WUSATA Japan Monthly Report
September 2023

Executive Summary

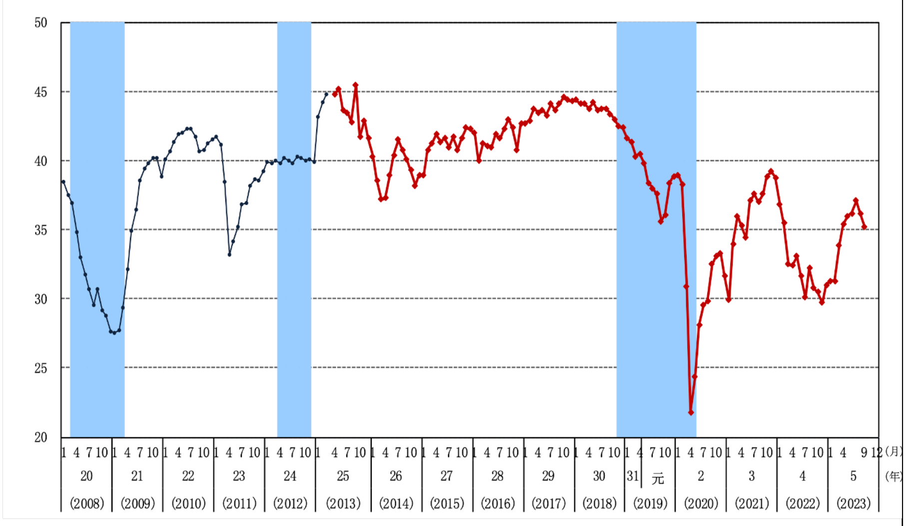
Looking back the time when the spread of the COVID19 infection became a global pandemic the free flow of goods related to food and beverages was severely affected. On the other hand, during these last almost four year period, there has been a momentum for everyone in the supply chain to rethink the true value of food and the human economy even if Japan has been in peaceful environment. On the consumer end, the interest in high-quality food has remarkably grown along with their more care and consciousness about food sustainability, healthiness, safety, and authenticity. Pandemic sped up Japanese consumers' awareness to be a driver to affect and motivate their food earning=shopping behavior and patterns on daily basis. Rather than buying manufactured goods, main stream people have started buying fresh, healthy alternatives. The market is changing, and those who want to be successful in business here will be demanded to be more flexible enough to respond to the needs and wants by the maturing and wiser consumers. On the ground, thousands of Japanese consumer food items have been increased in price due to the global economic recession and many other factors. While this situation may continue, it has yet to reduce consumer spending. Instead, they are starting to shop with more intention and reasons. Those on supply ends who can adjust to these shifts will be rewarded by taking new opening opportunities.

According to the Consumer Confidence Survey conducted by the Cabinet Office of Japanese government, an index of consumer confidence in September 2023 dropped slightly from that of previous month, August 2023. In this survey, the consumers were asked to give their assessment of the areas of quality of life, income growth, employment, and propensity to durable goods. An index value above 50 indicates a positive mood of consumers, a reading below 50 points to a negative assessment. In September 2023, the index of consumer confidence in Japan was at 35.2 points vs. 36.2 in August 2023 (vs. 37.1 in July 2023).

Market Intelligence Update

Raw material price increases finally tended to be passed on to consumers, increasing the financial strain on households. However, not every item has experienced a similar price increase. Bread costs have been rising quicker than other consumer goods because of the higher cost of imported factors, like electricity and gas.

Graph: Consumer Attitude Index Transition (per household w/ multiple family members)
*Shaded part indicates economic recession period.



This month the consumer traffic slowed slightly down the pace in the actual retail store outlets. But on the digital arena, the e-commerce grew more to be a reliable option for the people to source food and drink. According to eMarketer, in the landscape of global e-commerce, 2023 marks a milestone year, being poised to reach a staggering US$6.3 trillion with 10.4% increase compared to the preceding year. And Japan in this spike emerges as a standout contributor, boasting a substantial US$193.42 billion in e-commerce sales.
One of the key characteristics of e-commerce is its online presence. Businesses create websites or online platforms to showcase their products or services, enabling customers to browse, select, and purchase items online. In Japan's highly competitive market, characterized by advanced technology, exceptionally high internet usage, and substantial disposable income among its citizens, significant players like Amazon from abroad and domestic giants like Yahoo! Japan and Rakuten have established strong positions. Despite the presence of these industry leaders, several emerging e-commerce companies are making their mark, with a primary focus on two key segments: customer-to-customer (C2C) e-commerce and marketplaces catering to young female consumers.

Overview of Retail Market

GMS & Supermarket Chains
According to the National Supermarket Association of Japan (NSAJ), in its survey of business trends in this September, both the DI (=diffusion index) for sales and the DI for earnings declined a little from the previous month.

