

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 Qualitative Economic Analysis & Konan University Professor).

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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.

Overview

Stagnation concerns turning into reality due to weak domestic and external demand. Lack of robust source of growth a major risk in the future.

- ◆ Japan's real GDP expanded an annualized +0.2% (+0.1% QoQ) in 2019 Q3, registering the fourth consecutive quarter of positive, albeit modest, growth. The contribution of domestic demand to growth remained positive for the fourth consecutive quarter, with private and public demand making a small contribution (+0.1%pt each). In contrast, net exports suppressed growth by -0.2%pt QoQ.
- ◆ Domestic and external demand showed a weak movement in 2019Q3. Although inbound tourism, planned private capital investment, and public investment remain robust, there was a substantial deterioration in consumer sentiments and business confidence. The income and employment environment, which was relatively robust this far, is also showing a bearish tendency.
- ◆ Our forecast for Kansai's real GRP growth is +0.6% in FY 2019, +0.4% in FY 2020 and +0.7% in FY 2021. The FY 2019 figure is the same as our previous forecast, as the downward revision in private demand was offset by an upward revision in public demand. Since both exports and imports were revised down in FY 2019, there was no change in net exports. On the other hand, the FY 2020 figure is -0.1%pt lower than our previous forecast, as there was a slight downward revision in FY 2020 private demand. The FY 2021 figure is our first forecast for that year.
- ◆ Private and public demand are expected to prop up Kansai's economic growth in FY 2019, contributing +0.6%pt and +0.5%pt respectively, while external demand will suppress growth by -0.5%pt. In FY 2020 mainly public demand will drive growth (+0.3%pt), with private and external demand contributing only +0.1%pt each. In FY 2021, we forecast contributions of +0.3%pt for private, +0.2%pt for public, and +0.1%pt for external demand, with no robust source of growth.
- ◆ We estimated economic growth by prefecture in the past fiscal years. In FY 2017, all prefectures made positive contributions, most notably Osaka and Hyogo. In FY 2018, Osaka Prefecture's economy shrank, but thanks to positive growth in other prefectures, the overall trend was flat.
- ◆ We compared the economic impact of the consumption tax hike this year with the one in 2014. Due to the various policies aimed at mitigating the negative effects of the tax increase, the surge in demand in the month before the tax hike (September) this time was not as large as the one seen in 2014. The seemingly massive increase in demand indicators in September this year was in large part due to a recoil from the natural disasters in September 2018.

| | FY | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|----|------|------|------|------|------|
| Kansai GRP growth (%) | | 2.1 | 1.2 | 0.6 | 0.4 | 0.7 |
| Japan GDP growth (%) | | 1.9 | 0.7 | 1.0 | 0.4 | 0.7 |

