

Section 3

THE KANSAI ECONOMY: RECENT DEVELOPMENTS AND SHORT-TERM OUTLOOK

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1. A Retrospective of the Kansai Economy in FY2024 and the First Half of FY2025

In FY2024, the Kansai economy recovered moderately overall. However, the recovery lacked strength, and some weak developments were observed. Entering FY2025, the economy rebounded and remained steady, supported by favorable factors such as the opening of the Osaka–Kansai Expo. In the latter half of the fiscal year, however, uncertainty has intensified due to factors including the dissipation of Expo-related demand and the deterioration of relations with China.

(1) Household Sector

In FY2024, the household sector in the Kansai region showed some signs of improvement; however, overall developments lacked strength. Rising prices continued to weigh on households, and consumer sentiment in particular remained on a declining trend. Sales at large-scale retail stores exceeded the previous year's level, supported by inbound demand and higher prices, but some weakness has been observed in the first half of FY2025. Although nominal wages increased, they did not keep pace with the rate of price increases, and real wages remained negative. In terms of employment, restraint in job openings continued.

Consumer Sentiment

Consumer sentiment continued to deteriorate against the backdrop of rising prices (Figure 3-3-1). The Consumer Confidence Index (CCI) for FY2024 stood at 35.8, down 1.0 point from the previous fiscal year, marking a deterioration for the first time in two years. On a monthly basis, the CCI gradually declined from 37.8 in April 2024 to 31.2 in April 2025. Although the index has shown signs of improvement since the start of FY2025, it remains below its pre-pandemic level, and the pace of recovery has been sluggish.

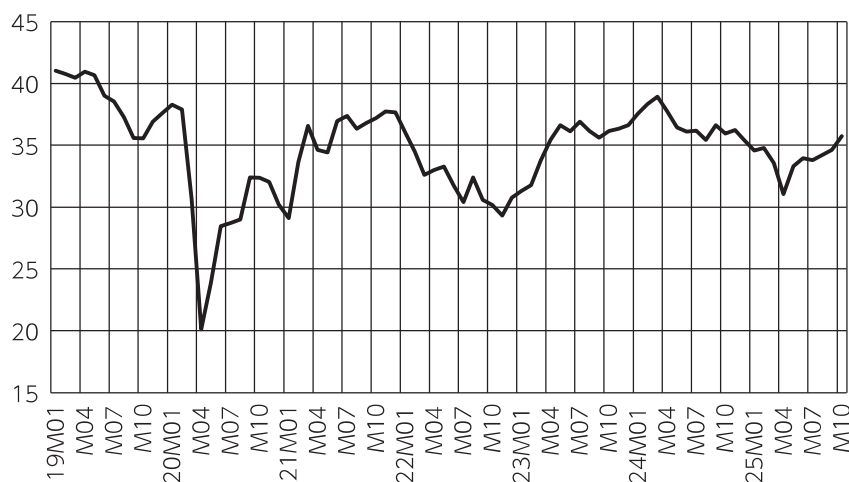


Figure 3-3-1 Consumer Confidence Index

Source: Prepared by the authors based on the Cabinet Office, “Consumer Confidence Survey”

Large-scale Retail Store Sales

Large-scale retail store sales remained favorable in FY2024 and continued to exceed the previous year’s level; however, entering FY2025, they showed somewhat weaker developments (Figure 3-3-2). In FY2024, sales totaled 4.1803 trillion yen, up 4.1% from the previous fiscal year, marking the fourth consecutive year of year-on-year growth. Looking at the breakdown, department store sales amounted to 1.7586 trillion yen, an increase of 7.8% from the previous fiscal year, also recording growth for the fourth consecutive year.

In FY2024, inbound tourism demand remained strong, and sales expanded mainly for high-priced items, including cosmetics and precious metals. At the

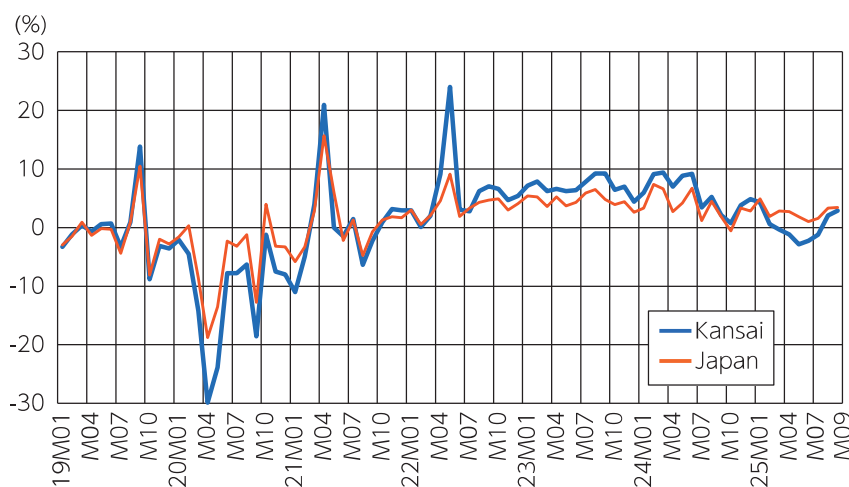


Figure 3-3-2 Department Store and Supermarket Sales: YoY

Source: Kansai Bureau of Economy, Trade and Industry, “Department Store and Supermarket Sales”

