

**Section 3**  
**THE KANSAI ECONOMY:**  
**RECENT DEVELOPMENTS AND SHORT-TERM FORECASTS**

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**1. A Retrospective of the Kansai Economy in FY2023 and the First Half of FY2024**

In FY2023, the Kansai economy showed signs of recovery as the classification of the COVID-19 pandemic under the Infectious Diseases Control Law was downgraded to “Category 5” and economic activity normalized. In FY2024, the economy continued to gradually recover overall.

The following is a review of the Kansai economy from FY2023 onwards by sector, focusing on monthly economic indicators.

**(1) Household Sector**

In FY2023, the household sector in the Kansai region generally recovered gradually as economic activity normalized. However, the income and employment environment remained weak, and a strong recovery did not occur. In FY2024, the gradual recovery continued, but some signs of weakness were also observed.

**Consumer sentiment**

The Consumer Confidence Index for FY2023 was 36.7, up 5.2 points year on year, and improved for the first time in two years (Figure 2-3-1). The broader implementation of wage hikes and the slowdown in price increases are thought to have contributed to this improvement. In March 2024, the CCI reached 40.2, the highest level since 2020, when the COVID-19 pandemic began. Since then, however, it has struggled to grow in FY2024.

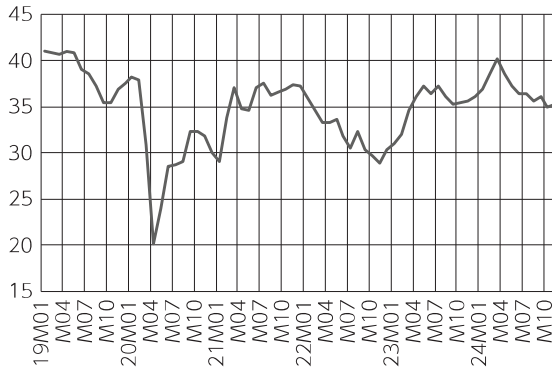


Figure 2-3-1 Consumer Confidence Index

Source: Cabinet Office, "Survey of Consumption Trends"

### Large-scale retail store sales

In FY2023, sales at large retailers in the Kansai region increased by 7.2% YoY, marking the third consecutive year of YoY growth (Figure 2-3-2). Sales increased due to various factors, such as an increase in opportunities for outside activities as the region returned to normal after the COVID-19 pandemic and an increase in unit prices.

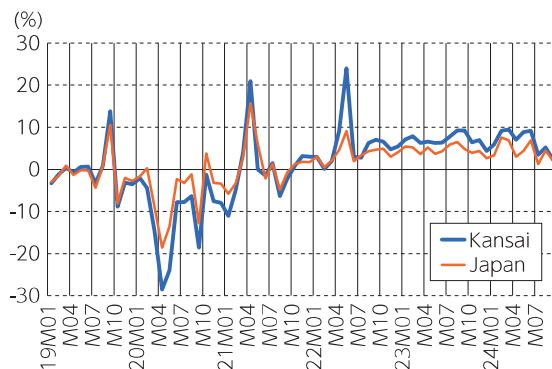


Figure 2-3-2 Department store and supermarket sales (YoY)

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

Income environment

In FY2023, the total cash salary in Kansai (estimated by APIR) was JPY 323,652 on average per month (Figure 2-3-3). This was an increase of 1.7% YoY, and the third consecutive year of growth. Real wages (adjusted for inflation using the Consumer Price Index) were down 1.7% YoY, the second consecutive year of decline.

In FY2024, the total amount of nominal cash earnings continued to increase YoY due to the growing momentum for wage increases. This has not kept pace with the rise in prices, however, and real wages have continued to decline. In addition, due to the strong growth in bonuses, they turned positive for the first time in 29 months in June 2024, but have since fallen back into negative territory.

