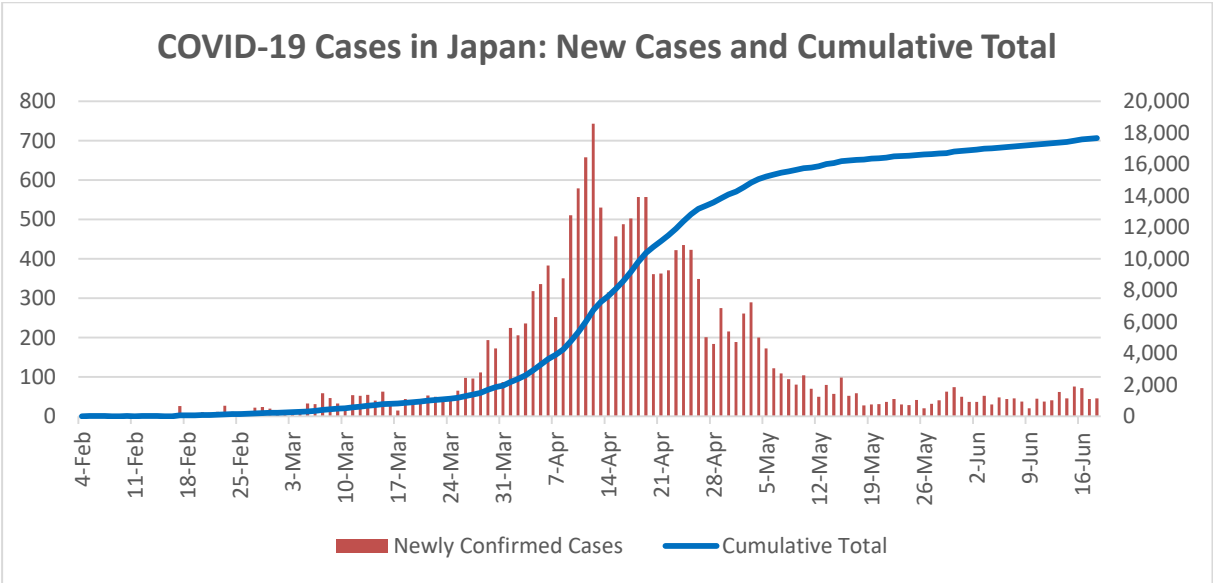


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Summary

- Japan’s national state of emergency (SOE) finished on 25 May when the daily new COVID-19 infection cases fell to just 21 from a daily peak of 720 on 12 April.
- Business activity has been picking up in June but companies in heavily affected sectors such as restaurants and hotels have had to take measures such as laying off staff, reducing staff pay, and putting a halt on new hiring.
- The Japanese economy is in recession and forecast to shrink by over 5 percent in 2020.
- New Zealand’s goods exports to Japan have been bucking the trend, reaching new record highs in April and May including a doubling of our exports of fresh fruit, frozen beef, and honey.
- Key reasons for the success of New Zealand exports into Japan have been the fact that the majority of our exports are essential products such as food; our food exports are seen as healthy; our exporters have been nimble in adapting to changing sales channels; and the reduction in tariffs agreed under CPTPP has been an extra boost in some sectors.
- Despite border restrictions and the global economic slow-down, three Japanese companies have announced major new investments in New Zealand over the past few months.
- Some limited direct air connectivity has been restored but exporters relying on airfreight services are having to cope with fewer flights and higher than normal airfreight costs.

COVID-19 Situation in Japan: Ongoing low level of infections in June



- Japan has confirmed over 17,000 cases of COVID-19 and 931 people have died of the disease; the lowest death rate among G7 countries.
- New daily cases peaked in Japan on 11 April with 720 new infections reported in one day putting local health systems under pressure
- A national state of emergency was declared in Japan on 16 April and lifted on 25 May by which time the number of daily new infections had fallen to 21 at the national level.
- Since the state of emergency was lifted there has been ongoing low level community transmission but national daily new infections have remained fairly flat (see graph above).
- The majority of Japan's recent confirmed cases have been occurring in Tokyo. But Japan's second biggest city, Osaka has had a much lower rate of new infections with either zero or 1 new case each day in the first half of June.

Economic conditions in Japan: serious downturn but signs of resilience

- The Japanese economy is experiencing three consecutive quarters of negative growth due to a consumption tax increase in the final quarter of 2019 and COVID-19 impacts in the first half of 2020. But on some indicators, particularly employment, Japan is faring better than most.
- A recent government survey shows that business sentiment among large firms has plunged to one of the lowest levels on record.
- During the first half of May, private consumption (which makes up half of GDP) was down 30 percent on pre-COVID-10 levels, but improved slightly in the second half of May as the SOE was lifted, down 20 percent on usual.
- Japan has an aging and declining population and was facing a labour shortage prior to COVID-19, with an enviable unemployment rate of 2.5 percent and 1.3 job openings for every 1 job seeker.
- The pandemic has hit non-regular and part-time employees hardest causing a drop in employment amongst this group of close to 1 million people, over 70 percent of those losing their jobs were women.
- Japan's exports and imports in May both posted the largest year-on-year drops in more than 10 years, reflecting rapidly weakened domestic and overseas demand
- Exports plunged 28.3 percent from a year earlier led by car exports which decreased 64.1 percent, the biggest fall since April 2011 when a massive earthquake and tsunami in north-eastern Japan forced a halt in production.
- Overall imports into Japan fell 26.2 percent (notably crude oil and aircraft imports shrinking).

