

Inbound demand continues to grow with the increase of foreign visitors to Japan

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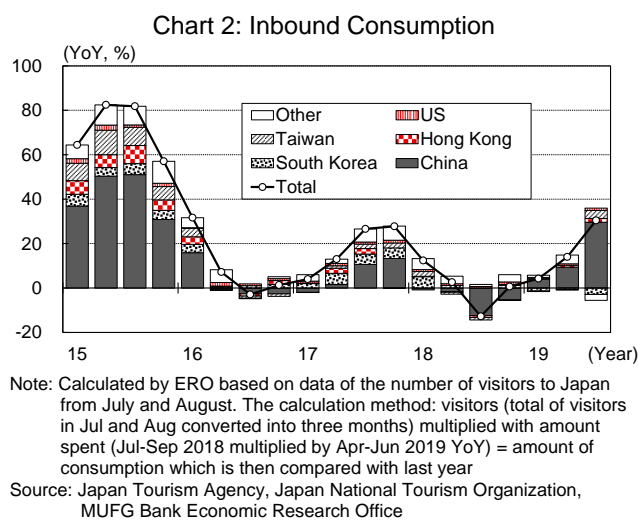
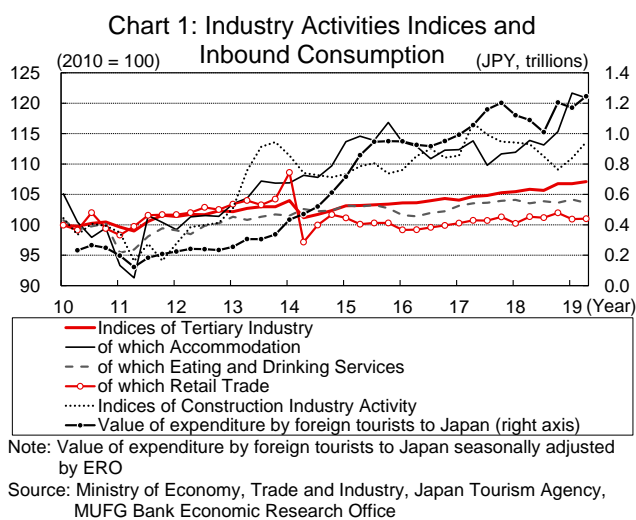
(ORIGINAL JAPANESE VERSION RELEASED ON 30 SEPTEMBER)

1. The Real Economy

The increase in inbound demand is said to be a very important driver of growth for Japan, which has an ageing and shrinking population. The amount of consumption expenditure by visitors to Japan remains just under JPY 5 trillion a year: approximately 1% of GDP (nominal basis). However, it is thought that if demand continues to grow, it will give momentum to the economy through the expansion of tourism-related industries, such as accommodation, dining and retail, as well as industries connected to these, such as hotel construction and infrastructure development, as well as increasing employment (Chart 1).

It is worth mentioning that the growth of inbound demand is once again accelerating at the moment (Chart 2). There were concerns that the purchase of goods for resale by visitors from China would be restricted due to the Electronic Commerce Law which took effect from January this year, thereby affecting Chinese tourists' "bakugai", the bulk buying which had been driving inbound consumption. Nevertheless, the data shows Japan's popularity has still not waned as the number of Chinese visitors to Japan continues to grow by 100,000 people per month YoY, reaching 1 million people in July alone. Looking at the travel expenditure per person of Chinese visitors to Japan, "shopping" continues to stand out from other countries and regions – just under JPY 120,000 – and its contribution in value terms is rising.

In the future, measures to increase the inflow of foreign visitors to Japan, such as relaxing visa requirements and allowing an expansion of LCC (low-cost carriers) services, will continue to have an impact on inbound demand amid a deep-rooted interest in Japanese food, history and culture amongst foreign tourists. In addition, strong labour markets and wage growth overseas, as well as large-scale sports events this year and next, are also factors which may stimulate new demand from visitors to Japan. As a result, it appears inbound demand to Japan will continue its upward trend on the whole as the growth in the number of tourists – particularly those from China – remains robust, despite a decrease in those from South Korea due to the current deterioration of relations between Japan and South Korea. However, the global competition surrounding tourism is becoming fierce and there are hopes that Japan will further improve its framework for the inflow of tourists, such as developing payment, communication and transport infrastructure and support for many different languages and cultures, in order to achieve steady, continuous inbound demand and rejuvenate the economy.