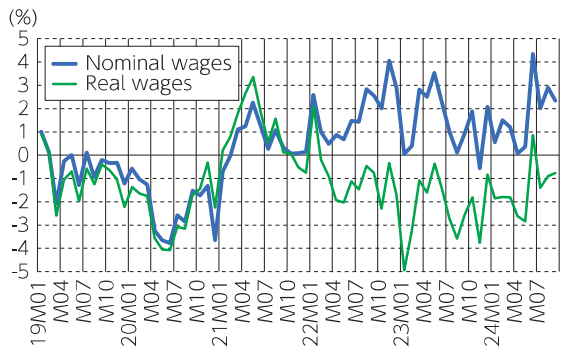


Figure 2-3-3 Gross nominal wages and real wages (YoY)

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

Consumer prices

In FY2023, the Kansai Core CPI (excluding fresh food, 2020=100) was 105.5, up 2.8% from the previous year. The continued rise in food prices, as well as the higher import costs caused by the high cost of raw materials and the depreciation of the Japanese yen, were passed on to consumer prices. On the other hand, energy-related prices, such as electricity, fell YoY due to the government's measures to reduce the burden. In FY2024, the YoY increase remained in the 2% range (Figure 2-3-4).

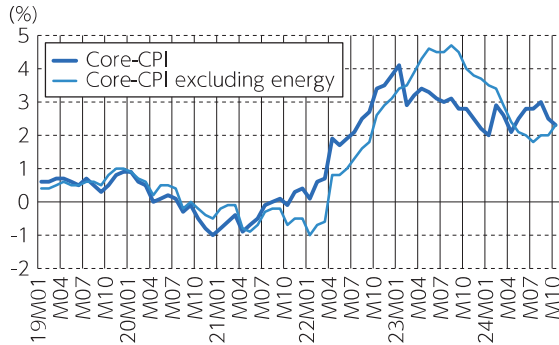


Figure 2-3-4

## Consumer Price Index

Source: Statistics Bureau, Ministry of Internal Affairs and Communications, "Consumer Price Index"

### Employment environment

In FY2023, the active job openings-to-applicants ratio in the Kansai region fell 0.01 points from the previous year to 1.18 (Figure 2-3-5). This was the first deterioration in two years, due to a weakening in the job market as companies held back on hiring. In addition to the impact of high prices and costs, which led to a reduction in hiring, particularly in the manufacturing and construction industries, the expansion of labor-saving investment also had an impact. In FY2024, the job market remained unstable.

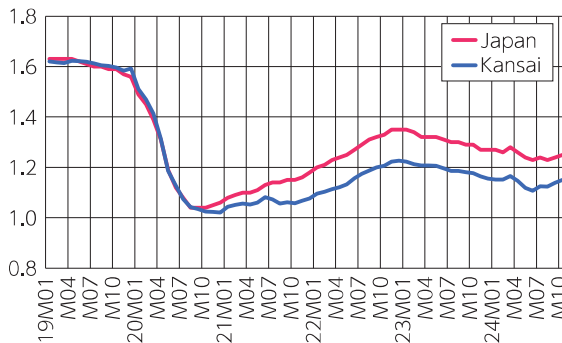


Figure 2-3-5

## Active job openings-to-applicants ratio (seasonally adjusted)

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

(2) Corporate Sector

In FY2023, there were slight differences in the pace of recovery among industries in Kansai. In the manufacturing sector, production and business sentiment were both weak due to the slowdown in exports. In the non-manufacturing sector, however, business was generally strong due to economic normalization. In addition, capital investment plans for FY2024 remained robust in both manufacturing and non-manufacturing sectors.

Business confidence

According to the Bank of Japan’s Tankan survey (December survey), the diffusion index (Kinki region, all industries, all sizes) was +11 for the 13th consecutive quarter (Figure 2-3-6). By industry, there was a difference between the manufacturing sector’s +5 and the non-manufacturing sector’s +18. Overall, there has been a gradual recovery, but there is a difference in the pace of recovery between manufacturing and non-manufacturing sectors.

