

# Kansai Economic Insight Monthly

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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

### - Deterioration in economic fundamentals persists -

- ✓ The Index of Industrial Production (IIP) in May registered a significant decline for the first time in four months, leading to a downward revision of the assessment by the Kansai Bureau of Economy, Trade and Industry. Nevertheless, the April-May average was considerably higher than the January-March average.
- ✓ The trade balance in May remained positive for the fifth consecutive month. The surplus registered a substantial YoY increase, mainly driven by Asia-bound semiconductor exports. The growth rate of exports outstripped that of imports, whose growth was largely due to soaring crude oil prices.
- ✓ The Economy Watchers Diffusion Index (DI) released by the Cabinet Office registered the first MoM improvement in six months. Although the earthquake in North Osaka did have an impact, the overall trend improved, driven by an upsurge in consumer electronics sales related to the World Cup, and by good weather conditions.
- ✓ Total cash earnings in the core prefectures (Hyogo, Kyoto and Osaka) saw the 12th consecutive month of YoY growth in April. Real wages also increased for the second consecutive month, suggesting that overall incomes are on the upturn.
- ✓ In May, sales by large retailers declined YoY for the first time in three months. Department store sales deteriorated as relatively low temperatures suppressed demand for summer clothing. Supermarkets sales were also negatively affected by the continuing disinflation in agricultural produce.
- ✓ The number of new housing starts in May continued its rapid YoY expansion for the second consecutive month thanks to the significant increase in condominium construction. This is the highest number since June 2015.
- ✓ The effective jobs-to-applicants ratio in May remained unchanged from April. Labor supply remained tight, and the unemployment rate decreased slightly for the first time in four months, indicating that the overall employment environment is in a good shape.
- ✓ The value of public works contracts returned to positive growth in June, posting a substantial MoM expansion. As a result, the April-June average was the first increase in two quarters.
- ✓ Construction work in May increased YoY for the third consecutive month. Due to the earthquake in Northern Osaka, construction work is expected to keep expanding.
- ✓ The number of international tourist arrivals at Kansai International Airport in June increased YoY for the 16th consecutive month. With double-digit growth continuing for 15 months in a row, the tourism industry remains in top shape. In terms of nationalities, for the first time in eight months Chinese visitors were the most numerous, due to the popularity of the Japanese cherry blossom season in China.
- ✓ In April-June, China’s economy grew +6.7% YoY, registering a slight deceleration of 0.1%pt. Industrial production growth in June slowed down YoY for the second consecutive month, while cumulative fixed capital investment (since January) decelerated for the fourth month in a row.

### Trends in the Kansai Economy

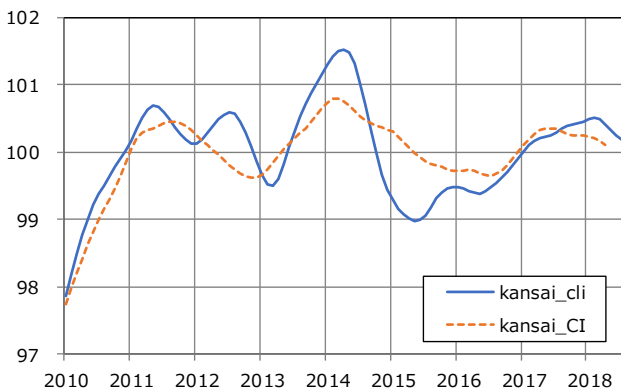
|              | 2017 |     |     |     |     |     |     | 2018 |     |     |     |     |     |
|--------------|------|-----|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|
|              | Jun  | Jul | Aug | Sep | Oct | Nov | Dec | Jan  | Feb | Mar | Apr | May | Jun |
| Production   | ↗    | ↘   | ↗   | ↘   | ↗   | ↗   | ↗   | ↘    | ↗   | ↗   | ↗   | ↘   |     |
| Trade        | ↗    | ↗   | ↗   | ↗   | ↗   | ↗   | ↗   | ↗    | ↘   | ↗   | ↗   | ↗   | ↗   |
| Sentiment    | ↗    | ↗   | ↘   | ↗   | ↗   | ↗   | ↗   | ↘    | ↘   | ↗   | ↗   | ↘   | ↗   |
| Consumption  | ↗    | ↗   | ↗   | ↗   | ↗   | ↗   | ↗   | ↗    | ↗   | ↗   | ↗   | ↘   |     |
| Housing      | ↘    | ↗   | ↗   | ↗   | ↗   | ↗   | ↘   | ↘    | ↗   | ↘   | ↗   | ↗   |     |
| Employment   | ↗    | ↗   | ↗   | ↗   | ↗   | ↗   | ↗   | ↗    | ↗   | ↗   | ↘   | ↗   |     |
| Public Works | ↘    | ↘   | ↘   | ↘   | ↗   | ↗   | ↗   | ↗    | ↘   | ↗   | ↗   | ↘   | ↗   |
| China        | ↗    | ↗   | ↗   | ↗   | ↗   | ↗   | ↗   | ↗    | ↗   | ↗   | ↗   | ↗   | ↘   |