beginning of 2025, tax-free sales turned downward and showed weak developments; however, from fall onward, sales rebounded, supported by factors such as victory sales following the Hanshin Tigers' championship and the effects of the Osaka–Kansai Expo. Supermarket sales amounted to 2.4218 trillion yen, up 1.6% from the previous fiscal year, exceeding the previous year's level for the second consecutive year. Price increases for food products, which constitute the core of supermarket sales, contributed to the rise in sales value.

Income Environment

The income environment improved on a nominal basis, exceeding the previous year's level amid a growing momentum for wage increases; however, on a real basis, which takes into account the effects of price changes, it showed mixed developments (Figure 3-3-3).

In FY2024, the average monthly total cash earnings in the Kansai region (APIR estimates) amounted to 337,378 yen. This represented an increase of 4.3% from the previous fiscal year, marking the fourth consecutive year of year-on-year growth. By contrast, real wages, which exclude the effects of price fluctuations, declined by 1.0% from the previous fiscal year, recording a decrease for the third consecutive year.

On a monthly basis, total cash earnings have continued on an upward trend since FY2024. Although real wages turned positive in some months, they remained negative in many others. From FY2024 through the first half of FY2025, the pace of wage increases has struggled to keep up with rising prices.

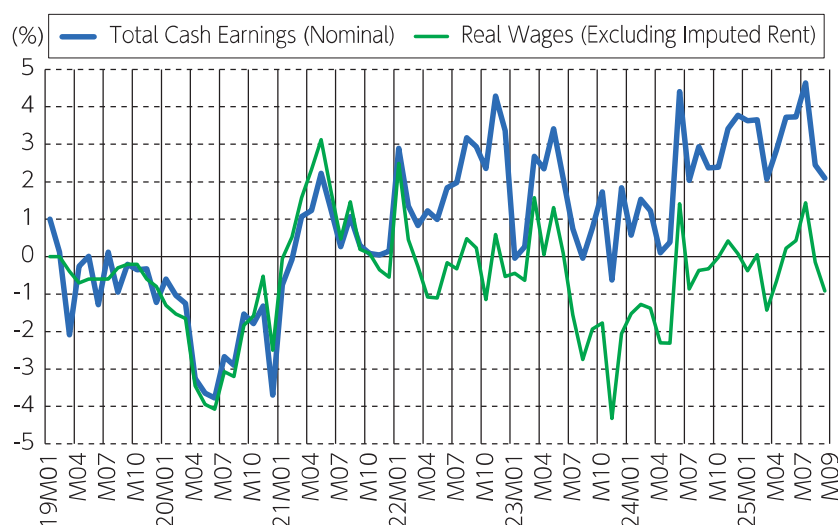


Figure 3-3-3

Total Cash Earnings and Real Wages in Kansai

Source: Prepared by the authors based on the Ministry of Health, Labour and Welfare, "Monthly Labour Survey," etc.

Employment Environment

The employment environment showed weak developments as restraint in job openings continued (Figure 3-3-4). In FY2024, the active job openings-to-applicants ratio in the Kansai region declined by 0.03 point from the previous fiscal year to 1.14, marking a deterioration for the second consecutive year. Amid rising prices and higher costs, firms—particularly in the manufacturing and construction sectors—refrained from posting job openings, while the expansion of labor-saving investment also exerted an influence. Even after entering FY2025, the downward trend has yet to be arrested, and developments have remained weak.

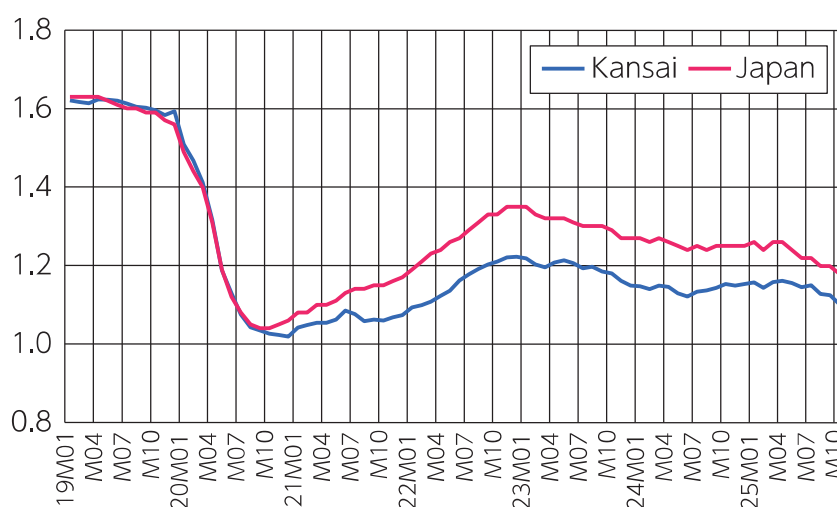


Figure 3-3-4 Active Job Openings-to-Applicants Ratio (Seasonally Adjusted)

Source: Ministry of Health, Labour and Welfare, "Employment Referrals for General Workers"

(2) Corporate Sector

The corporate sector showed signs of recovery; however, the momentum varied across industries.

