

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No.69

29 May, 2024

• 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 Quantitative Economic Analysis & Professor Emeritus of Konan University).

• Authors: Yoshihisa Inada, Hiroaki Irie (Kindai University Professor & APIR Researcher), Ryo Ogawa (Osaka Metropolitan University Professor & APIR Researcher), Chiu-Wei Kuo, Lu Zhaoying, Yani Karavasilev (APIR Research Fellows), Shigekazu Yoshida and Ryosuke Nomura (APIR Research Promotion Officers).

• 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.

Index

| | |
|-----------------------|---|
| Forecast Highlights | 1 |
| Forecast Summary | 2 |
| Forecasts at a Glance | 3 |

Note: Figures in the table are calculated using the expenditure method, and differ from forecasts made using the production method.

Forecast Highlights

From a standstill toward a gradual recovery

Future recovery depends on the pace of wage increases by companies

- ◆ The Kansai economy in Q1 2024 is in a phase of gradual recovery from the standstill. In the household sector, consumer sentiment, income and employment are showing signs of bottoming out. A strong recovery is yet to be achieved. In the corporate sector, production is weak due to a significant production cut in the automobile industry, but business confidence is firm. In the external sector, inbound tourism has exceeded pre-pandemic levels and the exports of goods are picking up.
- ◆ The household sector is slowly picking up, but not across the board. Many indicators, including the sales of large retail stores, consumer sentiment, income and employment, are recovering. Although real wages kept declining, they are also showing signs of bottoming out. The housing market, on the other hand, is sluggish.
- ◆ The corporate sector continues to stall. Production has been weak due to significant production cuts in the automobile industry. Capital investment plans in Kansai are somewhat more modest than in the rest of the country, but business confidence remains strong in both the manufacturing and non-manufacturing sectors.
- ◆ In the external sector, the exports and imports of goods are both showing signs of bottoming out. Exports increased YoY for the first time in four quarters on the back of a pick-up in exports to China. Inbound tourism is recovering steadily. The number of foreign arrivals via Kansai International Airport, as well as duty-free sales, continue to increase.
- ◆ The public sector saw both contract values and the volume of work completed fall below the previous year's levels, indicating a weak trend.
- ◆ Real GRP growth in Kansai is forecast to be +1.2% in FY 2024 and +1.4% in FY 2025, with growth remaining in the low 1% range since FY 2022. Kansai's growth rate in FY 2024 is expected exceed that of the Japanese economy. Compared to our previous forecast, we have revised the forecast for FY 2024 down by -0.3 percentage points, and the one for FY 2025 down by -0.1 percentage points.
- ◆ In terms of contribution to growth, private demand is expected to support growth with +0.5 percentage points in FY 2024 and +1.1 percentage points in FY 2025. Public demand will support growth by +0.4 percentage points in FY 2024 due to Expo-related investments, but will only make a small contribution in FY 2025 as the Expo effect will wear off. Extraterritorial demand (including net exports) will contribute +0.3 percentage points in FY 2024 and +0.3 percentage points in FY 2025.
- ◆ In FY 2024, Kansai's economic growth rate will outperform that of the rest of the country. This will be due to a boost from Expo-related demand, including capital investment and public investment. However, in FY 2025 Kansai will grow at the same rate as the rest of Japan, with growth being mainly driven by private demand.

