
Mizuho Economic Outlook & Analysis

January 26, 2018

New focus on inbound tourism and updates on estimated hotel shortages

< Summary >

- ◆ The number of foreign visitors to Japan in 2017 increased 19.3% y-o-y, exceeding 28 million travelers. In 2018 Japan is expected to welcome roughly 33 million tourists, with the government target for 2020 coming into sight, but careful attention should be paid to the trend of Chinese tourists.
- ◆ Japan's inbound tourism consumption in 2017 topped four trillion yen due to the rising number of foreign tourists. Tourism consumption is projected to reach approximately 5.2 trillion yen in 2018, but the demand for cosmetics is likely to be affected by China-South Korea relations.
- ◆ As for hotel supply and demand in 2020, according to the updated estimates of new hotel openings, the likelihood of Japan facing a hotel room shortage was lower than last summer. The impact of the country's new vacation rental law will be the focus of attention in the coming years.

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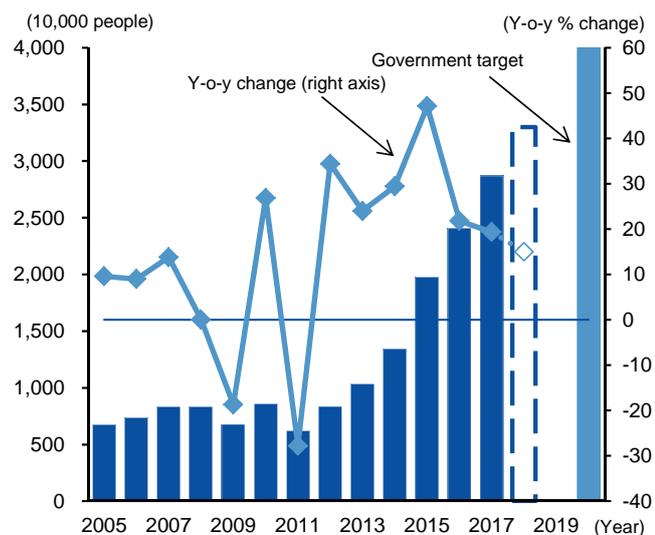
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1. The number of foreign visitors to Japan in 2018 is projected at 33 million – closely watching the future trend of Chinese tourists.

In 2017 the number of foreign visitors to Japan marked a record high for the fifth consecutive year, totaling 28.69 million, up 19.3% y-o-y (Chart 1). While the tourism boom slowed slightly compared with 2016 (up 22% y-o-y), Japan’s tourism enjoyed a steady rise with a growth rate of roughly 20%. With the number of inbound tourists exceeding 28 million, the level is now equivalent to that of Austria in 2016 (ranked 11th in the world at 28.12 million tourists), and Japan is highly likely to join the world’s top 15 most visited countries.¹ If the current pace continues, the number of foreign tourists visiting Japan in 2020 is estimated to surpass the government target of 40 million.

Japan’s strong results in 2017 were not only buoyed by the weaker yen since Donald Trump’s election as president of the United States in November 2016. The number of foreign visitors was also boosted by the rising numbers of airline routes for low-cost carriers (LCCs) and port calls for cruise ships² as well as by the relaxation of multiple-entry visa requirements for Chinese tourists.³ In addition, South Korean tourists (up 40.3% y-o-y) substantially contributed to the tourism boom, possibly because of the increased number of LCC flights, the weaker yen, and the deteriorating relationship between China and South Korea. To counter North Korean military threats, the South Korean government decided in July 2016 to deploy the US THAAD

Chart 1: Changes in the number of foreign visitors to Japan



Note: 2018 is an estimate.
Source: Made by MHRI based on the Japan National Tourism Organization (JNTO).

¹ To rank in the world’s top 15 tourism destinations, Japan needs to overtake Malaysia (26.75 million people in 2016), Hong Kong (26.55 million), Greece (24.8 million), and Russia (24.55 million). But according to the latest statistics in 2017, their y-o-y growth rates of foreign visitors are -2%, +5%, no data available, and -2.8%, respectively. In this case, it is unlikely these countries and regions, except for Greece, will attract over 28 million foreign tourists in 2017.

