

AGRIFOOD: JAPAN

RISK ASSESSMENT: MEDIUM

HIGHLIGHTS AND OUTLOOK

The Japanese agri-food sector is defined by two challenges: a structurally tight balance between supply and demand for food commodities and the stagnation of consumption growth. Indeed, the country presents a low self-sufficiency ratio on a calorie basis (39% in 2011), making the country highly reliant on imports of wheat, corn, fertiliser and meat – mainly from the United States, China, Canada, Russia, and India. On a value basis, trade is more balanced as Japan exports high-end agri-food goods, which resonate well with domestic and external demand.

Some broader trends are defining consumption patterns in Japan. On the one hand, an ageing population is demanding more “health” foods, including organic foods. However, low wage growth and long working hours are dragging on consumption, challenging producers to develop new product lines (e.g. convenient and economical). In addition, the planned sales tax hike – from 8% to 10% in 2019 – could also weigh on consumption. Trade in the sector will evolve starting from 2019 as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) comes into force.

Japan is the third-largest retail grocery market behind the United States and China, valued at USD 284.7 billion in 2015. 91 major players account for over three quarters of the food processing industry, with major players such as Asahi Group Holdings, Mitsubishi Shokuhin Co Ltd, and Kirin Holdings. While the vast majority of retail sales currently stems from supermarkets, convenience stores are set to regain momentum in the coming years (with leaders such as 7-Eleven Japan or Family Mart, which merged with UNY in 2016).

Strengths

- Settled and competitive international groups
- High quality and innovation spurs sales revenues
- Ageing population as segment opportunity

Weaknesses

- Demand stagnating with negligible disposable income growth
- Structural trade deficit in food supply and resulting exposure

Key Players

- **Aeon Co. Ltd:** holding company operating convenience stores, supermarkets, shopping malls as well as specialty stores. Revenue: USD 75.31 billion FY 2018.
- **Seven & i Holding Co. Ltd:** holding company operating the convenience store chain Seven-Eleven. 20,000 Seven-Eleven stores in Japan. According to a recent Nikkei survey, Seven-Eleven led the sector with 40.4% of share of total sales. Revenue: USD 41.2 billion FY 2017.
- **Mitsubishi Shokuhin Co Ltd:** food and beverages wholesaler. Revenue: USD 22.7 billion FY 2018.

*Note: the Japanese year ends in February.
Sources: Bloomberg, Nikkei Asian Review.*

Regional Risk Assessments: Agrifood

ASIA	MEDIUM
CENTRAL & EAST. EUROPE	MEDIUM
LATIN AMERICA	HIGH
M. EAST & TURKEY	MEDIUM
NORTH AMERICA	HIGH
WESTERN EUROPE	MEDIUM

SUPPLY

The food commodities sector has a structurally tight demand-to-supply balance. The Ministry of Agriculture, Forestry and Fisheries (MAFF) evaluated that, in 2011, Japan was 60% self-sufficient on a production value basis, but only 39% on a calorie value basis – much lower than other developed countries and below 80% in 1960. Consumer habits have increasingly benefitted corn and wheat consumption, as part of growing processed foods consumption, while rice consumption has been decreasing (-11% between 2007 and 2017). Lifestyle habit changes are also increasingly favouring meat over fish.

According to the MAFF, in 2015, 90% of the rice supply was produced nationally. In contrast, only 15% of the wheat supply, none of the corn supply, and 54% of the meat supply came from domestic sources. The government has taken measures to reduce exposure to risks stemming from price volatility, exchange rates, and competition from emerging markets. For example, Japan subsidizes the production of crops other than rice. All wheat imports (from the United States, Canada and Australia) are centralised and resold at a price fixed by the government. In addition, the government is also aiming to diversify its trade partners and promote the export of Japanese agro products (targeting one trillion yen by 2020).

Exports of agriculture, forestry; and fishery took a reputational hit after the Fukushima nuclear disaster. They are slowly recovering, thanks to high-end exports to Hong Kong (17.3% of exports). Moreover, they will be boosted starting from 2019 by the CPTPP coming into force, and ten countries entering into a free trade agreement with Japan. The free trade agreement will also increase competition by increasing imports from other neighbouring countries. The United States might not remain the leading agri-food exporter to Japan in the long run if it remains outside the CPTPP.

On the retail front, Japan is the third largest grocery market in the world, behind the United States and China. Online grocery shopping is growing, but remains marginal, with Seiyu (subsidiary to Walmart) as leader in the sector and Amazon as a growing competitor.

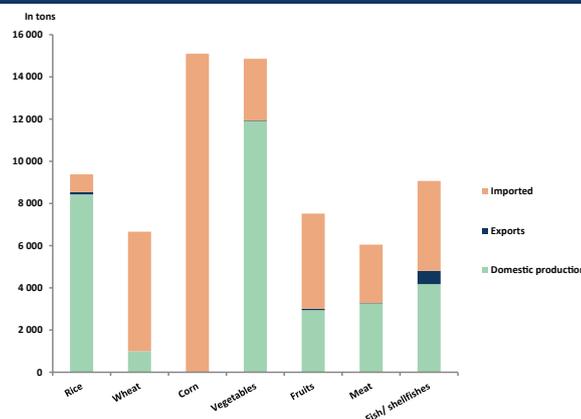
DEMAND

Japanese consumers are increasingly brand conscious. Demand for convenient, on-the-go meals has increased in line with a period of stagnant wage growth and long working hours. This trend will allow convenience stores to gain market share (led by 7-eleven, Family Mart, and AEON). However supermarkets continue to dominate the retail space, accounting for 80% of sales in 2016. In relation with the ageing of the population and with lifestyle trends, consumption choices are also growingly driven by quality concerns, giving impetus to organic products and products that provide health benefits. The research company Intage estimates that the health foods sub-sector represented approximately USD 14.5 billion in 2016. On the other hand, stagnation of household spending – in June 2018, consumption decreased by 1.2% YOY – has induced a growing polarisation of prices and the need to tailor supply for price-sensitive segments of consumers.

Soft drink sales growth has been sluggish (0.1% in 2017), differing significantly from trends in neighbouring countries. Suntory is a leader in this sub-sector, mainly thanks to its selection of drinks that are branded as “healthy”. Suntory is also leader in the wine sector, with an 8% volume share of the market. Despite recent strides by domestic companies on this front, 71% of Japanese wine was imported in 2016, with France accounting for 35% of imports in 2011. However, beer remains the most consumed alcoholic beverage. Four main producers dominate the sector: Asahi (holding 35.5% of market shares in 2014), Kirin (30.3%), Suntory (15.3%), and Sapporo (10.2%). Japan is a major liquor market (valued at 6 trillion yen in 2013), but this market is challenged by unfavourable demographic trends, with a shrinking number of new drinkers (the minimum drinking age is 20 years old).

Japan's ageing population (27% over 65 years old and 50% over 50 in 2018) is weighing on the whole sector's growth prospects, as the elderly require a lower daily calorie intake. Sluggish consumption growth also has its origins in stagnant levels of disposable income, leading to a low elasticity of consumption. For example, in the first half of 2018, disposable income grew at 4.8% YOY, but retail sales grew only by 1.5% YOY. 2017 was the first year of positive retail sales growth (0.33%) since 2015, reaching 44,536 billion yen (METI). The propensity to consume will likely remain unchanged unless incomes experience a prolonged period of growth.

JAPANESE BASIC FOOD SUPPLY BY ORIGIN IN 2015



Source: Japanese Ministry of Agriculture, Forestry and Fisheries