Framework For Understanding The Potential Impact Of The Japanese Disaster On Tourism Flows

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Euromonitor International has evaluated the potential impact that the earthquake and tsunami in Japan may have on tourism flows, using past crises as a guide from H1N1 to SARS.

Working within the framework of reviewing former disasters, Japan is likely to experience a drop of 50% or more in international arrivals in the immediate aftermath of the disaster, a trend which may be perpetuated as long as the nuclear crisis continues.

Key findings
* Euromonitor International believes that the best case scenario for Japan in 2011 is a 9% drop in arrivals and a 12% decline in incoming tourist receipts. The worst case scenario for inbound tourism would be a decline of 21% in arrivals with a corresponding drop of 23% in receipts.
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* The best case scenario for international departures from Japan is a decline of 11% in 2011, with spending falling 8%. In the worst case scenario, departures would fall by 21% and outgoing tourist expenditure by 17%.
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* International travel is expected to be more affected than domestic tourism which tends to be more resilient.

Unprecedented scale of destruction
A 9.0 earthquake struck off the north-eastern coast of Japan on 11 March 2011, which triggered 10m high tsunami waves that engulfed towns and villages along the coast. As of 23 March, the death and missing toll was officially over 25,500, but it is expected to increase.

Following the earthquake and tsunami, several nuclear power plants were severely damaged, leading to electricity blackouts. The Daiichi nuclear power plant in the Fukushima prefecture sustained significant damage.

As a result, several explosions occurred at the facility which caused plumes of radiation to be emitted. Cooling of the plant is also forcing workers to vent steam with radioactive particles.

The wind carried radiation eastward over the Pacific Ocean and south to Tokyo (a distance of 240 kilometres/150 miles) and to surrounding cities. The situation regarding the Fukushima power station is changing on an hour-by-hour basis as attempts to contain a meltdown continue.

At the beginning of the week of 21 March, things appear to have stabilised with the power supply being up again, thus igniting the possibility of powering up the coolers to keep the nuclear reactors under control. That said, the relevant authorities have not reduced the severity with which they have assessed the potential nuclear threat from the plant.

To make matters worse, the country has experienced more than 450 aftershocks. The disasters have caused shortages in water, food, fuel and electricity further adding to the critical nature of the humanitarian crisis.

On 21 March, the World Bank estimated that Japan would need at least five years to rebuild the country at a cost of US$235 billion as a result of the earthquake and tsunami's devastation. With the potential nuclear threat remaining in the background, a big question mark is being cast upon the country's prospects with the future unclear for now.

Fears of a nuclear disaster
While countries issued non-essential travel warnings immediately after the earthquake and tsunami hit, the increasing risk of a nuclear meltdown and unpredictable wind patterns have caused many countries, such as the US, UK and Australia, to raise their warning levels on 17 March 2011.

The US government urged citizens within 50 miles of the Daiichi plant to evacuate the area and recommended that its citizens leave the country. France, Germany and China were also among the countries to advise their citizens to leave Japan.

On 18 March, Japan's nuclear safety agency increased the threat assessment from 4 to 5 on the international scale of 7. For example, Chernobyl's meltdown in 1986 rated a 7.

These warnings are being heeded with many expatriates heading abroad, either home or to nearby cities, such as Singapore and Hong Kong. Some Tokyo residents are going to other parts of Japan, particularly Osaka in the west, which has not been affected.

Disruption to business travel
Furthermore, businesses are stopping travel to Japan. Nissan Americas suspended business travel entirely to the country, while ITT Corp and Ford Motor limited travel to essential trips only. Tour operators are also reporting trip cancellations and postponements.

Airlines have also changed their schedules in response to the drop in inbound demand, although outbound demand has remained high. Delta stopped flying to Haneda Airport in Tokyo, and predicts that it will cut capacity by 15% to 20% from May to Japan. It estimates that the disasters could cost it between US$250 million and US$400 million in lost revenue.

On 15 March, Lufthansa temporarily began flying to Osaka and Nagoya instead of Tokyo and recommenced flights to Tokyo on 25 March, rerouting via Seoul.