Sales of fresh fruits and vegetables, and seafood rose by double-digit %, while the DI for meat fell to under 50 level. Deli (prepared, home bakery, *bentos* and pizzas) DI increased in sales, showing more consumer tendencies to shorten cooking mealtime at home as more people went out to workplace, going back to the busy life. Quite extra warm temperature throughout the month contributed to the sales growth of ice creams, beers, frozen food, and chilled items.

NSAJ's business sentiment survey taken among its member retail chains, subtle negative feeling was expressed overall, but the DI for economic activity remained firm as the DI for economic activity remained above 50. (See page 11 for long-term trends.)

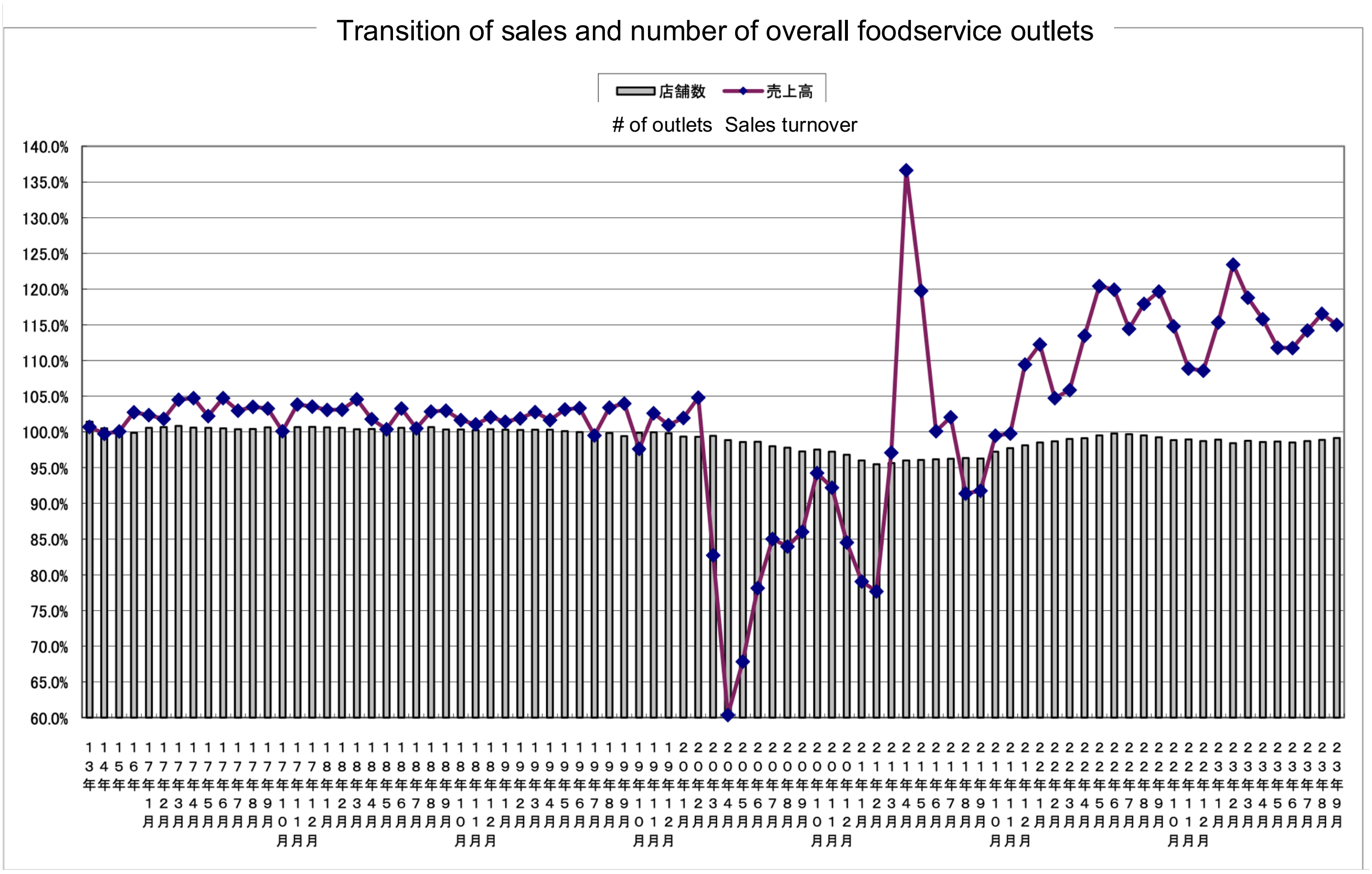
As for general food products, the severe residual heat continued in September, while the competition between the increase in unit prices due to price hikes and the decrease in the number of points purchased continued to be strong, benefiting from the increase in demand for cool-tasting products. On the other hand, the market price of fresh food continues to be unstable due to adverse conditions, the depreciation of the yen, and changes in the international situation, and the sales environment continues to be difficult. With the onset of autumn-like weather in October, it is expected that each company will make efforts to recover the demand for cooking, especially fresh products. There is also a growing momentum to expand consumption of domestic marine products, and supermarkets would like to cooperate toward the end of the year.

