



Products of the U.S.A.

WUSATA Japan Monthly Report November 2023

Executive Summary

Japanese market situation continued to be vulnerable by fears of a food crisis engulfing the world. Even after the surge in food prices paused immediately after the invasion of Ukraine, the flashpoint is still smoldering. A combination of factors, including prolonged wars, extreme weather conditions, and by-country export policies in the international society, led to a widening of price swings of the food stuff on global basis. The Food and Agriculture Organization of the United Nations (FAO) food price index, a benchmark for food prices, fell 2.6 points from the previous month to 121.4 in August, the lowest level in about two and a half years since March 2021. It is 24% lower than the peak immediately after the invasion, and the crisis does not appear to be imminent. But the signs of rising risk are already on. This is reflected in the increasing volatility of prices in the international market for major food products.

As for the outlook, the pace of economic recovery is expected to remain moderate. The U.S. economy is still strong at present, and a recession is unlikely in the future, but it is reasonable to assume that the economy is slowing down. In addition, the deterioration in the European economy has been conspicuous recently, and the Chinese economy is only at the stage where it is finally beginning to see a halt in its decline. So, the short-term food business overview does not look bright as it'll be hard to presume that Japanese export will become a driver of the economy.

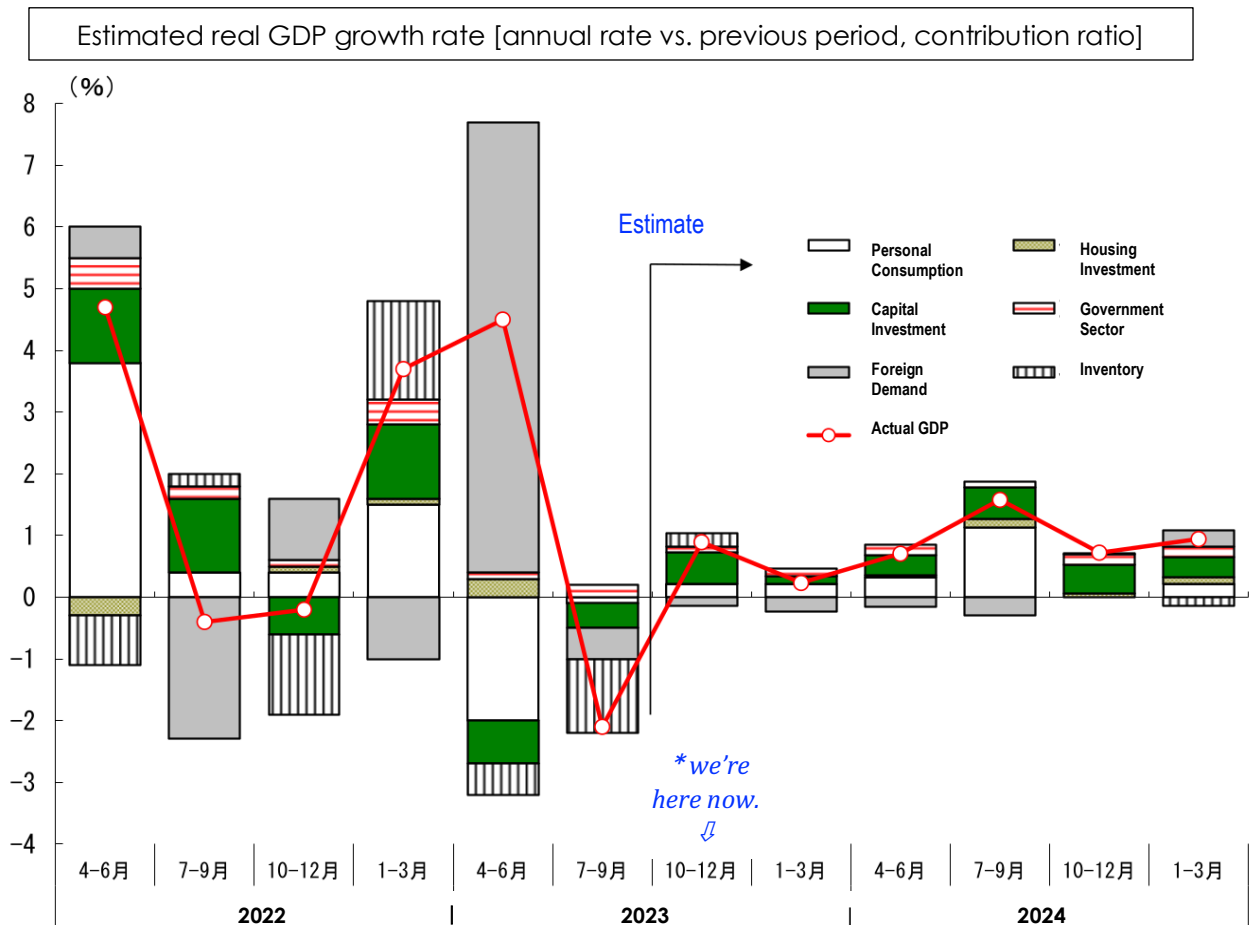
Private consumption is also expected to increase only moderately. It is likely that the recovery will continue, mainly in services consumption. As seen by the slowdowns in 2023 April-June quarter and the July-September quarter, the upward trend in private consumption seems to be declining at present. Private consumption looked recovering due to the normalization of the economy from a significant decline in levels due to the pandemic when the consumers expenses were inflated by the price hikes. The level of private consumption is approaching back to the pre-pandemic level which may have some gaps with the consumer sentiments. As prices continue to rise, while Japanese government hopes the nation will start spending more in the reality general consumers will tend to tight their purse, trying to save more for their welfare and daily living. Looking ahead, Japanese consumption is likely to increase only at the steady pace. **See <Graph A> on next page.*