Forecast Summary

| FY | Kansai | | | | | | Japan | | | | | |
|--|--------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Private final consumption expenditure | 0.2 | 1.1 | 0.5 | 0.5 | ▲ 0.0 | 0.4 | 0.0 | 1.0 | 0.4 | 0.2 | ▲ 0.1 | 0.6 |
| Private residential investment | 5.0 | ▲ 3.7 | 2.4 | ▲ 0.5 | 0.0 | 0.3 | 6.3 | ▲ 0.7 | ▲ 4.3 | 1.5 | ▲ 1.5 | 1.3 |
| Private non-residential capital investment | 5.9 | 3.1 | 1.9 | 2.5 | 1.3 | 1.2 | ▲ 0.5 | 4.6 | 3.5 | 2.4 | 2.0 | 1.2 |
| Government final consumption expenditure | 0.8 | 0.7 | 0.6 | 1.8 | 1.1 | 0.8 | 0.7 | 0.4 | 0.9 | 2.3 | 1.1 | 0.8 |
| Public fixed capital formation | ▲ 6.0 | ▲ 4.5 | ▲ 0.7 | 3.9 | 2.1 | 1.8 | 0.6 | 0.5 | ▲ 4.0 | 3.9 | 1.9 | 1.5 |
| Exports | 3.4 | 7.4 | ▲ 1.1 | ▲ 2.7 | 0.7 | 2.4 | 3.6 | 6.5 | 1.6 | ▲ 1.4 | 1.5 | 2.1 |
| Imports | ▲ 0.2 | 5.0 | ▲ 2.1 | ▲ 0.6 | 0.5 | 2.1 | ▲ 0.9 | 4.0 | 2.2 | 0.7 | 1.2 | 1.4 |
| Real GRP/GDP | 0.7 | 2.1 | 1.2 | 0.6 | 0.4 | 0.7 | 0.9 | 1.9 | 0.7 | 0.7 | 0.4 | 0.7 |
| Private demand (contribution) | 1.2 | 0.8 | 0.9 | 0.6 | 0.1 | 0.3 | ▲ 0.1 | 1.4 | 0.8 | 0.4 | 0.0 | 0.4 |
| Public demand (contribution) | ▲ 0.2 | 0.0 | 0.1 | 0.5 | 0.3 | 0.2 | 0.2 | 0.1 | ▲ 0.0 | 0.7 | 0.3 | 0.2 |
| Net exports (contribution) | ▲ 0.3 | 1.3 | 0.2 | ▲ 0.5 | 0.1 | 0.1 | 0.7 | 0.4 | ▲ 0.1 | ▲ 0.4 | 0.0 | 0.1 |
| Nominal GRP/GDP | 0.6 | 2.3 | 1.0 | 0.9 | 0.6 | 0.9 | 0.7 | 2.0 | 0.5 | 1.2 | 0.6 | 1.0 |
| GRP/GDP deflator | ▲ 0.1 | 0.2 | ▲ 0.2 | 0.3 | 0.2 | 0.2 | ▲ 0.2 | 0.1 | ▲ 0.2 | 0.5 | 0.2 | 0.3 |
| Consumer price index | ▲ 0.2 | 0.5 | 0.5 | 0.7 | 0.5 | 0.3 | ▲ 0.3 | 0.7 | 0.8 | 0.6 | 0.4 | 0.5 |
| Industrial Production Index | 1.9 | 2.4 | -0.2 | -0.1 | 0.5 | 0.9 | 0.8 | 2.9 | 0.3 | ▲ 1.4 | 0.5 | 1.0 |
| Unemployment rate | 3.4 | 2.9 | 2.6 | 2.5 | 2.6 | 2.5 | 3.0 | 2.7 | 2.4 | 2.4 | 2.5 | 2.4 |

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2015-17 figures are official, 2018-20 figures are APIR forecasts. Forecasts for the Japanese economy are sourced from APIR's Economic Forecast and Analysis No. 121.

Previous Forecast

(2019/8/29)

| FY | Kansai | | | | | Japan | | | | |
|--|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Private final consumption expenditure | 0.1 | 1.1 | 0.9 | 0.6 | 0.3 | 0.0 | 1.0 | 0.5 | 0.5 | 0.2 |
| Private residential investment | 4.1 | ▲ 3.3 | 2.1 | 0.8 | ▲ 1.9 | 6.3 | ▲ 0.7 | ▲ 4.4 | ▲ 0.9 | ▲ 1.3 |
| Private non-residential capital investment | 5.3 | 4.2 | 3.0 | 3.4 | 2.1 | ▲ 0.5 | 4.6 | 3.5 | 3.1 | 1.5 |
| Government final consumption expenditure | 0.6 | 0.7 | 0.6 | 1.6 | 0.9 | 0.7 | 0.4 | 0.9 | 1.8 | 0.9 |
| Public fixed capital formation | ▲ 6.1 | ▲ 2.2 | ▲ 0.9 | 2.3 | 2.0 | 0.6 | 0.5 | ▲ 4.0 | 3.2 | 1.9 |
| Exports | 1.3 | 8.4 | ▲ 1.0 | ▲ 2.5 | 1.7 | 3.6 | 6.5 | 1.5 | ▲ 1.3 | 1.6 |
| Imports | 1.1 | 3.4 | ▲ 1.6 | ▲ 0.0 | 2.1 | ▲ 0.9 | 4.0 | 2.1 | 0.5 | 1.1 |
| Real GRP/GDP | 0.8 | 2.5 | 1.3 | 0.6 | 0.5 | 0.9 | 1.9 | 0.7 | 1.0 | 0.5 |
| Private demand (contribution) | 0.9 | 1.3 | 1.1 | 0.8 | 0.3 | ▲ 0.1 | 1.3 | 0.8 | 0.8 | 0.2 |
| Public demand (contribution) | ▲ 0.1 | 0.1 | 0.1 | 0.4 | 0.2 | 0.2 | 0.1 | ▲ 0.0 | 0.5 | 0.3 |
| Net exports (contribution) | 0.1 | 1.2 | 0.1 | ▲ 0.5 | ▲ 0.0 | 0.8 | 0.4 | ▲ 0.1 | ▲ 0.3 | 0.1 |