Despite the doom and gloom, New Zealand goods exports enjoyed another record month in May

- Despite the serious economic impact that the COVID-19 pandemic is having in Japan, provisional trade data for May indicates that New Zealand goods exports have continued to beat previous records.
- In May 2020 New Zealand exported \$427 million worth of goods to Japan, slightly up on May 2019 which was itself a record for May.

- The May 2020 result follows a record month in April 2020 when total goods exports to Japan increased by 27 percent compared to April 2019, from \$366 million to \$466 million; the highest-ever level of exports on record from New Zealand to Japan during the month of April.
- A detailed breakdown of the May export data is not yet available but the strongest performing sectors in April (compared to April 2019) were:
 - Horticulture (fruit, vegetables, and wine) with a 92 percent increase to \$248 million led by **a near doubling of kiwifruit sales** for the month, and **a massive 1600 percent increase in exports of NZ apples** to Japan;
 - Dairy products with a 28 percent increase to \$69 million;
 - Meat and meat products with a 65 percent increase to \$46 million including **a more than doubling of exports of frozen beef**;
 - Miscellaneous food and beverage products with a 72 percent increase to \$20 million;
 - **Honey exports more than doubled to \$6.5million**; and
 - Fish and seafood products with a 30 percent increase to \$6.5 million
- Key factors in the success of New Zealand exports to Japan in recent months have been:
 - the majority of our exports are in the food and beverage (F&B) sector;
 - our F&B exports are seen as healthy at a time when consumers are keenly interested in health and wellbeing;
 - our exporters have been nimble in adapting to changing sales channels (see market insights section below); and
 - the reduction in tariffs agreed under CPTPP has been an extra boost in some key sectors for example dairy, fruit and honey.

Not all New Zealand exporters experiencing growth

- Exports in sectors continue to struggle in the Japanese market as a result of the impact of COVID-19.
- Aluminium has traditionally been one of New Zealand's largest exports to Japan but in April, exports of metal products to Japan were down 30 percent to \$40 million due to declines in auto production and electronics
- Forestry and wood products were down 67 percent to \$14 million, as compared with April 2019. The majority of the forestry and wood processing sector was not classified as an essential business in New Zealand during the New Zealand level 4 lockdown, so production was virtually halted and that is now showing up in the April/May export results. Supply side constraints in New Zealand are now resolved but reduced demand in the Japanese construction market mean a subdued outlook for the sector.
- Services exports (tourism and education) continue to be severely impacted by border and travel restrictions. However on a brighter note, Air New Zealand resumed twice a week cargo only direct flights to Japan from 19 May and will also accept passengers on these flights from 25 June.

Recent Japanese investment in New Zealand

- Meiji Co. Ltd. announced in May the establishment of a New Zealand based subsidiary, Meiji New Zealand, headquartered in Auckland with an initial capital value of NZD \$3 million. Meiji's intention is to secure its supply of key dairy ingredients for its brand of whey protein that is sold in the Chinese market as a sports nutrition supplement.
- Also in May, Hamilton-based WEL and neighbouring Waipa Networks agreed to sell their shares in UFF Holdings to First State Investments, a Japanese institutional investor, for NZD\$854 million. The sale is still subject to New Zealand regulatory approval, but if it proceeds it will give First State a broadband footprint across the central North Island. First State has said that UFF would remain headquartered in Hamilton.
- Japan's Shinsei Bank announced its intention in early June to acquire UDC Finance Ltd, the largest non-bank financial institution in New Zealand, from ANZ Bank New Zealand Limited for NZD\$762 million. The proposed acquisition is slated to go ahead on 31 August, subject to New Zealand regulatory approval.

Market insight and future outlook

- As with other markets, Japan has experienced significant shifts in consumer behaviour as a result of COVID-19 including:
 - a significant impact on the food service sector; in April during the SOE restaurant business was down by 66 percent and hotel business down by 95 percent (year on year);
 - greater sales in supermarkets, increase in sales of fast foods and takeaways;
 - more cooking at home increasing demand for frozen and pre-packaged foods; and
 - a shift to online marketing and shopping online.
- Exporters who have been enjoying success in the Japanese market have generally been those able to nimbly adapt to some of the trends above.
- A McKinsey survey of Japanese consumer sentiment in late May indicated that that these behaviours will likely continue for some time yet even though the SOE has been lifted.
- The McKinsey survey also highlighted that most Japanese consumers have cut back on spending in line with their pessimistic or uncertain views regarding Japan's economic recovery, with the exception of spending on groceries.
- While the food service industry is likely to continue to underperform for some time, we expect to continue to see demand for healthy and fresh food products via supermarket and online channels in the short to medium-term.
- For most exports outside the food and beverage sector, we expect that a slowing economy, ongoing reductions in employment and increases in bankruptcies will slow demand in the short to medium-term.
- Another potential headwind for New Zealand exporters is the recent surge in the NZ Dollar to a six-month high. As of 19 June the NZ Dollar was to 68.8 to the Yen.

Disclaimer

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