2. Prices and Financial Markets

2.1 Monetary Policy

The Bank of Japan (BoJ) decided to maintain its current monetary policy at its monetary policy meeting in September. It added the following phrases to its statement: “it is becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target will be lost” and “the Bank will re-examine economic and price developments at the next MPM” (Table 1).

While one interpretation of these phrases is that the BoJ is laying the groundwork for revising its monetary policy at its next monetary policy meeting, it seems more likely that the BoJ aims to prevent market instability as the European Central Bank decided to lower interest rates and restart its asset purchase programme and the US Federal Reserve Board carried out rate cuts at two consecutive meetings. At the press conference after the meeting, Governor Kuroda did not deny the distinct possibility that the Bank will not carry out additional easing at its next meeting when asked, and although he emphasised the deceleration of overseas economies and the rise of downside risks, he also expressed a slightly positive view, highlighting the robust US economy, indications the IT cycle will stop falling and the impact of China’s economic policies. After the monetary policy meeting in a speech he gave at a meeting held in Osaka on 24th September, Governor Kuroda said the BoJ will examine developments based on information that will be available by the time of the meeting; however, he also added that they do not have any preconceptions at this point regarding the outcome and that it is important to consider appropriate monetary policies after weighing their benefits and costs. Taking into account the fact that it will still be too early to examine the effect of the consumption tax rate hike at the next monetary policy meeting, it is difficult to imagine additional monetary easing being the default route taken by the Bank at this stage. Even if additional monetary easing is carried out, it is likely the policy will not be one which has large side effects, such as lowering interest rates further into negative territory, and will be comparatively easier to enact provided there is no trigger, such as prolonged, sharp JPY appreciation or a downturn in overseas economies.

2.2 Exchange Rates

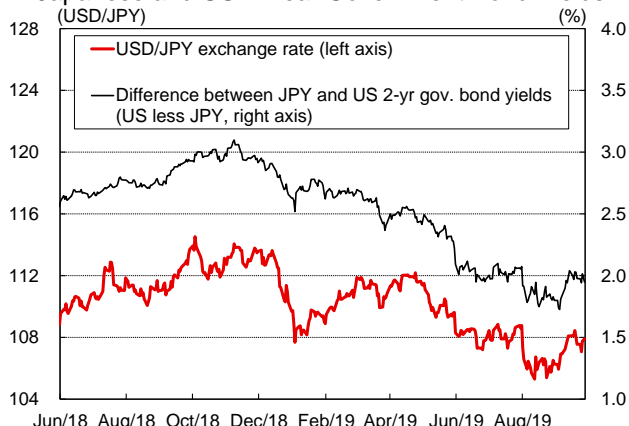
The JPY depreciated to around JPY 108 per USD owing to the rise in expectations that progress will be made at the US-China negotiations at the start of September (Chart 3). Despite the subsequent additional monetary easing carried out by central banks in Europe and the US, the BoJ decided to maintain its current monetary policy and the JPY generally remains at around the same level. Looking ahead, the JPY will avoid further, sustained appreciation due to the fact that anticipation of a fall in US interest rates has already become embedded in the JPY-USD currency market and the relatively robust US economy will encourage USD buying. Up until next year, the JPY is expected to remain around JPY 106 per USD.

