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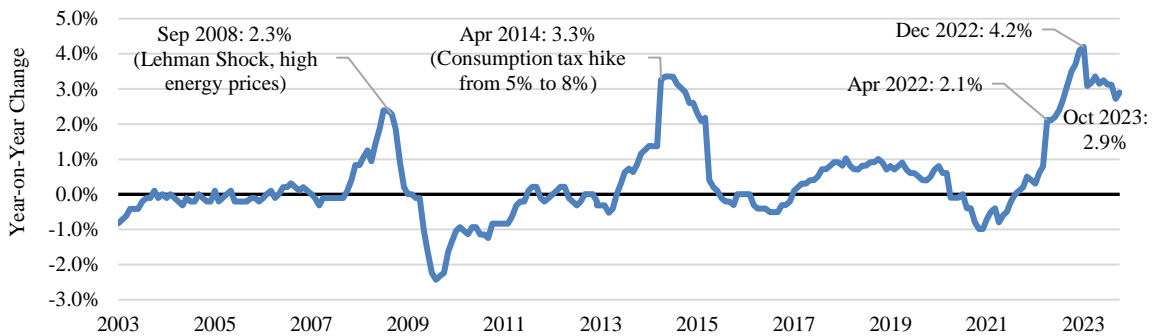
**Report Highlights:**

Following more than two decades of flat or declining prices, the Japanese economy has experienced sustained price rises over the past year and a half due to global geopolitical factors as well as a significant weakening of the Japanese yen against the U.S. dollar. Food prices have risen at rates of over 8 percent year-on-year since March 2023 with certain products rising at double-digit levels. This report provides an overview of the economic landscape in Japan with specific analysis on the top U.S. agricultural export items to Japan.

## Background

Prior to 2021, Japan experienced nearly 25 years of deflation during which wages stagnated and prices remained flat or declined. Since 2003, Japan's year-on-year core consumer price index (CPI) has hovered at or below zero except for two brief periods during the global financial crisis in 2008 and Japan's consumption tax increase in 2014 (Figure 1). In 2013, the Bank of Japan (BOJ), Japan's central bank, announced a 2 percent inflation target following a joint policy announcement with the government to tackle Japan's longstanding deflationary problem. This began a period of ultra-loose monetary policy, also known as quantitative easing, aimed at jumpstarting the economy. Inflation started to tick up between 2017 and 2020 but was hampered by economic slowdown during the coronavirus pandemic.

Figure 1: Japan's Core CPI (excluding fresh food)

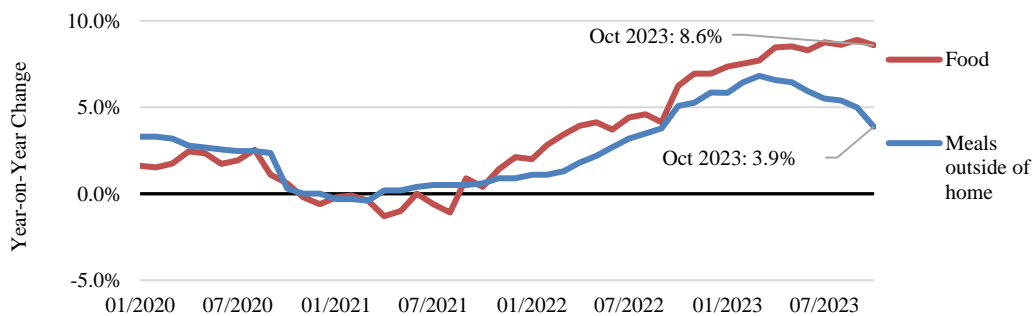


Source: Statistics Bureau of Japan

Note: The core CPI includes fuel costs but excludes volatile fresh food prices

Price began to rise again in late 2021 following the easing of coronavirus-related restrictions, then jumped dramatically following Russia's invasion of Ukraine in February 2022. The war in Ukraine pushed both energy costs and commodity prices higher which contributed to rising consumer prices in Japan. In addition, the U.S. Federal Reserve decision to raise interest rates beginning in March 2022 caused a significant devaluation in the Japanese yen against the U.S. dollar. Between March 2022 and October 2023, the Japanese yen depreciated 30 percent, rising from 115 to 149 JPY/USD. The BOJ has thus far resisted calls to tighten its ultra-loose monetary policy though it has signaled potential intervention if the rate surpasses 150 JPY/USD.

