

## Japan's hotel accommodations demand in 2020

### Can an increase in inbound travelers counterbalance the impact of Japan's aging population?

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The number of Japanese travelers staying at hotels across the nation is expected to decrease in the coming years due to the declining birthrate and aging population. But an increase in inbound travelers can offset this decline, if the number of inbound tourists reaches the government target of 40 million by 2020. All the same, in areas less visited by inbound travelers, the drop in demand for Japanese lodgings will be a heavy blow. In such areas, where 90% of hotel guests are Japanese, stimulating domestic demand will be an important task.

#### 1. Introduction

Inbound travelers to Japan, while showing a slight loss of momentum from the peak years, still maintained strong growth in the first half of 2016 (+28% y-o-y). If this trend continues, the total number of overseas visitors for the year will surpass 25 million, setting a historical high.

The current trend, along with the government's policy to raise the annual target for incoming tourists to 40 million by 2020, has sparked concerns that the increase of demand for accommodations among inbound travelers will amplify the perceived hotel room shortage in the country. However, it is important to consider the changes in demand of not only inbound travelers but also the Japanese in projecting future hotel demand, because the overwhelming majority, or approximately 90%, of hotel guests (one person staying at a lodging facility is counted as one, regardless of the number of nights stayed) are Japanese.

The Japanese domestic travel market has been weak due partly to the Kumamoto earthquake. The first half of 2016 saw the number of hotel guests fall below the previous year (-3.1% y-o-y). Without a turnaround, the annual growth of travelers staying at hotels will be negative for the first time in two years.

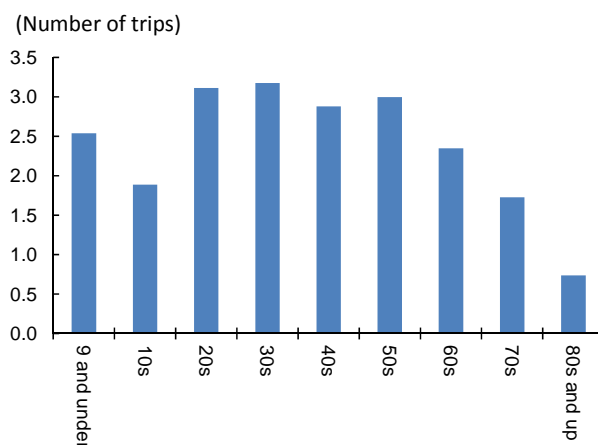
Therefore, this article shall look at the demand for hotel accommodations of Japanese travelers in 2020 as a preliminary step to examine the presumed accommodation shortage. For purposes of simplicity, our study does not distinguish between the different types of travel, such as business, leisure, and family visits.

#### 2. The declining birthrate and aging population lead to fewer Japanese hotel guests

First, we calculated the number of Japanese who travel inside the country (daytrips excluded) using medium term population estimates. As people grow older they tend to travel less frequently for various reasons, including

deteriorating physical health. Therefore, demographic changes will have a significant impact on the number of domestic travelers. **Chart 1** indicates the average number of trips taken for each age group (the number of domestic travelers divided by population). The chart clearly shows that people on average travel less often after reaching their sixties, suggesting that population aging reduces the number of domestic travelers as much as or possibly more than a dwindling population.

**[ Chart 1: Average number of overnight trips by Japanese domestic travelers ]**



Note: Average number of domestic overnight trips = Total number of domestic travelers/population

Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, *Population Estimates*; Japan Tourism Agency, *National Tourism Survey*

Next, we estimated the number of domestic travelers in 2020 using (a) population estimates (the medium variant projection provided by the National Institute of Population and Social Security Research) and (b) the average annual number of trips (the 2015 data is used assuming no change until 2020) for each age group. The estimate reveals that the number of domestic travelers will fall by approximately 11 million between 2015 and 2020, from 313 million to 302 million. A comparison of this with the 4.5 million decrease recorded between 2010 and 2015 indicates a gradual intensification of downward pressures on the number of domestic travelers in Japan stemming from the declining birthrate and aging population.

Based on the above findings, let us now project the number of Japanese hotel guests in 2020. This can be worked out by multiplying the number of travelers by the average lodging point.<sup>1</sup> Since 2011, the average lodging point has remained around one. Assuming the average lodging point of 2015, which is 1.1, remains the same through to 2020, and multiplying this number by the projected number of domestic travelers in 2020 mentioned above, we get 324.5 million hotel guests. We now know that the number of Japanese hotel guests will drop by 12 million between 2015 and 2020.

