

Despite the serious economic impact that the COVID-19 pandemic is having in Japan, New Zealand goods exports have continued to perform strongly in March and April, Goods exports to Japan in April increased by 28 percent compared to April 2019, the highest-ever level of exports on record from New Zealand to Japan during the month of April.

Economic Situation in Japan

- Japan declared a nation-wide State of Emergency on April 16 and enacted public health measures to reduce the spread of the virus.
- However the Government measures have been well short of a full lock down and the State of Emergency has now been lifted in 39 out of Japan's 47 Prefectures.
- A declining trend in new COVID-19 cases is expected to lead to the lifting of the State of Emergency in the remaining prefectures (including Tokyo and Osaka) by the end of May.
- The restrictions on business activity and calls for citizens to avoid unnecessary outings have led to changes in consumer behaviour (towards more online purchases for example) and subdued consumer spending.
- The food service sector has been heavily affected by the curtailing of large events and limitations on restaurant opening hours, but demand in supermarkets has increased.
- At this stage there are no major changes to supply chain and logistics within Japan.
- Direct flights between Japan and New Zealand were suspended at the end of March causing logistics challenges for some exporters, but direct cargo only flights are resuming from 19 May.

Overview of New Zealand's Key Exports to Japan

About half of New Zealand's exports to Japan are in the food and beverage sector. The impacts on those exports reflect their relative exposure to the food service/restaurant sector versus the retail sector. Exports of horticulture, dairy and meat products have all enjoyed strong growth through March and April; metal products and fisheries have experienced moderate declines; and services exports (tourism and education) have been severely impacted by travel restrictions. Air New Zealand suspended direct passenger flights between Japan and New Zealand on 31 March but will resume cargo only flights from 19 May, reinstating a direct airfreight option for the export of high-value goods.

About 77 percent of New Zealand's exports to Japan were goods exports and 23 percent services exports in 2019. The table below shows the leading New Zealand industries exporting goods to Japan. Based on the most recent available sectoral trade data (for March), the colour coding of the table indicates broadly the levels of impacts currently being felt. Those coded green (78% share of

goods exports) are experiencing either no material impact or some positive impacts, and orange (13% share) represents some negative impacts (up to a 17 percent decline compared to March 2019).

Table 1: New Zealand Goods Exports to Japan, March 2020 and for the Year Ended March 2020 by Industry

Industry	March 2020			Year Ended March 2020		
	\$ Millions	% Change	% Share	\$ Millions	% Change	% Share
Horticulture	93.0	109.9	26.4	806.9	20.1	22.3
Dairy	69.9	0.4	19.9	794.6	10.4	21.9
Meat and Meat Products	59.1	46.0	16.8	391.7	8.9	10.8
Metal and Metal Products	37.6	-10.6	10.7	590.6	-9.8	16.3
Forestry and Wood Products	34.8	6.0	9.9	410.2	-1.1	11.3
Miscellaneous Food and Beverage Products	17.9	59.6	5.1	220.3	8.9	6.1
Fisheries	8.0	-17.4	2.3	86.9	-8.4	2.4
<i>Subtotal of leading industries</i>	320.3		91.1	3,301.3		91.1
Other goods	31.3		8.9	320.9		8.9
Total Goods Exports	351.6	22.1	100.0	3,622.1	3.7	100.0

Goods exports to Japan in April increased by 28 percent compared to April 2019, from \$366 million to \$467 million, according to provisional Stats NZ data that was recently released. That is the highest-ever level of exports on record from New Zealand to Japan during the month of April. (The previous record for April was \$383 million in 2011.)

The April figures build on the 22 percent increase in March compared to March 2019. Exports in March were \$352 million, which was the second-highest level of exports from New Zealand to Japan during the month of March (only \$1 million behind the record set in March 2001).

Data for New Zealand's services exports for the January-March quarter is not available yet. The table below shows the five leading service sector exports to Japan in 2019. The sectors coloured red (88% share of services exports) are experiencing very serious impacts, and the sectors coloured green are experiencing either no material impact or some positive impacts.

Table 2: New Zealand Services Exports to Japan 2019

Industry	\$ Millions	% Share
Education	456.00	43.8
Tourism	277.00	26.6
Transportation	182.00	17.5
Other business services	76.00	7.3
Telecommunication, computer, and information services	30.00	2.9
Other services	19.00	1.8
Total Services Exports	1,040.00	100.0

Overview of how COVID-19 is impacting NZ exports to Japan in key sectors

Dairy: Overall dairy exports were flat in March, but there was strong demand for butter and protein products. Dairy exports may face some headwinds this year due to the slowing Japanese economy, softening global prices, and foreign competitors diverting excess product to Japan.

Horticulture: There is strong demand in Japan for fresh fruit and vegetables, including because consumers are eating more meals at home. Exports of gold kiwifruit, squash, vegetable juice, and wine drove the 110 percent increase in horticulture exports in March compared to March 2019.

Meat: Meat exports increased by 46 percent in March compared to March 2019, particularly boneless frozen beef products and sheep meat (chilled and frozen).

Fisheries: Fisheries exports to Japan in March fell 17 percent compared to last year. Premium fish and other seafood were affected by the suspension of direct airfreight links to Japan and the impact of the COVID-19 pandemic on the food service sector, major events, and foreign and domestic tourism. Sales data shows that restaurant sales have declined significantly and consumers are purchasing more food from supermarkets (and eating more meals at home).

Forestry: Exports of forestry and wood products were up 6 percent in March but the products that arrived in March were processed and shipped before the start of New Zealand's Level 4 lockdown. The majority of the forestry and wood processing sector was not classified as an essential business in New Zealand during the lockdown so production was virtually halted. We therefore expect a significant temporary reduction in forestry exports to Japan to show up in trade statistics in coming months.

Metal and Metal Products: Unwrought aluminium accounts for about 95 percent of exports in this sector. Exports of metal products fell 10 percent in March, affected by falling demand for Japanese cars and premium electronic products.

Some smaller firms showing major growth: New Zealand exports of **medical equipment** more than doubled in March compared the same period last year, and demand for those products is likely to remain strong this quarter. Exports of **natural honey** in March increased by 225 percent and Manuka honey, in particular, continues to be in high demand.

Education: According to Education NZ, around 10,000 Japanese students visit New Zealand each year. The majority of those students are short-term high school students who are no longer able to travel to New Zealand. But the sector will still generate some export earnings this quarter because over 1,900 long-term students remain in New Zealand, according to immigration data.

Tourism and Transportation: We expect that tourism and air passenger earnings in the current quarter will be largely erased as a consequence of New Zealand closing its borders to foreign tourists and other travellers, and Air New Zealand suspending its direct flights to and from Japan. We estimate that those industries accounted for about \$415 million of exports in 2019 (around 9 percent of total goods and services exports to Japan). Air freight has also been affected by the suspension of direct flights, but direct cargo only Air New Zealand flights resume from 19 May.

Sea freight accounts for about one-quarter of transportation services and that portion of export earnings remains largely unaffected.

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