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WUSATA Japan Monthly Report October 2023

Executive Summary

Toward 2023-year end, Japanese domestic economy has been slowly recovered while international trading environment still looked opaque. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints. Corporate profits have been at high levels on the whole, and business sentiment has improved as Japan's key inflation measure accelerated for the first time in four months, in line with market expectations that price gains would continue.

In this situation, business fixed investment increased moderately as the employment and income situation improved a little bit more than in the previous months. On the price front, the year-on-year rate of increase in all consumer items excluding three perishables (meat, seafood and fresh produce via central wholesale market system) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures. Excluding fresh food and energy, consumer prices climbed 4% from the previous year last month, hovering around the highest level since 1981, according to the ministry. A weak yen has been a key driver behind high import costs, as it has stayed near a 33-year low against the dollar in recent months. Japanese government's monetary easing continued to cause the yen's fall, exacerbating the inflationary hit on households. While a measure of prices for firms has dropped to the lowest level since early 2021, it's uncertain how much more businesses need to pass their costs onto consumers.

To look at how consumer mind seemed to be set in October 2023, a consumer survey taken by the monitoring research team of the Japanese Cabinet showed more than 60% of Japanese consumers expect their living standard will stay rather low and may not be improved for the coming months/years. 50% of respondents predict the consumer goods price will continue to rise. The news about the war is casting shadow in the public mind. Somewhat influenced by the sad memories of 2022 Halloween disaster in Seoul, news about wars and rising number of casualties in Gaza, Japanese people tended to stay calm and enjoyed their daily shopping and dining out in the beginning of fall season without flashy signboard of holiday campaigns less seen in the marketplace.

Market Intelligence Update

In late October, Japanese Prime Minister Fumio Kishida asked senior ruling coalition executives to consider reducing income tax as a temporary measure to relieve households from the adverse effects of inflation, in his latest push for the redistribution of economic growth. Even if legislation is approved during a regular Diet session that normally begins in January, the earliest Japanese households would feel the benefits of a tax cut would likely be next spring. The government will retain subsidies to reduce utility bills for households as the recent bout of inflation driven mainly by surging import costs and a weaker yen is expected to continue. The government has decided to extend fuel subsidies until next spring as part of its economy-supporting package, which also includes temporary tax cuts and payouts to low-income households, along with tax incentives for companies to raise wages. In a blow to households, food prices, other than those of perishables, rose 7.6 percent and durable goods gained 3.2 percent. The Israel-Hamas war and geopolitical risks in the oil-producing Middle East have added a new layer of uncertainty over the outlook, with crude oil prices rising recently.

Japan's core consumer inflation accelerated to 2.9 percent in this last October from a year earlier, with services prices marking the fastest gain in three decades, keeping up pressure on the Bank of Japan as the key gauge has remained above its target for well over a year. The pace of increase in the nationwide core consumer price index excluding perishable and fresh food items rose from 2.8 percent in September, as the government

scrambles to ease the pain of higher prices on households with new inflation relief measures. Stripping away both energy and fresh food prices, so-called core-core CPI increased 4.0 percent, as a sign of persisting inflationary pressures. According to a senior economist at MUFJ R & C, what Japanese market has seen so far is that consumption was rather solid in the face of cost-push inflation because of COVID-related catch-up demand. But there is uncertainty over whether that strength will continue.

Higher prices for everyday goods have hurt consumer sentiment as wage growth has failed to keep pace with inflation. Japan's economic growth stalled in the July-September quarter due to weak spending by both consumers and companies. Energy prices dropped 8.7 percent, weighed down by government subsidies for lowering gasoline and other fuel costs to support households, although the fall was smaller than the previous month's 11.7 percent.

Services prices increased 2.1 percent, marking the fastest gain since 1993, reflecting the resilience of domestic demand in the aftermath of the COVID-19 shock. A major booster was a 42.6 percent jump in accommodation fees as travel demand continues to recover with the return of foreign tourists to Japan. Economists say the recent rising trend of services prices is an indication that a growing number of firms are passing on costs to secure workers amid acute labor shortages in the services sector.