Market Intelligence Update: Facing more climate crisis than geopolitical risks

In Japanese local market the momentum of food price hikes, which are bothering household budgets, somewhat got eased. But from the global point of view, the shortage of agricultural products is likely to keep impacting the food security of the nation who depends on almost 60% of imported food stuff on calorie base as of 2022. The Japanese food makers' price hikes reported as being brought mainly by the Ukraine crisis looked like taking a rest now. However, a closer look at grain prices suggests that food inflation will not be easily contained, showing the main cause of pushing food prices has shifted from geopolitical risk to the "climate crisis."

As Japanese major edible oil company indicated in mid this November, raw materials prices haven't declined significantly in the long run. The Food and Agriculture Organization of the United Nations' (FAO) global food price index has fallen 25% from its all-time high in March 2022 as of October. While the crisis appears to have passed, it is 27% higher than it was in pre-COVID 19. In the long run, food prices have shifted upward.

<Graph A>



Source: Japanese Cabinet Office

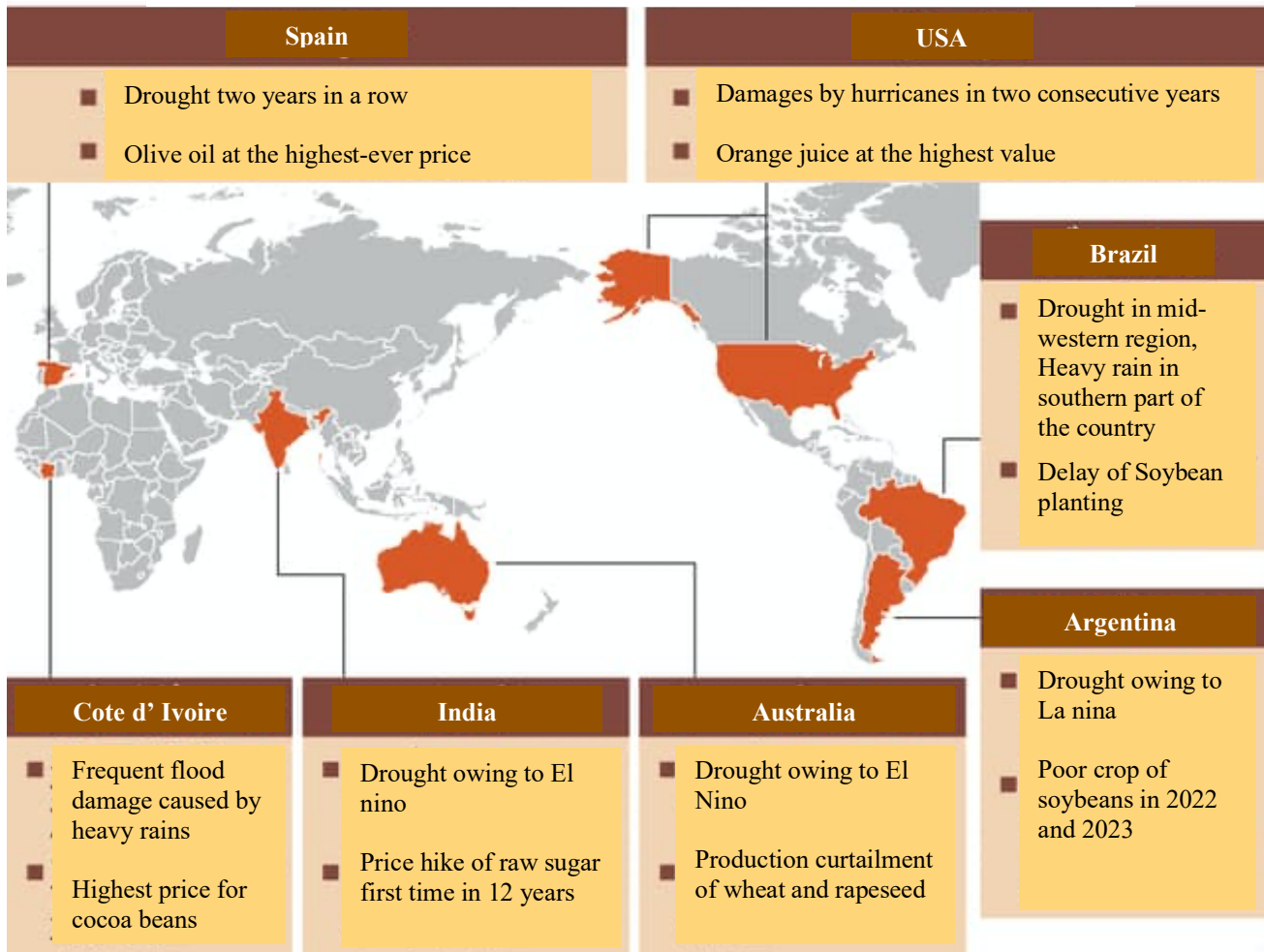
Taking soybeans as an example to view on the climate crisis; compared to the end of March 2022, the price fell by about 20%, but the price decline was only about 50% of the those of wheat and corn, and it was still 40% higher than that in the end of 2019. In the U.S. and Brazil two major soybean producers in the world experienced significant production decrease due to the climate changes. In terms of the Japanese soybean self-efficiency rate as only 7%, the primary foreign suppliers crop and harvest situation would directly hit Japanese diet.