(\*Criteria for determining the trends)

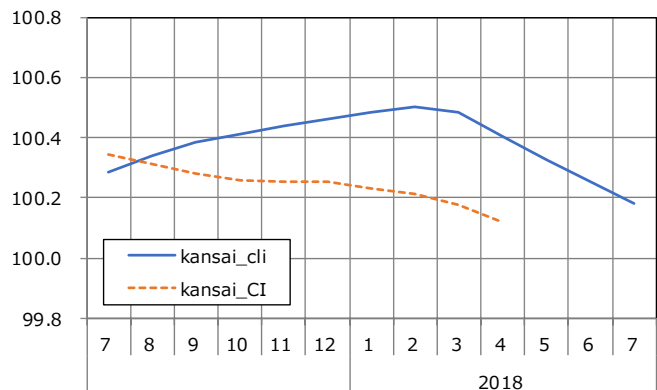
- Production:** The trend is positive if there is at least a 0.5% month-over-month increase in the seasonally adjusted production index released by the Kansai Bureau of Economy, Trade and Industry. If there is a decrease of 0.5% or more, the trend is negative. Otherwise, the trend is stable.
- Trade:** 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 housing 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 (2010/1~2018/7)



Latest trends in CI and CLI (2017/7~2018/7)



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

## Major Monthly Statistics

| Monthly statistics   | 17/6M   | 17/7M   | 17/8M   | 17/9M   | 17/10M  | 17/11M  | 17/12M  | 18/1M   | 18/2M   | 18/3M   | 18/4M   | 18/5M   | 18/6M   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Business Confidence</b>   |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] "Economy Watcher" Survey (current diffusion index, seasonally adjusted) | 51.7    | 52.2    | 51.2    | 51.8    | 53.3    | 55.2    | 56.2    | 52.4    | 50.7    | 50.1    | 50.1    | 47.5    | 48.6    |
| [Kansai] "Economy Watcher" Survey (projected, seasonally adjusted)               | 51.6    | 49.7    | 50.6    | 49.6    | 55.6    | 51.7    | 49.9    | 53.4    | 51.0    | 52.3    | 52.1    | 50.8    | 52.4    |
| [Japan] "Economy Watcher" Survey (current diffusion index, seasonally adjusted)  | 50.0    | 49.9    | 50.0    | 51.1    | 52.0    | 54.1    | 53.9    | 49.9    | 48.6    | 48.9    | 49.0    | 47.1    | 48.1    |
| [Japan] "Economy Watcher" Survey (projected, seasonally adjusted)                | 50.5    | 50.5    | 51.2    | 51.1    | 54.5    | 53.4    | 52.7    | 52.4    | 51.4    | 49.6    | 50.1    | 49.2    | 50.0    |
| <b>Consumer Sentiment Indices</b>  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] Consumer Confidence Index (original index)                              | 43.2    | 43.2    | 43.2    | 43.1    | 43.6    | 43.8    | 43.4    | 44.4    | 43.2    | 42.9    | 42.9    | 43.2    | 43.3    |
| [Kansai] overall livelihood (original index)                                     | 41.3    | 41.0    | 41.0    | 41.7    | 41.7    | 41.9    | 40.9    | 42.2    | 40.6    | 40.6    | 40.7    | 41.5    | 41.5    |
| [Kansai] income growth (original index)  | 41.6    | 41.2    | 41.8    | 41.8    | 41.8    | 41.9    | 41.0    | 42.7    | 41.8    | 41.1    | 41.6    | 42.1    | 41.7    |
| [Kansai] employment conditions (original index)                                  | 47.9    | 47.6    | 47.6    | 45.9    | 47.9    | 48.2    | 49.1    | 49.3    | 48.2    | 48.5    | 47.4    | 47.1    | 47.4    |
| [Kansai] willingness to buy durable goods (original index)                       | 41.8    | 42.9    | 42.5    | 42.8    | 43.0    | 43.3    | 42.7    | 43.4    | 42.2    | 41.3    | 41.7    | 42.1    | 42.4    |