Inflation is expected to slow but only at a moderate pace, as Japan is "at a crossroads" regarding whether a virtuous cycle of price and wage hikes will be firmly set in motion. According to a senior economist, we need to see whether companies will use their profits to raise pay and ramp up investment more.

Overview of Retail Market

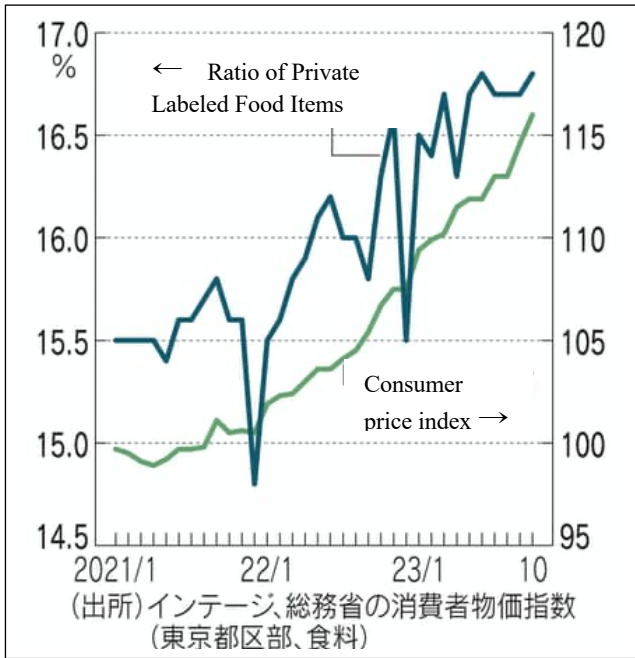
GMS & Supermarket Chains

To counter price rise for promoting in-store shopping by consumers, major retailers have been increasing their private label product items for food and other daily necessities. Aeon, the Japan's biggest GMS chain, will revamp half of its food item into its private labels, while Seven & i Holdings will double its low-end private brand SKUs. In General, the sales share of the private label in supermarkets rose to a record high of about 17% in this October. In case of Aeon, among approximately total 5,000 SKUs of food products except three perishable categories, it will switch 2,500 SKUs into its Private Brand 'Top Valu' items. Aeon predicts by the company's fiscal ending month, February 2024, its sales of private branded products including daily necessities, will increase by 11% year-on-year to over 1 trillion yen. On the other hand, the Japan's top retail company Seven & i Holdings will double the number of its low-price range of private brand items "Seven the Price" to 160 by the end of February 24.

Baysia supermarket chain (Maebashi City, Gunma Prefecture) has launched a new PB "Baysia Premium". The company plans to gradually replace existing PBs with new products and develop more than 100 products by February 24. Seiyu will also increase the number of items to 65 with the new PB "Shokunoko" for fresh foods. In general, private labeled products are price-set about 1 to 3 percent cheaper than the national brand makers' product. It is also a profitable product for retailers. Since logistics and advertising costs can be suppressed, the gross profit margin is about 10 points higher than that of manufacturer's products, which are said to be 15 to 20%.

The prices of both national makers' products and private labeled items are rising, but more consumers have come to choose lower-priced private brand products as the quality and taste are not so much different as they know.

As shown in the below graph, ratio of private labeled food SKUs is linked with overall price rise.



Aeon's Topvalu private branded 'Clam chowder---slowly cooked for rich flavor and taste' 'Healthy and special for everyday meal'

Overview of Foodservice Sector

In October, the Japanese foodservice sector had 8.8% sales growth compared with the same month in 2022 with 23 consecutive months of year-over-year growth, according to the Japan Foodservice Association (JF). Major reasons to support the growth are analyzed to be the mild autumnal weather and mostly sunny days which attracted many people to go out for dining and drinking. 'Stay Home' slogan was no more found in anywhere. Because of depreciation trend of Japanese yen, the number of foreign visitors to Japan exceeded the year of 2019 level for the first time since the COVID19 arrival with in-bound tourism demand stayed strong to push up overall sales of foodservice sector to be 108.8% versus the same month in 2022. Compared to 2019, it had a significant increase of 116.6%. In addition, most of the restaurants had reasonably priced menu promotions as 2023 Autumn seasonal campaign which had success in spite of lingering high price trend which continued to impact consumer mind.