² Press releases (October 2017) by Narita International Airport and Kansai International Airport state that LCC international flights (per week) at both airports rose by 90 to 100 from the previous year, with the rate increasing by 3 to 4%pt. Meanwhile, according to the Ministry of Land, Infrastructure, Transport and Tourism (press release on January 16, 2018), cruise ship port calls jumped by 37.1% y-o-y to 2,765 (up 38.7% to 2,017 in 2016), reaching a record high.

³ The Ministry of Foreign Affairs announced in its press release (April 21, 2017) that effective May 8, 2017, the ministry would introduce a series of measures for Chinese travelers, including the issuance of multiple-entry visas to applicants with sufficient financial capability, the expansion of multiple-entry Tohoku Region visiting visas from three to six prefectures in the Tohoku Region, and the relaxation of multiple-entry visas for individuals with substantially high incomes.

(Terminal High Altitude Area Defense) missile defense system, but China strongly protested with retaliatory measures in 2017 that included restrictions on Chinese tours to South Korea.⁴ Such actions left South Koreans with a negative impression of China, and likely prompted South Korean tourists to choose Japan as an alternative travel destination.⁵

As for the outlook for 2018, Japan's inbound tourism is likely to maintain its upward trend with the rising numbers of cruise ship port stops and LCC flights, in addition to solid growth in the global economy.⁶ Indeed the country continues to face geopolitical risks, such as heightened tensions with North Korea, but the yen exchange rate is unlikely to change significantly from the current situation to a strong yen.⁷ On the other hand, if the currently sour relations between China and South Korea improve, South Korea's interest in travel to China will likely revive, leading to a decline in the growth rate of South Korean tourists to Japan. Based on these circumstances, the number of foreign travelers visiting Japan in 2018 is estimated at roughly 33 million (up 15% y-o-y).

When analyzing the medium-term forecast until 2020 with the same method used by Miyajima and Hirayoshi (2017),⁸ the total number of foreign visitors to Japan from the major 36 countries is expected to easily surpass 40 million from over 28 million in 2017 (**Chart 2**). Compared with the results by Miyajima and Hirayoshi (2017), this 2020 estimate is roughly four million people more than predicted because of the higher than previously projected growth rate now forecast by the International Monetary Fund (IMF) for gross domestic products (GDPs).

With projections of GDPs and foreign exchange rates greatly affected by the global economic conditions at any given time, it becomes necessary to take a certain range of estimates into account. But still If the global economy continues to recover, Japan has a high chance of achieving its inbound tourist target for 2020. However, it should be noted

⁴ The Bank of Korea (2017) stated that the Chinese government implemented a set of measures that included reducing the number of chartered flights and cruises to South Korea in January 2017 and suspending the sale of South Korean tour packages offered by Chinese travel agencies in March.

⁵ The World Tourism Organization (UNWTO) reported that approximately 4.44 million South Korean tourists visited China and roughly four million visited Japan in 2015. China and Japan are major destinations for South Korean travelers.

⁶ According to various media reports, new airline routes between Narita and Montreal (Canada), and Narita and Nadi (Fiji), are scheduled to open in 2018 (Narita International Airport press releases on August 24 and December 6, 2017, respectively). LCCs have begun new flight services between Seoul and Kagoshima (Minami-Nippon Shimbun, January 15, 2017) and are planning to offer other flights, such as between Taipei (Taoyuan International Airport) and Komatsu (the Nikkei, November 24, 2017). As for cruise ship stopovers, eight foreign cruise ships, including a luxury liner planning to arrive in April 2018, will dock at Yokohama Port for the first time (Yokohama City's press conference document, November 7, 2017), while superliners with Europeans and Americans accounting for 40% of passengers are scheduled to call at Matsuyama Port in Ehime Prefecture and Takamatsu Port in Kagawa Prefecture (the Nikkei, December 21, 2017).

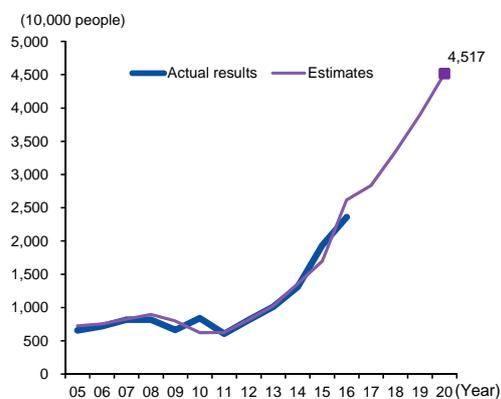
⁷ Regarding the growth rate of the global economy and foreign exchange rates, refer to MHRI's *FY2017, FY2018 Economic Outlook – Outlook on Japan's economic growth in FY2017 revised up, to a strong pace of growth reaching almost +2% –* (revised to reflect the 2nd QE for the July-September quarter of 2017)" (December 8, 2017).

