

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No.66

29 November, 2023

• 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 Highlights

Gradual recovery in Kansai continues, but the economy is entering a new phase.

The "post-Covid" phase is over, and so is post-pandemic economic optimism.

- ◆ In 2023 Q3, Kansai's economy showed signs of change, and is entering a new phase. Although a gradual recovery is still underway, some indicators have deteriorated. In the household sector, consumer sentiment, income, and employment all remained stagnant. In the corporate sector, production and business confidence remained weak too. In the external sector, inbound tourism is recovering, but the exports of goods remain stagnant. The economic buoyancy that accompanied the end of the Covid-19 pandemic has worn off, indicating the end of the "post-Covid" phase.
- ◆ In the household sector, there are signs of a pause in the recovery. Sentiment is sluggish due to a decline in real income accompanying rising prices and a growing tendency to economize. Weaknesses are also seen in the income and employment environment and the housing market. On the other hand, sales at large retailers have been robust thanks to demand by inbound tourism and sales related to the baseball championship in Osaka.
- ◆ The corporate sector is recovering moderately, but there are signs of a change. Production has increased for two consecutive quarters, but the pace of recovery is moderate. The Diffusion Index (DI) for business conditions is generally in positive territory, however, business confidence is deteriorating in some industries. Capital investment plans for the current fiscal year remain robust in both the manufacturing and non-manufacturing sectors.
- ◆ In the external sector, the exports and imports of goods was sluggish. In contrast to the continued positive YoY growth in nationwide exports, Kansai's exports to Asia have stagnated, resulting in a YoY decline for the second consecutive quarter. On the other hand, inbound tourism is recovering steadily, with the number of foreign arrivals at Kansai International Airport and duty-free sales surpassing pre-pandemic levels.
- ◆ Kansai's public sector remains robust, despite the deceleration in public investment growth.
- ◆ Real GRP growth in Kansai is forecasted to be +1.3% in FY 2023, +1.6% in FY 2024, and +1.4% in FY 2025, with a gradual recovery trend in the 1% range continuing from FY 2022 onward.
- ◆ Compared to our previous forecast (released on August 29), the forecast for FY 2023 was revised downward by -0.3 percentage points, while the forecast for FY 2024 was revised up by +0.2 percentage points. This report features our first forecast for FY 2025.
- ◆ Looking at the contribution to growth, private demand will drive growth by +0.6 percentage points in FY 2023, +1.2 percentage points in FY 2024, and +1.0 percentage points in FY 2025. Public and extra-territorial demand will contribute to growth too, but only modestly.
- ◆ Compared to Japan as a whole, economic growth in Kansai will be lower in FY 2023. However, it will be higher in FY 2024 and FY 2025. Both private and public demand (especially capital investment) will be stronger than rest of the country. On the other hand, foreign demand in Kansai will remain below the national level in FY 2023 due to sluggish exports. However, it will be on par with the national level in FY 2024, and will exceed the national average in FY 2025.
- ◆ The "Topics" section of the Japanese-language version of this report includes our early estimates of the GRPs of Kansai prefectures as well as an analysis of the economic effects of Hanshin-Oryx baseball championship in 2023.

