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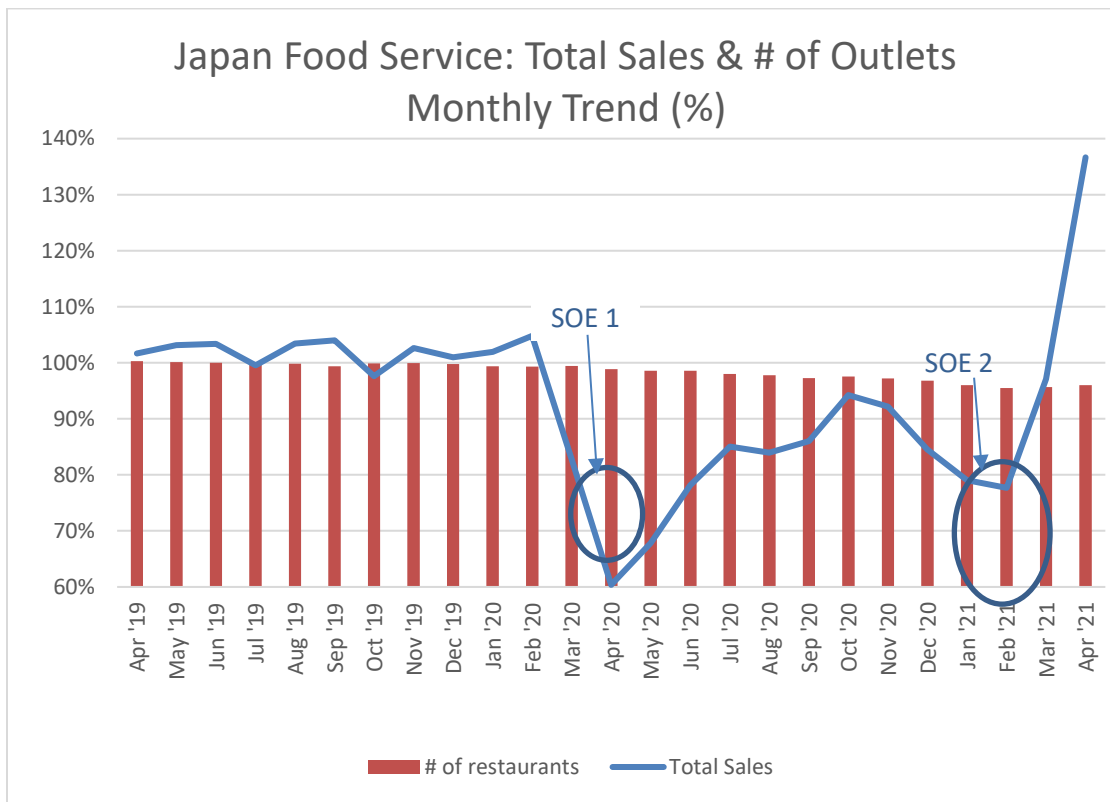
Report Highlights:

The Government of Japan (GOJ) declared a third state of emergency (SOE) on April 28, 2021, in an attempt to mitigate the spread of COVID-19. The SOE covered 10 prefectures, and included Tokyo, Osaka, Kyoto, Aichi, Hokkaido, Hyogo, Okayama, Hiroshima, Fukuoka, and Okinawa. Originally set to expire on May 11, the SOE was extended to June 20. Among other restrictions, the SOE banned the sale of alcoholic beverages by restaurants and mandated that restaurants close by 8:00 pm. According to a report from the Japan Foodservice Association (JF), restaurant sales in March 2021 fell 5.2 percent from March 2020 levels on an all-store basis, down for the 13th consecutive month, and down a whopping 19.6 percent from pre-pandemic sales in March 2019. The coronavirus pandemic deeply impacted both the HRI and tourism industries, and industry stakeholders are pursuing new business models and menus that include non-alcoholic beverages as well as expanding takeout and delivery services as a result.

General Information

The Hotel, Restaurant and Institutional (HRI) industry showed steady growth in sales volume and recorded record sales of \$305 billion in 2019. However, the COVID-19 pandemic severely impacted the sector. According to Japan Foodservice Association (JF) statistics, total restaurant sales in April 2020 dropped 40 percent compared to the same month the previous year, due to mandatory closure of restaurants during national the States of Emergency (SOE). Since the first SOE, and with continued recommendations that citizens refrain from gathering outside the home, industry sales have continued to decrease month by month in 2020 and 2021. Overall industry sales declined 19.5 percent in April 2021 when compared with April 2019, before the pandemic.

