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WUSATA Japan Monthly Report April 2023

Executive Summary

This April brought to Japan fresh and open air to let the nation enjoy the feeling they really got out from the long, dark, and damp tunnel after the COVID. Back in mid-March, Japanese Prime Minister Fumio Kishida said he would improve the environment by mobilizing all policies so that wage increases would spread to small and medium-sized enterprises and small businesses. The policy is seen as a back-up for the general consumers to afford catching up soaring prices of their daily necessities. Reportedly about 60% of small & medium sized Japanese corporations would raise the wages in response to the government encouragement and to keep their current and new employment. Their average wage increase percentage would stay between 1-5% at the most, far from the reality which the general people face for living even after the COVID era.

According to the report released on this last April 28th by the Bank of Japan (BOJ), the Japan economy has been recovering at moderate pace through around the middle of *this fiscal year, supported mainly by the materialization of ‘pent-up demand,’ after the 3-year pandemic era. At the same time Japan keeps facing downward pressure due to past high resource prices and the slowdown in the pace of improvement in overseas economies, its economy is likely to continue growing but the pace of growth is likely to slow gradually toward the end of the projection period. **Note: Japanese fiscal year starts from April to March next year. The middle of this fiscal year indicates October-November period.*

The recent BOJ’s outlook illustrates year-on-year rate of change in the CPI (all items excluding *fresh & perishable’ food products) is expected to fall toward the middle of this fiscal year, as the effects of passing on price increases derived from the rise in import prices are going to wane. Thereafter, the rate of increase is expected to expand moderately again, albeit with fluctuations, as the output gap improves and medium- to long-term inflation expectations and wage growth rates rise accompanied by changes in firms' price-setting and wage-setting behavior. **Note: In CPI those excluded fresh & perishable food products mean the meat, fresh produce (vegetables & fruits) and seafood which are typically transacted through the public central wholesale market systems.* The year-on-year rate of change in consumer prices (all items excluding fresh & perishable food) has been slightly higher in both fiscal 2023 and fiscal 2024, mainly due to upside fluctuations in wages.

As for risk factors, uncertainties regarding Japan's economy are extremely high, such as developments in overseas economic activity and prices, future developments in the situation in Ukraine, and developments in commodity prices. Global financial trends and foreign exchange markets may directly impact Japanese economic activities and trading relationships with the allies and the major foreign commodity suppliers to support Japanese consumption. As the post-COVID era has just started, Japan’s buying power in the global food security system will be buoyed by the zero-interest rate policy and weak yen to create more consumption in the Japanese domestic market. In theory, growing food and beverage consumption will have to be supported more by the imported raw materials and finished products from overseas. Beside global economic situation, based on the comprehensive partnership the US will stay as the most reliable supplier for Japan. Japanese traditional five major general trading companies called ‘*sogo shosha*’ including Mitsubishi Corporation, ITOCHU Corporation, Mitsui & Co., Ltd., Marubeni Corporation, and Sumitomo Corporation are looking to regain power to source and distribute high volume raw materials supported by the government and by major international investors.

Regarding US-Japan agricultural trade relationship, The U.S.-Japan Trade Agreement (USJTA) entered Year 5 of agreement implementation on April 1, 2023, eliminating tariffs on multiple products with staging categories where tariffs were reduced in four annual increments beginning on April 1 of Year 2 (April 1, 2020). Products where tariffs will be eliminated in Year 5 include processed pork products, frozen potato products, oranges (imported between April 1 – November 30), fresh cherries, carrot juice, and others.