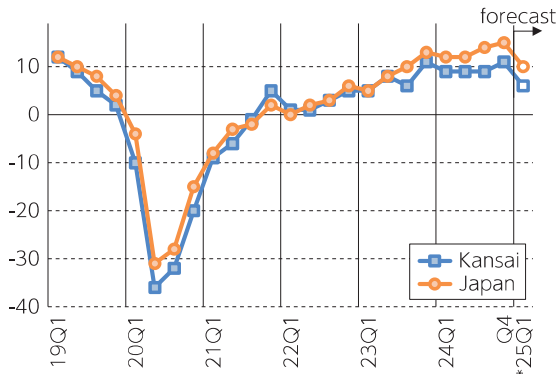


Figure 2-3-6

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

Note: \* denotes a forecast.  
Source: Bank of Japan, Osaka Branch, “Tankan: Short-term Economic Survey of Enterprises”

Industrial production

The production index for FY2023 was 98.7 (2020=100), a decrease of 4.0% compared to the previous year (Figure 2-3-7). This marked the second consecutive year of production decreases, with the petroleum and coal product industry and the general-purpose and business-use machinery industry contributed to the overall decrease in production. In addition, since the beginning of 2024, there has been a back-and-forth trend due to the impact of the suspension of

shipments and resumption of operations at automobile manufacturers.

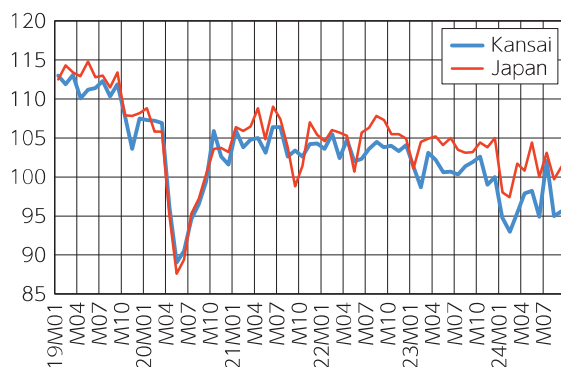


Figure 2-3-7

Indices of Industrial Production (seasonally adjusted; 2020=100)

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

## Capital investment

Capital investment plans for FY2024 are expected to increase significantly compared to the previous year (Table 2-3-1). According to the Bank of Japan's December Tankan survey, capital investment plans for FY2024 (all sizes of companies in all industries) for Kansai companies increased by 14.9% compared to the previous year. By industry, manufacturing increased by 20.3% and non-manufacturing by 10.7%.

Table 2-3-1

BOJ Tankan: Planned Capital Investment

	Kansai			Japan		
	All industries	Manufacturing	Non-manufacturing	All industries	Manufacturing	Non-manufacturing
FY2023	0.9	6.8	-3.2	10.6	6.7	12.8
FY2024	14.9	20.3	10.7	9.7	15.1	6.7

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

## (3) External Sector

In the external sector, trade in goods saw a decrease in both exports and imports for the first time in three years. For service exports, the number of foreign visitors to Japan has surpassed pre-COVID-19 pandemic levels, and continues to grow steadily.

Trade in goods

Both imports and exports were down YoY for the first time in three years, but the trade balance remained positive for the ninth consecutive year (Figure 2-3-8). Exports were down 3.2% YoY. Mineral fuels and Semiconductors, etc. declined. Imports were down 12.0% YoY. The surge in resource prices has eased, and

