

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No.56

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Overview

Kansai's recovering economy in a lull due to COVID-19 countermeasures - Full recovery delayed to 2022 and beyond -

- ◆ In 2021 Q3, Kansai's recovering economy entered a lull. The recovery was hindered by the stagnation of consumer activity due to the prolonged a state of emergency as well as the shortage of semiconductors.
- ◆ The **household sector**, which had shown signs of a gradual recovery in the previous quarter, came to a standstill due to the fifth wave of COVID-19 and the declaration of a state of emergency. Consumer sentiment and incomes remained sluggish, and the recovery of the employment environment was slower compared to the rest of the country.
- ◆ The **corporate sector** is at a standstill. Production has decelerated due to the shortage of semiconductors. Business confidence, however, has been recovering steadily.
- ◆ In the **external sector**, both goods exports and imports keep recovering. In Kansai, the impact of the fluctuations in automobile exports and crude oil prices has been small, making its development less pronounced than of the rest of Japan. Service exports, i.e. inbound tourism, remain negligible.
- ◆ 2021 Q3 was marked by the fifth wave of COVID-19. In August, a state of emergency was declared in Osaka Prefecture, followed by Kyoto, Hyogo, and Shiga Prefectures. The number of new infections peaked on August 28. However, as the number kept declining thereafter, the state of emergency was lifted in all prefectures at the end of September.
- ◆ **Our forecast for Kansai's real GRP growth is +2.8% in FY 2021, +2.9% in FY 2022 and +1.7% in FY 2023.** Although the economy will start recovering in FY 2021, the recovery in FY 2021 itself will be modest, due to the sluggish consumption caused by the prolonged state of emergency.
- ◆ Compared to our previous forecast (August 31), we revised down our forecast for FY 2021 (-0.4%pt). However, we revised up our estimate for FY 2022 (+0.4%pt). The main reason for the FY 2021 revision is the decline in private demand, triggered by the fall in private final consumption expenditure due to the state of emergency. On the other hand, public demand increased, driven by government spending related to COVID-19 countermeasures. In our FY 2022 forecast, private demand was revised down slightly, while public and external demand were revised upward.
- ◆ In terms of contributions to growth, we forecast that private demand will drive GDP growth by +1.1%pt in FY 2021, making the first positive contribution in four years. Public demand and external demand will prop up growth by +0.5%pt and +1.2%pt, respectively. In FY 2022, the contributions are forecast to be +1.8%pt by private demand, +0.5%pt by public demand, and +0.6%pt by external demand. In FY 2023 the contributions of all components will remain positive, but they will be significantly smaller (+0.9%pt by private demand, +0.3%pt by public demand, and +0.6%pt by external demand).
- ◆ The "Topics" section of the Japanese-language version of this report contains our estimates of the GRPs of Kansai prefectures in FY 2019 and FY 2020. Although Kansai's economy kept shrinking in that period, it performed better than Japan as a whole.

• 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.

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

Forecast Summary

FY	Kansai					Japan				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Private final consumption expenditure	▲ 1.0	▲ 5.9	2.1	2.1	0.9	▲ 1.0	▲ 5.8	2.8	2.2	0.7
Private residential investment	▲ 0.5	▲ 1.0	0.7	▲ 0.1	1.5	2.5	▲ 7.2	▲ 0.7	▲ 1.5	0.4
Private non-residential capital investment	0.4	▲ 5.0	1.1	3.4	1.3	▲ 0.6	▲ 6.9	1.1	3.2	3.3
Government final consumption expenditure	1.6	3.2	2.5	1.8	0.9	2.0	3.4	2.7	1.8	0.9
Public fixed capital formation	1.2	3.6	0.5	2.8	2.5	1.5	4.2	▲ 3.3	2.4	2.0
Exports	0.6	▲ 2.9	7.9	5.8	4.9	▲ 2.2	▲ 10.4	11.6	4.5	4.5
Imports	0.3	▲ 1.6	4.8	4.8	3.8	0.2	▲ 6.8	6.7	2.6	3.3
Real GRP/GDP	▲ 0.2	▲ 4.0	2.8	2.9	1.7	▲ 0.5	▲ 4.4	2.8	2.6	1.4
Private demand (contribution)	▲ 0.7	▲ 4.3	1.1	1.8	0.9	▲ 0.6	▲ 4.7	1.6	1.7	0.9
Public demand (contribution)	0.4	0.7	0.5	0.5	0.3	0.5	0.9	0.4	0.5	0.3
Net exports (contribution)	0.1	▲ 0.4	1.2	0.6	0.6	▲ 0.4	▲ 0.6	0.8	0.4	0.2
Nominal GRP/GDP	0.7	▲ 3.2	2.2	3.6	2.5	0.3	▲ 3.9	1.9	3.2	2.0
GRP/GDP deflator	0.9	0.7	▲ 0.6	0.7	0.8	0.9	0.6	▲ 0.8	0.7	0.6
Consumer price index	0.6	▲ 0.3	▲ 0.0	0.7	0.7	0.6	▲ 0.4	0.0	0.8	0.7
Industrial Production Index	▲ 4.5	▲ 8.2	6.3	3.6	3.1	▲ 3.8	▲ 9.5	6.1	3.6	2.6
Unemployment rate	2.6	3.1	3.1	3.1	3.0	2.3	2.9	2.8	2.8	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. 135.

