

Analysis and Forecasts for the Kansai Economy

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Overview

Uncertainties dim outlook for a full-fledged recovery

In addition to the COVID-19 pandemic, the international situation, soaring energy prices, and other factors are exerting downward pressure on Kansai's economy

- ◆ In 2021 Q4, the 5th wave of COVID-19 infections subsided, and the state of emergency and other infection control measures were lifted in Kansai. As a result, economic activity has normalized, but there are still many sources of uncertainty exerting downward pressure on the economy, such as supply chain disruptions caused by the shortage of semiconductors, as well as high commodity prices.
- ◆ In the household sector, there was a recovery in department store sales due to lower infection numbers and the lifting of the state of emergency. However, consumer sentiment and income growth remained sluggish in Q4, and have not recovered fully. The employment environment remained stagnant too, with recovery lagging behind that of Japan as a whole.
- ◆ The corporate sector is at a standstill, remaining unchanged from the previous quarter. Business confidence recovered somewhat, but production remained weak due to a shortages and tight logistics. In addition, soaring energy prices are putting pressure on corporate earnings.
- ◆ In the external sector, both exports and imports of goods increased in Q4, and exceeded their pre-pandemic levels. The growth of imports was particularly pronounced due to the high prices of natural resources, and the trade balance turned negative in January. The exports of services, such as inbound tourism, continue to be negligible.
- ◆ The number of new COVID-19 infections had been declining since early fall, but the spread of the highly infectious Omicron variant led to a rapid increase from late December onward, marking the sixth wave of COVID-19 infections. As a result, since January priority measures to curb the spread of the virus have been applied sequentially in municipalities across Kansai, suppressing economic activities once again.
- ◆ The real GRP growth rate for the Kansai region is forecast to be +2.6% in FY 2021, +2.5% in FY 2022, and +1.9% in FY 2023. The economy is expected to return to its pre-pandemic level in FY 2022, and then to growth further in FY 2023. However, there are many risk factors, including uncertainty about the end of the pandemic, geopolitical risks, and high energy prices.
- ◆ Kansai's economy is expected to outpace the growth of Japan in FY 2021 through FY 2023. The contributions of public demand and extra-regional demand are larger in Kansai.
- ◆ We have made downward revisions in our forecasts for Kansai's real GRP growth compared to our previous forecast (released on December 23): -0.28%pt for FY 2021, and -0.30%pt for FY 2022. However, we have revised the FY 2023 forecast up by +0.2%pt. By component, private, public and external demand were all revised down in FY 2021. In FY 2022 and FY 2023, only export growth was revised downward.
- ◆ In FY 2021, private demand is expected to make a positive contribution to growth for the first time in four years, propping up GRP growth by +1.0 %pt. External demand will contribute another +1.0 %pt, and public demand will add +0.5%pt, mostly in the form of anti-COVID-19 measures. From FY 2022 onward, the normalization of economic activity is expected to result in well-balanced contributions to growth by private, public and external demand.
- ◆ In the "Topics" section of the Japanese-language issue of this report, we present the findings of two studies by APIR: "The Effectiveness of Efforts by DMOs to Attract International Visitors" and "The Impact of Taiwan's Accession to the CPTPP: An Analysis Based on Trade Data between Kansai and Taiwan."

• This report provides an analysis of current economic trends in the Kansai region. It is produced by APIR's *Short-term Forecasts for Japan's and Kansai's Economies* project team headed by Yoshihisa Inada (Director of the APIR Centre for Quantitative Economic Analysis & Professor Emeritus of Konan University).

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• In this report, 'Kansai' includes 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. The term 'Kinki' used in official data to define the same region has been changed to 'Kansai' for consistency purposes.

• Forecasts are made using APIR's original forecast model for the Kansai economy and are supervised by Prof. Yoshihisa Inada and Prof. Hiroaki Irie.

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Note: Figures in the table are calculated using the expenditure method, and differ from forecasts made using the production method.

