

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 Quantitative 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.

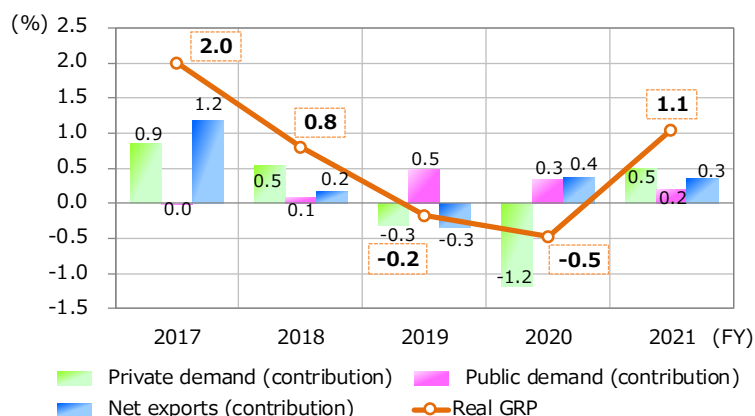
• Forecasts are made using APIR's original forecast model for the Kansai economy and are supervised by Prof. Yoshihisa Inada and Prof. Hiroaki Irie.

Overview

Slump in private demand to precipitate recession in FY2019-2020

Forecast update reflecting the latest GDP estimates and the impact of the coronavirus

- ◆ According to the second advance estimates, Japan's real GDP shrank an annualized -7.1% in 2019 Q4, a downward revision from the first advance estimates (-6.3%). 2019 Q4 saw the largest quarterly decline since the previous consumption tax hike (2014 Q2).
- ◆ Kansai's economy suffered a double blow due to the consumption tax hike in October 2019 and the coronavirus outbreak. As a result, private demand has slumped, and the export of goods and services to China, which had been the main driver of economic growth, keep decelerating. The spread of the coronavirus in Western countries, the deteriorating global economy, and the violent fluctuations on the financial markets are escalating uncertainties about the economic outlook.
- ◆ Our forecast for Kansai's real GRP growth is -0.2% in FY 2019, -0.5% in FY 2020 and +1.1% in FY 2021. Growth is expected to remain negative for two consecutive fiscal years. FY2019 growth was revised down by -0.3%pt, and FY2020 growth by -0.7%pt, reflecting the impact of social distancing, self-quarantines and reduced economic activities due to the coronavirus outbreak. The FY2021 forecast was revised slightly upwards by +0.1%pt.
- ◆ In FY 2019, only public demand is expected to make a positive contribution to Kansai's economic growth, contributing +0.5%pt. Private demand and external demand are expected to suppress growth by -0.3%pt each. In FY 2020, economic growth will be mainly driven by external demand (+0.4%pt) and public demand (+0.3%pt), with private demand suppressing growth by -1.2%pt. In FY 2021, we forecast contributions of approximately +0.5%pt for private, +0.2%pt for public, and +0.3%pt for external demand. We do not expect a rapid recovery.



