S. processed foods exported to Japan in 2021 included:

- Processed Vegetables & Pulses
- Prepared/Preserved Seafood
- Food Preparations & Ingredients
- Prepared/Preserved Meats
- Processed/Prepared Dairy Products
- Alcoholic Beverages
- Non-Alcoholic Beverages
- Canned, Dried & Frozen Fruit

Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Japan are estimated at US\$216.3 billion in 2022. That represents growth of 10.5% and US\$20.4 billion since 2018. Japan is the 3rd largest package food market in the world after the U.S. and China. By the year 2026, the retail sales in the packaged food market in Japan is expected to reach US\$235.9 billion, growth of 9.1% or US\$19.6 billion from 2022. High growth categories in the forecast include:

- Breakfast Cereals
- Cheese
- Confectionery
- Sweet Spreads
- Sweet Biscuits, Snack Bars and Fruit Snacks
- Baked goods
- Savory Snacks
- Processed Fruit & Vegetables
- Ready Meals

FAS Osaka reports that in 2021, the total value of all retail food and beverage (F&B) sales in Japan totaled US\$467.2 billion, a 2.3% decrease over 2020 sales of US\$478.1 billion. Supermarkets continue to represent the bulk of the retail food market, accounting for 74% of the market, with convenience stores, drugstores and internet sales of food and beverages accounting for the rest of the market. As the market continues to transition to a post-COVID-19 environment, retailers and food and beverage manufacturers will have to address inflationary pressures that will likely encompass broad price increases

Supermarkets represent the bulk of the retail food market, at 74%, according to data from the Ministry of Trade, Economy and Industry (METI) and the Statistics Bureau of Japan. The F&B retail industry includes supermarkets, department stores, convenience stores, drugstores, and the internet. General Merchandise Stores (GMS) offer products such as apparel, shoes, sporting goods, bedding, kitchenware, etc., in addition to F&B products. There is no separate or official data source for GMS sales of F&B products.

In 2021, consumer expenditures at supermarkets decelerated. The transition from a post COVID-19 environment to one of high inflation, started to take root. During the peak period of the pandemic, supermarkets benefited from consumers cooking more frequently at home, which increased grocery sales. Despite these increased sales, retailers did not increase prices to recoup some of the added material and distribution costs resulting from severe supply chain issues brought on by the pandemic.

Typically, Japanese retailers are slower than their U.S. counterparts to raise costs; however retailers across Japan may no longer be able to sustain operations without passing some of these higher costs to the consumer. U.S. food and beverage products continue to be prominently displayed at supermarket stores and are frequently sought out by consumers for quality and freshness. Processed fruits, processed vegetables, and tree nut products continue to represent some of the best prospects of U.S. consumer-oriented products.

Japanese supermarkets are distinguished by available floor space: stores with less than 16,146 square feet account for the largest share of the sector at nearly 51%, while supermarkets with more than 16,146 square feet account for 23.3%. U.S. exporters of consumer-oriented products may find opportunities working in this segment.

The Convenience Store (“combin”) : This segment represents approximately 15% of sales. In 2021, sales were flat. The sector is notoriously difficult to enter and even more difficult to maintain shelf space, with high turnover in products and competitive sales space. Convenience stores are constantly inventing ways to appeal to customers of all ages. The working class, referred to as “salary men/women,” is targeted throughout the day from morning breakfast items to ready-to eat dinners. In addition, each convenience store creates their own branded products to offer consumers a more unique product selection.

General Merchandise Stores (GMS): The GMS sector’s largest retailers are national chains such as AEON Co., Ltd. and Seven & I, which operates Ito-Yokado. These

retailers offer products such as apparel, shoes, sporting goods, bedding, kitchenware, and other goods in addition to F&B products. Regional GMS in western Japan include PPIH, Izumi, Okuwa, and Izumiya. Recently, FAS Osaka has observed a shift among GMS companies on its reported sales data is not always made public. When it is, F&B sales are not separated from total sales, making it difficult to put a value on F&B sales within the sector. Based on FAS Osaka's contacts, a reasonable estimate is US\$24.8 billion.

Best Product Prospects:

FAS Osaka reports that products present in the market which have good sales potential include beef and products, pork and products, processed vegetables, wheat and wheat products, fresh and processed fruit, tree nuts and peanuts, whisky, wine and beer and cheese. Japanese importers and consumers frequently seek new, trendy, and innovative products. The freeze-dried food market is expanding. The best seller is miso soup, followed by other soup products. Opportunities may be found at any time for competitively priced, quality, or novel products, for example plant-based protein products, prepared chicken, and craft beer and spirits.

Food Service Sector Highlights:

FAS Osaka reports that total sales of the hotel, restaurant and institutional (HRI) food service industry totaled US\$239.1 billion in 2020, a decrease of 26% from 2019 due to the ongoing COVID-19 pandemic. The industry experienced the biggest annual decline in sales since 1994, when industry statistics were first recorded by the Japan Foodservice association. Despite the overall declines, American style fast food chains experienced stable sales, and with easing States of Emergencies (SOEs), increased vaccination rates, and public outings resuming, there's cautious optimism for sales to rebound. Japan's market size and food and agricultural consumption needs are still robust for foreign purchases and will continue to be crucial for U.S. agricultural products that supply the Japanese HRI food service industry.

The Japanese HRI industry, broadly defined, has ten major segments. The Takeout/HMR segment includes ready to eat meal/home meal replacement (HMR) type products sold at Obento (lunch box) shops, convenience stores, supermarkets, and department stores. Sales in this market segment have accounted for 28% of the HRI market. Restaurants were the second largest with nearly 18% of the market. Institutional food service was the third largest with 15%, followed by Fast food with 12%. Other sectors include Pub dining, drinking establishments (10%), Hotel restaurants and banquets (8%), Coffee and tea shops (4.2%), Food/Home delivery (3.2%). Last were Leisure Facilities (2.4%) and Transportation (0.1%).

Food Processing Sector Highlights:

FAS Osaka reports that the Japanese food processing industry benefited from a slightly higher exchange rate in relation to the dollar in 2021, compared to 2020, allowing the industry to experience marginal growth by value, totaling US\$216.4 billion. Despite

production decreases in many categories, the top manufactured products in Japan were in the health, canned and bottled food categories.

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Food producers balance the need to maintain market share with traditional product lines. However, they are also constantly developing creative products to attract consumers who are interested in new and innovative foods, causing the food manufacturing industry to have high rates of product turnover. Processed foods that are increasing in popularity include yogurt, meat, soups, and ramen. Popular beverages include tea, vegetable juice, distilled spirits, and energy drinks. Frozen foods consumption has doubled over the past two decades and continues to grow due to convenience and improvements in product quality and safety.

The Japanese food processing industry is one of the world's most advanced and sophisticated. Health-oriented products are rapidly increasing in popularity and frozen food consumption has significantly increased over the past decade. Additionally, there is a growing demand for convenient, ready-to-eat food options, as consumers generally cook fewer meals at home. The U.S. is the top agricultural supplier to Japan and has a reputation for being a reliable supplier of safe and high-quality foods.

Best Product Prospects:

FAS Osaka reports that Japanese food manufacturers seek quality ingredients and conveniently prepared semi-processed foods that can reduce costs. Specifically, indications are that there is good potential in the market for beef and beef products, pork and pork products, wheat and wheat products, processed fruit, processed vegetables, whisky, wine, beer and cheese.