

Analysis and Forecasts for the Kansai Economy

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• This report is an analysis of economic trends in the Kansai region produced by APIR's *Japanese and Kansai Economy Short-term Forecast* project team. The project team is led by the Director of the Centre for Qualitative Economic Analysis at APIR, Professor Yoshihisa Inada of Konan University. The report was written by Professor Inada, Associate Professor Hiroaki Irie (Kindai University Junior College, APIR researcher), and APIR researchers Yusuke Kinoshita, Yusuke Ikuta, Nguyet Thi Khanh Cao, and Teng Ma.

• In this report, 'Kansai' represents 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. References to 'Kinki' (another term for the region) in official data have been changed to 'Kansai' for consistency purposes.

• Forecasts are made using APIR's original Kansai economy forecast model and are supervised by Professors Inada and Irie.

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Overview

Kansai economy cooling off with a break in hitherto improving economic fundamentals. Bullish capital investment and external demand key factors for achieving economic re-acceleration.

1. In 2018Q1, Japan's real GDP shrank an annualized -0.6% QoQ, for the first time in 9 quarters. Regarding the main contributors to growth, net exports grew +0.3%pts, expanding for the first time in two quarters, whereas domestic demand decreased by -0.9%pts, shrinking for the first time in two quarters. Residential investments and inventory changes remained sluggish, while private consumption and non-residential capital investment registered a slight decrease.
2. In 2018Q1 the Kansai economy reached a plateau, as the pace of improvement observed so far lost steam. In the household sector, the consumer sentiment deteriorated despite robust incomes and a favorable employment environment. In the corporate sector, production remained mostly unchanged. Business confidence and capital investment intentions remained strong. In the external sector, although both exports and imports expanded, the rate of expansion exhibited deceleration trends. In the public sector, various fluctuations were observed.
3. Considering the current economic conditions and the release of the final prefectural accounts statistics for FY2015, we forecast a real Kansai GRP growth of +1.3% for FY2018 and +0.9% for FY2019. We have revised our previous FY2018 forecast down by -0.2%pts, while FY2019 remains unchanged. Likewise, we have revised our advance estimates for the previous fiscal years to reflect the latest GDP growth data to +0.1% for FY 2016 and +2.2% for FY 2017.
4. Regarding the individual contributions of GRP components in FY2018, we forecast that private demand will contribute +0.7%pts, public demand +0.1%pts, and external demand +0.5%pts (in real terms). In FY2019 private demand and external demand will continue to lead growth, contributing +0.4%pts each. Although we expect a slight deceleration in both as compared to FY 2018, we forecast a relatively larger contribution of public demand of +0.2%pts.
5. The growth rate of the Kansai economy has slightly outpaced Japan's overall growth rate since 2017, with the contribution of external demand being higher than the national average. In order for Kansai to re-accelerate its economy, it is vital to ensure that the growth in capital investments consistently surpasses the national level, as well as to expand further the already bullish exports and robust demand from inbound tourism.
6. We have revised our advance estimates for the Kansai prefectural GRP in FY2016-17 in accordance with the latest releases of the prefectural accounts statistics. We estimate that the total real Kansai GRP growth (production approach) was +0.0% in FY2016 and +2.6% in FY2017. The economy of Osaka Prefecture alone shrank -1.7% in FY2016, but this effect was offset by growth in the other prefectures. In FY 2017 Osaka reversed this trend and its economy expanded +3.9%, becoming a growth leader in Kansai.

