The Tohoku Pacific earthquake and tsunami which struck Japan on 11 March proved to be the most serious natural disaster to hit the country since the Kobe earthquake of 1995, and has had significant short-term economic and travel impacts. An initial report was prepared by Oxford Economics on behalf of the World Travel & Tourism Council (WTTC) in May 2011.

This first report considered different scenarios for Japan's tourism recovery and suggested the overall impact of the earthquake and tsunami could range from a reduction of ¥0.9 trillion to ¥1.9 trillion in Travel & Tourism's contribution to Japan's GDP in 2011.

This second report reviews more recent economic and Travel & Tourism developments and trends using additional available data from the Japan National Tourism Organization (JNTO), STR Global and the International Air Transport Association (IATA). The actual situation is compared with the forecast scenarios to provide an indication as to the path the recovery is taking and within which scenarios the recovery might sit.

A further update this autumn will revisit the recovery scenarios for Japan's Travel & Tourism industry in line with the latest data, and will present a revised estimate for the economic impact of the earthquake and tsunami.
Macroeconomic impact

Initial estimates of the damage resulting from the disaster suggested a total cost in the region of US$300 billion, or around 6% of Japanese GDP. Put in perspective, this figure is three times the estimated damage caused by the 1995 Kobe earthquake – thought to have been in the region of US$100 billion. The Japanese Cabinet Office has estimated that damage to stock (housing, private plants and equipment) amounted to 1% of the total national stock.

Latest economic data indicates some recovery within the Japanese economy in the wake of March’s earthquake and tsunami. Industrial production rebounded from April onwards with a growth of 6.2% in May and 3.8% in June. However, this is not yet sufficient to fully offset the initial 15% fall experienced in March. Production in June remained lower than in 2010 and was 5% lower than in February, on a seasonally adjusted basis.

The automotive industry has contributed significantly to the recent industrial production growth. According to a Japanese Government report, eight Japanese global automotive companies are expected to increase total output by approximately 4% in fiscal 2011/12.

In the aftermath of the Kobe earthquake, Japan’s economy rebounded quickly thanks to significant reconstruction efforts by the government. Approximately two thirds of GDP growth at the time was as a direct result of government investment and consumption. Similarly, following the more recent disaster, there has also been considerable recent growth in the construction sector; in May, annual growth in construction orders were up over 25%. However, there are two key differences between the economic recovery after the Kobe earthquake and the Tohoku Pacific earthquake. First, the weaker fiscal position of the Japanese Government with net public debt at 120% of GDP and a budget deficit of 10% of GDP; and second, the nuclear emergency at Fukushima which has inevitably delayed major reconstruction efforts in certain areas.

Oxford Economics’ GDP forecasts for 2011 were revised downwards immediately following the earthquake and tsunami, from annual growth of 1.3% to just 0.5%. Latest estimates of GDP in Japan have been further downgraded, with GDP now projected to decline by 0.4% in 2011. However, a stronger rebound is now expected for 2012 than previously predicted with forecast growth of 2.9% for the year.

A major contributing factor to the downgrade of Japan’s 2011 GDP growth forecast is the weaker global macroeconomic backdrop. As it is one of the world’s largest exporters, Japan’s economic recovery depends heavily on the global economic recovery. However, fragile growth in key export markets like the EU, which accounts for 12% of Japanese exports, poses a risk to Japan’s future economic recovery and growth.
Impacts on Japan’s inbound and domestic tourism

In the May 2011 report, preliminary scenarios for the recovery and growth of Japan’s Travel & Tourism industry were established. These scenarios suggested the impact of the earthquake and tsunami could range from a reduction of ¥0.9 trillion to ¥1.9 trillion in Travel & Tourism’s contribution to Japan’s GDP in 2011.

The central assumption was that worries about destroyed facilities and fears regarding further quakes or nuclear safety would continue to have an adverse impact on international arrivals until 2013. It was further assumed that domestic demand would not fully return to baseline levels until early 2012 (baseline levels refer to forecasts made prior to the earthquake).

Recent data available appears to be in line with the low impact scenario, following initial sharp falls in demand:

- Data from JNTO shows that foreign visitor arrivals in June and July were 36% lower than in the same period last year. This is an improvement on the larger falls in previous months and is in line with the low impact scenario. But full recovery still remains some way off.

- Total Travel & Tourism demand improved significantly in June and July relative to previous months since the quake, and was roughly 5% lower than 2010 levels for the same months. This is according to hotel room demand data from STR Global, which is a good high-frequency indicator of total Travel & Tourism demand trends. This suggests the overall demand trend is broadly in line with the low impact scenario.

- The relative improvements in international and total demand indicators suggest that domestic Travel & Tourism demand has improved significantly. Oxford Economics estimates that domestic Travel & Tourism demand was only 2% lower in the three months to July 2011 than in the same period in 2010, and may even have been marginally higher than a year earlier in July.
Further communication of the message that the Fukushima nuclear plant is contained, and that there are no safety concerns in visiting the region, will help the ongoing recovery in international tourism. In the immediate aftermath of the earthquake and tsunami the nuclear emergency was a key uncertainty that posed a significant threat to any early recovery in international demand.