Forecast Summary

	FY	Kansai					Japan				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.5	2.4	0.3	1.1	0.8	1.5	2.5	▲ 0.2	1.0	0.7
Private residential investment		▲ 1.6	▲ 0.6	1.1	1.1	0.5	▲ 0.6	▲ 3.2	2.4	0.3	0.6
Private non-residential capital investment		1.3	1.2	2.2	2.4	2.7	2.3	3.0	0.4	2.2	2.5
Government final consumption expenditure		3.0	0.9	0.5	0.3	0.4	3.4	0.7	0.5	0.2	0.2
Public fixed capital formation		▲ 1.5	1.0	3.0	2.6	2.4	▲ 6.5	▲ 3.2	1.4	1.5	0.9
Exports		8.4	2.7	0.8	2.2	3.2	12.4	4.5	3.2	2.5	2.2
Imports		4.2	5.4	▲ 0.2	1.6	3.1	7.2	7.2	▲ 3.0	1.4	2.0
Real GRP/GDP		2.5	1.3	1.3	1.6	1.4	2.6	1.3	1.5	1.2	1.0
Private demand (contribution)		1.0	1.8	0.6	1.2	1.0	1.5	1.9	▲ 0.1	0.9	0.8
Public demand (contribution)		0.4	0.2	0.3	0.3	0.2	0.4	0.0	0.3	0.1	0.1
Net exports (contribution)		1.0	▲ 0.7	0.4	0.2	0.3	0.8	▲ 0.6	1.3	0.2	0.1
Nominal GRP/GDP		2.4	1.9	4.5	1.8	2.9	2.5	2.0	4.7	1.8	2.2
GRP/GDP deflator		▲ 0.2	0.6	3.2	0.2	1.5	▲ 0.1	0.7	3.1	0.5	1.2
Consumer price index		0.0	2.8	2.7	2.1	1.5	0.0	3.1	2.8	1.9	1.4
Industrial Production Index		5.2	▲ 2.2	▲ 0.3	1.0	1.5	5.5	▲ 0.3	▲ 0.8	0.9	1.6
Unemployment rate		3.0	2.9	3.0	2.9	2.7	2.8	2.6	2.6	2.5	2.4

Notes: Unit= %. All figures except 'Unemployment rate' are YoY growth rates. Figures on Kansai's economy for FY 2021-22 are estimates, and figures for FY 2023-25 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-25) are sourced from APIR's Economic Forecast and Analysis No. 145.

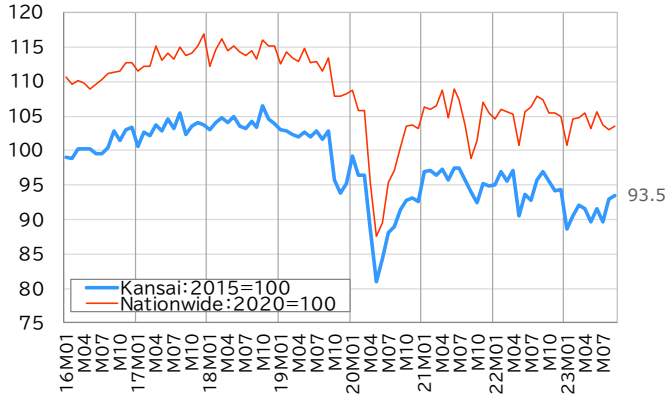
Previous Forecast

(2023/8/29)

	FY	Kansai					Japan				
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.5	2.4	0.8	0.9	/	1.5	2.5	0.5	1.2	/
Private residential investment		▲ 2.0	▲ 2.9	1.6	0.6	/	▲ 0.6	▲ 3.0	2.8	0.6	/
Private non-residential capital investment		2.5	1.7	2.6	3.3	/	2.3	3.1	2.0	2.6	/
Government final consumption expenditure		3.0	1.1	0.9	0.9	/	3.4	0.7	0.4	0.3	/
Public fixed capital formation		▲ 1.5	1.0	3.5	2.4	/	▲ 6.5	▲ 3.1	3.5	1.0	/
Exports		8.0	1.3	0.4	1.5	/	12.4	4.5	1.8	1.5	/
Imports		6.2	4.0	▲ 0.1	2.9	/	7.1	7.2	▲ 2.4	1.9	/
Real GRP/GDP		2.4	1.3	1.6	1.4	/	2.7	1.4	1.9	1.1	/
Private demand (contribution)		1.0	1.7	1.0	1.2	/	1.5	1.9	0.8	1.1	/
Public demand (contribution)		0.4	0.2	0.4	0.4	/	0.4	0.0	0.4	0.1	/
Net exports (contribution)		1.0	▲ 0.7	0.2	▲ 0.1	/	0.8	▲ 0.6	0.8	▲ 0.1	/

