

Japan's Retail Market in 2025: Balancing Tourism, Currency Fluctuations, and Strategic Consolidation

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- Benefiting from a post COVID tourism surge, a weak yen and the “bakugai” (spending craze) phenomenon, Japan tourist receipts rose to a peak of 15.5% of retail sales in Q1 2025, though this growth has likely stabilized.
- The yen’s strengthening to a five-month high in mid-2025 has eroded Japan’s price competitiveness, impacting luxury brands’ revenue growth. Forecasts indicate a slowdown in 2025 with limited upside in 2026.
- Retailers are elevating private-label products into high-quality, trusted brands, offering organic, plant-based, and specialty diet options. The premiumization of private-label goods could provide higher margins and business stability for retailers.
- Wage increases, labor shortages, and the rise of e-commerce are squeezing retail margins, driving mergers and acquisitions. Retailers are consolidating to achieve scale, efficiency, and resilience in a competitive market.

Japan’s retail market today stands at a fascinating crossroads, shaped by the interplay of a recovering tourism sector, shifting currency dynamics, evolving consumer preferences, and a wave of strategic consolidation. The past few years have underscored how deeply interconnected these factors are, and how retailers must navigate them deftly to sustain growth and competitiveness.

Japan Post-Covid Expansion in Tourist Receipts has Likely Peaked

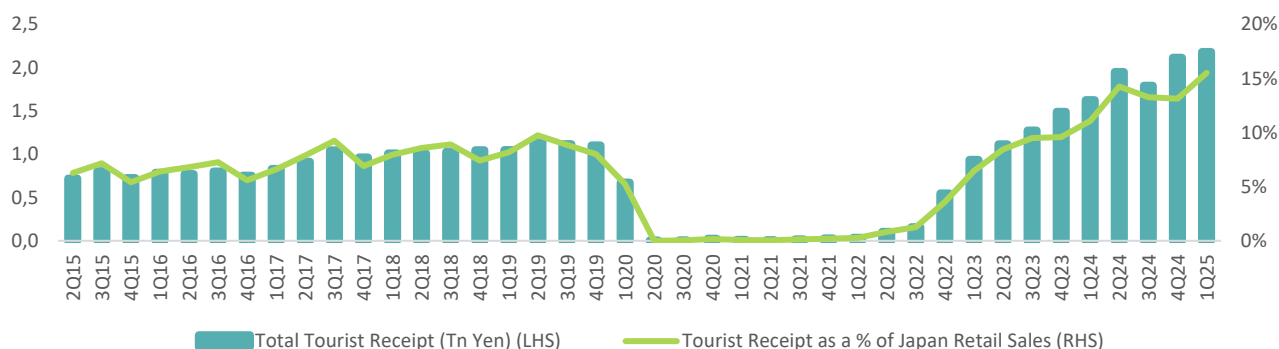
The dramatic rebound in inbound tourism has been transformative for Japan’s retail economy. After years of pandemic-induced stagnation, the country welcomed nearly 37 million foreign visitors in 2024, with projections pointing to even higher numbers in 2025. This surge has injected fresh vitality into retail sales, particularly in luxury goods, cosmetics, and electronics—categories traditionally favored by international shoppers. The yen’s depreciation between 2020 and early 2024 played a pivotal role, effectively making Japan a bargain for tourists from China, South Korea, and Southeast Asia. The “bakugai” (spending craze) phenomenon—explosive shopping sprees by tourists—returned with vigor, fueling record travel retail sales and encouraging retailers to expand duty-free shopping beyond airports into city centers and regional hubs. Japan’s tourist receipts reached a record high of 2.18 trillion yen in Q1 2025, marking a 34% year-on-year (YOY) increase (see Figure 1). While tourism spending historically contributed roughly 6-8% to Japan’s retail spending in pre-COVID times, the prevalence of “bakugai” spending led to a historic high of 15.5% in Q1 2025.¹ This spike in tourist receipts is driven by increases in both tourist spending and arrivals. Average tourist spending in the post-COVID period (2023–Q1 2025) reached JPY 198,000 per person, a significant increase from the pre-COVID (2015–2019) level of JPY 134,000. Coupled with an average increase of more than one million arrivals per quarter, Japan’s tourist receipts have experienced a significant boom.

However, Japan’s tourist receipts appear to have stabilized and are unlikely to see significant further upside. While per-visitor spending has stabilized at around JPY 198,000 since Q4 2022, tax-free shopping growth YOY has slowed from 139% in Q1 2024 to 21% in Q1 2025. Tourist arrival counts now primarily drive total tourist receipts. With fading tourism hype—attributed to the possible elimination of tax-free shopping for tourists, currently under consideration by the Liberal Democratic Party (LDP), tourism spending may have peaked and faces downside risk starting in Q2 2025. Japan retail sales are thus challenged by the potential contraction in tourist contribution.

