

Section 3

THE KANSAI ECONOMY: RECENT DEVELOPMENTS AND SHORT-TERM FORECASTS

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1. Retrospective of the Kansai economy in FY 2022 and the first half of FY 2023

In FY 2022, the Kansai economy generally picked up as socioeconomic activities normalized, and although the number of new COVID-19 infections reached the sixth and seventh waves during FY 2022, no emergency declarations or other strict behavioral restrictions were imposed. In May 2023, the handling of COVID-19 was shifted to category 5, and economic and social activities have returned to normal and become more active. FY 2023 also saw a continued pickup, but the pace of recovery was slow, and some signs of deterioration were evident.

Below is a sector-by-sector retrospective of the Kansai economy in FY 2022 and beyond, focusing on monthly economic indicators.

(1) Household sector

The household sector in the Kansai region picked up moderately in FY 2022. Sentiment, large retail sales, the employment environment, and the housing market all held up well, partly due to more relaxed action restrictions on the COVID-19 infection expansion compared to the previous year. However, households were faced with higher consumer prices for a wide range of items, particularly food and energy. As a result, real wages continued to deteriorate. In FY 2023, the gradual recovery continued, but growth remained sluggish due to weak trends in income and employment conditions and sentiment.

Consumer Sentiment

The FY 2022 Consumer Confidence Index was 31.6, down 4.4 points from the previous year, marking the first deterioration in two years (Figure 2-3-1). Although the level was higher than in FY 2020 (29.7), when the COVID-19 pandemic began, sentiment deteriorated as the number of new positives increased in the 6th and 7th waves. However, it subsequently began to recover, mainly due to the government's emphasis on maintaining economic and social activities and not imposing behavioral restrictions; it reached 38.3 in May 2023, the highest level since the COVID-19 pandemic, but has remained weak and sluggish ever since.



Figure 2-3-1 Consumer Confidence Index

Source: Cabinet Office, "Survey of Consumption Trends"

Income environment

The income environment continued to show steady growth in nominal terms but continued to decline in real terms due to high prices (Figure 2-3-2), with gross nominal wages in Kansai in FY 2022 (APIR estimate) averaging JPY 318,361 per month. This was an increase of 2.2% YoY, marking the second consecutive year of year-on-year growth. Real wages (i.e. excluding the effect of price fluctuations based on the consumer price index) were down 1.4% from the previous year. The Kansai region is also facing rising consumer prices, and wage growth is not keeping pace with the growth in prices.



Figure 2-3-2 Gross Nominal Wages and Real Wages (% change from the same month of the previous year)

Source: Ministry of Health, Labour and Welfare, "Monthly Labor Survey," etc.

Employment environment

The employment environment picked up as socioeconomic activities normalized (Figure 2-3-3), and the ratio of job offers to applicants in the Kansai region in FY 2022 was 1.19, up 0.11 points from the previous year, marking the first improvement in two years. The national ratio for FY 2022 was 1.31. On a monthly basis, the Kansai region had been improving for 14 consecutive months since November 2021, but since the beginning of 2023, the number of job openings has remained almost unchanged. While job openings in the accommodation/restaurant and retail sectors are increasing, those in the manufacturing and construction sectors, which are facing cost increases, are being held down, with the trend differing somewhat by industry sector.

Large retailers' sales

Large-retailers' sales recovered due in part to a recovery in customer traffic and higher prices (Figure 2-3-4). The overall sales of large retailers in the Kansai region in FY 2022 totaling JPY 3,744.8 billion, up 7.2%, the second consecutive year of YoY growth and above the FY 2019 level. The growth is higher than that of the nation as a whole (+4.5% YoY).

Therein, department store sales (on an all-store basis) totaled JPY 1,429.8 billion, up 20.5% from the previous year, marking the second consecutive year of year-on-year growth, and have been recovering steadily since 2023 on the back of a recovery in customer traffic. In addition, supermarket sales totaled JPY 2,307.4 billion. YoY, sales increased for the first time in seven years, up 0.3%.

