NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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Japan: Economy Update

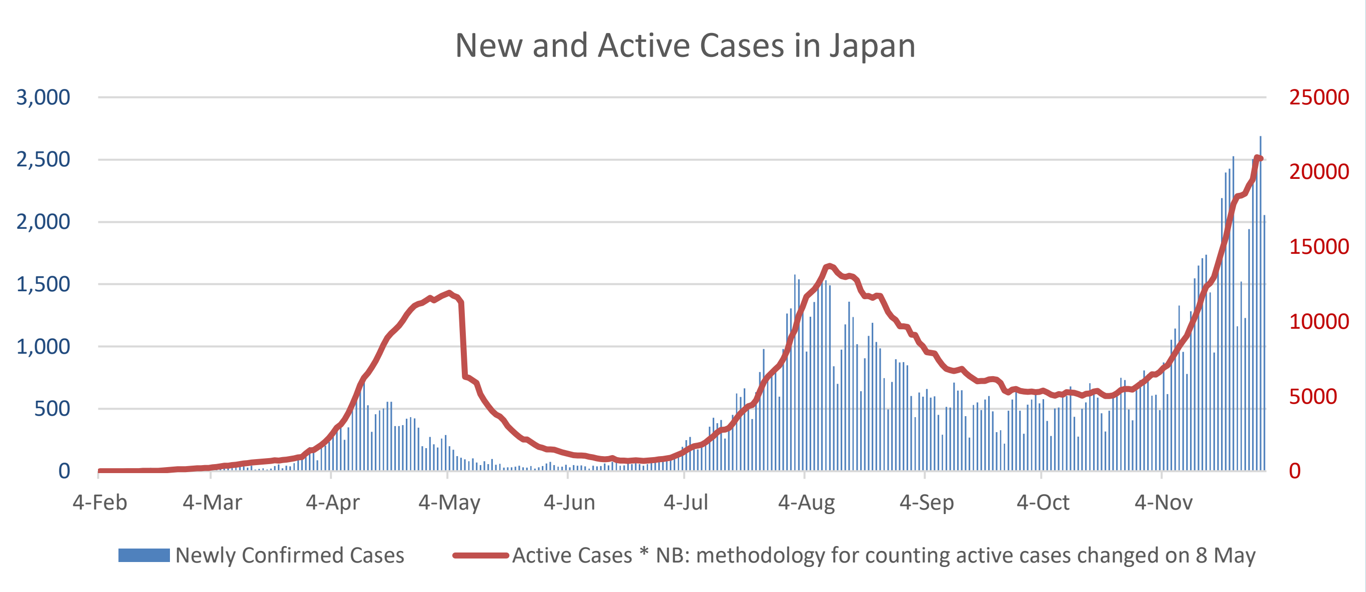
Market Report

30 November 2020

Prepared by the New Zealand Embassy in Tokyo

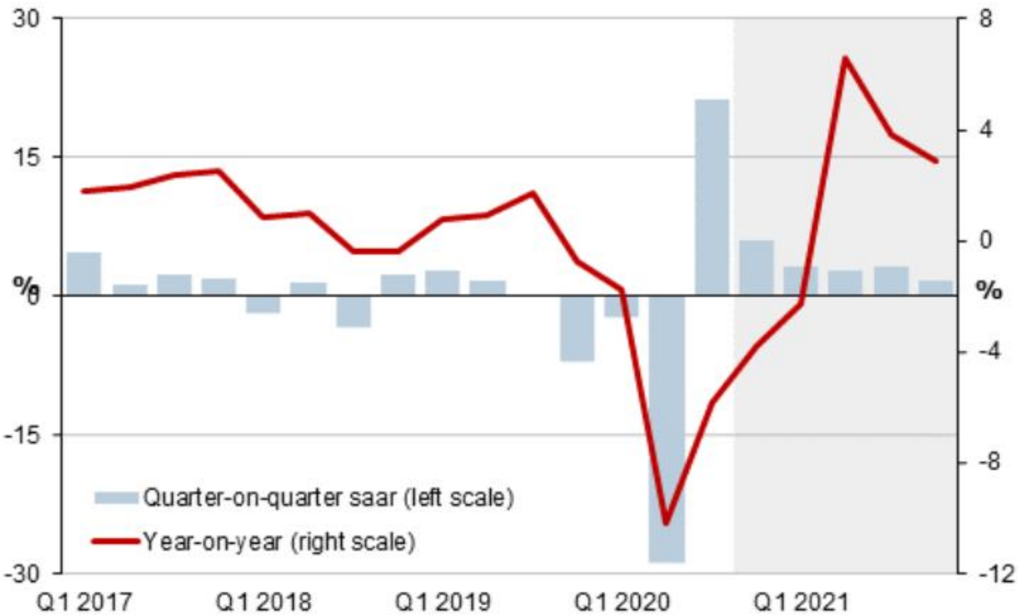
Overview

- A third wave of COVID-19 infections has hit Japan. The number of new cases is increasing rapidly (see chart below), regularly surpassing 2,000 new cases daily.
- The public health system currently has capacity to deal with active cases, but a Health Ministry Advisory Team is warning this could change should community transmission continue to spread quickly in Sapporo, central Tokyo, Nagoya and Osaka.
- Japan is not resorting to lockdowns and instead is continuing to rely mainly on voluntary adherence to mask wearing, social distancing measures and voluntary limitations on business hours. However, the government has said it will consider issuing a State of Emergency, should the third wave not come under control by mid-December.
- The government has excluded Sapporo and Osaka from its "Go To" domestic travel subsidy campaign for three weeks.
- Governors in affected areas are urging establishments serving alcohol to reduce their operating hours, and offering financial support to those that cooperate.
- Japan's economy rebounded in the third quarter (up 5%), following three consecutive quarters of negative growth. The rebound has been assisted by improved exports and government stimulus that fuelled a sharp increase in consumer spending.
- While the Japanese economy is no longer in a recession, it is still 6% smaller that it was this time last year.
- On 10 November, Prime Minister Suga instructed his Cabinet to compile a third stimulus package – touted to be worth 15-20 trillion yen (NZ$200-$275 billion) – to promote structural change and revitalise the COVID-19-hit economy.
- New Zealand's goods exports to Japan in October were <u>down</u> 12% on the same month last year, although year to date (YTD) January-October 2020 goods exports are still <u>up</u> 2.0% on the same period last year due to high volumes of horticulture exports in Q2.
- This monthly report also includes an introduction to Japan's booming subscription economy.



Economic Outlook

- The Japanese Government continues to assess that “the Japanese economy is still in a severe situation due to [COVID-19], but it is showing movements of picking up recently”.
- Japan's economy rebounded in the third quarter, following three consecutive quarters of negative growth that began with the sales tax increase (8% to 10%) in October 2019 and continued with the sharp contraction by the first wave of COVID-19 in April this year.
- GDP grew 5.0% from the previous quarter – 21.4% on an annualised basis – which marked the fastest growth rate since 1968.
- The rebound – which exceeded expectations of a 4.4% quarterly rise – was assisted by improved exports, and government stimulus that fuelled a sharp increase in consumer spending (up 4.7% from the previous quarter).
