

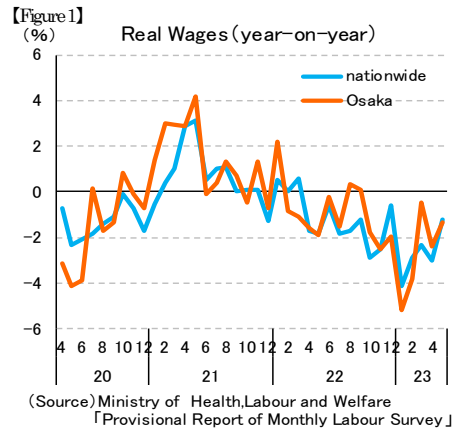
## Economic Short Comment (11 Sep 2023)

The polarization of inbound and domestic consumption

~ The first time for a significant divergence of the two trends ~

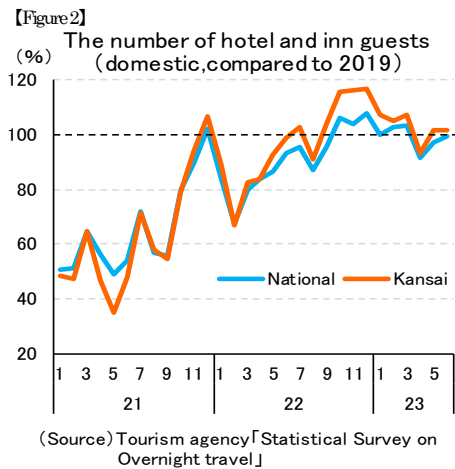
### ● Stagnation of domestic consumption

Domestic consumption is stagnating. The main background is that real wages continue to decline from the previous year amid high inflation (Figure 1). As a result, consumers are becoming more frugal, especially for necessities such as groceries and clothing. On the other hand, sectors such as department stores and hotels are doing well, but this is mainly due to the increase in inbound tourism. Department store sales have already surpassed pre-corona levels, and hotel occupancy rates are generally on an upward trend. As a result, the gap between inbound and domestic consumption has widened recently, with some sectors doing well and others doing poorly.



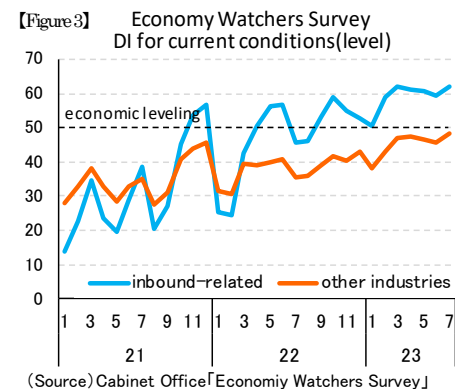
### ● Running out of steam in domestic travel

Domestic consumption may seem to be doing well in travel-related sectors, but that is not necessarily the case. Demand surged temporarily due to the use of national travel support, but it has already started to run out of steam. This can be seen in the trend of hotel guests, which has recently fallen below pre-corona levels in some months (Figure 2). In other words, the current good performance of travel-related sectors is basically supported by the increase in inbound tourism. This divergence between inbound and domestic consumption is also reflected in the results of the Economy Watchers Survey. If we divide the current situation judgment by industry into “inbound-related” and “other industries”, and look at the trend of each index (estimated value), the trends are clearly different. Inbound-related industries continue to show an upward trend, while other industries are stagnating (Figure 3).



### ● Divergence between inbound and domestic consumption

This is the first time that the trends of inbound and domestic consumption have diverged so clearly. The expansion of the inbound market began around 2013 and continued for about seven years until the corona disaster. Looking back at the economy during that period, domestic demand was also in a long-term good condition due to Abenomics, so there was little divergence between inbound and domestic consumption. Figure 4 extends the period covered by Figure

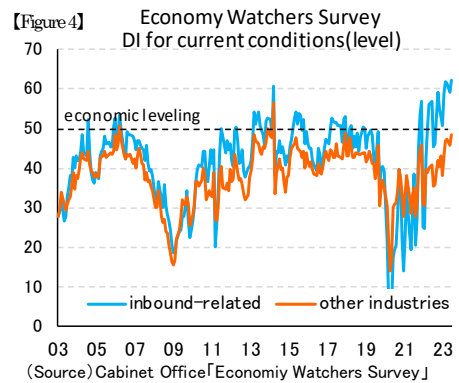


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3, but there is no sign of a widening gap as there is now.

● **Points to watch in the future**

On the other hand, inbound consumption will increase further due to factors such as the lifting of restrictions on Chinese group travel, but domestic consumption is likely to stagnate due to inflation. This will result in a further divergence between domestic and inbound consumption, which will complicate economic judgments. Even if indicators suggesting a recession increase, there may still be indicators showing good performance due to the increase in inbound consumption, which could delay the judgment of a recession. If this happens, there is a risk that actions that go against the economy, such as cutting off various subsidies, will occur even in situations where demand stimulation measures are needed. Therefore, caution is needed in the future.



(Reference)

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