Overview per sector:

Fast food: Overall sales were 107.3% vs. October-2022 and 127.0% vs. October-2019. The seasonal menu were popular and due to the unit price rise the sales naturally turned out to be increased, too. , and the unit price increased due to price revisions, resulting in sales of 104.7%. Among the fast-food menu items, in this October Japanese style menu such as *soba* (buckwheat noodle) and Udon noodles, rice bowls, sushi were ordered more to have " 13.2% more compared with October 2022. Japanese style noodles attracted customers at affordable stores both on weekdays and evening hours, with sales of 112.2%. "Take-out rice / conveyor sushi" had 2.5% more of sales. As the average temperature in October stayed relatively warmer than usual, people tended to order more drinks and cold *soba* noodles and sushi for quick lunch.

Family restaurants: Overall sales were 110.4% vs. October 2022 and 111.0% and 127.0% vs. October-2019. Seasonal menu promotions and increased inbound tourists visited more to the Western style restaurants with 11.3% more than in the same month of last year, and 10.8% to the Japanese style restaurants, compared with the same month of 2022.

Pub and Japanese ‘Izakaya’ style pub restaurants: Finally, they had good sales owing to a stable weather and warmer temperatures as beginning of autumn season. While total number of outlets continued to be decreased, group drinking and dining in later evening to night hours gradually came back to have 12% more sales total compared with October in 2022. Still compared with October 2019 before the pandemic, the sales of this month in 2023 caught up to 71.4%.

Dinner restaurants: As the yen continued to stay weak, inbound tourism was driving to push up the number of customers in the dinner restaurants to spend more for the pricy cuisine menus with 10.7% more than in October last year, and 3.4% more than in the same month of 2019.

Café and coffee shops: As people came back to the offices and academic campuses from the remote workplaces, the flow of people recovered in office and college campus districts in addition to the overall tourist spots. As a result, the cafes and coffee shops had 105.9% of the number of customers, 108.8% of the unit price per customer, and 115.3% of sales vs. October 2022.

2023 October statistics Japan Foodservice Association

Overall foodservice outlets (vs. Oct. 2022)

Sales TO | # outlet | # custmr | price per custmr.

Sales TO. | # outlet

1. 全店データ (前年同月比)

		売上高	店舗数	客数	客単価	売上高	店舗数		
		前年比	前年比	前年比	前年比	19年比	19年比		
Grand Total		(N=230)	(N=36594)	108.8%	99.2%	103.6%	105.0%	116.6%	92.7%
全体									
FASTFOOD	合計 Total	(N= 58)	(N=21383)	107.3%	100.2%	101.9%	105.3%	127.0%	96.7%
	洋風 Western style	(N= 20)	(N=6394)	104.7%	100.9%	98.1%	106.7%	142.4%	100.5%
	和風 Japanese style	(N= 14)	(N=5110)	113.2%	101.0%	108.0%	104.8%	125.1%	99.6%
	麺類 Noodles	(N= 19)	(N=3147)	112.2%	99.2%	104.6%	107.3%	111.7%	93.0%
	To-go rice bowls, sushi 持ち帰り米飯/回転寿司	(N= 20)	(N=4310)	102.5%	99.1%	97.3%	105.4%	109.2%	95.5%
	その他 Others	(N= 9)	(N=2422)	111.9%	100.3%	106.1%	105.5%	117.2%	89.2%
FAMILY RESTAURANT	合計 Total	(N= 68)	(N=10317)	110.4%	99.1%	107.3%	102.9%	111.0%	91.0%
	洋風 Western	(N= 34)	(N=5171)	111.3%	98.3%	108.8%	102.3%	105.5%	86.1%
	和風 Japanese	(N= 31)	(N=2519)	110.8%	98.3%	104.4%	106.1%	106.2%	90.0%
	中華 Chinese	(N= 12)	(N=1195)	111.7%	101.4%	108.6%	102.8%	130.4%	107.3%
	焼き肉 Korean yakiniku	(N= 18)	(N=1432)	105.1%	101.2%	98.4%	106.8%	126.4%	101.2%
PUB & I ZAKAYA	合計 Total	(N= 35)	(N=1819)	112.0%	91.4%	107.2%	104.5%	71.4%	68.0%
	パブ・ビアホール Pub and Beer Halls	(N= 10)	(N=386)	118.1%	94.6%	111.3%	106.1%	80.7%	79.9%
	居酒屋 Izakaya	(N= 29)	(N=1433)	109.1%	90.5%	104.7%	104.2%	67.3%	65.3%
DINNER RESTAURANT	ディナーレストラン (計) Dinner restaurants	(N= 26)	(N=939)	110.7%	93.9%	107.2%	103.2%	103.4%	84.7%
COFFEE SHOPS	喫茶 (計) Coffee shops	(N= 24)	(N=1897)	115.3%	100.2%	105.9%	108.8%	104.0%	93.5%
Others	その他 (計) Others	(N= 19)	(N=239)	102.4%	99.6%	101.0%	101.4%	121.7%	110.6%



