

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture



Remains Fair

The sector has been impacted by lockdown measures (e.g. transport and supply chain issues) and the ongoing spread of the pandemic. As demand has increasingly shifted towards take-away food, agriculture value added decreased slightly in 2021, by 0.2%. As the outlook for a rebound of restaurant businesses remains uncertain, the prospect for a comprehensive recovery to pre-pandemic levels is still muted, and agriculture value added is forecast to contract by about 3% in 2021.

Automotive/Transport



Remains Poor

Japanese automotive manufacturers and suppliers experienced a sharp decrease in production, liquidity strains and cash shortfalls in H1 of 2020. Despite a rebound in demand in H2, automotive value added contracted by 16.4% year-on-year in 2020.

In 2021 automotive value added is forecast to grow by about 15%. However, the global shortage of semiconductors currently impacts production, and ongoing uncertainty over the pandemic situation in Europe and in emerging markets remains a downside risk for demand.

The credit risk of Tier II suppliers has increased, as they have weaker financials. Automotive bankruptcy cases in the fiscal year 2020 (April 2020–March 2021) increased by 26% year-on-year. However, those business failures account for only a small share (0.5%) of total business bankruptcy cases in Japan.

Chemicals/Pharmaceuticals



Remains Good

Chemicals and pharmaceuticals businesses generally show robust business financials, good payment records and low insolvency rates compared to other industries. Chemical sector value added decreased by 5.6% in 2020, due to weak demand from key buyer sectors like automotive. In 2021 growth is expected to level off or to contract slightly, mainly due to increasing supply from Chinese and South Korean competitors. In 2022, a 2% rebound is expected.

Pharmaceuticals demand has benefited from rising health expenses since the outbreak of the pandemic, and value added grew 8.2% in 2020. In 2021 a modest 1% increase is expected, as non-urgent medical treatments and medical care will not yet return to pre-pandemic levels. However, in 2022 a robust growth rate of about 4% is forecast.

Construction/ Construction Materials



Up from Poor to Fair

In 2020 construction suffered from the severe economic recession and reduced orders from the private sector, with value added decreasing 4.9%, while construction materials contracted 5.8%. However, due to public infrastructure projects and a gradual recovery of orders from the private sector, construction value added is expected to rebound by about 4.5% in 2021 (construction materials up 9%). Construction bankruptcy cases in the fiscal year 2020 (April 2020–March 2021) decreased by 25% year-on-year, as comprehensive fiscal measures have sustained the liquidity position of businesses.

Consumer Durables



Remains Poor

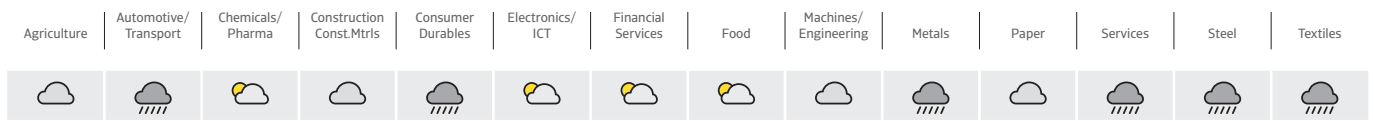
In 2020 household consumption decreased 6%, due to a VAT increase in late 2019 and the impact of the pandemic, as many businesses temporarily closed due to lockdown measures. A modest rebound started in H2 of 2020, attributable to improved consumer sentiment, as the spread of the pandemic was temporarily contained and government campaigns to encourage consumer spendings were implemented. That said, household consumption is expected to rebound by a modest 1.5% this year, and retail value added is set to grow only 2%, after a 5.4% contraction last year. Due to comprehensive fiscal measures to support the liquidity position of businesses, non-food retail insolvencies decreased by 22% year-on-year in the fiscal year 2020 (April 2020–March 2021).

Electronics/ICT



Up from Fair to Good

Despite supply chain disruptions and deteriorated demand from China in early 2020, the ICT sector proved to be less affected by the pandemic than other industries. ICT growth has been supported by surging demand for remote working and distance education in advanced economies, which even exceeded pre-pandemic levels. After growing 2% in 2020, ICT value added is expected to increase by the same amount in 2021, and by 1.5% in 2022.



