

## Country Market Profile: Japan

### Market Overview

Euromonitor International, a market research provider, reports that Japan's real gross domestic product (GDP) growth is projected to slow down to 0.9% in 2024, weighed by softer domestic and external demand. After a strong start in the first half of 2023 following the removal of COVID-19 curbs, Japan's economy started to lose steam later in the year. Private consumption weakened, as pent-up demand waned, and high inflation dented household real incomes. The planned income tax cuts and the anticipated pay increases after this year's "shunto" wage negotiations are set to help alleviate high costs of living in 2024. Yet, the consumer confidence index remained stuck in negative territory as of December 2023, pointing to the subdued outlook for private spending.

Following two years of double-digit growth, Japanese exports eased in 2023, registering a 2.8% year-on-year increase. The expansion was propelled by surging car exports to the U.S. and the European Union (EU), which helped offset feeble demand from Asian partners. Going forward, below potential recovery in China and a weaker outlook in Western economies will likely limit Japan's export growth potential. The earthquake in western Japan on January 1, 2024, which caused massive disruptions to infrastructure and economic activity in the affected region, is also set to have an adverse impact on the country's near-term outlook.

The Japanese population began to fall around 2009 and in 2023 stood at 123.7 million (CIA World Factbook Est.), about 3.2 million less than in 2000. The median age is 49.5 years, significantly higher than for other large economies in the region. The steady ageing of Japanese society is a significant drag on economic performance. In 2023, the number of those over 65 years amounted to 36.1 million. At that time, this age group made up 29.2% of total population, and the government forecasts that 40% of the population will be of retirement age by 2050.

Population aging poses other problems. The rate of household savings is falling because retirees spend more of the wealth accumulated in the past. That trend will boost domestic consumption (long thought to be too low) but also make it difficult to sustain aggregate investment. Japan's workforce is presently contracting by almost 1% per year. In Japan, the population decline has reached a critical point. In 2022, the number of deaths surpassed births by a significant margin. A record high of more than 1.56 million deaths occurred in Japan during 2022. The number of newborns fell below 800,000 for the first time since records began.

Japan and Australia have a trade deal that lowers tariffs on imports of key products. Japan also has a pact with India and has ongoing free-trade talks with Canada. Japan is also negotiating an agreement with China and South Korea and the U.S. The Japan Trade Agreement (USJTA), a trade deal with the U.S., has recently been ratified and offers opportunities for duty free access for hundreds of U.S. food products and protects Japan from U.S. trade tariffs.

Tokyo and the European Union (EU) have concluded a free trade agreement that took effect early in 2019. The EU has agreed to a gradual phase out of all tariffs on cars imported from Japan. In turn, Europe's farmers face far lower tariffs when exporting to Japan. Japan is a member of the new 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was formally created in March 2018. The decision could provide an especially important boost to non-U.S. food exporters. The U.S. withdrew its membership in this trade agreement in 2017.

USDA's Agricultural Trade Office (ATO), hereinafter referred to as FAS Post Osaka, reports that the Japanese food market was valued at US\$564 billion in 2022 with retail sales accounting for US\$327 billion (58%) and foodservice sales accounting for US\$237 billion (42%). Japan relies on imports from other countries for the bulk of its food supply. The U.S. was the leading supplier of consumer-oriented agricultural products with a 17% market share. The Japanese market is highly competitive with consumers seeking quality, value, and convenience. Japan's food industries are well-developed and innovative in all sectors, including retail, foodservice, food processing, and distribution.

Consumers have several options to choose from to satisfy their food needs, including restaurants, fast food, convenience stores, and a variety of retailers. Major supermarket chains seek differentiation via private labels while restaurants constantly offer menus and special events to stay competitive. Although traditional menus and tastes still guide the average Japanese consumer, Western and other Asian cuisines increasingly influence the market. Domestic products are generally favored over imports; however, trendy products from abroad tend to garner attention. The aging of Japan's population has focused attention on healthy and functional foods, especially those with high protein content. Lower birth rates have led to smaller family units, increasing demand for high-quality and high-value products in smaller packages.