Chart: Japan Food Service Industry Sales Trend Monthly



Source: Japan Food Service Association

Lookback the State of Emergencies in Japan:

Past States of Emergency, period, areas covered (Total days)

1. April 7 through May 25, 2020, Tokyo and 6 prefectures (49 days, extended once)
2. January 8 through March 21, 2021, Tokyo and 10 prefectures (74 days, extended twice)
3. April 25 through June 20, 2021, Tokyo and 9 prefectures (57 days, extended once)

The first COVID-19 infected patient was found in Japan in January 2020. In April 2020, the Government of Japan (GOJ) declared the first SOE to take countermeasures against the pandemic, which requested closure of eateries, offices, entertainment and sports facilities in seven prefectures. The food service industry was essentially completely shuttered, including high-end restaurants, bars, and company/school cafeterias. Even fast-food restaurants and coffee shops like Kentucky Fried Chicken (KFC) and Starbucks were closed during the first SOE.

From January 8 – March 21, during the second SOE, the GOJ ordered eating and drinking establishments to shorten business hours and close at 8:00 p.m. Quick service restaurants opened eat-in space and started takeout and food delivery service. There was no ban on serving alcohol. The mandatory earlier-closing time, however, created a buzz for drinking at an earlier time, which Japanese consumers called “Hirunomi” (drinking in the daytime).

At the beginning of the third SOE on April 25, 2021, the Japan government declared the state of emergency in Tokyo and three other prefectures in Western Japan, Osaka, Hyogo and Kyoto, until the end of May. As infections remained stubbornly high, and hospitals faced capacity limits, the third state of emergency extended to include Aichi, Fukuoka, Hiroshima, Okayama, Hokkaido and Okinawa Prefectures through June 20. The government sought stricter measures to help mitigate the spread of new COVID variants during this third SOE, including a ban on serving alcohol in restaurants and bars, as well as an early 8:00 p.m. closing time. The third SOE also requested closure for large commercial facilities, such as department stores, shopping malls and amusement parks in the 10 impacted prefectures. Without question, the SOEs impacted the restaurant industry in Japan, resulting in a prolonged business downturn following the cumulative 180 days under all three SOEs.

Immediate Sales of the Food Service Industry

JF reports the industry’s percent change in sales by category monthly. In April 2021, various restaurant categories showed an increase in sales over to the same month in 2020. However, sales figures in 2020 are not truly comparable, due to the pandemic and shutdown of restaurants. If we compare sales in 2019 and 2021, the overall sector saw a decrease in sales of 19.5 percent. Western-style fast food was the only category that showed an increase - 14 percent in sales in April over the same month in 2019. The major Western-style fast food chains that saw the greatest increase in sales were KFC Japan and McDonalds. This increase in sales is attributed to newly developed user-friendly mobile order system for takeout and food delivery service during the stay-at-home orders. This segment also remained unaffected by the ban on serving alcohol, since alcoholic beverages have never been on the menu. The eateries less likely to be related to alcohol sales such as noodle shops, casual (revolving) sushi, and Yakiniiku restaurants also reported a slight recovery from the impact of the COVID-19 restrictions.

For establishments that routinely sell alcohol, the SOE prohibition on sales created a deep impact on their bottom line. Indeed, some Post contacts reported the ban on alcohol sales was more damaging to business than an earlier closing time would have been. In April 2021, casual restaurants showed a decrease in sales of 31 percent, coffee/tea shops sales indicated a decrease of 31.8 percent, and others, like company/school cafeteria,

delivery pizza, and catering showed a decrease of 21.7 percent, over April of 2019. The relaxing of SOE restrictions is especially crucial to the survival of Izakaya (a type of Japanese bar in which a variety of small, typically inexpensive, dishes and snacks are served to accompany alcoholic drinks.) and drinking establishments, such as beer halls and bars in business districts. When compared with the same month in 2019, the average sales of pub dining in April 2021 marked a decrease of 73.5 percent.

