

INBOUND TOURISM:

What does it mean for Japan's domestic economy and currency?

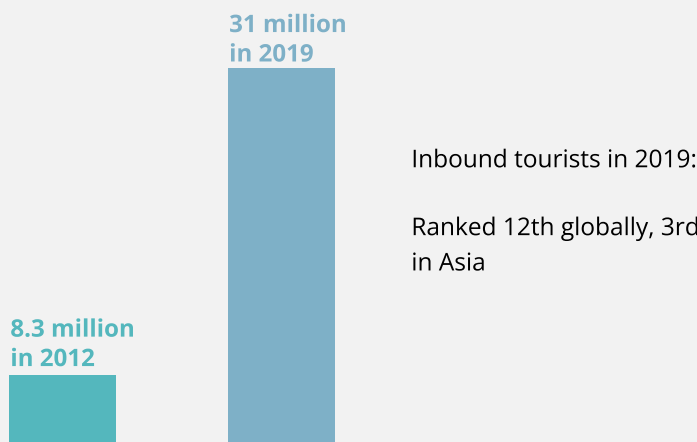


EXECUTIVE SUMMARY

- Strict border controls being eased at last, as Kishida administration reiterates Japan's pre-pandemic target of 60 million inbound tourists a year by 2030.
- Weak yen is good news for visitors, good news for domestic sectors benefitting from higher per capita tourist spending.
- Smart approach to protecting travel industry workers during the pandemic means Japan is likely to avoid travel chaos plaguing Europe and the US.

INBOUND TOURISM: OVERVIEW

With the government actively promoting inbound tourism as a matter of national policy for over a decade now, the number of foreign visitors has surged.

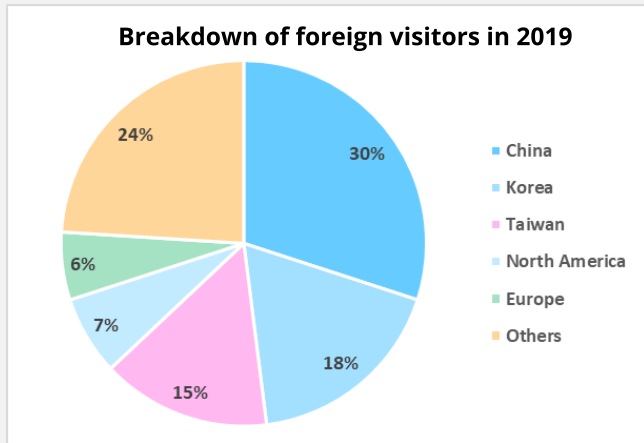


Everything was in place for the 2020 Tokyo Olympics to draw record crowds, but Covid-19 put everything on hold in 2020 and 2021.

As of 2022, we are beginning to see the green shoots of recovery: **border controls are gradually being eased** to allow foreign visitors, both for business and sightseeing, **but it will be some time before all restrictions are lifted** and visitor numbers return to pre-pandemic levels. As at the beginning of July, sightseers are required to book package tours via a travel agency, and there remains a daily cap of 20,000 incoming travellers – including Japanese repatriates – although restrictions should be fully lifted by the end of the year. On the demand side of the equation, meanwhile, **China's zero-Covid policy will have an impact: tourists from the country accounted for 30% of visitors in 2019.**

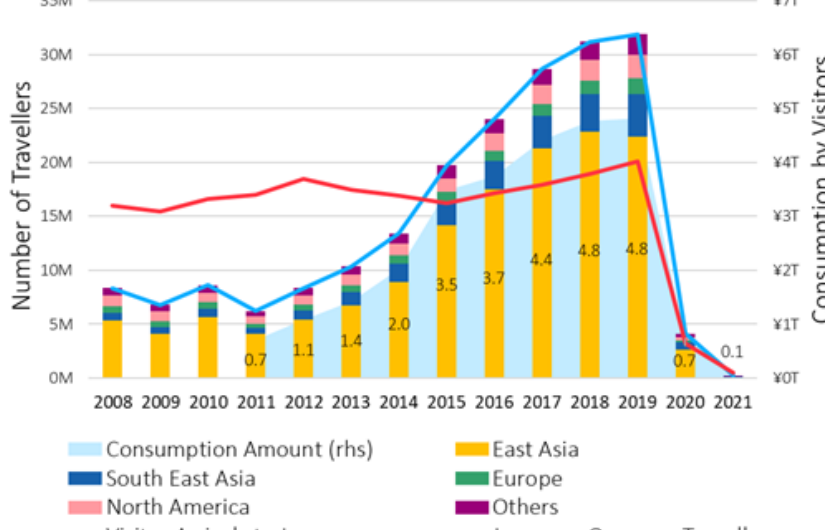
INBOUND TOURISM: FACTS AND FIGURES

Japan had 31.2 million and 31.9 million foreign visitors in 2018 and 2019, with around **85%** arriving from Asia.



