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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, Center for Quantitative Economic Analysis(CQEA), Asia Pacific Institute of Research and Professor emeritus, 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.

Index

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

Forecast Highlights

Kansai Economy Resilient, but Outlook Uncertain

Growth to Hold at Around 1% in FY2026–FY2027 as Gradual Recovery Continues

- Kansai economy in Q2 2026: The Kansai economy remained resilient, led by the corporate sector. Production and exports remained solid, while business investment appetite stayed strong. In the household sector, real wages and retail sales held up well, although consumer confidence and employment remained weak. The pace of recovery varied across sectors, with inbound tourism falling below the previous year's level amid a decline in Chinese visitors.
- Household Sector: Household income and consumption remained relatively firm, with sales at large retailers exceeding year-earlier levels for the fourth consecutive quarter and real wages staying in positive territory. However, consumer confidence deteriorated sharply for the first time in four quarters, while labor market conditions remained soft, as the job openings-to-applicants ratio stayed at a low level.
- Corporate Sector: The recovery in the corporate sector became more evident. Production increased for the third consecutive quarter, and the inventory cycle remained in a recovery phase. Although business sentiment varied depending on the timing of the surveys, the Bank of Japan's Tankan survey continued to show solid levels of business confidence. Firms also maintained a strong appetite for investment, with capital spending plans for FY2026 pointing to robust growth.
- External Sector: Goods exports to the United States, the EU, and Asia all increased year on year, with exports of semiconductors and other electronic components to Asia, particularly China, posting strong growth. Inbound tourism, however, declined year on year due to a drop in Chinese visitors. Despite this, duty-free sales at department stores rose for the first time in five quarters, supported by higher spending per visitor amid the weaker yen.
- Public Sector: Public works activity showed signs of recovery from the weakness following the completion of Expo-related construction projects. The value of completed public works increased year on year for the first time in ten quarters.
- Kansai Growth Outlook: We forecast real GRP growth of 1.0% in FY2026 and 1.1% in FY2027. As downward pressures from tensions in the Middle East and higher crude oil prices gradually ease, the Kansai economy is expected to remain on a moderate recovery path. Compared with our previous forecast, we have revised our growth projections upward by 0.3 percentage points for FY2026 and 0.1 percentage points for FY2027, respectively.
- By Demand Component: In FY2026, private demand, public demand, and external demand are each expected to contribute 0.4, 0.3, and 0.3 percentage points, respectively, to growth. In FY2027, private demand is expected to be the main driver of growth, contributing 1.0 percentage point, as private consumption and business investment remain firm. Public demand is also expected to make a modest contribution of 0.2 percentage points, while external demand is projected to become a drag on growth.
- The report in Japanese will feature two topics: "The Impact of Naphtha Supply Shortages on the Kansai Economy" and "Rare Earth Supply Constraints and the Kansai Economy."

Forecast Summary

	Kansai					Japan				
FY	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure	▲ 0.1	0.7	1.2	0.6	1.1	▲ 1.0	0.1	1.3	0.5	1.0
Private residential investment	6.7	1.9	▲ 1.6	0.3	0.7	2.0	▲ 0.4	▲ 2.6	0.1	0.3
Private non-residential capital investment	1.4	2.3	3.3	0.5	2.4	0.8	1.8	2.3	▲ 0.4	3.0
Government final consumption expenditure	▲ 1.9	1.6	0.7	1.5	1.0	▲ 0.8	2.3	0.8	2.4	0.7
Public fixed capital formation	2.2	2.0	▲ 3.4	0.6	1.2	▲ 0.1	0.1	▲ 0.3	1.0	1.1
Exports	0.6	2.1	2.0	1.4	2.4	3.1	2.7	2.0	2.4	2.2
Imports	▲ 0.4	2.7	2.7	1.0	3.2	▲ 2.2	4.0	2.5	0.9	3.4
Real GDP	0.4	0.8	0.9	1.0	1.1	0.1	0.7	0.9	0.9	1.2
Private demand (contribution)	0.1	0.5	1.1	0.4	1.0	▲ 0.8	0.5	0.9	0.2	1.1
Public demand (contribution)	▲ 0.3	0.3	▲ 0.1	0.3	0.2	▲ 0.2	0.5	0.1	0.4	0.2
Net exports (contribution)	0.6	0.0	▲ 0.1	0.3	▲ 0.1	1.2	▲ 0.3	▲ 0.1	0.3	▲ 0.2
Nominal GDP	5.3	4.6	4.3	3.7	3.0	4.9	4.0	4.3	3.3	3.1
GDP deflator	4.9	3.7	3.4	2.7	1.8	4.8	3.2	3.3	2.3	1.9
Consumer price index	1.8	2.5	2.8	2.3	1.2	2.8	2.7	2.7	2.3	1.2
Industrial Production Index	▲ 3.6	▲ 1.8	▲ 0.2	0.8	0.3	▲ 1.9	▲ 1.5	▲ 0.2	1.5	0.7
Unemployment rate	2.9	2.7	2.8	2.7	2.5	2.6	2.5	2.6	2.5	2.4

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 2025, and figures for FY 2025 and after are sourced from APIR’s ”Japanese Economy: Analysis and Forecasts No. 159”.