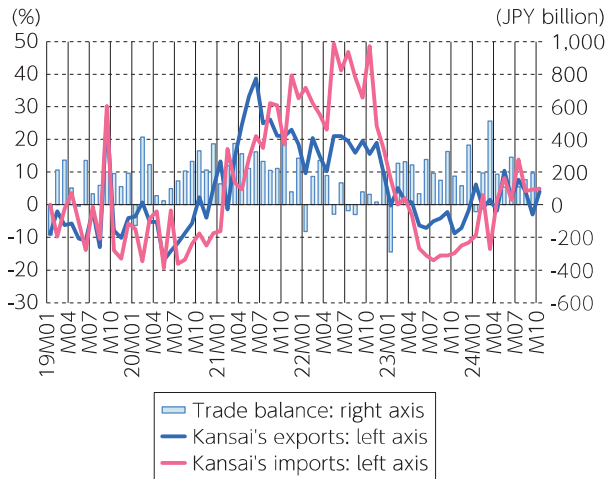


Figure 2-3-8 Exports, imports, and trade balance

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

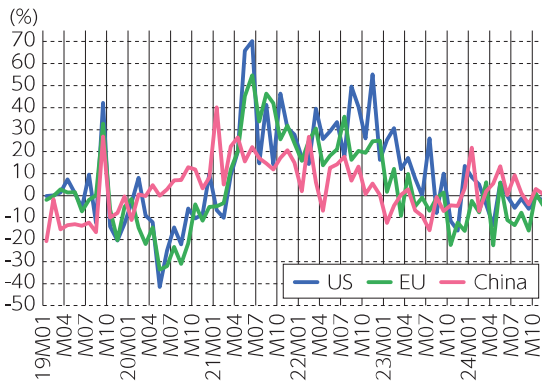


Figure 2-3-9 Exports by region (YoY)

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

crude oil, natural gas, and manufactured gas have declined.

Looking at exports by major region, exports to the U.S. were up 2.9% YoY, those to the EU were down 5.2%, and those to China were down 5.0% (Figure 2-3-9). Exports to China declined for the first time in four years since FY2019. In FY2024, exports of semiconductor-related products to Asia, including China, recovered.

### Inbound tourism demand

There was a marked recovery in inbound tourism demand. In addition to the significant easing of border measures, such as the removal of the cap on the number of people entering the country, the number of foreign visitors to Japan increased due to the depreciation of the yen.

According to the Ministry of Justice's "Immigration Control Statistics," the number of foreign visitors to Japan in FY2023 was 29.51 million nationwide, of which 7.54 million entered the country through KIX (Figure 2-3-10). The number of visitors in March 2024 reached 772,655, surpassing the pre-COVID-19 pandemic single-month record and continuing to set new records thereafter. By nationality, South Korea accounted for around 30% of the total in FY2023, while in FY2024, the number of visitors from China recovered and became the largest source of visitors.

In addition, duty-free sales at department stores increased sharply due to the

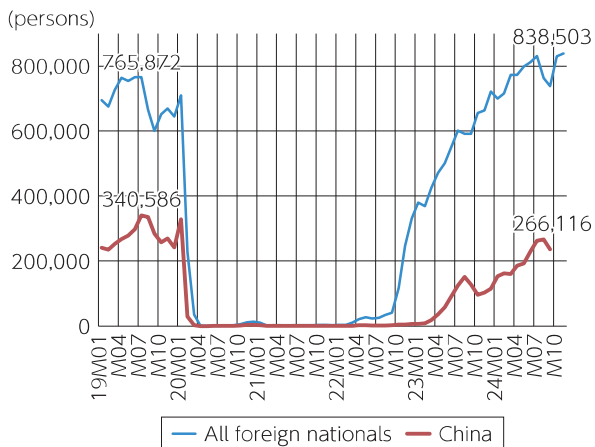
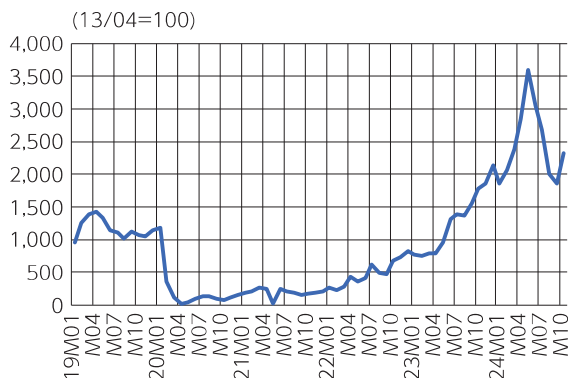


