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WUSATA Japan Monthly Report
July 2023

Executive Summary

This July arrived in Japan quite normally for the first time since the COVID 19 had covered the nation with anxiety and pressures for the past three supposed-to-be the beginning of joyous summer season. Getting into this month, Japan's economy continued to pick up moderately as the negative effects of the pandemic on the economy have faded, although there were concerns about downside deflection due to price rises and the slowdown in overseas economies. Employment was improving; wages were increasing moderately, and private consumption was in upward, mainly in eating out and accommodation services, accompanied by an increase in the flow of people. In economic circles, business sentiment was reportedly improving. As for foreign demand, inbound need recovered steadily, and exports grew, which had been declining due to the slowdown in overseas economies. Reflecting these increase of economic demand home and abroad, a recovery in overall production has also been observed. In coming months as the national economy and social activities will be expected to be normalized, personal consumption and in-person services will be getting more active.

Still, the following negative factors will curb the national economy to a leap:

- 1) the slowdown in the global economy will accelerate due to the rise in interest rates and exports will stagnate
- 2) consumer sentiment will deteriorate against the background of rising prices and personal consumption will decline due to a decline in real purchasing power after the increase in service consumption has peaked
- 3) the deterioration in corporate performance due to high costs will restrain business fixed investment, and
- 4) supply constraints due to labor shortages will be faced. There are many downside factors such as these, and there is a risk that the momentum of economic recovery will be diminished.

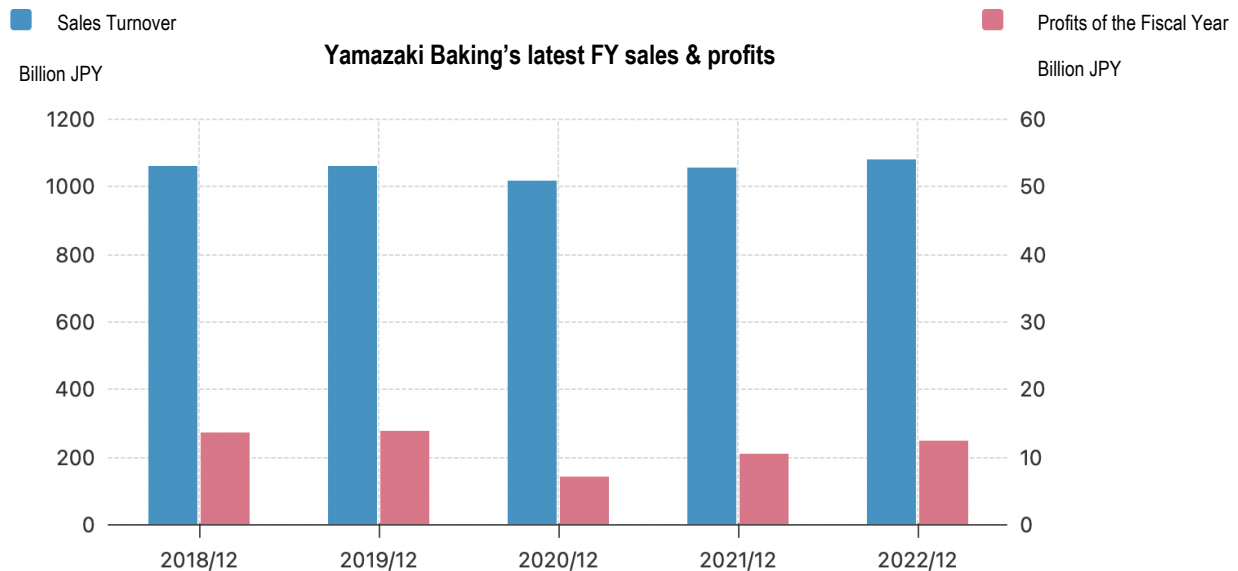
2023 July Economic Forecast in Japan

	3 months Before ~	Currently	~ In 3 months		3 months Before ~	Currently	~ In 3 months
Economic Overview	↗	☁	↗	Export	→	☁	→
Personal Spending	↗	☁	↗	Import	↘	☀	→
Housing Investment	↗	☁	→	Production	→	☁	↗
Capital Investment	↗	☁	↗	Employment	↗	☀	↗
Public Investment	↗	☁	↗	Wage	↗	☁	↗