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

Latest Forecast

| FY | Kansai | | | | | Japan | | | | |
|--|--------|-------|-------|-------|------|-------|--------|-------|-------|------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Private final consumption expenditure | 1.0 | 0.2 | ▲ 0.6 | ▲ 1.2 | 0.6 | 1.1 | 0.0548 | ▲ 0.6 | ▲ 1.1 | 0.9 |
| Private residential investment | ▲ 3.5 | 1.3 | ▲ 1.4 | ▲ 2.6 | 2.7 | ▲ 1.4 | ▲ 4.9 | 0.2 | ▲ 3.0 | 3.5 |
| Private non-residential capital investment | 3.7 | 1.0 | 0.8 | ▲ 2.0 | 1.6 | 4.3 | 1.7 | ▲ 0.7 | ▲ 1.2 | 2.6 |
| Government final consumption expenditure | 0.5 | 0.7 | 1.9 | 1.3 | 0.8 | 0.3 | 0.9 | 2.6 | 1.6 | 0.7 |
| Public fixed capital formation | ▲ 5.1 | ▲ 1.0 | 4.2 | 2.7 | 1.7 | 0.5 | 0.6 | 3.6 | 2.2 | 1.1 |
| Exports | 7.2 | ▲ 1.1 | ▲ 2.7 | 1.1 | 3.2 | 6.4 | 1.6 | ▲ 2.3 | 0.9 | 3.4 |
| Imports | 5.3 | ▲ 1.9 | ▲ 1.3 | ▲ 0.7 | 2.1 | 3.9 | 2.2 | ▲ 0.8 | ▲ 0.3 | 2.3 |
| Real GRP/GDP | 2.0 | 0.8 | ▲ 0.2 | ▲ 0.5 | 1.1 | 1.9 | 0.3 | ▲ 0.0 | ▲ 0.4 | 1.2 |
| Private demand (contribution) | 0.9 | 0.5 | ▲ 0.3 | ▲ 1.2 | 0.5 | 1.4 | 0.2 | ▲ 0.4 | ▲ 1.0 | 0.8 |
| Public demand (contribution) | ▲ 0.0 | 0.1 | 0.5 | 0.3 | 0.2 | 0.1 | 0.2 | 0.7 | 0.4 | 0.2 |
| Net exports (contribution) | 1.2 | 0.2 | ▲ 0.3 | 0.4 | 0.3 | 0.4 | ▲ 0.1 | ▲ 0.3 | 0.2 | 0.2 |
| Nominal GRP/GDP | 2.1 | 0.5 | 0.5 | ▲ 0.3 | 1.2 | 2.0 | 0.1 | 0.7 | ▲ 0.2 | 1.5 |
| GRP/GDP deflator | 0.1 | ▲ 0.3 | 0.6 | 0.2 | 0.2 | 0.1 | ▲ 0.2 | 0.7 | 0.2 | 0.3 |
| Consumer price index | 0.5 | 0.5 | 0.8 | 0.3 | 0.2 | 0.7 | 0.8 | 0.7 | 0.2 | 0.3 |
| Industrial Production Index | 2.4 | ▲ 0.2 | ▲ 4.1 | ▲ 0.9 | 0.9 | 2.9 | 0.3 | ▲ 3.4 | ▲ 0.7 | 0.9 |
| Unemployment rate | 2.9 | 2.6 | 2.5 | 2.6 | 2.7 | 2.7 | 2.4 | 2.3 | 2.5 | 2.6 |

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. 126.

Previous Forecast

(2020/3/4)

| FY | | | | | | Japan | | | | |
|--|-------|--------|-------|-------|------|-------|--------|-------|-------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Private final consumption expenditure | 1.0 | 0.1559 | ▲ 0.1 | ▲ 0.4 | 0.6 | 1.1 | 0.0527 | ▲ 0.3 | ▲ 0.4 | 0.8 |
| Private residential investment | ▲ 3.5 | 1.3 | ▲ 1.2 | ▲ 0.7 | 2.0 | ▲ 1.4 | ▲ 4.9 | 0.8 | ▲ 2.5 | 1.9 |
| Private non-residential capital investment | 3.7 | 1.0 | 0.8 | ▲ 0.3 | 1.7 | 4.3 | 1.7 | 0.1 | 0.2 | 2.4 |
| Government final consumption expenditure | 0.5 | 0.7 | 1.9 | 1.3 | 0.8 | 0.3 | 0.9 | 2.6 | 1.5 | 0.7 |
| Public fixed capital formation | ▲ 5.1 | ▲ 1.0 | 4.5 | 2.5 | 1.8 | 0.5 | 0.6 | 4.1 | 1.5 | 1.2 |
| Exports | 7.2 | ▲ 1.1 | ▲ 1.9 | 1.3 | 2.9 | 6.4 | 1.6 | ▲ 2.1 | 1.7 | 3.2 |
| Imports | 5.3 | ▲ 1.9 | ▲ 0.3 | 0.3 | 2.1 | 3.9 | 2.2 | ▲ 0.6 | 0.2 | 2.0 |
| Real GRP/GDP | 2.0 | 0.8 | 0.1 | 0.2 | 1.0 | 1.9 | 0.3 | 0.3 | 0.2 | 1.1 |
| Private demand (contribution) | 0.9 | 0.5 | ▲ 0.0 | ▲ 0.4 | 0.6 | 1.4 | 0.2 | ▲ 0.1 | ▲ 0.4 | 0.7 |
| Public demand (contribution) | ▲ 0.0 | 0.1 | 0.5 | 0.3 | 0.2 | 0.1 | 0.2 | 0.7 | 0.4 | 0.2 |
| Net exports (contribution) | 1.2 | 0.2 | ▲ 0.3 | 0.2 | 0.3 | 0.4 | ▲ 0.1 | ▲ 0.3 | 0.2 | 0.2 |