There are tremendous opportunities for U.S. exporters willing and able to follow the strict Japanese product regulations and keep up with the latest trends in this market. Under the U.S. – Japan Free Trade Agreement (effective January 1, 2020), nearly 90% of U.S. food and agricultural imports into Japan are either duty free or receive preferential tariff access.

## **Market Opportunities and Key Issues for U.S. Processed Food Exporters in Japan**

### **Market Opportunities:**

- Reduced duties under the U.S.-Japan Trade Agreement.
- U.S. products have a good quality reputation and are generally priced lower than domestic products.
- Recognized as a global leader in high standards for food safety and animal/plant health.
- Perception of the U.S. as a reliable supplier with large production capacity.
- Diverse range of product availability from bulk to intermediate to consumer oriented.
- Increasing westernization and health consciousness of consumer food preferences.

- Variety of product availability with flavors and different functions.

**Key Issues:**

- Some U.S. products face higher tariffs than competitor suppliers due to preferential trade agreements such as CPTPP and the Japan-EU EPA.
- Japanese consumers generally prefer domestic products over imports and are willing to pay a premium for “made in Japan.”
- Desire for Japanese importers to diversify risk by sourcing from multiple countries.
- High costs for marketing in Japan and the need to adjust retail packaging size for the domestic market.
- Strict regulatory standards for imports that sometimes exceed U.S. domestic regulations.
- Deliberate pace of business decision-making and the expectation of long-term commitment from foreign suppliers.
- Price inflation and the strengthening of the U.S. dollar vis-à-vis the Japanese yen have made U.S. products less competitive.

Japan is also the third largest U.S. export market for processed foods, totaling a record high US\$3 billion in 2022, up 8% from the previous year. In 2023 U.S. processed food exports to Japan dropped 13% to US\$2.6 billion. This equates to a loss of nearly US\$390 million, which adds to the U.S. trade deficit in food and agricultural products.

Top processed foods exported to Japan in 2023 included:

- Processed Vegetables and Pulses – up 15%.
- Prepared/Preserved Seafood – down 9%.
- Food Preparations and Ingredients – down 28%.
- Prepared/Preserved Meats – down 31%.
- Processed/Prepared Dairy Products – down 20%.
- Alcoholic Beverages – down 9%.
- Non-Alcoholic Beverages – down 17%.

**Retail Food Sector Highlights:**

According to Euromonitor, retail sales in the packaged food market in Japan had been estimated at US\$169.5 billion in 2023. That represents growth of 10.2% and US\$15.6 billion since 2019. Japan is the third largest packaged food market in the world after the U.S. and China. By the year 2028, the retail sales in the packaged food market in Japan is expected to reach US\$182.7 billion, a growth of 5.4% or US\$9.3 billion from 2024.

High growth categories in the forecast include:

- Sweet Spreads
- Meals and Soups
- Ready Meals
- Processed Fruit and Vegetables
- Edible Oils
- Cheese

- Pet Food

FAS Post Tokyo reports that in 2022, the total value of all retail food and beverage sales in Japan totaled approximately US\$327 billion. Supermarkets continue to represent the bulk of retail food sales totaling 35%, with convenience stores, drugstores and internet sales of food and beverages accounting for the rest of the market.

U.S. food and beverage products continue to be prominently displayed at supermarket stores and are frequently sought out by consumers for quality and freshness. Bakery goods, cereals, and pasta, along with confectionary products and processed vegetables, represent some of the best prospects of U.S. consumer-oriented products. These prospects are similarly true for nontraditional retailers, such as drug stores, which have increasingly begun to sell mostly processed food. The rising demand for nutritious and convenient food, as well as the growing popularity of food purchases at drug stores and similar retailers further support export opportunities for nonperishable products such as nuts and dried fruit.

According to industry sources, consumer trends have been influenced by COVID-19, increasing demand for time-saving products. Ready-made and single-serve meals have grown in popularity due to their convenience. “Meal Packs” that contain all ingredients needed for a meal are also increasingly utilized, as they shorten both shopping and food preparation times. “Perfect Nutrition Food,” which are high-protein and high-nutrition snacks, are similarly on the rise.

