Analysis and Forecasts for the Kansai Economy
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- This report provides an analysis of current economic trends in the Kansai region. It is produced by APIR's *Short-term Forecasts for Japan's and Kansai's Economies* project team headed by Yoshihisa Inada (Director of the APIR Centre for Qualitative Economic Analysis & Konan University professor).

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- In this report, 'Kansai' includes 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. The term 'Kinki' used in official data to define the same region has been changed to 'Kansai' for consistency purposes.

- Forecasts are made using APIR's original forecast model for the Kansai economy and are supervised by Prof. Yoshihisa Inada and Prof. Hiroaki Irie.

Overview

Prospects dimmed by growing uncertainties despite continued growth

◆ In 2019Q2 Japan's real GDP expanded an annualized +1.8% QoQ, registering the third consecutive quarter of positive growth. Among the components of domestic demand, private final consumption expenditure, private residential investment, private non-residential investment and government investment expenditure made positive contributions to growth. On the other hand, the changes in private inventories and net exports had a negative impact.

◆ **Although Kansai's basic economic trends remained robust in 2019Q2, prospects seem bearish due to growing uncertainties.** Global trends, led by the China-US trade conflict, combined with the uncertainties surrounding the upcoming tax hike, caused a noticeable deterioration in expectations-related indicators, such as the consumer sentiment and business confidence indices. On the other hand, some sectors, including tourist demand, expanded, remaining largely robust.

◆ **We forecast real GRP growth of +0.6% in FY2019 and +0.5% in FY2020 in Kansai.** The figures are respectively -0.1%pt lower and +0.1%pt higher than our previous forecast. The slight downward revision for FY2019 is due to the major deceleration in exports, which was not entirely offset by the robust domestic demand in the first half of the fiscal year. On the other hand, we expect to see a recovery in external demand in FY2020.

◆ Among the demand-related GDP components, private consumption is expected to prop up growth, contributing +0.8%pt in FY2019. Increased government spending, a result of policies aimed at mitigating the negative impact of the upcoming consumption tax hike, will also make a positive +0.4%pt contribution to growth. In contrast, external demand (outside Kansai) will suppress growth by -0.5%pt. The expected FY2020 contributions are +0.3%pt for private consumption, +0.2%pt for government spending, and -0.0%pt for external demand.

◆ We analyzed the impact of the trade conflict with Korea on Kansai's economy. Korea-bound exports represent 7% of Kansai's total exports. Consequently, even if the conflict persists, its impact is likely to be limited. Unlike trade with China, whose share in Kansai's total trade is substantially higher than its share in Japan's, no such difference can be observed in the case of trade with Korea. Kansai's exports to Korea consist mainly of goods related to the production of semi-conductors and display panels, which is an integral part of Korea's manufacturing sector.

FY	2016	2017	2018	2019	2020
Kansai GRP growth %	0.8	2.5	1.3	0.6	0.5
Japan GDP growth %	(0.9)	(1.9)	(0.7)	(1.0)	(0.5)

Forecast Summary

FY	Kansai					Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	0.1	1.1	0.9	0.6	0.3	0.0	1.0	0.5	0.5	0.2
Private residential investment	4.1	▲ 3.3	2.1	0.8	▲ 1.9	6.3	▲ 0.7	▲ 4.4	▲ 0.9	▲ 1.3
Private non-residential capital investment	5.3	4.2	3.0	3.4	2.1	▲ 0.5	4.6	3.5	3.1	1.5
Government final consumption expenditure	0.6	0.7	0.6	1.6	0.9	0.7	0.4	0.9	1.8	0.9
Public fixed capital formation	▲ 6.1	▲ 2.2	▲ 0.9	2.3	2.0	0.6	0.5	▲ 4.0	3.2	1.9
Exports	1.3	8.4	▲ 1.0	▲ 2.5	1.7	3.6	6.5	1.5	▲ 1.3	1.6
Imports	1.1	3.4	▲ 1.6	▲ 0.0	2.1	▲ 0.9	4.0	2.1	0.5	1.1
Real GRP/GDP	0.8	2.5	1.3	0.6	0.5	0.9	1.9	0.7	1.0	0.5
Private demand (contribution)	0.9	1.3	1.1	0.8	0.3	▲ 0.1	1.3	0.8	0.8	0.2
Public demand (contribution)	▲ 0.1	0.1	0.1	0.4	0.2	0.2	0.1	▲ 0.0	0.5	0.3
Net exports (contribution)	0.1	1.2	0.1	▲ 0.5	▲ 0.0	0.8	0.4	▲ 0.1	▲ 0.3	0.1
Nominal GRP/GDP	0.5	2.7	1.0	1.1	0.8	0.7	2.0	0.5	1.5	0.9
GRP/GDP deflator	▲ 0.3	0.2	▲ 0.3	0.5	0.4	▲ 0.2	0.1	▲ 0.2	0.5	0.4
Consumer price index	▲ 0.2	0.5	0.5	0.7	0.5	▲ 0.3	0.7	0.8	0.6	0.5
Industrial Production Index	2.4	2.5	▲ 0.3	▲ 0.0	0.6	0.8	2.9	0.3	▲ 0.6	0.6
Unemployment rate	3.4	2.9	2.7	2.7	2.8	3.0	2.7	2.4	2.4	2.5

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. 121.

Previous Forecast

(2019/5/30)

年度	Kansai					Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	▲ 0.3	1.3	0.7	0.4	0.3	0.0	1.1	0.4	0.1	0.3
Private residential investment	3.6	▲ 3.3	0.1	1.6	▲ 1.6	6.3	▲ 0.7	▲ 4.2	3.0	▲ 3.4
Private non-residential capital investment	▲ 0.4	4.4	4.0	2.7	1.7	▲ 0.5	4.5	3.2	1.4	1.5
Government final consumption expenditure	0.3	0.4	0.6	1.2	1.1	0.7	0.4	0.8	1.1	1.1
Public fixed capital formation	0.4	▲ 2.2	▲ 0.9	1.9	1.9	0.6	0.5	▲ 3.8	2.7	2.0
Exports	1.8	8.5	▲ 0.2	▲ 0.7	1.0	3.6	6.4	1.3	▲ 0.6	0.5
Imports	1.7	3.3	▲ 0.6	0.2	1.7	▲ 0.9	4.1	2.0	0.2	1.6
Real GRP/GDP	0.0	2.5	1.2	0.7	0.4	0.9	1.9	0.6	0.6	0.6
Private demand (contribution)	▲ 0.1	1.3	1.1	0.5	0.3	▲ 0.1	1.3	0.8	0.4	0.4
Public demand (contribution)	0.1	▲ 0.0	0.1	0.3	0.3	0.2	0.1	▲ 0.0	0.3	0.3
Net exports (contribution)	0.0	1.2	0.0	▲ 0.1	▲ 0.1	0.8	0.4	▲ 0.1	▲ 0.1	▲ 0.2