Top Import Tradeflows

| | Trade Flow | Import Value | | | | | | | | |
|----|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | |
| | Total | \$1.6T | \$1.4T | \$1.4T | \$1.5T | \$1.7T | \$1.6T | \$1.7T | \$1.8T | |
| 1 | Mexico to United States | \$22.3B | \$24.5B | \$26.0B | \$27.8B | \$29.2B | \$32.0B | \$35.0B | \$39.9B | |
| 2 | Brazil to China | \$20.9B | \$19.4B | \$18.8B | \$23.7B | \$32.5B | \$28.2B | \$34.2B | \$4.2B | |
| 3 | Canada to United States | \$26.6B | \$25.5B | \$25.5B | \$26.4B | \$27.8B | \$28.7B | \$29.2B | \$37.2B | |
| 4 | United States to Canada | \$22.3B | \$21.3B | \$20.7B | \$21.0B | \$22.2B | \$22.2B | \$22.4B | \$25.8B | |
| 5 | United States to China | \$25.7B | \$22.4B | \$22.3B | \$21.9B | \$14.7B | \$13.6B | \$22.3B | \$33.2B | |
| 6 | Netherlands to Germany | \$19.7B | \$16.7B | \$17.5B | \$18.9B | \$19.5B | \$18.9B | \$19.4B | \$20.3B | |
| 7 | United States to Mexico | \$19.7B | \$17.9B | \$17.7B | \$18.4B | \$19.3B | \$19.6B | \$18.9B | \$19.8B | |
| 8 | United States to Japan | \$15.8B | \$13.9B | \$13.0B | \$14.2B | \$15.5B | \$14.4B | \$14.0B | \$16.3B | |
| 9 | Germany to Netherlands | \$12.3B | \$10.9B | \$10.9B | \$12.0B | \$12.4B | \$11.8B | \$12.5B | \$14.7B | |
| 10 | Netherlands to Belgium | \$10.2B | \$8.4B | \$9.0B | \$10.3B | \$11.2B | \$10.4B | \$11.1B | \$10.8B | |

Market Intelligence Update:

The spring of 2023 sets the new scope to forecast Japan’s economy about which BOJ addressed three risk factors affecting its current and future directions such as:

- a. Overseas economic activity, ‘value’ structures and global financial markets still driven by the oil money.
- b. Situation in Ukraine and the trend of resource and grain price
- c. Mid-term perspective indicating possible paradigm change in growth pattern of the business firms and households as foundation of Japanese taxpayers. The digitalization movement to overcome national experience of going through pandemic era, the growing labor shortage, possible population decrease and the progress of efforts toward decarbonization will all drive Japan's economic structure and people's work styles be advanced and innovated.

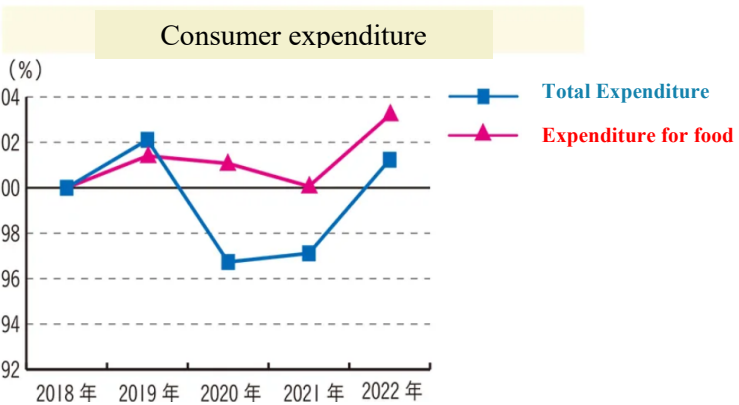
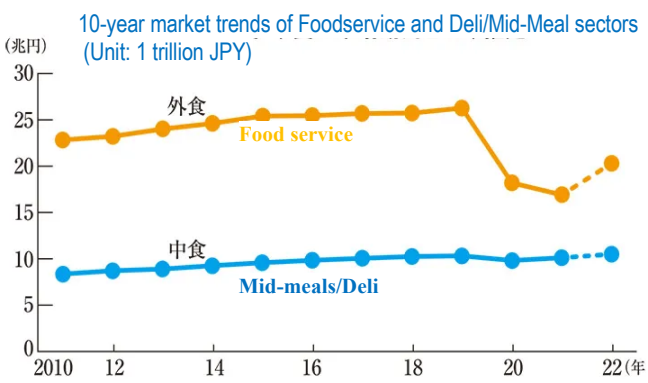
Getting into the new Japanese fiscal year this month, private consumption in Japan has been increasing moderately, despite being affected by price rises. A snapshot of consumer prices in City of Tokyo's 23 wards showed the rise by 3.5% in April. The rise in food prices has had an impact, such as the increase in food sales in general for the first time in about 47 years. Ministry of Internal Affairs and Communications announced the number of consumer price index in Tokyo's 23wards in April increased by 3.5% compared to the same month of the previous year, expanding the growth rate for the first time in three months. This is the 20th consecutive month of increases in the number of physical prices. "Food excluding fresh food" rose 8.9%, the highest increase since June 1976. This is due to a series of food price increases by inflation. In addition, the increase in accommodation rates due to growing number of travelers also contributed to the rise.