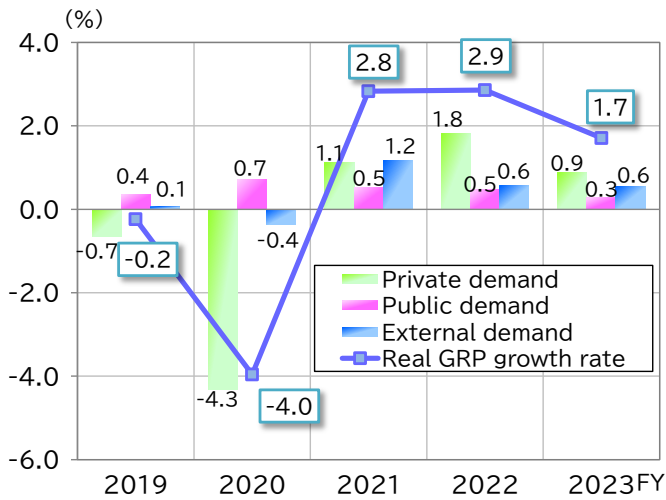
Previous Forecast

(2021/8/31)

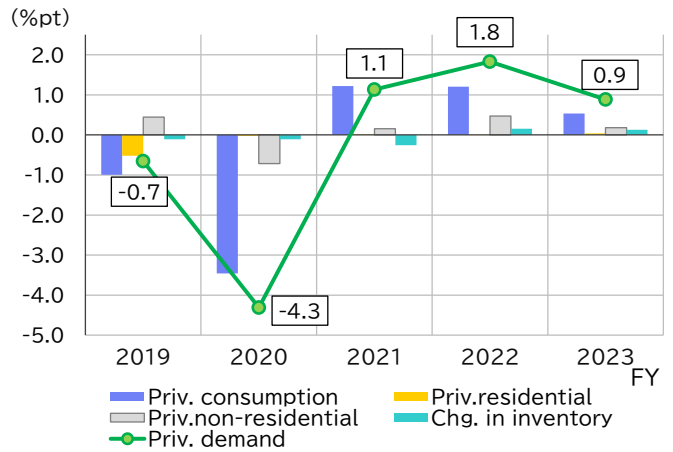
FY	Kansai					Japan				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Private final consumption expenditure	▲ 1.0	▲ 5.9	2.4	2.3	N.A.	▲ 1.0	▲ 5.9	3.1	2.0	N.A.
Private residential investment	▲ 0.0	▲ 0.6	1.2	0.1		2.5	▲ 7.2	2.1	▲ 0.3	
Private non-residential capital investment	0.2	▲ 6.1	3.4	2.6		▲ 0.6	▲ 6.8	3.3	3.4	
Government final consumption expenditure	1.5	3.1	1.5	1.2		2.0	3.3	1.4	1.1	
Public fixed capital formation	1.1	3.2	1.2	1.9		1.5	4.2	▲ 0.6	1.8	
Exports	0.4	▲ 4.0	8.6	3.8		▲ 2.2	▲ 10.4	14.2	4.1	
Imports	0.1	▲ 2.9	5.3	3.4		0.2	▲ 6.8	9.6	3.0	
Real GRP/GDP	▲ 0.3	▲ 4.4	3.2	2.5		▲ 0.5	▲ 4.5	3.3	2.3	
Private demand (contribution)	▲ 0.7	▲ 4.5	1.6	1.9		▲ 0.6	▲ 4.7	2.3	1.8	
Public demand (contribution)	0.3	0.7	0.3	0.3		0.5	0.9	0.3	0.3	
Net exports (contribution)	0.0	▲ 0.6	1.2	0.3	▲ 0.4	▲ 0.6	0.7	0.2		

Forecast at a glance

【 Real GRP growth rate & contribution: % & %pt】



【 Private demand & contribution: %pt】



【 Real Japan GDP & Kansai GRP growth rate: actual & forecast】

