

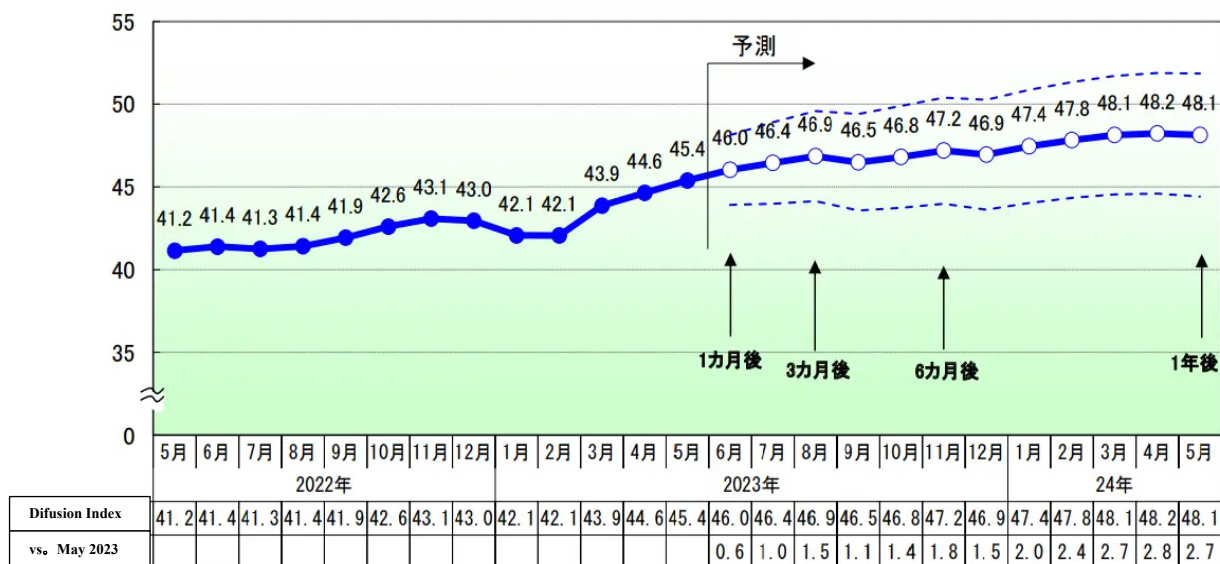


WUSATA Japan Monthly Report May 2023

Executive Summary

The Nikkei stock index closed Monday May 29th at a fresh 33-year high as news that a U.S. debt ceiling deal has been reached boosted sentiment while a weakening yen lifted export-related issues. Export-related stocks also continued to boost the market, as the yen's depreciation raises the prospect that companies' overseas profits will increase when repatriated.

The economic DI for May 2023 looked positive as it increased by 0.8 points month-on-month to 45.4, improving for the third consecutive month. The Japanese domestic economy had been picking up in a wide range of areas, as moves toward normalization of economic activity and social life accelerated further. Going forward, the economy is expected to be on a moderate recovery trend, albeit with downside factors such as rising costs. The positive effects of increased labor and active consumption behavior spread widely and improved in 9 out of 10 industries. In addition, 35 of the 51 industries improved, and 8 industries recorded more than 50. By region, all 10 regions improved for the third consecutive month. In addition to good news related to travel and tourism in various regions during Golden Week, which has no restrictions on movement, local industries also improved, and 33 prefectures improved. By size, "large enterprises," "small and medium-sized enterprises," and "small enterprises" all improved for the third consecutive month. With the strong inbound demand and the increase in the number of people, the tourism DI was 49.9, the highest since the survey began.



In the next one year, the domestic economy is expected to accelerate further in response to the construction of economic and social systems for the post-coronavirus era. Expansion of personal consumption, mainly inbound demand and face-to-face services, the promotion of DX, and capital investment in automation and labor saving will be positive factors. On the other hand, there is a strong sense of uncertainty about the future of overseas situations, such as the economic slowdown in the United States, Europe, and China and developments in the situation in Ukraine. In addition, there are many reasons for concern, such as the rise in the price of daily necessities such as food and electricity, the prolonged labor shortage, and interest rate trends, and developments

in wage increases should also be closely monitored. Going forward, the economy is expected to be on a moderate recovery trend, albeit with downside factors such as rising costs.

