

Voluntary Report – Voluntary - Public Distribution

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

Country: Japan

Post: Tokyo ATO

Report Category: Agricultural Situation

Prepared By: Japan ATOs Marketing Specialists

Approved By: Barrett Bumpas

Report Highlights:

Following the lift of the nationwide state of emergency on May 25, food service sector monthly sales recovered slightly in July (down 15 percent from 2019) after hitting unprecedented lows in April (down 40 percent). Supermarket sales remained above regular monthly totals, though only up by 2.4 percent in July. Convenience store sales, which stayed close to average monthly levels earlier in the pandemic, have since fallen between 5.1 and 10.5 percent year-over-year for major chains, with customer traffic lessened by increases in teleworking and record-breaking rains in June and July.

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 May through July 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. Links to Other Reports:

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

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:

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](#)

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

The Government of Japan (GOJ) plans to start a “Go To Eat” Campaign in September with total budget of about 1.4 trillion yen for participating outlets. Also, prefectures and local municipalities have given instruction to food service outlets to practice COVID-19 countermeasures; those who initiate the prescribed countermeasures are issued a sticker to put at the entrance of restaurant to signal customers that cautionary measures are applied.

“Go to Travel,” a subsidy program intended to boost domestic tourism which has taken a hit from the coronavirus, started on July 22. Chief Cabinet Secretary Yoshihide Suga announced that so far at least 2 million Japanese citizens have taken advantage of the program. However, the Tokyo Broadcasting System (TBS) conducted a survey that showed a lack of public support for “Go to Travel”—66 percent of respondents did not support the program and 77 percent said they did not plan to participate. Public skepticism exists about the campaign’s economic benefit as increased domestic tourism may spread the coronavirus. Under the campaign, GOJ will subsidize up to half of eligible domestic travel expenses through discounts and coupons.

The Osaka prefectural government decided to ask some eating and drinking establishments in the Minami entertainment district of Osaka, the capital of the western Japan prefecture, to suspend operations for two weeks, beginning August 6, in the fight against the COVID-19. The Nikkei (the Nihon Keizai Shimbun) reported that about 60 percent of bars and restaurants in the Minami district lost half or more of their normal sales for this time of year.

3. COVID-19 Economic Impacts

a. Impact on Overall Economy

On August 17, the Cabinet Office reported Japan's real GDP contracted 27.8 percent annualized in the second quarter of 2020, as the COVID-19 pandemic has led to low domestic and external demand for goods and services. Real GDP has fallen to its lowest level since 2011 and the Q2 drop is the sharpest fall since 1980. GOJ data shows that Japan's exports in the first half of 2020 fell 15.4 percent from a year earlier on lackluster overseas demand for cars and other industrial goods; the largest year-over-year drop in more than 10 years. Imports fell 11.6 percent from the previous year to 34.60 trillion yen. Agricultural exports fell 4 percent year-over-year at 350.6 billion yen while agricultural imports fell 4.9 percent to 3.38 trillion yen.

b. Impact on Tourism

The Japan National Tourism Agency (JNTO) reported the total number of visitors for the first half of 2020 was 3.95 million, down 76.3 percent from the previous year. An estimated 3,800 foreign travelers visited Japan in July, posting a year-over-year plunge of 99.9 percent for the fourth consecutive month. Japan continues to implement strict border controls to prevent the spread of the virus, inhibiting entry of foreign nationals from 146 countries and regions.

For current information on COVID-related travel restrictions, visit the [COVID-19 Information](#) page on the U.S. Embassy website and the [Consular Services](#) page on the MOFA website.

c. Impact on Transportation and Supply

Industry sources reported to the Embassy that major airlines in Japan are only operating 30-50 percent of their domestic routes and as low as ten percent of their typical international flights. There is industry support for Japanese government talks with 16 nations and regions, including Australia and some Southeast Asian countries, on easing travel restrictions for business trips, though concern that the number of passengers would be limited by testing capacity. Strong domestic cargo demand, particularly for flights serving Haneda airport that carry fresh food products, has helped to recover some flight costs. Despite a lack of passenger demand, cargo demand is also supporting an uptick of international flights to Japan, including for U.S. carriers.

The strains on cargo shipping caused by COVID-19 do not appear to inhibit agricultural imports. Weather-related shortages in supply of domestic vegetables raised prices and led food manufacturers to shift to imported produce. According to Ministry of Finance trade statistics, fresh vegetables and fruit imports increased in July when compared to 2019. Imports of fresh vegetables were up six percent compared to the previous year, and 10 percent versus the previous month, at 64,365 MT. Imports of fresh fruit increased one percent compared to previous year at 164,886 MT. For the first half of 2020, imports of fresh vegetables were down 19 percent from the previous year at 360,736 MT, on lower demand from the food service and retail industries.