⁸ For the International Monetary Fund's (IMF) estimates of GDP and prices by country, this study used the latest values announced in October 2017. The visa policy was assumed to be the same as before since 2017. See the appendix for details of the estimate results.

that due to statistical constraints these values do not reflect the supply side, such as cruise ship stopovers and LCC flights. Therefore, if the increases in airline routes and port calls level off despite the expected robust global economy, achieving the 2020 target will be difficult.

In addition to these supply constraints, the future trend of Chinese tourists presents an additional concern. According to changes in the y-o-y growth rate of Chinese tourists in 2017 (**Chart 3**), the growth rate dropped to single digits from February to July 2017, with the rate sinking close to zero at 0.2% in June. This figure is the lowest since August 2013. China’s media reports on the Fukushima nuclear power plant are believed to have induced this plunge.⁹ With the advent of e-commerce (electronic commerce), structural factors are also affecting the demand for shopping by Chinese visitors to Japan. Moreover, in the coming years, China’s campaign to promote domestic travel, as can be seen in its “toilet revolution,” may lead to a decline in travel to Japan. While the relaxation of multiple-entry visa requirements has had a positive effect on improving the growth rate since August 2017, careful attention needs to be paid to whether Chinese tourists will maintain the momentum after August 2018 when the boom starts to falter.

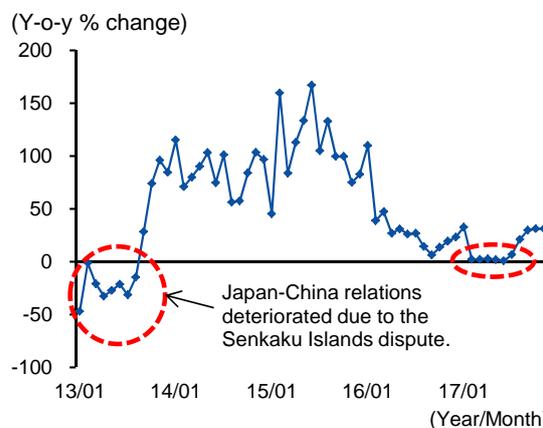
Chart 2: Estimates of the number of foreign visitors to Japan



Note: Estimates are based on 36 countries and regions (share of foreign visitors to Japan at about 98% in 2016). Future estimates are computed mechanically based on estimated parameters (see the appendix for details) and IMF’s World Economic Outlook (October 2017).

Source: Made by MHRI based on JNTO, IMF and others.

Chart 3: Changes in the number of Chinese visitors to Japan



Source: Made by MHRI based on JNTO.

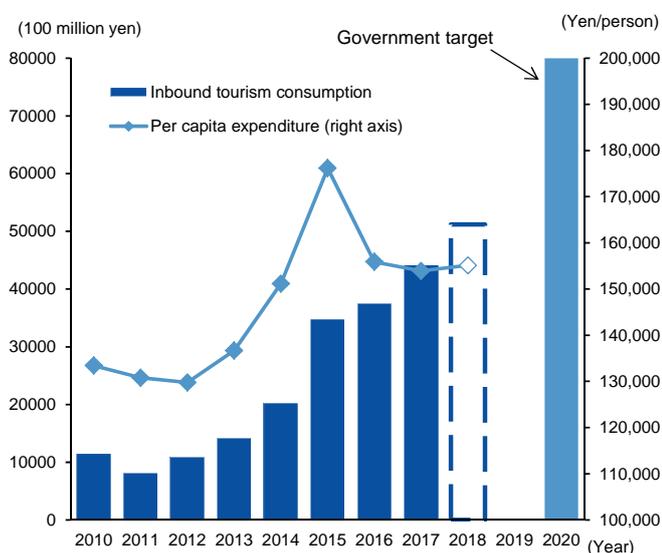
⁹ In response to high radiation levels detected inside the No. 2 reactor of the Fukushima Daiichi nuclear plant in February 2017, China’s broadcasting stations repeatedly reported concerns over Japan’s food security, in addition to the country’s Ministry of Foreign Affairs commenting on this issue. These events likely increased anxieties about traveling to Japan.