Table 1: Major Central Banks' Policy Stances

	Recent changes
US	Cut interest rates by 25bp at FOMC in July and September
Eurozone	Extend the timing of its interest rate policy at meeting in September: "the Governing Council now expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics." Cut interest rates by 10bp, relaunched asset purchase programme
Australia	Cut interest rates by 25bp in June and July. Subsequently maintained its policy
New Zealand	Cut interest rates 25bp in May and 50bp in August
Japan	Added the sentence, "the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost" to its statement in July Decided to "reexamine economic and price developments at the next MPM" at its meeting in September
Canada	Maintained its view that "the current degree of monetary policy stimulus remains appropriate"
UK	Confirmed at its meeting in July that "the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction"

Note: Shaded areas show central banks which have become more dovish
Source: Each central bank, Bloomberg, MUFG Bank Economic Research Office

Chart 3: USD/JPY Exchange Rate and the Difference in Japanese and US 2-Year Government Bond Yields



Source: Bloomberg, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Sep. 30, 2019

	Fiscal	Fiscal	2018	2019		2019				
	2017	2018	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.9	0.7	1.8 (0.3)	2.2 (1.0)	1.3 (1.0)	***	***	***	***	***
Index of All Industries Activity	1.8	0.8	0.9 (1.4)	-0.5 (0.3)	0.5 (0.2)	0.8 (0.8)	0.4 (0.1)	-0.7 (-0.4)	0.2 (1.3)	
Industrial Production Index	2.9	0.3	1.4 (1.3)	-2.5 (-1.7)	0.6 (-2.3)	0.6 (-1.1)	2.0 (-2.1)	-3.3 (-3.8)	1.3 (0.7)	-1.2 (-4.7)
Production										
Shipments	2.2	0.2	1.0 (1.1)	-2.1 (-1.6)	1.0 (-2.7)	1.8 (-1.4)	1.3 (-1.8)	-4.0 (-4.9)	2.7 (1.9)	-1.4 (-4.6)
Inventory	5.1	0.2	0.9 (1.7)	0.9 (0.2)	0.9 (3.0)	0.0 (1.2)	0.5 (1.5)	0.4 (3.0)	-0.2 (2.5)	0.0 (2.7)
Inventory/Shipments Ratio (2015=100)	101.9	105.0	105.6 [102.6]	105.9 [104.3]	106.9 [104.0]	104.6 [102.8]	106.4 [104.9]	109.8 [104.2]	107.5 [105.5]	110.5 [104.4]
Domestic Corporate Goods Price Index	2.7	2.2	0.1 (2.3)	-0.8 (0.9)	0.4 (0.6)	0.4 (1.3)	-0.1 (0.7)	-0.6 (-0.2)	0.0 (-0.6)	-0.3 (-0.9)
Consumer Price Index(SA, total, excl.fresh foods)	0.7	0.8	0.4 (0.9)	-0.2 (0.8)	0.4 (0.8)	0.1 (0.9)	-0.1 (0.8)	-0.1 (0.6)	0.1 (0.6)	0.1 (0.5)
Index of Capacity Utilization (2015=100)	102.7	102.5	104.7 [103.8]	100.5 [102.2]	102.4 [103.3]	102.2 [104.3]	103.9 [104.0]	101.2 [101.5]	102.3 [101.3]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.8	2.8	-3.2 (2.0)	-3.2 (-2.5)	7.5 (4.1)	5.2 (2.5)	-7.8 (-3.7)	13.9 (12.5)	-6.6 (0.3)	
Manufacturing	9.2	3.8	-4.1 (-0.6)	-7.7 (-8.0)	2.5 (-8.5)	16.3 (-8.2)	-7.4 (-10.5)	-1.7 (-7.1)	5.4 (-9.4)	
Non-manufacturing Excl.Electric Power & Ship building	-7.8	2.1	-1.9 (4.5)	-0.3 (1.8)	13.1 (15.9)	1.2 (12.6)	-9.0 (3.0)	30.5 (30.0)	-15.6 (10.2)	
Shipments of Capital Goods (Excl.Transport Equipment)	7.0	-0.3	1.6 (1.3)	-7.4 (-6.9)	2.5 (-6.6)	0.7 (-9.3)	5.0 (-4.2)	-5.0 (-6.2)	0.2 (-3.2)	2.4 (-7.1)
Construction Orders	0.7	6.5								
Private	0.6	14.5								
Public	-5.4	-15.0								
Public Works Contracts	-4.3	1.1								
Housing Starts 10,000 units at Annual Rate, SA	94.6	95.3	95.5 (0.6)	94.2 (5.1)	91.8 (-4.7)	93.1 (-5.7)	90.0 (-8.7)	92.2 (0.3)	91.0 (-4.1)	89.1 (-7.1)
Total floor	(-2.8)	(0.7)	(2.3)	(7.6)	(-0.6)	(-2.5)	(-4.5)	(5.2)	(1.0)	(-0.8)
Sales at Retailers	1.9	1.6								
Real Consumption Expenditures of Households over 2 persons (SA)	0.3	0.0	0.2 (1.1)	-0.2 (2.0)	0.6 (3.3)	-1.4 (1.3)	5.5 (6.0)	-2.8 (2.7)	-0.9 (1.0)	
Propensity to Consume (SA,%)	71.7	69.2	68.6 [71.6]	69.8 [71.0]	67.5 [68.8]	66.9 [69.9]	71.6 [70.6]	64.2 [66.1]	71.5 [70.9]	[70.4]
Overtime Hours Worked (All Industries, 5 employees or more)	0.4	-1.7	0.0 (-2.6)	-0.7 (-2.1)	1.0 (-2.4)	1.4 (-1.8)	1.0 (-2.9)	-0.3 (-2.7)	-0.8 (-0.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.7	0.9								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	99	1	-40 (1.5)	96 (-0.8)	86 (-0.1)	88 (-0.3)	82 (-0.5)	88 (0.4)	97 (-1.0)	
Ratio of Job Offers to Applicants (SA,Times)	1.54	1.62	1.62 [1.56]	1.63 [1.59]	1.62 [1.61]	1.63 [1.60]	1.62 [1.61]	1.61 [1.61]	1.59 [1.62]	[1.63]
Unemployment Rate (SA,%)	2.7	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.2	
Economy Watcher Survey (Judgment of the present condition D.I.%)	50.5	47.8	48.3 [52.3]	46.0 [49.5]	44.5 [48.7]	45.3 [49.5]	44.1 [47.9]	44.0 [48.8]	41.2 [47.1]	42.8 [48.7]
Bankruptcies (Number of cases)	8,367 (-0.2)	8,111 (-3.1)	2,070 (-1.7)	1,917 (-6.1)	2,074 (-1.6)	645 (-0.8)	695 (-9.4)	734 (6.4)	802 (14.2)	678 (-2.3)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of Sep. 30, 2019

