

## 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

#### - Kansai's economy is recovering but remains weak - The dilemma of containing Covid-19 vs supporting the economy

- ◆ Japan's real GDP in Q3 expanded an annualized +21.4% QoQ. The economy returned to positive growth for the first time in four quarters. However, the JPY 24 trillion that was newly added to Japan's real GDP in Q3 represents only 58% of the total decline seen in Q2 (JPY 43 trillion).
- ◆ **In Q3, Kansai's economy rebounded after its sharp contraction in Q2 caused by the Covid-19 state of emergency.** Although the economy seems to be recovering, it remains weak due to the lack of transparency concerning the end of the pandemic.
- ◆ Although the **household sector** is recovering, as the consumer sentiment, sales by large retailers and incomes all seem have bottomed out, recovery remains sluggish due to the lack of transparency concerning the end of the pandemic.
- ◆ In the **corporate sector**, although production trends and business confidence are improving, the recovery remains weak.
- ◆ In the **external sector**, although both exports and imports remain lackluster, they seem to have bottomed out. In particular, China-bound exports have been recovering quickly. In contrast, services exports, notably inbound tourism, remain virtually non-existent as entry restrictions have not been lifted.
- ◆ **Our forecast for Kansai's real GRP growth is -5.2% in FY 2020 and +3.3% in FY 2021.** FY 2020 will be a year of record decline. The economy will start recovering in 2021, but it will not reach its pre-pandemic level until after 2022.
- ◆ Although these figures have not been revised from our previous forecast (August 27), we have made revisions in the relative contributions of the components of growth. There was a downward revision in the FY 2020 contributions of private final consumption expenditure and private residential investment, but an upward one in external demand. Similarly, for FY 2021, we revised down the contribution of private demand, but made an upward revision in the contribution of external demand.
- ◆ In terms of contribution to growth, in FY 2020, private demand is expected to suppress growth by -4.7%pt, and external demand by -0.9%pt. Public demand is expected to make a small positive contribution of +0.5%pt, but it will not be sufficient to offset the negative trends in private demand. In FY 2021, we forecast contributions of +1.8%pt by private, +0.4%pt by public, and +1.1%pt by external demand.
- ◆ In the "Topics" section of the Japanese-language version of this report, we outline our advance estimates prefecture-level GDP in Kansai for 2019-2020, and we analyze the income environment in Kansai.

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

	FY	2017	2018	2019	2020	2021
Kansai GRP growth %		2.2	0.8	-0.1	-5.2	3.3
Japan GDP growth %		(1.9)	(0.3)	(0.0)	(-5.4)	(3.8)

## Forecast Summary

FY	Kansai					Japan				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Private final consumption expenditure	0.6	▲ 0.0	▲ 0.6	▲ 6.1	3.1	1.1	0.0812	▲ 0.5	▲ 5.9	3.7
Private residential investment	▲ 4.9	0.9	▲ 1.7	▲ 8.8	▲ 1.0	▲ 1.4	▲ 4.9	0.6	▲ 9.2	▲ 0.8
Private non-residential capital investment	4.5	1.9	▲ 0.6	▲ 5.0	1.3	4.3	1.8	▲ 0.3	▲ 7.6	1.3
Government final consumption expenditure	0.8	0.5	1.8	2.3	1.5	0.3	0.9	2.3	1.9	1.4
Public fixed capital formation	0.8	2.0	3.9	2.8	3.7	0.5	0.6	3.3	2.7	3.5
Exports	7.5	▲ 0.7	▲ 1.0	▲ 8.6	9.0	6.4	1.7	▲ 2.6	▲ 13.2	12.3
Imports	3.6	▲ 1.1	▲ 2.6	▲ 5.5	4.5	3.9	2.6	▲ 1.5	▲ 6.2	4.2
Real GRP/GDP	2.2	0.8	▲ 0.1	▲ 5.2	3.3	1.9	0.3	0.0	▲ 5.4	3.8
Private demand (contribution)	1.1	0.4	▲ 0.7	▲ 4.7	1.8	1.4	0.2	▲ 0.4	▲ 4.7	2.0
Public demand (contribution)	0.3	0.1	0.5	0.5	0.4	0.1	0.2	0.6	0.5	0.5
Net exports (contribution)	0.8	0.3	0.1	▲ 0.9	1.1	0.5	▲ 0.1	▲ 0.2	▲ 1.1	1.2
Nominal GRP/GDP	2.3	0.7	0.6	▲ 4.4	3.7	2.0	0.1	0.8	▲ 4.5	4.0
GRP/GDP deflator	0.1	▲ 0.1	0.7	0.8	0.3	0.1	▲ 0.2	0.8	0.9	0.2
Consumer price index	0.5	0.5	0.7	▲ 0.2	0.5	0.7	0.8	0.6	▲ 0.4	0.5
Industrial Production Index	2.4	▲ 0.1	▲ 3.9	▲ 9.7	4.8	2.9	0.3	▲ 3.8	▲ 11.7	6.1
Unemployment rate	2.9	2.8	2.6	3.4	3.7	2.7	2.4	2.4	3.1	3.4

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

(2020/8/27)

年度						Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	0.6	-0.009	▲ 0.6	▲ 5.8	3.3	1.1	0.07	▲ 0.6	▲ 6.1	3.4
Private residential investment	▲ 4.9	1.1	▲ 1.6	▲ 4.8	1.5	▲ 1.4	▲ 4.9	0.5	▲ 6.3	▲ 0.9
Private non-residential capital investment	4.5	1.6	▲ 0.5	▲ 5.1	2.1	4.3	1.8	▲ 0.3	▲ 4.0	1.3
Government final consumption expenditure	0.8	0.5	1.8	1.3	0.6	0.3	0.9	2.3	0.7	1.1
Public fixed capital formation	0.8	2.0	5.2	2.6	3.7	0.5	0.6	3.3	3.4	4.0
Exports	7.5	▲ 1.2	▲ 1.1	▲ 10.7	10.3	6.4	1.7	▲ 2.6	▲ 13.3	9.2
Imports	3.6	▲ 1.5	▲ 2.4	▲ 8.5	6.4	3.9	2.6	▲ 1.5	▲ 3.0	3.8
Real GRP/GDP	2.2	0.7	▲ 0.1	▲ 5.2	3.3	1.9	0.3	0.0	▲ 5.9	3.3
Private demand (contribution)	1.1	0.4	▲ 0.7	▲ 4.4	2.1	1.4	0.2	▲ 0.4	▲ 4.5	2.0
Public demand (contribution)	0.3	0.1	0.5	0.3	0.3	0.1	0.2	0.6	0.3	0.5
Net exports (contribution)	0.8	0.2	0.0	▲ 1.1	1.0	0.5	▲ 0.1	▲ 0.2	▲ 1.7	0.8