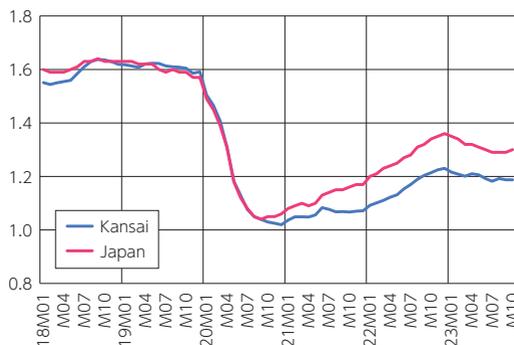


Figure 2-3-3

Effective Job Offerings to Applicants Ratio (Seasonally Adjusted)

Source: Ministry of Health, Labour and Welfare, "General Job Placement Situation"

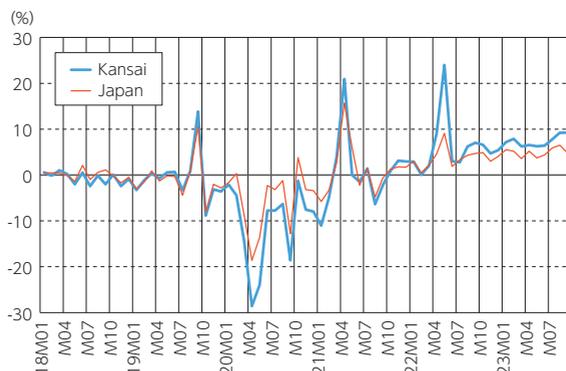


Figure 2-3-4 Department store and supermarket sales (YoY: %)

Note: Based on all stores

Source: Kansai Bureau of Economy, Trade and Industry, "Department Store and Supermarket Sales"

(2) Corporate Sector

In FY 2022, the corporate sector in the Kansai region showed different trends among industries. In the manufacturing sector, both production and business confidence were weak due to soaring raw material prices and a slowdown in overseas economies. On the other hand, the non-manufacturing sector generally recovered with the resumption of economic activity, especially in face-to-face services such as lodging, food services, and retail.

Business confidence

According to the Bank of Japan's Osaka Branch Tankan survey, the Diffusion Index (DI) for business conditions in Kansai (firms of all sizes in all industries) was positive for the eighth consecutive quarter as of the December 2023 survey (Figure 2-3-5). Compared to the nation as a whole, there is no significant difference. By industry, the manufacturing sector has been in and out of the vicinity of zero since 2022. The non-manufacturing sector recovered steadily, especially in face-to-face services.

Industrial production

The production index has been sluggish due to the global shortage of semiconductors and soaring raw material prices (Figure 2-3-6). The production index for FY 2022 was 93.5 (2015=100, seasonally adjusted). This was -2.2% from the previous year, the first decline in production in two years. The trend is similar to the national level. The electronic components/devices industry, ceramic/soil



Figure 2-3-5

DI for business conditions in the Bank of Japan's Tankan survey (all sizes, all industries)

Note: * denotes that it is a forecast.
 Source: Bank of Japan, Osaka Branch, "Tankan: Short-term Economic Survey of Enterprises"

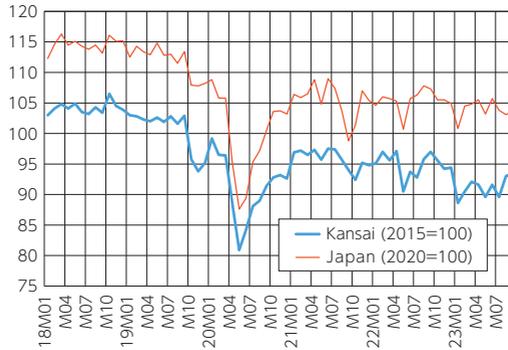


Figure 2-3-6

Indices of Industrial Production (seasonally adjusted)

Source: Kansai Bureau of Economy, Trade and Industry, "Kansai Region Industrial Production Trends"

and stone products industry, and plastic products industry contributed to the overall decline in production, which has continued to fluctuate since 2023.