| [Japan] Consumer Confidence Index (seasonally adjusted)                          | 43.3    | 43.9    | 43.3    | 44.1    | 44.4    | 44.6    | 44.6    | 44.6    | 44.3    | 44.3    | 43.6    | 43.8    | 44.1    |
| [Kansai] Large retail store sales (billion yen)                                  | 304.9   | 339.1   | 305.4   | 293.8   | 310.3   | 329.4   | 410.6   | 332.9   | 286.3   | 316.9   | 305.1   | 302.8   | UN      |
| [Kansai] Large retail store sales (YoY % change, all stores)                     | 0.3     | -0.1    | 0.8     | 3.4     | -0.2    | 1.7     | 1.0     | 0.6     | -0.1    | 1.0     | 0.2     | -2.0    | UN      |
| [Japan] Large retail store sales (billion yen)                                   | 1,569.4 | 1,717.9 | 1,565.5 | 1,496.8 | 1,588.8 | 1,671.3 | 2,092.1 | 1,682.6 | 1,456.5 | 1,635.1 | 1,556.2 | 1,566.4 | UN      |
| [Japan] Large retail store sales (YoY % change, all stores)                      | 0.1     | -0.2    | 0.7     | 1.8     | -0.5    | 1.4     | 1.2     | 0.5     | 0.5     | 0.2     | -0.1    | -1.4    | UN      |
| <b>Housing &amp; Construction</b>  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] New housing starts (number of units)                                    | 12,002  | 12,601  | 11,790  | 11,354  | 12,164  | 11,764  | 10,224  | 9,196   | 11,387  | 10,788  | 13,392  | 14,140  | UN      |
| [Kansai] New housing starts (YoY % change)                                       | -5.4    | -3.3    | 1.8     | -0.7    | -1.5    | -4.0    | -7.7    | -19.4   | 7.0     | -8.5    | 13.4    | 27.2    | UN      |
| [Japan] New housing starts (number of units)                                     | 87,456  | 83,234  | 80,562  | 83,128  | 83,057  | 84,703  | 76,751  | 66,358  | 69,071  | 69,616  | 84,226  | 79,539  | UN      |
| [Japan] New housing starts (YoY % change)  | 1.7     | -2.3    | -2.0    | -2.9    | -4.8    | -0.4    | -2.1    | -13.2   | -2.6    | -8.3    | 0.3     | 1.3     | UN      |
| [Kansai] Residential lots contract ratio (seasonally adjusted)                   | 77.6    | 71.7    | 78.2    | 76.6    | 75.6    | 76.9    | 78.6    | 81.9    | 84.9    | 67.1    | 70.4    | 66.6    | 73.1    |
| [Kansai] Residential lots contract ratio (original index)                        | 80.2    | 73.6    | 80.0    | 74.5    | 74.2    | 77.7    | 74.9    | 78.1    | 83.9    | 67.3    | 71.0    | 69.5    | 75.6    |
| [Tokyo area] Residential lots contract ratio (seasonally adjusted)               | 65.2    | 66.4    | 68.6    | 66.8    | 65.7    | 68.1    | 74.0    | 68.1    | 63.5    | 73.0    | 63.3    | 61.0    | 64.1    |
| [Tokyo area] Residential lots contract ratio (original index)                    | 67.2    | 71.9    | 68.2    | 64.9    | 60.7    | 67.9    | 72.5    | 65.2    | 65.0    | 74.7    | 63.0    | 62.2    | 66.0    |
| [Kansai] Advance Payment Guarantees (APGs) for public works (billion yen)        | 122.4   | 120.3   | 102.7   | 139.4   | 129.9   | 85.4    | 97.5    | 65.4    | 49.8    | 122.2   | 211.7   | 116.4   | 134.5   |