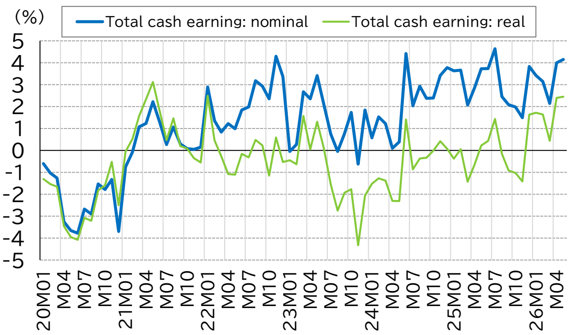
Previous Forecast

	Kansai					Japan				
FY	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Private final consumption expenditure	▲ 0.1	0.8	1.3	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 GRP/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

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

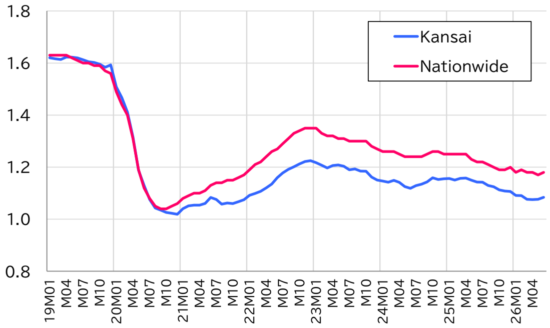
Forecasts at a Glance

【Total cash earnings in nominal and real terms】



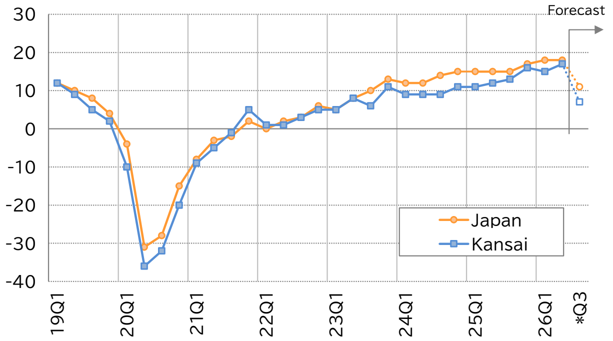
Source: Ministry of Health, Labour and Welfare of Japan

【Effective job offers-to-applicants ratio】



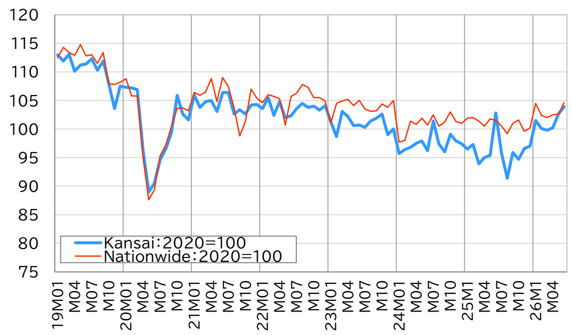
Source: Ministry of Health, Labour and Welfare of Japan

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



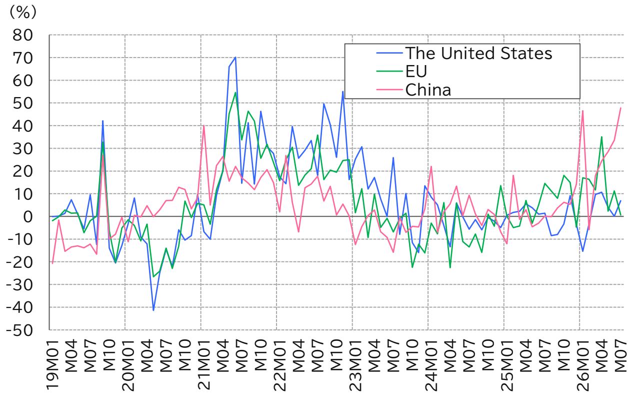
Source: Bank of Japan, Osaka Branch

【Indices of Industrial Production】



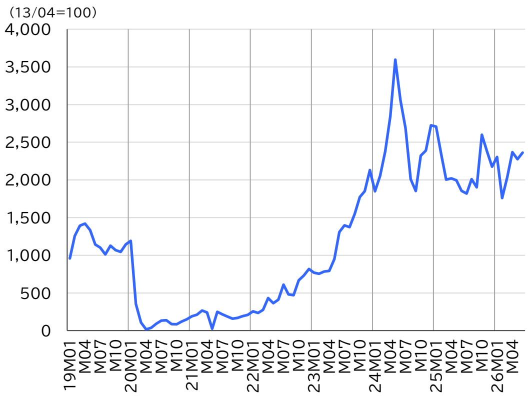
Source: Kansai Bureau of Economy, Trade and Industry

【Exports by region (YoY)】



Source: Osaka Customs

【Department store duty-free sales】



Source: Bank of Japan, Osaka Branch