Capital investment

According to the Bank of Japan's December 2023 Tankan survey, capital investment by companies in the Kansai region in FY 2022 (all sizes and all industries) was up 8.7% from the previous year (Table 2-3-1). Growth was high, especially in the manufacturing sector. The planned investment in FY 2023 is +6.0% over the previous year, which is a modest increase compared to the previous year's growth, but still shows an aggressive stance.

Table 2-3-1 BOJ Tankan: Planned Capital Investment

	Kansai			Japan		
	All industries	Manufacturing	Non-manufacturing	All industries	Manufacturing	Non-manufacturing
FY 2022	8.7	14.4	5.1	9.2	9.0	9.3
FY 2023	6.0	7.0	5.4	12.8	14.6	11.7

Source: Bank of Japan, Osaka Branch, "Tankan: Short-term Economic Survey of Enterprises (Kansai Region)"

(3) External Sector

For the external sector, we focus on trade in goods and exports of services (inbound tourism demand). Both exports and imports of goods increased for the second consecutive year. As for exports of services, a remarkable recovery was seen as a result of the increase in the number of foreign visitors to Japan following the substantial easing of waterfront measures such as the removal of the cap on the number of people entering Japan.

Trade in goods

Both imports and exports in FY 2022 set new FY records for the second year in a row (Figure 2-3-7). The price changes for both imports and exports were significant due to rising resource prices and the depreciation of the yen. Exports totaled JPY 21,729.1 billion, up 13.0% from the previous year, marking the second consecutive year of growth. Mineral fuels and steel contributed to the increase. However, this growth was modest compared to that in exports for the nation as a whole (+15.5% YoY). Exports to China were higher in the Kansai region than in the nation as a whole, and the impact of the zero-COVID policy is thought to

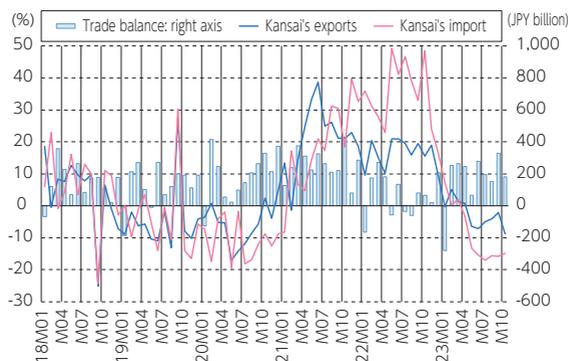


Figure 2-3-7 Exports, imports, and trade balance

Source: Osaka Customs, "The Summary Report on Trade of Kansai"

have had a large impact. Exports to the U.S., the EU, and China respectively increased YoY by 29.4%, 16.1%, and 4.0% (Figure 2-3-8). While exports to Europe and the U.S. were relatively firm, those to China gradually declined due to the impact of the zero-COVID policy lockdown. Since FY 2023, the trend has been weak due to the contraction of world trade.

Imports totaled JPY 20,958.7 billion, up 26.2% YoY, marking the second consecutive year of year-on-year increase, as did exports. Crude oil, natural gas, and manufactured gas increased, and imports have been declining since the second half of FY 2022, as the sharp rise in crude oil prices has subsided.

The trade balance was +JPY 771 billion, the eighth consecutive year of surplus, but the surplus was smaller than that of the previous year (+JPY 2.6 trillion).

Inbound tourism demand

A remarkable recovery was seen in the number of international visitors to Japan due to the significant relaxation of border control measures, including the removal of the cap on the number of visitors to Japan.

According to the Ministry of Justice, the number of international visitors to Japan in FY 2022 was 9,029,000 nationwide, of which 2,042,000 entered Japan from Kansai International Airport (Figure 2-3-9). Since October 2022, the number of international visitors to Japan have increased rapidly due to the significant relaxation of the COVID-19 border control measures by the Japanese government. The number of visitors reached 656,000 in October 2023, surpassing for the first time the level of the same month in 2019 (652,000), the month before the COVID-19 pandemic.