FY	2015	2016	2017	2018	2019
Kansai GRP growth (%)	1.2	0.1	2.2	1.3	0.9
Japan GDP growth (%)	1.4	1.2	1.5	1.1	0.7

Summary of Forecast Results (31 May 2018)

	Kansai Economy					Japanese Economy					
	FY	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Household final consumption expenditure (HFCE)		0.5	▲ 0.1	1.1	0.8	0.3	0.8	0.3	0.8	0.6	0.4
Private residential investment		▲ 1.2	5.1	▲ 2.2	▲ 3.0	1.9	3.7	6.2	▲ 0.3	▲ 3.3	2.3
Private non-residential capital investment		▲ 2.3	▲ 0.7	3.3	2.3	1.7	2.3	1.2	3.0	2.9	2.4
Government final consumption expenditure (GFCE)		1.7	0.5	0.6	0.7	0.7	1.9	0.5	0.4	0.5	0.7
Public fixed capital formation		▲ 2.9	0.1	▲ 1.5	▲ 1.2	1.2	▲ 1.6	0.9	1.5	▲ 1.1	1.3
Exports		▲ 0.5	2.6	8.1	5.2	3.6	0.8	3.6	6.2	4.5	3.0
Imports		1.5	2.2	6.0	4.0	2.7	0.4	▲ 0.8	4.0	2.8	1.7
Real GRP/GDP		1.2	0.1	2.2	1.3	0.9	1.4	1.2	1.5	1.1	0.7
Private demand (contribution)		1.2	▲ 0.0	1.3	0.7	0.4	1.1	0.3	1.0	0.8	0.3
Public demand (contribution)		0.1	0.1	0.1	0.1	0.2	0.3	0.1	0.2	0.0	0.2
Net exports (contribution)		▲ 0.2	0.0	0.8	0.5	0.4	0.1	0.7	0.3	0.3	0.2
Nominal GRP/GDP		2.6	0.1	2.3	1.7	2.2	3.0	1.0	1.6	1.2	1.8
GRP/GDP deflator		1.5	0.0	0.1	0.3	1.3	1.5	▲ 0.2	0.1	0.1	1.1
Consumer price index		0.3	▲ 0.2	0.5	1.1	1.7	▲ 0.0	▲ 0.2	0.7	1.1	1.6
Industrial Production Index		▲ 1.8	3.5	1.6	0.8	0.8	▲ 0.9	1.0	4.1	2.3	0.9
Unemployment rate		3.8	3.5	3.2	3.1	2.9	3.3	3.0	2.7	2.5	2.4

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2015-17 figures are official, 2018-19 figures are APIR forecasts. Forecasts for the Japanese economy are sourced from APIR's *Economic Forecast and Analysis No. 116*.

Previous Forecast (28 February 2018)

	Kansai Economy					Japanese Economy					
	FY	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Household final consumption expenditure (HFCE)		0.1	0.0	1.2	0.8	0.4	0.8	0.3	1.0	0.8	0.4
Private residential investment		▲ 1.7	3.3	3.0	1.8	▲ 0.0	3.7	6.2	0.2	1.3	▲ 0.9
Private non-residential capital investment		1.4	▲ 2.0	3.5	3.7	1.5	2.3	1.2	3.4	3.5	1.9
Government final consumption expenditure (GFCE)		0.9	0.5	0.6	0.7	0.6	1.9	0.5	0.4	0.6	0.6
Public fixed capital formation		▲ 2.5	▲ 1.0	▲ 2.5	▲ 1.2	1.2	▲ 1.6	0.9	1.4	▲ 1.5	1.4
Exports		▲ 0.3	2.8	7.7	5.2	3.7	0.7	3.4	6.5	4.6	2.9
Imports		▲ 0.4	1.7	7.0	5.0	3.1	0.3	▲ 1.0	4.2	3.1	2.4
Real GRP/GDP		0.2	0.2	1.8	1.5	0.9	1.4	1.2	1.7	1.2	0.8
Private demand (contribution)		0.2	▲ 0.2	1.2	1.0	0.5	1.1	0.3	1.2	0.9	0.5
Public demand (contribution)		0.1	0.1	0.0	0.1	0.1	0.3	0.1	0.2	0.1	0.2
Net exports (contribution)		▲ 0.1	0.4	0.5	0.4	0.3	0.1	0.7	0.3	0.2	0.1