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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 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

Growth at a moderate pace, but high uncertainty about the future

Concerns are over rising prices and the deteriorating situation in the Middle East

- The Kansai Economy in Q1 2026 continues to maintain moderate growth, but the outlook is becoming increasingly uncertain, and the economy lacks momentum. While there are supporting factors such as improvements in real wages and strong exports driven by global demand for AI related semiconductors, growing concerns over rising prices and the deteriorating situation in the Middle East are leading to signs of weakness.
- The household sector showed resilience, with retail sales and real wages remaining in positive territory. However, consumer sentiment is deteriorating rapidly amid concerns over the worsening situation in the Middle East, high crude oil prices, and rising inflation. Weakness also persists in the employment environment, as indicated by the job openings-to-applicants ratio.
- The corporate sector continues to maintain relatively high levels of business sentiment and capital investment plans. While production continues to show signs of recovery, a slowdown is evident on a monthly basis, and the pace of production growth appears to be leveling off
- In the external sector, exports of goods, particularly AI related semiconductor products, remain at high levels. On the other hand, in the inbound tourism sector, the impact of the decline in Chinese visitors continues, and weak trends are evident in the number of foreign visitors and duty-free sales at department stores.
- In the public sector, both contract values and completed works are down YoY, reflecting a weaker performance compared to the national average.
- We forecast Kansai's real GRP growth rate at +0.7% for FY2026 and +1.0% for FY2027. Assuming that the downward pressure on the economy caused by instability in the Middle East and high crude oil prices will subside soon, the economy is expected to continue its gradual recovery. Compared to the previous forecast, this projection incorporates the difficulties in procuring resources and raw materials, as well as higher costs resulting from the deterioration of the situation in the Middle East, leading to downward revisions of -0.4%pt for FY2026 and -0.2%pt for FY2027.
- By demand category, private demand will lead growth, rising by 0.7%pt in FY2026 and 0.8%pt in FY2027. Both private consumption and corporate capital investment are expected to remain firm. Public demand will contribute +0.1%pt to growth in both FY2026 and FY2027, providing a modest boost. External demand will act as a drag on growth, with a -0.2%pt impact in FY2026, and its contribution in FY2027 will be limited.
- The Japanese-language version of this report features two analyses: "The impact of persistently high crude oil prices on the Kansai economy" and "Preliminary estimates of GRP for Kansai prefectures."

Forecast Summary

	Kansai					Japan				
FY	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure	▲ 0.1	0.8	1.3	0.9	1.0	▲ 1.0	0.1	1.2	0.6	0.8
Private residential investment	6.7	2.7	▲ 3.5	0.4	▲ 0.5	1.8	▲ 0.7	▲ 3.5	0.7	▲ 0.3
Private non-residential capital investment	1.4	2.3	3.2	1.7	2.1	▲ 0.1	0.8	2.4	1.6	1.8
Government final consumption expenditure	▲ 1.9	1.6	0.7	0.7	0.7	▲ 0.8	2.3	0.8	0.8	0.7
Public fixed capital formation	2.1	2.5	▲ 3.0	0.3	1.2	▲ 0.1	0.1	▲ 0.6	1.5	1.1
Exports	0.6	2.4	1.8	0.3	2.2	3.1	2.7	1.9	▲ 0.3	2.1
Imports	▲ 0.3	2.7	2.6	1.1	2.4	▲ 2.2	4.0	2.6	1.2	2.3
Real GDP	0.4	1.0	0.8	0.7	1.0	▲ 0.0	0.5	0.8	0.5	1.0
Private demand (contribution)	0.1	0.6	1.1	0.7	0.8	▲ 1.0	0.4	0.8	0.6	0.8
Public demand (contribution)	▲ 0.3	0.3	▲ 0.1	0.1	0.1	▲ 0.2	0.5	0.1	0.2	0.2
Net exports (contribution)	0.6	0.0	▲ 0.2	▲ 0.2	0.0	1.2	▲ 0.3	▲ 0.2	▲ 0.3	▲ 0.0

Nominal GDP	5.9	4.7	4.2	1.7	4.2	4.7	3.7	4.2	1.7	3.9
GDP deflator	5.5	3.7	3.4	1.0	3.1	4.8	3.2	3.4	1.1	2.9
Consumer price index	1.8	2.5	2.8	2.4	2.5	2.8	2.6	2.8	2.4	2.4
Industrial Production Index	▲ 3.6	▲ 1.9	▲ 0.2	0.6	1.1	▲ 1.9	▲ 1.5	▲ 0.2	0.4	1.1
Unemployment rate	2.9	2.7	2.8	2.9	2.8	2.6	2.5	2.6	2.7	2.6

Notes: Unit= %. All figures except ‘Unemployment rate’ are YoY growth rates.
Figures on Kansai’s economy for FY 2023-25 are estimates, and figures for FY 2026-27 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. 158”.

