

## Analysis and Forecasts for the Kansai Economy

# Kansai Economic Insight Quarterly No.73

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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 Quantitative Economic Analysis & Professor Emeritus of Konan University).

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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.

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

## Forecast Highlights

### Kansai sees weak but gradually recovering economic growth

#### - Creating momentum for growth in the Kansai economy triggered by the Expo -

- ◆ Kansai's economy recovered moderately in Q4 2024. In the household sector, although sentiment remained sluggish, there were signs of recovery in income, employment, and housing. In the corporate sector, production kept moving back and forth, but business confidence and capital investment plans remained robust. In the external sector, the exports of goods and inbound tourism were both in good shape.
- ◆ In the household sector, although sentiment remained stagnant, there were signs of an overall recovery. The employment environment kept improving moderately. In the income environment, momentum for wage increases took hold, and the negative real wage rate started narrowing. Consumer price inflation expanded as higher prices for energy and food pushed up the overall inflation rate.
- ◆ The corporate sector recovered moderately. Production repeatedly increased and decreased, but has bottomed out and is picking up. Capital investment plans and business sentiment were generally robust in both the manufacturing and non-manufacturing sectors.
- ◆ In the external sector, the exports and imports of goods both picked up. While exports to the U.S. and China remained weak, the exports of semiconductor-related components to ASEAN increased significantly. Inbound tourism remained strong, although the pace of recovery slowed somewhat.
- ◆ In the public sector, public works, both in terms of contract value and in terms of volume, grew at a slower pace than the nation as a whole.
- ◆ APIR's forecast for Kansai's real GDP growth is +1.2% in FY 2024, +1.0% in FY 2025, and +1.3% in FY 2026. Growth has been moderate, in the +1% range, since FY 2022, and it will remain at the same pace.
- ◆ Compared to our previous forecast (December 20, 2024), we have revised the FY 2024 figure upward by +0.3 percentage points. The FY 2025 figure remains unchanged, but we have revised the FY 2026 one downward by -0.1 percentage points.
- ◆ Looking at the contributions to growth by major components, private demand will drive growth by +1.0 percentage point (pp) in FY 2024, +0.9 pp in FY 2025, and +1.1 pp in FY 2026, which is similar to the situation in Japan as a whole. Public demand will boost growth by +0.4 pp in FY 2024, due to the Expo, but it will make only a small contribution in FY 2025 and FY 2026. The contribution of extraterritorial demand (from the rest of Japan and overseas) will be -0.2 pp in FY 2024, +0.1 pp in FY 2025, and -0.0 pp in FY 2026, similar to the situation in the rest of Japan.
- ◆ Kansai is expected to grow faster than the nation as a whole in FY 2024. The growth rates for FY 2025 and FY 2026, however, will be similar to the national average.
- ◆ The "Topics" section in the Japanese-language issue of this report discusses the feasibility of welcoming 60 million inbound tourists, as well as the imbalance between inbound and domestic tourism demand.

## Forecast Summary

FY	Kansai					Japan				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Private final consumption expenditure	3.0	0.0	0.8	0.8	1.4	2.6	▲ 0.4	0.7	0.8	1.4
Private residential investment	▲ 2.5	▲ 1.6	0.1	0.7	▲ 0.3	▲ 2.6	0.8	▲ 1.2	0.2	▲ 0.5
Private non-residential capital investment	1.3	0.6	2.9	2.8	1.8	3.6	▲ 0.1	2.0	2.2	2.3
Government final consumption expenditure	0.9	0.1	1.4	0.8	1.0	1.1	▲ 0.8	1.5	0.9	1.1
Public fixed capital formation	1.0	4.5	4.0	▲ 1.8	1.1	▲ 5.5	▲ 0.3	1.7	▲ 0.2	1.1
Exports	1.4	0.6	2.8	2.5	1.5	4.9	2.9	1.9	2.1	1.4
Imports	4.8	▲ 1.2	4.1	2.7	1.5	7.3	▲ 3.3	3.1	1.4	1.6
Real GRP/GDP	1.6	1.0	1.2	1.0	1.3	1.4	0.7	0.8	1.2	1.3
Private demand (contribution)	2.1	0.2	1.0	0.9	1.1	1.9	▲ 0.5	0.6	0.8	1.1
Public demand (contribution)	0.2	0.2	0.4	0.1	0.2	▲ 0.1	▲ 0.2	0.4	0.2	0.3
Net exports (contribution)	▲ 0.7	0.7	▲ 0.2	0.1	▲ 0.0	▲ 0.5	1.4	▲ 0.2	0.2	▲ 0.0

