
JAPAN'S TOURISM BOOM TO BRING GROWING POLITICAL SUPPORT FOR YEN DEPRECIATION

15 Sep 2017

The boom in Japan's inbound tourism is arguably the most tangible success story of "Abenomics". Propelled by a steady stream of visa rule deregulation that started right in the first week of "Team Abe" moving into the Prime Ministers' office in December 2012, inbound tourist arrivals have risen almost four-fold, from a 2012 monthly average of 697,000 to 2.6 million recently.¹ In terms of money spent, since 2012 inbound tourist spending has accounted for the equivalent of 16% of the growth in consumer spending (excluding spending on rent).² Although the absolute amount of tourist spending is still small at less than 1.5%³ of all consumption, its exceptional growth rate has had a most positive impact on domestic Japan, with especially high positive multipliers for regional economies.

An important consequence of the success of Abe's tourism strategy will be a break with a long-established exchange rate policy preference, in my view. While in the past, the policy establishment viewed Yen depreciation as fundamentally negative for Japan because the resulting import-price cost push depressed further local business and regional economies, currency depreciation is now becoming viewed as a positive policy tool for driving domestic growth in general and regional growth in particular. From here, as the impact of the structural change that kick-started the tourism boom fades, the importance of the Yen as a driver for inbound purchasing power is poised to rise. To keep tourism strong, Japan will need a weaker Yen. All said, local political leaders—that is, the backbone of the ruling Liberal Democratic Party—are poised become more vocal advocates for Yen depreciation, in my view.

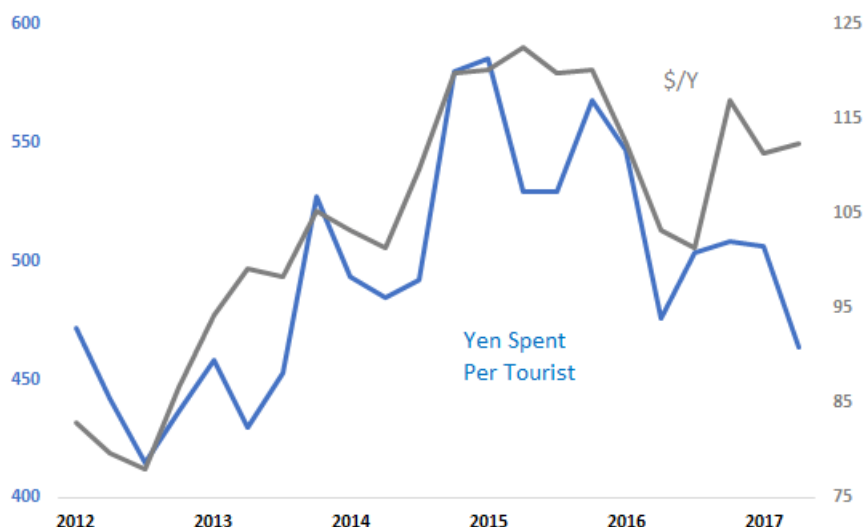
From structural boost to growing FX sensitivity

Japan's tourism strategy is arguably the most successful top-down regional growth policy implemented in an advanced economy. At first, Abe's progressive deregulation of visa rules for Chinese and ASEAN tourists released structural pent-up demand—a new travel destination for Asia's rising middle class. At the same time, the government pushed through supply-side deregulation—more airport landing slots, easier hotel building codes, etc. The result: after decades of "hollowing out," Japan's regional economies are now re-building and re-inventing themselves as tourist destinations. This is not so because of one-off big-government spending programs, but because of genuine private sector profit opportunities created by deregulation.

"Team Abe" deserves credit not only for kick-starting the cycle, but also for seeking to anchor demand-growth expectations for private hospitality entrepreneurs by setting aggressive long-term goals: Japan wants 40 million visitors by 2020 and then 60 million by 2030, a massive jump from last years' 24 million.⁴ These seem to make sense because of

Asia's population- and economic growth dynamics.

However, there is no room for complacency: despite all the positive structural tailwinds, already the exchange rate plays an important role in determining Japan's inbound tourism cycle. A strong Yen immediately cuts the purchasing power of tourists, while a weak Yen raises it. How much? Our analysis suggests that Yen appreciation cuts both visitor arrivals and average amount spent in Japan: 10-Yen of Yen appreciation appears to reduce monthly arrivals by approximately 1.2%; and cut money spent per tourist by approximately 8%. While the impact on tourist volume appears negligible, the negative impact of money spent is significant. This has important negative implications for hospitality entrepreneurs for their price point and profit strategies.



Source: Japan Tourism Agency, Bloomberg. Data for the period 31/03/2012 – 30/06/2017

Of course, from a purist analysts' perspective, it is still too early for statistically sound conclusions on the exact factor contributions driving inbound tourist spending. The structural break forced by visa deregulation is still too recent—in fact in early 2017 visa rules for Chinese nationals were eased further and currency cycles have been relatively limited between 2012–2017. However, the fact that FX sensitivity already registers as a force of significant impact—despite powerful structural tailwinds still at work—suggests that, from here, the importance of the Yen exchange rate as a key to the success of Japan's inbound strategy will only grow.

Make no mistake—to keep the tourism boom growing, Japan does need a weaker Yen. Japan's policy advocacy for Yen depreciation is poised to get stronger, in my view.

Source

¹ Japan National Tourism Organization.

² Japan Tourism Agency, Japan Cabinet Office.

³ Japan Tourism Agency, Japan Cabinet Office.

⁴ Japan National Tourism Organization.

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.