

# Analysis and Forecasts for the Kansai Economy

## Kansai Economic Insight Quarterly No.70

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• 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

### Moderate recovery driven by domestic demand

#### Increasing uncertainties due to a diversification of risks require caution

- ◆ In Q2, Kansai's economy is recovering moderately, supported by domestic demand, although some weak trends can be observed. In the household sector, consumer sentiment, income and employment are showing signs of bottoming out. A strong recovery, however, is yet to be achieved. In the corporate sector, production is moving back and forth, but business confidence and capital investment plans remain robust. In the external sector, the exports of goods are picking up and inbound tourism is showing a robust recovery.
- ◆ The household sector is picking up moderately, but some weakness is evident. There is a gradual pick-up in the sales of large retail stores and in the consumer sentiment. The employment environment has been weak due to a decline in job offers. Real wages kept declining, but they are showing signs of bottoming out. The housing market is picking up.
- ◆ The corporate sector continues to stall. Production is moving back and forth, affected by the suspension and resumption of production following the automobile certification fraud issue. Capital investment is planned to increase substantially in FY 2024 in both the manufacturing and non-manufacturing sectors. Business confidence is firm in the non-manufacturing sector, but slightly weaker in the manufacturing sector.
- ◆ In the external sector, the exports and imports of goods are both picking up. Exports to Europe and the US remained sluggish, but total exports kept increasing YoY for two consecutive quarters on the back of a pick-up in exports to China. Inbound tourism is recovering steadily.
- ◆ The public sector is recovering, with both the value and the volume of public works contracts turning to YoY growth.
- ◆ Kansai's real GRP growth is forecast to be +1.2% in FY 2024 and +1.3% in FY 2025, with growth remaining in the low 1% range. Kansai's growth rate in FY 2024 is expected to exceed that of the Japanese economy. Compared to our previous forecast, there is no revision for FY 2024, but we revised our forecast for FY 2025 down by -0.1 percentage points.
- ◆ In terms of contribution to growth, private demand is expected to support growth with a moderate recovery of +0.8 percentage points in FY 2024 and +1.1 percentage points in FY 2025. Public demand will support growth by +0.3 percentage points in FY 2024 due to Expo-related investments, but will only make a small contribution in FY 2025 as the Expo effect will wear off. Extraterritorial demand (including net exports) will contribute +0.2 percentage points in both FY 2024 and FY 2025.
- ◆ In FY 2024, Kansai's economic growth rate will outperform that of the rest of the country. This will be due to a boost from Expo-related demand, including capital investment and public investment, as well as a boost from external demand. However, in FY 2025 Kansai will grow at the same rate as the rest of Japan, with growth being mainly driven by private demand.
- ◆ At present, uncertainty over the economic outlook is increasing due to various external and internal risk factors. Overseas risks include growing uncertainty in the EU, US and Chinese economies. Domestic factors include trends in wages and prices, volatility in stock prices and exchange rates, an increased risk of natural disasters, and political uncertainty.