	Fiscal	Fiscal	2018	2019		2019				
	2017	2018	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG
Customs Clearance (Exports in Yen Terms)	10.8	1.9	(1.3)	(-3.9)	(-5.6)	(-2.4)	(-7.8)	(-6.6)	(-1.5)	(-8.2)
Value	5.5	2.5	(2.8)	(1.2)	(0.7)	(2.0)	(1.2)	(-1.2)	(-3.1)	(-2.4)
Volumes	5.0	-0.6	(-1.4)	(-5.0)	(-6.2)	(-4.3)	(-8.9)	(-5.5)	(1.6)	(-6.0)
Imports (In Yen terms)	13.7	7.2	(11.2)	(-2.0)	(-0.1)	(6.5)	(-1.4)	(-5.2)	(-1.1)	(-11.9)
Value	8.9	5.7	(6.9)	(-0.2)	(0.0)	(2.3)	(-0.2)	(-2.0)	(-7.3)	(-6.2)
Volumes	4.4	1.4	(4.0)	(-1.8)	(-0.1)	(4.1)	(-1.2)	(-3.2)	(6.7)	(-6.1)
Current Account (100 mil. yen)	221,749	192,434	26,018	59,541	45,134	17,074	15,948	12,112	19,999	
Goods (100 mil. yen)	45,396	6,963	-6,423	2,141	101	-982	-6,509	7,593	-745	
Services (100 mil. yen)	-4,567	-7,123	-3,066	3,561	-1,245	-3,127	1,372	509	-2,299	
Financial Account (100 mil. yen)	206,805	212,310	27,016	88,169	57,499	-12,667	32,451	37,715	9,170	
Gold & Foreign Exchange Reserves (\$1mil.)	1,268,287	1,291,813	1,270,975	1,291,813	1,322,279	1,293,499	1,307,975	1,322,279	1,316,452	1,331,583
Exchange Rate (¥/\$)	110.80	110.88	112.87	110.17	109.85	111.66	109.83	108.06	108.22	106.27