In the manufacturing sector, production trends remained subdued due to the impact of certification misconduct issues at automobile manufacturers, and weakness has persisted even after entering FY2025. Business sentiment remained in positive territory, but developments were mixed.

By contrast, in the non-manufacturing sector, business sentiment stayed at a high level and remained stable, indicating solid conditions. Capital investment increased in both the manufacturing and non-manufacturing sectors in FY2024, and robust growth is expected in FY2025.

Industrial production has continued to show weak developments over the past several years (Figure 3-3-5). In FY2024, the industrial production index stood at 97.4 (2020 = 100, original series), down 1.9% from the previous fiscal

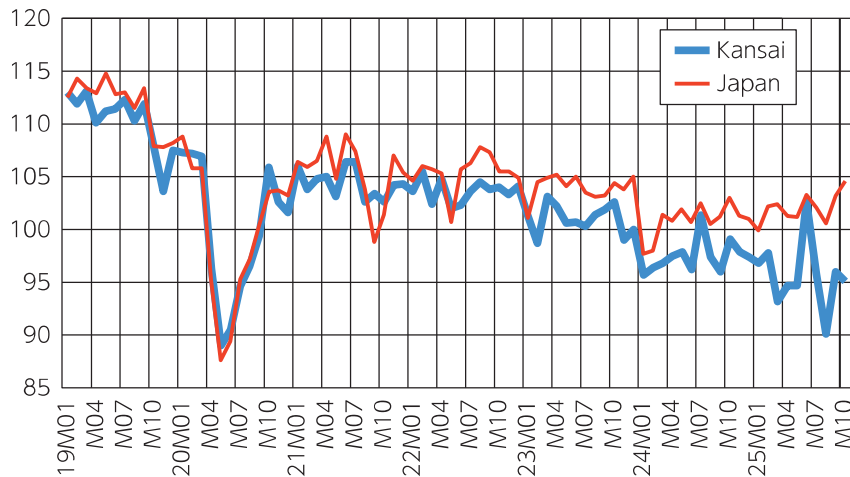


Figure 3-3-5

Indices of Industrial Production in the Kansai Region (Seasonally Adjusted, 2020 = 100)

Source: Prepared by the authors based on Kansai Bureau of Economy, Trade and Industry, "Indices of Industrial Production in the Kansai Region"

year, marking the third consecutive year of decline. In particular, in FY2024, production stoppages associated with certification misconduct issues at automobile manufacturers spread across a wide range of industries—including general machinery, inorganic and organic chemicals, and electrical machinery—thereby exerting downward pressure on production. Looking at monthly developments on a seasonally adjusted basis, industrial production has generally trended downward from FY2024 through the first half of FY2025, despite some fluctuations. In August 2025, the index fell to 90.1, the second-lowest level since the COVID-19 pandemic, following the 89.0 recorded in May 2020 when a state of emergency was declared. Compared with the national average, Kansai experienced a more pronounced decline, exceeding the nationwide year-on-year decrease of 1.4%, highlighting the weakness of production trends in the region.

Business Confidence

Business confidence has been generally firm, although the pace of recovery has differed between the manufacturing and non-manufacturing sectors. According to the Bank of Japan's Osaka Branch Tankan survey published in December 2025, the DI stood at +15 (Figure 3-3-6). This index has remained in positive territory for 17 consecutive quarters since the December 2021 survey. From FY2024 to FY2025, it maintained a high level, reflecting continued underlying strength. By industry, clear differences in both the level and trends of business confidence are observed between the manufacturing and non-manufacturing sectors. In manufacturing, the recovery since FY2024 has been gradual, showing a back-and-forth pattern, remaining slightly positive. In contrast, the non-manufacturing sector has consistently remained at a high level, well above that of manufacturing.