One of the major soybean exporters to Japan in Ohio, USA, commented that it was the driest summer, and his crops were hit both by dryness and a lack of sunshine because of wildfires in Canada. The U.S. Department of Agriculture estimates that U.S. soybean production in FY23-24 will be 112.38 million tonnes, 3.3% lower than the previous year's harvest. According to the U.S. Soybean Export Association (Minato, Tokyo), 90% of Japan's annual soybean demand, which includes oil pressed for cooking oil and food products such as tofu, is imported. The decline in production in the U.S., which accounts for about 70% of this, has a significant impact on Japan.



Brazil, the world's largest producer of soybeans, is also experiencing growing weather concerns. In Brazil, which is in the southern hemisphere, it is six months behind the US, and now is the peak season for soybean planting. The El Niño phenomenon that occurred for the first time in four years caused extreme weather such as drought and heavy rains, and the progress of planting has been delayed than usual. In the Midwestern state of Mato Grosso, which is the center of soybean production for export market, farmers tend to give up on soybean planting and rather shift to cotton due to extreme drought situation.

Climate change impacting global agricultural production



Retail oriented food market overview

According to the Ministry of Economy, Trade and Industry's preliminary report on the current statistics of commerce for October released just recently, retail-targeted sales (on a wholesale level) increased by 4.2% from the previous year. On a year-on-year basis, food and beverages increased by 6.6%.

*See <Graph B> on the next page.

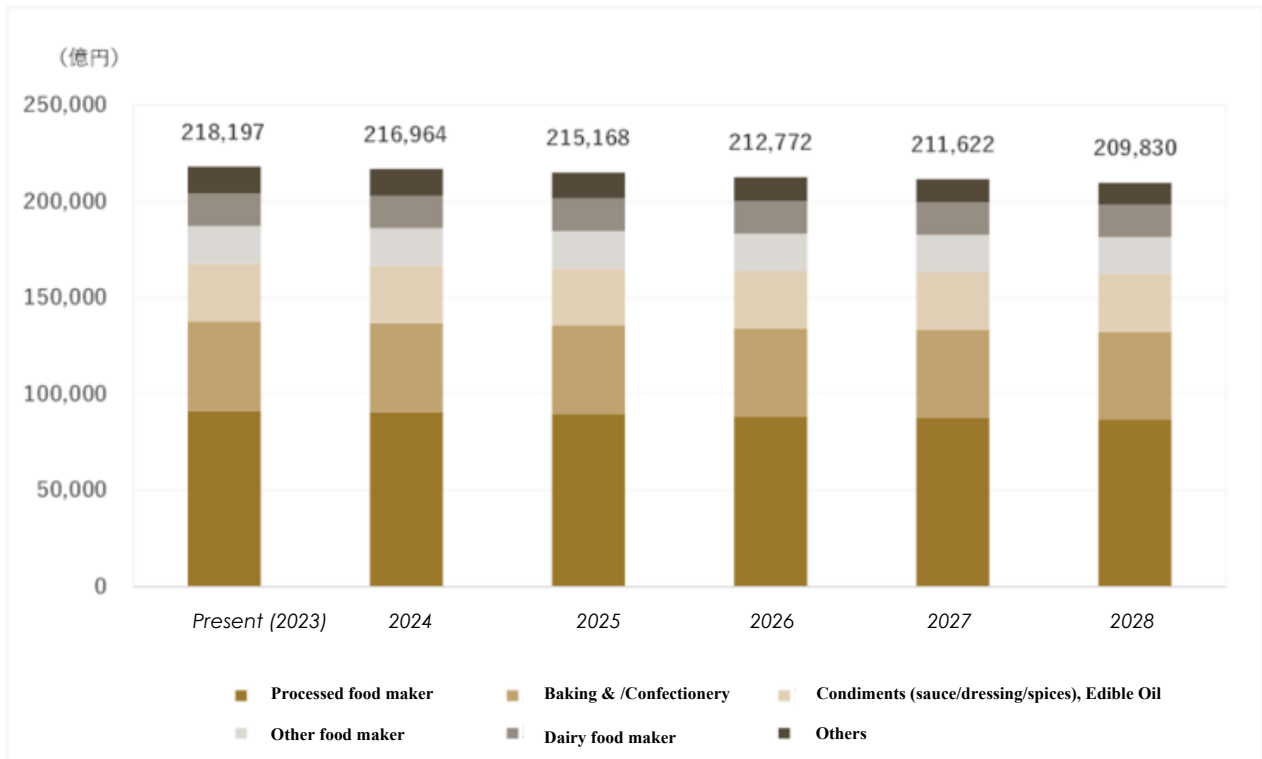
On a year-on-year basis, department stores increased by 5.3%, supermarkets by 3.5%, convenience stores by 2.2%, and drugstores by 10.3%. On the other hand, sales at large home appliance specialty stores decreased by 3.4% and DIY/Home Improvement Center chains had minus 1.6% sales.

