Kansai Economic Insight Monthly 2018/5/22

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- ·APIR "Kansai Economic Insight Monthly" is an analysis of the economic trends in the Kansai region and of the Kansai-related sectors of China's economy.
- •The report is scheduled to be published in the fourth week of each month.
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- •The term "Kansai" in this report is identical to the term "Kinki" used by ministries and agencies publishing statistical data. It includes the following prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara, and Wakayama.

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Highlights

- The economy is showing signs of stagnation and potential deterioration -
- ✓ Although the Index of Industrial Production (IIP) registered a MoM increase in February, the average for the first two months this year decreased significantly compared to the preceding quarter. The Kansai Bureau of Economy, Trade and Industry's overall assessment of the economy as "gradually improving" remained unchanged from the previous month.
- ✓ The trade balance in March remained positive for a second consecutive month, with the surplus being considerably larger than a year earlier. Exports grew driven mainly by motors, semiconductors and other electronic components, while imports fell for the first time in 13 months.
- According to the Economy Watchers Survey released by the Cabinet Office, the Diffusion Index (DI) in March worsened for the third consecutive month. Despite strong demand due to inbound tourism and seasonal product sales, consumer confidence deteriorated due to the appreciation of the yen and the weak stock market.
- Total cash earnings in January improved somewhat in the major Kansai prefectures (Osaka and Hyogo), but real wage growth has stagnated due to the continuous rise in prices. This is a trend to watch in the future.
- ✓ In February, large retail stores registered a YoY decrease in sales for the first time in four months due to the unfavorable weather conditions. Although supermarket sales increased as a result of soaring vegetable prices, department store sales declined due to weak demand for spring clothing.
- ✓ As a result of robust residential lot sales, the number of new housing starts in February increased markedly from the previous year, growing for the first time in six months.
- ✓ The effective jobs-to-applicants ratio in February remained unchanged from the previous month. Although the unemployment rate worsened for the first time in two months, the employment environment remained stable.
- ✓ The seasonally adjusted value of public works contracts in March rose sharply from the
 previous month, registering the first increase in four months. As a result, the first quarter
 of 2018 was the second consecutive quarter of positive QoQ growth.
- Construction works in February registered a year-over-year decline for the first time in three months. Growth has been sluggish as the impact of the Olympic and Paralympic Games has been barely felt in the Kansai region.
- ✓ The number of international tourists visiting Kansai increased for the 13th consecutive month in March. The trend is robust, with the double digit growth having continued for 12 consecutive months.
- ✓ China's real GDP grew 6.8% YoY in the first quarter of 2018, surpassing the 6.5% growth target set by the government. China's economy has maintained the same growth rate for three consecutive quarters.



Trends in the Kansai Economy

	2017											2018			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar		
Production	\Rightarrow		\triangle		\triangle		\triangle		$\overline{\sim}$	\overline{a}	\triangle				
Trade	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow			\Rightarrow		\Rightarrow		\triangle			
Sentiment	\triangle	\Rightarrow			\Rightarrow	\triangle	\Rightarrow	A			\triangle	\triangle	\Rightarrow		
Consumption	\triangle	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow		\Rightarrow		\Rightarrow	\Rightarrow	\Rightarrow			
Housing	\Rightarrow	\triangle	\Rightarrow	\triangle	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\triangle	\triangle				
Employment	\Rightarrow					\Rightarrow						\Rightarrow			
Public Works	\triangle	\triangle		\triangle	\triangle	\triangle	\triangle	ス	ス	\Rightarrow		\triangle	\Rightarrow		
China		\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow	\Rightarrow									

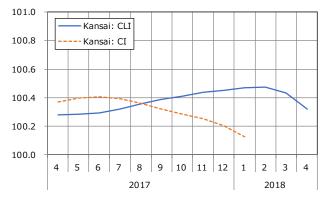
(*Criteria for determining the trends)