Forecast Summary

| | FY | 2021 | 2022 | 2023 | 2024 | 2025 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--------------------------------------------|----|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Private final consumption expenditure | | 1.6 | 2.6 | ▲ 0.3 | 0.5 | 1.0 | 1.8 | 2.7 | ▲ 0.6 | 0.3 | 1.1 |
| Private residential investment | | ▲ 1.5 | 3.6 | ▲ 0.2 | ▲ 1.5 | 1.8 | 0.2 | ▲ 3.4 | 0.6 | ▲ 3.2 | 0.5 |
| Private non-residential capital investment | | 1.2 | 1.6 | 1.6 | 2.6 | 2.8 | 1.7 | 3.4 | 0.4 | 2.0 | 2.5 |
| Government final consumption expenditure | | 3.0 | 1.1 | 0.5 | 0.6 | 0.9 | 3.2 | 1.4 | 0.5 | 0.6 | 0.9 |
| Public fixed capital formation | | ▲ 1.5 | 0.9 | 5.1 | 4.2 | ▲ 1.4 | ▲ 6.5 | ▲ 6.1 | 4.1 | 3.8 | 0.9 |
| Exports | | 8.3 | 2.9 | 1.0 | 2.2 | 2.4 | 12.4 | 4.9 | 3.0 | 2.1 | 3.2 |
| Imports | | 4.0 | 6.1 | ▲ 1.2 | 1.4 | 1.9 | 7.2 | 6.9 | ▲ 3.3 | 2.2 | 2.0 |
| Real GRP/GDP | | 2.5 | 1.4 | 1.4 | 1.2 | 1.4 | 2.8 | 1.6 | 1.2 | 0.5 | 1.3 |
| Private demand (contribution) | | 1.0 | 2.1 | 0.1 | 0.5 | 1.1 | 1.7 | 2.0 | ▲ 0.5 | 0.2 | 0.8 |
| Public demand (contribution) | | 0.4 | 0.2 | 0.4 | 0.4 | 0.1 | 0.3 | 0.0 | 0.3 | 0.3 | 0.2 |
| Net exports (contribution) | | 1.0 | ▲ 0.9 | 0.8 | 0.3 | 0.3 | 0.8 | ▲ 0.5 | 1.5 | 0.0 | 0.3 |
| Nominal GRP/GDP | | 2.3 | 1.9 | 5.3 | 2.5 | 2.7 | 2.7 | 2.4 | 5.3 | 1.8 | 2.8 |
| GRP/GDP deflator | | ▲ 0.1 | 0.4 | 3.9 | 1.3 | 1.3 | ▲ 0.1 | 0.8 | 4.1 | 1.4 | 1.5 |
| Consumer price index | | 0.0 | 2.8 | 2.8 | 2.5 | 1.7 | 0.0 | 3.1 | 2.8 | 2.4 | 1.7 |
| Industrial Production Index | | 4.9 | ▲ 1.2 | ▲ 3.9 | 1.3 | 2.1 | 5.5 | ▲ 0.3 | ▲ 1.9 | 1.2 | 2.3 |
| Unemployment rate | | 3.0 | 2.9 | 2.9 | 2.8 | 2.6 | 2.8 | 2.6 | 2.6 | 2.5 | 2.4 |

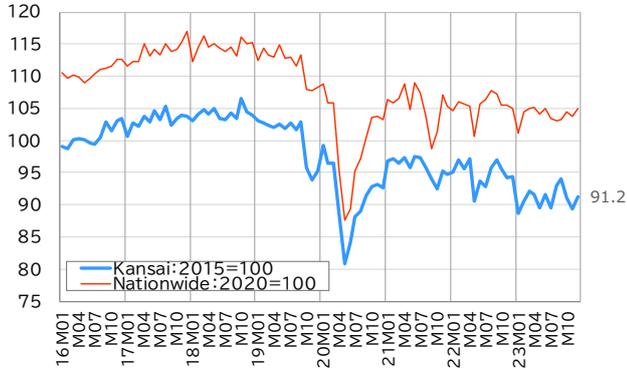
Notes: Unit= %. All figures except 'Unemployment rate' are YoY growth rates. Figures on Kansai's economy for FY 2021-23 are estimates, and figures for FY 2024-25 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-25) are sourced from APIR's Economic Forecast and Analysis No. 148.

Previous Forecast (2024/2/27)

| | FY | Kansai | | | | | Japan | | | | |
|--------------------------------------------|----|--------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| | | 2021 | 2022 | 2023 | 2024 | 2025 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Private final consumption expenditure | | 1.5 | 2.6 | 0.1 | 0.9 | 1.1 | 1.8 | 2.7 | ▲ 0.4 | 0.7 | 1.0 |
| Private residential investment | | ▲ 1.6 | 3.7 | 1.0 | 0.0 | 1.8 | 0.1 | ▲ 3.4 | 1.5 | ▲ 0.5 | 0.1 |
| Private non-residential capital investment | | 1.2 | 1.6 | 1.3 | 2.6 | 2.5 | 1.7 | 3.4 | ▲ 0.6 | 2.4 | 2.7 |
| Government final consumption expenditure | | 3.0 | 1.1 | 0.5 | 0.4 | 0.4 | 3.2 | 1.4 | 0.5 | 0.4 | 0.4 |
| Public fixed capital formation | | ▲ 1.5 | 0.8 | 3.5 | 3.5 | ▲ 1.7 | ▲ 6.5 | ▲ 6.1 | 3.1 | 0.9 | 1.0 |
| Exports | | 8.4 | 2.9 | 0.8 | 1.8 | 2.5 | 12.4 | 4.7 | 4.3 | 2.8 | 2.4 |
| Imports | | 4.1 | 6.1 | ▲ 1.0 | 0.9 | 1.8 | 7.2 | 6.9 | ▲ 2.4 | 2.7 | 2.6 |
| Real GRP/GDP | | 2.5 | 1.4 | 1.4 | 1.5 | 1.5 | 2.8 | 1.5 | 1.3 | 0.8 | 1.1 |
| Private demand (contribution) | | 1.0 | 2.1 | 0.3 | 0.9 | 1.2 | 1.7 | 2.0 | ▲ 0.3 | 0.6 | 0.9 |
| Public demand (contribution) | | 0.4 | 0.2 | 0.4 | 0.3 | ▲ 0.0 | 0.3 | 0.0 | 0.3 | 0.1 | 0.1 |
| Net exports (contribution) | | 1.0 | ▲ 0.9 | 0.7 | 0.3 | 0.3 | 0.8 | ▲ 0.5 | 1.3 | 0.0 | ▲ 0.0 |

