

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No. 34

30 May, 2017

- This report is an analysis of economic trends in the Kansai region produced by APIR's *Japanese and Kansai Economy Short-term Forecast* project team. The project team is led by the Director of the Centre for Qualitative Economic Analysis at APIR, Professor Yoshihisa Inada of Konan University. The report was written by Professor Inada, Associate Professor Hiroaki Irie (Kindai University Junior College, APIR researcher), and APIR researchers Yusuke Kinoshita, James Brady, Cao Thi Khanh Nguyet, and Yusuke Ikuta.
- In this report, 'Kansai' represents 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. References to 'Kinki' (another term for the region) in official data have been changed to 'Kansai' for consistency purposes.
- Forecasts are made using APIR's original Kansai economy forecast model, and are supervised by Professors Inada and Irie.

Index

Overview

Summary of Forecast Results

Overview

Kansai economy expected to make strong recovery thanks to positive domestic and external demand

1. In 2017Q1, the Japanese real GDP (first preliminary estimate) grew 0.5% from the previous quarter, or 2.2% in terms of annualized rate. This was the fifth consecutive quarter of positive growth, with the growth rate continuing to exceed the potential growth rate. Domestic and external demand made a well-balanced contribution to growth, with domestic demand contributing +1.5%pts and external demand contributing +0.6%pts.
2. For the Kansai economy, external and domestic demand made positive contributions in 2017Q1, raising expectations that the Kansai economy will make a strong recovery in upcoming months. Both the household and corporate sectors returned to growth. The external sector, and in particular exports and imports to and from Asia, also improved, and Kansai's trade balance remained positive. However, public sector growth was weak, and wages once declined YoY, growing at a slower rate than the national average.
3. We forecast that Kansai's real GRP growth rate will be 1.4% in FY2017 and 1.3% in FY2018. We have revised our previous FY2017 and FY2018 forecasts up by 0.3%pts and 0.2%pts respectively to reflect improving trends in economic indicators in Q1. Also, we incorporated newly released data into our model to update our interim estimates of Kansai GRP in previous fiscal years. This new data had no effect on our forecast for FY2015 but brought our previous forecast for FY2016 growth down by 0.6%pts.
4. We forecast that in FY2017, the GRP components will make well-balanced contributions to growth, with private demand contributing 0.6%pts, public demand 0.2%pts from and external demand 0.6%pts. In FY2018, domestic and external demand will continue to lead growth, and we expect private demand to contribute 0.6%pts, and public and external demand 0.2%pts and 0.6%pts respectively.
5. The forecast growth rate for the Kansai economy was very close to the overall growth rate for Japan, but the make-up of contributors to growth differed between Japan and Kansai. Due to the sluggish recovery of wages in Kansai, private consumption's contribution to Kansai growth is lower than its national contribution, and the contribution of public demand to Kansai GRP is also lower than its contribution to Japanese GDP. However, Kansai's net exports improved thanks to strong growth in exports to Asia, and external demand's contribution is higher in Kansai than on a national level as a result.
6. We revised our interim estimates for Kansai prefectural GRP in FY2015-16. Based on this revision, we forecast that total real Kansai GRP (production side) was JPY 84.98 trillion in FY2015 and JPY 84.80 trillion in FY2016, and the real GRP growth rate was -0.06% and -0.21% in FY2015 and FY2016, respectively. While the Japanese economy continued to grow in FY2015-16, the Kansai economy was stagnant.

	FY	2015	2016	2017	2018
Kansai GRP growth (%)		0.0	0.2	1.4	1.3
Japan GDP growth (%)		1.2	1.3	1.4	1.1

Note: Forecasts for the Japanese economy sourced from APIR's *Economic Forecast and Analysis No. 112*. Figures in this table are calculated using the expenditure side method, and thus differ from forecasts made using the production side method.