| [Kansai] Advance Payment Guarantees (APGs) for public works (YoY % change)       | -29.2   | -31.3   | -24.7   | -8.1    | 11.7    | 13.2    | 1.8     | 7.5     | -26.9   | 3.4     | 4.9     | -21.0   | 9.9     |
| [Japan] Advance Payment Guarantees (APGs) for public works (billion yen)         | 1,518.5 | 1,288.8 | 1,149.4 | 1,319.1 | 1,171.2 | 863.3   | 797.3   | 610.1   | 613.9   | 1,269.7 | 2,177.7 | 1,285.7 | 1,433.9 |
| [Japan] Advance Payment Guarantees (APGs) for public works (YoY % change)        | -0.6    | -5.4    | -7.9    | -10.4   | 3.9     | 5.0     | -6.4    | -12.8   | -20.2   | -14.5   | 5.5     | 3.5     | -5.6    |
| [Kansai] Construction works (total, billion yen)                                 | 483.7   | 500.3   | 516.6   | 536.8   | 547.9   | 586.5   | 608.9   | 589.9   | 570.2   | 558.6   | 484.7   | 482.3   | UN      |
| [Kansai] Construction works (total, YoY % change)                                | 1.5     | 0.8     | -2.6    | -2.7    | -5.6    | -1.8    | 1.6     | 0.0     | -2.2    | 0.2     | 2.9     | 3.7     | UN      |
| [Japan] Construction works (total, billion yen)                                  | 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 | 4,751.6 | 3,960.9 | 3,893.5 | UN      |
| [Japan] Construction works (total, YoY % change)                                 | 9.0     | 7.5     | 6.8     | 4.1     | 4.2     | 4.3     | 5.4     | 4.3     | 3.7     | 3.1     | 1.5     | -0.2    | UN      |
| [Japan] Construction works (public works, billion yen)                           | 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 | 2,047.6 | 1,455.3 | 1,380.9 | UN      |
| [Japan] Construction works (public works, YoY % change)                          | 7.7     | 6.1     | 5.3     | 1.4     | 2.2     | 2.5     | 4.6     | 2.2     | 1.6     | 0.5     | 0.3     | -3.3    | UN      |
| <b>Indices of Industrial Production</b>  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] Industrial production (seasonally adjusted, 2010=100)                   | 108.1   | 106.7   | 110.9   | 103.4   | 105.7   | 108.9   | 110.7   | 103.1   | 105.9   | 108.3   | 114.3   | 107.1   | UN      |
| [Kansai] Industrial production (seasonally adjusted, MoM change)                 | 2.3     | -1.3    | 3.9     | -6.8    | 2.2     | 3.0     | 1.7     | -6.9    | 2.7     | 2.3     | 5.5     | -6.0    | UN      |
| [Kansai] Industrial shipments index (original figure, YoY % change)              | 5.4     | 2.3     | 6.2     | -3.6    | 0.1     | 1.6     | 1.3     | 1.6     | -0.8    | 1.2     | 5.3     | 3.8     | UN      |
| [Kansai] Industrial inventories index (original figure, YoY % change)            | 1.4     | 3.7     | 3.6     | 2.9     | 7.8     | 10.2    | 9.7     | 6.8     | 5.6     | 8.2     | 3.4     | 1.0     | UN      |