3. Financial Market Indicators

	Fiscal	Fiscal	2018	2019		2019						
	2017	2018	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG		
Uncollateralized Overnight Call Rates	-0.050	-0.062	-0.066	-0.054	-0.060	-0.068	-0.050	-0.063	-0.071	-0.046		
			[-0.042]	[-0.048]	[-0.065]	[-0.063]	[-0.061]	[-0.071]	[-0.070]	-0.059		
Euro Yen TIBOR (3 Months)	0.065	0.062	0.050	0.037	0.049	0.050	0.049	0.049	0.049	0.009		
			[0.063]	[0.078]	[0.084]	[0.097]	[0.078]	[0.078]	[0.091]	[0.091]		
Newly Issued Japanese Government Bonds Yields (10 Years)	0.045	-0.095	-0.010	-0.095	-0.165	-0.045	-0.095	-0.165	-0.160	-0.280		
			[0.045]	[0.045]	[0.030]	[0.050]	[0.030]	[0.030]	0.060	[0.110]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.817	0.751	0.759	0.751	0.749	0.751	0.753	0.749	0.747			
			(-0.016)	(-0.008)	(-0.002)	(0.000)	(0.002)	(-0.004)	(-0.002)			
The Nikkei Stock Average (TSE 225 Issues)	21,454	21,206	20,015	21,206	21,276	22,259	20,601	21,276	21,522	20,704		
			[22,765]	[21,454]	[22,305]	[22,468]	[22,202]	[22,305]	[22,554]	[22,865]		
M2(Average)	(3.7)	(2.7)	(2.5)	(2.3)	(2.5)	(2.5)	(2.6)	(2.3)	(2.3)	(2.4)		
Broadly-defined Liquidity(Average)	(3.1)	(1.9)	(1.6)	(1.7)	(1.8)	(2.0)	(1.8)	(1.7)	(1.8)	(1.8)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin		(2.8)	(2.2)	(2.2)	(2.3)	(2.4)	(2.4)	(2.6)	(2.3)	(2.3)	(2.1)
	Banks		(2.8)	(2.2)	(2.3)	(2.4)	(2.6)	(2.5)	(2.8)	(2.4)	(2.4)	(2.2)
	City Banks etc.		(2.0)	(1.0)	(1.2)	(1.6)	(2.4)	(2.1)	(2.8)	(2.3)	(2.5)	(2.2)
	Regional Banks		(3.6)	(4.3)	(4.3)	(4.1)	(5.1)	(5.9)	(4.9)	(4.6)	(4.4)	(4.3)
	Regional Banks II		(3.0)	(-0.4)	(-0.8)	(-0.8)	(-6.6)	(-8.6)	(-5.6)	(-5.6)	(-5.7)	(-5.7)
Shinkin		(2.7)	(2.1)	(2.0)	(1.7)	(1.4)	(1.5)	(1.5)	(1.3)	(1.2)	(1.2)	
Deposits and CDs (Average)	Total(3 Business Condition)		(4.2)	(3.4)	(3.2)	(3.1)	(2.5)	(2.6)	(2.6)	(2.3)	(2.1)	(2.3)
	City Banks		(5.9)	(4.9)	(4.6)	(4.7)	(3.5)	(3.6)	(3.7)	(3.1)	(2.7)	(3.1)
	Regional Banks		(2.5)	(2.7)	(2.6)	(2.3)	(3.4)	(3.9)	(3.2)	(3.1)	(3.1)	(3.1)
	Regional Banks II		(2.1)	(-1.3)	(-1.8)	(-2.0)	(-6.2)	(-8.1)	(-5.2)	(-5.4)	(-5.4)	(-5.4)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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