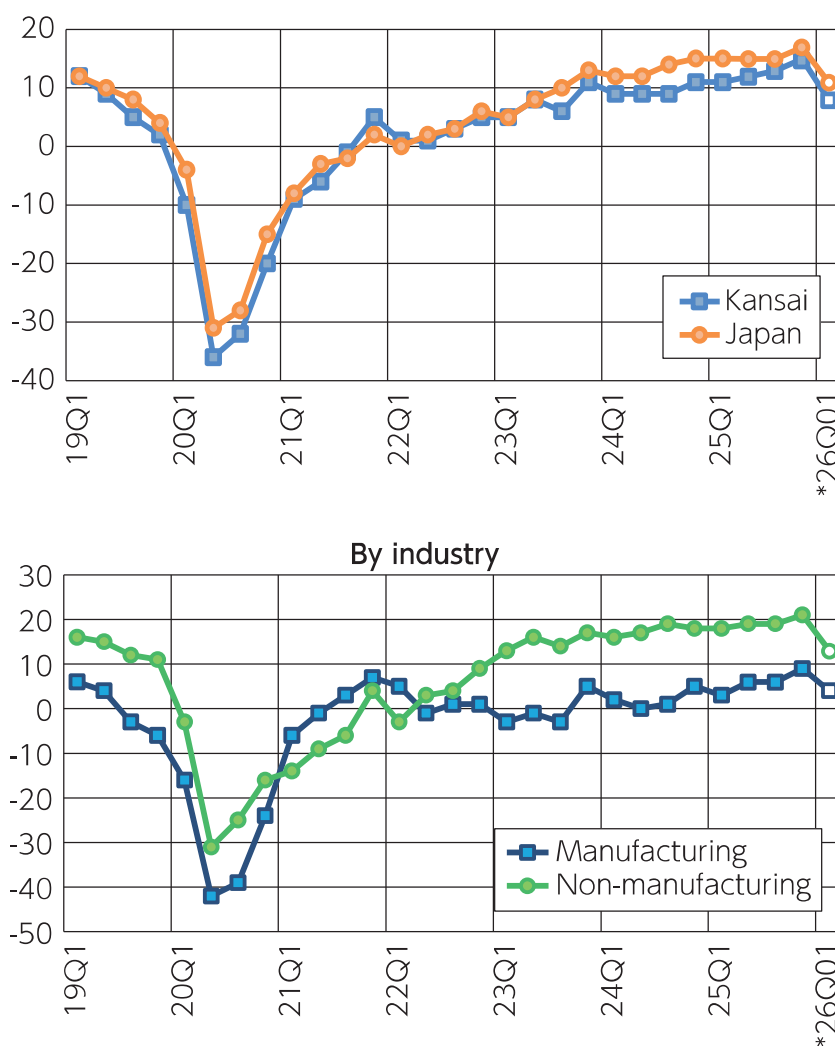


Figure 3-3-6

DI for Business Conditions in the Bank of Japan's Tankan Survey
(December 2025, All Sizes, All Industries)

Note: * indicates forecasts.

Source: Prepared by the authors based on Bank of Japan's Osaka Branch, "Tankan: Short-term Economic Survey of Enterprises"

Capital Investment

Capital investment is set to increase sharply in FY2025 from the previous fiscal year, outpacing the national average (Table 3-3-1). According to the Bank of Japan's Tankan survey, planned capital investment by Kansai firms in FY2025 (all firm sizes and all industries) increased by 12.3% year on year. This represents a further acceleration from FY2024, when capital investment rose by 6.1% from the previous year. By industry, capital investment is planned to increase by 7.5% in manufacturing and by 16.3% in non-manufacturing, indicating strong growth in both sectors. Nationwide, capital investment plans show an increase of 8.9%, reflecting a strong investment stance similar to that observed in FY2024 (up 7.5% year on year); however, planned investment growth in the Kansai region exceeds the national level.

Table 3-3-1 BOJ Tankan: Planned Capital Investment (Year-on-Year Change, %)

	Kansai			Japan		
	All industries	Manufacturing	Non-manufacturing	All industries	Manufacturing	Non-manufacturing
FY24	6.1	9.2	3.9	7.5	7.3	7.6
FY25(Plan)	12.3	7.5	16.3	8.9	14.0	6.0

Source: Bank of Japan’s Osaka Branch, “Tankan: Short-term Economic Survey of Enterprises (Kansai Region)”

(3) External Sector

The external sector is examined by dividing it into trade in goods and exports of services (inbound tourism demand). Trade in goods saw increases in both exports and imports for the first time in two years. Exports to Asia performed well, particularly to ASEAN economies, led by strong shipments of semiconductor-related products. As for service exports, the number of inbound foreign visitors has continued to increase; however, the appreciation of the yen has led to a decline in spending per visitor, resulting in a slowdown in the growth of duty-free sales.

Trade in Goods

In trade in goods, both exports and imports performed steadily, with the total value of exports reaching a record high on a fiscal-year basis, while imports recorded the second-highest level on record (Figure 3-3-7). Exports amounted to 21.9 trillion yen, an increase of 3.8% year on year, marking the first rise in two years. This growth was driven by increased exports of semiconductor-related components and

