

AT A GLANCE | Japan

May 30, 2023

Impact of Tourism Recovery

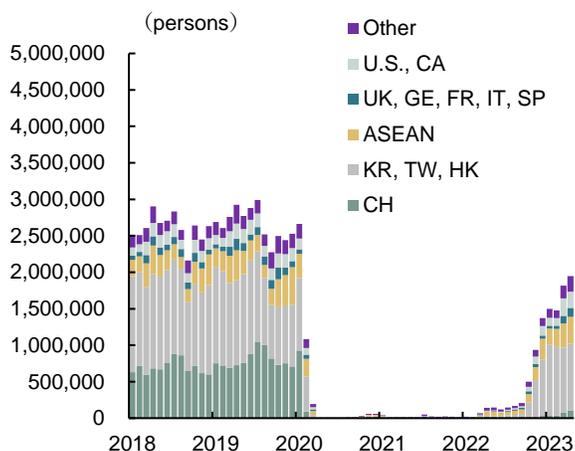
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The number of foreign visitors to Japan in April came to 1,949,100, the Japan National Tourism Organization (JNTO) reported on May 17. Since the resumption of individual travel in October 2022, the number of foreign visitors to Japan has continued to reach new highs (Figure 1). While Chinese tourists have yet to recover, the tourism numbers have been boosted by visitors from South Korea, Taiwan, Hong Kong and various countries from the Association of Southeast Asian Nations (ASEAN). Moreover, the number of visitors from Western countries has already recovered to pre-pandemic levels. It seems realistic to expect the number of visitors to Japan to return to pre-pandemic levels once Chinese tourists return.

This increase in the number of foreign visitors to Japan is leading to an improvement in the balance of payments, and an increase in service exports in terms of GDP demand. The travel balance for March has already recovered to pre-pandemic levels (Figure 2). The increase in per-capita expenditure in the number of foreign visitors to Japan also seems to have contributed to the increase, which has had a significant boost to the current account balance. In addition, as we noted last week, exports of services as a share of GDP also surged through the first quarter.

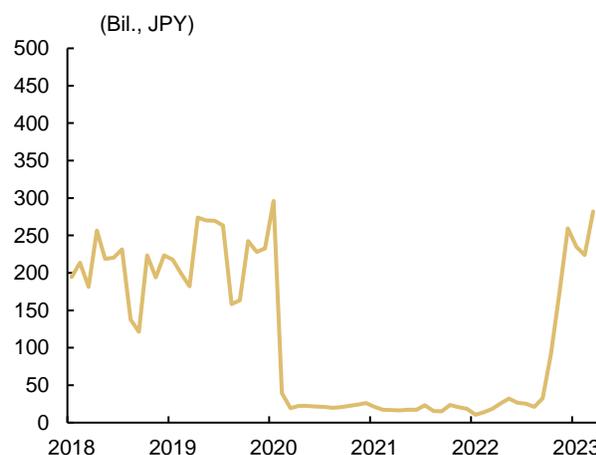
In this report, we present a scenario for the future trend in the number of foreign visitors to Japan and consider what impact it will have on the current account balance and GDP. To draw a conclusion in advance, under the most plausible scenario, future increases in the number of foreign visitors to Japan will contribute to an annual increase of 3.6 trillion yen to the current account balance, boosting GDP by 0.64% from the previous fiscal year. However, there are certain constraints on upside, and tourism is unlikely to be a driver of Japan's economic recovery.

Figure 1: Number of Foreign Visitors to Japan (monthly)



Source: JNTO

Figure 2: Travel Balance



Source: MOF

Scenarios Regarding Travel Balance and Future Trends for Foreign Visitors

The simplest assumption for future trends in the number of foreign visitors to Japan is a scenario in which (1) the current situation is unchanged. As noted above, with the exception of China, the number of foreign visitors to Japan from many countries has already recovered to pre-pandemic levels. If the number of Chinese visitors to Japan does not recover easily in the future, the probability of this scenario increases.

