

Analysis and Forecasts for the Kansai Economy

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Overview

Kansai's economy set on an upward trajectory, halfway through to a full recovery - Moving toward mass vaccination and a growing domestic demand -

- 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.

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

- ◆ In 2021 Q1, Kansai's economy saw a mild recovery. However, the pace of this recovery was rather sluggish in the sectors comprising domestic demand, including the household and the corporate sectors, due to the suppression of economic activities caused by the state of emergency. Moreover, the extent of the recovery varies significantly depending on the industry and size of firms.
- ◆ Entering 2021, we saw a fourth wave of COVID-19 infections, which peaked at the end of April. Although its end is approaching, the hospitalization rate of patients in a serious condition remains high. This led to the extension of the emergency state into June.
- ◆ The rollout of vaccines started in February 2021. Mass vaccination is expected to not only reduce the number of infections, but also to bring about an improvement in the consumer sentiment, and thereby contribute to the release of pent-up consumer demand.
- ◆ The household sector remained weak, as economic activity stalled in response to the resurgence of the virus. Some indicators have improved, including the consumer sentiment, incomes and the employment environment. However, this recovery is to a certain extent a reactionary increase from the slump in 2020, making it difficult to call the trend a solid recovery.
- ◆ In the corporate sector, there is a pronounced difference between the manufacturing and non-manufacturing sectors. The former is recovering thanks to the surge in exports, the latter remains weak due to the lasting impact of the pandemic on services requiring face-to-face interaction.
- ◆ In the external sector, the recovery of exports is evident. In addition to China-bound exports, exports to the US and EU have now surpassed their 2019 levels. On the other hand, there is little hope for a recovery of demand by international visitors.
- ◆ **Our forecast for Kansai's real GRP growth is +3.6% in FY 2021, and +2.1% in FY 2022.** The recovery from the slump in FY 2020 will start in 2021, and the economy will reach its pre-pandemic level in 2022. Compared to our previous forecast (March 1), we revised down our forecast for FY 2021 (-0.2%pt). However, we revised up our estimate for FY 2022 (+0.5%pt).
- ◆ In terms of contributions to growth, we forecast that private demand will prop up GDP growth by +2.2%pt in FY 2021, and by +1.4%pt in FY 2022, making the first positive contribution since FY 2018, and turning into the engine of growth. Public demand and external demand will make positive contributions too, which will result in a well-balanced overall growth.
- ◆ As the vaccination rate goes up and the number of infections down, economic activities are expected to resume, leading to a recovery. However, the acceleration of this recovery will require economic measures that can effectively stimulate domestic demand, thereby reducing reliance on external demand. The normalization of economic activities will require a balanced sense of caution rather than overly cautious lockdown-like measures.
- ◆ The "Topics" section of the Japanese-language version of this report contains our estimates of the GRPs of Kansai's six prefectures for FY 2019 and FY 2020. All Kansai prefectures logged negative growth in FY 2020.

Forecast Summary

FY	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 0.1	▲ 0.9	▲ 6.1	3.1	1.4	0.1	▲ 1.0	▲ 6.0	2.8	1.6
Private residential investment	0.1	▲ 2.2	▲ 0.9	▲ 1.1	1.2	▲ 4.9	2.5	▲ 7.1	▲ 0.0	1.2
Private non-residential capital investment	0.6	0.6	▲ 5.2	2.8	1.8	1.0	▲ 0.6	▲ 6.9	2.1	3.1
Government final consumption expenditure	0.8	1.7	2.8	1.5	1.3	1.1	2.0	3.1	1.8	1.3
Public fixed capital formation	1.8	1.5	2.5	1.5	1.7	0.8	1.5	4.0	1.8	1.7
Exports	▲ 0.7	▲ 0.6	▲ 5.9	11.6	3.9	2.0	▲ 2.2	▲ 10.4	12.0	4.2
Imports	▲ 1.1	▲ 1.3	▲ 5.0	9.5	2.9	3.0	0.2	▲ 6.8	4.9	2.7
Real GRP/GDP	0.2	▲ 0.3	▲ 4.3	3.6	2.1	0.2	▲ 0.5	▲ 4.6	3.4	2.3
Private demand (contribution)	0.2	▲ 0.8	▲ 4.5	2.2	1.4	0.1	▲ 0.6	▲ 4.9	1.7	1.7
Public demand (contribution)	0.2	0.4	0.6	0.4	0.3	0.2	0.5	0.8	0.5	0.4
Net exports (contribution)	▲ 0.1	0.2	▲ 0.4	1.0	0.4	▲ 0.2	▲ 0.4	▲ 0.6	1.2	0.3
Nominal GRP/GDP	0.2	0.5	▲ 3.7	3.0	2.9	0.1	0.3	▲ 4.0	3.0	3.0
GRP/GDP deflator	▲ 0.1	0.7	0.6	▲ 0.5	0.7	▲ 0.1	0.9	0.6	▲ 0.3	0.6
Consumer price index	0.5	0.6	▲ 0.3	0.5	0.5	0.8	0.6	▲ 0.4	0.4	0.5
Industrial Production Index	0.1	▲ 4.1	▲ 8.2	7.4	2.4	0.3	▲ 3.8	▲ 9.5	9.2	2.6
Unemployment rate	2.8	2.6	3.1	3.2	2.9	2.4	2.3	2.9	3.0	2.9

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. Forecasts for the Japanese economy are sourced from APIR's Economic Forecast and Analysis No. 133.

Previous Forecast

(2021/3/1)

FY	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 0.1	▲ 0.9	▲ 6.2	3.0	1.5	0.2	▲ 1.0	▲ 6.3	2.4	1.5
Private residential investment	0.1	▲ 1.7	▲ 3.4	▲ 1.5	2.5	▲ 4.9	2.5	▲ 7.7	▲ 1.5	1.6
Private non-residential capital investment	1.1	0.8	▲ 5.7	2.1	2.6	1.0	▲ 0.6	▲ 6.5	3.4	2.6
Government final consumption expenditure	0.6	1.7	3.0	1.3	0.7	1.1	2.0	3.3	1.4	0.8
Public fixed capital formation	1.0	3.3	3.5	3.0	1.3	0.8	1.5	4.7	2.4	1.3
Exports	▲ 1.1	▲ 0.7	▲ 7.4	11.3	4.2	2.1	▲ 2.6	▲ 11.1	10.4	3.1
Imports	▲ 1.5	▲ 1.1	▲ 5.3	7.4	3.4	2.8	▲ 1.3	▲ 6.4	2.8	2.6
Real GRP/GDP	0.4	▲ 0.3	▲ 4.7	3.8	1.6	0.3	▲ 0.3	▲ 4.8	3.4	1.8
Private demand (contribution)	0.2	▲ 0.7	▲ 4.7	1.9	1.1	0.2	▲ 0.6	▲ 4.9	1.7	1.4
Public demand (contribution)	0.1	0.4	0.7	0.4	0.2	0.2	0.5	0.9	0.4	0.2
Net exports (contribution)	0.1	▲ 0.0	▲ 0.6	1.5	0.3	▲ 0.1	▲ 0.2	▲ 0.9	1.3	0.1