The U.S. is Japan’s top agricultural trading partner and is known as a reliable export partner that provides safe and high-quality food and beverage products. Under the U.S.-Japan Trade Agreement, nearly 90% of U.S. agricultural products enter Japan under duty free or receive preferential treatment. However, other nations such as the EU, Canada, Australia, Chile, and Mexico also have competing free trade agreements with Japan that reduce or eliminate food and agricultural tariffs.

The U.S. is the leading pork exporter to Japan with a 35% overall market share and is the leading supplier of fresh/chilled pork, with a 33% market share. The U.S. has a strong association with beef and shares Japan’s import market primarily with Australia. U.S. wheat accounts for roughly half of Japan’s annual imports of the commodity, while Canada and Australia make up the other half.

Brazil and Canada are the main import competitors for food-grade soybeans; however, the U.S. maintains approximately 70% of Japan’s soybean market share. The European Union (EU), New Zealand, and Australia supply most cheeses, while the U.S. market share is around 10%. The main U.S. competition for fruits and vegetables come from regional producers and China, which can supplement demand due to proximity, price competitiveness, and varietal preferences.

**Best Product Prospects:**

FAS Post Tokyo reports that products present in the market that have good sales potential include beef and products, pork and products, processed vegetables, wheat and wheat products, fresh and processed fruit, tree nuts and peanuts, whisky, wine and beer, and cheese.

Additionally, Japan imports a broad array of products representing the full spectrum of America's consumer-ready, intermediate, and bulk food production. However, Japanese importers and consumers frequently seek new, trendy, and innovative products. The freeze-dried food market is expanding. The best seller is miso soup, followed by other soup products. Opportunities may be found at any time for competitively priced, quality, or novel products, for example plant-based protein products, prepared chicken, and craft beer and spirits.

### **Foodservice Sector Highlights:**

FAS Post Tokyo reports that in 2022, the total sales from the Japan foodservice industry increased 14.2%, totaling nearly US\$237 billion, representing consecutive year double digit growth. The recovery in the sector is largely attributed to the strong rebound in tourism, with visitors to Japan exceeding 10 million, boosting the recovery in restaurant sales in all categories. Japan's foodservice industry will continue to depend on imported foods, and the U.S. is well positioned to continue supplying this segment.

In 2022, sales in the pub dining sector saw the most significant increase of nearly 95% from the previous year, driven by the strong return of Japan's after-work drinking culture. The pub dining segments include Izakaya, beer pub, yakitori, and others. Sales of the transportation, hotel restaurant/banquet, leisure facilities and the restaurants segments also increased by 53%, 26%, 22%, and 16%, respectively from the previous year. The restaurant segments included Family style, Western style (American, French, Italian and others), Japanese style, Oriental style (Korean and Chinese), and Ethnic style (Mexican, Indian, and Southeast Asian) restaurants.

According to Fuji Keizai Research, sales of fast-food chains increased by nearly 8% in 2022, compared to the previous year. This growth is expected to continue into 2023 and beyond. Sales of takeaway and home delivery increased by nearly 2% and 4% respectively from 2021, with menu and unit pricing also increasing.

The Japan HRI report is regularly produced with key data and statistics from the Japan Foodservice Association (JF), which releases its data and statistics every August. However, Japan Foodservice Association has delayed releasing its complete industry data and statistics for 2022. As a result, the 2022 Japan HRI report utilized market research from Fuji Keizai Marketing Research and Consulting Group, a private company, to capture the entire HRI industry market size, which reflects monthly trends of member restaurants totaling approximately 73,000 outlets and 800 foodservice operators.

A portion of Japan Food Association's available data was used to look at monthly sales by segment (July 2022 – July 2023). Every segment has seen a recovery in sales from 2022 through 2023, according to the most recent publicly available data from Japan

Foodservice Association. Japan HRI industry stakeholders are pursuing new and creative ways to reach consumers in response to the new challenges with changing consumer lifestyles and preferences. Imported foods will continue to play an important role in supporting these industry adjustments.