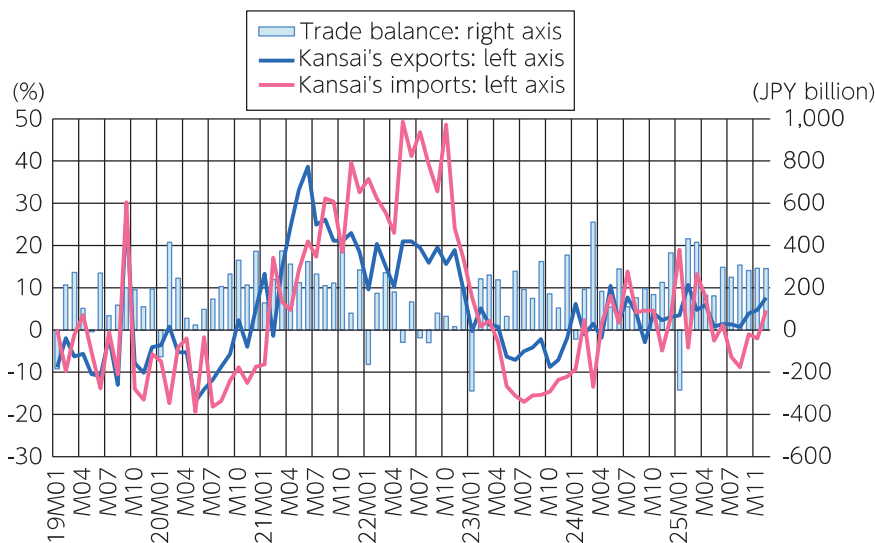


Figure 3-3-7 Exports, Imports, and Trade Balance

Source: Osaka Customs, “Trade Statistics of Kansai”

manufacturing equipment to ASEAN economies. Imports totaled 19.5 trillion yen, up 5.3% year on year, also posting a year-on-year increase for the first time in two years. As a result, Kansai recorded a trade surplus for the tenth consecutive year.

Looking at exports by major destination, shipments to Asia increased year on year for the first time in two years, while exports to both Europe and the U.S. declined from the previous year (Figure 3-3-8). Exports to the U.S. totaled 3.5 trillion yen, down 2.2% year on year, marking the first decline in four years. Exports to the European Union (EU) amounted to 2.0 trillion yen, recording a year-on-year decrease for the second consecutive year. For both the U.S. and the EU, exports of construction and mining machinery as well as amusement equipment declined.

By contrast, exports to Asia reached 14.0 trillion yen, the highest level on a fiscal-year basis, rising 6.7% year on year and posting an increase for the first time in two years. In particular, exports of semiconductor-related electronic components to ASEAN economies performed strongly.

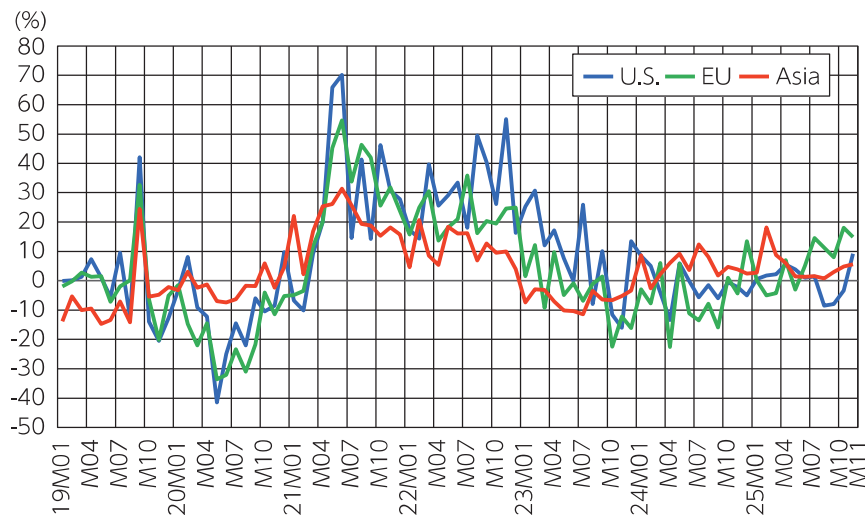


Figure 3-3-8 Exports by Region(YoY)

Source: Osaka Customs, "Trade Statistics of Kansai"

Inbound Tourism Demand

Inbound tourism demand continued to show a steady recovery following the previous year. In FY2024, the number of inbound foreign visitors to Japan reached 38.66 million nationwide, of which 9.90 million entered the country via Kansai International Airport (Figure 3-3-9). The number of inbound foreign visitors to the Kansai region increased by 31.4% year on year, marking the third consecutive annual increase, reflecting the continued expansion of inbound foreign tourism demand.

