Japan

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Down from Good to Fair

The sector has been impacted by lockdown measures (e.g. transport and supply chain issues) and the ongoing spread of the pandemic. After several years of increases, agriculture value added growth is forecast to decrease by about 4% in 2020, and the prospects for a comprehensive short-time recovery still look muted, with a modest 2% rebound expected in 2021.

Automotive/Transport

Remains Poor

While margins were already under pressure before the coronavirus outbreak, Japanese automotive producers and suppliers now suffer from globally deteriorating sales for passenger cars and commercial vehicles. This has led to a sharp decrease in production, liquidity strains and cash shortfalls among many businesses in H1 of 2020. The credit risk of Tier 2 suppliers has especially increased, as they often produce low-tech/substitutable products and have weaker financials. While the number of non-payments and insolvency cases was low in 2018 and 2019, in H1 of 2020 bankruptcies in the automotive/transport manufacturers segment increased 25% year-on-year.

Major Japanese automotive manufacturers have resumed most of their production since July 2020, and a gradual recovery is expected in H2 of 2020, although major market uncertainties remain. Despite this rebound, automotive value added is forecast to contract by more than 15% in 2020.

Chemicals/Pharmaceuticals

Remains Good

Chemicals and pharmaceuticals businesses generally show robust business financials, good payment records and low insolvency rates compared to other industries. However, the deteriorating demand from key buyer sectors like automotive has a negative impact on chemicals performance, and sector value added is forecast to decrease by almost 6% in 2020. Pharmaceuticals demand should benefit from rising health expenses.

Construction/ Construction Materials

Remains Poor

In 2020 construction orders and output will suffer from the severe economic recession (GDP is forecast to contract 6%). Construction value added is expected to shrink 4.5% in 2020 (construction materials down 5.5%). Despite implementation of comprehensive fiscal measures to support the liquidity position of companies, the level of payment delays and defaults is expected to increase in the coming months, especially among smaller businesses.

Consumer Durables

Remains Poor

Private consumption of non-food consumer goods deteriorated since Q4 of 2019, due to a VAT increase in October 2019, and the impact of the coronavirus pandemic has accelerated this downturn, as many businesses temporarily closed due to lockdown measures. The sector is affected by the sharp decrease in household consumption, which is forecast to contract almost 6% in 2020. Ongoing subdued consumer sentiment, rising unemployment, and a second wave of the pandemic could hamper a rebound in the short-term. Retail value added is expected to contract by up to 10% in 2020, and the number of payment defaults and business closures is increasing in the non-food retail segment, despite comprehensive fiscal measures to support the liquidity position of businesses. Currently, only a modest 2.5% retail rebound is forecast for 2021.

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Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Electronics/ICT

Remains Fair

ICT production has been severely impacted by supply chain disruptions and deteriorated demand from China in Q1 of 2020. At the same time, domestic ICT sales deteriorated due to the temporary closure of businesses during the lockdown in early 2020, while lower global demand hampered exports. Value added growth of the ICT sector is forecast to decrease by about 1.5%, after solid growth rates in 2018 and 2019.

Until recently, the financial profile of ICT producers and service providers has been generally good, with the majority of companies generating high revenues and profits, coupled with strong balance sheets. However, even before the coronavirus outbreak, ICT wholesalers and retailers already operated in a highly competitive environment with generally low profit margins, which makes them susceptible to downside risks.

Financial Services

Remains Good

The sector remains relatively robust. However, increased financial troubles for businesses and consumers alike due to the economic downturn could lead to more loan defaults for banks and tighter lending conditions. Sector value added is expected to decrease 3.5% in 2020, followed by a 3% rebound in 2021.

Food

Remains Good

Despite ongoing sales, the sector has been impacted by the consequences of lockdown measures (e.g. transport and supply chain issues). After two years of growth, value added is forecast to level off or to slightly contract in 2020.

Machines/Engineering

Remains Fair

Companies in this industry are in general financially resilient. However, the business outlook has been impacted by decreasing orders on hand and lower production due to the economic downturn. Domestic and international demand from key buyer sectors like automotive has deteriorated. Engineering value added is expected to contract by almost 9% in 2020. Thus far, however, there was no significant increase in insolvencies, as businesses have benefitted from comprehensive fiscal measures to support their liquidity position.

Metals

Remains Poor

Due to subdued economic growth in 2020, metal manufacturing value added is forecast to shrink by more than 11% this year. Major non-ferrous metal producers and traders in Japan are experiencing a decrease in both demand and commodity supply, due to sluggish production by car manufacturers (which are the main buyers for the industry), and the temporary cession/hold-up of mining activities in South America and Africa (as the result of lockdown measures by the local authorities).

Paper

Remains Fair

The paper industry is of minor relevance in Japan compared to other sectors. The impact of the coronavirus pandemic could be both positive (more people having time to read), but also negative (decreasing advertisement revenues due to the economic slump forcing some magazines or newspapers could leave the market). Sector is forecasted to contract by 8% in 2020.

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Services

Remains Poor

Due to the comprehensive lockdown measures in early 2020, many segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotel and catering value added is expected to contract by 17% in 2020. In H1 of 2020, insolvencies in the hotels segment increased sharply, by 122% year-on-year. Due the ongoing pandemic and the economic downturn, a rebound in the short-term is not expected, and insolvencies are forecast to increase further in the affected service segments, despite implementation of comprehensive fiscal measures intended to support the liquidity position of businesses. In 2021 only a 0.5% rebound is expected for the hotel and catering segment.

Steel

Remains Poor

This industry is experiencing a sharp drop in demand due to a decrease in orders from car manufacturers and construction companies, which are the main customers for Japanese steelmakers. In addition, given that steel production in China has resumed and the demand remains weak, oversupply and the downward pressure on steel price is a concern for the industry. Steel value added is forecasted to contract by more than 15% in 2020, with only a modest 5% rebound in 2021. So far there was no significant increase in insolvencies, as businesses benefit from comprehensive fiscal measures to support their liquidity position.

Textiles

Remains Poor

Wholesalers and retailers are negatively affected by changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales during the lockdown in early 2020 and subdued consumer sentiment. Textiles value added is expected to shrink by more than 10% in 2020, with rising payment defaults and business failures. Currently only a 0.5% value added rebound is expected in 2021.