**Best Product Prospects:**

FAS Post Tokyo reports that U.S. food products currently in the Japanese food market with good sales potential in the future include lean beef, poultry and egg products, pork and pork products, processed vegetables, wheat and products, and fresh and processed fruit along with wine and beer as well as whisky and cheese.

**Food Processing Sector Highlights:**

FAS Post Tokyo reports that the food processing industry in Japan produces a wide variety of foods: traditional Japanese, Western, and health-oriented foods for infants and the elderly. Food processors focus on maintaining market share among traditional product lines while developing creative and innovative food products to attract consumers.

The Japanese food processing industry is one of the worlds most advanced and sophisticated, manufacturing approximately US\$190 billion of food and beverage products in 2022. This was a decrease of US\$32 billion, or approximately 13% from the year prior. This was directly attributed to elevated levels of inflation coupled with a weakened yen, vis-à-vis the dollar. Japan’s food manufacturers produce a wide variety of products, from traditional foods to health-oriented foods for infants and the elderly.

In 2022, point of sale data compiled from retailers nationwide indicated a 30% reduction of domestically manufactured/processed food products, with manufacturers opting to concentrate expenditures on core products with strong brand power. This was largely due to the persistently high inflationary environment. The largest reductions of products were of those using seasonings and edible oils and fats. Other products that saw declines were soy sauces (71%), vinegar and vinegar-related seasonings (69%), margarine and butter spreads (67%), and mayonnaise (40%).

The largest food processing companies developed from traditional beer breweries that expanded product portfolios to include food, beverages, etc. Several other market leaders emerged from the dairy industry and have offered unique food and beverage products.

Notable trends include ready-to-eat or easy-to-prepare meals: Increased participation of women in the labor force and busy urban lifestyles contribute to a higher demand for convenience foods. These have shown an even greater importance since the pandemic in 2020 with an increased demand from consumers working from home.

Frozen foods: According to a 2022 report by Statista, the consumption volume of frozen food in Japan amounted to almost three million tons. Popular frozen food products manufactured in Japan include dumplings (gyoza), croquettes, and wheat-flour noodles (udon), among others. This is attributed to improved equipment in Japanese homes, such as an increase in microwave ovens and larger freezer space in refrigerators. Renovations

and newly constructed plants since 2014 have fulfilled the growing demand. Imported frozen foods have gained market share in Japan as well, led by China and Thailand.

In addition, a survey conducted in Japan in February 2022 revealed that the majority of consumers in Japan ate frozen food products at least once a week. While the largest share, more than 27%, consumed frozen food two to three times a week, around 9% of respondents stated they eat frozen products daily.

**Premixes:** The term “premix” is an abbreviation for “prepared mix.” According to the Shurui Shokuhin Tokei Geppo, the production of prepared mixes was 212,260 tons in 2020. The projected quantity for 2025 is 230,440 tons. Popular items for “premix” are pancake, tempura (batter for frying seafood and vegetables), and okonomiyaki (savory, stuffed pancakes). Premixes are increasingly popular among restaurants and supermarkets, which offer souzai (home-meal replacements).

**Small-sized packages:** With limited kitchen and refrigerator storage, a growing elderly population, and many single-member households, demand for individual or small-size packaging that can be finished in one sitting is strong. Additionally, with COVID-19-related increase in home consumption, manufacturers are considering package sizes that will continue to satisfy foodservice but can also be sold through retail.

The U.S. is Japan’s top agricultural trading partner and is known as a reliable exporter that provides safe and high-quality food products. However, many other suppliers have their own free trade agreements with Japan that similarly reduce or eliminate food and agricultural tariffs, such as the European Union, Canada, Australia, Chile, and Mexico. On January 1, 2020, the USJTA went into force, and with it nearly 90% of U.S. agricultural products now have preferential tariff access in Japan.

**Best Product Prospects:**

FAS Post Tokyo reports that Japanese food manufacturers seek quality ingredients and conveniently prepared semi-processed foods that can reduce costs. Specifically, indications are that there is good potential in the market for beef and beef products, pork and pork products, wheat and wheat products, processed fruit, processed vegetables, whisky, wine, beer, and cheese.