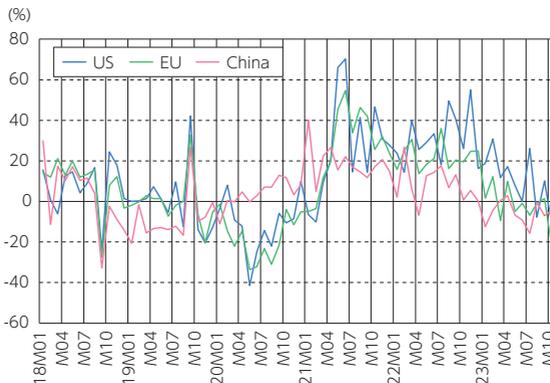


Figure 2-3-8

Exports by region (YoY)

Source: Osaka Customs, "The Summary Report on Trade of Kansai"

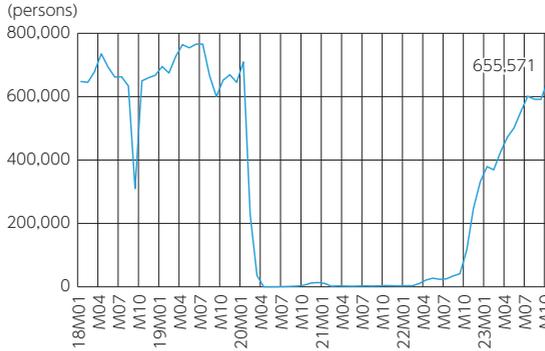


Figure 2-3-9

Number of foreign visitors to Japan via Kansai International Airport

Source: Ministry of Justice, "Immigration Statistics"

Department store duty-free sales also continue to pick up (Figure 2-3-10). According to the Osaka branch of the Bank of Japan, duty-free sales at department stores in the Kansai region almost tripled in FY 2022, up 201.8% from the previous year. The depreciation of the yen boosted sales of cosmetics and high-end products, etc. Duty-free sales exceeded the same month in 2019, which was before the COVID-19 pandemic, in June 2023, and reached a record single month in October of the same year.

(4) Public sector

The public sector (public works) in the Kansai region remained steady compared to the nation as a whole.

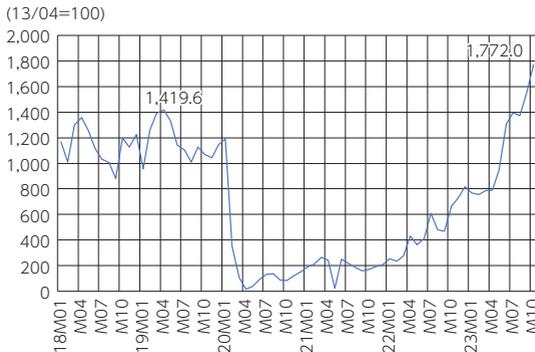


Figure 2-3-10

Department store duty-free sales (April 2013=100)

Source: Bank of Japan, Osaka Branch, "Department Store Duty Free Sales (Kansai Region)"

In FY 2022, the value of the completed public works in the Kansai region totaled JPY 3,016.5 billion, a YoY increase of 9.4% (Figure 2-3-11). This is the fourth consecutive year of YoY increase since FY 2019, when retroactive data became available. On a monthly basis, the Kansai region posted year-on-year growth for 21 consecutive months from July 2021 to March 2023. Large-scale public investment projects, such as the development of land on Yumeshima, the site of the Osaka-Kansai Expo, the Shinmeishin Expressway, and the Yodogawa Left Bank Route, have been progressing, and in FY 2023, the region continued to show steady growth, exceeding the previous year's level. The value of completed public works in nationwide was JPY 21,783.7, an increase of 1.1% YoY.