Table: Japan Food Service Industry Business Trend in April 2021:

Japan Foodservice Market	Year-on-year (2021/2020)				Year-on-preceding-year (2021/2019)	
	Sales	# Outlets	# Customers	Unit Price	Sales	# Outlets
Grand Total	36.7%	-4.0%	34.2%	1.8%	-19.5%	-5.4%
Fast Food Total	17.6%	-1.5%	21.7%	-3.4%	-0.9%	-3.1%
- Western style	10.0%	-0.5%	22.8%	-10.4%	14.0%	-2.4%
- Japanese style	8.9%	-1.4%	3.5%	5.2%	-8.5%	-0.4%
- Noodle shops	72.5%	-2.8%	75.1%	-1.4%	-22.1%	-3.4%
- Casual Sushi/Onigiri*	21.9%	-2.1%	17.5%	3.8%	-5.7%	-7.3%
- Other Fast Food	32.2%	-1.6%	36.0%	-2.8%	-9.5%	-2.4%
Casual Restaurant Total*	75.4%	-5.8%	67.4%	4.8%	-31.0%	-6.4%
- Western style	62.9%	-8.1%	64.1%	-0.8%	-34.4%	-10.3%
- Japanese style	99.8%	-5.9%	83.9%	8.6%	-36.4%	-5.9%
- Chinese style	40.4%	-0.8%	41.5%	-0.7%	-12.7%	2.6%
- Casual steak/Yakiniku	154.9%	-1.1%	150.8%	1.6%	-24.1%	1.0%
Pub Dining Total	204.9%	-15.1%	187.9%	5.9%	-73.5%	-18.2%
Pub/Beer Hall	484.2%	-11.5%	461.8%	4.0%	-75.2%	-12.1%
Izakaya*	174.2%	-15.7%	150.1%	9.7%	-73.1%	-19.2%
Dinner restaurant	196.4%	-7.2%	183.8%	4.4%	-53.6%	-10.0%
Coffee/Tea shops	129.1%	-3.3%	115.7%	6.2%	-31.8%	-3.9%
Other*	67.7%	-2.7%	81.5%	-7.6%	-21.7%	-0.8%

Source: Japan Foodservice Association

* Onigiri = rice ball for take away

* Casual Restaurant falls into family style restaurants

* Izakaya = Japanese style drink driven restaurants/pub dining

* Other = included institution (company/school cafeteria), delivery pizza and catering

Home Meal Replacement Market Declines

The size of the market for *Sozai* (home meal replacement) in 2020 fell 4.8 percent from the previous year to 9,819 billion yen (US\$98.3 billion). This is the first year-on-year decline in 11 years, a survey from the Japan Ready-made Meal Association released on May 11, 2021 (Source: The Japan Agricultural News). A decline in overall sales at convenience stores and department stores due to the spread of the new coronavirus infection was cited as the primary reason for the decline in this previously expanding market.

Bankruptcy

According to a report from Tokyo Shoko Research, Ltd., the number of bankruptcies in the hotel / lodging industry in Japan from April 2020 through March 2021 was 127, an increase of 71.7 percent over the previous year. The data included bankruptcies involving liabilities of 10 million yen (about \$92,600) or more. For most, the stated reason for bankruptcy application was “business failure due to travel restrictions by the COVID-19 pandemic.” The number of inbound tourists to Japan totaled 31.9 million in 2019, which nosedived to 4.1 million in 2020, a drop of 87 percent year-on-year.

The number of bankruptcies in the restaurant industry in Japan in 2020 totaled 780, mainly due to government mandated shutdowns to curb the spread of the novel coronavirus, according to a report from Teikoku Databank Ltd. This figure is the highest since the current survey method started in 2000. The data also included bankruptcies involving liabilities of 10 million yen or more. The number of bankruptcies of pub and beer hall operators was the largest, at 189. The sector was “hit hardest by the authorities' requests for shorter operating hours” and other factors related to the pandemic, a Teikoku Databank official said. There were 105 recorded failures among Chinese and other Asian food restaurant operators, followed by 100 among Western-style restaurant operators and 79 among operators of Japanese restaurants.

The data did not include bankruptcies and/or closure involving liabilities of less than 10 million yen. However, Post contacts implied Japan has witnessed many more closures of eating and drinking and lodging facilities than the above data highlight. It seems smaller businesses faced the most significant hardship during the pandemic.

Travel Restrictions

As of June 1, foreign nationals who have stayed in any of 159 countries/regions on a list maintained by the Government of Japan within 14 days prior to arrival in Japan are denied entry in an effort to prevent the spread of the disease. The United States is included in the list. There is flexibility for “special exceptional circumstances” where some diplomatic and business travelers are considered for visa application. If visas are issued and travel permitted, the traveler must still comply with strict 14-day quarantine restrictions and multiple PCR tests.