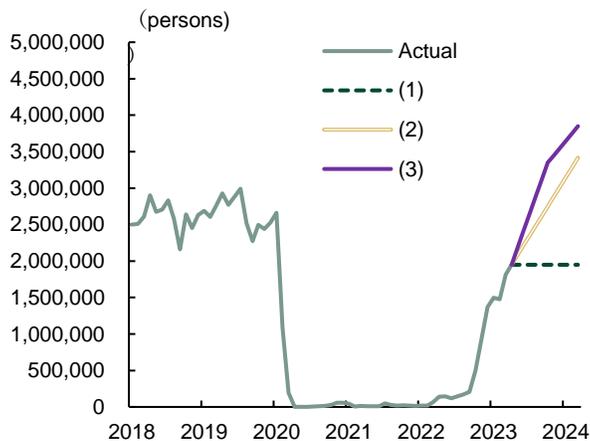
On the other hand, it is reasonable to assume that the number of Chinese visitors to Japan will also increase in the future, as China also moves to an economy coexisting with COVID-19. Currently, China has not lifted its ban on group tours to Japan, but China has been gradually increasing the number of countries eligible for group tours since the beginning of the year. Therefore, assuming that China’s ban on group tours to Japan will be lifted soon, the more plausible scenario is that (2) as the number of Chinese visitors to Japan returns to pre-pandemic levels over the next few years, the number of visitors from countries other than China will gradually increase in the future.

In 2019, before the pandemic, there were roughly 800,000 Chinese visitors a month. This recovery in two years, for example, feels a little slow in terms of its pace. As we saw earlier, the number of travelers from Western countries has recovered to pre-pandemic levels in only about six months. Therefore, the upside scenario is (3) the number of Chinese visitors to Japan will return to pre-pandemic levels in about six months, while the number of visitors from countries other than China will gradually increase. Since the high probabilities of (2) and (3) are unclear, we will conservatively assume (2) as “about two years” and use this as the main scenario.

In accordance with these assumptions, future scenarios are shown in Figure 3. Thus, the number of foreign visitors to Japan in 2023 will be (1) 22.3 million, (2) 27.1 million and (3) 30.3 million (as per the three scenarios outlined above). Based on the relationship between the number of foreign visitors to Japan since October 2022 and the travel balance, the travel balance scenario is shown in Figure 4. Similarly, the change in the travel balance for 2023 from the previous year is (1) 2.8 trillion yen, (2) 3.6 trillion yen and (3) 4.1 trillion yen. Note that travel balance (the difference between inbound and outbound travel) is estimated here, and the estimate of inbound demand is larger.

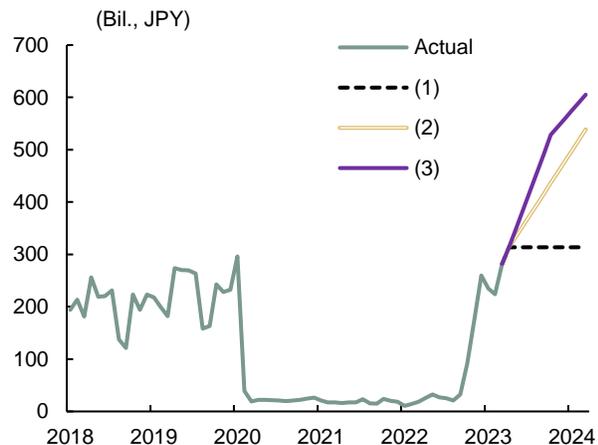
In other words, according to the main scenario (2), the recovery in tourism is expected to boost the current account balance by 3.6 trillion yen per year and GDP by 0.64% from the previous year.

Figure 3: Future Scenarios of the Number of Foreign Visitors to Japan



Sources: JNTO, SMBC

Figure 4: Future Scenarios of Travel Balance



Sources: MOF, SMBC

Supply Constraints

While market participants widely expect such an improvement in the travel balance, not many analysts use this as a reason to predict a stronger yen. In other words, many market participants believe that an improvement in the travel balance alone is not enough to keep the exchange rate strong.

