

Voluntary Report – Voluntary - Public Distribution

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Report Name: COVID-19 Impacts on Food Distribution in Japan - Update IV

Country: Japan

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Report Category: Agricultural Situation

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Report Highlights:

In response to a third wave of COVID-19 infections, a new 30-day state of emergency was declared for much of Japan on January 7. Business travel, which was temporarily allowed for 11 countries and regions, has been halted through February 7. Additionally, Government of Japan (GOJ) programs to support domestic tourism have been suspended, which is expected to once again negatively impact hotel, restaurant, and institutional (HRI) sales. Restaurant bankruptcies reached a record high in 2020. Conversely, monthly year-on-year retail sales at supermarkets continue to be stronger on greater demand for at-home cooking during the pandemic. In 2020, total supermarket sales were up for the first time in five years.

The following report is the product of ATO Japan interviews with industry contacts and open source news articles. To date, official data on retail and food service sales, or food consumption, for calendar year 2020 are unavailable. While we are confident that the following content is indicative of industry sentiment, we encourage readers to seek confirmation of these trends as data becomes available.

1. COVID-19 Mitigation Measures Suggested by the Government of Japan (GoJ) and Local Authorities

Japan is in the midst of a third wave of COVID-19 infections, and according to the Japan Times report on January 20, the daily death toll topped 100 for the first time on January 19, as total cases near 350,000 and the death toll approaches 5,000. A new 30-day state of emergency was declared by the Government of Japan (GOJ) on January 7 for Tokyo and surrounding prefectures and was expanded to seven additional prefectures on January 13. Prime Minister Yoshihide Suga instructed companies to encourage telework and reduce office populations by 70 percent. Residents are also urged to avoid non-essential outings, and events are limited to 50 percent capacity and no more than 5,000 attendees. Jiji Press reported that the GOJ plans to provide financial aid to food and beverage service establishments that cut operating hours in line with requests under a state of emergency. Lawmakers are discussing revising legislation to combat COVID-19 more effectively and increase enforceability by establishing precautionary measures, giving prefectural governors authority to issue orders of closure to businesses, or to fine those that refuse to comply with orders.

2. COVID-19 Economic Impacts

a. Impact on Overall Economy

Reuters reported on December 8 that Japan's economy rebounded at a 22.9 percent annualized rate in the quarter from July to September (Q3) on domestic demand, supported by private consumption, and external demand. This was the fastest growth since 1980, after three consecutive quarterly contractions. However, Toshihiro Nagahama, chief economist at the Dai-ichi Life Research Institute, estimated in Kyodo News that the new state of emergency would lead to a \$20 billion shrink in 2021 annual gross domestic product (GDP).

b. Impact on Tourism

Inbound tourism continues to be halted, though for a period, business travel was allowed for 11 countries and regions. However, on January 13, business travel from all foreign countries was also halted through February 7. To promote domestic tourism, GOJ created the popular "Go To Travel" campaign on July 22, though on December 28, this was also suspended amid the third wave of infections. The expected resulting reduction in domestic tourism will likely once again dampen hotel and restaurant sales nationwide.

c. Impact on Transportation and Supply

Jiji Press reported that the GOJ FY2021 budget plans to include over \$1 billion to support airlines hit hard by the pandemic and plans to adopt a special measure to significantly reduce fuel tax paid by airlines. In October, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) announced measures to reduce landing fees for domestic flights at government-operated airports, deferring national and local taxes, providing payroll support, and setting lower rental fees for airport facilities. The devastating impact of COVID on air travel led AirAsia Japan, a Nagoya-based affiliate of the Malaysian low-cost carrier, to file for bankruptcy on November 17 with around \$200 million in debt, the first Japanese airline do so.

3. COVID-19 Impact on Major Distribution Channels

a. Hotel, Restaurant, and Institutional (HRI) Sector

i. Hotels

According to the "Company Awareness Survey on New Coronavirus Infectious Diseases" conducted by Teikoku Databank in October, 97.4 percent of Ryokans (Japanese style inns) and hotels answered that "there is a negative impact" on their business performance due to the pandemic. Additionally, 59 hotels and inns went bankrupt between the end of February and October 12 due to the spread of the new coronavirus infection. The suspension of the "Go To Travel" Campaign is expected to put renewed downward pressure on the already struggling hotel industry.

ii. Restaurants

Teikoku Databank also reported that restaurant bankruptcies from January to November 2020 reached 736, more than any previous year. According to the "Food Service Industry Market Trend Survey" released by the Japan Food Service Association, the food service market in October reached 94.3 percent of the previous year's sales; a stark contrast from April, when year-on-year monthly sales plummeted 40 percent during the first state of emergency. The GOJ's restaurant support measure "Go To Eat" encouraged sales to return to near normal levels. However, only fast food and family restaurant that serve Chinese and yakiniku (grilled meat) are performing at or above regular levels. Recovery is delayed at banquets and taverns and restaurants where corporate demand is high.