For the latest up-to-date information on travel to Japan, please visit the official Ministry of Foreign Affairs website:

https://www.mofa.go.jp/ca/fna/page4e_001053.html

According to the Japan National Tourism Organization (JNTO), the number of inbound tourists to Japan totaled 31.9 million in 2019, which fell 87 percent in 2020 to 4.1 million. In 2021, the total number of tourists from January through April was 77,100, or 0.7 percent compared to the same period in 2019.

Local Input: Izakaya and Hotel Industries

In June, ATO Tokyo interviewed executive officers of pub dining and major hotel chains. Dynac Company, a large chain that operates 260 restaurants in different formats (bars, Izakaya, Yakitori restaurants, taverns, Western-style restaurants and catering) reported that business suffered greatly from the alcohol ban. They had to shutter 30 out of 155 bars in 2020. According to JF statistics, about 20 percent of Izakaya had already closed, which reflected the company status. Currently, Dynac company has a total of 130 Izakaya style restaurants including five newly opened restaurants. Meanwhile, a total of 30 Izakaya closed temporarily during the third SOE, a total of 80 Izakaya are operating only for lunch, and a remaining 20 Izakaya restaurants are open for lunch and dinner but are not serving alcohol. To comply with government restrictions, these restaurants close at 8:00 p.m. The location of pub dining become a major deciding factor in opening business under the SOE. Izakaya restaurants in urban areas had no customers once the SOE was declared. An Izakaya executive anticipated that the restriction on alcohol sales and shorter business hours will continue as a mandatory prevention measure during the Tokyo Olympic /Paralympic Games which will conclude in early September. Post believes the Izakaya and bar industries will continue to suffer until the majority of Japanese citizens are vaccinated in the Tokyo region.

Unlike bars and restaurants, the lodging industry has not been restricted in operation as it is considered an “important facility of public livelihood.” However, industry sales have diminished due to the sharp decrease in inbound tourist and stay home restriction by the SOE.

One of large-scale hotel chains, Prince Hotel Group, with 82 lodging establishments suffered from a slump in hotel occupancy rates in the wake of the COVID-19 pandemic and related loss of inbound tourists. A hotel executive explained that they held zero corporate parties or receptions during the SOEs, and banqueting shows no signs of recovery. A few wedding parties were held this year that had been canceled or postponed last year. Only about 20 percent of hotel restaurants open business without serving alcohol during the third SOE. The other 80 percent of hotel restaurants remain closed. The lodging industry expected to see a sign of economic recovery from the pandemic in autumn in this year. However, recent outbreaks and a desire to wait and see if the postponed Tokyo 2020 Olympics can be safely held have prompted industry officials to wait until after the Beijing 2022 Winter Olympics to see a true recovery of tourism in Japan.



Transformation from Izakaya to New Business

Watami, an Izakaya industry powerhouse, started pub dining restaurants as its core business in 1986 and now has 431 restaurants. After a pandemic-induced credit crunch, the company is adapting a new business model. Watami is converting existing Izakaya into Yakiniku (grilled one-bite meat) restaurants or Kara-age (Japanese style fried chicken) shops. This change decreases the dependence on Izakaya business, which is centered around alcoholic beverages. The company president, Miki Watanabe, described that Watami will transform 130 existing facilities into Yakiniku restaurants in the next five years, while targeting family customers. The company will also convert 80 existing Izakaya into Kara-age shops, including takeout-only locations over the next year. (Source: Nihon Keizai Newspaper)

Backlash against Bar Closings

The SOE ban on serving alcohol resulted in a spike in purchases for at-home enjoyment. Yamaya, a large-scale liquor chain and a subsidiary of AEON, the biggest retail supermarket chain in Japan, doubled the sales of single malt whiskey from Scotland in 2021 (January through May) over the same period in 2020. Consumers prefer to drink the high-ball (soda and whiskey) at home during the SOE. The sales of carbonated water increased by 20 to 40 percent (depending on brand) in January through May 2021. Bourbon whiskey and Japanese sake sales at retail store have also grown stronger due to increasing at-home consumption.