- However, the Japanese economy is still 6% smaller that it was a year ago, illustrating damage caused by COVID-19.
- Business investment decreased by 3.4% in the third quarter, having dropped 4.5% in the second quarter, amid heightened uncertainty and depressed business confidence.
- Economists expect growth to decelerate in the final quarter of 2020. The third wave of COVID-19 infections will depress domestic activity, while surging infection rates in the United States and Europe do not bode well for exports.
- The International Monetary Fund predicts that Japan's economy will contract 5.3% this year and rebound to grow by 2.3% in 2021.



Note: Quarter-on-quarter seasonally adjusted annualized changes and annual variation of GDP in %.
Source: Cabinet Office (CO) and FocusEconomics Consensus Forecast.

New Zealand goods exports to Japan down 12% in October, but up 2% YTD

- New Zealand's goods exports to Japan in October were NZ$248 million, down 12% on the same period last year.
- As illustrated below, New Zealand's goods exports to Japan hit record numbers in March and April 2020 (particularly horticulture exports), but have been down 0-12% since May compared to the same period last year.
- On a year-to-date (YTD) basis (January-October), goods exports are up 2.0% on the same period last year, totalling NZ$3,068 million.

- As illustrated in the table below, meat and meat products were up 3.8% in October, due to strong performances by sheep meat (boneless, fresh or chilled) and bovine meat (boneless, frozen), which increased 40% and 48%, respectively, compared to October 2019. On a YTD basis, meat and meat products are up 13.4% to NZ$338 million.
- Demand has been high in Japan for healthy foods in 2020 partly due to COVID-19. Horticulture, dairy and miscellaneous F&B (e.g. honey) are all up on a YTD basis:
- Horticulture is up 20.5% to NZ$854 million YTD, with large YTD increases from kiwifruit (+18%), pumpkins, squash and gourds (+51%), apples (+157%).
- Dairy is up 1.3% to NZ$664 million YTD.
- Miscellaneous F&B is up 18.3% to NZ$199 million YTD, with honey up 111% to NZ$58.8 million YTD.
- Fisheries exports increased 13.2% to NZ$6.4 million in October, compared to the same period last year. However, on a YTD basis, fisheries exports have been affected by the Japanese public eating out less during the pandemic, and are down 24% to NZ$58.9 million compared to January – October 2019.
- Forestry products were severely affected in Q2 due to the lockdown in New Zealand, limiting production, and demand in Japan has been hit by the slow-down in housebuilding. Forestry and wood products were down 20.8% in October and down 19.9% YTD to NZ$282 million.
- Metal and metal products are down 13.9% YTD to NZ$431 million. New Zealand metal exports to Japan are mostly aluminium which is used in production of computer equipment and autos. Japan's auto exports have been hit by the global slow-down.
- As we have reported in previous months, about 20% of New Zealand's exports to Japan are tourism and education services which have been severely impacted by the border closures in New Zealand.