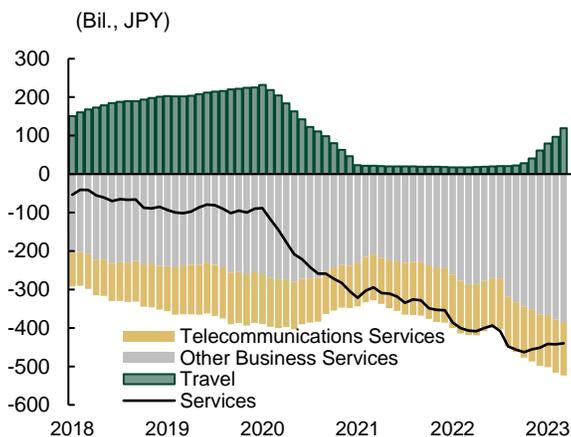
The current account consists of the balance of goods and services, primary income and secondary income, and the travel account is included in the services account. Here we look at the 12-month moving average to see trends in the service balance. This confirms that the service account deficit widened following a sharp decline in the travel account balance due to the 2020 pandemic (Figure 5).

It is pointed out that the contribution to the deficit by items such as communication, computer and information services and other business services is increasing. In other words, due to the increased use of various services outside Japan, the deficit in these services is growing by about 2 trillion yen a year compared to the time before the pandemic. Therefore, even if the travel balance improves by about 3.6 trillion yen per year, the service balance is likely to remain in the red. While the improvement in the travel balance is a factor in the appreciation of the yen, it is also due to these changes in the economic structure that occurred during the pandemic, and in terms of impact on the currency market, there is a sense of inadequacy.

In addition, the number of foreign visitors to Japan in 2019 was 31.88 million, and scenario (3) is almost on a par with the pre-pandemic level. As we have pointed out in this report in the past, there is already a shortage of staff in the lodging business. The trend in the number of job openings in the lodging and food service industry and the employment assessment Diffusion Index in the Bank of Japan Tankan confirm that the sense of labor shortage is intensifying with the recent increase in the number of job openings (Figure 6).

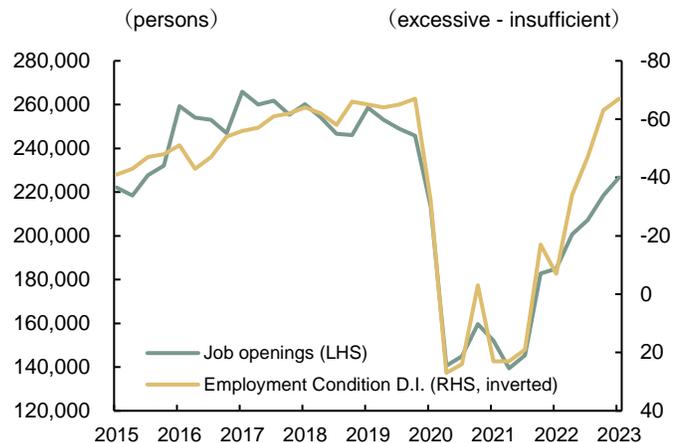
It has been reported that some tourist spots frequented by foreign tourists offer hotel cleaning staff an hourly wage of 2,000 yen (the current minimum wage in Tokyo is 1,072 yen an hour). If the number of job openings continues to increase, the economy will face the problem of an even greater sense of labor shortages. In other words, a sudden increase in tourism demand as in scenario (3) is likely to face supply constraints.

Figure 5: Balance of Services (12-month moving average)



Source: MOF

Figure 6: Manpower Shortage in Lodging and Food Service Industry



Sources: MHLW, BOJ

Overall, there is no doubt that the recovery in tourism is a boost to the Japanese economy as implemented in the current approach of coexisting with COVID-19. However, given the changing economic structure and supply constraints caused by the pandemic, it seems difficult to assume that tourism will be a macroeconomic driver in Japan.

