

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.

Overview

Bullish export-driven economy, but warning signs ahead. Natural disasters and trade frictions between China and the US pose risks of economic deceleration.

1. In 2018Q3, Japan's real GDP shrank -0.3% QoQ (-1.2% annualized), declining for the first time in two quarters. Both domestic demand and net exports contributed negatively by -0.8%pt and -0.3%pt, respectively. These suffered by the succession of natural disasters, which pushed down the growth in private final consumption expenditure and private non-residential capital investment by respectively -0.3%pt and -0.1%pt. Due to the temporary closure of Kansai International Airport, net exports shrank by -1.3%pt, which was the first negative change in five quarters.
2. In 2018Q3 the Kansai economy continued its gradual improvement despite the negative impacts of natural disasters. In the household sector, the consumer sentiment deteriorated despite improving incomes and a favorable employment environment. In the corporate sector, production remained lackluster despite improving business confidence and strong capital investment intentions. In the external sector, demand by foreign tourists continued to expand and exceeded last year's, despite the brief contraction in net exports and the number of foreign visitors caused by the temporary closure of Kansai International Airport. The public sector stagnated for the most part.
3. We forecast a real Kansai GRP growth of +1.8% in FY2018, +0.7% in FY2019, and +0.5% in FY2020. Our previous FY2018 forecast remained unchanged, but the FY2019 and FY2019 forecasts were both revised downwards by -0.3%pt.
4. We expect that the growth rate of the Kansai economy in FY2018 will outpace Japan's, due to the above-national-average growth in incomes, as well as the re-acceleration in external demand. Starting FY2019, just like Japan as a whole, Kansai's economic expansion will slow down under the influence of the consumption tax hike, and its growth will approach the national average. In FY2020 the contribution of domestic demand in Kansai is expected to lag behind the national average, which will result in a slightly below-national-average growth.
5. Several external and internal risks raise concern regarding our baseline forecast. External risks are related to the overall slowdown of the global economy. Among these, the potential slowdown in the Chinese economy, caused by the trade frictions between China and the US, might have particularly negative repercussions on the economy of Kansai. Domestic risks are mostly related to the expected decline in demand due to the consumption tax hike. On the other hand, the 2025 World Expo which will be hosted by Osaka are expected to have positive effects on the regional economy.
6. In the "Topics" section, we estimate the economic impact of Typhoon Jebi, which hit in September 4th. The temporary closure of Kansai International Airport is estimated to have caused economic damages totaling JPY 59.8 billion, including JPY 31.7 billion of inbound demand-related and JPY 28.1 billion export-related losses. These correspond to only 0.3% of Kansai's total exports and to 0.1% of its GRP. It is necessary to spread such information in a timely fashion in order to avoid damaging Kansai's reputation in the long term. We also show our revised advance GDP estimates for all Kansai prefectures, as well as a high-frequency economic forecast.

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FY	2015	2016	2017	2018	2019	2020
Kansai GRP growth (%)	1.4	0.1	2.6	1.8	0.7	0.5
Japan GDP growth (%)	1.4	1.2	1.6	1.0	0.6	0.8

Summary of Forecast Results

	FY	Kansai Economy						Japanese Economy					
		2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Household final consumption expenditure (HFCE)		0.7	▲ 0.3	1.2	0.7	0.3	0.2	0.8	0.3	0.8	0.5	0.3	0.5
Private residential investment		▲ 0.4	3.9	▲ 1.7	▲ 3.1	1.2	▲ 2.2	3.7	6.2	▲ 0.3	▲ 4.4	1.2	▲ 1.6
Private non-residential capital investment		▲ 1.4	▲ 0.2	4.2	4.9	1.7	1.2	2.3	1.2	3.1	4.9	2.2	2.2
Government final consumption expenditure (GFCE)		1.7	0.4	0.6	0.5	0.6	0.7	1.9	0.5	0.7	0.6	0.7	0.7
Public fixed capital formation		▲ 4.3	0.5	▲ 1.0	▲ 0.6	0.3	0.3	▲ 1.6	0.9	1.5	▲ 2.1	0.3	0.9
Exports		▲ 0.5	1.9	8.6	2.7	2.9	2.9	0.8	3.6	6.3	2.3	3.3	3.2
Imports		1.5	1.9	3.6	0.4	2.5	1.8	0.4	▲ 0.8	4.1	2.4	1.8	2.1
Real GRP/GDP		1.4	0.1	2.6	1.8	0.7	0.5	1.4	1.2	1.6	1.0	0.6	0.8
Private demand (contribution)		1.7	▲ 0.1	1.3	1.1	0.4	0.1	1.1	0.3	1.1	1.0	0.2	0.4
Public demand (contribution)		0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.2	0.0	0.1	0.2
Net exports (contribution)		▲ 0.4	0.0	1.2	0.6	0.2	0.3	0.1	0.7	0.3	▲ 0.0	0.3	0.2
Nominal GRP/GDP		2.7	▲ 0.2	2.6	1.5	1.7	1.8	3.0	1.0	1.7	0.8	1.7	2.2
GRP/GDP deflator		1.3	▲ 0.2	▲ 0.0	▲ 0.3	1.0	1.3	1.5	▲ 0.2	0.1	▲ 0.2	1.1	1.4
Consumer price index		0.3	▲ 0.2	0.6	0.9	1.5	1.6	0.0	▲ 0.3	0.7	0.9	1.3	1.5
Industrial Production Index		▲ 1.5	3.2	0.0	1.0	0.9	0.9	▲ 0.7	0.8	2.9	0.7	1.1	1.2
Unemployment rate		3.7	3.5	3.1	2.6	2.6	2.5	3.3	3.0	2.7	2.3	2.3	2.2

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2015-17 figures are official, 2018-20 figures are APIR forecasts. Forecasts for the Japanese economy are sourced from APIR's *Economic Forecast and Analysis No. 119*.

Previous Forecast (28 August 2018)

	FY	Kansai Economy						Japanese Economy					
		2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Household final consumption expenditure (HFCE)		0.6	▲ 0.1	1.1	0.7	0.3	▲ 0.0	0.8	0.3	0.8	0.8	0.3	▲ 0.2
Private residential investment		▲ 0.6	2.8	▲ 1.9	▲ 0.6	1.4	0.2	3.7	6.2	▲ 0.3	▲ 5.0	1.7	▲ 1.0
Private non-residential capital investment		▲ 1.7	▲ 0.0	6.4	4.6	1.7	1.5	2.3	1.2	3.1	3.4	2.1	2.4
Government final consumption expenditure (GFCE)		1.5	0.5	0.6	0.5	0.6	0.7	1.9	0.5	0.7	0.6	0.7	0.6
Public fixed capital formation		▲ 2.9	1.0	▲ 1.0	0.0	0.1	1.0	▲ 1.6	0.9	1.4	▲ 0.5	2.0	1.6
Exports		▲ 0.5	2.5	8.6	4.1	3.6	3.0	0.8	3.6	6.3	3.7	3.2	3.1
Imports		1.5	2.2	4.0	1.7	1.7	0.9	0.4	▲ 0.8	4.1	3.0	1.6	0.8
Real GRP/GDP		1.4	0.1	2.5	1.8	1.0	0.8	1.4	1.2	1.6	1.1	0.9	0.6
Private demand (contribution)		1.4	0.1	1.7	1.1	0.4	0.1	1.1	0.3	1.1	0.9	0.4	0.0
Public demand (contribution)		0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.1	0.2	0.2
Net exports (contribution)		▲ 0.1	▲ 0.1	0.8	0.6	0.5	0.6	0.1	0.7	0.3	0.1	0.3	0.4