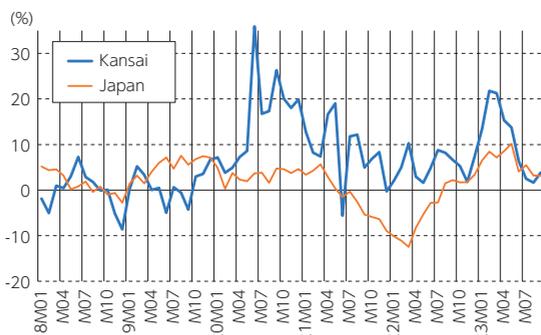


Figure 2-3-11 Public works output (YoY)

Source: Ministry of Land, Infrastructure, Transport and Tourism, "General Construction Statistics"

2. Kansai Economic Forecast: FY 2023-25

The forecast of the Kansai economy for FY 2023-25, reflecting the latest economic indicators in and out of the Kansai region, including the second preliminary GDP report for Q3 2023, and the forecast results of the Japanese economy.

(1) Kansai GRP growth forecast: FY 2023 +1.3%, FY 2024 +1.6%, FY 2025 +1.4%.

We forecast that Kansai's real GRP growth will be +1.3% in FY 2023, +1.6% in FY 2024, and +1.4% in FY 2025 (Table 2-3-2, Figure 2-3-12). Actual forecasts for past years are +2.5% for FY 2021 and +1.4% for FY 2022, with moderate growth in the 1% range from FY 2022 onward, recovering to pre-COVID-19 pandemic levels in FY 2023.

Table 2-3-2 Results Table of Kansai Economic Forecast

FY	2021	2022	2023	2024	2025
Private final consumption expenditure	1.6	2.6	0.4	1.1	0.8
Private residential investment	▲ 1.5	3.6	1.2	0.1	1.3
Private non-residential capital investment	1.2	1.6	2.1	2.3	2.8
Government final consumption expenditure	3.0	1.1	0.7	0.3	0.4
Public fixed capital formation	▲ 1.5	0.8	4.0	2.9	2.4
Exports	8.4	2.7	0.7	2.1	3.4
Imports	4.1	6.0	0.1	1.3	3.2
Real GRP	2.5	1.4	1.3	1.6	1.4
Private demand (contribution)	1.0	2.1	0.6	1.1	1.0
Public demand (contribution)	0.4	0.2	0.4	0.3	0.2
Net exports (contribution)	1.0	▲ 0.9	0.3	0.2	0.2
Nominal GRP	2.3	2.0	4.3	1.9	2.9
GRP deflator	▲ 0.1	0.5	3.0	0.3	1.4
Consumer Price Index	0.0	2.8	2.8	2.1	1.6
Industrial Production Index	5.2	▲ 2.2	▲ 0.0	1.1	1.6
Unemployment rate	3.0	2.9	3.0	2.9	2.8

Note: Unit %, except for Unemployment rate, is the growth rate from the previous year; FY 2021-22 is the actual forecast; FY 2023-25 is the forecast.

Source: Prepared by the author



Figure 2-3-12 GRP Forecast Results and Contribution to Growth

Source: Prepared by the author

Let us look at the contribution of each demand item to growth. Private demand will be the driver of growth with +0.6 %pts in FY 2023, +1.1 %pts in FY 2024, and +1.0 %pts in FY 2025. Public demand will also support growth by +0.4 %pts in FY 2023, +0.3 %pts in FY 2024, and +0.2 %pts in FY 2025. External demand

will be weak, at +0.3 %pts in FY 2023, +0.2 %pts in FY 2024, and +0.2 %pts in FY 2025.

Comparing the Kansai and Japan economic forecasts, the growth rate for FY 2023 will be lower in Kansai than in the nation as a whole but will be higher in Kansai in FY 2024-25 (Figure 2-3-13). Private demand and public demand, especially capital investment, will be stronger than in the nation as a whole.

(2) Forecasts by sector

(1) Private sector

The breakdown of the contribution of private demand to GRP growth will be +0.2 %pts in FY 2023, +0.6 %pts in FY 2024, and +0.5 %pts in FY 2025 for the household sector. The corporate sector will be +0.4 %pts in FY 2023, +0.5 %pts in FY 2024, and +0.5 %pts in FY 2025.

In the household sector, real private final consumption expenditures is projected to grow by 0.4% in FY 2023, +1.1% in FY 2024, and +0.8% in FY 2025. Real private residential investment is projected to increase by 1.2% in FY 2023, +0.1% in FY 2024, and +1.3% in FY 2025. Both household consumption and housing investment are expected to recover at a slower pace, due to the thriftiness associated with high prices and sluggish growth in real wages.