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Financial Services



Remains Good

Even before the pandemic, major financial groups in Japan were burdened by high credit control costs and large provisions raised for loan defaults. However, sector value added contracted only slightly in 2020, by 0.2%. In 2021 a growth of about 1.5% is forecast, as expected losses have already been provisioned.

Food



Remains Good

Despite the negative impact from lockdown measures in early 2020 (e.g. transport and supply chain issues), the food sector has benefitted from the shift away from eating in restaurants, towards takeaway food and cooking at home. Food value added is expected to grow by about 1% in 2021, after a 1.4% increase in 2020.

Machines/Engineering



Remains Fair

Companies in this industry are in general financially resilient. However, sector value added contracted by 8.7% in 2020, as the domestic and global economic downturn led to deteriorating demand, in particular from key buyer sectors like automotive, and lower production.

In 2021, domestic demand and capital expenditure from key buyer sectors is gradually recovering, while international demand is expected to exceed 2019 levels, mainly driven by the Asian market. With the recovery of orders, both production and inventories are expected to resume to a normal level. Engineering value added is expected grow by more than 13% in 2021.

Due to comprehensive fiscal measures to support the liquidity position of businesses, insolvency cases of machinery manufacturers and wholesalers decreased by 19% and 18% respectively in the fiscal year 2020 (April 2020-March 2021).

Metals



Remains Poor

Despite a rebound of economic activity in H2 of 2020, metals value added declined by 9.6% last year, due to decreased demand in H1 and low commodity supply. In 2021 profitability of metal businesses remains impacted by still weak demand from the automotive sector, and volatile commodity supply from overseas mining sites (there are worries about purchase conditions and currency exchange fluctuation, which have led to inventory management concerns). Due to those issues and the uncertain outlook, metals value added is expected to decrease again in 2021, by about 9%, with just a modest 2% rebound forecast in 2022.

Paper



Remains Fair

Paper value added decreased 7% in 2020, as demand declined due to lockdown measures, the shift towards paperless administration, and increased remote working in Japan. However, paper price increased again as the Chinese government banned solid waste (including waste paper) in January 2021. In 2021 paper value added is expected to rebound slightly, by about 2%.

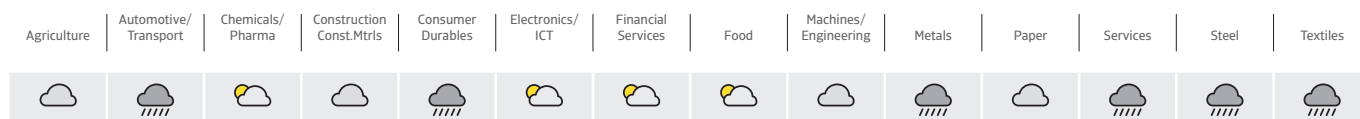
Services



Remains Poor

Services value added contracted 22% in 2020, as many subsectors suffered heavily from the pandemic, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. In the fiscal year 2020 (April 2020-March 2021) the number of bankruptcies in the hotel segment increased by 72% year-on-year. However, despite this sharp rise in the hotel segment overall bankruptcy numbers in the service sector have not yet increased for the time being, due to comprehensive fiscal measures supporting businesses.

With ongoing fiscal support, service value added is forecast to grow by about 8% in 2021, while the hotel and catering segment is forecast to rebound by 13% this year, after a 20% contraction in 2020.



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Steel



Remains Poor

Steel value added contracted 14.8% in 2020, mainly due to a sharp decrease in orders from car manufacturers and construction companies in H1. Demand started to recover in H2 of 2020, as major domestic car manufacturers resumed production. While steel value added is forecast to increase by 12% in 2021 and steel prices are on a high level, it seems that the rebound is only short-term. Domestic steel production has shown a declining trend since 2010, and price pressure from Chinese competitors remains a major issue. Modest demand from key buyer sectors like automotive in the mid-term and an escalation of the China-US trade dispute remain downside risks.

Textiles



Remains Poor

Wholesalers and brick-and-mortar retailers in this sector 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 2020. In order to mitigate inventory risk, many textile businesses adapt their supply chain management, and there could be more mergers and acquisitions in order to resolve oversupply issues. Textiles value added shrank by 14.5% in 2020, with just a 4.5% increase expected this year. For the time being, comprehensive fiscal measures have prevented an increase in insolvencies among textile manufacturers, wholesalers, and retailers.