Transform from Izakaya to New Business

	
<p>Yakiniku serves variety of slices meats by one bite-size on plates. Customers grill meats by themselves at a stove. U.S. meats are popular at the Yakiniku restaurants. Photo: Yakiniku Sakai</p>	<p>Kara-age is Japanese fried chicken marinated chicken meats in a mixture of soy sauce and garlic/ginger. Instead, U.S. fried chicken uses seasoned batter. Photo: Wikipedia</p>

Enough about Alcohol

Demand for non-alcohol beer, alcohol removed wine, and mocktails is also increasing as a result of the SOEs. The four major breweries, including Kirin Brewery and Asahi Brewery, expect to increase their production beginning in May by 10-80 percent over the previous year. This will be a painful shift to non-alcoholic beverages following a slump in shipments of traditional beer products. According to Suntory, the non-alcohol market reached 22.66 million cases in 2020 (one case is equivalent to 633ml x 20 bottles), an increase of 13 percent over the past five years.

Increasing User of Food Delivery Applications

As of April 2021, Uber Eats Japan had 4.56 million members and 95,000 affiliated restaurants. Japan's original food delivery company, Demae-Kan, had 3.55 million users and over 70,000 registered restaurants. The third-ranked food delivery company, Menu Company, had 987,000 users and 60,000 affiliated restaurants. The SOE restrictions have resulted in increasing consumers using the delivery service as well as restaurants clamoring to sign up. Newer app-based delivery companies are also appearing, including Wolt and Door Dash. According to a research firm NPD Japan, the food delivery market reached JPY 626.4 billion (US\$5.75 billion) in 2020, an increase of 50 percent from 2019. The market had grown only slowly at an average of five percent per year before 2019.

Gourmet Meal-Kit, Ready-to-Cook Meal Set

In addition to increasing sales of takeout menus and food delivery, meal kits of popular restaurants are gaining popularity to satisfy "Stay-Home demand." A meal kit is a complete set of ready-to-cook ingredients. Most

notably, gourmet meal kits have recorded the largest increase in sales during the pandemic, to replace dining in up-scale restaurants. The top selling meal kits (more than 10,000 sets sold) during the pandemic are:

Wagyu burger patty and buns:

A Tottori prefecture-based gourmet burger café, Shuvi-du-bar, sells online a set of four Wagyu beef patties with four buns at ¥3,630 (US\$33) including consumption tax and deliver fee in frozen condition. The meal kit was awarded Japan Ministry of Agriculture, Forestry and Fisheries’ (MAFF) Food Action Nippon Award 2020. (Photo see below) <https://ec.reachstock.jp/collections/gift2021/products/6551566352470>

Branded chicken (Yakitori) with an electric cooking stove:







An upscale Yakitori (skewered chicken) restaurant chain, Veranding Toriko, with 32 restaurants, sells a variety of meal kits featuring Yakitori online. The most popular set consists of branded yakitori with an electric cooking stove especially designed for grilling skewered chickens. The package also includes smoky oil, seven salts/spices/sauce and convenient utensils, and is sold at ¥6,600 (US\$61) per set. Cooking instructions are available by streaming online. <https://fanfuntoriko.thebase.in/items/38359806>

Hotel quality breakfast/sweet:

A meal kit specialized company, Ametsuchi, features menus of Michelin-starred chefs and sells a complete meal kit online. Recently, Ametsuchi released a special breakfast menu - the Brioche French Toast with Mixed Berry Sauce - which French pastry legend Pierre Herme oversaw. It is sold at ¥4,104 (\$38)/set for 2 servings. <https://ametsuchi-japan.shop>

Each kit is accompanied by a detailed description of the recipe so customers can replicate the upscale restaurant taste and appearance. Sales of these meal kits have helped sustain upscale restaurants during the SOE.

Snap Shots of Meal Kit

		
		
<p>Wagyu burger patty and buns in a box and example of topping</p>	<p>A box of branded chicken and an electric cooking stove</p>	<p>French chef’s brioche French toast and mixed berry sauce</p>

Conclusion

The corona virus pandemic and rolling States of Emergency have caused a behavioral change in the Japan food service industry. JF identified several shifts away from elements that were previously considered necessary for success in the HRI industry such as 1) urban location 2) in-restaurant dining, 3) dinner time, and 4) large gatherings. These elements shifted to 1) location in suburban area, 2) takeout and delivery, 3) lunch time, and 4) smaller group during the pandemic situations. New business models emerged during the SOE that have revitalized the sector, and many could be here to stay.

*Exchange rate: JPY109.61/US\$ (Source: Bank of Japan, Financial Market Dept. on June 10, 2021)

KEY CONTACTS AND FURTHER INFORMATION

Reports from USDA Japan, including the Agricultural Trade Offices and the Office of Agricultural Affairs, are frequently updated and can be found by searching the [FAS Japan Reports website](#).

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USDA Japan Online

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Attachments:

No Attachments.