Market Intelligence Update

Yen depreciation and resources cost hikes kept impacting Japanese retail-bound food and drink distribution channels. In the latest foreign exchange market, the yen temporarily depreciated and the dollar appreciated for the first time in about nine months, at the low 1 dollar = 145 yen level. Recently, prices of commodities such as crude oil have been on an upward trend, and the trade deficit of Japan, which had been shrinking, will be exerted on expanding pressure again. It is estimated that demand for selling the yen and buying the dollar based on the amount of trade settlements will reach about 27 trillion yen per year, which is likely to put upward pressure on domestic prices. Food prices continued to rise, according to the announcement on July 30th by Teikoku Databank, the Japan's biggest private credit research agency, 195 major manufacturers raised the prices of 3,566 items in July alone, which is 50% more than in the same month last year. In addition to the high cost of raw materials, electricity and labor costs are rising, major food companies said they had not been able to sufficiently pass on the cost increase to the consumer prices during the COVID era. In this July, food manufacturers mainly in the grain ingredient processing sectors increased their prices for the retail-oriented market.

Japan's biggest baking company, Yamazaki Baking Company, raised the price of bread products by about 7% on average from July. Shikishima Pasco and Fujipan also raised the prices of their popular bread product items in consumer market. These major baking companies had the big price raise in last July and this summer they had to do it again in response to the Japanese government-led price increase of imported wheat in this last April. Bread was ranked as the most expensive food in July among the 1,578 commodity items.

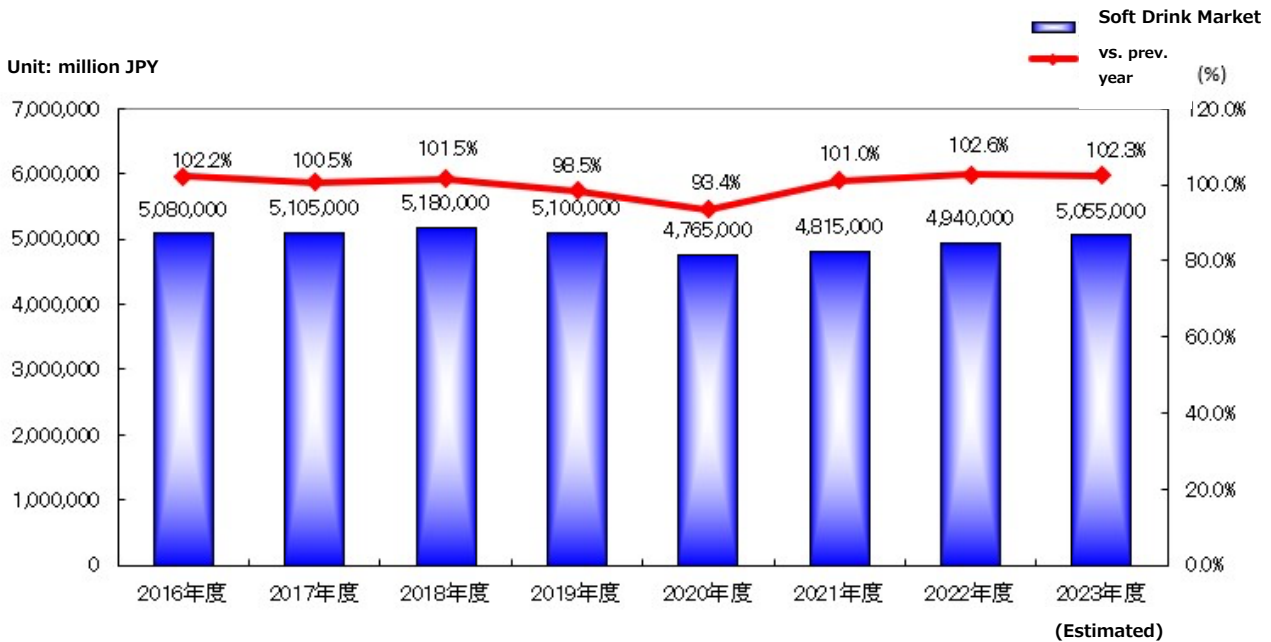


The price hike is only halfway through. In a May survey of food and daily necessities manufacturers by the Japan Economic Journal, 85% of companies responded that they could only pass on the cost increase to prices in some way or another, while 11% said they were not able to do so at all. When asked about the percentage of companies that have been able to pass on price increases to the percentage of cost increases, only 12% answered "80% or more," and half said "less than 50%." The high cost of raw materials is putting pressure on corporate earnings. On the other hand, some companies such as Nissui tried to absorb higher prices of raw material by simply pushing up their finished products for the consumers. Nissui predicts the raw material costs will reduce their profit margin in the short run but price increases and sales expansion, if their own goal is achieved, are expected to increase profits by 12.4 billion yen. Nissui CEO commented, "Price increases will catch up the loss to fill the gap."