## Forecast Summary

	Kansai					Japan					
	FY	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.9	2.9	0.1	1.0	1.0	1.8	2.7	▲ 0.6	0.9	0.9
Private residential investment		▲ 0.9	▲ 3.4	▲ 0.7	▲ 1.8	1.0	0.3	▲ 3.3	0.3	▲ 0.8	0.8
Private non-residential capital investment		1.3	1.7	1.4	2.8	2.9	3.2	4.1	0.3	2.5	2.6
Government final consumption expenditure		3.3	1.1	0.3	0.6	0.7	3.2	1.4	▲ 0.5	0.6	0.9
Public fixed capital formation		▲ 1.4	0.9	5.1	4.0	▲ 1.5	▲ 6.5	▲ 6.1	0.7	2.3	0.6
Exports		9.3	1.4	1.1	1.6	2.5	12.5	4.9	2.8	0.4	2.7
Imports		▲ 3.1	5.5	▲ 1.1	1.5	2.4	7.3	7.3	▲ 3.2	2.3	2.4
Real GRP/GDP		3.4	1.8	1.1	1.2	1.3	3.1	1.6	0.8	0.4	1.2
Private demand (contribution)		1.7	2.3	0.1	0.8	1.1	1.9	2.1	▲ 0.5	0.6	0.9
Public demand (contribution)		0.8	0.2	0.3	0.3	0.0	0.3	0.0	▲ 0.1	0.2	0.2
Net exports (contribution)		1.0	▲ 0.7	0.8	0.2	0.2	0.8	▲ 0.5	1.4	▲ 0.4	0.1
Nominal GRP/GDP		3.7	3.3	5.3	3.9	3.2	3.0	2.5	4.9	2.8	2.8
GRP/GDP deflator		0.3	1.5	4.2	2.7	1.9	▲ 0.1	0.9	4.0	2.3	1.6
Consumer price index		▲ 0.1	2.8	2.8	2.6	1.8	0.0	3.1	2.8	2.3	1.6
Industrial Production Index		4.8	▲ 1.2	▲ 3.8	0.9	1.5	5.5	▲ 0.3	▲ 1.9	0.5	2.0
Unemployment rate		3.0	2.9	2.9	2.8	2.5	2.8	2.6	2.6	2.5	2.3

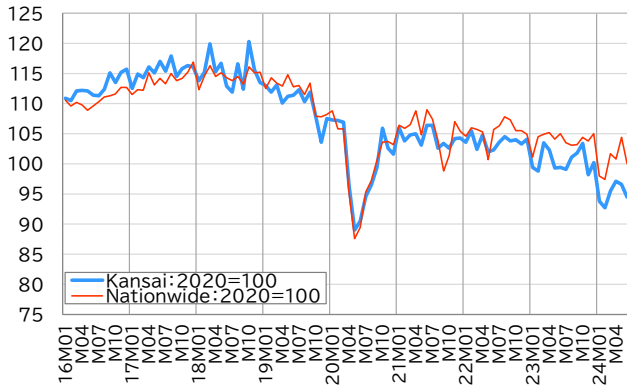
Notes: Unit= %. All figures except 'Unemployment rate' are YoY growth rates. Figures on Kansai's economy for FY 2021-23 are estimates, and figures for FY 2024-25 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-25) are sourced from APIR's Economic Forecast and Analysis No. 148.

## Previous Forecast

	Kansai					Japan					
	FY	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Private final consumption expenditure		1.6	2.6	▲ 0.3	0.5	1.0	1.8	2.7	▲ 0.6	0.3	1.0
Private residential investment		▲ 1.5	3.6	▲ 0.2	▲ 1.5	1.8	0.1	▲ 3.3	0.3	▲ 1.5	0.3
Private non-residential capital investment		1.2	1.6	1.6	2.6	2.8	1.7	4.1	0.4	2.9	2.6
Government final consumption expenditure		3.0	1.1	0.5	0.6	0.9	3.2	1.4	0.1	0.5	0.6
Public fixed capital formation		▲ 1.5	0.9	5.1	4.2	▲ 1.4	▲ 6.5	▲ 6.1	0.8	1.4	0.3
Exports		8.3	2.9	1.0	2.2	2.4	12.4	4.9	3.0	0.6	3.5
Imports		4.0	6.1	▲ 1.2	1.4	1.9	7.2	6.9	▲ 3.2	2.3	2.1
Real GRP/GDP		2.5	1.4	1.4	1.2	1.4	2.8	1.7	1.0	0.3	1.2
Private demand (contribution)		1.0	2.1	0.1	0.5	1.1	1.7	2.1	▲ 0.5	0.5	0.8
Public demand (contribution)		0.4	0.2	0.4	0.4	0.1	0.3	0.0	0.0	0.1	0.1
Net exports (contribution)		1.0	▲ 0.9	0.8	0.3	0.3	0.8	▲ 0.5	1.4	▲ 0.3	0.3