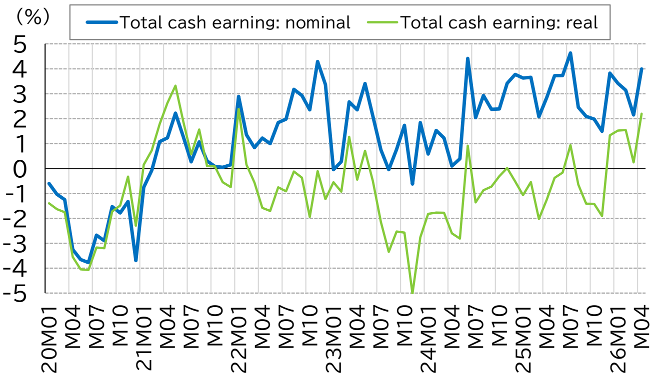
Previous Forecast

	Kansai					Japan				
FY	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure	▲ 0.1	0.8	1.3	1.1	1.2	▲ 1.0	0.2	1.3	0.9	1.2
Private residential investment	2.9	2.7	▲ 5.9	0.1	0.0	1.8	▲ 0.7	▲ 3.2	▲ 0.0	▲ 0.1
Private non-residential capital investment	2.1	2.5	3.0	2.6	2.8	▲ 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	0.6	1.9	1.9	1.1	1.5	2.9	1.6	2.1	1.3	2.4
Imports	▲ 0.4	2.7	2.5	1.7	2.4	▲ 2.3	3.2	2.9	1.7	2.4
Real GRP/GDP	0.4	0.8	0.8	1.0	1.2	▲ 0.1	0.5	0.7	0.9	1.3
Private demand (contribution)	0.1	0.6	1.0	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)	0.6	▲ 0.1	▲ 0.1	▲ 0.1	▲ 0.1	1.1	▲ 0.4	▲ 0.1	▲ 0.1	0.0

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

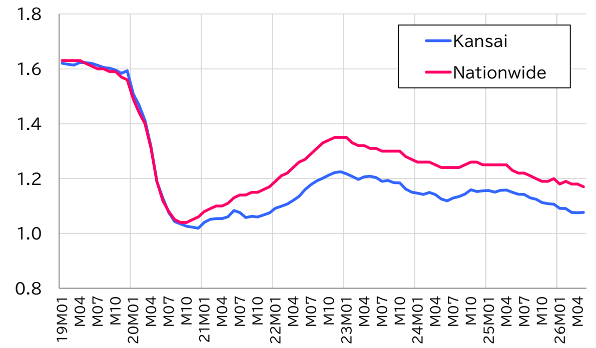
Forecasts at a Glance

【Total cash earnings in nominal and real terms】



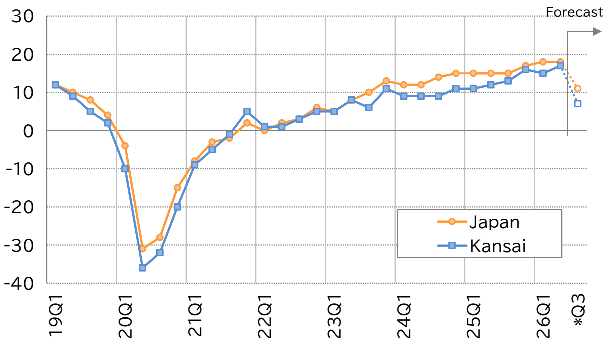
Source: Ministry of Health, Labour and Welfare of Japan

【Effective job offers-to-applicants ratio】



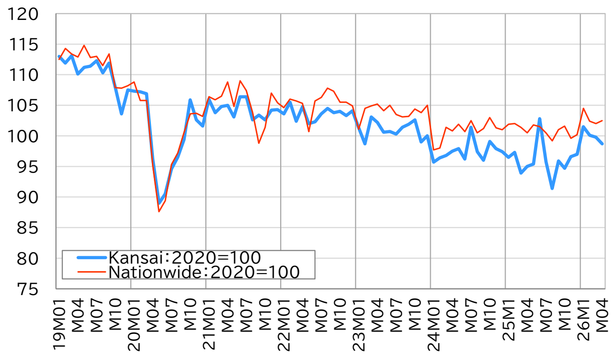
Source: Ministry of Health, Labour and Welfare of Japan

【Business Conditions DI (Bank of Japan Tankan Survey, June 2026)】



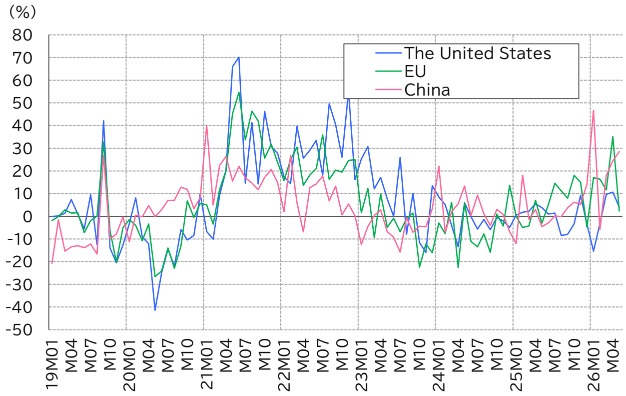
Source: Bank of Japan, Osaka Branch

【Indices of Industrial Production】



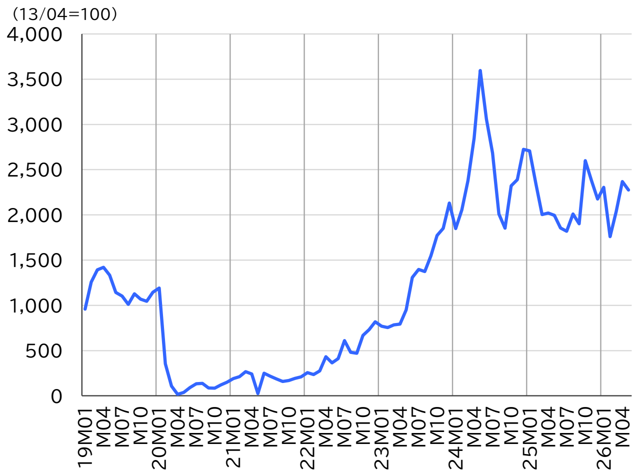
Source: Kansai Bureau of Economy, Trade and Industry

【Exports by region (YoY)】



Source: Osaka Customs

【Department store duty-free sales】



Source: Bank of Japan, Osaka Branch