Economic Outlook: 2022-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	3.2	2.6	1.3	1.5	-0.8	0.6	0.9	1.4	1.8	2.2	5.9	2.1	1.4	1.0
	Inflation	5.0	4.9	4.8	4.8	4.6	4.2	3.9	3.2	2.8	2.5	2.2	3.3	5.0	4.4	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.4	3.7	4.3	4.6	4.7	4.7	4.6	5.4	3.7	3.7	4.7
Euro Area	Real GDP	0.9	0.4	0.0	0.1	0.3	0.2	0.1	0.1	0.4	0.3	0.3	5.3	3.5	0.9	0.9
	Inflation	8.0	9.3	10.0	8.4	6.7	5.2	3.7	3.3	2.7	2.3	2.2	2.6	8.4	6.0	2.6
	Unemployment	6.7	6.7	6.7	6.9	7.1	7.1	7.2	7.4	7.4	7.3	7.2	7.7	6.7	7.1	7.3
Japan	Real GDP	4.7	-1.0	-0.1	1.6	1.7	1.0	0.9	0.9	0.8	0.8	0.7	2.2	1.0	1.0	0.9
	Inflation	2.1	2.7	3.8	3.5	3.3	2.8	2.3	2.9	2.7	2.6	2.2	-0.2	2.3	3.0	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	8.4	5.7	6.3	5.4	5.2	5.1	5.0	8.4	3.0	6.3	5.2
	Inflation	2.2	2.8	1.8	1.3	1.6	1.4	1.5	1.6	1.9	2.0	2.0	0.8	1.7	1.5	1.9
	Unemployment	5.8	5.4	5.6	5.5	5.4	5.1	4.9	4.9	4.9	5.0	5.0	5.1	5.1	5.2	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25	4.75	5.00	5.00	5.00	4.75	4.50	4.25	4.00	4.25	5.00	4.00
		~4.50	~5.00	~5.25	~5.25	~5.25	~5.00	~4.75	~4.50	~4.25	~4.50	~5.25	~4.25
	2yr	3.43	4.03	4.00	3.80	3.80	3.60	3.40	3.20	3.00	3.43	3.80	3.00
	10yr	3.87	3.47	3.70	3.60	3.60	3.60	3.60	3.50	3.50	3.87	3.60	3.50
Germany	Policy rate	2.50	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	2.50	4.25	3.75
	Deposit rate	2.00	3.00	3.50	3.75	3.75	3.75	3.75	3.50	3.25	2.00	3.75	3.25
	2yr	2.50	2.68	3.10	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr	2.20	2.29	2.40	2.30	2.30	2.30	2.20	2.10	2.10	2.20	2.30	2.10
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.04	0.20	0.30
	10yr	0.42	0.35	0.75	0.75	0.75	0.90	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.75	2.75	2.75	2.85	2.85	2.85	2.85	2.75	2.75	2.85
	2yr	2.39	2.41	2.45	2.50	2.65	2.70	2.75	2.80	2.85	2.39	2.65	2.85
	10yr	2.83	2.85	2.87	2.90	2.95	3.00	3.05	3.10	3.15	2.83	2.95	3.15

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58	127.23	128.00	123.00	123.00	121.00	119.00	116.00	116.00	113.47	123.00	116.00
		~151.95	~137.91	~145.00	~137.00	~137.00	~135.00	~133.00	~130.00	~130.00	~151.95	~145.00	~135.00
	End of quarter	131.12	132.86	133.00	133.00	130.00	128.00	126.00	123.00	123.00	131.12	130.00	123.00
EUR/USD	Range	0.9633	1.0806	1.0400	1.0300	1.0200	1.0100	1.0000	1.0100	1.0100	0.9536	1.0200	1.0000
		~1.0735	~1.1033	~1.1400	~1.1300	~1.1200	~1.1100	~1.1000	~1.1100	~1.1100	~1.1495	~1.1400	~1.1100
	End of quarter	1.0705	1.0839	1.0800	1.0700	1.0600	1.0500	1.0500	1.0600	1.0600	1.0705	1.0600	1.0600
EUR/JPY	Range	138.81	124.40	137.00	136.00	132.00	128.00	126.00	124.00	124.00	124.40	132.00	124.00
		~148.40	~149.00	~153.00	~150.00	~146.00	~142.00	~140.00	~138.00	~138.00	~150.00	~153.00	~142.00
	End of quarter	140.41	144.01	143.64	142.31	137.80	134.40	132.30	130.38	130.38	140.41	137.80	130.38
Crude Oil Prices (WTI)		82.64	75.99	82.50	87.00	91.00	91.00	82.00	83.00	85.50	98.74	84.12	85.38

※ Crude oil prices are averages for each period. Source: SMBC.

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