In the household sector, both regular and non-regular employment were expected to increase. In addition, household income is expected to continue increasing as wage growth rates rise reflecting the employers’ more spending for securing the laborers from the shallower market and the on-going price rises. Private consumption is expected to continue increasing moderately, mainly due to the materialization of pent-up demand. The government's measures to ease the burden of gasoline, electricity, and gas bills and support for nationwide travel are also expected to support private consumption.

As for the outlook, the year-on-year rate of change in the CPI (excluding fresh food) is likely to diminish toward the middle of this fiscal year, as the effects of passing on price increases stemming from the rise in import prices are shrinking, with international commodity prices declining compared to some time ago and the year-on-year rate of change in import prices also diminishing.

Retail & Foodservice Sector:

During 3-year period of pandemic, Japanese consumers shopping patterns and food eating styles have quite changed. An increasing number of food supermarkets (SM) are making prepared foods a core part of their growth strategy for 2023. By premium/tasty brand naming for the frozen side-dishes, the strategy is to get not only more sales but also profit margins into the core of the company. Supermarket chains will now have a food factory, and it is likely to be a year in which the fusion of out-pack and in-store cooking will test how to improve high efficiency and reduce loss rate, while at the same time improving the taste, freshness, and quality of products on the sales floor.

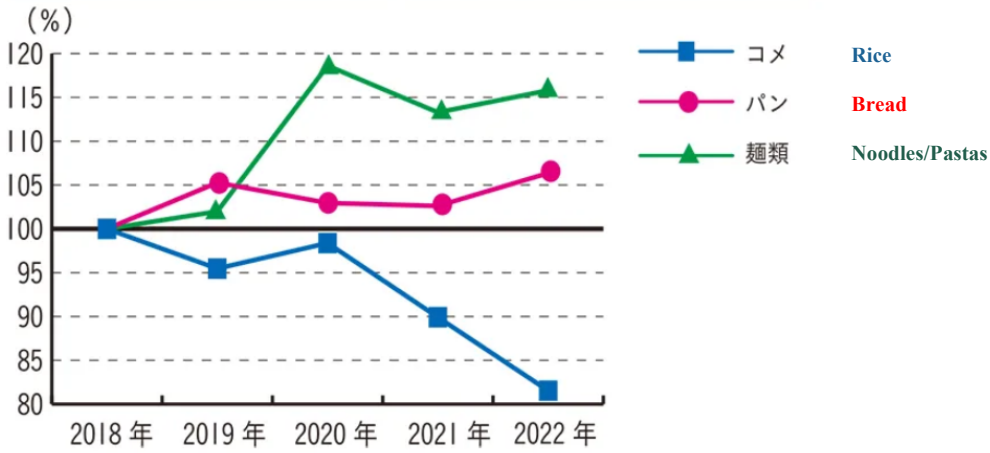


Compared with 5 years ago, the sales of frozen prepared consumer food increased by 30% while foodservices sector hasn't recovered its sales with minus 14.5%. In 2022, the 3rd year of COVID average expenditure of Japanese household with more than two family members spent 3.1% more for food and 4.2% more for the entire living goods. In comparison with 2018, the steady and strong frozen main-dish items for home consumption were: Chinese steamed buns, Okonomiyaki (Osaka style savory pancake), Gratin and Pizza who had about 33.3% share of the total purchased per POS data system.