2. Inbound tourism consumption is projected at approximately 5.1 trillion yen in 2018 – China-South Korea relations likely affecting prospects.

The steadily growing number of foreign visitors to Japan accelerated the country’s inbound tourism consumption in 2017 (based on the Japan Tourism Agency’s *Consumption Trend Survey for Foreigners Visiting Japan*), up 17.8% y-o-y compared with 2016 (up 7.8%), and achieved double-digit growth (**Chart 4**). The amount of tourism consumption remained at 4.4 trillion yen, only a slight increase of 700 billion yen from the year earlier, and at this rate, the 2020 government target of eight trillion yen will be difficult to attain.

Growth in tourism consumption was mainly attributable to the solid increase in the number of foreign visitors to Japan by almost 20% y-o-y, while the per capita consumption expenditure recorded -1.3%, decreasing for the second consecutive year. The breakdown of individual spending revealed a shopping decline for two straight years. Despite recent spending showing signs of recovery because of the weaker yen since the beginning of 2017, tourists’ spending power remained slack compared with the “explosive

Chart 4: Inbound tourism consumption



Note: 2018 is an estimate.

Source: Made by MHRI based on the Japan Tourism Agency and JNTO.

shopping” boom in 2015.¹⁰ In fact, this downward trend was due to the changing buying preferences of Chinese tourists since their previous shopping spree. To closely investigate the shopping items, a content analysis was conducted using the *Economy Watchers Survey* of the Cabinet Office to illustrate the co-occurrence networks of terms related to inbound tourism¹¹ (**Chart 5**). These networks indicate that in 2017 “inbound tourism” was associated with the term “cosmetics,” which was in turn linked to terms such as “specialties,” “brand,” and “luxuries.” This pattern suggests that foreign tourists visiting Japan purchased relatively expensive brand-name cosmetics. On the other hand, during the Chinese tourist buying spree in 2015, the connection with “cosmetics” was not

¹⁰ Shopping expenditure per tourist was 73,600 yen in 2015, but the figure dipped to 57,161 yen in 2017.

¹¹ Foreign tourists, inbound tourism, Chinese tourists, Chinese group tourists, tourists visiting Japan, South Korean tourists, and “explosive shopping” were selected as terms related to inbound tourism.

confirmed, though a strong connection with “duty free” was confirmed. This is considered the result of shoppers’ keen interest in duty-free bargains for high-value items.

Compared with durable and luxury goods, such as expensive watches and home appliances, purchased during the “explosive buying” boom, daily items such as cosmetics are lower priced¹² but more frequently purchased,¹³ and can therefore be expected to continue shoring up tourist shopping expenditures. In addition, Japan’s new policy introduced in 2018 to expand the list of duty-free items¹⁴ will boost the shopping demand for cosmetics and other products to some extent. However, with purchase unit prices staying undeniably low, this policy will not be strong enough to drive up the per capita shopping expenditure.

Against this backdrop, service consumption will hold the key to improving individual tourist expenditures, but in 2017 such expenditures remained on the same level as the previous year, indicating a lack of spending power. With the number of repeat visitors to Japan increasing since 2015,¹⁵ more foreign tourists are seeking the unique experiences Japan has to offer. This type of experience-based (“*koto*”) consumption based on intangible values is promoting tourism in regions other than the major three metropolitan areas, raising the number of foreign travelers staying at local accommodations each year. Even so, this tourism trend has not lifted per capita service expenditures because of low spending on services (other than room charges), such as meals and entertainments. Per capita entertainment spending remains especially weak,¹⁶ with little prospect of boosting overall service consumption. To encourage higher individual tourist service expenditures, it would be effective to promote tourism for foreign travelers visiting local areas to extend their stays, while focusing more on attracting tourists with greater spending power from Europe, the United States and Australia. However, since such efforts take time to be successful, there is little chance of per capita service expenditures surging in the short term.

¹² In 2015 the purchase price per tourist for home appliances and electronic devices, e.g., cameras, video cameras and watches, was 43,805 and 70,487 yen respectively, while the 2017 purchase price per tourist for cosmetics and perfumes slackened at 28,514 yen.