Convenience Store Chains:
According to the Diamon Retain Media company, the total sales in September 2023 of the top three convenient store chains grew to exceed the one in the same month of 2019. Those top three are: #1 Seven Eleven Japan (+3.3% vs. previous month), #2 Family Mart (+4.5% vs. prev. month) and #3 Lawson (+5.1% vs. prev. month). Unlike a bit stagnant sales result by the supermarket chains, convenience stores continued to be the major shopping spots for the mainstream consumers, businesspeople, young students, and silver generation. Convenience store chains are also tackling waste management and improving labor conditions of store staff and the vendors who used to be imposed strict delivery order. Lawson the third largest Japan's convenience store chain announced its plan to increase frozen onigiri rice balls more from the current ambient or chilled temp products in coming years. The main purpose of the frozen onigiri and other deli items is "to improve the efficiency of logistics in the future through frozen distribution, " according to Lawson, and "to reduce food loss at store outlets." Japanese food self-efficiency rate will remain low and reducing food loss will become much more important issue in the future. Convenience store rice balls, signature item for all the players in the sector now has only one day shelf life at room temperature while the designated vendors must deliver three times a

day, every day, which impose to the vendors and transportation companies quite stressful and challenging work conditions. From April 2024 labor law and regulations for the drivers of logistics transportation companies will be reformed, making 30% less workforce available for the delivery services and transporting goods all over the nation.
Convenience store chains like Lawson will choose to sell more frozen onigiris whose shelf life will be at least four months. The current onigiri vendors are introducing new freezing technologies to make delicious and fresh frozen onigiris which will be merchandised in the freezer case next to ice creams possibly.

Overview of Foodservice Sector

In September, Japanese Fast Food sector enjoyed good sales results driven by active early autumn seasonal menu campaigns. Western-style fast food chains continued to play strong. Other type of fast food restaurants also had busy traffic of customers, especially in the latter part of the month on weekends and holidays. Overall, Japanese fast-food restaurants achieved 15% more than the same month of last year and 9.5% more compared to 2019 (before COVID). Inbound tourists' demand kept strong, contributing to an increase in sales of Japanese eating-out business particularly in local satellite cities for retreat and popular tourist destinations. In addition, the overall number of restaurant outlets recovered up to 92.3% of those in 2019, which is still not as high as before the pandemic, but even "pubs and bars" where the largest drop in the number of outlets occurred has come back to 68.1% compared to that in 2019. Overall, sales per outlet in category looked reviving. Menu price increase and the increase of the customers to dine-out pushed the Japanese foodservice industry up to the surface.



<u>Overview per sector:</u>

Fast food: Overall sales in this September were 112.6% and 122.9% of pre-pandemic levels in 2019. "Take-out rice/conveyor belt sushi" accounted for 107.6% of sales.

Family restaurant: Total sales were 117.3% year-on-year and 98.4% vs. same month in 2019. The low-price menu promotions went well to bring more customers back to the restaurant outlets. In national holidays and weekends, more use was seen for group dining by the family gatherings. Chinese style, Korean yakiniku barbecue menus and beer consumption were all good because of lingering extra warm temperature.

Pub (Izakaya & western style) beer halls, bars and taverns: Pubs and taverns saw relatively strong sales in the second half of the month, with sales up 130.0% year-on-year partly due to strong draft beer on tap consumption due to the lingering heat. Although the number of stores could recover up to 70% of the pre-Pandemic level, sales per outlet appeared strong.

Dinner restaurant: In spite of the food industry's concerns that the treated water release into the Pacific Ocean from the Fukushima nuclear power plant would impact negatively the appetite of the foreign tourists in Japan, the orders for the Japanese style sushi and sashimi and grilled seafood menus didn't drop at all and rather overall sales remained good as 119.3% vs. the same month in 2022 and 95.0% compared to September 2019.

Coffee shops and cafes; Overall, there was a gradual recovery trend regardless of areas and location, and total sales of this sector marked 120.0% vs. September 2022 or 96.2% of September 2019. Seasonal fruits and nuts featured sweets, coffee and tea menus were well promoted to gain customers back.

Japan: Poultry and Products Annual