Summary of Forecast Results

FY	Kansai Economy					Japanese Economy				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Household final consumption expenditure (HFCE)	- 2.6	0.1	0.2	0.2	0.5	- 2.7	0.5	0.6	0.7	0.9
Private residential investment	- 8.0	- 1.6	6.3	- 0.4	3.4	- 9.9	2.8	6.5	- 1.3	2.5
Private capital investment	- 1.0	1.0	- 2.5	3.4	1.3	2.4	0.6	2.3	1.9	2.2
Government final consumption expenditure (GFCE)	0.0	0.9	0.6	1.0	0.9	0.4	2.1	0.6	0.9	0.8
Public fixed capital formation	1.8	- 2.5	- 1.7	2.1	0.0	- 2.1	- 1.9	- 3.2	3.6	0.2
Exports	11.0	- 0.4	1.2	4.3	3.6	8.8	0.7	3.1	5.0	2.7
Imports	7.0	- 0.6	0.9	3.8	3.1	4.3	0.2	- 1.4	3.7	2.7
Real GRP/GDP	- 0.5	0.0	0.2	1.4	1.3	- 0.5	1.2	1.3	1.4	1.1
Private demand (contribution)	- 1.6	0.1	- 0.1	0.6	0.6	- 1.0	0.8	0.6	0.8	1.0
Public demand (contribution)	0.1	0.1	0.1	0.2	0.2	- 0.0	0.3	- 0.0	0.4	0.2
External demand (contribution)	1.1	- 0.1	0.3	0.6	0.6	0.6	0.1	0.7	0.2	- 0.0
Nominal GRP/GDP	2.1	1.4	0.0	1.3	2.3	2.0	2.7	1.2	1.3	2.1
GRP/GDP deflator	2.6	1.4	- 0.2	- 0.1	1.0	2.5	1.5	- 0.2	- 0.1	1.0
Consumer price index	2.7	0.0	- 0.2	0.5	0.4	2.8	- 0.0	- 0.2	0.7	0.8
Industrial Production Index	2.8	- 1.6	0.6	2.4	1.6	- 0.5	- 0.9	1.1	3.1	2.0
Total unemployment rate	4.0	3.7	3.4	3.0	3.0	3.5	3.3	3.0	2.7	2.7

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2014-15 figures are official, 2016-18 figures are APIR forecasts. Forecasts for the Japanese economy sourced from APIR's *Economic Forecast and Analysis No. 112*

Previous Forecast (30 May 2017)

FY	Kansai Economy					Japanese Economy				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Household final consumption expenditure (HFCE)	- 2.8	- 0.2	0.4	0.3	0.6	- 2.7	0.5	0.6	0.6	0.7
Private residential investment	- 6.8	- 1.9	4.0	- 0.6	1.5	- 9.9	2.7	5.9	- 1.3	1.0
Private capital investment	2.0	1.0	0.6	2.0	2.0	2.5	0.6	1.6	2.6	2.7
Government final consumption expenditure (GFCE)	0.3	0.9	0.8	1.0	0.9	0.4	2.0	0.8	1.0	0.9
Public fixed capital formation	0.0	- 2.5	0.6	2.4	0.0	- 2.1	- 2.0	- 1.7	4.1	0.0
Exports	4.4	- 0.1	0.5	2.5	2.4	8.8	0.8	2.5	3.5	3.1
Imports	1.4	- 0.2	- 0.3	2.0	1.9	4.2	- 0.2	- 1.1	2.1	2.8
Real GRP	- 0.0	- 0.0	0.8	1.1	1.1	- 0.4	1.3	1.2	1.4	1.2
Private demand (contribution)	- 1.1	- 0.1	0.4	0.4	0.6	- 1.0	0.8	0.5	0.7	1.0
Public demand (contribution)	0.1	0.1	0.2	0.3	0.2	- 0.0	0.3	0.1	0.4	0.2
External demand (contribution)	1.0	- 0.1	0.2	0.4	0.3	0.6	0.2	0.6	0.2	0.0