- **Production**: The trend is positive if there is at least a 0.5% month-over-month increase in the seasonally adjusted production index released by the Kansai Bureau of Economy, Trade and Industry. If there is a decrease of 0.5% or more, the trend is negative. Otherwise, the trend is stable.
- Trade: The trend is positive if there is an improvement in the trade balance of 50 billion yen or more compared to the same month of the previous year according to the Osaka Customs trade statistics. If there is a deterioration of more than 50 billion yen, the trend is negative. Otherwise, the trend is stable.
- **Sentiment**: The trend is positive if the Diffusion Index (DI) for the Kinki region published in the Cabinet Office 'Economy Watchers Survey' improves by at least 1 point from the previous month. If it deteriorates by 1 point or more, the trend is negative. Otherwise, the trend is stable.
- Consumption: The trend is upward if the monthly large retail store sales index (all stores) compiled by the Kansai Bureau of Economy, Trade and Industry increases by 1% or more year-over-year. If it decreases by more than 1%, the trend is downward. Otherwise, the trend is stable.
- Housing: The trend is upward if new housing starts increase by 5% or more year-over-year according to the residential construction statistics published by the Ministry of Land, Infrastructure and Transport. If there is a decrease of 5% or more, the trend is downward. Otherwise, the trend is stable.
- **Employment**: The trend is positive if there is an improvement of at least 0.01 point in the seasonally adjusted effective job offerings-to-applicants ratio published by the Ministry of Health, Labor and Welfare. If there is a deterioration of 0.01 points or more the trend is negative. Otherwise, the trend is stable.
- Public Works: The trend is positive if the monetary value of public works contracts increases by at least 5% year-over-year as per the statistics on advance
 payment guarantees released by West Japan Construction Assurance Ltd. If it decreases by 5% or more, the trend is negative. Otherwise, the trend is stable.

The Kansai Economic Trends Indices: the Composite Index(CI) and the Composite Leading Indicator(CLI)

Long-term trends in CI and CLI (2010/1~2018/4)

102 101 100 99 98 Wansai: CLI Kansai: CI 97 2010 2011 2012 2013 2014 2015 2016 2017 2018



Latest trends in CI and CLI (2017/4~2018/4)

Economic forecasts are based on the Kansai economic trend indexes (CI, CLI) developed by APIR.