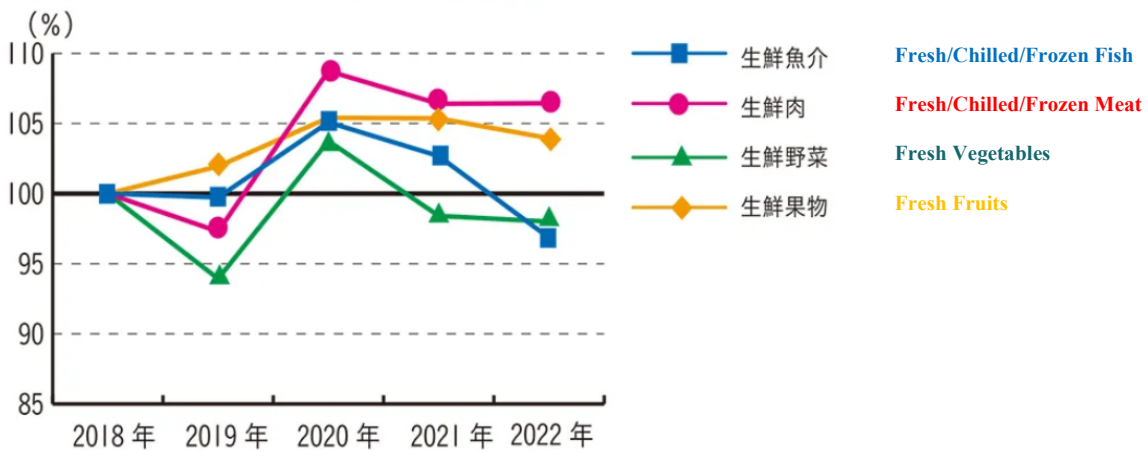


Japanese consumption transitions in the past 5 years (2018-2022)

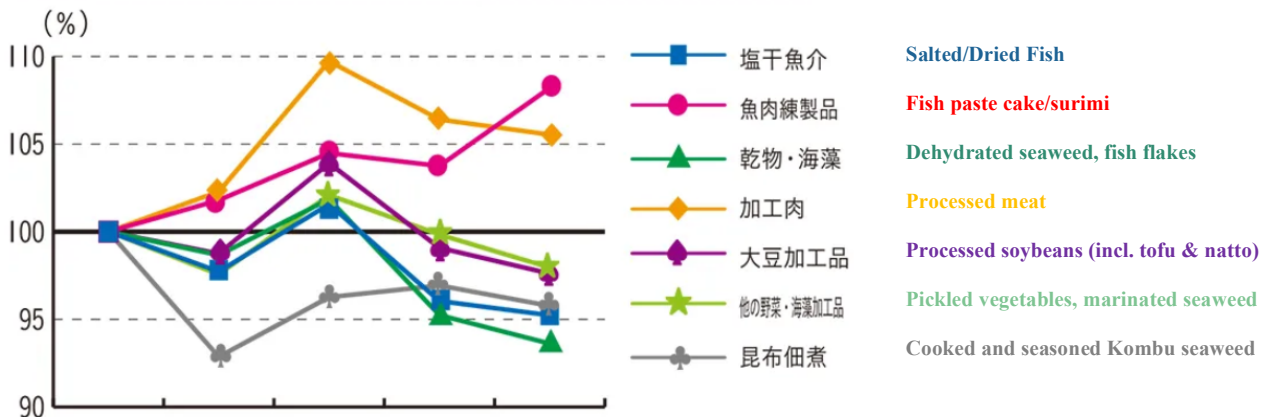
Staple



Fresh & Perishables



Processed meat/seafood/vegetables



USDA Japan released the following reports in January 2023 relevant to the US food and beverage export to Japan:

[Japan: Food Processing Ingredients](#)

This report highlights Japan's food processing industry, notable trends, and a market snapshot of western Japan. The industry experienced a 12.4 percent decline in the value of food produced in 2022 from 2021 on a dollar basis totaling \$190 billion compared to \$216.4 billion in 2021. Production increases were seen in soft drinks, alcoholic beverages, fish products, and health food categories.

