Tokyo Olympic Win Seen Boosting Construction, Abe’s Recovery

By Yoshiaki Nohara and Satoshi Kawano - Sep 8, 2013

Tokyo’s winning bid to host the 2020 Olympics is boosting stocks today and may give a lift to consumer confidence, playing into Prime Minister Shinzo Abe’s plan to revive the world’s third-biggest economy.

The Topix index surged 2.3 percent to 1,174.66 as of 9:27 a.m. in Tokyo, extending its 2013 increase to 37 percent, the most among developed markets. Developers and construction companies led gains. Taisei Corp., a building company expected to benefit from Tokyo’s selection, climbed 14 percent for the biggest advance on the Nikkei 225 (NKY) Stock Average.

“Olympics-related stocks are yet to fully price in the decision, even though they’ve already outperformed,” Hiroshi Fujimoto, a Tokyo-based fund manager at Shinkin Asset Management Co., which oversees 638.9 billion yen ($6.4 billion) in assets, said by phone on Sept. 3. “In the short term the entire Japanese share market will get a boost from celebratory buying and expectations for the event’s economic impact.”

With the economy already rebounding from the impact of Abe’s reflationaly policies, winning the games bolsters optimism that Japan will succeed in quelling deflation and stoking domestic demand. The nation’s output increased more than previously estimated in the second quarter, expanding an annualized 3.8 percent compared with an initial estimate of 2.6 percent, the Cabinet Office said today.

“We’ve got a great chance to make Tokyo and Japan shine,” Abe said yesterday. “I want to overcome 15 years of deflation. Hosting the Olympics and Paralympics will have good effects on a wide range of areas such as infrastructure and tourism.”

Too Modest

The government’s official estimate of the games generating an additional 0.3 percent of gross domestic product on a value-added basis is too modest, according to Robert Feldman, head of Japan economic research at Morgan Stanley MUFG Securities Co.

“Our rough view is that the impact could be at least similar to the U.K., at around 0.7-0.8 percent of GDP (JGDPAGDP) over 7 years, or about 3-4 trillion yen on a value added basis, or about 6-8 trillion yen on a gross output basis,” he wrote in a Sept. 4 report.

Japan’s capital, which staged the 1964 Summer Games, beat Madrid and Istanbul to win the 2020 host role, the International Olympic Committee said in Buenos Aires. Okasan Securities Group Inc.’s Tokyo Olympics-related stocks index surged 45 percent this year through Sept. 6. The 79-member Okasan gauge includes companies in industries from construction and transportation to sports, tourism and retail.

‘Tokyo Resonated’

“Tokyo presented a very strong technical bid from the outset,” IOC President Jacques Rogge, whose 12-year term in office ends tomorrow, said yesterday in a statement. “All three cities were capable of staging excellent games in 2020, but in the end it was Tokyo’s bid that resonated the most with the IOC membership.”

Nomura Real Estate Holdings Inc., an affiliate of Japan’s biggest brokerage, added 5.1 percent. Dentsu Inc. (4324), which has broadcast rights for the games in Asia, surged 6.9 percent. East Japan Railway Co. (9020), which Nomura Holdings Inc. picked as one of six stocks to benefit from the Olympics decision, jumped 5.8 percent, heading for its biggest daily advance since April.

The stock-market bounce may not last, Shinkin’s Fujimoto said.
Short-Lived Rally

“The market’s rally will be short-lived and outperforming stocks will be sold for profit-taking,” he said. “We have a long way to go until the Olympics actually take place.”

The Games would have an economic impact of about 2.96 trillion yen and create 150,000 jobs for Japan, according to an estimate from the Tokyo 2020 bid committee in June 2012.

So far Abe’s drive to end deflation in Japan through monetary easing and fiscal stimulus has mostly benefited investors and large manufacturers as the yen dropped against the dollar, boosting overseas corporate earnings and driving a stock market rally.

The plan has yet to translate into the higher wages needed to fuel the consumer spending required to sustain the recovery. An Olympic building boom could help change that.

“It’s going to be positive,” said Tadashi Ishii, president of Dentsu, Japan’s biggest advertisement agency. “It’s going to boost infrastructure demand and the more significant impact on the economy will be brightening up people’s attitudes. The business climate is often related to attitudes.”

Housing Project

Tokyo is planning its biggest housing project in 42 years to lodge athletes, a move that may benefit developers such as Shimizu Corp. and Mitsubishi Estate Co.

The 95.4 billion yen Olympic Village complex would occupy a 44-hectare (109-acre) parcel of land next to Tokyo Bay and would be financed by developers, Kenichi Kimura, who is in charge of the finances for the city’s bid at the Tokyo Metropolitan Government, said in an interview in July. Separately, the government plans to spend 153.8 billion yen for new construction and renovations at 11 sites, he said.

Shimizu surged 9 percent today, extending its advance this year to 50 percent. Mitsubishi Estate, Japan’s biggest property company by market value, jumped 5 percent today and has climbed 38 percent in 2013.

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