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Major Monthly Statistics

	Monthly statistics Business Confidence	17/3M	17/4M	17/5M	17/6M	1///M	17/8M	17/9M	1//1UM	17/11M	1//12M	18/1M	18/2M	18/3
[Kansai]	"Economy Watcher" Survey (current diffusion index, seasonally adjusted)	48.7	48.4	50.4	51.7	52.2	51.2	51.8	53.3	55.2	56.2	52.4	50.7	50
	"Economy Watcher" Survey (current diffusion findex, seasonally adjusted)	49.0					***************************************	49.6	55.6	51.7	49.9	53.4	51.0	- }
	"Economy Watcher" Survey (current diffusion index, seasonally adjusted)	47.9						51.1	52.0	54.1	53.9	49.9	48.6	. }
	"Economy Watcher" Survey (projected, seasonally adjusted)	48.5						51.1	54.5	53.4	52.7	52.4	51.4	<u> </u>
	Consumer Sentiment Indices						ļ							1
Kansai]	Consumer Confidence Index (original index)	43.1	43.1	43.0	43.2	43.2	43.2	43.1	43.6	43.8	43.4	44.4	43.2	42
Kansai]	overall livelihood (original index)	41.4	41.2	42.0	41.3	41.0	41.0	41.7	41.7	41.9	40.9	42.2	40.6	40
Kansai]	income growth (original index)	41.0	41.4	42.4	41.6	41.2	41.8	41.8	41.8	41.9	41.0	42.7	41.8	41
Kansai]	employment conditions (original index)	46.9	47.9	46.4	47.9	47.6	47.6	45.9	47.9	48.2	49.1	49.3	48.2	48
Kansai]	willingness to buy durable goods (original index)	42.9	41.8	41.3	41.8	42.9	42.5	42.8	43.0	43.3	42.7	43.4	42.2	41
Japan]	Consumer Confidence Index (seasonally adjusted)	43.9	43.2	43.6	43.3	43.8	43.3	43.9	44.5	44.9	44.7	44.7	44.3	44
Kansai]	Large retail store sales (billion yen)	313.8	304.4	309.0	304.9	339.1	305.4	293.8	310.3	329.4	410.6	332.9	286.3	l
~~~~~~	Large retail store sales (YoY % change, all stores)	-1.4		-0.5		-0.1	·	3.4	-0.2	1.7	1.0	0.6	-0.1	
	Large retail store sales (billion yen)		1,558.3				1,565.5	1,496.8	····	1,671.3	<del> </del>	1,682.6	1,456.5	<del> </del>
Japan]	Large retail store sales (YoY % change, all stores)	-0.9	0.8	-0.6	0.1	-0.2	0.7	1.8	-0.5	1.4	1.2	1.2	1.2	ļ!
	Housing & Construction													ļ
	New housing starts (number of units)	11,795	(					11,354	}	11,764	ş	9,196	11,387	'
	New housing starts (YoY % change)	-0.4 75,887		4.1 78,481		-3.3		-0.7	-1.5 83,057	-4.0 84,703	-7.7 76,751	-19.4	7.0 69,071	
	New housing starts (number of units)	75,887 0.2						83,128 -2.9	-4.8	-0.4	76,751 -2.1	66,358 -13.2	-2.6	<del>-</del>
	New housing starts (YoY % change) Residential lots contract ratio (seasonally adjusted)	73.0			1.7 77.6	-2.3 71.7	• • • • • • • • • • • • • • • • • • • •	-2.9 76.6	-4.8 75.6	-0.4 76.9	-2.1 78.6	-13.2 81.9	-2.6 84.9	ş
	Residential lots contract ratio (seasonally adjusted)  Residential lots contract ratio (original index)	73.0	•				•	74.5	73.0 74.2	70.9	76.0 74.9	78.1	83.9	ş
	Residential lots contract ratio (original index)	73.3 64.6						66.8	65.7	68.1	74.9	68.1	63.5	÷
	Residential lots contract ratio (original index)	66.2				71.9		64.9	60.7	67.9	72.5	65.2	65.0	÷
	Advance Payment Guarantees (APGs) for public works (billion yen)	118.1	201.8					139.4	129.9	85.4	97.5	65.4	49.8	. <del></del>
	Advance Payment Guarantees (APGs) for public works (YoY % change)	-6.2		20.0		-31.3		-8.1	11.7	13.2	1.8	7.5	-26.9	· {
~~~~~	Advance Payment Guarantees (APGs) for public works (billion yen)	1,485.9	2,064.6	1,242.1	1,518.5	1,288.8	1,149.4	1,319.1	1,171.2	863.3	797.3	610.1	613.9	1,26
Japan]	Advance Payment Guarantees (APGs) for public works (YoY % change)	10.9	1.7	8.5	-0.6	-5.4	-7.9	-10.4	3.9	5.0	-6.4	-12.8	-20.2	-1
Kansai]	Construction works (total, billion yen)	557.2	470.9	465.1	483.7	500.3	516.6	536.8	547.9	586.5	608.9	589.9	570.2	!
Kansai]	Construction works (total, YoY % change)	7.1	3.9	2.9	1.5	0.8	-2.6	-2.7	-5.6	-1.8	1.6	0.0	-2.2	!
Japan]	Construction works (total, billion yen)	4,607.2	3,902.3	3,903.1	4,095.9	4,241.2	4,471.7	4,689.1	4,902.6	4,970.9	5,054.8	4,929.2	4,808.8	
