The Japanese Outbound Travel Market

ETOA

EUROPEAN TOUR OPERATORS ASSOCIATION

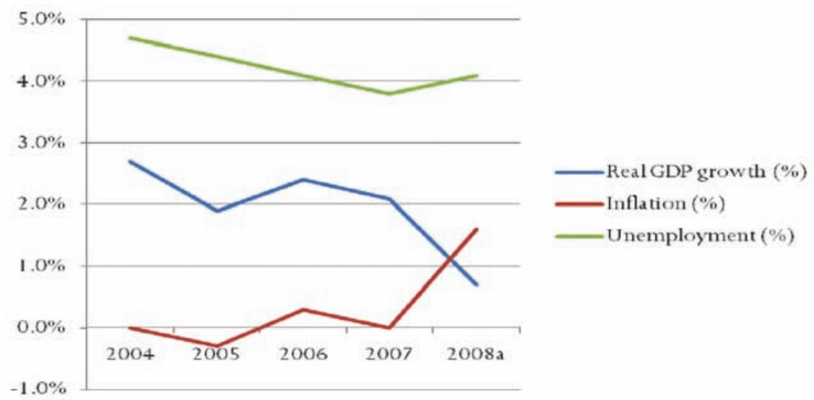
Market overview

- According to the World Tourism Organization (UNWTO), Japan ranks as the seventh largest market in the world for international tourism with expenditure abroad of US$26.5 billion in 2005, excluding transport.
- The Japanese made 17.3 million outbound trips in 2007, of which an estimated 3 million (17%) were to Europe.
- The leading destinations in Europe include Germany, France, Italy, Switzerland, the UK and Austria.
- In 2007 Japan seemed to be coming out of the recession that had lasted since the early years of this decade. But estimates for 2008 point to a decline in outbound trips. This would mean the market is still down on its 2000 peak of 17.8 million.
- Long-haul trips have suffered disproportionally, falling from a peak of nearly 60% of total trip volume in the late 1990s to around 45% in 2007. Leisure travel in particular has been diverted to less expensive destinations in Northeast and Southeast Asia.
- Europe has been one of the destination regions hardest hit since 2007. This is attributable to unfavourable exchange rates for the Japanese and high airline surcharges.
- But the global financial crisis of 2008 has brought about a strong appreciation in the yen and a fall in fuel prices.
- Less than 25% of Japanese have ever travelled abroad, and only 5% travel abroad every year.
- Europe remains a favourite in terms of the Japanese destination wish list. The Japanese feel a strong affinity for Europe and its scenic, cultural and historical attractions

Key demographic and economic facts and trends

- Japan's population is estimated at 127.5 million in 2008.
- The 2008 population is 0.5% smaller than 2006. It is forecast that the population of Japan will have declined to 96.7m by 2047.
- Two thirds are urban dwellers with 8 million living in the capital, Tokyo and 30 million in the greater Tokyo conurbation.
- The population is ageing. Japan's life expectancy is the third highest in the world while the birth rate ranks a low 215th.

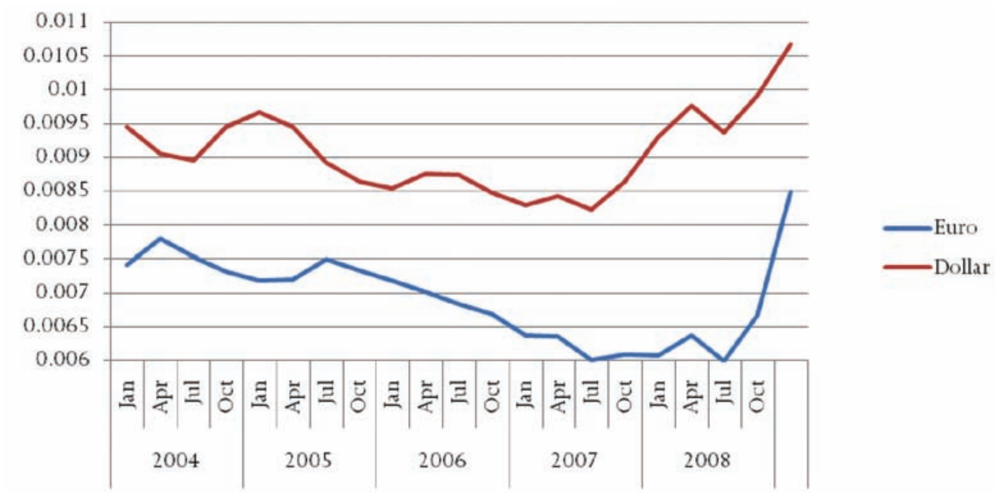
Figure 1: Economic data, 2004-08



Source: International Monetary Fund (IMF)