Figure 1: Japan Tourist Receipt (JPY Tn) and Share in Japan Retail sales (%)

¹ BofA Securities, June 2025.

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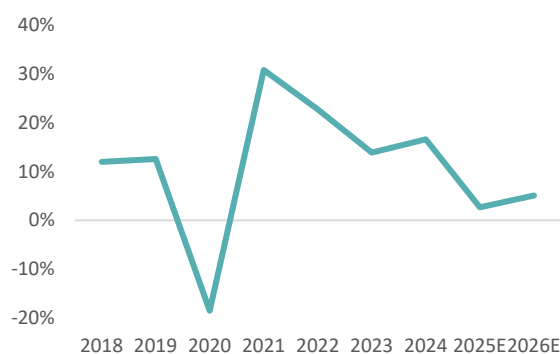


Source: Bloomberg, as of July 3, 2025. Note Foreign Visitor Total Spending Per Person (JNSTVTO Index) from June/2020 to Sep/2021 are absent on Bloomberg; Calculation based on 1Q23 data.

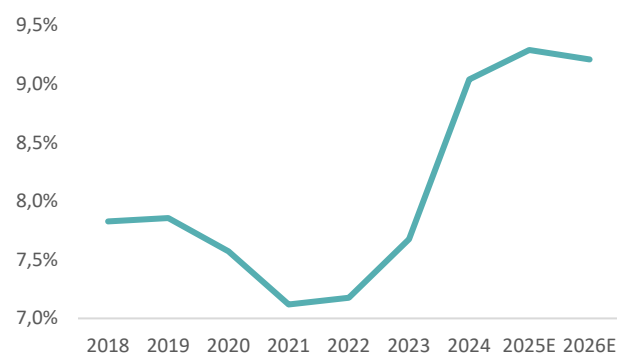
Tourism Contraction in Japan Hurts Luxuries Expansion

Yet, this rosy picture is complicated by the yen's recent reversal. The currency's appreciation to a five-month high in mid-2025 has begun to erode Japan's price competitiveness. Luxury brands, the biggest beneficiaries of tourist spending, now face a more challenging environment. A stronger yen means foreign visitors find Japanese luxury goods less affordable compared to other global shopping destinations. This dynamic is compounded by external pressures such as U.S. tariffs and inflationary trends, which have slowed luxury store openings and tempered expansion plans. Currency fluctuations can swiftly alter retail fortunes, especially in a market so reliant on inbound spending. Market consensus forecasts a slowdown in revenue growth for 2025, with limited upside in 2026 (see Figure 2). Luxury brands' revenue in Japan as a proportion of worldwide revenue is also projected to flatten (see Figure 3), with most brands hovering around the 9% mark. Overall, luxury expansion in Japan has likely peaked and will consolidate in 2025–2026.

Figure 2: Weighted Average Revenue Growth in Japan (%) of Selected Luxury Brands **Se-Figure 3: Weighted Average Japan Revenue as a % of Worldwide Revenue of Selected Luxury Brands**



Source: Bloomberg, as of July 3, 2025



Source: Bloomberg, as of July 3, 2025

Premiumization of Private Labels and Accelerated M&A Activities

Interestingly, the tourism boom has also indirectly catalyzed a less obvious but equally important trend: the premiumization of private-label products. Retailers have seized the opportunity presented by increased foot traffic and a more diverse consumer base to elevate their private labels from budget alternatives to high-quality, trusted brands. This is particularly prominent in discount stores, which have expanded their private-label portfolios to introduce organic, plant-based, and specialty diet products that resonate with both health-conscious domestic consumers and tourists seeking authentic Japanese goods at accessible prices.

This shift is strategic and insightful. Private labels typically offer retailers higher margins and greater control over supply chains while building brand loyalty that is less vulnerable to currency swings and tourist fluctuations. By partnering with original equipment manufacturers (OEMs) that produce national brands, retailers ensure their private labels meet stringent quality standards, enhancing