4. COVID-19 Impacts on Major Distribution Channels

The Nikkei surveyed business executives and reported that 72 percent of Japanese companies with domestic plants are considering revisions to their supply chains. Methods of revising supply chains included: “Creating an environment that enables companies to flexibly change suppliers during a crisis (65.3 percent)” and “Avoiding reliance on a particular country and decentralize supply chains (57.1 percent).”

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

i. Hotels

According to a survey conducted by the Japan Finance Corporation, about half of the companies¹ reported a sales reduction of 50 percent or more because of COVID-19. The hotel and ryokan businesses that participated reported an enormous decrease in sales, with about 45 percent reporting a "50 percent or more decrease" in sales with an additional 55 percent reporting "80 percent or more decrease in sales." Other hotel and ryokan business replies included: “Sales decrease” (98.9 percent), “(temporarily) Closed” (78.6 percent), and “Inability to secure sanitary products such as masks and disinfectants” (33.2 percent). According to Teikoku Databank, 40 bankruptcies were reported from January to June. The average hotel occupancy rate in June was 24 percent of last year’s total, and the average unit room price was 36.8 percent lower.

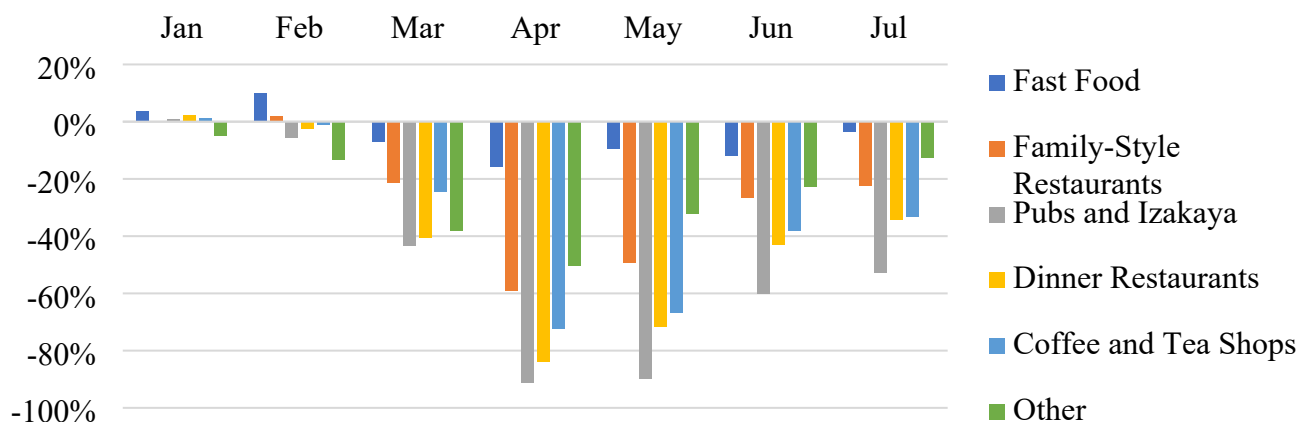
In the near-term, there is some optimism as hotels are beginning to reopen. This includes hotel restaurants which have returned with the buffet style of serving meals by decreasing the number of tables and launching new campaigns to promoting local prefectures (e.g. Osaka-style or Kyoto-style) or seasonal events to attract customers. However, some long-term impacts are now apparent as industry sources report disruptions or cancellations of new construction.

ii. Restaurants

According to the research done by Japan Food Service Association, in July the foodservice industry saw a recovery trend in on-premise/eat-in business in the first half of the month, and together with growth in demand for takeaway food such as western-style fast food up 5.1 percent year-over-year. However, overall food sales were down 15 percent from the same month last year. June sales foodservice industry were reportedly down 21.9 percent year-on-year. For the second half July, the re-spread of COVID-19 infections in Tokyo and Osaka, shortening of summer vacation at elementary and junior high schools, and longer rainy season (mainly in western Japan), led to a reduction in the number of customers going out to restaurants. In addition, there are variations in recovery depend on locations and business categories, with restaurants in “suburban locations” close to residential areas recovering, while restaurants in “downtown locations” (business districts) continue to struggle. Drinking establishments have been slow to recover; July pub and izakayas sales were down 47.2 percent from last year. Sales at dinner restaurants remain significantly below normal levels, down 65.5 percent from July 2019. According to Teikoku Databank, 398 restaurants filed for bankruptcy from January through June 2020, surpassing the record pace of 732 bankruptcies cases in 2019.