Forecast Summary

FY	Kansai					Japan				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Private final consumption expenditure	▲ 1.0	▲ 5.8	1.8	2.3	1.4	▲ 1.0	▲ 5.4	2.6	2.5	1.4
Private residential investment	▲ 0.9	▲ 1.8	▲ 1.1	0.6	1.8	2.6	▲ 7.8	▲ 1.4	▲ 0.6	1.2
Private non-residential capital investment	0.4	▲ 4.7	1.2	2.9	2.9	▲ 0.6	▲ 7.5	1.3	2.5	2.7
Government final consumption expenditure	1.7	3.0	2.3	1.5	0.9	2.1	2.5	1.9	0.9	0.9
Public fixed capital formation	1.2	5.8	1.5	2.5	2.5	1.6	5.2	▲ 7.3	▲ 1.3	2.0
Exports	0.5	▲ 2.8	7.8	5.1	3.3	▲ 2.2	▲ 10.5	12.8	4.5	3.5
Imports	0.3	▲ 1.2	5.0	4.7	3.1	0.2	▲ 6.7	6.3	2.3	3.0
Real GRP/GDP	▲ 0.2	▲ 3.8	2.6	2.5	1.9	▲ 0.7	▲ 4.5	2.4	2.3	1.7
Private demand (contribution)	▲ 0.7	▲ 4.2	1.0	1.7	1.4	▲ 0.7	▲ 4.6	1.4	1.7	1.3
Public demand (contribution)	0.4	0.8	0.5	0.4	0.3	0.5	0.8	▲ 0.0	0.1	0.3
Net exports (contribution)	0.1	▲ 0.4	1.0	0.4	0.3	▲ 0.4	▲ 0.6	1.1	0.4	0.1
Nominal GRP/GDP	0.8	▲ 3.1	1.8	3.6	2.3	0.2	▲ 3.9	1.4	3.3	1.9
GRP/GDP deflator	1.0	0.7	▲ 0.8	1.1	0.3	0.8	0.6	▲ 1.0	1.0	0.2
Consumer price index	0.6	▲ 0.2	0.0	1.2	0.9	0.6	▲ 0.4	▲ 0.0	1.4	0.8
Industrial Production Index	▲ 4.5	▲ 8.2	5.1	3.2	2.7	▲ 3.8	▲ 9.5	5.9	3.0	2.5
Unemployment rate	2.6	3.1	3.0	3.0	3.0	2.3	2.9	2.8	2.7	2.6

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. Figures for 2021 and after are forecasts. Forecasts for the Japanese economy are sourced from APIR's Economic Forecast and Analysis No. 137.

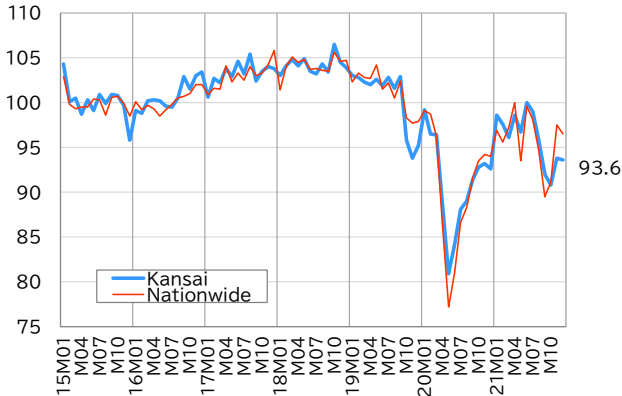
Previous Forecast

(2021/12/23)

FY	Kansai					Japan				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Private final consumption expenditure	▲ 1.0	▲ 5.9	2.0	2.2	1.1	▲ 1.0	▲ 5.5	2.5	2.3	0.8
Private residential investment	▲ 0.9	▲ 1.8	0.2	0.5	1.3	2.6	▲ 7.8	▲ 0.6	▲ 0.8	1.2
Private non-residential capital investment	0.5	▲ 5.0	1.1	3.2	2.3	▲ 0.6	▲ 7.5	1.7	3.4	3.8
Government final consumption expenditure	1.6	3.0	2.8	1.8	0.9	2.1	2.5	2.3	1.5	0.9
Public fixed capital formation	1.2	4.7	1.0	2.8	2.5	1.6	5.1	▲ 5.7	2.9	1.9
Exports	0.6	▲ 2.9	7.9	5.7	4.9	▲ 2.2	▲ 10.5	11.6	4.6	5.5
Imports	0.3	▲ 1.7	4.9	4.8	4.3	0.2	▲ 6.6	6.3	2.6	3.5
Real GRP/GDP	▲ 0.2	▲ 3.9	2.8	2.8	1.8	▲ 0.7	▲ 4.5	2.7	2.6	1.7
Private demand (contribution)	▲ 0.7	▲ 4.4	1.2	1.7	1.1	▲ 0.7	▲ 4.7	1.7	1.8	1.0
Public demand (contribution)	0.4	0.7	0.6	0.5	0.3	0.5	0.8	0.2	0.5	0.3
Net exports (contribution)	0.1	▲ 0.3	1.1	0.6	0.4	▲ 0.4	▲ 0.7	0.9	0.4	0.4