Nominal GRP/GDP	2.7	5.0	3.8	3.2	3.7	2.3	4.9	3.5	3.3	3.4
GRP/GDP deflator	1.1	3.9	2.6	2.1	2.5	0.9	4.2	2.7	2.1	2.0
Consumer price index	2.9	2.8	2.8	2.5	1.9	3.1	2.8	2.7	2.3	1.7
Industrial Production Index	▲ 1.1	▲ 3.5	▲ 0.6	1.1	1.0	▲ 0.3	▲ 1.9	▲ 0.8	1.4	1.0
Unemployment rate	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.4	2.3

Notes: Unit= %. All figures except 'Unemployment rate' are YoY growth rates.

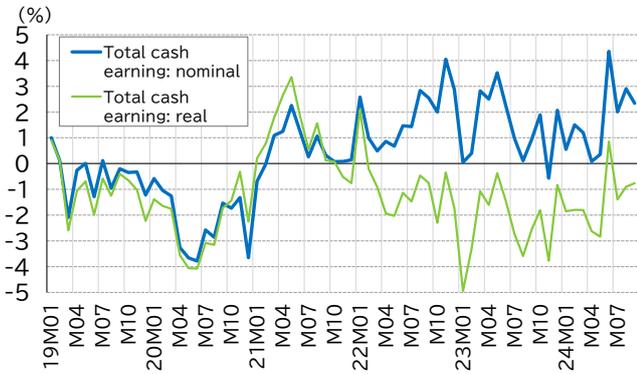
Figures on Kansai's economy for FY 2022-23 are estimates, and figures for FY 2024-26 are forecasts. Figures on Japan's economy are official until FY 2023, and figures for FY 2024 and after are sourced from APIR's "Japanese Economy: Analysis and Forecasts No. 152".

## Previous Forecast

FY	Kansai					Japan				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Private final consumption expenditure	3.0	▲ 0.0	0.8	1.2	1.2	2.6	▲ 0.4	0.6	1.1	1.3
Private residential investment	▲ 2.4	▲ 2.7	0.2	0.8	▲ 0.3	▲ 2.6	0.8	▲ 2.1	▲ 0.4	▲ 0.1
Private non-residential capital investment	1.3	1.4	3.2	2.9	1.7	3.6	▲ 0.1	2.4	2.5	2.3
Government final consumption expenditure	0.9	0.1	1.6	0.6	0.4	1.1	▲ 0.8	1.6	0.6	0.5
Public fixed capital formation	1.0	4.5	4.0	▲ 1.8	1.1	▲ 5.5	▲ 0.3	1.8	0.7	1.6
Exports	1.4	0.6	1.7	2.8	2.1	4.9	2.8	1.4	2.3	2.3
Imports	4.8	▲ 1.0	3.5	3.1	1.5	7.3	▲ 3.3	4.5	2.4	2.1
Real GRP/GDP	1.6	1.1	0.9	1.1	1.4	1.4	0.7	0.3	1.2	1.3
Private demand (contribution)	2.1	0.2	0.8	1.1	1.0	1.9	▲ 0.6	0.5	1.1	1.1
Public demand (contribution)	0.2	0.2	0.4	0.0	0.1	▲ 0.1	▲ 0.2	0.4	0.2	0.2
Net exports (contribution)	▲ 0.7	0.6	▲ 0.4	▲ 0.1	0.3	▲ 0.5	1.4	▲ 0.6	▲ 0.0	0.0