¹ The survey was carried out by mail in the middle of June 2020 to life-hygiene related companies (meat industry, restaurant, bar, hotel/ryokan, movie theater, dry-cleaner, beauty parlor, spa, etc.) and 3,138 companies replied.

2020 Monthly Food Service Sector Sales Changes from 2019



Source: Japan Food Service Association

According to the MMD Research Institute, 46.4 percent of consumers reported use of food delivery service via the Internet in June 2020, up 16.5 percent from 2019. The survey researched a total of 1,144 men and women consumers aged 18 to 49 who own smartphones in June. Among them, 57.5 percent were women in their twenties. The direct delivery services of Domino's pizza and McDonald's were most widely used with 32.8 percent of the consumers, followed by the delivery services of Demae-kan and Uber Eats Japan. Bento shop operator, Hot Motto, has expanded the home delivery service to their 496, working with Demae-kan and Uber Eats.

b. Retail

iii. Supermarkets

Sales of groceries and miscellaneous items remain elevated as the COVID-19 infection has resurged in certain prefectures, causing people to spend more time at home. According to the Japan Chain Stores Association, sales of 10,823 major supermarkets nationwide last month were 1,080.6 billion yen (\$10.21 billion). However, reports by several media outlets are signaling a return to near average sales; March and April supermarket sales for many major chains were up between 20 and 30 percent, but June and July sales were up by only 3.4 percent 2.4 percent, respectively.

ii. Convenience Stores

According Ryutsu News, the four major convenience stores July sales compared to 2019 were down at Seven-Eleven by 5.1 percent, at Lawson by 8.9 percent, at Family Mart by 10.5 percent, and at Mini-stop by 8.5 percent. Due to the increase in the number of people infected with COVID-19, the delay of the rainy season and record-breaking heavy rains, the number of customers decreased by 12.1 percent at Seven-Eleven, 16.2 percent at Family Mart, 15.1 percent at Lawson, and 14.2 percent at Mini-stop. According to Yomiuri Newspaper, convenience stores are redeveloping sales strategies to combat the loss of customers while telework keeps workers away from offices where many convenience stores are located.

iii. Department Stores

Although there were positive sales movements for mid-year summer gift season (*ochugen*), for luxury products, and the highest ever for e-commerce, overall sales remained sluggish as the number of store-

visiting customers decreased due to the harsh rainy season, the resurgence of COVID-19, and deconcentrating large summer sales at stores. Data from the Japan Department Store Association showed food sales down by 11.5 percent from July 2019.

According to the Japan Department Stores Association, July department store sales in the Kinki region (7 prefectures including Fukui prefecture) fell by 20.4 percent; the decrease was about the same in June, down 21 percent. By region, stores in Osaka were down 24.8 percent and stores in Kyoto were down 21.1 percent. The city center stores (in Osaka and Kyoto) rely heavily on inbound tourists, which has been greatly affected by the spread of COVID-19. However, suburban stores in the region reported smaller sales losses, down 9.7 percent.

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

d. Products that Benefited from Consumer Behavior Changes

Products which were lacking from the retail shelves due to earlier high demand during the nationwide state of emergency have mostly returned to stock as demand has calmed down. Sales of beef and other meat proteins have increased in the retail sector as home-cooking trends continue. According to the Japan Agricultural News, increased imports were particularly evident among U.S. beef and pork, suggesting the impact of the U.S.-Japan Trade Agreement (USJTA) which came into force on Jan 1, and the preference among households for cheaper imported meats while they avoid dining out during the coronavirus outbreak. Many retailers see demand from households to continue as consumers adopt a “new lifestyle”, and hence will be strengthening product offerings of home meal replacements.

b. Products Constrained by Consumer Behavior Changes

Many of the products that experienced downward sales trends because of consumer shifts from food service to retail have shown some signs of recovery since the state of emergency was lifted on May 25. Industry stakeholders expect competition among the food service/retail industry to intensify as they scramble to meet household demand. According to the Japan Agricultural News, detailed trends regarding sales of agricultural produce are as follows:

- Beef: Sales of lower grade beef have started recovering, while sales of higher-grade beef are still sluggish.
- Pork: Strong sales are reported on price competitiveness as households cut spending. Sales are also driven by concerns of declines in imports.
- Milk/dairy products: There is an increasing inventory of non-fat dried milk (NFDM). Commercial sales are recovering as schools have begun to reopen.
- Rice: There is strong demand among households but still declines in demand from the food service industry.
- Vegetables: Food service providers sales are rebounding as restaurants reopen.
- Fruit: The market for high-end fruits is recovering as summer gift sales season continues.
- Flowers: The market is slowly recovering but business demand is still sluggish.

Attachments:

No Attachments.