Figure 2-3-10

Number of foreign visitors to Japan via Kansai International Airport

Source: Ministry of Justice, "Immigration Statistics"





**Figure 2-3-11** Department store duty-free sales (April 2013=100)

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

recovery of inbound tourism demand (Figure 2-3-11). According to the Osaka Branch of the Bank of Japan, in FY2023, duty-free sales at department stores in the Kansai region increased by 166.0% compared to the previous year, or approximately 2.7 times. This was also significantly higher than the level recorded in FY2018, which was the highest level before the COVID-19 pandemic, at +40.5%. Against the backdrop of the weakening of the yen, consumption of high-priced items such as cosmetics was strong.

#### (4) Public Sector

Public works in the Kansai region continued to increase year on year, and the sector remained strong.

In FY2023, the volume of completed public works in the Kansai region was up 2.8% YoY (Figure 2-3-12). On a monthly basis, it was higher than the previous year for 24 consecutive months from July 2021 to December 2023. It has been lower than in the previous year for three consecutive months from January to March 2024, but it rebounded in April. Public investment continues to progress, with large-scale public investment projects such as land development on Yumeshima Island, which will be the site of the 2025 Expo, and the construction of the Shin-Meishin Expressway and Yodogawa Sagan Line.

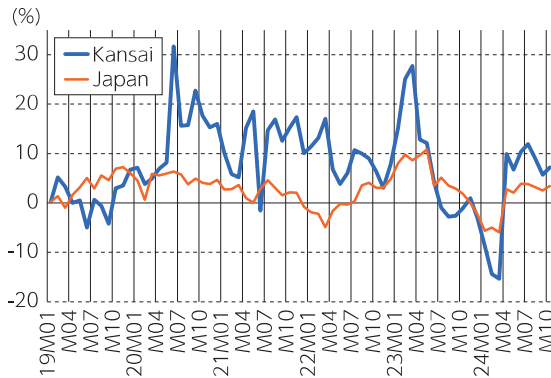


Figure 2-3-12 Volume of public works completed (YoY)

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

## 2. Kansai Economic Forecast: FY2024-26

This report presents the Kansai economic forecast for FY2024-26, which reflects the latest economic indicators from within and outside the Kansai region, including the second preliminary estimate of GDP figures for Q3 2024.

### (1) Economic Growth Forecasts: +0.9% in FY2024, +1.1% in FY2025, +1.4% in FY2026

The real GRP growth rate in the Kansai region is forecast to be +0.9% in FY2024, +1.1% in FY2025, and +1.4% in FY2026 (Table 2-3-2; Figure 2-3-13). The estimated actual results for previous years are +1.6% in FY2022 and +1.1% in FY2023. From FY2022 onwards, the Kansai region maintains a gentle recovery trend of around 1%.

In terms of contribution to growth, private demand is expected to be strong, increasing by +0.8%pt in FY2024, +1.1%pt in FY2025, and +1.0%pt in FY2026. After FY2024, real wages will increase, and personal consumption will support growth. Public demand will increase by 0.4%pt in FY2024 due to the Expo effect but will decline to 0.0%pt and 0.1%pt in FY2025 and FY2026. External demand will remain weak, falling by 0.4%pt in FY2024, 0.1%pt in FY2025, and increasing by 0.3%pt in FY2026.

Figure 2-3-14 compares growth rates with the whole of Japan. Through FY2024, private demand was strong and the Kansai region outperformed the whole of Japan. Although this trend will reverse in FY2025 as the effects of the Expo fade, the Kansai region will outperform the whole of Japan once again in FY2026.