- In 2005, 34.3% of Japanese were 55 years of age and over; the share of that age group in 2020 is forecast at well over 40%.
- Japan is the world's second largest economy (roughly the size of Germany and France combined).
- After a prolonged period of stagnation, growth started to pick up from 2004, but it is now forecast by the International Monetary Fund (IMF) to fall to 0.7% in 2008 and 0.5% in 2009.
- Real incomes increased slightly in 2005-06, but these increases have been offset by rises in taxation and pension contributions, adding to declining consumer confidence.
- Unemployment levels have remained fairly flat, even falling slightly since 2004 to around 4%.
- Consumer prices had been falling but they are now rising and are forecast to increase by 1.6% in 2008 and 0.9% in 2009.

Figure 2: Buying power of Yen 2004-8



- The yen has fluctuated sharply against the US dollar and euro in the past few years but has recently picked up strongly against the dollar, reaching ¥94.3 per US$1 on 27th October. Against the euro it depreciated from a rate of ¥126 in July 2004, to reach a low of ¥169.5 in July 2008. Since then it has strengthened spectacularly reaching ¥115 on October 27th: a 45% surge over three months and its highest value for over six years.

Outbound travel volume

- 2007 saw the first decline in Japanese outbound trips overall since 2003 (the year marked by SARS) and the first since the 1990s in the absence of such extraordinary incidents as terrorism.
- In the case of Europe and other long-haul destinations this decline was attributed to unfavourable exchange rates. Other factors were fuel surcharges for flights, concerns among older travellers about disposable incomes and pensions, and a continued fall in the level of foreign trip-taking by young people.
- Japanese outbound trip volume fell 3% in the seven years to 2007, from a peak of 17.8 million in 2000.
- Travel to Europe has fallen from a peak of around 20% of total trip volume to an estimated 17%, or 18.4% in terms of holiday travel alone.
- Against this trend, the number of nights per trip to Europe, which fell to an average of 7.6 in 2006, increased again last year, to 8.3 nights.

Figure 3: Japanese outbound trips, 2004-08

	2004	2005	2006	2007	2008[a]
Total ('000)	16,832	17,404	17,535	17,295	16,250
% annual change	26.6	3.4	0.8	-1.4	-6.0

[a] Forecast

Sources: Japan National Tourist Organization (JNTO); UNWTO; Japan Travel Bureau (JTB) Foundation

International travel expenditure

- Research from the Japan Travel Bureau (JTB) Foundation suggests that the average expenditure per trip to Europe is around €3,000 (€5,400 including shopping). This compares with US$2,791 for all outbound trips.
- IPK International ranks the Japanese as the highest spenders per traveller on international travel.

Figure 2: International travel expenditure, 2004-08

	2004	2005	2006	2007	2008a
Total (US$ billion)	38.2	27.3[b]	26.9	26.5	24.5
% annual change	32.7	-27.3[b]	3.8	-0.2	-7.5
Spend per trip ($)	1,943	1,569[b]	1,534	1,532	1,508

[a] Forecast; [b] Change of methodology between 2004 and 2005, which distorts trend

Sources: Bank of Japan; World Tourism Organization (UNWTO)

Leading destinations

- There has been a noticeable shift to short-haul destinations in the last decade for holiday travel by Japanese, and this is likely to continue, although Europe remains a firm favourite in Japanese destination wish lists (see below).
- The only long-haul destination to show growth at the start of 2008 was mainland USA.
- Detailed comparison data for 2007 is not yet available. But the USA is the number one destination, including Hawaii and Guam (although it has lost share in recent years), followed by China, South Korea, Thailand, Hong Kong and Taiwan.
- The most important destinations in Europe are Germany, France, Switzerland, the UK, Italy and Austria, but some emerging destinations in Eastern Europe have performed better through the past few years than the leaders.
- The most popular future destinations (those the Japanese say they would like to visit in the next three years) are:

Figure 4: The most popular destinations for future holiday travel by Japanese[a], 2007

Destination	% share of responses
Europe (as a whole)	49.7
Hawaii	34.8
US mainland	27.4
Italy	23.7
Australia	23.7
France	23.3
Spain	17.8
South Korea	17.3
Germany	16.0
UK	14.3

[a] % citing the destination in response to survey

Source: Research by JTB Foundation

- Of all destinations in Europe, Scandinavia has shown the biggest increase in popularity over the past 12 months.
- Actual growth trends in arrivals and overnights in 2007 for selected European destinations are shown in the following table.

Figure 5: Trends in tourist arrivals and overnights from Japan in selected European destinations, 2007

(% annual change)

Destination	Arrivals	Nights	Period covered (arrivals/nights)
Austria	-14.4	-15.5	Jan-Dec/Jan-Dec
Belgium	-0.2	-0.6	Jan-Dec[a]/Jan-Dec[a]
Bulgaria	5.0	-21.6	Jan-Dec[a]/Jan-Dec
Croatia	na	na	
Cyprus	22.1	81.3	Jan-Dec[a]/Jan-Dec[a]
Czech Republic	-6.4	-5.8	Jan-Dec/Jan-Jun
Denmark	na	-8.8	Jan-Dec
Estonia	-16.0	-21.1	Jan-Oct/Jan-Dec
Finland	na	4.7	Jan-Dec
France	7.0	-4.0	Jan-Dec[a]/Jan-Dec[a]
Germany	-12.9	-13.7	Jan-Dec/Jan-Dec
Greece	15.4	19.5	Jan-Sep[a]/Jan-Sep[a]
Hungary	-7.5	-0.7	Jan-Dec[a]/Jan-Dec[a]
Iceland	3.3	na	Jan-Jun
Ireland (Republic of)	–16.1	na	Jan-Dec
Italy	na	na	
Latvia	na	na	
Lithuania	-3.1	-6.4	Jan-Dec/Jan-Deca
Luxembourg	-16.9	-9.7	Jan-Aug[a]/Jan-Aug[a]
Malta	na	na	
Monaco	3.0	-12.0	Jan-Jun/Jan-Jun
Montenegro	na	54.2	Jan-Aug
Netherlands	-15.0	-19.0	Jan-Dec[a]/Jan-Dec[a]
Norway	-8.0	-9.0	Jan-Dec/Jan-Dec
Poland 1	6.1	na	Jan-Dec
Portugal	na	-8.0	Jan-Deca
Romania	-11.0	-13.3	Jan-Dec/Jan-Dec
Serbia	na	na	
Slovakia	-22.4	-26.2	Jan-Sep/Jan-Sep
Slovenia	23.3	31.1	Jan-Dec/Jan-Dec
Spain	52.0	na	Jan-Oct[a]
Sweden	na	-8.9	Jan-Dec
Switzerland	-6.5	-6.7	Jan-Dec/Jan-Dec
Turkey	34.3	na	Jan-Dec
UK	-2.9	na	Jan-Dec

[a] Estimate

Note: Care must be taken in interpreting trends as different measures are used – some countries measure arrivals at frontiers and some in hotels or all forms of commercial accommodation