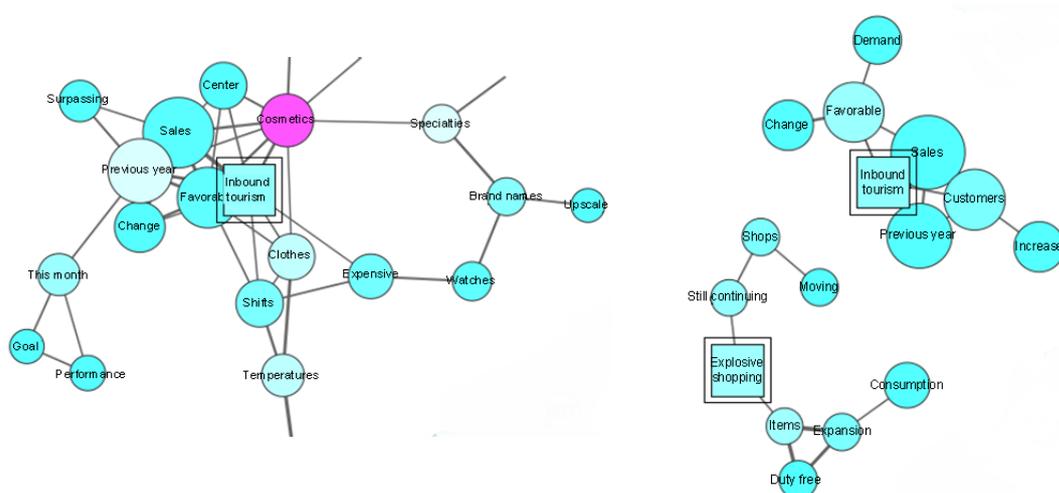
¹³ Looking at the Japan Tourism Agency’s *Consumption Trend Survey for Foreigners Visiting Japan*, the purchase rate of cosmetics in 2017 was about 46%. On the other hand, the 2015 purchase rate of cameras, video cameras and watches was stagnant at roughly 11.5%, and home appliances at approximately 19.5%.

¹⁴ Tax reform for FY2018 includes the revision to the duty-free requirement to exempt from taxation a combined total expenditure of 5,000 to 500,000 yen for general goods and consumables. Under the current system, the tax exemption requires buying either general goods or consumables totaling 5,000 yen or more. This revision is to be introduced on July 1, 2018.

¹⁵ The results of the *Survey on the Interests of Foreign Tourists to Japan from Asia, Europe, the United States, and Australia* by the Development Bank of Japan (DBJ) and the Japan Travel Bureau Foundation (JTBF) (FY2017) show that local regions, such as Kyushu, Hokuriku and Tohoku, excluding the most popular travel destinations, are more recognized with the increase in repeat visits to Japan.

¹⁶ Entertainment service expenditure per tourist in 2017 was 5,036 yen, accounting for a mere 5% of the entire service spending.

Chart 5: Co-occurrence networks of terms related to “inbound tourism”
[2017] **[2015]**



- Note:
1. Drawings used a co-occurrence network model to visualize relationships between terms.
 2. First, among “◎(good)” and “○(fairly good)” comments on the current economic conditions, businesses falling under the retail industry were picked out. (The retail industry includes department stores, supermarkets, convenient stores, home appliance retailers, and general stores.) Then among these comments, terms related to inbound tourism were selected for the drawings.
 3. A few parts were extracted among the 50 drawings.

Source: Made by MHRI based on the Cabinet Office, *Economy Watchers Survey*.

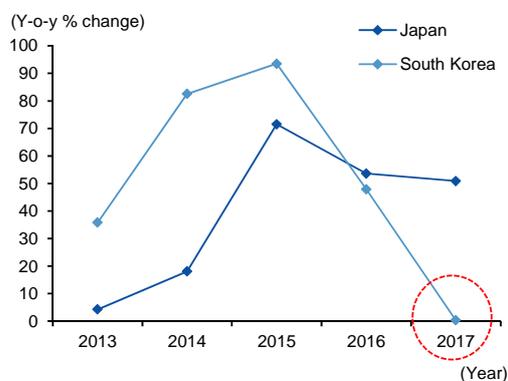
Despite the rise in number of foreign visitors to Japan, the anemic rise in per capita expenditure leads to our estimate that inbound tourism consumption will be around 5.1 trillion yen in 2018 (up 16% y-o-y).

