

# Japan's economic recovery is being driven by a tourism boom

Today's data release confirms that the trend of weak manufacturing against strong services continues. Service activity has risen for four consecutive months while sluggish demand for chips is dragging on exports. We believe that a continued recovery would support the Bank of Japan revising its yield curve control (YCC) policy in the coming months



While a contraction can be expected for third-quarter GDP, the current quarter should bounce back thanks to resilience in auto manufacturing and an influx of foreign tourists supporting service activity

0.7%

Tertiary Industry Index

% MoM sa

Better than expected

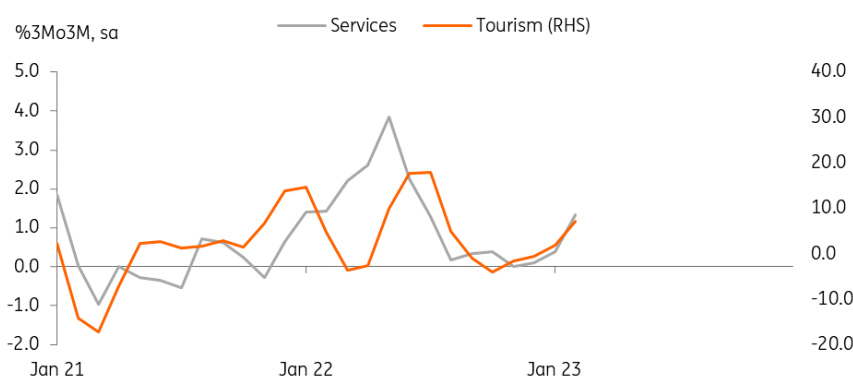
The Tertiary Industry Index, which measures the change in the total value of services purchased by businesses, and is a strong indicator of economic health, was stable in March at 0.7%.

## Service activity improved in February on the back of tourism boom

Services rose 2.0% month-on-month, seasonally adjusted in February, signalling a solid recovery in service activities. By industry, tourism activity surged the most – by 10% in February (vs 5.7% in January), and retail trade also gained solidly for the third consecutive month.

According to visitor arrival statistics, the number of foreign tourists has increased sharply since last December when the border crossing restrictions were lifted. However, Chinese visitors – who normally make up the biggest group of foreign tourists to Japan – have not yet returned in great numbers. We expect further improvements in services in the coming months, as we believe Chinese tourists will begin to increase more rapidly, and there will also be more domestic tourists travelling during Japan's upcoming Golden Week season in May.

## Tourism and services have room for further improvement



**4.3%** Exports  
%YoY

Higher than expected

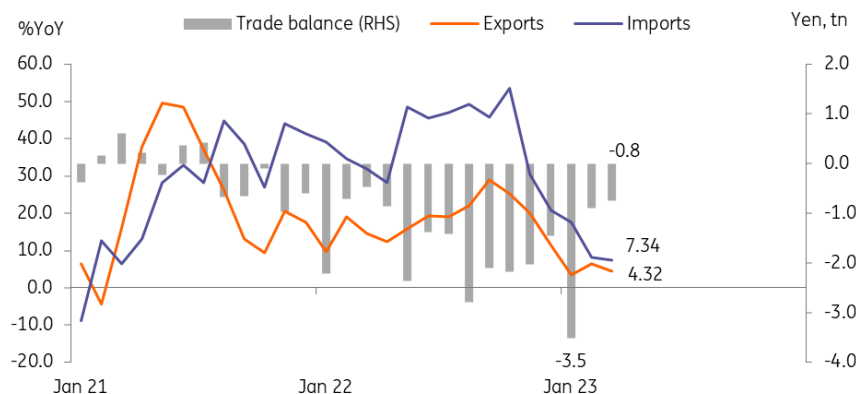
## Exports rose 4.3% in March (vs 6.5% in February and a 2.4% market consensus)

The trade deficit narrowed modestly in March for a second month as import growth slowed to 7.3% year-on-year (vs 8.3% in February) mainly due to the firming Japanese yen (JPY) and falling commodity prices. By destination, exports to China fell by 7.7% while exports to the US and EU rose by 9.4% and 5.1% respectively. By export item, motor vehicles gained 38.3% while electrical machinery deepened its contraction (-4.5%) in March.

We expect interregional trade to remain sluggish as poor semiconductor performance will dominate the positive impact of China's reopening for a while. But, solid exports to developing markets are likely to continue, especially in the auto sector, at least for this quarter. That being said, given the US's IRA act is expected to negatively affect Japanese automakers along with

softening demand in the US, we believe that exports will likely turn negative in the coming months.

## Trade deficit narrowed in March



Source: CEIC

## The Bank of Japan watch

The BoJ will hold its monetary policy meeting next week for the first time under Governor Kazuo Ueda, and it is expected to stand pat. We believe that a solid service sector will not only lead to growth recovery but also stimulate service prices. Tourism and hospitality prices, in particular, are expected to continue rising for the time being, keeping the CPI above the long-term average.

This year's strong wage growth will also likely compensate real incomes to keep up with high inflation. Thus, we believe that the BoJ will likely take a gradual step towards normalisation in the coming months.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central

Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).