Sources: European Travel Commission members' data filed on TourMIS

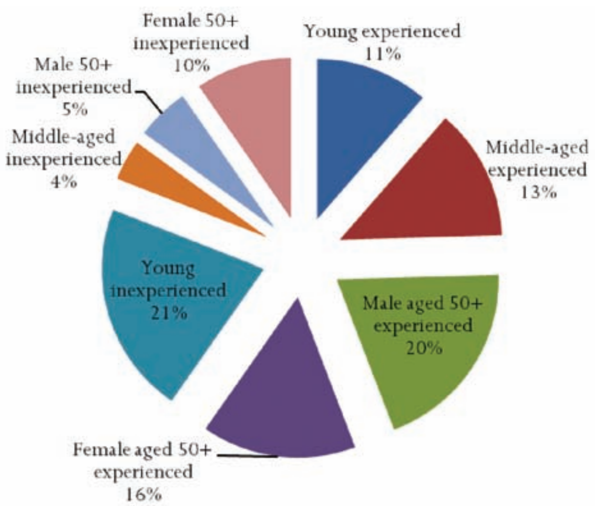
Japanese holiday trips

- In 2007, 45% of total holiday trips from Japan were to long-haul destinations.
- Of holiday trips to Europe, 59.3% were 7-10 nights long (as against 23.3% for holiday trips overall), 28% (41%) were 4-6 nights in length, 10.4% (4.2%) of 11 nights or more, and 2.2% (31.5%) were short breaks of 1-3 nights.
- Travel agents exert much influence in the market as 86% of Japanese travellers rely on them to plan their travel arrangements. 56.7% of all Japanese trips to Europe are package holidays (compared with 25.9% for outbound travel overall). A further 29.6% are booked through the travel trade (60.1%), with only 13.7% (14%) being direct bookings not booked through the trade.
- The importance of online bookings is increasing but at 32% they remain around the same level as telephone bookings (31%) and are slightly lower than face to face arrangements at travel agents (34%). Internet usage is determined more by age than by travel experience with the older groups less likely to trust electronic bookings. Equally, long-haul itineraries are often complex making booking online more difficult.
- Improvements and innovation in mobile internet technology, in which Japan is a pioneer, may change this state of affairs. Home PC users are less common than in Europe or the US. The number of contract mobile phones in Japan is close to 100 million, of which 90% are browser enabled. Mobile phones are being used as a direct payment device thanks to smart cards and camera phones can now read barcodes to retrieve information from the internet.
- 53% of Japanese holiday trips to Europe use mid-range hotel accommodation, 22.7% upmarket hotels, 18.6% budget properties and 5.6% other forms of accommodation.
- Over 70% of trips to Europe are touring holidays, 20.8% city breaks, 2.5% beach holidays and 5.8% other.

Profile of the Japanese holiday traveller to Europe

- 61% of Japanese travellers to Europe in 2007 were 'experienced' travellers who have travelled abroad more than ten times. Only 25% were first-time travellers to Europe.
- The breakdown of trips to Europe by age segment in 2007 was:

Figure 6: Share of travellers to Europe by age segment, 2007



Source: Market Insights 2008, JTB Foundation

- The main information sources for travel to Europe are, in order of importance: travel guidebooks (70.8%), the internet (68.3%), travel agency brochures (62.5%) and travel agencies directly (39.9%).

Air transport

- The principal international airports in Japan are Tokyo Narita (NRT), Kansai (KIX, serving the Kyoto/Osaka area), Chubu Centrair (NGO, formerly known as Nagoya) and Fukuoka (FUK). 34 other international airports are listed.
- 13 airports in Europe are served by direct scheduled flights from Japan: London Heathrow (LHR), Paris Charles de Gaulle (CDG), Frankfurt (FRA), Munich (MUC), Amsterdam (AMS), Milan Malpensa (MXP), Rome Fiumicino (FCO), Helsinki (HEL), Zurich (ZRH), Vienna (VIE), Copenhagen (CPH), Istanbul (IST) and Moscow Sheremetyevo (SVO).
- At the beginning of the 2008/09 airline schedule, there are expected to be 440 weekly flights (in both directions) between Japan and the European Union member countries, down from 462 in August (-4.8%). The number of seats has fallen by 5% from 141,458 to 134,324.
- Europe has suffered fewer cuts in capacity compared with destinations such as North America and Australia as the following table shows:

Figure 7: Declining air capacity to/from Japan[a] in winter 2008/09

Route network	Total weekly flight capacity 11/08	Total weekly flight capacity 08/08	%	Total weekly seat capacity 11/08	Total weekly seat capacity 08/08	%
Japan-rest of world	20,189	20,920	-3.5	4,097,620	4,320,707	-5.2
Japan-EU	440	462	-4.8	134,324	141,458	-5.0
Japan-Asia	18,565	19,161	-3.1	3,625,946	3,811,314	-4.9
- China+Hong Kong	1,687	1,712	-1.5	356,929	367,812	-3.0
- South Korea	987	978	0.9	244,547	242,531	0.8
- Southeast Asia	769	772	-0.4	237,460	237,294	0.1
Japan-North America	984	1,085	-9.3	281,772	308,127	-8.6
Japan-Australia	102	114	-10.5	30,730	34,022	-9.7