Meanwhile, Japan needs to carefully watch China-South Korea relations as an important factor affecting the increasing demand for cosmetics. In response to South Korea’s THAAD deployment, the Chinese government took retaliatory actions, including an import ban on some South Korean cosmetics,¹⁷ causing cosmetic exports from South Korea to China to plunge in 2017 (**Chart 6**). The number of Chinese travelers to South Korea also dropped off (**Chart 7**), with a dramatic decrease especially in cruise ship travelers visiting South Korea primarily for shopping.

For these reasons, soured relations between China and South Korea have resulted in lost opportunities for Chinese consumers to purchase South Korean cosmetics, possibly resulting in a demand shift to Japanese cosmetics. Once the two nations begin to restore relations, Japan’s cosmetics boom may lose momentum.

¹⁷ According to the Bank of Korea (2017), the Chinese government banned the import of some South Korean cosmetics in January 2017.

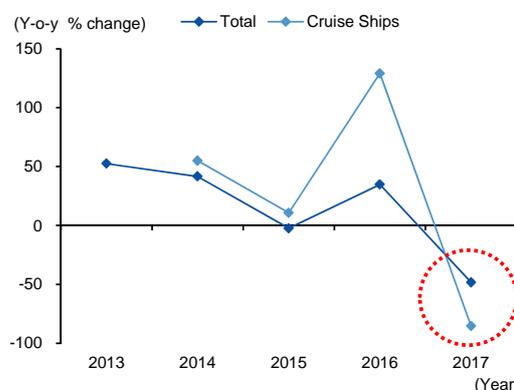
Chart 6: Japan and South Korea's cosmetic exports to China



Note: 1. The HS code for cosmetics is the same as the Principal Commodity code of the Trade Statistics of Japan, the Ministry of Finance.
 2. Japan's values in 2017 are the growth rates up to November.
 3. Exports are the total exports to mainland China and Hong Kong.

Source: Made by MHRI based on the Ministry of Finance, *Trade Statistics of Japan*, and the Korea International Trade Association.

Chart 7: Number of Chinese tourists visiting South Korea



Note: Values for cruise ships in 2017 are the growth rates up to November.

Source: Made by MHRI based on CEIC Data and the Korea Tourism Organization (KTO).

3. Concerns over the short supply of hotels in 2020 are fading – focusing attention on the impact of the new vacation rental law.

Expected with the steady rise in foreign visitors to Japan is a greater demand for hotels and other accommodations. However, Miyajima and Hirayoshi (2017) pointed out that the growing number of foreign tourists using cruise ships and vacation rentals has significantly alleviated concerns over the shortage of hotel accommodations. This study provides simplified updates on the estimates calculated by Miyajima and Hirayoshi (2017). More specifically, we updated the information on new hotel openings using the *Weekly Hotel and Restaurant* magazine (December 1, 2017 issue) published by Ohta Publications and recalculated the balance of hotel room supply and demand for 2020 based on the demand for accommodations estimated by Miyajima and Hirayoshi (2017). Therefore, it should be noted that our study's estimates are simplified updates that focus merely on new hotel plans on the supply side.

Chart 8 is a list of estimate scenarios (for details see Miyajima and Hirayoshi, 2017). The scenarios contain nine patterns of estimates with three types of “normal,” “upswing,” and “downswing” accommodation demands from Japanese and foreign travelers. On the other hand, the estimates for hotel room supply are based on two types of “normal” and “downswing” scenarios.

Chart 8: List of estimate Scenarios
[Estimate scenarios on the demand side]

< List of scenarios >

	Japanese	Foreigners		Japanese	Foreigners
Scenario 1	Normal	Normal	Scenario 6	Upswing	Downswing
Scenario 2	Normal	Upswing	Scenario 7	Downswing	Normal
Scenario 3	Normal	Downswing	Scenario 8	Downswing	Upswing
Scenario 4	Upswing	Normal	Scenario 9	Downswing	Downswing
Scenario 5	Upswing	Upswing			

Note: See Miyajima and Hirayoshi (2017) for details.

Source: Made by MHRI based on Miyajima and Hirayoshi (2017)

Chart 9 is an overview of the estimate results. Looking at case (1) of the normal supply scenario, the estimates indicate that a shortage of hotel rooms will not occur in any region, even including Tokyo and Osaka, because more hotels are scheduled to open than calculated six months ago.