Real private capital investment, which accounts for the bulk of the corporate sector, is forecast to grow by 2.1% in FY 2023, 2.3% in FY 2024, and 2.8% in FY 2025. Private capital investment plans continue to be on the rise, and this will continue to support growth in the future.

(2) Public sector

The contribution of public demand to real GRP growth is forecast to be +0.4 %pts

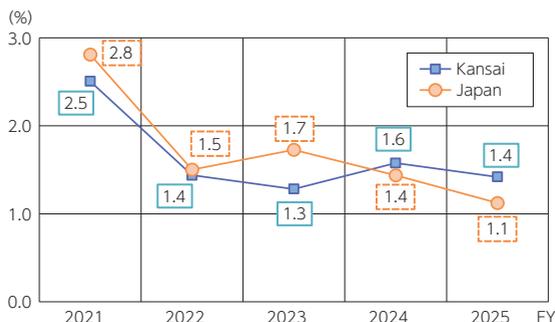


Figure 2-3-13

Economic Growth Rates in Kansai and Nationwide

Source: Prepared by the author

in FY 2023, +0.3 %pts in FY 2024, and +0.2 %pts in FY 2025.

Real Government final consumption expenditure growth is expected to be +0.7% in FY 2023, +0.3% in FY 2024, and +0.4% in FY 2025. And, real public fixed capital formation is expected to grow by +4.0% in FY 2023, +2.9% in FY 2024, and +2.4% in FY 2025. From FY 2024 onward, public investment growth in the Kansai region is expected to exceed that of the nation as a whole in preparation for the hosting of the World Exposition.

(3) External sector

The contribution of extraterrestrial demand to real GRP growth is expected to be small, at +0.3 %pts in FY 2023, +0.2 %pts in FY 2024, and +0.2 %pts in FY 2025.

Real export growth is projected to be +0.7% in FY 2023, +2.1% in FY 2024, and +3.4% in FY 2025. The Japanese Economic forecasts export growth of +4.1% in FY 2023 and +3.8% in FY 2024, which is lower than the Kansai Economic forecast. Kansai's exports to China were below the previous year's level in the first half of FY 2023, reflecting the large weight of exports to China in the Kansai region, which has a large impact, both positive and negative. Real import growth is projected to be +0.1% in FY 2023, +1.3% in FY 2024, and +3.2% in FY 2025, reflecting current performance and weak domestic demand. As a result, the contribution of net exports to real GRP growth will be +0.2 %pts in FY 2023, +0.3 %pts in FY 2024, and +0.1 %pts in FY 2025.

The contribution of real domestic net exports is projected to be +0.1 %pts in FY 2023, -0.1 %pts in FY 2024, and +0.1 %pts in FY 2025.

(4) Employment and income environment

The Unemployment rate is projected to gradually improve to 3.0% in FY 2023, 2.9% in FY 2024, and 2.8% in FY 2025.

Growth in per capita employment income is expected to be moderate, at +1.3% in FY 2023, +1.4% in FY 2024, and +1.9% in FY 2025. Growth in the CPI is expected to slow gradually, to +2.7% in FY 2023, +2.1% in FY 2024, and +1.5% in FY 2025. As a result, real wage growth will be -1.5% in FY 2023, -0.7% in FY 2024, and +0.3% in FY 2025. It will take until FY 2025 for real wages to turn positive.