Japan]	Construction works (total, YoY % change)	4.5	9.1	10.5	9.0	7.5	6.8	4.1	4.2	4.3	5.4	4.3	3.7	
Japan]	Construction works (public works, billion yen)	2,036.8	1,450.6	1,428.6	1,505.1	1,568.4	1,711.7	1,876.0	2,043.9	2,085.1	2,164.5	2,094.8	2,041.1	
Japan]	Construction works (public works, YoY % change)	1.7	6.4	10.3	7.7	6.1	5.3	1.4	2.2	2.5	4.6	2.2	1.6	i
	Indices of Industrial Production					ļ	ļ							ļ
•••••	Industrial production (seasonally adjusted, 2010=100)	107.7		105.7		106.7	·	103.4	105.7	108.9	110.7	103.2	105.3	
	Industrial production (seasonally adjusted, MoM change)	-0.3			2.3	-1.3		-6.8	2.2	3.0	1.7	-6.8	2.1	
	Industrial shipments index (original figure, YoY % change)	-1.0						-3.6 2.9	0.1 7.8	1.6 10.2	1.3 9.7	1.7 8.0	-1.5 5.4	·, · · · · · · · · · · ·
	Industrial inventories index (original figure, YoY % change) Industrial shipments index (seasonally adjusted, 2010=100)	105.2				103.7		100.5	102.2	10.2	108.3	101.2	103.4	÷
	Industrial shipments index (seasonally adjusted, 2010–100) Industrial shipments index (seasonally adjusted, MoM change)	1.5					÷	-6.9	1.7	5.5	0.5	-6.6	2.3	·
	Industrial inventories index (seasonally adjusted, 2010=100)	117.5		124.3		122.9		124.3	124.9	121.2	122.9	124.3	121.7	
	Industrial inventories index (seasonally adjusted, MoM change)	1.7			······			0.2	0.5	{	1.4	1.1	-1.0	÷
	Industrial production (seasonally adjusted, 2010=100)	99.8						102.5	103.0	103.5	106.5	99.3	102.7	
	Industrial production (seasonally adjusted, MoM change)	-1.9				-0.8	÷	-1.0	0.5	0.5	2.9	-6.8	2.0	.ş
	Industrial shipments index (original figure, YoY % change)	3.5	&			4.1	***************************************	1.5	2.7	2.3	4.2	2.0	0.7	-}
	Industrial inventories index (original figure, YoY % change)	-4.0		-1.3			•	-2.4	2.0	}	{	1.4	1.6	
	Industrial shipments index (seasonally adjusted, 2010=100)	98.4	101.1	98.2	100.7	100.0	101.8	99.3	98.9	}	104.1	98.2	100.3	1
Japan]	Industrial shipments index (seasonally adjusted, MoM change)	-0.8	2.7	-2.9	2.5	-0.7	1.8	-2.5	-0.4	2.3	2.9	-5.7	1.6	
Japan]	Industrial inventories index (seasonally adjusted, 2010=100)	109.7	111.3	111.3	109.1	107.9	107.3	107.3	110.7	109.8	109.5	108.9	109.9)
Japan]	Industrial inventories index (seasonally adjusted, MoM change)	1.5	1.5	0.0	-2.0	-1.1	-0.6	0.0	3.2	-0.8	-0.3	-0.5	0.5	1
	Labor Statistics						ļ							
	Total cash earnings (all 6 prefectures, YoY % change)	0.6	***********			.		2.1	1.4	1.3	£	UN	UN	·}
~~~~~~~	Total cash earnings (Osaka, Kyoto and Hyogo prefectures, YoY % change)	0.5	•			•		2.2	1.6	<b></b>	<b></b>	UN	UN	
	Total cash earnings (YoY % change)	0.0			;			0.9	0.2	0.9	}	1.2	1.0	÷
~~~~~~	Unemployment rate (seasonally adjusted)	3.2			~~~~~~	~~~~~	•••••	3.0	2.8	<del>}</del> ~~~~~	3.2	2.6	2.7	<del>. j</del>
	Unemployment rate (original figure) Unemployment rate (seasonally adjusted)	3.2	۵					3.2	2.8	\$	}·	2.7	2.8	·}
	New job openings-to-applicants ratio (seasonally adjusted)	2.8 2.09						2.8 2.24	2.8 2.38	·	2.7 2.36	2.4 2.37	2.5 2.34	dana
	New job openings-to-applicants ratio (seasonally adjusted)	2.09	·····			2.22		2.24	2.36	2.34	2.38	2.37	2.34	÷
	Effective job openings-to-applicants ratio (seasonally adjusted)	1.38		1.43		1.46	· <u>.</u>	1.47	2.35 1.49	1.51	1.52	1.54	1.54	·}
~~~~~	Effective job openings-to-applicants ratio (seasonally adjusted)	1.45		1.43		•		1.53	1.55	ţ	<del></del>	1.59	1.54	<del></del>
- upu11]	International Trade	د ـ	1.7/	1.73	1.50	1.J1	1.32	1.33		1.50	2.25		1.50	1
Kansail	Trade balance (billion yen)	222.3	174.7	94.2	172.4	135.1	161.9	249.8	160.1	162.8	256.1	-53.9	134.2	36
	Exports (billion yen)	1,476.5		1,239.5			•••••	1,482.4		1,520.4	}	1,303.4	1,353.3	. <del>j</del>
Kansai1								17.3	14.4	21.5	12.0	19.5	0.0	-{
	Exports (YoY % change)	10.4	5.9	12.4	0.0	10.0				, -1.5				
Kansai]	Exports (YoY % change) Imports (billion yen)						1,220.5			<b></b>	<b>,</b>		1,219.1	<b></b>