However, case (2) of the downswing supply scenario reveals that hotel shortages in most areas, including Osaka, remained the same as the previous estimates; but the shortfalls were notably reduced compared with the earlier estimates.

As shown above, compared with the previously analyzed estimates, the growing number of new hotel plans is further easing concerns over the imminent shortage of tourist accommodations. However, considering hotel construction delays due to labor shortages in the construction industry and seasonal fluctuations in tourism demand, insufficient numbers of hotel rooms may pose a more serious risk than this study's estimates.

Chart 9: List of estimate scenarios
Case (1) scenario on the supply side – Normal

		(10,000 rooms)									
Compared with the projected number of rooms in 2020	Japanese Foreigners	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9	
		Normal	Normal	Normal	Upswing	Upswing	Upswing	Downswing	Downswing	Downswing	Downswing
		Normal	Upswing	Downswing	Normal	Upswing	Downswing	Normal	Upswing	Downswing	
Japan		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Hokkaido		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Tohoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Kanto (excluding Tokyo)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Tokyo		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Koshinetsu/Hokuriku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Tokai		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Kinki (excluding Osaka)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Osaka		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Chugoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Shikoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Kyushu		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Okinawa		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	

Case (2) scenario on the supply side – Downswing

(10,000 rooms)

Compared with the projected number of rooms in 2020	Japanese Foreigners	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
		Normal	Normal	Normal	Upswing	Upswing	Upswing	Downswing	Downswing	Downswing
		Normal	Upswing	Downswing	Normal	Upswing	Downswing	Normal	Upswing	Downswing
Japan		0.00	0.82	0.00	0.63	1.43	0.45	0.10	0.31	0.02
Hokkaido		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tohoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kanto (excluding Tokyo)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokyo		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Koshinetsu/Hokuriku		0.00	0.03	0.00	0.06	0.07	0.06	0.00	0.00	0.00
Tokai		0.00	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00
Kinki (excluding Osaka)		0.00	0.43	0.00	0.43	0.58	0.25	0.10	0.25	0.00
Osaka		0.00	0.22	0.00	0.02	0.52	0.00	0.00	0.00	0.00
Chugoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shikoku		0.00	0.13	0.00	0.12	0.18	0.14	0.00	0.07	0.02
Kyushu		0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00
Okinawa		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(Reference) Previous estimates: Case (1) scenario on the supply side – Normal

(10,000 rooms)

Compared with the projected number of rooms in 2020	Japanese Foreigners	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
		Normal	Normal	Normal	Upswing	Upswing	Upswing	Downswing	Downswing	Downswing
		Normal	Upswing	Downswing	Normal	Upswing	Downswing	Normal	Upswing	Downswing
Japan		0.00	0.08	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Hokkaido		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tohoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kanto (excluding Tokyo)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokyo		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Koshinetsu/Hokuriku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokai		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kinki (excluding Osaka)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Osaka		0.00	0.08	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Chugoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shikoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kyushu		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Okinawa		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(Reference) Previous estimates: Case (2) scenario on the supply side – Downswing

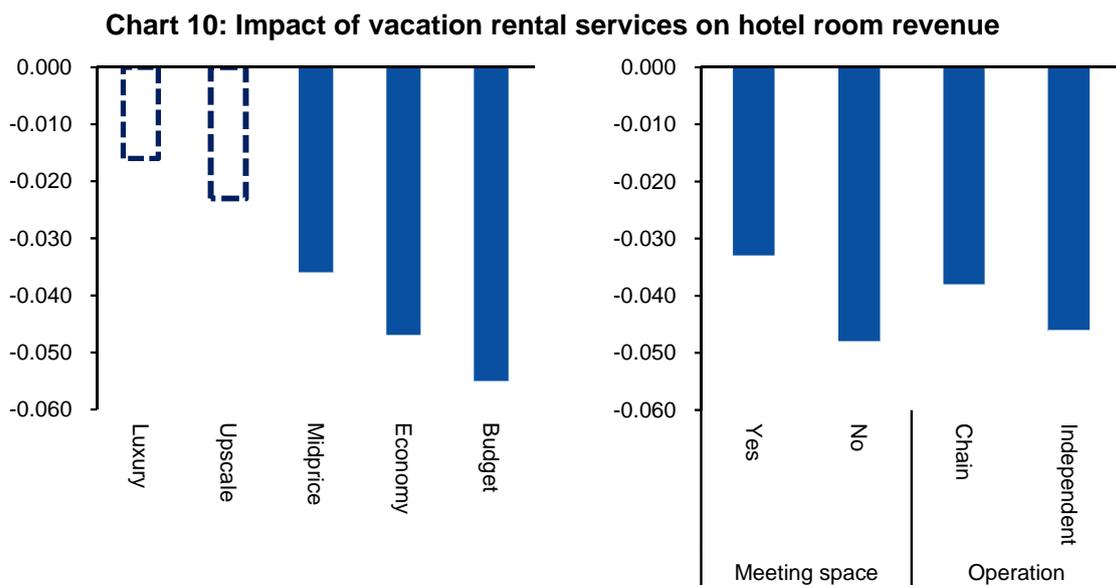
(10,000 rooms)