Figure 2: Core CPI in Japan's Food and Restaurant Sectors



Source: Statistics Bureau of Japan

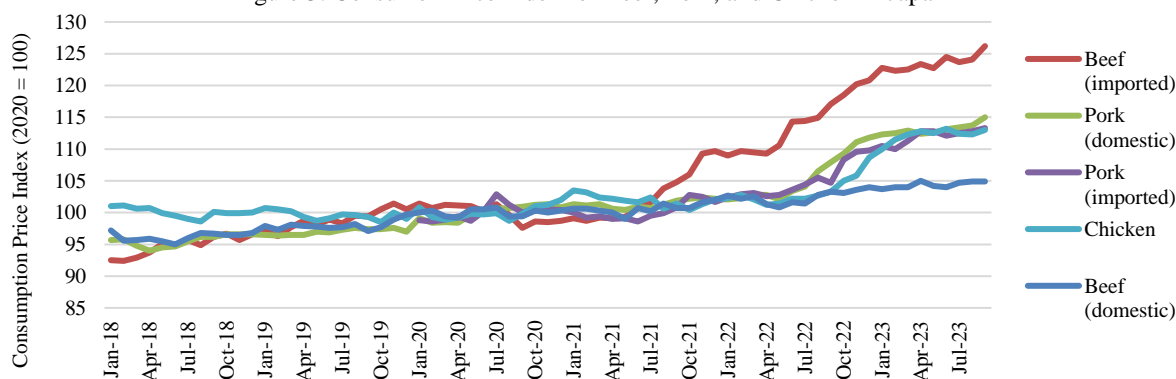
These developments have pushed up the price imported goods in Japan and kept the core CPI above the BOJ’s 2 percent benchmark for 19 consecutive months as of October 2023. The cost of food has been rising year-on-year at rates above 8 percent since April 2023 with prices of select food items such as seafood, dairy, and egg products increasing at double-digit rates. The cost of meals outside the home has also risen, albeit at slightly lower rates (Figure 2). The following sections describe how these broad inflationary trends are affecting key commodity sectors for U.S. exports to Japan.

## Meat

The impact of inflation has had a marked impact on beef consumption, but less so for pork and chicken. Using a consumer price index (CPI) benchmarked at 100 for 2020, by September 2023 the CPI for imported beef spiked to 126 (105 for domestic beef), as shown in Figure 3. The spike in prices drove beef retail sales down 16 percent from January to September 2023 compared to 2020. By contrast, although CPIs for both pork and chicken had risen to 112 and 115 by September 2023, respectively, retail sales of each dipped just 2 percent and 4 percent compared to 2020. For more details, see [JA2023-0078](#) and [JA2023-0086](#).

According to Japan Customs, the average landed import price of chilled beef in fiscal year 2023 was 1,075 yen per kilogram (\$7.17), up 24 percent from 2020. For frozen beef, the import price was 616 yen (\$4.11), up 42 percent. For pork, the average import cost per kilogram were 611 yen (\$4.07) for chilled, up 15 percent, and 577 yen (\$3.85) for frozen, up 8 percent. Frozen chicken showed the biggest spike in prices with the average CIF per kilogram rising to 272 yen (\$1.81), up 53 percent from 2020. Although freight disruptions during the COVID pandemic initially drove costs higher, those largely have resolved. Now the major driver of higher landed import costs is the weak yen relative to the currencies of major trading partners such as the United States and Europe.