On a monthly basis, the number of inbound foreign visitors reached 992,000

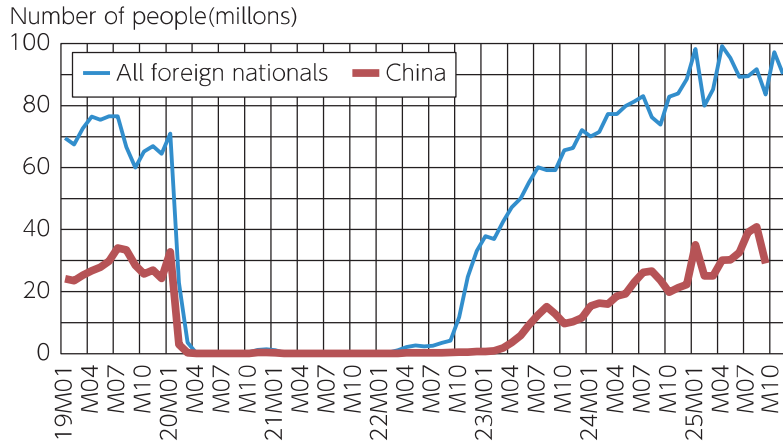


Figure 3-3-9 Number of Foreign Visitors to Japan via Kansai International Airport

Source: Ministry of Justice, “Immigration Control Statistical Table”

in April 2025; however, growth has moderated somewhat thereafter. By nationality, visitors from China totaled 2.86 million and those from South Korea 2.48 million, with these two countries accounting for more than half of the total. Although the recovery in inbound foreign visitors from China lagged behind following the COVID-19 pandemic, numbers have gradually increased, exceeding 400,000 in a single month for the first time in August 2025. From the latter half of FY2025 onward, however, inbound foreign visitors from China are expected to decline, reflecting the impact of travel restraint advisories issued by the Chinese government regarding travel to Japan.

In addition, duty-free sales at department stores continued to perform steadily in FY2024; however, growth was moderated due to exchange rate effects (Figure 3-3-10). According to the Bank of Japan’s Osaka Branch, duty-free

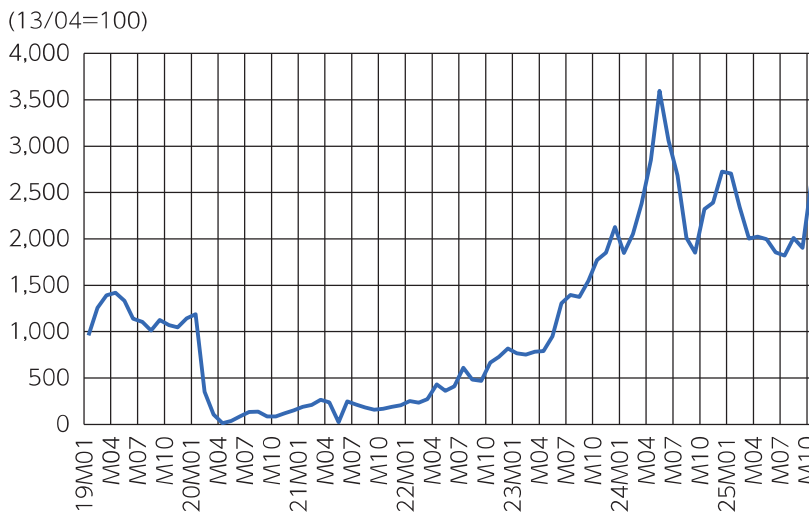


Figure 3-3-10 Department Store Duty-free Sales(April 2013=100)

Source: Prepared by the authors based on Bank of Japan, Osaka Branch, “Department Store Duty-Free Sales (Kansai Region)”

sales at department stores in the Kansai region increased by 57.4% year on year in FY2024, representing strong growth, although this marked a slowdown compared with the sharp increase recorded in the previous year (up 166.0%). The appreciation of the yen led to a decline in spending per purchase, resulting in some moderation in growth.

(4) Public Sector

The public sector (public works) in the Kansai region showed notable signs of weakness, reflecting the waning of demand related to the Expo. In FY2024, public construction expenditure on a work-completed basis amounted to 3.2 trillion yen, increasing by 4.7% year on year and posting an increase for the first time in two years (Figure 3-3-11). However, on a monthly basis, the pace of growth has clearly slowed, and since the latter half of FY2024, expenditures have continued to fall below the previous year's level. This is considered to reflect the dissipation of Expo-related demand.

Nationwide, public construction expenditure totaled 24.5 trillion yen, up 4.0% year on year, and is projected to remain relatively stable from FY2025 onward, in contrast to the trend observed in the Kansai region.

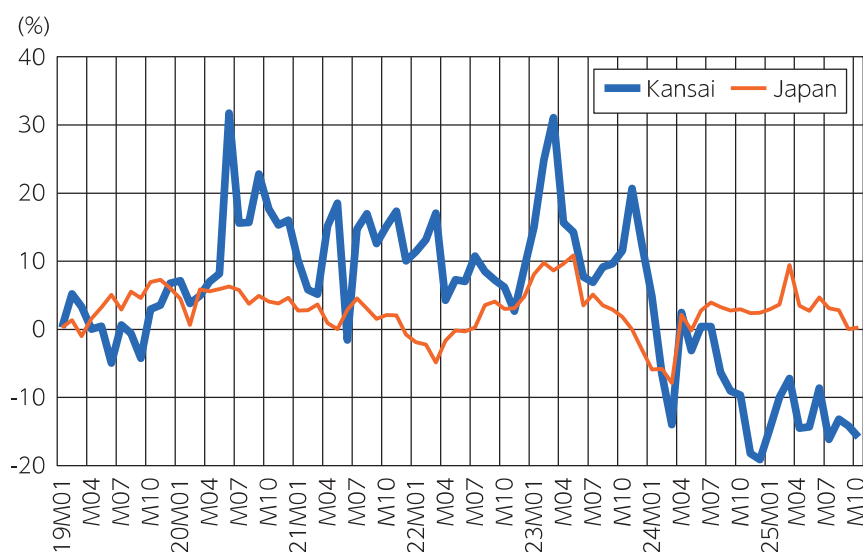


Figure 3-3-11 Volume of Completed Public Works (YoY)