Compared with the projected number of rooms in 2020	Japanese Foreigners	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
		Normal	Normal	Normal	Upswing	Upswing	Upswing	Downswing	Downswing	Downswing
		Normal	Upswing	Downswing	Normal	Upswing	Downswing	Normal	Upswing	Downswing
Japan		0.00	1.36	0.00	1.29	2.34	0.58	0.24	0.66	0.08
Hokkaido		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tohoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kanto (excluding Tokyo)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokyo		0.00	0.00	0.00	0.12	0.33	0.00	0.00	0.00	0.00
Koshinetsu/Hokuriku		0.00	0.03	0.00	0.06	0.07	0.06	0.00	0.00	0.00
Tokai		0.00	0.01	0.00	0.00	0.07	0.00	0.00	0.00	0.00
Kinki (excluding Osaka)		0.00	0.57	0.00	0.57	0.72	0.39	0.23	0.38	0.06
Osaka		0.00	0.62	0.00	0.41	0.91	0.00	0.00	0.21	0.00
Chugoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shikoku		0.00	0.13	0.00	0.12	0.18	0.14	0.00	0.07	0.02
Kyushu		0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00
Okinawa		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Estimated by MHRI based on the Japan Tourism Agency, *Overnight Travel Statistics Survey*, Ohta Publications, *Weekly Hotel and Restaurant* (December 1, 2017), and others.

The enactment of a new vacation rental law will be a major highlight of Japanese tourism in 2018. With this new law likely to cap lodging rentals at 180 days and authorize local governments to impose their own restrictions, vacation rental services are unlikely to rapidly expand after its introduction. But as Miyajima (2017) pointed out, potential needs are great among foreign tourists, particularly from Asia, who want to fully utilize their vacation rentals. According to a study by the Japan Tourism Agency, about 12.4% of foreign visitors to Japan used vacation rental services during the period from July to September in 2017, thereby helping to mitigate the shortage of lodging facilities.

There are concerns that the expansion of rental vacation services will trigger intense competition with existing hotels and inns and squeeze their revenues. But according to the results of an empirical analysis by Zervas et al. (2017) using data for the US state of Texas, not all hotels and inns are equally affected. **Chart 10** illustrates the analysis results by Zervas et al. (2017). The data show that the growing number of vacation rental businesses negatively affected the revenue of medium and low-priced hotels, and in terms of hotels by operation type, non-business and independent hotels suffered losses. These results suggest that rooms and services, including amenities, provided by vacation rentals are different from what more expensive hotels, such as city hotels, have to offer. Nevertheless, for hotel businesses expected to compete with vacation rental services, the new law to be introduced in 2018 will be an important touchstone for evaluating their strategies in the future.



Note: Impact (%) of Airbnb's 1% supply increase on hotel room revenue. Dashed line bars represent no statistical significance.

Source: Made by MHRI based on Zervas et. al (2017)

At present, with no comprehensive statistical studies on Japan's private accommodation rentals, it is difficult to properly understand the overall picture of the vacation rental industry, let alone its customers. After the introduction of the new vacation rental law, conducting detailed statistical analyses will be important in examining the effectiveness and future direction of policy measures.

Addendum: Estimate of inbound tourists to Japan

Reference material:

Refer to the original Japanese report by clicking the URL below for the addendum and reference material

<https://www.mizuho-ri.co.jp/publication/research/pdf/insight/jp180126.pdf>