

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No.78

3 March, 2026

• 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.

Forecast Highlights

The Kansai Economy Continues Its Gradual Recovery The Recovery Remains Limited in Momentum, with Uncertainty over External Demand and Policy Effects

- ◆ **The Kansai economy in Q4 2025** continues to recover gradually, but momentum remains limited. While consumption and exports show some resilience, sluggish recovery in income and employment and low production levels are weighing on the economy, leaving the recovery subdued. Inbound tourism is also weakening amid a decline in Chinese visitors, with some signs of a slowdown in external demand.
- ◆ **The household sector** shows mixed signals. Consumer sentiment and retail sales have improved, indicating some resilience, while real wages remain sluggish amid rising prices.
- ◆ **The corporate sector** remains relatively resilient, with business sentiment firm and capital investment plans expected to increase significantly. However, manufacturing production is recovering only slowly, with weakness persisting.
- ◆ **External Sector:** Trade remains firm, but inbound tourism is showing signs of slowing as the decline in Chinese visitors weighs on foreign visitor numbers and duty-free sales at department stores.
- ◆ Although the **public sector** is showing signs of recovery in terms of contract basis, activity levels continue to decline.
- ◆ **We forecast Kansai's real GRP growth at +0.8% in FY2025, +1.0% in FY2026, and +1.2% in FY2027.** Private demand is expected to drive growth from FY2025 onward, with moderate growth of around 1% projected throughout the forecast period. Compared with the previous forecast, the FY2025 projection has been revised downward by -0.2 percentage points (pp), the FY2026 projection upward by +0.1 pp, while the FY2027 projection is unchanged.
- ◆ In terms of contributions to growth, private demand is expected to lead, contributing +1.0 pp in FY2025, +1.0 pp in FY2026, and +1.1 pp in FY2027. Real wages are expected to recover as wage growth continues and inflation moderates. Public demand is expected to weigh on growth in FY2025 as the boost from Expo-related demand fades, but contribute positively from FY2026 onward. External demand is expected to weigh on growth in FY2025, with its contribution to growth remaining limited from FY2026 onward.
- ◆ The Japanese-language version of this report features two analyses: "The Impact of a Zero Consumption Tax Rate on Food Products on the Kansai Economy."

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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 Summary

	FY	Kansai					Japan				
		2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure		▲ 0.1	0.6	1.3	1.2	1.0	▲ 1.0	0.2	1.3	0.9	1.2
Private residential investment		2.9	2.7	▲ 5.9	▲ 0.3	▲ 0.3	1.8	▲ 0.7	▲ 3.2	▲ 0.0	▲ 0.1
Private non-residential capital investment		2.9	2.6	3.2	2.7	2.7	▲ 0.1	0.8	1.5	2.2	2.6
Government final consumption expenditure		▲ 1.8	1.6	0.7	0.7	0.7	▲ 0.8	2.3	0.5	0.7	0.7
Public fixed capital formation		3.0	2.5	▲ 3.0	▲ 0.2	1.2	▲ 0.1	0.1	▲ 1.9	▲ 0.8	1.2
Exports		0.7	2.0	1.9	1.2	1.2	2.9	1.6	2.1	1.3	2.4
Imports		▲ 0.5	2.6	2.6	1.4	2.0	▲ 2.3	3.2	2.9	1.7	2.4
Real GDP		0.4	0.7	0.8	1.1	1.2	▲ 0.1	0.5	0.7	0.9	1.3
Private demand (contribution)		0.2	0.5	1.1	1.0	1.1	▲ 1.0	0.4	0.9	0.8	1.1
Public demand (contribution)		▲ 0.2	0.3	▲ 0.1	0.1	0.1	▲ 0.2	0.5	▲ 0.0	0.1	0.2
Net exports (contribution)		0.4	▲ 0.1	▲ 0.1	0.0	▲ 0.0	1.1	▲ 0.4	▲ 0.1	▲ 0.1	0.0

Nominal GDP	5.7	4.5	3.9	3.0	3.3	4.7	3.7	3.9	2.7	3.1
GDP deflator	5.4	3.7	3.1	1.8	2.1	4.8	3.2	3.2	1.8	1.8
Consumer price index	1.8	2.5	2.7	2.0	2.0	2.8	2.6	2.8	1.8	1.9
Industrial Production Index	▲ 3.6	▲ 1.9	▲ 1.7	0.8	1.1	▲ 1.9	▲ 1.4	0.9	0.9	1.3
Unemployment rate	2.9	2.7	2.7	2.8	2.7	2.6	2.5	2.6	2.6	2.5

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

Figures on Kansai's economy for FY 2023-24 are estimates, and figures for FY 2025-27 are forecasts. Figures on Japan's economy are official until FY 2024, and figures for FY 2025 and after are sourced from APIR's "Japanese Economy: Analysis and Forecasts No. 157".

