

Analysis and Forecasts for the Kansai Economy

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Overview

Kansai's economy on an upward trajectory, but far from full recovery - Spread of new COVID-19 variants meddling with recovery patterns -

- 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. Emeritus 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 Q2, Kansai's economy kept recovering. However, as the effects of the pandemic persist, it is hard to describe the current state of the economy as a true recovery. Also, the extent of the recovery varies significantly depending on the particular industry.
- ◆ The end of the pandemic is not yet in sight. Although the rollout of vaccines is making good progress, there has been a steep increase in the number of new infections with the spread of new COVID-19 variants. As a state of emergency was declared in August first in Osaka, then in Kyoto and Hyogo, and finally Shiga, economic and social activities in Kansai remain suppressed, hindering the recovery of Kansai's economy.
- ◆ The **household sector** is showing a slight recovery from last year, as social and economic activities are turning back to normal. Although this recovery is to a certain extent a reactionary increase from the slump in 2020, some indicators, including the consumer sentiment, have already recovered to their pre-pandemic levels. However, the recovery patterns change constantly as the waves of COVID-19 infections rise and recede, making it hard to describe the current situation as a true recovery.
- ◆ The **corporate sector** is generally recovering. In the manufacturing sector, production levels and business sentiments alike have returned to their pre-pandemic values. Although the non-manufacturing sector is recovering too, it is lagging behind. Capital investment is expected to increase in both sectors. However, as the impact of the pandemic persists in certain industries of both sectors, the recovery pattern is uneven.
- ◆ In the **external sector**, the recovery of goods exports is evident. Goods imports are recovering too. On the other hand, a recovery in demand by international visitors (services exports) is out of sight, as entry restrictions will not be lifted any time soon.
- ◆ **Our forecast for Kansai's real GRP growth is +3.2% in FY 2021, and +2.5% in FY 2022.** The recovery from the slump in FY 2020 is underway, but the pace is lackluster. As a result, Kansai's economy will reach its pre-pandemic level in or after 2022.
- ◆ Compared to our previous forecast, we revised down our forecast for FY 2021 (-0.4%pt) and up for FY 2022 (+0.4%pt). The main reason for the FY 2021 revision is private demand, whose recovery will be delayed by the negative effect of new COVID-19 variants appeared since the last prediction on private final consumption expenditure.
- ◆ In terms of contributions to growth, we forecast that private demand will drive GDP growth by +1.6%pt in FY 2021, making the first positive contribution since FY 2018. However, this contribution will fail to offset the slump in private demand seen in FY 2020. Public demand and net export will prop up growth too, making solid contributions of +0.3%pt and +1.2%pt, respectively. In FY 2022, the contributions are forecast to be +1.9% by private demand, +0.3% by public demand, and +0.3% by external demand.
- ◆ The "Topics" section of the Japanese-language version of this report contains our estimates of the ripple effects of changes in the tertiary sector on other industries in Kansai's prefectures. According to our simulations based on Kansai regional input-output table, the slump in the tertiary sector caused by the pandemic resulted in a total economic loss of JPY 4.2 trillion. On a gross value-added basis, the figure is JPY 2.4 trillion, corresponding to 3% of Kansai's economy.

Forecast Summary

	Kansai					Japan					
	FY	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure		▲ 0.1	▲ 1.0	▲ 5.9	2.4	2.3	0.1	▲ 1.0	▲ 5.9	3.1	2.0
Private residential investment		▲ 0.9	▲ 0.0	▲ 0.6	1.2	0.1	▲ 4.9	2.5	▲ 7.2	2.1	▲ 0.3
Private non-residential capital investment		1.0	0.2	▲ 6.1	3.4	2.6	1.0	▲ 0.6	▲ 6.8	3.3	3.4
Government final consumption expenditure		1.0	1.5	3.1	1.5	1.2	1.1	2.0	3.3	1.4	1.1
Public fixed capital formation		▲ 0.0	1.1	3.2	1.2	1.9	0.8	1.5	4.2	▲ 0.6	1.8
Exports		0.4	0.4	▲ 4.0	8.6	3.8	2.0	▲ 2.2	▲ 10.4	14.2	4.1
Imports		▲ 2.5	0.1	▲ 2.9	5.3	3.4	3.0	0.2	▲ 6.8	9.6	3.0
Real GRP/GDP		0.2	▲ 0.3	▲ 4.4	3.2	2.5	0.2	▲ 0.5	▲ 4.5	3.3	2.3
Private demand (contribution)		▲ 0.3	▲ 0.7	▲ 4.5	1.6	1.9	0.2	▲ 0.6	▲ 4.7	2.3	1.8
Public demand (contribution)		0.1	0.3	0.7	0.3	0.3	0.2	0.5	0.9	0.3	0.3
Net exports (contribution)		0.3	0.0	▲ 0.6	1.2	0.3	▲ 0.1	▲ 0.4	▲ 0.6	0.7	0.2
Nominal GRP/GDP		0.4	0.6	▲ 3.9	2.7	3.3	0.1	0.3	▲ 3.9	2.8	3.0
GRP/GDP deflator		0.3	0.9	0.5	▲ 0.4	0.8	▲ 0.1	0.9	0.6	▲ 0.5	0.7
Consumer price index		0.5	0.6	▲ 0.3	▲ 0.3	0.5	0.8	0.6	▲ 0.4	▲ 0.1	0.7
Industrial Production Index		0.1	▲ 4.5	▲ 8.3	8.7	3.4	0.3	▲ 3.8	▲ 9.5	9.7	2.7
Unemployment rate		2.8	2.6	3.1	3.1	3.0	2.4	2.3	2.9	2.9	2.8

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

(2021/6/1)

	Kansai					Japan					
	FY	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