[Japan: Japan Gives Green Light to Genome Edited Waxy Corn Product](#)

On March 20, Japan's Ministry of Health, Labour, and Welfare (MHLW) and Ministry of Agriculture, Forestry, and Fisheries (MAFF) added a waxy corn product to their lists of genome edited products not subject to regulations for genetically engineered food, feed, and biodiversity. This is the fourth type of genome edited product added to the lists and the first developed by a non-Japanese company. Corteva Agriscience developed the waxy corn product using CRISPR-Cas9 technology to increase amylopectin in the corn.

[Japan: Japan Lowers HPAI Related Trade Restriction on US Poultry Products](#)

Ministry of Agriculture, Forestry and Fisheries (MAFF) in Japan has announced an agreement with U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) to lower High Pathogenic Avian Influenza related trade restrictions on U.S. poultry products exported to Japan, starting April 3rd. Bans on exports from HPAI infected zones are now eligible to have restrictions lifted 28 days post cleaning/disinfection (down from 90 days).

[Japan: MAFF Support Payments for Struggling Dairy Industry](#)

Japan introduced an emergency program to induce early slaughtering of less-productive dairy cows in March 2023 as an incentive to reduce excess milk production and support dairy farm management. A farmer on the program will receive maximum 200,000 yen per cow culled from the herd.

[Japan: Japan Plans Low Imports of Butter and NFDM in JFY2023](#)

Japan announced low tariff-rate quotas for butter (8,000 MT) and non-fat dried milk (750 MT) in Japanese fiscal year 2023.

[Japan: USJTA enters Year 5 of Agreement](#)

The U.S.-Japan Trade Agreement (USJTA) will enter Year 5 of agreement implementation on April 1, 2023, eliminating tariffs on multiple products with staging categories where tariffs were reduced in four annual increments beginning on April 1 of Year 2 (April 1, 2020). Products where tariffs will be eliminated in Year 5 include processed pork products, frozen potato products, oranges (imported between April 1 – November 30), fresh cherries, carrot juice, and others.

[Japan: Updated Guide to New Phytosanitary Certificate Requirements of Japan](#)

From August 5, 2023, Japan will begin to strictly require phytosanitary certificates (PC) for a broad range of previously exempted agricultural imports. This report aims to provide additional details on Japan's new PC requirements.

Japan: MAFF Announces Dairy TRQs for JFY2023

On April 3, Japan's Ministry of Agriculture, Forestry and Fisheries announced tariff-rate quota (TRQ) volumes for dairy products during Japanese Fiscal Year 2023 (April to March). The announcement includes quotas for natural cheese for processing, skimmed milk powder, evaporated milk, butter and butter oil, as well as certain whey products. The quota volume for natural cheese for processing dropped six percent from JFY2022.

Japan: Japan 255th Food Safety Group

Japan's Ministry of Health, Labour and Welfare (MHLW) proposed revisions to Japan's maximum residue levels for 6 agricultural chemicals (Bifenthrin, Flutolanil, Inpyrfluxam, Picarbutrazox, Pyribencarb, Sethoxydim) for various agricultural commodities. MHLW also proposed to designate zinc oxide as an exempted substance for an MRL establishment. In addition, MHLW proposed the draft of the "10th edition of the Official Compilation of Food Additives", which will revise specification and standards of foods and food additives. Interested U.S. parties should submit their comments to PlantDivision@usda.gov for plant products and to TFAA.FAS.AnimalDivision@usda.gov for animal products by May 5, 2023.

Japan: Japan Invites Public Comment on the Guidelines for Handling Alcoholic Beverages with Organisms Developed with Genome Editing Technology

On April 21, Japan's National Tax Agency opened a public comment period for the Guidelines for Handling Alcoholic Beverages with Organisms Developed with Genome Editing Technology. The public comment period will close on May 25, 2023.

Japan: Japan JFY2022 Minimum Access Rice Tender Results

In Japan Fiscal Year 2022, Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) awarded 677,714 metric tons of rice through the Minimum Access import system. MAFF awarded 13,742 tons of rice in the simultaneous buy and sell tenders, and the remaining 663,972 tons through ordinary market access tenders.

To be continued to the next month...