Inbound tourism performance in disaster scenarios
It is likely that tourism will not begin a recovery until the issues at the Daiichi plant are resolved and there is little clarity on when that may be.

The US government travel warning is in effect until 1 April 2011, therefore a return to normalcy before then is unlikely. It is difficult to determine what the full impact on the tourism industry will be, but examining other crises will help provide guidance.

2004 Asian tsunami
While a tsunami destroyed key tourist areas in Thailand in December 2004, international arrivals only dipped 1% in 2005 and spending declined by 5%. A speedy reconstruction and promotion by the Thai government lead to a strong rebound in international tourists during the second half of 2005.

This is certainly the absolute best case scenario for Japan, but as a mature market, it is highly unlikely that the country will experience as strong a recovery in inbound tourism.

Looking to Mexico City
Given the extent of the destruction and uncertainty of the radiation leakage, the H1N1 outbreak in Mexico may be a much better guide to understanding what may happen in Japan. The Mexican government shut down Mexico City from 1 May to 5 May 2009, with many people staying indoors or leaving the city.

Tokyo likewise has become a ghost town - very similar to the closing of Mexico City for health concerns as foreign nationals leave and local residents decide whether to stay or leave.

At the height of the H1N1 crisis in Mexico, arrivals to the country's interior fell by 52% and spending dropped by 56% in May 2009, compared to May 2008, according to Mexico's central bank. Euromonitor International believes it is likely that Japan is also currently experiencing around a 50% drop in international arrivals, if not worse, which will persist as long as the nuclear crisis continues.

In the case of Mexico City during the H1N1 crisis, arrivals shrank 31%, although the country as a whole only experienced a 5% decline in arrivals for in 2009, as tourists returned to resort areas and tourism along the border with the US was not hit.

However, tourism to the interior, mostly by air, declined by 11% over 2009, while spending fell by 15% according to Bank of Mexico.

Best and worst case scenarios for inbound tourism to Japan
Euromonitor International chose to use Mexico's experience with the H1N1 epidemic to provide best and worst case scenarios for inbound tourism to Japan in 2011, due to the uncertainty and fear shared by the two countries in the face of a health scare.

Japan National Tourism Organisation has already reported that arrivals in January 2011 increased by 12% on January 2010, returning to 2008 levels. Euromonitor International estimated that arrivals in February 2011 also follow suit and reach 2008 levels, with an implied growth of 5% in that month.

The best and worst case forecast outcomes for March-December 2011 were then modelled on the arrivals trends illustrated in Mexico during and after the H1N1 crisis.

Best case scenario
For the best case scenario for the full year, Euromonitor International has assumed that the issues surrounding the Daiichi plant will be resolved by the end of April 2011, and the recovery in inbound tourism will begin in May.

For the Japan best case scenario calculations, month-on-month growth rates for March to July were based on the performance of arrivals to Mexico's interior during the H1N1 epidemic in 2009 for sake of comparison of how destinations react under extreme circumstances.

Growth rates for August to December averages of the month-on-month growth rates for 1997-2010 were employed. To estimate the drop in incoming tourist receipts, Euromonitor International calculated the average spend per arrival trends to the interior of Mexico for 2008-2009 to help build the forecast outcome.

In the best case scenario, international arrivals would decline by 9% for the full year, with a drop of 12% in incoming tourist receipts, as travel companies attempt to lure back visitors with promotions.

Worst case scenario
For the worst case scenario, Euromonitor International has assumed that the nuclear problems will not be resolved until the end of June, and a recovery in inbound tourism will begin in July.

With this time frame in mind, it is forecast that there will not be a return to average historic growth rates by the end of 2011. The assumption is that growth will follow the same pattern as Mexico for the rest of the year, where Mexico struggled to attract tourists even after fears surrounding H1N1 had passed.

In the worst case scenario, Japan arrivals would decline by 21% over the year, and in line with average spending assumptions, incoming tourist receipts would fall by 24% in 2011.

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