October and YTD New Zealand Goods Export to Japan by Industry Comparison

Rank	Industry	October 2020		
		$ Millions	% Change	% Share
1	Dairy	59.1	-16.1	23.8
2	Metal and metal products	47.7	-15.5	19.2
3	Horticulture	43.8	-8.3	17.6
4	Forestry and wood products	28.0	-20.8	11.3
5	Meat and meat products	24.1	3.8	9.7
6	Miscellaneous F&B products	19.1	-31.2	7.7
7	Fisheries	6.4	13.2	2.6
	Subtotal of leading Industries	228.2	N/A	91.9
	Other goods	20.1	N/A	8.1
	Total	**248.3**	**-12.4**	**100.0**

Rank	Industry	Year to Date (Jan - Oct 2020)		
		$ Millions	% Change	% Share
1	Horticulture	853.9	20.5	27.8
2	Dairy	633.8	1.3	20.7
3	Metal and metal Products	431.0	-13.9	14.0
4	Meat and meat products	338.1	13.4	11.0
5	Forestry and wood products	281.8	-19.9	9.2
6	Miscellaneous F&B products	198.6	18.3	6.5
7	Fisheries	58.9	-24.0	1.9
	Subtotal of leading Industries	2,796.1	N/A	91.1
	Other goods	272.1	N/A	8.9
	Total	**3,068.2**	**2.0**	**100.0**

Market Insights: Japan's booming subscription economy

- Japan's subscription market – where consumers pay a monthly fee for products and services – was worth ¥684 billion yen (NZ$9.4 billion) in the 2019 fiscal year, and is predicted to expand to ¥787 billion yen (NZ10.8 billion) in the 2020 fiscal year, according to the Yano Research Institute.
- The range of available products and services – e.g. food and beverages, toys, electronics, apparel, cosmetics, accommodation and transportation – is rapidly expanding.
- The World Economic Forum reports that the COVID-19 induced economic downturn is accelerating an existing shift towards subscription-based business models.
- The Subscription Economy Index found that subscription companies continue to significantly outperform traditional product-based companies, including during the COVID-19 pandemic.
- The Japan Subscription Business Association holds an annual awards ceremony in December – the 2019 winners were:
  - Toy Sub! from Torana: a rotating selection of toys and educational items for children aged 0-3. Monthly fee: 3,340 yen (NZ$46), including delivery.
  - Mezon from Joey: visit one of the 700 participating beauty salons, to receive shampoo, blow dry, and hair-dressing services. Plans start at 16,000 yen (NZ$220) per month.
  - Optune from Shiseido: a custom-designed skincare service, using a smartphone app that analyses skin condition, and a dispenser with five serum and lotion cartridges. Monthly fee: 10,800 yen (NZ$138).
  - GooPass from Camelove: for 5,800 yen (NZ$79) per month, subscribers can exchange and replace camera parts and accessories.
  - Lenet from White Plus: a home dry cleaning service for clothing, shoes and bedding. Fees vary depending on items.
  - Technology Plus from Dyson: trial a wide range of electronic products before deciding whether or not to commit to a full purchase. Monthly fee: 1,100 yen (NZ$15).
- Other popular subscriptions:
  - Pan for You: every Monday, receive a box of freshly baked and frozen bread from one of the participating 35 gourmet bakeries, for 3,900 yen (NZ$53) per month.
  - Post Coffee: After completing an online quiz, customers are matched with three or more varieties of single origin/estate coffee (ground or beans), delivered monthly. Plans start at 1,480 yen (NZ$20) per month.
  - Kinto One from Toyota: a car leasing service, which covers maintenance, insurance, and taxes. Subscribers can change cars for a fee. Monthly plans start at 32,800 yen (NZ$450).
  - ADDress: a co-living service where subscribers can stay up to seven consecutive nights per location. The aim is to encourage members to explore different parts of Japan, and appreciate what each region has to offer. 80% of members have a home and use ADDress as a weekend getaway. Monthly fee: 40,000 yen (NZ$548).