Figure 3: Consumer Price Index for Beef, Pork, and Chicken in Japan



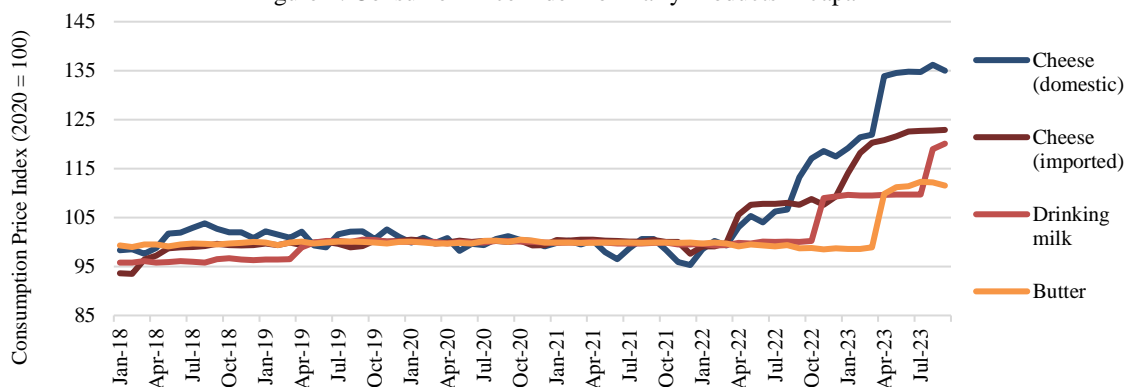
Source: Statistics Bureau of Japan

## Dairy

The weaker yen has made landed feed costs higher for dairy producers, driving up milk prices and dampening consumption in 2022 and 2023. For details, see [JA2023-0119](#). The surge in milk prices started in late 2022 and has not eased (Figure 4). As a result, retail milk consumption from January

through September in 2023 dipped by 12 percent compared to 2020. For butter, the impact was delayed due to a buildup in stocks during the COVID-19 pandemic as school closures and other factors depressed liquid milk consumption, forcing dairy producers to divert large quantities of raw milk to butter production (see [JA2020-0174](#)). However, by April retail butter prices also started to rise, pushing consumption down 13 percent from January to September compared to 2020. Meanwhile, prices for both domestic and imported cheese remain high (Figure 4). The average CIF price for imported natural cheese was 792 yen (\$5.28) per kilogram, up 68 percent from 2020, leading to a 15 percent drop in retail consumption.

Figure 4: Consumer Price Index for Dairy Products in Japan



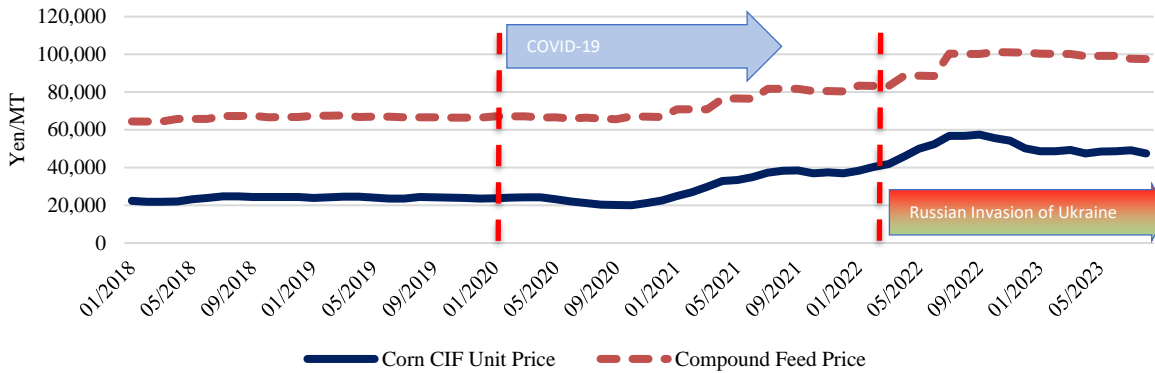
Source: Statistics Bureau of Japan

## Corn

Japan relies almost entirely on imports to meet approximately 15.5 million MT of annual corn demand: 12 million MT for feed and 3.5 million MT for starch manufacture ([JA2023-0098](#)). Since the surge in corn prices in 2021, the volume of corn in formula feed has decreased as feed mills replaced corn with competitively priced rice in feed rations. As a result, the volume of corn used in formula feed decreased 3 percent in 2021 and another 10.5 percent in 2022 while the formula feed production remained flat at 23.7 million MT. With a softening of imported corn prices, the feed price in August 2023 decreased 2.7 percent from a year prior, but still 19.4 percent higher than two years ago, due in large part to high energy costs (the electricity price for business use in July 2023 was 24 percent higher than a year prior). Over the last two years, the Government of Japan (GOJ) provided support payments to livestock, swine and poultry producers to mitigate increases in feed costs, on top of a regular safety net program for formula feed ([JA2023-0069](#), [JA2022-0073](#), [JA2022-0078](#)).