Table 2-3-2 Table of Kansai economic forecast results

FY	2022	2023	2024	2025	2026
Private final consumption expenditure	3.0	-0.0	0.8	1.2	1.2
Private residential investment	-2.4	-2.7	0.2	0.8	-0.3
Private non-residential capital investment	1.3	1.4	3.2	2.9	1.7
Government final consumption expenditure	0.9	0.1	1.6	0.6	0.4
Public fixed capital formation	1.0	4.5	4.0	-1.8	1.1
Exports	1.4	0.6	1.7	2.8	2.1
Imports	4.8	-1.0	3.5	3.1	1.5
Real GRP	1.6	1.1	0.9	1.1	1.4
Private demand (contribution)	2.1	0.2	0.8	1.1	1.0
Public demand (contribution)	0.2	0.2	0.4	0.0	0.1
Net exports (contribution)	-0.7	0.6	-0.4	-0.1	0.3

Nominal GRP	2.7	5.1	3.3	2.9	3.3
GRP deflator	1.1	3.9	2.4	1.8	1.9
Consumer Price Index	2.9	2.8	2.7	2.2	1.8
Industrial Production Index	-1.1	-3.5	-0.6	1.5	1.1
Unemployment rate	2.9	2.9	2.8	2.7	2.6

Note: Unit %, except for Unemployment rate, is the growth rate from the previous year; FY2022-23 is the actual forecast; FY2024-26 is the forecast.

Source: Prepared by the author

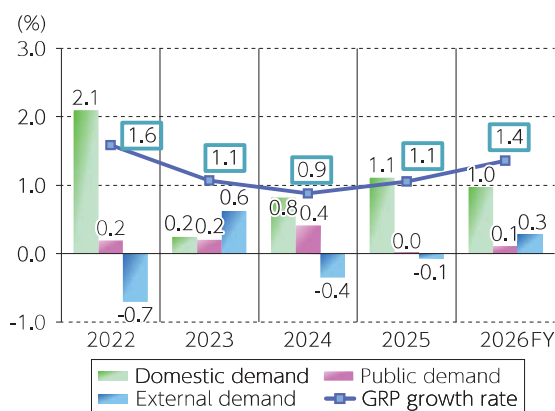
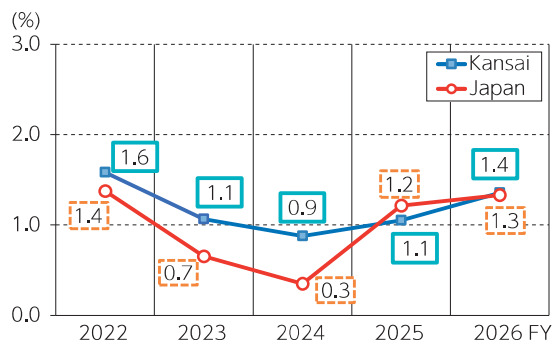


Figure 2-3-13 GRP forecast results and contribution to growth

Source: Prepared by the author



**Figure 2-3-14** Economic growth rates in Kansai and Japan

Source: Prepared by the author

## (2) Forecasts by Sector

### Private sector

The breakdown of the contribution of private demand to GRP growth is as follows: +0.4%pt in FY2024, +0.7%pt in FY2025, and +0.7%pt in FY2026 for the household sector; and +0.4%pt in FY2024, +0.5%pt in FY2025, and +0.3%pt in FY2026 for the corporate sector.

In the household sector, real private final consumption expenditure is forecast to grow by +0.8% YoY in FY2024, +1.2% in FY2025, and +1.2% in FY2026. In addition, real private residential investment is forecast to grow by +0.2% YoY in FY2024, +0.8% in FY2025, and -0.3% in FY2026. In FY2024, real wages are expected to increase due to the continued wage increases and gradual inflation, and both household consumption and housing investment are expected to gradually recover.

We forecast that real private non-residential investment, which constitutes the large component of corporate investment, is forecast to grow by +3.2% YoY in FY2024, +2.9% in FY2025, and +1.7% in FY2026. Private capital investment plans are on the rise and will stably support future growth.