| [Kansai] Industrial shipments index (seasonally adjusted, 2010=100)              | 106.0   | 103.7   | 107.9   | 100.5   | 102.2   | 107.8   | 108.3   | 101.1   | 104.1   | 104.7   | 111.4   | 105.9   | UN      |
| [Kansai] Industrial shipments index (seasonally adjusted, MoM change)            | 2.6     | -2.2    | 4.1     | -6.9    | 1.7     | 5.5     | 0.5     | -6.6    | 3.0     | 0.6     | 6.4     | -4.7    | UN      |
| [Kansai] Industrial inventories index (seasonally adjusted, 2010=100)            | 122.0   | 122.9   | 124.0   | 124.3   | 124.9   | 121.2   | 122.9   | 122.9   | 121.9   | 127.0   | 127.1   | 125.6   | UN      |
| [Kansai] Industrial inventories index (seasonally adjusted, MoM change)          | -1.9    | 0.7     | 0.9     | 0.2     | 0.5     | -3.0    | 1.4     | 0.0     | -0.8    | 4.2     | 0.1     | -1.3    | UN      |
| [Japan] Industrial production (seasonally adjusted, 2010=100)                    | 101.9   | 101.6   | 102.9   | 102.3   | 102.8   | 103.5   | 105.4   | 100.7   | 102.7   | 104.1   | 104.6   | 104.4   | UN      |
| [Japan] Industrial production (seasonally adjusted, MoM change)                  | 1.2     | -0.3    | 1.3     | -0.6    | 0.5     | 0.7     | 1.8     | -4.5    | 2.0     | 1.4     | 0.5     | -0.2    | UN      |
| [Japan] Industrial shipments index (original figure, YoY % change)               | 5.3     | 4.1     | 5.8     | 1.6     | 2.8     | 2.4     | 4.3     | 2.2     | 0.7     | 1.4     | 3.6     | 3.3     | UN      |
| [Japan] Industrial inventories index (original figure, YoY % change)             | -2.8    | -2.3    | -2.9    | -2.5    | 1.9     | 2.8     | 1.9     | 1.5     | 1.6     | 3.9     | 1.7     | 2.5     | UN      |
| [Japan] Industrial shipments index (seasonally adjusted, 2010=100)               | 100.5   | 100.1   | 101.6   | 99.8    | 99.4    | 101.3   | 103.3   | 98.7    | 100.3   | 101.5   | 103.1   | 101.5   | UN      |
| [Japan] Industrial shipments index (seasonally adjusted, MoM change)             | 1.6     | -0.4    | 1.5     | -1.8    | -0.4    | 1.9     | 2.0     | -4.5    | 1.6     | 1.2     | 1.6     | -1.6    | UN      |
| [Japan] Industrial inventories index (seasonally adjusted, 2010=100)             | 108.9   | 108.2   | 107.6   | 107.4   | 110.5   | 109.8   | 109.8   | 109.3   | 109.9   | 113.5   | 112.8   | 113.5   | UN      |
| [Japan] Industrial inventories index (seasonally adjusted, MoM change)           | -1.6    | -0.6    | -0.6    | -0.2    | 2.9     | -0.6    | 0.0     | -0.5    | 0.5     | 3.3     | -0.6    | 0.6     | UN      |
| <b>Labor Statistics</b>  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] Total cash earnings (all 6 prefectures, YoY % change)                   | 1.9     | 0.2     | 1.4     | 2.1     | 1.4     | 1.3     | 1.7     | 1.3     | 0.8     | 1.6     | UN      | UN      | UN      |
| [Kansai] Total cash earnings (Osaka, Kyoto and Hyogo prefectures, YoY % change)  | 1.6     | 0.3     | 1.6     | 2.2     | 1.6     | 1.4     | 1.9     | 1.9     | 1.0     | 1.8     | UN      | UN      | UN      |