For cornstarch, the COVID-19 pandemic affected demand more than price increase had. According to the Ministry of Agriculture, Forestry and Fisheries (MAFF), cornstarch production dropped 8.1 percent in Starch Year (SY) 2019/20 (October to September) and another 2.8 percent in SY2020/21. With normalization of economic activities, production increased 0.2 percent in SY2021/22 and MAFF estimates 3.2 percent growth in SY2022/23. Cornstarch is made entirely from imported corn in Japan and accounts for nearly 90 percent of Japan's starch demand. MAFF reports that approximately 70 percent of starch is used for manufacture of sweeteners, such as high fructose corn syrup.

Figure 5: Prices of Imported Corn and Formula Feed in Japan



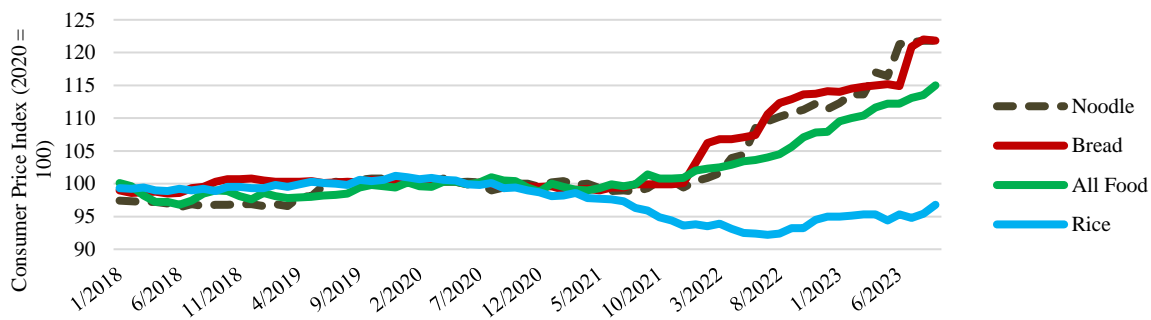
Source: Ministry of Agriculture, Forestry and Fisheries, Japan Customs

## Wheat

Japan consumes approximately 5.8 million MT of food wheat annually of which imported wheat accounts for roughly 85 percent. Wheat is a state-traded product in Japan. MAFF imports and sells food wheat to flour mills at the price MAFF sets semi-annually, for the periods April to September and October to March, based on international wheat prices, freight costs and exchange rates over the previous six months. Flour millers then revise their flour prices three months after MAFF’s price revisions. There is a lack of price elasticity for wheat flour as all millers adopt similar margins.

MAFF raised its wheat prices for three consecutive periods by 5.5 percent, 19 percent, and 17.3 percent beginning April 2021. As part of a GOJ’s inflation relief package, MAFF froze the price for the period October 2022 to March 2023 (not raising the price from the previous six month-period) and suppressed the price rise for the following period (April – September 2023). See [JA2022-0073](#) and [JA2023-0021](#) for more details. Despite such efforts, retail prices of wheat products continue rising and price surges weakened consumption. MAFF reports a decrease in total wheat flour sales in Japan by 1.7 percent in 2020, 0.9 percent in 2021 and 1.4 percent in 2022. The COVID-19 pandemic contributed to weak consumption. Wheat flour sales for the first seven months of 2023 remained the same as 2022, as increased price dampened any recovery in wheat consumption. Demand is estimated to have shifted partially from bread and noodles to rice as the price of rice has not risen.