### Public sector

The contribution of public demand to real GRP growth will be +0.4%pt in FY2024, +0.0%pt in FY2025, and +0.1%pt in FY2026.

Real growth in Government final consumption expenditure is expected to be +1.6% YoY in FY2024, +0.6% YoY in FY2025, and +0.4% YoY in FY2026. In addition, the growth rate of real public fixed capital formation is forecast to be +4.0%

in FY2024, -1.8% in FY2025, and +1.1% in FY2026. In FY2024, investment associated with the 2025 Expo will contribute to Kansai’s growth, which is expected to exceed the national average. In FY2025, investment related to the Expo will decline, leading to a contraction in public investment.

**External sector (overseas and outside the region)**

The contribution to real GRP growth from external demand will be -0.4%pt in FY2024, -0.1%pt in FY2025, and +0.3%pt in FY2026. We expect this to continue to be weak.

We forecast that real exports will grow by +1.7% in FY2024, +2.8% in FY2025, and +2.1% in FY2026. In the Japan Economic Outlook, we forecast that exports will grow by +1.4% in FY2024, +2.3% in FY2025, and +2.3% in FY2026. Both forecasts project a steady growth of around 1-2%, with little difference between them. In addition, we forecast that real imports will grow by +3.5% in FY2024, +3.1% in FY2025, and +1.5% in FY2026. This reflects the recovery in domestic demand and strong import growth in recent years.

**Employment and income environment**

The unemployment rate is forecast to gradually decline to 2.8% in FY2024, 2.7% in FY2025, and 2.6% in FY2026.

We also expect steady growth in per capita employee income, at +2.9% in FY2024, +2.3% in FY2025, and +2.5% in FY2026. Furthermore, the growth rate of the consumer price index is expected to gradually decrease, at +2.6% in FY2024, +2.0% in FY2025, and +1.7% in FY2026. As a result, real wages will grow by +0.2% in FY2024, +0.1% in FY2025, and +0.7% in FY2026. Real wages will turn positive in FY2024 and are expected to steadily support consumer spending thereafter.

**3. The Recovery from the COVID-19 Pandemic in Kansai Prefectures: GRP Advance Estimates**

The publication of the final GRP figures for each prefecture (from the Prefectural Accounts) is usually delayed by around two years compared to the publication of the national GDP figures. We have made our own early estimates of the actual figures for the GRP of the six prefectures in the Kansai region for previous years. It should be noted that the forecast results for Kansai GRP in FY2022-23 from the Kansai Economic Forecast Model shown in the previous section differ from the results obtained from the “Advance Estimates of GRP for Prefectures in Kansai.”

Figure 2-3-15 shows the trends in the early estimates of GRP for each

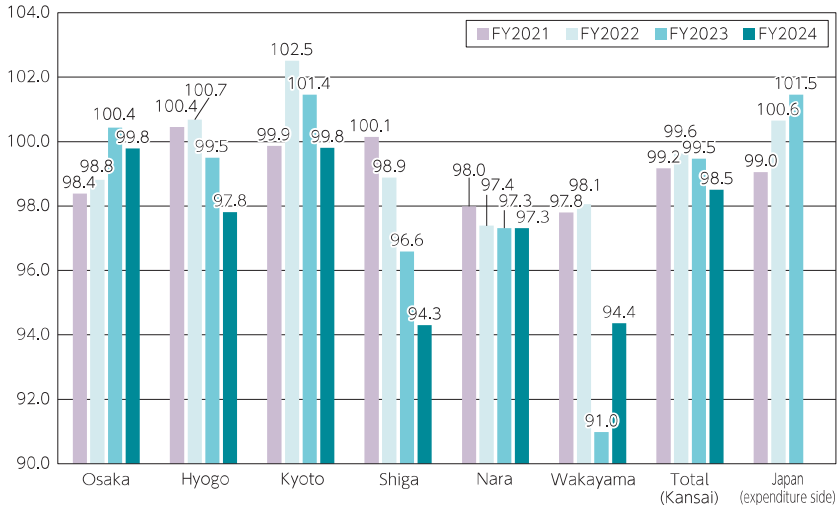


Figure 2-3-15

Recovery process of Kansai prefectures from the COVID-19 pandemic (2019=100)

Source: APIR "Kansai Economic Insight Quarterly", No.71

prefecture in FY2021-24, with the index set at 100 for FY2019 (FY2021 is the actual value).