The Japanese Government has reiterated that there are low levels of radiation, while the International Atomic Energy Agency deployed an expert mission to Japan in the wake of the disaster. Findings from this mission have reflected positively on the quick response of the Japanese authorities to minimise and control the situation. Moreover, the World Health Organization “is not advising general restrictions on travel to Japan”.

Unsurprisingly, the largest Travel & Tourism impacts as a share of baseline activity have been in Sendai and the broader Tohoku/Kanto region, which bore the brunt of the tsunami damage. The number of available hotel rooms in Sendai fell by 50% in March according to STR Global. Some initial closures may have been precautionary, but more recent room supply data remains at 40% lower than at the same time a year earlier. Room demand has also fallen significantly, although not by as much as supply in some months. However, some of this is accounted for by temporary demand from workers in the clean-up and rebuilding operations.

Significant impacts can also be seen in Tokyo even though the city was not directly affected by the tsunami. Room demand has fallen by 15% in the year to July - a greater decline than for Japan as a whole, but with a clear improvement in recent months.

Even with continued recovery in international and domestic demand, the impacts will be felt for some time, not least in Sendai.
However, the potential role of Travel & Tourism in the recovery and in the regeneration of the region should not be undermined – whether in terms of stimulating physical reconstruction or in re-instilling confidence and boosting tourism demand. Helping to deliver this message, the World Travel & Tourism Council will be holding part of its 12th Global Summit in Sendai in April 2012.

“The recovery of Japan is one of the most compelling issues facing global Travel & Tourism. I’m delighted that we will be able to bring the industry’s leaders to Sendai during the Summit week in 2012 as it sends a clear message about our commitment to showing that Japan in general, and the Tohoku region in particular, have recovered from the tragic events of 11 March and are ready to rediscover their position among the world’s premier tourism destinations.”

David Scowsill, WTTC President & CEO

Impacts on Japan’s outbound tourism

JNTO estimates that Japanese departures fell by 9.1% in March from the same period in 2010. This represents a decrease of approximately 142,000 trips – from 1.56 million to 1.42 million. It is however worth noting that the situation is not as bad as initially feared – outbound departures for March have since been revised upwards by 140,000, from an preliminary estimate of 1.28 million.

More recent data on outbound travel indicates that the trend in departures has improved, with positive growth reported for July – the first month of annual growth since February. This confirms the estimated upward trend in domestic demand as an indicator of increasing confidence in travel, and is clearly good news for other destinations heavily reliant on Japanese tourists.

Recent appreciation of the yen to record strong levels against the US dollar has also exerted a strong influence on outbound travel trends by increasing purchasing power overseas. The yen has been strong since the beginning of the year, but has continued to strengthen at a faster pace than originally expected in baseline projections. Our models suggest this may have added as much as 4% growth to departures over our baseline forecasts, and it diminishes the effect of a rebound in travel confidence.

Japanese Departures
(% Change)

Source: Japan National Tourism Organization (JNTO)
*Figures for February and March 2011 are preliminary estimates by JNTO
International Air Transport Association (IATA) data shows that revenue passenger-km (RPK) for Japanese airlines fell by 24.6% year on year in June 2011, heavily influenced by the continued falls in international arrivals. Although still significant, this decline follows much larger falls earlier in the year — the result of major damage to Sendai airport and the brief suspension of operations at both Tokyo Narita and Tokyo Haneda airports. It was mid-April before Sendai Airport resumed normal operation.

An improving trend can also be confirmed by looking at the arrivals trend for key Japanese outbound tourism destinations such as Hawaii. Arrivals of Japanese tourists fell sharply in March and April to levels 24% lower than in 2010. Data for recent months still shows year-on-year falls, but these have been much more moderate: arrivals were just 9% lower in July than a year earlier.

![Japanese Visitors to Hawaii 2011 (% change year-on-year)](chart)

### Conclusions

With five months of tourism data now available since the earthquake and tsunami struck, general travel trends are showing clear signs of improvement. The earlier low impact scenario appears to be the most plausible outcome and recovery in domestic demand, in particular, appears to be strong. However, full recovery is still not currently expected until 2012.

The low impact scenario expects a 28% fall in visitor exports for the full year 2011 compared with baseline levels (equivalent to a ¥344 billion fall in spending). With a 7% fall in domestic spending (¥1,396 billion) the direct Travel & Tourism contribution to GDP and employment is expected to be roughly 8% lower than baseline.

| Travel & Tourism effects - low impact (changes compared with baseline levels) |
|---------------------------------|----------|----------|----------|----------|
| Visitor exports (¥bn)           | -344     | -16      | 0        | 0        |
| Domestic expenditure (¥bn)      | -1,396   | -93      | 0        | 0        |
| Direct GDP contribution (¥bn)   | -880     | -35      | 0        | 0        |
| Direct GDP contribution (%)     | -5.3     | -0.3     | 0.0      | 0.0      |
| Employment (’000)               | -121     | -5       | 0        | 0        |

The overall economic impacts from the earthquake and tsunami do not appear to be any worse than Oxford Economics’ immediate estimates, and the safe containment of the Fukushima nuclear plant removes a large element of uncertainty in the recovery process. Oxford Economics’ forecasts for Japan’s GDP has been downgraded since the previous report, but this is largely due to external economic conditions.

The next update of this report will be released in the autumn and will reconsider the scenarios for recovery and growth of the Travel & Tourism industry in light of new data.