| [Japan] Total cash earnings (YoY % change)                                       | 0.4     | -0.6    | 0.7     | 0.9     | 0.2     | 0.9     | 0.9     | 1.2     | 1.0     | 2.0     | 0.6     | 2.1     | UN      |
| [Kansai] Unemployment rate (seasonally adjusted)                                 | 3.0     | 3.0     | 2.7     | 3.0     | 2.8     | 2.9     | 3.2     | 2.6     | 2.7     | 2.7     | 2.7     | 2.6     | UN      |
| [Kansai] Unemployment rate (original figure)                                     | 3.0     | 3.1     | 2.9     | 3.2     | 2.8     | 2.6     | 2.8     | 2.7     | 2.8     | 2.7     | 2.6     | 2.5     | UN      |
| [Japan] Unemployment rate (seasonally adjusted)                                  | 2.8     | 2.8     | 2.8     | 2.8     | 2.8     | 2.7     | 2.7     | 2.4     | 2.5     | 2.5     | 2.5     | 2.2     | UN      |
| [Kansai] New job openings-to-applicants ratio (seasonally adjusted)              | 2.21    | 2.22    | 2.24    | 2.24    | 2.36    | 2.34    | 2.36    | 2.37    | 2.34    | 2.44    | 2.39    | 2.37    | UN      |
| [Japan] New job openings-to-applicants ratio (seasonally adjusted)               | 2.24    | 2.26    | 2.22    | 2.27    | 2.35    | 2.34    | 2.38    | 2.34    | 2.30    | 2.41    | 2.37    | 2.34    | UN      |
| [Kansai] Effective job openings-to-applicants ratio (seasonally adjusted)        | 1.45    | 1.46    | 1.46    | 1.47    | 1.49    | 1.51    | 1.52    | 1.54    | 1.54    | 1.57    | 1.56    | 1.56    | UN      |
| [Japan] Effective job openings-to-applicants ratio (seasonally adjusted)         | 1.50    | 1.51    | 1.52    | 1.53    | 1.55    | 1.56    | 1.59    | 1.59    | 1.58    | 1.59    | 1.59    | 1.60    | UN      |
| <b>International Trade</b>   |         |         |         |         |         |         |         |         |         |         |         |         |         |
| [Kansai] Trade balance (billion yen)   | 172.4   | 135.1   | 161.9   | 249.8   | 160.1   | 162.8   | 256.1   | -54.7   | 133.6   | 368.4   | 236.3   | 82.6    | 268.1   |
| [Kansai] Exports (billion yen)   | 1,383.9 | 1,329.4 | 1,382.4 | 1,482.4 | 1,425.3 | 1,520.4 | 1,589.4 | 1,303.4 | 1,353.5 | 1,607.2 | 1,443.2 | 1,402.7 | 1,520.9 |
| [Kansai] Exports (YoY % change)  | 8.0     | 10.8    | 17.4    | 17.3    | 14.4    | 21.5    | 12.0    | 19.5    | 0.0     | 8.9     | 8.1     | 13.2    | 9.9     |
| [Kansai] Imports (billion yen)   | 1,211.5 | 1,194.3 | 1,220.5 | 1,232.6 | 1,265.2 | 1,357.6 | 1,333.4 | 1,358.1 | 1,220.0 | 1,238.8 | 1,207.0 | 1,320.1 | 1,252.8 |
| [Kansai] Imports (YoY % change)  | 14.3    | 16.9    | 12.7    | 11.1    | 20.8    | 15.5    | 18.0    | 5.5     | 22.3    | -1.2    | 4.0     | 15.3    | 3.4     |

Notes : In the statistics on industrial production, the transport machinery industry excludes steel ships and railcars.