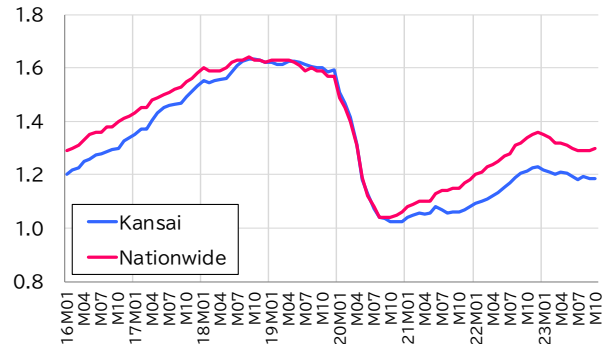
Forecasts at a Glance

【Index of Industrial Production (Kansai:2015=100, Nationwide:2020=100), including Fukui Prefecture】



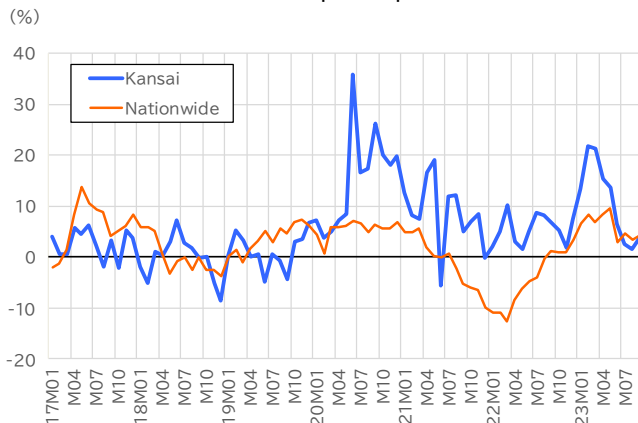
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



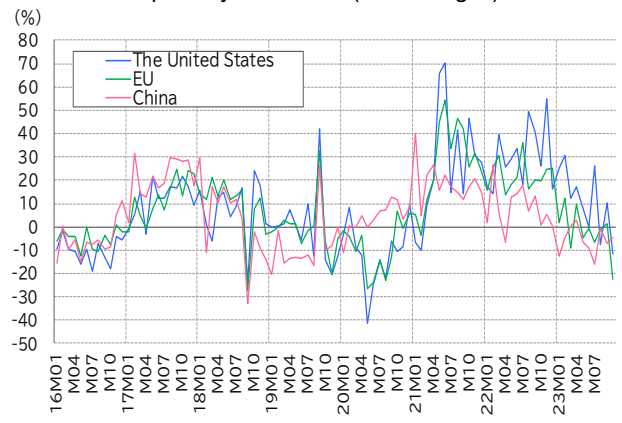
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



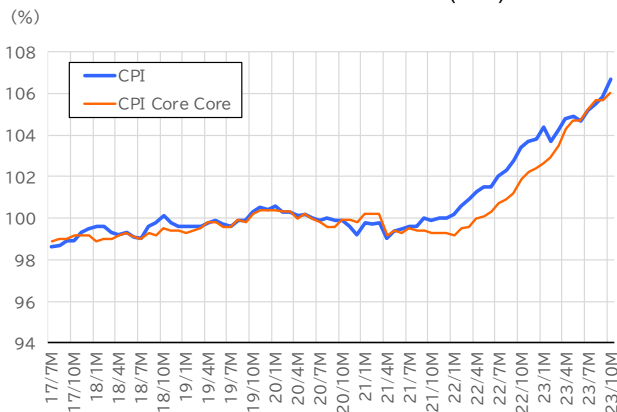
Source: MLIT

【Exports by destination (YoY changes)】



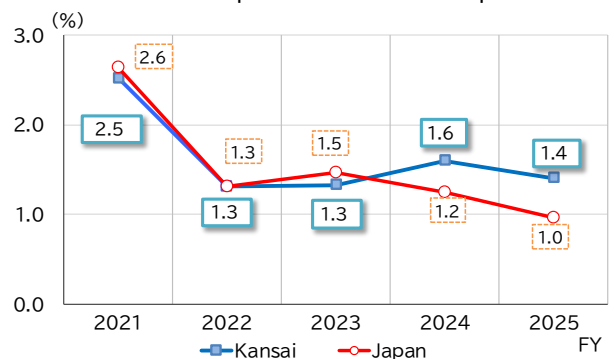
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.66