Major restaurant chains closed stores and changed business formats due to the deterioration of business performance. For example, Royal Holdings has closed nearly 90 stores, Watami will close 114 stores and convert 120 izakaya such as "Watami" to "Yakiniku Watami," and Skylark Holdings has closed about 200 stores and will shift many others to a business format that can enhance the effect of attracting customers, such as the fried food specialty store "Karayoshi." With the arrival of the "third wave," restaurants report that the number of customers has begun to decline again and, according to Teikoku Databank, there is a risk that more restaurants will go bankrupt or close at the end of the year.

b. Retail

iii. Supermarkets

According to the Nihon Keizai Shimbun (the Nikkei) 2020 total supermarket sales were up \$3 billion, or 2.6 percent, to \$119.6 billion for members of the Japan Chain Stores Association (JCSA), which includes most major supermarket chains. This is the first time in five years that JCSA has reported a

sales increase on a year-on-year basis. Sales of food products showed a strong increase of 4.7 percent. Due to increased opportunities to cook at home, fresh foods grew significantly, with agricultural products up 7.9 percent, livestock products up 8.4 percent, and fishery products up 6.3 percent.

JCSA also reports that as of November there were 401 more supermarkets than the same time last year, now 10,939 major outlets. Three different supermarket associations including Japan Supermarket Association published November sales data on December 21, 2020 showing a 3.3 percent increase compared to November 2019. This is the 10th consecutive month of year-on-year sales increases. Fresh fruits and vegetables, fisheries, and meat sales were up 4.1 percent. According to the Nikkan Keizai Tsushinsha [industry publication], sales channels have changed from in-store sales to a higher usage of e-commerce, especially through smartphones. In-store payment methods are changing as well, and self-registers are more common.

ii. Convenience Stores

According to the statistics published by Japan Franchise Association, November sales of seven major convenience stores decreased by two percent. Rytusu News reported December year-on-year sales were 5.7 percent lower at Lawson, down 5.2 percent at Family Mart, and 5.1 percent at Ministop. The marks the tenth consecutive month of sales decrease due to COVID-19.

iii. Department Stores

According to Ryutsu News, December sales of all five major department stores in Japan continue to suffer, even during the typically busy month of December in preparation for Christmas and the New Year holidays. Sales of high-end clothing was especially hit hard, along with cosmetics. Mitsukoshi-Isetan was down 14.0 percent, J Front Retailing (Daimaru-Matsuzakaya) was down 17.8 percent, H2O Retailing (Hankyu-Hanshin) dropped 16.5 percent, Takshimaya fell by 13.4 percent, and Sogo-Seibu by 9.6 percent. Data from the Japan Department Store Association showed November food sales were down by 10.1 percent year-on-year.

iv. Other

Various food related press foresee difficulties in institutional sales and recovery of tourism related industries following the second state of emergency declaration, but expect positive sales from supermarkets to continue. Due to COVID-19, trending internet-based keyword searches continue to be those supporting health and strengthening the immune system and preventing the weakening of muscles from less physical activity.

4. Products Impacted by COVID-19 Driven Consumer Behavior Changes

d. Products Benefiting from Consumer Behavior Changes

According to a survey published by Intage conducted among roughly 4,000 retail outlets between January and October 2020, top seven trending items year-on-year are related to sanitary products such as mask, sanitizer, soap, and thermometers, but protein powder, frozen seafoods, and pre-mixed baking flours ranked eighth (up 139 percent), ninth (up 137 percent) and tenth (up 136 percent), respectively.

Protein powder sales were particularly strong among women aged 15-49 who are highly conscious about beauty and health. The sales of protein powder made from soybeans showed significant growth as well. Jiji Press reported that Japan's imports of easy-to-cook spaghetti and other pastas hit a record high in 2020, as people refrained from going out amid the pandemic.

b. Products Hindered by Consumer Behavior Changes

Matsutake mushroom imports and sales have struggled this season on lower demand at hotels and given the decrease in tourism. As reported in previous ATO COVID-19 impact reports, sales of food products found more often in food service than retail generally continue struggle.

5. Links to Other Reports

a. Previous ATO Reports on COVID-19 Impacts on Food Distribution:

September 4: [COVID-19 Impacts on Food Distribution in Japan - Update III](#)

May 26: [COVID-19 Impacts on Food Distribution in Japan - Update II](#)

April 17: [COVID-19 Impacts on Food Distribution in Japan - Update I](#)

April 10: [COVID-19 Impacts on Food Distribution in Japan](#)

b. Other FAS Japan COVID-19-Specific Reports:

December 23: [Expansion of Support Payments for Rice and New 2021 Rice Production Targets](#)

December 4: [Revisions to COVID-19 Economic Relief Support Programs](#)

June 29: [Japan Temporarily Increases Phytosanitary Inspections of Select US Products](#)

June 1: [Second MAFF 2020 Supplementary Budget for COVID-19 Response](#)

May 28: [MAFF Increases COVID-19 Support for Beef Calf Producers](#)

May 26: [Japan Temporarily Accepts Electronic Copies of Phytosanitary Certificates for Horticultural Imports](#)

May 13: [MAFF Increases COVID-19 Dairy Support Payments](#)

May 1: [Farmers Eligible for COVID-19 Cash Allowance](#)

May 1: [Japanese Farmers Eligible for COVID-19 Related Tax Relief](#)

April 30: [Japan To Revise Criteria for Beef Marukin Support Payments](#)

April 28: [ALIC Releases Additional Details on Cattle and Dairy Supports](#)

April 26: [MAFF 2020 Supplementary Budget for COVID-19 Response](#)

April 24: [Japan to Accept Official Copies of Export Certificates](#)

April 17: [Japan Provides Food Labeling Flexibility in Response to COVID-19](#)

April 15: [ALIC Announces Details of COVID-19 Funding for Beef Industry](#)

Attachments:

No Attachments.