Source: Japan Tourism Agency, Japan National Tourism Organization

More than three quarters came for sightseeing purposes, particularly from Asia, where growth has been supported by rapidly climbing income levels, short flight times and easier visa requirements.



Public and private efforts to attract tourists from overseas mean that **Japan is now ranked No. 1 in the World Economic Forum's Travel & Tourism Development Index for 2021**, based on factors including safety, transportation, and natural and cultural resources¹.

¹Travel & Tourism Development Index 2021: Rebuilding for a Sustainable and Resilient Future, World Economic Forum (<https://www.weforum.org/reports/travel-and-tourism-development-index-2021/in-full>)

²Basic Policy on Economic and Fiscal Management and Reform 2022, Cabinet Decision on 7 June 2022.

The restoration of Japan's reputation as a tourist destination was also recently announced as official Kishida administration policy²; **the government is maintaining its pre-pandemic goals of 60 million inbound tourists spending JPY 15 trillion a year by 2030**, with the expectation that the industry will stimulate regional economies in particular. International travel should shore up the currency to an extent – although of course the **recent weakness in the yen has made Japan more attractive to visitors.**

IMPACT ON DOMESTIC DEMAND AND PRICES

Any increase in inbound tourism will boost domestic consumption, with the JPY 4.8 trillion foreign visitors spent in 2019 accounting for 0.86% of Japan's GDP that year.

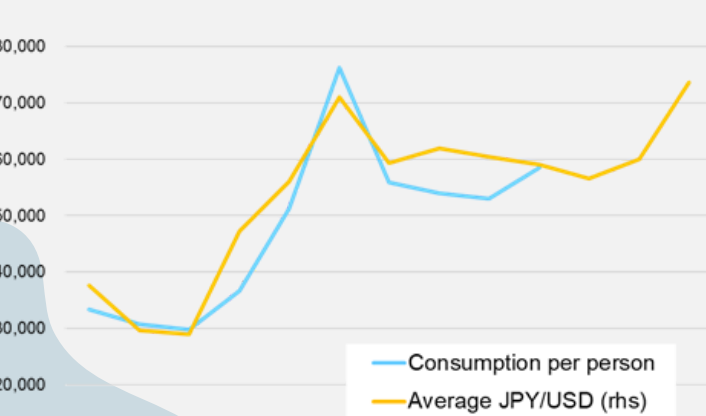
Lodging and dining will be the largest beneficiaries of this spending, followed by **retailers and transportation**, as well as **food and cosmetics manufacturers.**

Unsurprisingly perhaps, historical data also suggests a **higher correlation between inbound travel and the domestic travel industry.**

Industry	Correlation	Example companies
Food and Beverage	0.26	Suntory Calbee
Household and Cosmetics	0.23	Unicharm Shiseido
Passenger Transportation	0.21	Central Japan Railway ANA
Textiles and Apparel	0.20	Asics Wacoal

Correlation between YoY change in number of inbound travellers and industry's factor return (2014 to 2019). Source: MSCI Barra