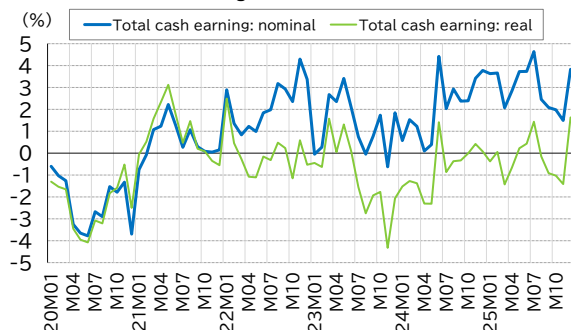
Previous Forecast

	FY	Kansai					Japan				
		2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure		▲ 0.6	0.9	1.3	1.0	1.2	▲ 1.0	0.2	1.1	0.8	1.1
Private residential investment		▲ 1.4	1.5	▲ 4.7	1.1	0.9	1.8	▲ 0.7	▲ 3.2	0.8	0.6
Private non-residential capital investment		0.3	2.4	3.8	2.2	3.1	▲ 0.1	0.9	1.8	2.1	2.8
Government final consumption expenditure		0.1	1.6	0.7	0.7	1.0	▲ 0.8	2.3	0.4	0.7	0.7
Public fixed capital formation		1.8	3.2	▲ 2.2	1.0	1.6	▲ 0.1	0.1	▲ 1.4	0.5	1.6
Exports		▲ 0.7	1.5	1.4	1.2	1.5	2.8	1.7	2.1	0.8	2.1
Imports		▲ 2.5	2.8	2.7	1.9	3.1	▲ 2.4	3.3	2.3	1.3	2.9
Real GRP/GDP		0.0	1.0	1.0	0.9	1.2	▲ 0.0	0.5	0.9	0.9	1.2
Private demand (contribution)		▲ 0.6	0.8	1.1	0.9	1.2	▲ 1.0	0.4	1.0	0.8	1.1
Public demand (contribution)		0.0	0.4	▲ 0.0	0.1	0.2	▲ 0.2	0.5	0.0	0.2	0.2
Net exports (contribution)		0.6	▲ 0.2	▲ 0.1	▲ 0.1	▲ 0.2	1.2	▲ 0.4	▲ 0.0	▲ 0.1	▲ 0.1

Source: Both the table above and the table below were prepared by the author.

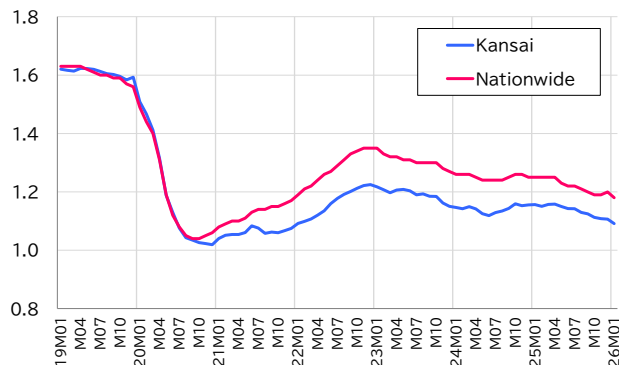
Forecasts at a Glance

【Total cash earnings in nominal and real terms】



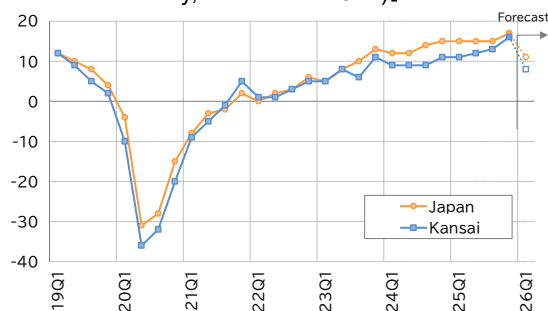
Source: Ministry of Health, Labour and Welfare of Japan

【Effective job offers-to-applicants ratio】



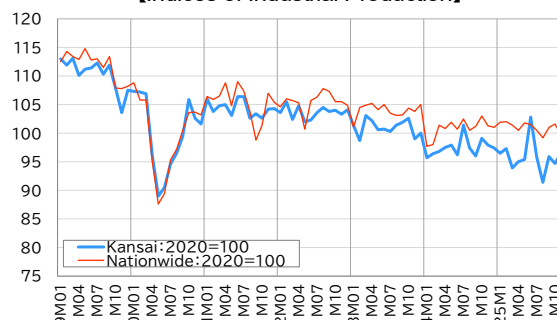
Source: Ministry of Health, Labour and Welfare of Japan

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



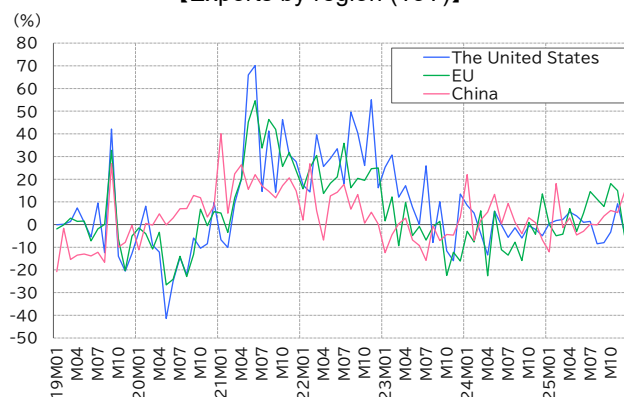
Source: Bank of Japan, Osaka Branch

【Indices of Industrial Production】



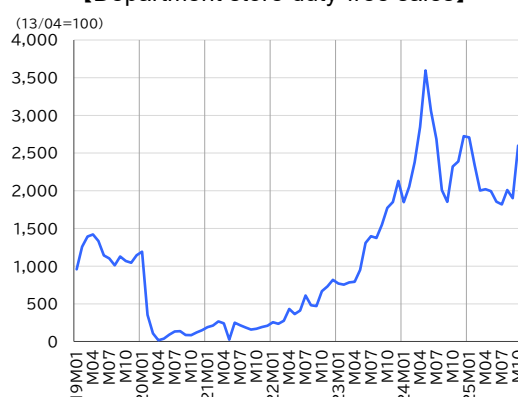
Source: Kansai Bureau of Economy, Trade and Industry

【Exports by region (YoY)】



Source: Osaka Customs

【Department store duty-free sales】



Source: Bank of Japan, Osaka Branch