

Voluntary Report – Voluntary - Public Distribution

Date: May 26,2020

Report Number: JA2020-0112

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

Country: Japan

Post: Tokyo ATO

Report Category: Agricultural Situation

Prepared By: Barrett Bumpas

Approved By: Morgan Perkins

Report Highlights:

Hotel, restaurant, and institutional (HRI) sales fell to unprecedented lows in April, with consumers staying home and tourism halted during the seven-week long nationwide state of emergency, which ended on May 25. However, supermarket sales remained well above regular monthly totals for a third consecutive month. Consumers have purchased higher volumes of home-cooking oriented products, such as baking goods, pastas, and easy-to-prepare meal kits, while sales are down for imported seasonal fruits that usually arrive as air cargo and foods normally limited to the HRI sector, like premium fresh seafood.

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 March and April of 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 COVID Impacts on Food Distribution Reports:

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

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

b. Other Relevant FAS Japan COVID Reports:

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

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

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

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

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

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

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

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

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

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

a. Impact on Economy

The nationwide state of emergency, declared by Prime Minister Abe on April 7, was lifted for all prefectures on May 25, one week ahead of its scheduled end. This followed the lift for 39 prefectures on May 14, and three others on May 21. The Tokyo Broadcasting System (TBS) reported that many businesses are working to prevent the "Three Cs" – closed spaces, crowded places and close-contact settings – as they resume operations following the lift.

Nihon Keizai Shimbun (the Nikkei) reported that while many commercial outlets have reopened in the prefectures where the state of emergency was lifted earlier, consumers have been reluctant to dine out, go shopping, or stay at hotels out of concern about contracting the virus. Some prefectural governments are offering financial incentives to support struggling industries. For example, Osaka Prefecture launched an initiative allocating 150 million yen in mid-April through the end of Golden Week holiday (May 6) aimed at promoting food delivery services to support the suffering restaurant industry as residents are urged to stay at home amid the coronavirus epidemic, according to the Japan Times.

Japan's household spending fell in March at the fastest pace in five years as the coronavirus outbreak kept shoppers at home, according to MIC's Family Income and Expenditure Survey. Total household spending slumped six percent in March from a year earlier, marking the biggest drop since March 2015.

Expenditures of household food items, such as rice, noodles and fresh meat showed significant year-on-year increases but overall food expenditures declined 2.4 percent year-on-year.

According to a Nikkei survey, economists anticipate a 21.7 percent annualized contraction in GDP in the second quarter of 2020, following a 5.2 percent fall in the first quarter. This would be sharper than the 17.8 percent annual drop in the first quarter of 2009 in the aftermath of the Global Financial Crisis.

b. Impact on Tourism

Tourism has plummeted to record lows. The Japan National Tourism Agency reported that only 2,900 inbound travelers arrived in April, down 99.9 percent from a year earlier. This was the first time that the monthly figure dropped below the 10,000 mark since 1964, when the GOJ began compiling such statistics. Domestic travel is also halted, impacting tourism and hotel industries in rural prefectures as people from the Tokyo, Osaka, and other metropolitan areas are strongly advised not to travel to the countryside. While the national state of emergency has been lifted, the ongoing entry ban, as detailed on the Ministry of Foreign Affairs (MOFA) [website](#), has been extended through June 30.

c. Impact on Transportation and Supply

Industry sources indicated to the Embassy that starting in June, U.S.-Japan flight frequencies will increase between Tokyo's Narita Airport and Chicago, Newark, and San Francisco, driven by high demand for cargo with the limited availability of passenger flights. Routes are expected to open to international destinations as well. For example, Finnair announced plans to resume service between Helsinki and three Japanese cities in July.

3. COVID-19 Impacts on Major Distribution Channels

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

i. Hotels

The hotel industry lost upwards of 90 percent of normal April sales due to the national state of emergency and halted tourism. Many hotels have closed their doors while several others have been converted to receive mildly infected COVID-19 patients at the request of municipal governments. As of May 17, 29 hotel managing companies and *ryokan* (Japanese-style hotels) have filed bankruptcy since March with total liabilities of JP¥ 39 billion (\$365 billion), according to Teikoku Data Bank and Tokyo Shoko Research. Despite the national state of emergency being lifted, most major hotel chains will not resume business immediately to prevent potential infections. Another concern is that occupancy rates would remain at all-time lows if hotels did decide to reopen, with industry sources estimating rates as low as five percent. Occupancy rates in March were 23.5 percent in Tokyo and 22.8 percent in Osaka, the lowest monthly percentage since the collection of statistics began in 1996.

Food distribution companies that deliver to restaurants at hotels have been severely affected. Additionally, the postponement of the 2020 Tokyo Olympics and Paralympics has also caused huge food procurement losses, causing wholesale prices of various products to fall, including flowers.