PM Suga announces third supplementary budget

- On 10 November, Prime Minister Suga instructed his Cabinet to compile a third supplementary budget as part of the "Emergency Economic Measures to Cope with COVID-19".
- The "three pillars" of the supplementary budget include:
  1. Containing COVID-19
  2. Structural change (digitisation, carbon neutral society, innovation, rural employment)
  3. Enhancing disaster management
- The size of the third supplementary budget will be confirmed in December. Former Minister of Trade and Industry and current Secretary General of the House of Councillors Okamura has said that 30 trillion yen (NZ$410 billion) will be necessary.
- The scale of Japan's "Emergency Economic Measures to Cope with COVID-19" has totalled 234 trillion yen (NZ$3.2 trillion) thus far. There has been a high take-up of cash grants and subsidies worth 22.5 trillion yen (NZ$309 billion), but a low take-up of concessional loans and other support measures.

Zero carbon future: public and private green investments

- Following Prime Minister Suga's announcement that Japan will cut greenhouse gas emissions to net zero by 2050, major Japanese electric power companies have announced plans to increase solar and wind energy production, and expand the use of next-generation energy sources such as hydrogen.
- The Japanese Government is considering tax incentives for investment in equipment and products that reduce carbon emissions, and is exploring a fund to support R&D towards such green investing.
- The Ministry of Economy, Trade and Industry (METI) will support next generation car batteries – including solid-state batteries that will increase the range of electric vehicles, and have shorter charging times than lithium-ion batteries.
- Toshiba will no longer take orders for new coal-fired power plants, and plans to increase revenue from renewable energy by 240% over the next decade.
- JFE Steel will spend 100 billion yen (NZ$1.3 billion) to upgrade its furnaces, reducing their carbon dioxide output by 20%, over the next decade.

Household spending recovering after bottoming out

- Household spending in September decreased by 10.2% from a year earlier, mainly due to a spike in spending in September 2019 ahead of the increase in consumption tax.
- On a monthly basis, household spending rose 3.8% from August, up for the second consecutive month following a 1.7% rise from July.
- Spending on airfares, package tours and accommodation dropped by 68%, 61% and 26% in September from a year ago, which was smaller than the drop in August of 96%, 87%, and 47%, respectively.
- The Japan Tourism Agency reports that 40 million people used Go To Travel – the government's domestic travel subsidies – between 22 July and 31 October, to the value of 209 billion yen (NZ$2.9 billion).
- The average monthly income for households with two or more people increased by 2.6% to 469,000 yen (NZ$6,440).
- University students graduating in March are finding it harder to secure employment. Only 70% have received job offers, down 7 percentage points from the Labour Ministry's survey in October 2019. This is the largest annual decline since the Global Financial crisis in 2009.

Prices continue to slide, fuelling fears of deflation

- Japan's core consumer price index (CPI) – which excludes fresh food prices – decreased in September by 0.7% from a year ago, the sharpest decline since the Tohoku earthquake and tsunami in March 2011.
- This was the core CPI's third consecutive monthly decrease, leading to concerns that Japan will slip back into deflation despite largescale monetary easing by the Bank of Japan.
- The Bank of Japan last month downgraded its CPI projection for this fiscal year (ending March 2021), forecasting a 0.6% decrease – significantly below its 2% target.

Planes and trains in the red; auto exports picking up

- ANA Holdings – the parent company of All Nippon Airways (ANA) – expects a net loss of 510 billion yen (NZ$7.0 billion) for this fiscal year. ANA Holdings announced it will reduce its current workforce of 46,000 by approximately 3,500 by the 2022 business year, in response to decreased demand for air travel due to COVID-19.
- Japan Airlines (JAL) forecasts a net loss of 240-270 billion yen (NZ$3.3-3.7 billion) for this fiscal year, its first net loss since relisting in 2012. It reported that international and domestic travellers for the six months to September had decreased 98% and 76% respectively.
- JAL will retire 24 Boeing 777 aircraft and strengthen Zipair Tokyo – its low-cost carrier – to make up for revenue losses.
- Narita International Airport will waive landing and parking charges for airlines operating domestic passenger flights, while reducing fees for international flights, to support airlines hit by COVID-19.
- JR Tokai (Central Japan Railway) forecasts a net loss of 192 billion yen (NZ$2.6 billion) for this fiscal year, the first net loss since it was established in 1987.
- The number of passengers on its Tokyo-Osaka bullet train dropped by as much as 90% year-on-year in April and May; before recovering to a 44% decrease for October, compared to the previous year.
- One bright spot in October was Japan's automobile exports, which grew 3.0% to post their first rise since July 2019. Exports of auto parts rose 4.0%, following a 7.7% fall in September.

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