Market Intelligence Update:

According to Teikoku Data Bank, the Japan's biggest research institute, its survey conducted among 11,420 business corporations between May 18th – 31st; 9 out of 10 industries improved, and strong performance continued, mainly in the tourism and food and beverage sectors. The survey results indicated the positive effects of increased labor opportunities and active consumption behavior spread widely. In particular, "ryokans (Japanese traditional inns) and hotels," which are doing well in inbound tourism, maintained the top among 51 industries, while "restaurants," "food and beverage wholesale," and "food and beverage retail" reached record highs. It also recorded more than DI (Diffusion Index) 50 points in eight industries.

*Note: DI's baseline is 50.

Service/Hospitality Industry (DI: 51.6)

It increased by 0.8 points from the previous month. Improvement for the fourth consecutive month. The number of restaurants (up 5.9 points), which can be heard cheerful voices such as "large reservations are increasing and pubs around the station are bustling" (bars and beer halls), improved by 22.4 points from the same month last year to 56.7, the highest since the survey began. "Entertainment services" (up 1.5 percentage points), including movie theaters with a focus on animated movies, increased by 50 units for the first time in two months. "Information services" (up 0.4 percentage points year-on-year) improved for the fourth consecutive month due to continued proactive attitudes toward IT investment by companies and many requests for equipment renewal such as invoice support. Sales of ryokans and hotels (down 2.3 points year-on-year) topped the list among 51 industries, although they deteriorated from April, but strong inbound tourism was a positive factor. "Services" showed more than 50 in 7 of the 15 industries.

Retail Industry (DI: 42.4) ---combining all sectors:

It decreased by 0.1 points year-on-year, getting worsened for the first time in five months. Automobile and parts retailers (down 2.5 percentage points year-on-year), which had been reported to be declining in purchasing intentions mainly due to high prices, deteriorated for the first time in five months as a pause appeared. Retail sales of various merchandise, including general supermarkets, declined for the first time in three months due to a decline in sales heavily impacted by the price increases. On the other hand, textile and apparel goods in the retail sector went up by 1.7 points year-on-year, being improved for the first time in two months, reflecting the upbeat consumer mind and desire to go out more often.

In the food market, according to the Business Trend Survey, both the sales DI and the revenue DI increased significantly from the previous month. Food and beverage in consumer market retail improved for three months in a row and reached its highest level of DI since the survey began.

The DI for fresh goods and food purchase DI continued to remain at record high levels, and the DI for selling prices remained high. The downward trend in the number of purchase points subsided slightly, and the DI per customer increased. The DI for visitors also rose slightly, narrowing the negative rate.

In the category trend survey, all DIs were up from the previous month. Inflated demand for household food has recovered owing to a series of price increases and soaring household electricity and gas bills, and the DI for fresh and perishable foods has risen, too. In May the economic recovery in holiday demand was obvious and it drove consumer minds more upward to play strong performance.

In the business sentiment survey, both the current situation and the outlook improved for the second consecutive month. In particular, the recovery trend in the outlook judgment has been remarkable. (See p11 for long-term trends.)