Source: Ministry of Land, Infrastructure, Transport and Tourism, "Current Survey of Construction Statistics"

2. Kansai Economic Forecast: FY2026-2027

Section 3.2 presents the economic outlook for the Kansai region for FY2026–FY2027, incorporating the latest economic indicators from within and outside the region, including the second preliminary GDP estimates for the July–September

quarter of 2025, as well as the results of forecasts for the Japanese economy.

(1) Economic Growth Forecasts: +0.9% in FY2026, +1.2% in FY2027

The real GRP growth rate of the Kansai region is forecast to be +0.9% in FY2026 and +1.2% in FY2027 (Figure 3-3-12 and Table 3-3-2). As for past performance, growth is estimated at +0.0% in FY2023, +1.0% in FY2024, and +1.0% in FY2025. From FY2024 onward, the Kansai economy is expected to maintain a moderate recovery trend, with growth remaining at around 1%.

Looking at contributions to growth, private demand is expected to account for the largest share, contributing +0.9 percentage points in FY2026 and +1.2 percentage points in FY2027. Public demand is projected to provide modest support for growth, contributing +0.1 percentage points in FY2026 and +0.2 percentage points in FY2027. By contrast, external demand is expected to detract from growth, with contributions of -0.1 percentage points in FY2026 and -0.2 percentage points in FY2027.

In comparison with the forecasts for the Japanese economy presented in Section 2, the Kansai region and the national economy are expected to follow broadly similar growth paths (Figure 3-3-13). For the Japanese economy, risks have been pointed out, including a deterioration in Japan–China relations and potential adjustments in U.S. financial markets; at the same time, expectations remain that the economic policies of the Takaichi administration will provide support.

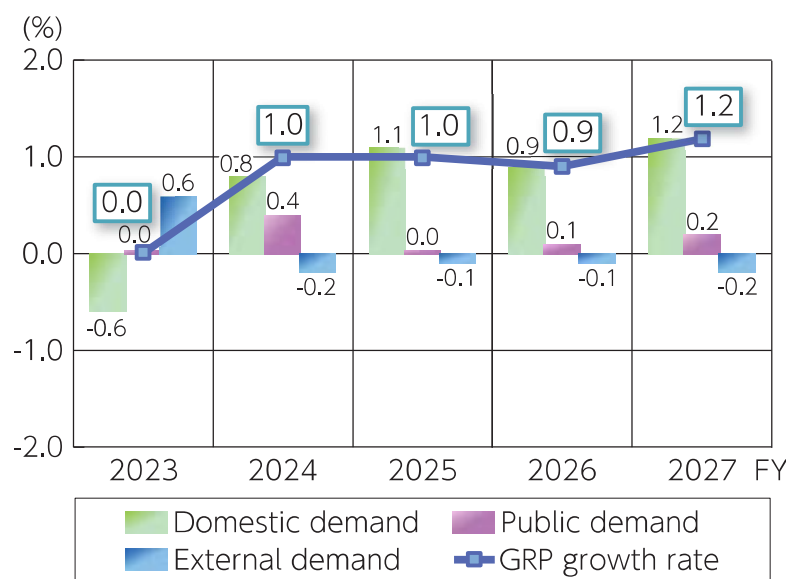


Figure 3-3-12

GRP forecast Results and Contribution to Growth

Table 3-3-2 Table of Kansai Economic Forecast Results

FY	2023	2024	2025	2026	2027
Private final consumption expenditure	▲ 0.6	0.9	1.3	1.0	1.2
Private residential investment	▲ 1.4	1.5	▲ 4.7	1.1	0.9
Private non-residential capital investment	0.3	2.4	3.8	2.2	3.1
Government final consumption expenditure	0.1	1.6	0.7	0.7	1.0
Public fixed capital formation	1.8	3.2	▲ 2.2	1.0	1.6
Exports	▲ 0.7	1.5	1.4	1.2	1.5
Imports	▲ 2.5	2.8	2.7	1.9	3.1
Real GRP	0.0	1.0	1.0	0.9	1.2
Private demand(Contribution)	▲ 0.6	0.8	1.1	0.9	1.2
Public demand(Contribution)	0.0	0.4	▲ 0.0	0.1	0.2
External demand(Contribution)	0.6	▲ 0.2	▲ 0.1	▲ 0.1	▲ 0.2
Nominal GRP	4.8	4.0	3.9	2.2	2.8
GRP deflator	4.9	3.0	2.9	1.3	1.6
Consumer Price Index	2.8	2.7	2.8	1.9	1.9
Industrial Production Index	▲ 3.1	▲ 2.4	0.7	1.8	0.9
Unemployment rate	2.9	2.7	2.9	2.9	2.8

Note: Units are in percentages. Except for the unemployment rate, figures indicate year-on-year growth rates. FY2023–25 are actual and forecast values, while FY2026–27 are forecasts.