3. Recovery process from COVID-19 pandemic in Kansai prefectures: GRP advance estimation

In Japan, official prefectural GRP figures are released about two years later than the release of the national GDP figure. For that reason, APIR has been making its own advance estimates of the actual GRPs for the six prefectures in

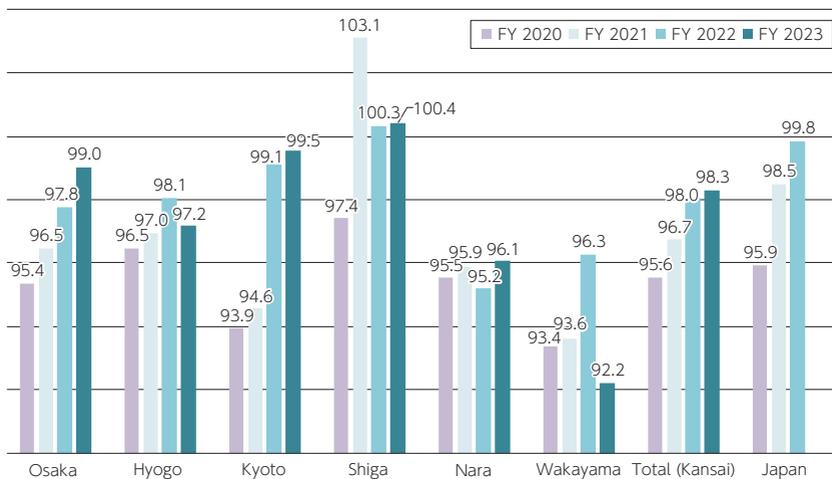


Figure 2-3-14

Recovery process of Kansai prefectures from the COVID-19 pandemic

Source: APIR "Kansai Economic Insight Quarterly," No. 66

the Kansai region for previous years that have not yet been published.

Figure 2-3-14 shows the change from FY 2020-23 when the FY 2019 GRP for each prefecture is set at 100.

In FY 2020, when the COVID-19 pandemic began, the largest decrease in GRP was seen in Wakayama Prefecture (-6.6 points), followed by Kyoto (-6.1 points), Osaka (-4.6 points), Nara (-4.5 points), Hyogo (-3.5 points), and Shiga (-2.6 points). The Kansai region (six prefectures) saw a decline of -4.4 points.

Looking at the next two years, FY 2021-22, when the COVID-19 pandemic continued, Hyogo, Kyoto, Osaka, and Wakayama prefectures reversed their positive trend. Shiga Prefecture recovered to its pre-COVID-19 level in FY 2021. On the other hand, unlike other prefectures, Nara Prefecture is not on a recovery track and has been slow to recover from the COVID-19 pandemic.

FY 2023 is also entering a new phase for each prefecture. Osaka and Kyoto prefectures will maintain their recovery pace, and Shiga will also maintain its pre-COVID-19 level. Hyogo and Wakayama prefectures will deteriorate from the previous year, and recovery from the COVID-19 pandemic will be delayed. Nara Prefecture has been stagnant since the COVID-19 pandemic and shows little signs of recovery.

Finally, the contribution of each prefecture to the growth rate of the Kansai economy in FY 2020-23 is shown in Figure 2-3-15. In FY 2020, under the economic impact of COVID-19, the negative contribution of each Kansai prefecture

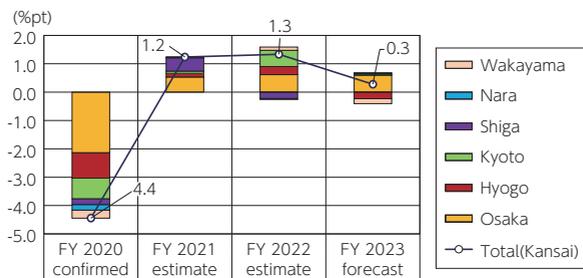


Figure 2-3-15 Kansai's contribution to real growth by prefecture

Source: APIR "Kansai Economic Insight Quarterly," No. 66

increased significantly, and the real GRP growth rate of the entire Kansai region was -4.1%, close to the negative growth rate of the nation as a whole. In FY 2021, the growth rate of the entire Kansai region was +1.2%. In FY 2022, Osaka and Kyoto prefectures boosted the growth of the Kansai region, resulting in a real GDP growth rate of +1.3%, similar to that of the nation as a whole. In FY 2023, growth in the Kansai region is expected to remain flat, mainly due to a slump in the manufacturing sector. While Osaka Prefecture will continue to show strong growth as it did in FY 2021 and FY 2022, all other prefectures will see either modest or negative growth.