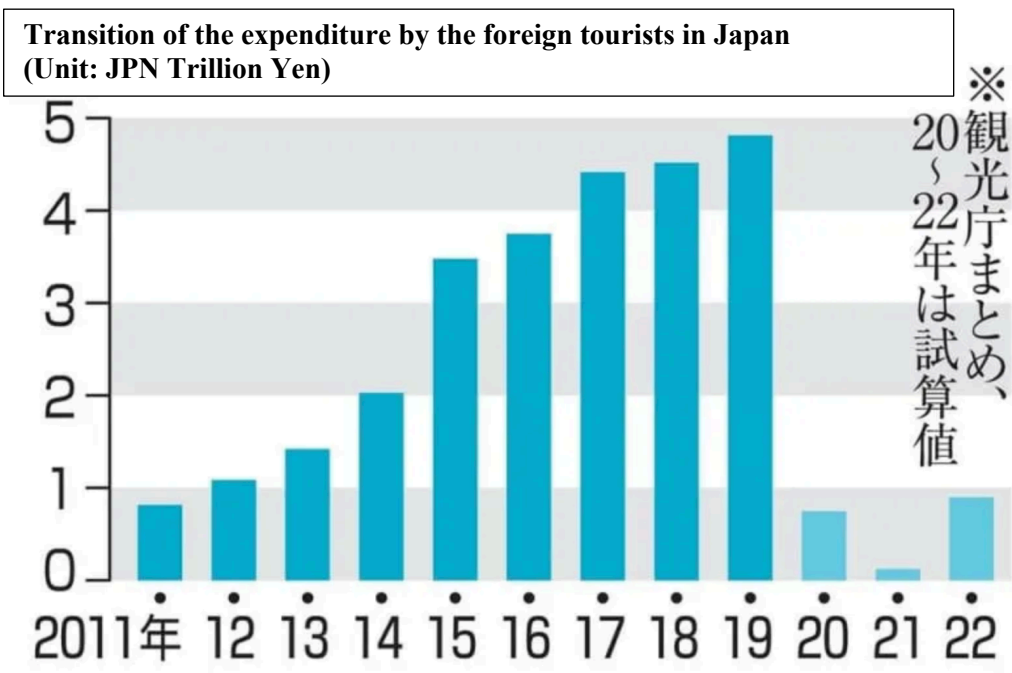
As food prices continued to remain high, the decline in the number of points purchased was suppressed compared to the increase in unit prices, resulting in a favorable sales trend. Although the economy benefited from having one more day on Sundays, many comments pointed out a pick-up in demand for domestic and ready-to-eat meals due to the desire to save money. There are many bright spots that will lead to an improvement in consumer sentiment, such as the change in Category 5 from May 8 that can be expected to change consumer sentiment, and major companies have raised wages by nearly 4% for the first time in 30 years. On the other

hand, not all consumers benefit equally, and as food prices continue to soar, store management and product policies that consider the surrounding environment will become more essential.

According to a survey to read **consumption trends** by the credit card use that uses credit card usage information to quantify consumption trends, the first half of May in 2023, including the long holidays, increased by 6.4% compared to before the spread of the new coronavirus. For the first time in three years, there were no restrictions on activities during this year's consecutive holidays, and consumption of travel and eating out has recovered significantly. The index from May 1 to 15, including the long Golden Week holidays, showed the credit card transaction with 6.4% higher than the average for the same period in the three years between 2016-2018, showing the credit card usage rate and amount are getting recovered for the past two and a half months in a row. Food and beverage purchase in the retail market increased and more people bought meals, snacks, alcoholic beverages and soft drinks in convenience stores and liquor shops whose sales grew by 43.7% compared with average of the same period in 2016-2018. On the other hand, dining/drinking out expenditure was still - 8.7% and traveling, - 21.8% before the spread of COVID. Izakaya Japanese style pub restaurants (- 45.6% vs. average same period 2016-2018) and Karaoke restaurants (-74.4% vs. average same period 2016-2018). Japanese consumption by credit card or apps is expected to recover in the short run but it is quite possible Japanese lifestyle habits and even business culture might have changed for some of the commercial sectors to erupt or to fade away.

Japan Boom for inbound tourism is now coming back:

On this last May 31st, Japan’s Tourism Agency announced that the 2022 travel consumption (estimated value) by foreigners who visited Japan increased 7.4 times from the previous year whose expenditure was 898.7 billion yen. In 2021, it was 120.8 billion yen, the lowest since the survey began in 10 years. Obviously, the border relaxation in October 2022 was contributed to attract more visitors to Japan. Compared with the record highest number of foreign visitors in 2019, 2022 figure was still 18.7% of 2019’s 4.81 trillion yen, but 7.4 times more than that of 2021. By country and region for the full year, Korea's 135.2 billion yen is the largest. This was followed by China at 109.2 billion yen, the U.S. at 95.9 billion yen, and Hong Kong at 76.2 billion yen. 2023 looks very positive in terms of the growing number of the foreign tourists heading to Japan so far but outbound tourism by the Japanese people recovery has still been at the slow pace.



訪日外国人旅行消費額の推移

Further to the EGG SHOCK which arrived in Hokkaido, the northern most big island of Japan.