According to an AI-generated global economic research company, the size of the domestic market for food manufacturers is estimated to be 21,819.7 billion yen. It is expected to shrink by 3.83% over the next five years. Looking at the growth rate by breakdown, the market growth of seasoning and edible oil manufacturers is prospective, while processed food manufacturers, bakery and confectionery manufacturers, and other food manufacturers are projected to shrink.

In next two and three years will have notable decrease in some categories. The changes in the market environment that will affect food manufacturers over the next five years are classified into eight categories, and both expansion and decline are expected to be significantly influenced by consumer attitude and actions.

<Graph B>

*Current Japanese food market value: 21,819.7 billion yen (approx. 144 billion US dollars)



Specific positive factors are expected by growing need for high-protein foods, fast-food, and more health-conscious working women in post-pandemic life scenes. Specific negative factors for beef, wheat products, and dairy sales are expected by growing demand for low-carb foods, plant-based food and other and alternative protein foods.

マーケットシェア順位	Japan's Top 8 Food Makers Per ranking m of market share	Market Share in Japan	Local food sales ¥ mil.	算出用基礎データ		
				B Local total sales ¥ mil.	C Rely on food sales	D % of local sales
1	山崎製パン Yamazaki Baking	4.04%	882,541	1,052,972	0.931	90.00%
2	日本ハム Nippon Ham	2.46%	537,299	1,174,389	0.522	87.69%
3	明治 Meiji	2.00%	502,000	502,000	502,000	502,000
4	雪印メグミルク Yukijirushi Meg Milk	1.97%	428,998	558,403	0.854	90.00%
5	味の素 Ajinomoto	1.82%	398,048	1,149,370	0.897	38.63%
6	森永乳業 Morinaga Milk	1.71%	374,008	503,354	0.826	90.00%
7	キューピー Kewpie Mayonnaise	1.58%	345,224	430,304	0.923	86.89%
8	エスフーズ S Foods	1.42%	310,159	358,824	0.983	87.90%
	その他 Others	82.98%	18,106,593	-	-	-
	合計 Total	100.00%	21,819,686	-	-	-

Overview of Foodservice Sector

According to the digital marketing analysis by XEND Data Lab., the size of the Japanese domestic food service and delivery business sector is estimated to be 8,536.7 billion yen (approx. 58 billion USD). It forecasts 10.94% growth of this sector over the next five years while 'wagon' services and catering business will be reduced by minus 3.41% and catering services will be shrunk by minus 1.03%. On the other hand, dining out (+10.99%), take-out (+8.1%) and delivery (+1.22%) service sectors will contribute to overall expansion of the foodservice sector in Japan. In the time series, the growth in 2024 and in 2025 will go up according to the AI-based market development forecast. According to the above analysis, in next 5 years consumers will spend more for dining/drinking out and inbound tourism will drive foodservice sector now that the pandemic era has gone with zero restrictions against peoples' movement on daily lives. At the same time as people will look for high protein and low-carb food, consumption of some food commodities will be dropped.

The labor shortage in the sector which was controversial in the past a few years will be resolved eventually if foreign laborers will keep coming to Japan in well-organized legitimate manner.