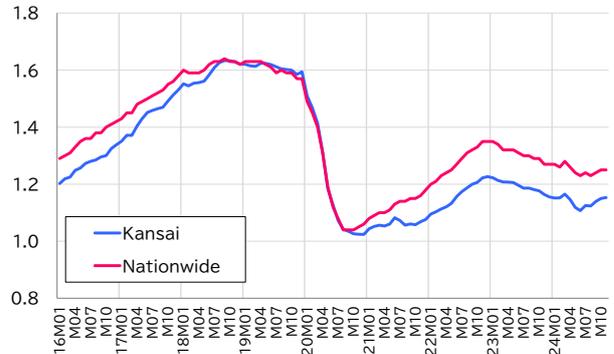
## Forecasts at a Glance

【Total cash earnings in nominal and real terms】



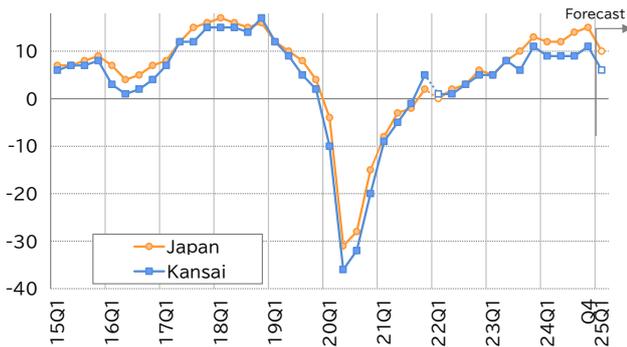
Source: Ministry of Health, Labour and Welfare of Japan

【Effective job offers-to-applicants ratio】



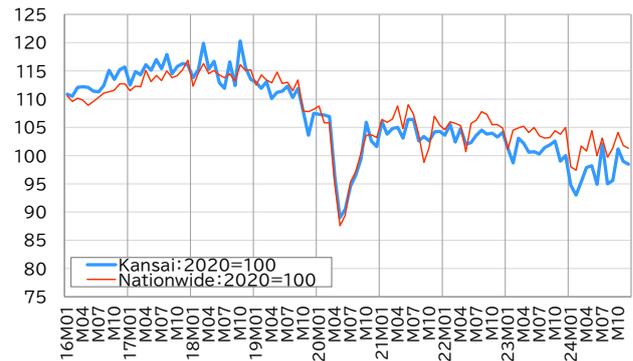
Source: Ministry of Health, Labour and Welfare of Japan

【Business Conditions DI (Bank of Japan Tankan Survey, December 2024)】



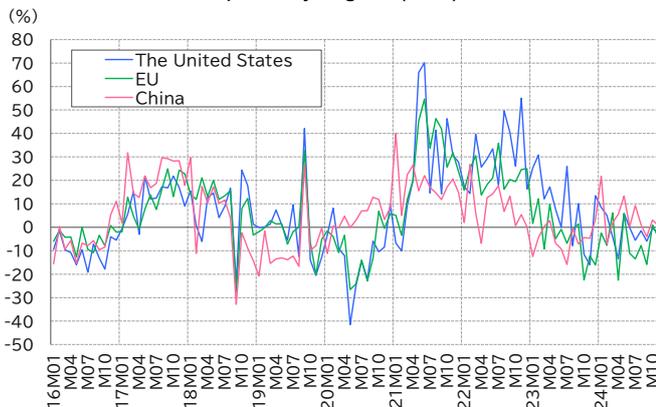
Source: Bank of Japan, Osaka Branch

【Indices of Industrial Production】



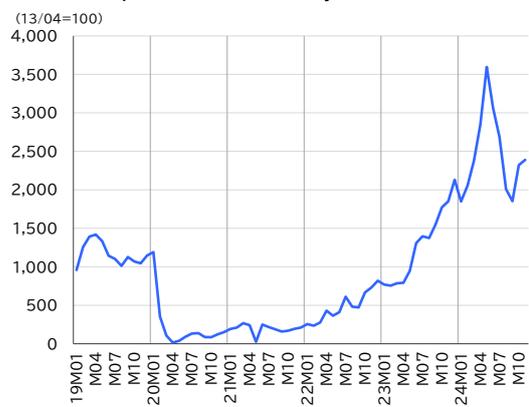
Source: Kansai Bureau of Economy, Trade and Industry

【Exports by region (YoY)】



Source: Osaka Customs

【Department store duty-free sales】



Source: Bank of Japan, Osaka Branch