- The following GAIN reports in relation to the Japanese market were released in the month of August 2023:

Japan: Grain and Feed Update

FAS/Tokyo estimates lower MY2023/24 rice production in Japan as extremely high temperatures and little rain are expected to lower yield and quality. Post forecasts softening corn prices will boost feed demand and imports in MY2023/24. FAS/Tokyo lowers MY2023/24 wheat imports based on higher production estimates and lower feed demand projection. FAS/Tokyo projects lower MY2023/24 barley imports on anticipated weaker feed demand.

Japan: Food Service - Hotel Restaurant Institutional

In 2022, the total sales from the Japan food service industry increased 14.2 percent, totaling nearly \$237 billion, representing consecutive year double digit growth. The recovery in the sector is largely attributed to the strong rebound in tourism, with visitors to Japan exceeding 10 million, boosting the recovery in restaurant sales in all categories. Japan's food service industry will continue to depend on imported foods, and the U.S. is well positioned to continue supplying this segment.

Japan: USJTA Treatment for Coffee Tea and Spices 2023

The U.S.-Japan Trade Agreement (USJTA) entered Year 5 of the agreement implementation on April 1, 2023. This report is one in a series of product briefs highlighting the tariff benefits for specific commodities and products from Year 5 (2023) to Year 7 (2025) of the Agreement. Additional information is available at www.usdajapan.org/usjta/.

Japan: USJTA Treatment for Fruit Preparations 2023

The U.S.-Japan Trade Agreement (USJTA) entered Year 5 of the agreement implementation on April 1, 2023. This report is one in a series of product briefs highlighting the tariff benefits for specific commodities and products from Year 5 (2023) to Year 7 (2025) of the Agreement. Additional information is available at www.usdajapan.org/usjta/.

Japan: FAIRS Annual Country Report

This report is an overview and update of Japan's food and agricultural import regulations and standards (FAIRS). For more information on Japan's certification requirements, see the FAIRS Export Certificate Report for Japan.

Japan: USJTA Treatment for Coarse Grains 2023

The U.S.-Japan Trade Agreement (USJTA) entered Year 5 of the agreement implementation on April 1, 2023. This report is one in a series of product briefs highlighting the tariff benefits for specific commodities and products from Year 5 (2023) to Year 7 (2025) of the Agreement. Additional information is available at www.usdajapan.org/usjta/.

Japan: USJTA Treatment for Fats and Oils 2023

The U.S.-Japan Trade Agreement (USJTA) entered Year 5 of the agreement implementation on April 1, 2023. This report is one in a series of product briefs highlighting the tariff benefits for specific commodities and products from Year 5 (2023) to Year 7 (2025) of the Agreement. Additional information is available at www.usdajapan.org/usjta/.