Further price increases will discourage personal consumption. According to Nikkei Point of Sale (POS) data, which collects sales data at supermarkets nationwide by scanning the barcodes, the sales volume of cooking oil in May decreased by 14% compared to the same month last year. Dairy beverages also fell 12% and mayonnaise fell 8%. Price increases are expected to continue for a while.

In this coming August, major dairy companies such as Meiji will raise the prices of milk and yogurt in line with the milk price revision. Also, for coming October another 5,000 items, mostly alcoholic beverages such as wine and spirits, are in the waiting queue to be price raised to hit the coming first season of the Oktoberfest and Beaujolais nouveau free from the COVID.

In the other territory of retail market, by reflecting peoples' more interests and pursuit in buying healthy and functional drinks, consumption of beverages including dairy products has grown for two consecutive years in FY2021 and FY2022. Market analysts predict the Japanese drink consumption in FY2023 will go beyond FY2022 with more room to expand as it looks like not having yet reached a full-fledged recovery, being expected to climb up to the 5 trillion JPN mark, 102.3% compared with the previous year.



Foodservice sector in general

In June, food service consumption finally entered a recovery trend following the transition to After-COVID era in early May. Thanks to more demand for inbound tourism, overall sales were 111.8% vs. same month in 2022, and 103.5% vs. June 2019 before the pandemic outbreak. However, the number of foodservice outlets didn't come back to the level of 19 years. Japanese Izakaya style pub restaurants and western style pubs have been staggering and look quite harrow. Their number of outlets got to 68% of those in June of 2019, showing the depth of damages this area of Japanese foodservice sector shaken through COVID times.

Fast food industry : Overall sales were 111.2% vs. June 2022, and 115.6% vs. June 2019. In June, all the following categories did quite well---western style, Japanese, noodles, rotating sushi, and ice cream, too, because of relatively high temperature in first half of the month and more flow of people in downtown areas and large shopping malls all over the nation.

Family Restaurants: Overall sales were 111.8% year-on-year and 93.9% vs. June 2019.

Pubs and Izakayas: 114.7% vs. June 2022, and 66.1% vs. June 2019. The return of customers in the late evening hours was still slow, and the busy time zone is changing due to flex-time labor shift and remote working systems.

Dinner Restaurants: Since entry restrictions became eased in early this last May, inbound tourists continued to increase, and they tended to spend more per trip so overall sales were 113.0% vs. June 2022, and 91.5% of the same month in 2019. Large group dinner and banquet reservation started to come back to the dinner restaurant and high-end catering service companies.

Cafes and coffee shops: More people including foreign tourists came back to commercial facilities and office districts, pushing sales of the sector to 116.0% of that of June 2022 and 96.7% vs. June 2019.

As more Chinese tourist groups will be joining in the influx of foreign visitors to Japan in the coming months, Japanese hospitality industry and foodservice sectors will have good chance to revive while there are still some issues held such as fundamental labor shortage and outflow culinary technicians and hospitality experts.

USDA and ATO Communications

The following GAIN reports in relation to the Japanese market were released in the month of July 2023

[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 further details of Japan's new PC requirements.

[Japan: Opportunities Growing for Wine in Japan](#)

This report highlights trends and recent statistics for U.S. origin wine imported into Japan, consumption trends, and opportunities for U.S. exporters. Now, in year five of the U.S.-Japan Trade Agreement (USJTA), tariffs are on the path to significant reductions for bottled wine, semi-bulk wine, and sparkling wine. Tariffs were eliminated altogether on bulk wines and fortified wines on April 1, 2023. In 2022, U.S. wine exports to Japan totaled \$144 million and are the fifth largest supplier of wine to Japan.

To be continued to the next month...