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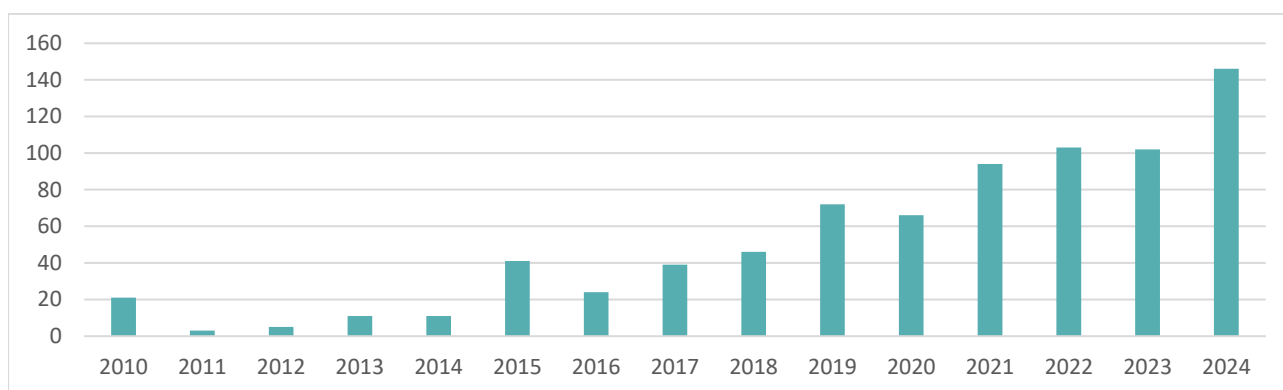
consumer trust. Moreover, the use of digital marketing and in-store experiential technologies has helped these products stand out in a crowded marketplace. In essence, premium private labels appear to have become a hedge against the volatility that luxury segments now face.

Meanwhile, the broader economic environment is tightening. Wage pressures, labor shortages, and the relentless rise of e-commerce are squeezing traditional retail margins and operational models. In response, the sector is witnessing a surge in mergers and acquisitions (M&A) as companies seek scale, efficiency, and resilience, with notable examples across multiple segments, including convenience stores, drugstore chains, and fast-fashion brands. These deals often occur against a backdrop of margin compression and the pressing need for business transformation, underscoring how consolidation is becoming a necessary tool for survival and growth.

Taken together, these developments paint a picture of a retail sector that is both opportunistic and cautious. Tourism remains a powerful growth engine, but retailers are keenly aware of its vulnerabilities. Currency fluctuations can swiftly reshape the competitive landscape, especially for luxury goods. The rise of premium private labels may offer a buffer, potentially providing more stable revenue streams and deeper consumer engagement. Consolidation is not merely defensive—it is a strategic imperative to build the scale and capabilities needed for innovation and competition in a rapidly evolving environment.

It remains relatively uncommon for international players to acquire major Japanese consumer brands, reflecting Japan's traditionally insular corporate culture and complex regulatory environment. However, the recent surge in inbound foreign investment and high-profile cross-border deals signals a shift in this paradigm. With Japan's M&A market hitting record transaction volumes and values in 2024 and continuing to grow in 2025, fueled by both domestic restructuring and inbound interest, it would not be surprising if more international companies increasingly target local Japanese retailers and consumer brands. This trend is likely to accelerate as foreign investors seek stable, high-quality assets in Japan's mature but resilient market, while Japanese companies pursue strategic partnerships and capital to navigate economic challenges. Government-led reforms to enhance shareholder value—notably the Tokyo Stock Exchange's (TSE) "Action to Implement Management Conscious of Cost of Capital and Stock Price" and the Ministry of Economy, Trade and Industry's (METI) 2023 corporate takeover guidelines—have not only heightened investor interest but also enabled many cross-held stakes, traditionally owned by affiliated companies in Japan, to be put up for bid. Such an environment may create more opportunities for activist investors to drive corporate actions and boost shareholder returns. The evolving landscape suggests a gradual but meaningful opening of Japan's consumer sector to global capital and influence, reshaping competitive dynamics in the years ahead.

Figure 4: Number of Activist Investments in Japan – 2010 – 2024



Source: Bloomberg, as of December 16, 2024.

What's Next for Japan Retail?

For stakeholders in Japan's retail market, the message is clear, in our opinion: success will depend on the ability to balance these complex forces with agility and foresight. Retailers may continue to leverage tourism-driven demand while hedging against currency risks. They must invest in private-label innovation to capture evolving consumer preferences. And they must embrace consolidation thoughtfully to enhance resilience without sacrificing brand identity or customer experience.

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In a market as nuanced and dynamic as Japan's, those who navigate this balancing act skillfully may stand a better chance to survive and thrive in the years ahead, in our opinion.

Glossary

Bukugai refers to explosive tourist shopping sprees.

Tourist arrivals is the number of foreign visitors.

Pre-COVID refers to the period before 2020 pandemic.

Post-COVID refers to the recovery after 2022 pandemic.

Tourist receipts are the total tourist spending in a country.

LDP is the current ruling party of Japan, Liberal Democratic Party.

Capital expenditure refers to a company's business investment spending.

Private-labels are retailer-branded products.

OEMs refers to original equipment manufacturers.

Shareholders' returns are the profits distributed to investors.

LVMH means LVMH Moët Hennessy Louis Vuitton SE.

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