[a] Flights in both directions

Source: Seabury-SRS Analyser

- Among the airlines to reduce capacity were Japan Airlines (JAL) and All Nippon Airways (ANA), down 2% and 2.5% respectively from June to November 2008.
- More cuts are expected over the coming few months. Those already announced include: JAL, cutting its seven weekly flights Osaka-London Heathrow and reducing Tokyo-Paris from 11 to seven; British Airways, cutting LHR-Tokyo from 14 to seven.
- It should be noted that Japanese travelling on tight budgets often prefer to travel to Europe on lower-cost, indirect flights via the Middle East or other points in Asia.

Key characteristics of Japanese outbound travellers

- The profile of Japanese travellers is ageing quite rapidly. There are growing numbers of affluent retirees with the time and financial resources to travel but those approaching retirement currently have little confidence in the national pension system, which makes them reluctant to spend their savings on travel.
- Business travellers tend to be male and leisure travellers female and/or retired. The latter have been the fastest growing segment of the Japanese outbound travel market in recent years.
- Family groups are also important including mothers and their adult daughters, and grandmothers and their granddaughters. In the case of Europe, young women in their 20s and 30s and older women over 50 are prominent.
- Group and package travel is growing. Independent travel is becoming important for trips to Europe among travellers with plenty of previous experience.
- Japanese travellers to Europe are strongly motivated by natural and scenic attractions, particularly gardens. They also place importance on historic and cultural attractions including art galleries and museums and on sampling local cuisines. Apart from basic souvenirs, the desire to shop has waned except among young single females.
- Japanese travellers require a good deal of specialist attention. Language and cultural difficulties abound. The Japanese appreciate good manners and their concept of these differs from Europeans'. They also appreciate attention to detail and small touches such as presents. Cleanliness and safety are major concerns.
- Customer dialogue is different from other markets. Cultural and language barriers make on the spot complaints or requests unlikely. Any issues tend to be treated upon return to Japan and will also be mentioned to friends and family. Word of mouth and recommendation remain very important.

Short- to medium-term prospects

- JTB Foundation attributes the market's inertia, and the decline in 2008, to unfavourable exchange rates, airline fuel surcharges and concerns among the Japanese about the economic situation and its impact on disposable incomes.
- Female Japanese aged over 50 have accounted for around 30% of all travellers to Europe over the past five years, but this age segment declined for the first time in 2007, most noticeably among experienced travellers, and seems to be down further this year.
- A few destinations have succeeded in bucking the trend, notably Spain. Thanks to efforts to diversify their products and attractions for the Japanese, they have been successfully targeting niche market segments. Innovative marketing strategies seem to have made a difference.
- The older, 60-plus Japanese females are said to have been particularly affected by the sub-prime crisis. More people depend on income from financial assets in this age group. While in the long term there is much potential in this market, the immediate forecast is not so promising.
- The youth sector is a market which could continue to see decline. Surveys suggest that they are losing interest in overseas travel, even university students.
- The current financial and economic crisis and oil price volatility have generally depressed consumer and business confidence, as well as heightening uncertainties about the short- to medium-term economic outlook.
- In the October 2008 update of its World Economic Outlook, the IMF said that the short-term economic outlook for Japan has deteriorated. Although financial conditions have tightened to a lesser extent than in other major economies, owing to the lower exposure of Japanese banks to securitised products, high food and fuel prices and weaker external growth are expected to weigh on consumer and business activity.

- The good news is the sharp appreciation of the yen against the euro. Whilst this augurs well for a recovery in Japanese outbound travel demand, 2009 remains extremely challenging.
- From 2010 there is likely to be a big growth in low-cost airline capacity. This is in line with the expansion of Tokyo's Narita and Haneda airports and the Japanese Government's expected opening up of Japan's skies to increased competition. While primarily favouring travel to shorter-haul destinations, it is expected to stimulate demand for air travel in general and, in particular, among younger Japanese. Travel demand from this group has been very slow in recent years.

Note: Unless otherwise specified, the information provided in this report on Japanese outbound travel comes from the Japan Travel Bureau (JTB) Foundation's research.

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