

## RECENT TRENDS

### Strong recovery nearing peak

The Japanese economy's modest improvement in early 2004 developed into a more widespread recovery towards the middle of the year. However sharp increases in crude oil prices could be a destabilizing factor in the future. There are also indications that with a slowdown in growth and an inability to break free of its export reliance, the Japanese economy may be nearing its peak.

It is highly likely that the pace of Japan's economic growth will slow down from 2005 onwards because the two factors that have propped up the economy up to now namely the world-wide growth of the digital economy and high growth in USA and Asia will have less impact after 2005.

With an improvement in the economy in 2004 the number of persons employed returned to positive figures and the number of job openings at companies also showed strong growth. However the total amount of cash earnings decreased compared to figures in 2003 since in order to make business management more efficient companies began hiring women and more part-time staff whose wages are cheaper than regular full-time staff and as a result there was a noticeable fall in cash earnings.

Without any long term income growth and if corporate profits come down then once again there could be negative growth in employee pay packets. Then based on past experience while there may not be any drastic drop in consumption, we cannot expect the high growth seen to date.

### Trends in Trade

In Japan's trade with the world in 2003, exports rose 4.7% while imports were also up 5.0%. Imports from Asia were also at the highest-ever level, up 7.4% to 19.7118 trillion yen. Japan increased its imports of PCs assembled in Chinese factories and semiconductors from Korea. Imports from China alone were up 13.0%.

The value of imports in the first half of 2004 was at an all-time high having increased 6.0% compared to the same period in 2003 and stood at 20.9195 trillion yen.

### Regulatory Reforms

Since 1995, Japan has been actively engaged in the deregulation process under a deregulation promotion policy and permitted unfettered competition in fields such as telecommunications, energy, financial services, insurance, housing, health care, rehabilitation services and temporary employment services. Some opportunities opened up as a result are :

*Special exemptions* : The promotion of invitations to foreign researchers, prioritized processing of country entry formalities and residence applications.

*Permission of general sales* : Some drugs and medical supplies (digestives, laxatives, mouthwashes etc) are categorized as non-prescription products and are permitted to be sold in general retail stores.

*Improvement of the permanent residency permission system* (the Japanese version of the US Green Card): To facilitate permission for permanent residency specific

examples of successful applications for permission are to be presented; permission or denial are to be announced early and the permission criteria compiled into guidelines

### People's lifestyle and consumer trends

The Japanese family and individual lifestyles are undergoing major changes and seeing greater diversity in response to a variety of factors such as the rapid ageing of society and the declining birth rate, the persistent recession in the economy, entry of women into the work force, changes in the employment structure, impact of the information technology and other technological changes.

Overall household expenditures have declined for 11 consecutive years from 1993 due to chronic recession and deflation in the Japanese economy. In order to defend their standard of living, consumers increasingly buy necessities at the lowest possible price and as much as possible put off purchasing products that do not fit with their lifestyle or for which they have no immediate need. At the same time consumers show no reluctance to spend large sums of money on things they truly want or things that have some highly distinctive trait that appeals to them. Sales are strong at both ends of the spectrum, in upscale brands and in the 100-yen shops. This indicates an increasing tendency towards consumer polarization.

Consumers now seek a balance between price and value and they are increasingly selective about products that fit with their lifestyle preferences. They want maximum value for the price they pay, not simply low prices with low value. Consumers are unwilling to make a tradeoff between price and value. They will only make tradeoffs that give them affordable prices plus value.

There is a clear trend towards small-lot production of multiple product lines, discriminating consumption and individualized marketing. Consumer support goes to products and services that are 'authentic' developed based on original concepts, products that offer the highest level of product quality, products backed up by clear-cut technological strength and to innovative products.

The Japanese increasingly tend to look for products and services that alleviate anxieties and concerns. Consumers are also extremely nervous about food safety in particular. Even if so much as one incident comes to light of contamination or residual pesticide or improper labeling, that food will disappear from store shelves across Japan.

Medical advances and improved living conditions have dramatically lengthened average life expectancy in Japan and the number of elderly is increasing as a result. At the same time more and more women are entering the work force and delaying marriage, resulting in a falling birth rate. As a result the population of those aged 14 and under is falling since 1982 and in 1997 it fell below the population of elderly aged 65 and over. Japan's population is aging more rapidly than any other country on earth and around 2006 the percentage of elderly is forecast to be 20%, turning Japan into an 'ultra-aged society'. Since more than half of the 1,400 trillion yen in personal financial assets owned by Japanese are in the hands of older adults aged 60 and over there is distinct opportunity for products and services that will attract the elderly.

The falling birthrate and shrinking family size mean a shrinking of the market for children's products. However recent years have seen explosive growth for children's apparel in the junior market (age 8 to 14) and the trend has spread to intimate apparel, cosmetics, stationery and school products and confectionery.

In Japan the birth rate momentarily surged during the post war years (late 1940s) and those born then and raised during Japan's high economic growth years had a different value system and exhibited different consumer behaviour from the previous senior generation. The enormous consumer base of this baby boom generation will approach retirement in the next few years and the amount of free time available to them will lead to even more diverse and sophisticated needs and wants in the senior market.

In recent years, the trend toward high-class brands in the junior market for grade school and middle school age children has increased with its concentration in the clothing sector. Although the market scale on a population basis is in a downward trend as a result of the declining birth rate, this however has led to a phenomenon known as 'Six pockets' which is bringing about an expansion of sales. It comes from the fact that an only child is supported by the wallets of six different pockets namely the father, mother plus the paternal and maternal grandparents. It indicates a consumption tendency symbolizing a change in lifestyle, interlinked with factors such as the purchase of high-priced goods and the spread of cosmetics for children.

#### Perceptions of Imported products

The leading reasons given for preferring imported products are colour and design (flavour in the case of foods), the availability of a preferred brand. Japanese consumers look to imported goods for distinctive design traits or other uniquely appealing features that make them different from products made in Japan. On the other hand, reasons for choosing domestic goods include a perception of safety, fewer or safer levels of additives and ingredients with potential health effects (foods, cosmetics etc.), along with proper sizing (apparel, sporting goods, furniture etc.) and a perception of better after-sales service (for consumer electronics etc.)