Figure 6: Consumer Price Index for Bread, Noodle and Rice in Japan



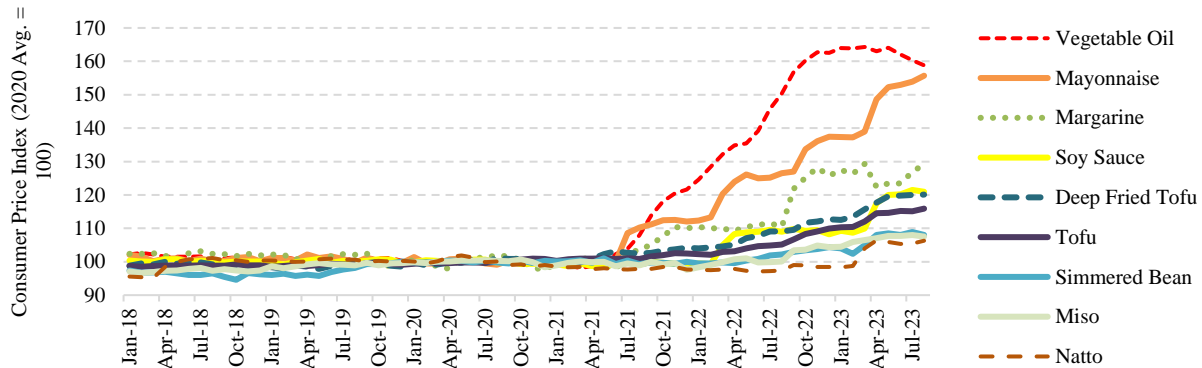
Source: Ministry of Internal Affairs and Communications

For the period October 2023 to March 2024, MAFF lowered its wheat price by 11.1 percent ([JA2023-0098](#)). This is the first price cut in two-and-a-half years and is expected to result in lower prices for wheat products in the coming months.

## Soybeans

Oil-grade soybean import prices were about 42 to 45 yen per kilogram from 2019 to 2020. The import prices sharply increased and reached around 70 yen/kg in late 2021. Following Russia’s invasion of Ukraine, the import price spiked to around 110 yen/kg in July 2022 and has continued to remain around 90 yen/kg during the first half of 2023. As Japan has only three major oil crushers, the companies have successfully raised the retail price of oil products multiple times in the last couple of years. As shown in Figure 7, the consumer price of Japanese vegetable oil in August 2022 increased by 65 percent compared to the average price in 2020, while overall food prices increased only 13.5 percent in the same period. Some commercial vegetable oil users with strong purchasing power have also successfully raised retail prices of their products. For example, average mayonnaise retail prices increased 55.7 percent while margarine prices increased 29.2 percent from the 2020 average to August 2023.

Figure 7: Consumer Price Index of Soy Food in Japan



Source: Ministry of Internal Affairs and Communications

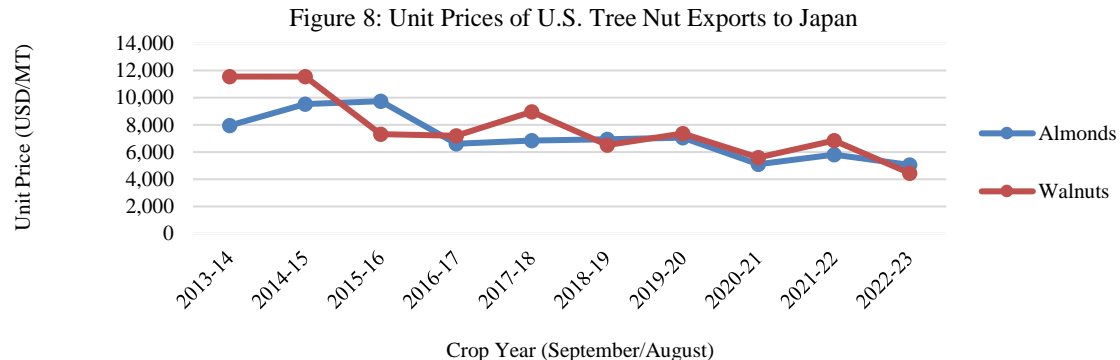
Vegetable oil retail prices had been declining in general since the early 1990s, making the sudden price inflation unexpected. Consumers responded by increasing the use of oil filters and long-life oil products to reduce the rate of consumption. As the price of vegetable oils rose, the overall volume of oil production marginally decreased. However, Japanese oil crushers are continuously monitoring soybean, canola, and palm oil prices to strategically decide their purchasing amounts. Please see [JA2023-0031](#) for additional details. Conversely, most soy food manufacturers, especially tofu and *natto* (fermented soybeans) producers, are small scale and numerous in operations. Consequently, the individual companies do not have much negotiating power with large retail stores. According to the [Consumer Price Index](#), tofu retail prices have only increased 15.9 percent, miso prices 7.5 percent, and *natto* prices 6.3 percent from January 2020 to August 2022.