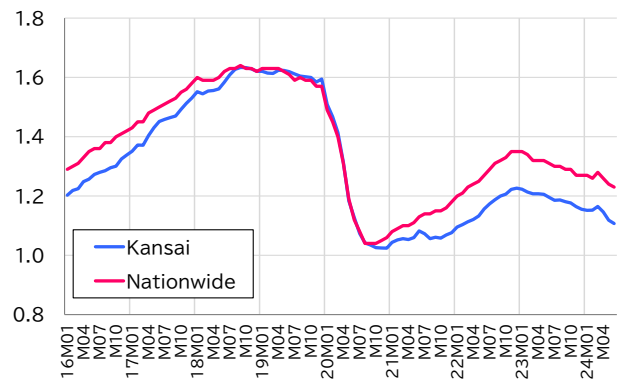
## Forecasts at a Glance

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



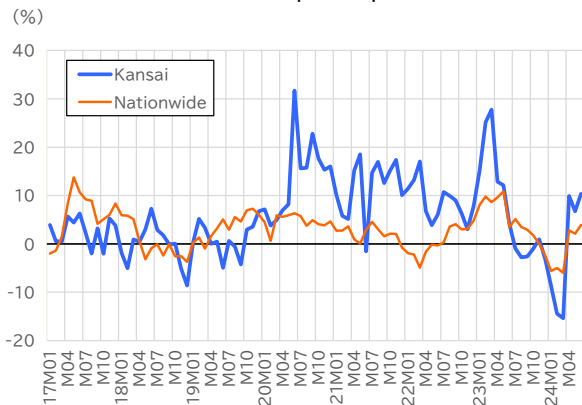
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



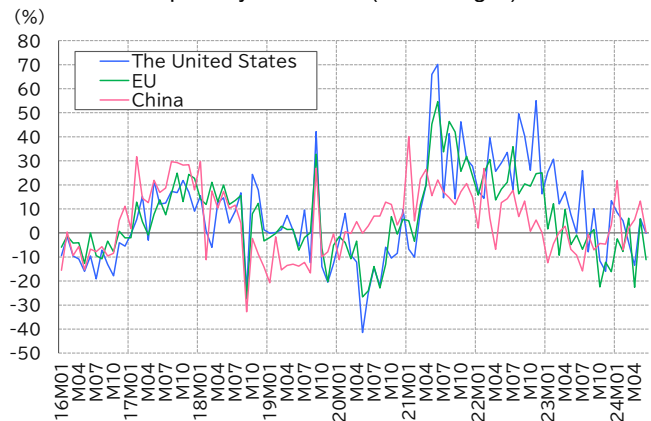
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



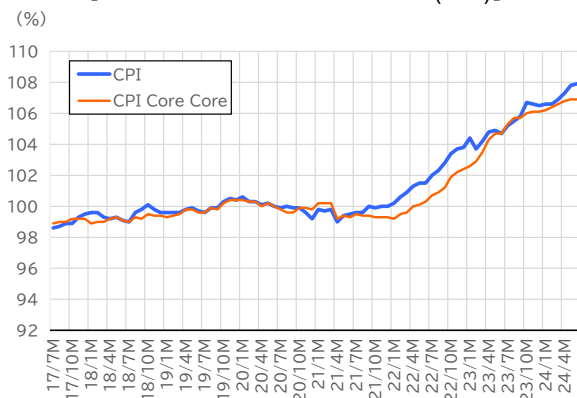
Source: MLIT

【Exports by destination (YoY changes)】



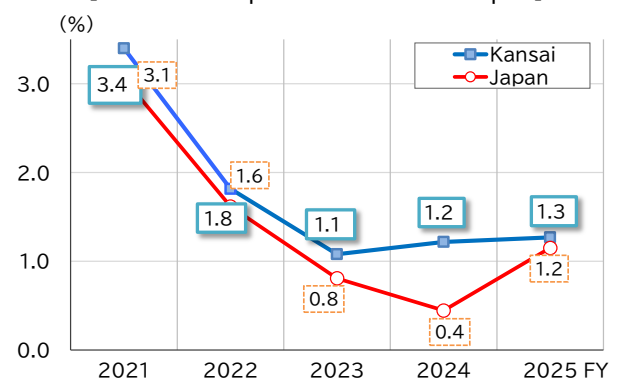
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.70"