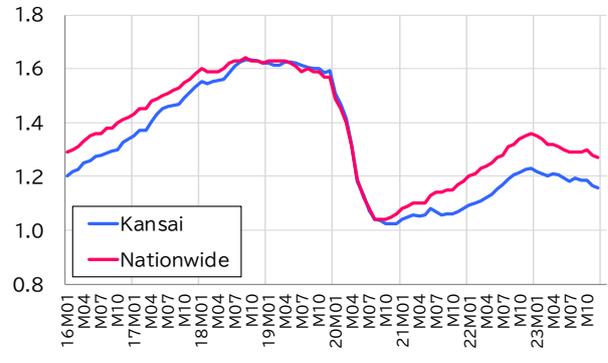
Forecasts at a Glance

【Index of Industrial Production (Kansai:2015=100, Nationwide:2020=100), including Fukui Prefecture】



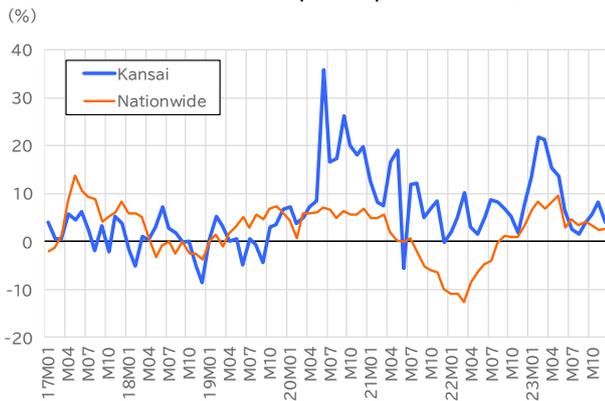
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



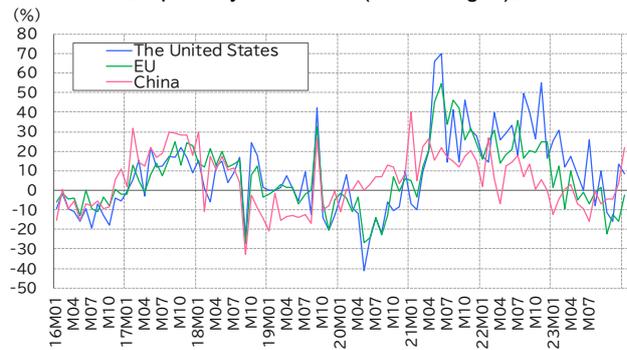
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



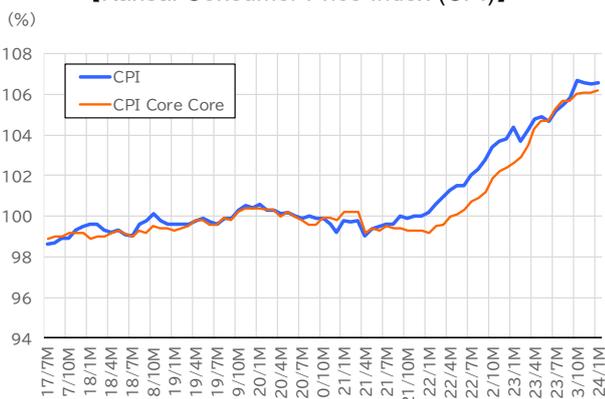
Source: MLIT

【Exports by destination (YoY changes)】



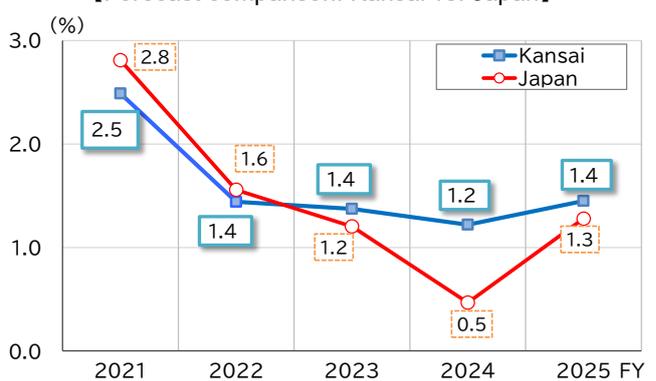
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.69"