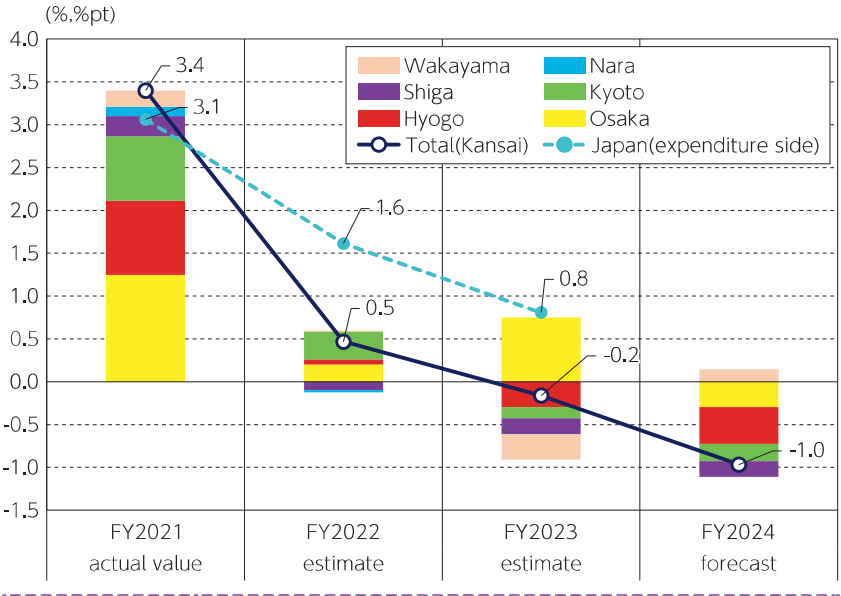
In FY2022, the national level was 0.6% higher than the pre-COVID-19 pandemic level, while the Kansai region remained about 0.4% below. Of the prefectures, only Kyoto and Hyogo prefectures exceeded the FY2019 level, while Shiga, Osaka, Wakayama and Nara prefectures were below.

In FY2023, only Osaka prefecture saw an increase YoY, while Hyogo, Kyoto and Wakayama prefectures experienced a decline, with Wakayama prefecture's decrease being particularly large.

In FY2024, Osaka Prefecture, which accounts for a little over 40% of the Kansai GRP, also turned negative, and the negative margin will widen in Hyogo, Kyoto and Shiga prefectures. While Nara Prefecture is expected to fluctuate, Wakayama Prefecture is projected to undergo a V-shaped recovery. However, it is still unlikely to return to pre-COVID-19 levels.

Figure 2-3-16 shows the contribution of each prefecture to the annual growth rate of the Kansai economy in FY2021-2024.

In FY2021, the GRP (actual results) was +3.4% growth overall in Kansai due to a rebound from the COVID-19 shock, and all prefectures contributed positively. In particular, the contributions of Osaka, Hyogo and Kyoto prefectures are large. In FY2022 and FY2023, there was a largely flat trend throughout the



**Figure 2-3-16** Kansai's contribution to real growth by prefecture

Source: APIR "Kansai Economic Insight Quarterly", No.71

Kansai region, but in FY2023, the positive contribution of Osaka prefecture was offset by the negative contributions of other prefectures. In FY2024, Osaka prefecture is expected to enter a period of negative growth, and the Kansai region as a whole is expected to experience negative growth of -1.0%.