Typically, Japanese buyers enter into contracts with United States and Canadian farmers to secure planting areas for food-grade soybeans. To secure planting of lower-yield soybean varieties, Japanese buyers pay a premium. The food-grade price premiums were about 60 to 70 percent more than oil-grade

soybean prices between 2019 and 2020, however, the price premiums decreased to 20 to 30 percent in 2021. Japanese soybean food manufacturers use United States and Canadian identity preserved (IP) soybeans to compete in the price sensitive mass market. Occasionally there are stealth price hikes (e.g. using smaller containers a.k.a. “shrinkflation”) as a response to rising costs, but it is extremely difficult to raise retail prices in this ultra-competitive market. As the price gap narrows between Japanese domestic soybeans and United States and Canadian IP soybeans, Japanese farmers are incentivized and motivated to plant increased amounts of food-grade soybeans (see [JA2023-0031](#)). If current market conditions continue, Japanese buyers will find it harder to pay high premium prices to secure North American food-grade soybeans production areas. Please also see [JA2021-0040](#) for additional details about Japanese soybean food products.

### Tree Nuts

Japan imported \$407 million of tree nuts in crop year (CY) 2023 (September-August) of which \$200 million were almonds and \$80 million were walnuts. Japan produces a negligible volume of almonds and walnuts domestically. The United States is the leading supplier to Japan of both almonds and walnuts. In CY 2023, the United States exported \$195 million of almonds and \$77 million of walnuts to Japan, representing 98 and 97 percent of Japan’s import share, respectively.



Source: Japan Customs

Japanese nut importers report that relatively lower unit prices of U.S. almonds and walnuts compared to the pre-COVID period (Figure 8) has somewhat mitigated the impacts of both price inflation and currency depreciation. However, Japanese nut importers predict negative impacts on U.S. tree nut imports if prices increase. Since there are no major alternative almond and walnut suppliers other than the United States, Japanese nut importers anticipate price increases would result in reduced import volumes and/or substitution with lower price alternatives such as peanuts where possible (e.g., mixed-nut products). For more information on the tree nut market in Japan see [JA2022-0036](#).

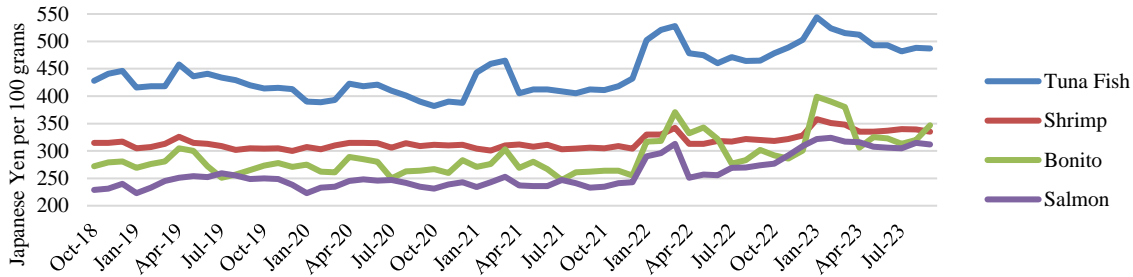
### Seafood

The Japanese government has cited the rising cost of fuel, feed, and materials used in fisheries as causes of inflation in the seafood market. Particularly, the price of fish meal, a major ingredient in compound feed for aquaculture, has been fluctuating around \$1,540 per ton since 2022, approximately double the price from a decade ago. Since January 2022, there have been notable rises in retail prices for tuna fish,



shrimp, bonito, and salmon. In 2022, the overall consumer price index for seafood rose by 14 percent compared to 2021, marking the largest increase since 2010.