Weak currency boosts spending in JPY terms

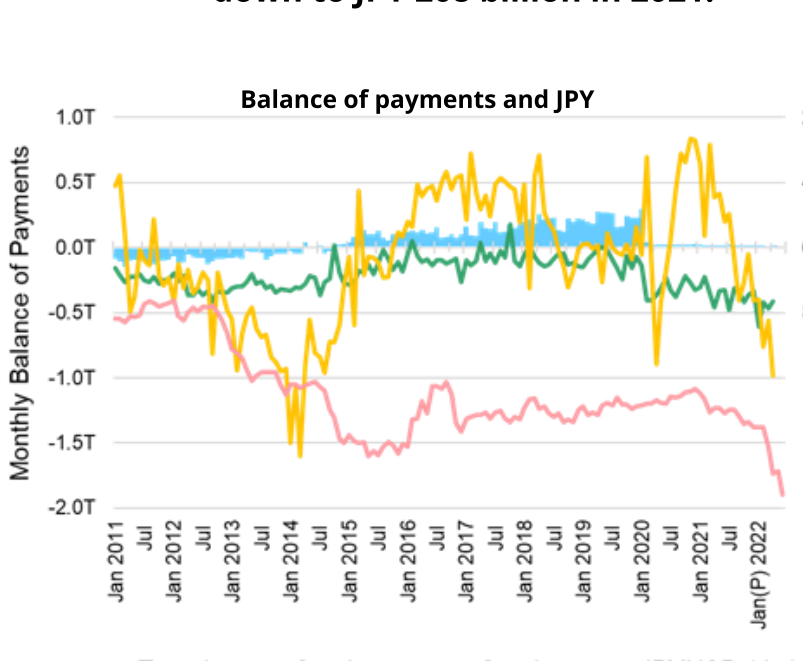


A weak currency should prove a further tailwind to spending in yen terms, as happened previously from 2013 to 2015. This **brings an opportunity for price hikes** in service sectors such as hotels and dining, where Japan continues to lag behind global peers.

Source: Japan Tourism Agency, FactSet

IMPACT ON CURRENT ACCOUNT AND JPY

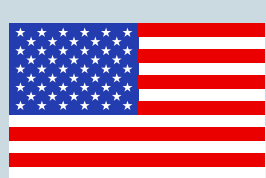
Japan's **travel balance** – a subsection of services in the current account – shifted into the black in 2015 on the increase in inbound travel, **reaching JPY 2.7 trillion in 2019, but dropping down to JPY 208 billion in 2021.**



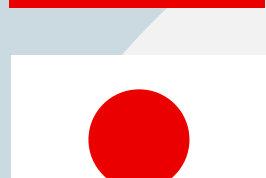
A fascinating comparison can be made with goods exports: a **travel balance credit of JPY 5 trillion in 2019 was larger than exports of electronic parts (JPY 4 trillion), and second only to that of automobiles.**

Given this scale, it is natural to assume that a **sharp drop in the travel balance** as part of the country's current account (JPY 18.8 trillion surplus in 2019) **had an impact on the currency.**

INBOUND TOURISM GOING FORWARD



A surge in travel demand across Europe and the US has laid bare capacity shortages in airlines, airports and hotels, creating chaos for would-be holidaymakers.

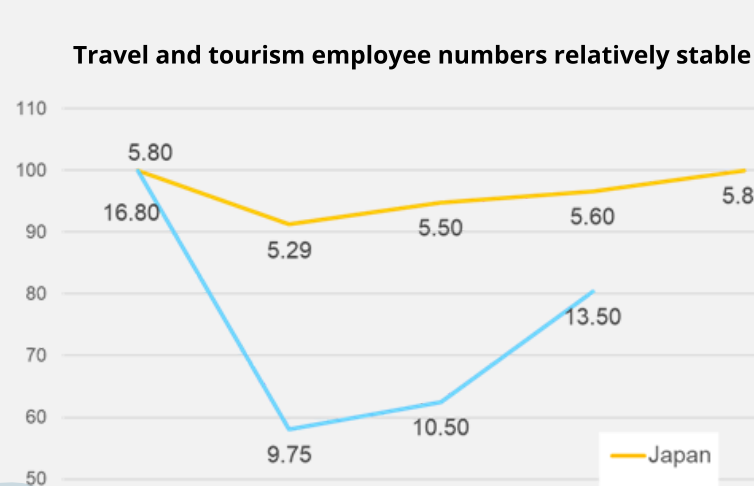


Japan looks set to avoid similar issues. The country's soft approach to easing of border restrictions should prevent demand from overheating, while travel industry workers have largely stood their ground, thanks to government subsidies, and a flexible approach of seconding many employees to other industries.

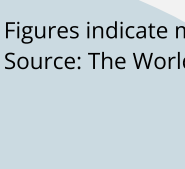
Further good news: even in the event of a labour shortage, Japan still **has room for wage increases**, which could **help stimulate the domestic economy.**

While there is still no telling for sure when border controls will be fully lifted, Japan continues to hold an allure for overseas travellers, and numbers will recover in time. We may see changes relative to pre-pandemic times – spending on services is expected to grow more than spending on goods – but **growth opportunities appear rife for Japan's domestic sector**, and the **travel industry looks set to be a major story** to follow over the coming decade.

Travel and tourism employee numbers relatively stable



Figures indicate million workers, lines indexed to 2019. Source: The World Travel & Tourism Council



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