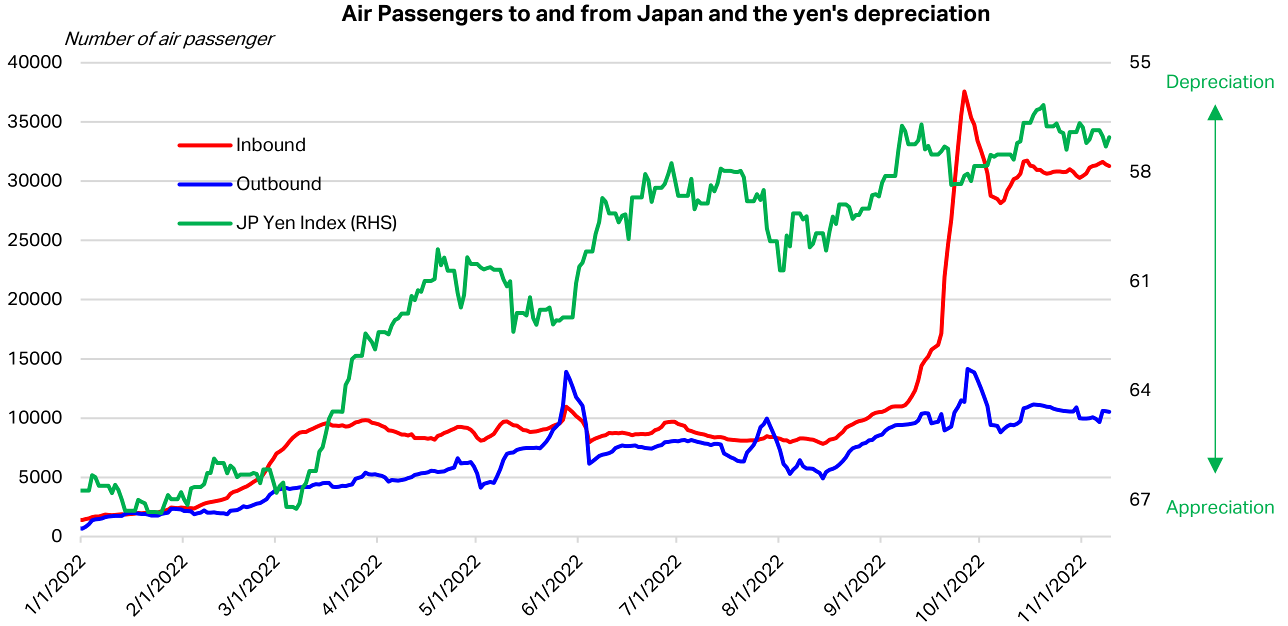
IATA Economics' Chart of the Week

25 November 2022

Japan's weak currency dampens outbound travel



Sources: IATA Economics, MacroBond, and author's calculation.

- Following the relaxation of COVID-related travel restrictions, Japan's airline industry saw an immediate boost to inbound travel (see chart above, red line). Outbound travel, however, has not benefited from the lifting of restrictions (blue line), This divergence relates to the significant weakening of the Japanese yen (green line). Shown here is the real effective exchange rate index – a trade-weighted and inflation-adjusted measure.

- After more than two years of strict travel restrictions during the pandemic, multiple Asian economies, including Japan, Hong Kong, and Chinese Taipei, announced the lifting of many such measures in September. Japan now allows visa-free tourism, and the country has abolished the daily cap on arrivals as well as pre-arrival PCR tests for vaccinated travelers.

- Japan's international passenger traffic hovered around 20% of pre-pandemic levels at the end of August, well below the 85% seen in the US, and the 79% regarding Europe. Visitors to Japan took immediate advantage of the lifting of restrictions and ticket bookings to Japan from abroad more than tripled in three-week's time. This brought inbound travel to 50% of its pre-pandemic level as per the end of September.

- The strong response in inbound travel is further stimulated by the weak Japanese yen which has depreciated by nearly 21% against the US dollar over the course of this year, making Japanese goods and services cheaper for US visitors by the same magnitude. On the trade-weighted and inflation-adjusted basis, the yen has lost more than 15% of its values year-to-date. This, of course, makes it much more expensive for Japanese travelers to go abroad. Hence, ticket bookings from Japan remain depressed at 20% of pre-pandemic levels.

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