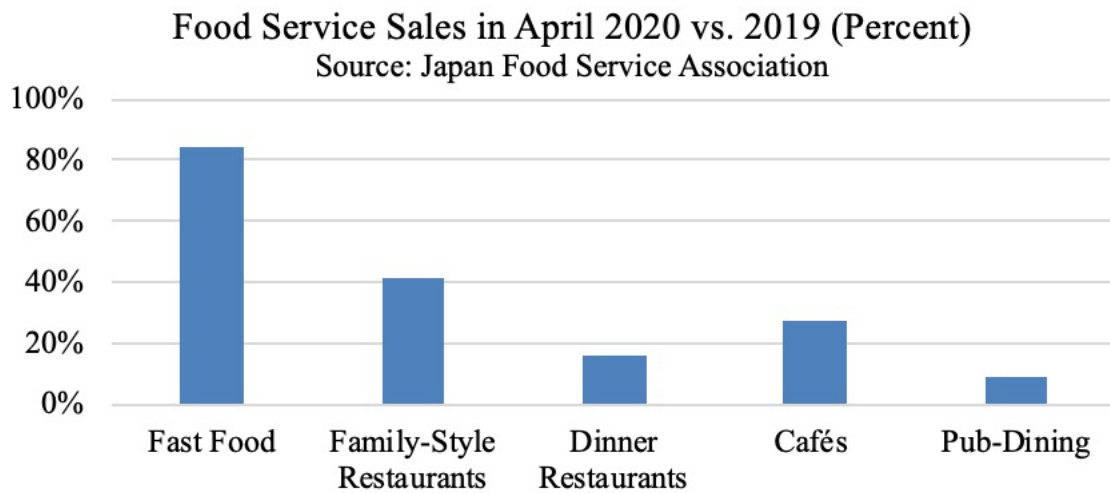
ii. Restaurants

The Japan Food Service Association (JF) reported overall sales were down 17 percent in March and 40 percent in April versus 2019. A Tokyo-based company that supplies mobile cash register systems to

about 10,000 bars and restaurants, POS+ (posutasu), published data on May 13 showing March sales dropped by 32 percent and followed by a 77 percent drop in April versus 2019.

Fast food restaurants have been the least impacted due to take-out, delivery, and drive-through business, with sales dropping 15.6 percent in April versus last year. Western style fast food chains have reported a decrease in customers more than offset by an increase in the average spent per customer, resulting in profit gains of nearly three percent. In fact, on May 13, KFC Japan announced annual financial settlement of accounts which ended in March 2020, showing total profit was up JP¥ 4.7 billion, more than double the previous year. Likewise, other food service providers that offer premium take away, typically party platters for holidays and special occasions, have been selling well in Tokyo. However, many fast food stores are based in shopping outlets and malls which have either shortened business hours or closed.

While Japanese and Western-style restaurants were greatly damaged with decrease in customers dining out, Chinese restaurants were able to maintain 90 percent of normal sales as many already offered takeout service. This season usually brings great business to pubs and *izakayas* (Japanese drinking establishments) with farewell and welcome parties but cancellations have led to a huge drop in the sales. JF reported April pub and izakaya sales were only 8.6 percent of previous year sales. Industry sources indicated that many major izakaya chains will temporarily close a large number of outlets.



Since GOJ lifted the emergency declaration in 39 prefectures on May 14, many restaurants and coffee shops have either reopened or resumed normal business hours and many others have announced plans to do so. JF announced guidelines asking restaurants to set panels between tables and customers to keep socially-distant while waiting in line or dining inside. They also recommend business establish contactless or cashless payment systems.

iii. Institutional

As elementary and middle schools in Japan's select regions have started reopening, 17 prefectures are set to serve crisis-hit premium produce, such as wagyu beef, mango and melon, in school lunches using allocations from MAFF's JFY 2020 supplementary budget for coronavirus countermeasures. According to the Japan Agricultural News, an additional 25 prefectures are preparing to make use of the program.

However, industry sources report that some school lunch meal providers have had difficulty securing their fresh product supply within time.

Sales of home-meal-replacements (HMR) or *sozai* have increased in April versus last year. However, most company cafeterias and school lunch services in metropolitan areas closed following the state of emergency declaration. One major food wholesaler, Itochu Foods, that supplies institutional sector has expanded a gift business in which food can be delivered through the postal service. Consumers can receive the “gifts” at their post office box instead of handoff by delivery staff. They launched their website for contactless digital gift service at the end of April.

b. Retail

iv. Supermarkets

According to Japan Supermarket Association (JSA) and three other supermarket related associations’ published data, monthly supermarkets’ sales have been up for the past three months versus the previous year, with many supermarket chains up between 20 and 30 percent. The data indicates that April sales at all stores increased by 12.3 percent or JP¥ 983 billion (\$9.2 billion). Prior to February, monthly sales had been below the previous year for 15 consecutive months. On the other hand, according to industry sources, some cash-and-carry outlet’s sales have dropped 30 percent as many of the typical customers are small food service restaurants.