Source: Prepared by the authors

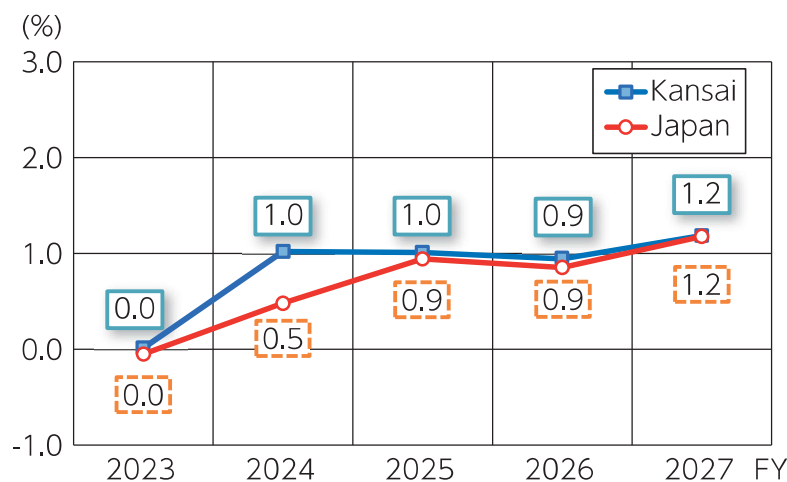


Figure 3-3-13 Economic Growth Rates in Kansai and Japan

Source: Prepared by the authors

In the Kansai region, however, the share of inbound tourism demand from China is relatively high, suggesting that any deterioration in Japan–China relations could have a more pronounced impact than at the national level.

(2) Forecasts by Sector

Private Sector

The private sector is expected to provide moderate support for economic growth. The contribution of private demand to real GRP growth is forecast at +0.9% in FY2026 and +1.2% in FY2027.

The household sector consists of real private final consumption expenditure and real private residential investment. The contribution of the household sector to real GRP growth is projected at +0.6 percentage points in FY2025 and +0.7 percentage points in FY2026.

Growth in real private final consumption expenditure is forecast at +1.0% year on year in FY2026 and +1.2% in FY2027. A moderate improvement is expected, supported by the continued momentum for wage increases and a moderation in the pace of price inflation. Growth in real private residential investment is projected at +1.1% in FY2026 and +0.9% in FY2027.

The contribution of the corporate sector to real GRP growth is forecast at +0.4 percentage points in FY2026 and +0.5 percentage points in FY2027. Growth in real private non-residential investment is projected at +2.2% in FY2026 and +3.1% in FY2027. The appetite for capital investment among Kansai firms is expected to remain strong, sustaining a high rate of growth.

Public Sector

The public sector is expected to provide a modest boost to economic growth. The contribution of public demand to real GRP growth is projected at +0.1% in FY2026 and +0.2% in FY2027, providing limited but steady support for growth.

Growth in real government final consumption expenditure is projected at +0.7% year on year in FY2026 and +1.0% in FY2027. Growth in real public gross fixed capital formation is forecast at +1.0% in FY2026 and +1.6% in FY2027. Both government consumption and public investment are expected to continue posting moderate positive growth from FY2026 onward.

External Sector (Overseas and Outside the Region)

The external sector is expected to restrain economic growth, as import growth is projected to outpace export growth. The contribution of demand from outside the region to real GRP growth is forecast to be -0.1 percentage points in FY2026 and -0.2 percentage points in FY2027.

Real exports are projected to increase by +1.2% year on year in FY2026 and by +1.5% in FY2027. In contrast, real imports are forecast to grow by +1.9% in FY2026 and by +3.1% in FY2027. As a result, the contribution of net exports to real GRP growth is expected to be -0.1 percentage points in FY2026 and -0.3

percentage points in FY2027, acting as a drag on growth.

The contribution of real net shipments to other domestic regions to real GRP growth is forecast to be +0.1 percentage points in both FY2026 and FY2027.

Employment and Income Environment

The income and employment environment is expected to remain steady.

Per capita employee income is projected to increase by +2.6% year on year in FY2026 and by +1.9% in FY2027, reflecting the continued momentum for wage increases. The growth rate of the Consumer Price Index is forecast to moderate gradually, rising by +1.9% year on year in both FY2026 and FY2027. As a result, real wage growth is expected to remain in positive territory, at +0.8% in FY2026 and +0.0% in FY2027, thereby supporting private consumption.

The unemployment rate is forecast to stand at 2.9% in FY2026 and 2.8% in FY2027, remaining broadly stable.