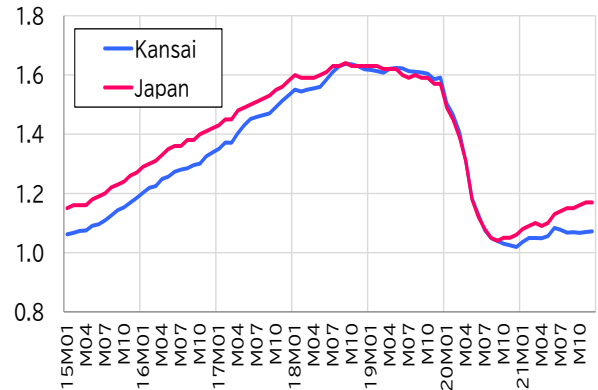
Forecast at a glance

【Index of Industrial Production (2015=100), including Fukui Prefecture】



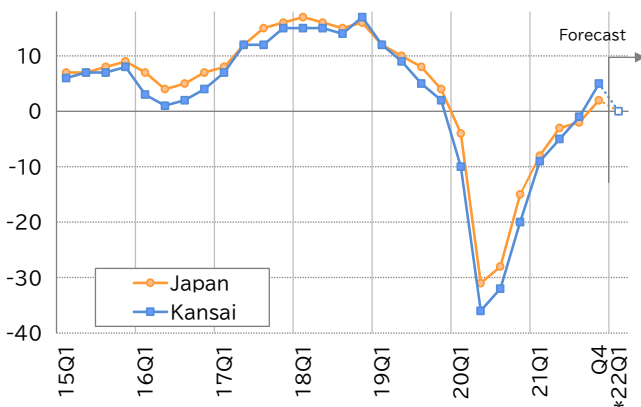
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



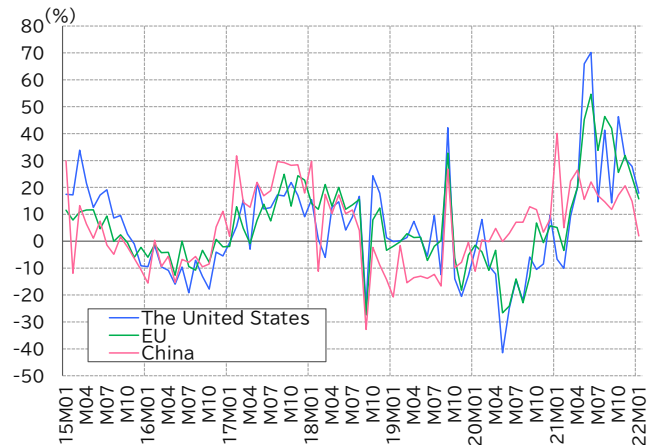
Source: Ministry of Health, Labour and Welfare of Japan

【Current conditions DI (BOJ Tankan Survey 2021/12)】



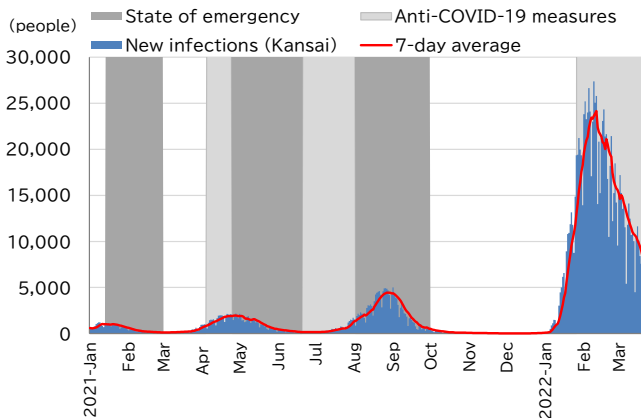
Note: Firms of all sizes in all industries.
Source: BOJ Osaka branch

【Exports by destination (YoY changes)】



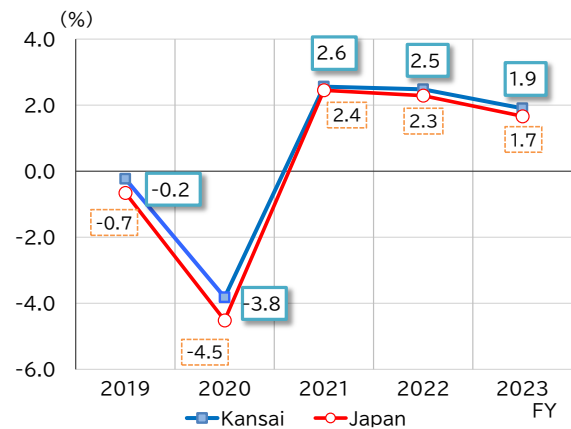
Source: Osaka Customs

【New COVID-19 infections in Kansai】



Source: Prepared by APIR based on various press materials.

【Forecast comparison: Kansai vs. Japan】



Source: APIR "JEAF No. 137"