Hokkaido, who has the largest arable land among all 47 prefectures in Japan, was severely hit by the egg shock in this spring. By early May, more than 1.2 million egg-laying hens were culled due to the wide spread of antigenic avian flu.

Like in other places in the lower islands of Japan, not only the consumers but also the confectionery makers were facing dramatic shortage of eggs to impact their diet and Hokkaido's signature sweets making industry. However, the pinch has brought to some innovative mind bearers to create opportunities to make a big leap with new success. *Ishiya Seika* (Sapporo City), known for its famous confectionery "*Shiroi Koibito*=White Lover" that represents Hokkaido, commercialized "Chocolate Only" of White Lover this spring.

According to the marketing team of the company 'the idea has always been here in the company,' and 'the egg shock just triggered the idea to pop up as real product to boost big sales.' Speaking of White Lover, the crispy *langue de cha* and sandwiched chocolate harmony are quite popular and highly expected by the fans. Eggs are indispensable ingredients for *langue de cha* so the maker was devastated by the egg shock which might endanger the total production line of White Lover, losing all the customers. The White Lover's White Chocolate Only products are selling very well as the company found out the fans of White Lover products are basically the 'lovers' of the white chocolate sandwiched by the *langue de cha* cookies after all.

On separate note, there are many users in the baking industry of Hokkaido of the Western US agricultural products. The US-JAPAN FTA will surely drive US suppliers and Japanese trade in Hokkaido to jointly develop more sustainable and stable supply chain systems.

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

There was only one big announcement by USDA/FAS in May 2023 regarding/relevant to Japan market as:

USDA Under Secretary Taylor to Lead Agri-Trade Mission to Japan

WASHINGTON, May 30, 2023 – U.S. Department of Agriculture Under Secretary for Trade and Foreign Agricultural Affairs Alexis M. Taylor will lead the upcoming agricultural trade mission to Japan, June 5-8. The delegation includes a robust representation of the U.S. agriculture sector, including businesses, state departments of agriculture, and commodity groups.

"As one of the world's leading economies, Japan is an important market for U.S. food and agriculture exports. It is an incredible honor to lead this delegation as we work to expand our bilateral trade relationship even further," said Taylor. "I am extremely pleased by the diverse set of businesses in our delegation as we connect many women-, minority-, and veteran-owned U.S. agribusinesses with potential business partners in Japan."

Japan is the fourth-largest market for U.S. food and agricultural exports. In 2022, U.S. exports matched the previous record, totaling \$14.6 billion, with exports of soybeans, dairy and other products reaching new highs. The United States is vital to ensuring food security in Japan, with nearly a quarter of all Japan's food and agricultural imports coming from U.S. exporters.

While in Japan, trade mission participants will engage directly with potential buyers, receive in-depth market briefings from USDA's Foreign Agricultural Service and industry trade experts, and participate in site visits.

In addition to representatives from the following businesses and organizations, Taylor will be joined by Idaho State Director of Agriculture Chanel Tewalt, Indiana State Director of Agriculture Don Lamb, Kentucky Commissioner of Agriculture Ryan Quarles, Nebraska Director of Agriculture Sherry Vinton, North Dakota Commissioner of Agriculture Doug Goehring, and officials from the California, Georgia, Kansas, Maine, Washington, and Wisconsin state departments of agriculture.

USDA touches the lives of all Americans each day in so many positive ways. In the Biden-Harris Administration, USDA is transforming America's food system with a greater focus on more resilient local and regional food production, fairer markets for all producers, ensuring access to safe, healthy, and nutritious food in all communities, building new markets and streams of income for farmers and producers using climate smart food and forestry practices, making historic investments in infrastructure and clean energy capabilities in rural America, and committing to equity across the Department by removing systemic barriers and building a workforce more representative of America. To learn more, visit www.usda.gov.

As a preview for the June 2023 Monthly Report, here are some beans spilled shots out of ATM as described in the above....





WUSATA coming generic events and Collaboration plan with ATO Tokyo & Osaka:

*WUSATA Petfood Product Japanese buyers IB Mission will be taking place in the week of June 25th. Six Japanese pet food buyers will arrive to meet with the WUSATA suppliers in Nevada and in Colorado.

*WUSATA Japan OB mission timing in the coming fall will be confirmed soon----

To be continued to the next month...