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Potential economic losses from cancelation of Tokyo Olympics

Takahide Kiuchi

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**Takahide Kiuchi***Executive Economist*Financial Technology
Solution Division

Ban on overseas visitors has already produced economic loss of ¥150bn

There is growing public speculation that the Tokyo 2020 Olympic and Paralympic Games will be canceled due to pandemic risk. Even if the Games are held, a decision on how many domestic spectators to allow will not be made until June. With less than two months to go until the event is scheduled to begin, this is highly unusual. In another headwind for the event, the US government on May 24 issued a Level 4 travel advisory—the highest cautionary level—advising its citizens to avoid all travel to Japan because of rising COVID-19 case numbers.

Much of the expected economic benefit from the Tokyo Games vanished in March, when it was decided to ban foreign spectators from traveling to Japan. Overseas visitors tend to spend far more money than domestic spectators. In 2019, for example, foreign tourists spent over ¥4.8trn in Japan in so-called “inbound consumption.” Originally the Olympics were expected to attract about a million spectators from other countries, with each spending an average of ¥151,000 during their stay.

It was therefore estimated that overseas spectators would spend a total of ¥151.1bn on accommodation, food and drink, and transportation during their time in Japan. That potential demand disappeared with the decision not to accept foreign visitors, as I noted in a Japanese-language article on March 4, 2021.

Domestic spectators spend relatively little

In an April 2017 report by the Tokyo government titled “Summary of Estimated Economic Effects of the Tokyo 2020 Games,” total consumption expenditures by all Olympic and Paralympic Games participants and spectators (including transportation, accommodation, food and drink, shopping, and use of various facilities) were estimated at ¥207.9bn. Our estimate of ¥151.1bn in inbound consumption by overseas visitors represents more than 70% of that figure, which underscores how little domestic spectators are expected to spend.

Many of the Japanese spectators are likely to be coming from outside of Tokyo to watch the Games, but they will not spend nearly as much on accommodation or shopping as their foreign counterparts would have. It was projected that many

of the overseas visitors would not only attend the Games but would also take the opportunity to enjoy sightseeing and shopping in Japan. Overseas visitors add to the nation's GDP when they eat out in Tokyo (their expenditures are counted as exports), but whether domestic spectators eat at home or in Tokyo has no bearing on GDP data.

One-year delay, cost-cutting measures, and COVID-19 measures have affected Games' economic benefits

The Tokyo government report noted above estimated that the Games would directly increase Tokyo demand by ¥1,979bn. Of this figure, ¥350bn was expected to come from the construction of new permanent facilities (including city facilities and the new National Athletic Stadium), which will add to GDP whether the Olympics are held or not. The remaining ¥1,629bn will depend on whether the Games are held and on what sorts of limitations are placed on spectators.

Subsequent events further affected the likely economic benefit. First, the Games were postponed by one year, resulting in additional expenditures. Second, the delay prompted a number of cost-cutting measures. Third, it was decided in March 2021 that foreign spectators would not be allowed to attend. Finally, there was additional spending on measures to prevent COVID-19 infections at the Games.

Economic benefit now estimated at just over ¥1.81trn

It is possible to estimate how these factors have impacted on the potential economic benefit from the Games using the fifth version of the Tokyo Organising Committee's budget, which was released in December 2020.

Figure 1 shows current estimates of the economic benefit of the Games based on Tokyo government estimates, the Organising Committee's budget, and our estimates of spending by overseas visitors. If overseas visitors are prohibited but no restrictions are placed on domestic spectators, we estimate the economic benefit will amount to ¥1,810.8bn. This also represents the economic loss in the event the Olympics are cancelled.

It is estimated that some 600,000 tickets were refunded after the decision was made not to allow spectators from overseas. Our estimate assumes this revenue

can be fully recouped by reselling the tickets to local residents.

Figure 1. Economic benefit from holding Tokyo Games (assuming no restrictions on domestic spectators)

Cost of holding Games	1,207.0
Construction of temporary facilities	389.0
Energy infrastructure	97.0
Transportation	98.0
Security	89.0
Technology	121.0
Operations	193.0
Administration and PR	84.0
Marketing	136.0
Other economic impacts	507.8
Ticket sales	90.0
Consumption expenditures by spectators	56.8
Purchases of related products and TVs	291.0
International broadcast production and transmission costs	33.5
Corporate marketing activities	36.5
COVID-19 countermeasures	96.0
Total	1,810.8

Note: ¥bn

Source: Compiled by Nomura Research Institute from Tokyo Metropolitan Government and Tokyo Organising Committee data

Losses estimated at ¥147bn if no spectators are allowed

The government is scheduled to decide in June how many domestic spectators to allow based on the current state of the pandemic. We think there are almost certain to be some restrictions on the number of spectators, and there is a real possibility that no one will be allowed to watch.

We estimated the likely economic impact for three scenarios: one in which half the original number of spectators were allowed, one in which only a quarter were permitted, and one in which the Games are closed to spectators. It was assumed that planned ticket sales of ¥90bn would drop to one half that amount, one quarter that amount, or zero. We also assumed that spectators' "consumption expenditures" in Figure 1, which does not include overseas spectators, would decline by an equal proportion.

Figure 2 shows the results. Compared with a case in which no restrictions are placed on the number of domestic spectators (Scenario 1), the economic benefit from the Games declines by ¥73.4bn when only half are allowed (Scenario 2) because of reduced ticket revenues and related consumption. If only a quarter

of the spectators are allowed (Scenario 3), the boost to the economy shrinks by ¥110.1bn. And if no spectators are allowed, we estimate the positive economic impact will drop by ¥146.8bn.

Figure 2. Economic benefit/loss from holding Games

	Economic benefit	Economic loss(reduction in economic benefit)
(1) No restrictions on domestic spectators	1,810.8	0.0
(2) 50% reduction in domestic spectators	1,737.4	-73.4
(3) 75% reduction in domestic spectators	1,700.7	-110.1
(4) No spectators allowed	1,664.0	-146.8
(5) Games canceled	0.0	-1,810.8

Note: ¥bn
Source: Nomura Research Institute

Decision should focus more on infection risk than on economic losses

The impact of the economic loss—i.e., the reduction in economic benefit—from restricting the number of domestic spectators is relatively small. Allowing only half the original number of spectators would reduce the economic benefit by just 0.01% of nominal GDP (FY2020), while the corresponding figure for 25% attendance is 0.02%. Eliminating spectators entirely would still reduce the potential benefit by just 0.02% of GDP.

The impact of canceling the Games entirely would be somewhat more consequential. Still, the estimated economic loss of ¥1,810.8 billion would represent just 0.33% of nominal GDP, which is not enough to alter the underlying direction of the economy.

Incidentally, we estimate the economic losses from the government's first three state of emergency declarations at ¥6.4 trillion, ¥6.3trn, and (for measures currently in place) ¥1.9trn, with the final figure expected to rise to around ¥3trn if the current state of emergency is extended, as I noted in a Japanese-language report on May 21, 2021. Thus, the economic losses from canceling the Games would be less than those resulting from a single state of emergency.

The economic losses from restricting the number of domestic spectators or canceling the Games altogether would not be particularly large relative to those generated by a state of emergency. If holding the Games were to prompt a surge in COVID-19 case numbers, forcing the government to declare another state of emergency, the resulting economic losses could be substantially larger.

This suggests that when deciding whether to hold the Games or how to limit the number of spectators, the government needs to focus mainly on the increased risk of new infections that the Games would bring, rather than the immediate economic losses.

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Inquiries to : Financial Market & Digital Business Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

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