As food consumption has shifted dramatically from food service to retail, so have staffing demands. Many foodservice companies have begun temporarily loaning employees to supermarkets and retail chains. Some of the shifts have happened within companies that have capital ties, but many have done so independently. One human resources company, HR Solutions, even established an emergency website introducing restaurant and hotel employees to convenience stores, supermarkets, and food delivery companies. So far, more than 4,000 businesses in Tokyo have registered employment offers at their website.

To prevent the spread of COVID-19, 12 retail industry groups, including JSA, announced guidelines detailing measures such as pre-packaging food items and prohibition of food tasting demonstrations.

ii. Convenience Stores

Despite convenience stores maintaining or even gaining sales in the earlier weeks of the coronavirus outbreak, Logistic Partners Inc. (Ryutsu News) reported that all of the top three convenience stores experienced year-over-year drops in April sales, down between 5 and 15 percent. The emergency declaration has kept many employees away from office buildings, which reduced customer visits. Though, stores located in residential areas have seen an increase in price-per-customer due to more bulk purchases. Other smaller convenience store chains have announced similar declines.

iii. Department Stores

Ryutsu News also reports that supermarkets in most department stores closed along with all the other apparel, jewelry, and cosmetics stores. Most department stores in metropolitan Tokyo closed their doors following the state of emergency declaration. There was a significant decrease in sales for department store companies, down an average of 70 to 80 percent in April 2020 versus last year. Specifically, duty-free goods sales (mostly from foreign tourists) for all department stores plummeted 99 percent. However, starting from May 18 many of these stores reopened with heavy virus prevention measures.

4. Products Heavily Impacted by Consumer Behavior Changes

d. Positive Changes

According to a Toyo Economic Online report, sales have skyrocketed 150 to 250 percent for the following products: essences including vanilla essence for baking, pancake mixes and *karaage* (fried chicken) flour mixes, wheat flour, whipped cream, hot-pot soups and related products, syrups including maple and sugar syrups, pastas and sauces, and alcoholic beverages, particularly spirits. Some stores have had difficulty keeping popular items like flour, butter, and natto (fermented soybeans) on the shelves. Natto recently received media attention as a food that helps to maintain a health immune system and natto manufacturers were reporting they were challenged to keep up with demand. According to Nikkei POS data, sales of snacks and crackers increased in April, with more people working from home.

At retail, easy-to-cook items such as rice, cup/instant noodles, curry, and retort (boil-in-the-bag) products have sold well. sales of beef, pork, and chicken have been strong, especially tray packs with larger quantities for refreezing and marinated or flavored products. but frozen and processed seafood with longer shelf life has sold well. The top selling seafood is mostly processed and easy-to-cook-at-home items such as salted salmon, dried fish (horse-mackerel, Okhotsk atka mackerel), young sardines, clams, seaweed, frozen seafood mix, and shelled shrimp. Fresh seafood, such as sashimi, has not sold well. Demand has generally increased for fruits and vegetables, especially those with longer shelf-lives, such as potatoes, onion, carrots, and green peppers. Frozen foods sales have also increased.

The Hokuren Federation of Agricultural Cooperatives (established by Hokkaido's agricultural cooperatives) has been working with dairy manufacturers in strengthening the processing capacity of fresh milk. According to the Japan Agricultural News, their sales of butter and skim milk powder are up 20 percent as dairy manufacturers have adjusted processing capacity with the decline in fresh milk demand amidst the coronavirus-led closures of schools and restaurants. Hokuren's sales of cheese increased ten percent.

b. Negative Changes

With the closure of most restaurants and bars following the national state of emergency declaration, demand for quality seafood (tuna, sea urchin, thornhead, lobster, bamboo shrimp, blackthroat seaperch, etc.) has fallen. At the Toyosu Market, the quantity and price for premium quality fish dropped significantly since food service business has evaporated. To create new demand for the quality fish, many fishermen, seafood stores, and chefs have started introducing how-to-cook guides on internet.

While sales of wine and spirits have risen, Nikkei MJ reports April sales of beer at bars and restaurants decreased by over 60 percent versus last year. At both supermarkets and drug stores the sales of low-malt beer (less than 67 percent malt), which is taxed at a lower rate than regular beer, increased by nearly five percent, while sales of regular beer decreased by 25 percent due to budget-minded customers.

As the coronavirus outbreak has caused lockdowns and declines in air cargo volumes across the globe, shortages of imported fruits, such as bananas, limes, mango and avocados have become apparent in Japan. According to the Yomiuri Shimbun, industry stakeholders are concerned about potential

shipment shortages of U.S. lemons and cherries (normally in season from May to June) and South African grapefruits. Meanwhile, prices of imported lemons have fallen in the past month as consumption of lemon-based alcoholic beverages declined amidst the restaurant closures. According to the Nikkei, wholesale prices of imported lemons fell 20 percent in early May compared to the previous year.

Attachments:

No Attachments.