Figure 9: Seafood Retail Prices in Japan



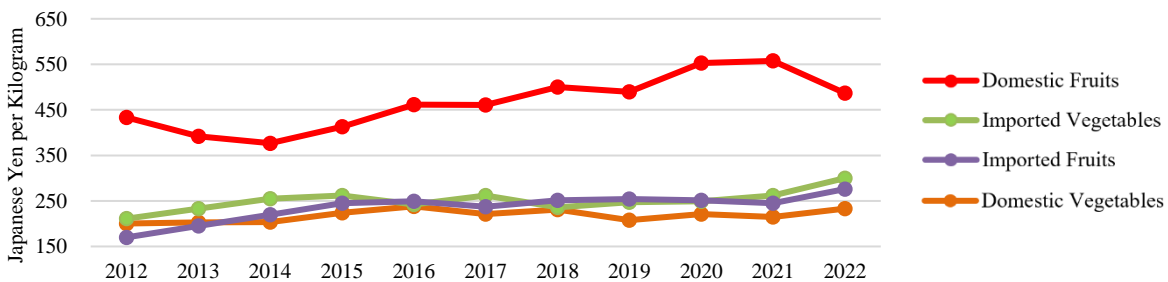
Source: MAFF

Rising prices have pushed consumption downward. The Japanese government estimates that per capita seafood consumer dropped 14 percent in 2022. Falling domestic production has also played a role. In 2021, the production of seafood decreased by 20,000 tons compared to the previous year, totaling 4.21 million tons. Prices for locally caught fish like Pacific saury and Japanese flying squid, which experienced poor catches, reached record highs. Japan’s overall self-sufficiency rate for seafood dropped to 59 percent in fiscal year 2021, nearly half of the peak in 1964 (113 percent). Although seafood consumption has been on a long-term downward trend in Japan, falling production and increasing reliance on imports will further expose the market to exchange rate fluctuations. For more details on the Japan seafood market, see [JA2023-0020](#).

### Fruits and Vegetables

Most of Japan’s fruits and vegetables are supplied domestically and as a result are largely insulated from international commodity prices and exchange fluctuations. This is especially true for vegetables, for which Japan has a 95 percent self-sufficiency rate, compared to fruits which stand at 60 percent. Nevertheless, there have been some price impacts in the vegetable market due to other factors. As discussed in [JA2023-0097](#), record-breaking heatwaves in the summer of 2023 damaged summer vegetable production and delayed the planting of autumn and winter vegetables, leading to short supply and higher prices. To bolster a weak domestic supply, importers may seek additional spot-based procurements for autumn and winter vegetables such as onions, celery, and broccoli.

Figure 10: Fresh Produce Average Central Market Distributor Price in Japan



Source: MAFF



The fruit market, on the other hand, has been experiencing long-term inflation over the past decade. Between 2012 and 2022, the average distributor price for domestic fruits jumped from 433 yen (\$3.33) to 487 yen (\$3.74) per kilogram, an increase of 12 percent (see Figure 10). This is primarily due to the shrinking fruit farmer population, which has halved in the past 20 years, causing overall production to drop. At the same time, remaining farmers are shifting to higher value “premium” varieties, further driving up prices. Average prices were even higher in 2021 but dipped last year due to unfavorable weather conditions for premium fruits like loquats and melons while cheaper fruits like pears and persimmons experienced bumper crops. Imported fruit and vegetable prices crept upward in 2022 due to the weak yen. Industry sources report that some importers are adapting by shifting to lower priced products. This could potentially lead to negative consumer perceptions of imported fruit products such as citrus, cherries, and grapes. For more details on the fresh fruit market, see [JA2023-0090](#).

## **Conclusion**

In many ways, the Japanese economy has been in uncharted territory over the past 18 months. The yen dipped to its lowest level ever against the U.S. dollar, prices rose at the fastest level in decades, and businesses struggled to balance rising input costs with consumers’ budgets being stretched ever thinner. It is important for U.S. exporters to Japan to be aware of these dynamics as the weak yen will make many U.S. products more expensive for Japanese buyers than in the past. Nevertheless, the recent bout of inflation has done something important for the Japanese economy. It has helped break the deflationary mindset of consumers. In the past it was very difficult, if not impossible, for Japanese businesses to raise prices due to potential consumer backlash. This is no longer the case and consumers have come to expect it. This may make the market more receptive to high-value, premium products.

The key factor, which many economists are watching for, is whether inflation drives an increase in wages. Exchange rates and prices have stabilized somewhat in the past six months compared to the previous twelve. This stability could give businesses the confidence to consider raising wages. As Japan continues to be one of the top export markets for U.S. agricultural products and a key market for consumer-oriented products, a rise in consumer purchasing power would be welcome news for U.S. exporters. For more information on the Japanese market for U.S. agricultural products, please visit [www.usdajapan.org](http://www.usdajapan.org) To reach our offices, please contact [atoosaka@usda.gov](mailto:atoosaka@usda.gov).

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## **Attachments:**

No Attachments.