

INDUSTRIAL SURVEY

Food & Beverages Eat, Drink and Diversify

The food industry differs from other industries in a number of important ways. First, it is an almost exclusively domestic industry manufacturing terminal consumer goods, and its business is directly influenced by private consumption. Over the short run it is affected by weather; over the long run, by changes in people's diets. Again, food is a necessity, and demand for it rarely changes. Yet the market prices of agricultural and marine products, the industry's raw materials, fluctuate violently, greatly affecting the industry as a whole. And lastly, most foodstuffs can be substituted for others, yet can also be finely differentiated. Demand for any given food item can change dramatically, depending on the degree of competition from interchangeable products and the success of efforts at product differentiation.

Demand for food in Japan is virtually at the saturation point, and growth in the industry is therefore slower than the growth in private final consumption expenditures. Industry trends tend to be stable, but not spectacular. Whereas private final consumption grew by 5.0% in 1984 and 1985, the value of food production increased only 3.9% in 1984 and 2.4% in 1985. Sales of food companies listed on the first section of the Tokyo Stock Exchange (TSE) grew at an average annual 2.4% from fiscal 1983 through fiscal 1985.

In fiscal 1986 there has been no remarkable change in the supply-demand situation of food items sold by TSE-listed food companies. The exceptions are products facing a highly competitive en-

vironment, such as canned foods, whose exports sagged and imports rose due to the appreciation of the yen, and confectionery and pasta, which were also hit by sharply higher imports.

Although the business climate as a whole is expected to deteriorate during the second half of fiscal 1986, real personal consumption should grow faster than in the preceding year now that inflation has abated and prices have stabilized. Sales for the food industry as a whole are projected to grow by at least 2.8%.

Liquors, overwhelmingly distilled Japanese sake and beer, grew smoothly except for wine, which suffered from the after-effects of a scandal involving the use of poisonous diethylene in imported wine. Soft drinks, including sales of drinks targeted on the sports market and canned oolong tea, are expected to increase substantially as consumers worry more about their health. Sales of processed meats are expected to grow steadily as a result of the continued Westernization of the Japanese diet and a boom in "homemade" food.

The profit-and-loss situation is mixed. Animal feed suppliers, faced with a glutted market, are expected to suffer, as are sugar refiners battered by a market slump, and canned food makers who have been hit hard by the appreciation of the yen. Yet the food industry as a whole is expected to post increased profits in fiscal 1986. In addition to the eased global supply-demand situation for cereals, reduced production costs due to lower crude oil prices and the stabilization of the yen at



Japanese consumers are becoming more interested in health food and drinks.

high levels against the dollar are expected to boost industry performance.

In fiscal 1987, the uncertainty over weather conditions aside, both sales and profit growth are predicted to fall slightly short of fiscal 1986 levels. Stable consumer prices will mean smaller increases in wage earners' incomes than in the year before. Chances are good that personal consumption spending will also grow more slowly. Expanded imports of raw materials for processed foodstuffs with relatively high domestic prices will gradually be institutionalized as the yen stabilizes at current high levels vis-à-vis the dollar. Although raw material prices are expected to remain low as the supply-demand balance eases, there is little likelihood of further cost reductions on the order of those seen in fiscal 1986.

In the long run, any increases in food consumption will be minimal. People's dietary lives have become so diversified that some have even labeled this the age of selective eating. Merchandise life cycles have shortened, and there is steady progress in the shift from mass production to small-lot production of many goods. Consumer preferences have polarized between high-class and low-priced goods. Increasingly, new product development and marketing strategies will determine future trends in the food industry.

Competition among food companies has already intensified, and diversification into new lines of business is conspicuous. Many companies have started restaurant chains, for instance, while as a long-range strategy, others are stepping up R&D investment in new fields related to biotechnology and medicine. With the food industry entering an era of competition and shake outs, companies must come to grips with how to diversify their business and develop new products and technology.

(Masao Mori, economist)

Food Industry Production Indexes (1980=100)

	1975	1979	1981	1982	1983	1984	1985
Entire industry	90.4	100.1	100.8	103.3	105.5	106.4	106.7
Dairy products	79.8	99.9	101.8	104.4	107.9	110.7	113.4
Fishery products	107.7	100.0	101.4	106.9	110.2	114.0	109.5
Agricultural foods	91.0	101.0	98.2	97.9	101.5	105.1	105.1
Flour, processed flour	90.4	98.9	101.3	100.7	101.6	102.8	102.4
Edible oils, processed edible oils	75.5	99.8	105.7	106.3	110.1	112.5	115.8
Sugar	103.8	114.7	89.0	93.1	89.3	89.2	88.3
Seasonings	86.8	100.7	99.0	100.7	100.9	102.2	101.8
Beverages	74.0	109.7	99.2	101.6	106.8	113.9	115.8
Confectionery	104.9	92.7	105.9	106.7	105.7	103.3	103.1
Precooked food	67.7	92.4	109.9	119.1	125.7	132.1	136.7
Other foods	76.9	99.2	104.2	107.9	112.9	111.1	114.4
Liquors	91.1	97.9	101.4	103.8	107.6	102.4	102.7
Assorted feed	70.8	100.2	96.6	101.2	100.7	101.8	104.3