### 3. Inbound travelers offset the decline in Japanese demand for hotel accommodations

As we have seen, while the number of overseas visitors to Japan continues to grow, the decrease in Japanese domestic travelers is inevitable as the nation's demographics change. So let us consider the impact of these two dynamics.

As explained earlier, the number of Japanese who travel within Japan is expected to fall by roughly 11

<sup>1</sup> The average lodging point is the average number of lodging facilities at which a traveler stays. If, for example, a traveler stays in two different hotels in Tokyo and one hotel in Chiba during the course of a single trip, the lodging point is three. The number of lodgers in this case would be counted as three, meaning two in Tokyo and one in Chiba.

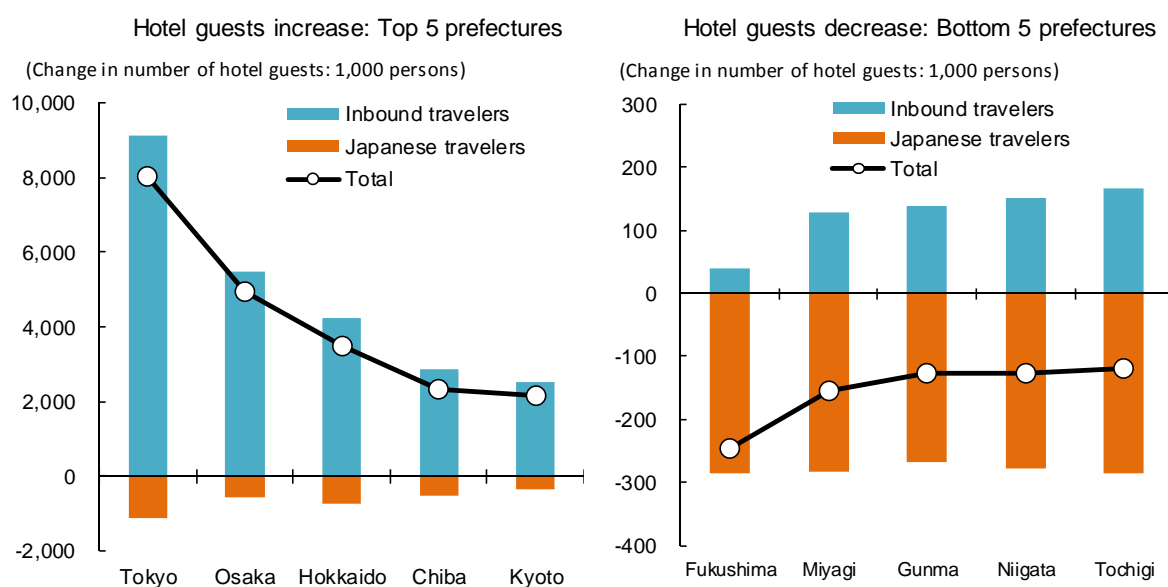
million by 2020. On the other hand, if the number of inbound travelers reaches the government target of 40 million, the increase between 2015 and 2020 will be well over 20 million, enough to compensate for the shrinking number of Japanese who travel within Japan. In addition, the average lodging point of inbound travelers is double that of Japanese travelers, at about 2.1. The increase in inbound travelers on this scale translates to 44 million more hotel guests, which more than offsets the projected 12 million decrease in demand for hotel accommodations by Japanese travelers.

#### 4. Inbound travelers may not be enough to offset the decline of Japanese travelers in some areas

It should be noted that the impact will vary from prefecture to prefecture. In areas that receive few overseas travelers, the decline in the number of Japanese travelers is bound to have a greater impact. For example, places like Tokyo and Chiba, where as many as 40 to 50% of overseas travelers pay a visit, are likely to benefit most from the overall increase in inbound visitors. The Tohoku region, meanwhile, receives less than 1% of Japan's overseas travelers and is therefore expected to be affected to a greater extent by the decline in Japanese hotel demand.

For a closer examination, we estimated the number of hotel guests by prefecture in 2020. The data in **Chart 2** was obtained by multiplying the projected number of Japanese and foreign hotel guests by each prefecture's share of tourists (assumed to remain flat from 2015 on). Tokyo, Osaka and Hokkaido ranked high on the list of areas where the number of people staying at hotels are likely to increase. The Tohoku and north Kanto regions, on the other hand, are expected to experience an overall decrease. Our projections suggest that, although it has been argued in recent years that attracting inbound travelers to local regions is an urgent priority, it may prove more effective to activate domestic tourism demand in light of the fact that a large proportion of travelers visiting the countryside are Japanese.

[ Chart 2: Changes in the number of hotel guests in 2020 (compared with 2015) ]



Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, Japan Tourism Agency, National Institute of Population and Social Security Research

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