

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 & Professor Emeritus of Konan University).

• Authors: Yoshihisa Inada, Hiroaki Irie (Kindai University Professor & APIR Researcher), Ryo Ogawa (Osaka Metropolitan University Professor & APIR Researcher), Chiu-Wei Kuo, Yani Karavasilev (APIR Research Fellows), Shigekazu Yoshida and Ryosuke Nomura (APIR Research Promotion Officers).

• 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 Highlights

Overseas factors casting a shadow on the normalization of economic activity.

China's zero-COVID policy will have a major impact on Kansai's economy.

- ◆ In 2022 Q1, the Kansai's economy experienced a sixth wave of COVID-19 infections due to the emergence of the more infectious Omicron variant. The reinstatement of measures aimed at curbing the spread of the virus forced economic activity to stagnate. Surging raw material prices and overseas risk factors, such as Russia's military invasion of Ukraine and China's zero-COVID policy, are taking a toll on Kansai's economic recovery.
- ◆ **In the household sector**, the sixth wave of COVID-19 and the accompanying measures to curb the spread of the virus resulted in a weak trend. Although there are some positive factors, such as the lifting of various infection prevention measures, real wages and employment are still bearish and have yet to reach a full-fledged recovery.
- ◆ **In the corporate sector**, production trends, business sentiment, and capital investment plans are generally weak. There are various risk factors, including the spread of the Omicron variant, soaring raw material prices, and the impact of China's zero-COVID policy.
- ◆ **In the external sector**, both exports and imports of goods have exceeded their pre-pandemic levels and they keep expanding. However, exports to China are weakening due to the impact of China's zero-COVID policy. Signs of a recovery in the export of services are beginning to emerge.
- ◆ **Kansai's public sector** has been performing well compared to the rest of the country.
- ◆ **The real GRP growth rate for the Kansai region** is forecast to be **+2.0% in FY2022 and +1.9% in FY23**. **Kansai's GRP** will recover to its pre-pandemic level in FY 2023. For FY2022, the forecast was revised downward by -0.45%pt, mainly for exports. The impact of China's zero COVID-19 policy will have a greater impact on Kansai than on other regions in Japan. We made a slight downward revision of -0.04%pt for FY 2023.
- ◆ Kansai's economy is expected to grow at the same speed as that of Japan in FY 2022. However, the drivers of growth will differ. Public demand is expected to contribute 0.3%pt to growth in Kansai, outpacing the nation as a whole by (+0.1%pt). On the other hand, since the impact of China's zero COVID-19 policy will have a greater impact on Kansai than on other regions in Japan, the contribution of external demand to growth in Kansai will be -0.2%pt, compared to -0.0%pt nationwide. There will be no significant difference between Kansai and Japan in FY 2023.
- ◆ In FY 2022, private demand and public demand will contribute to growth by +1.9%pt and +0.3%pt, respectively, and external demand will depress growth by -0.2%pt due to stagnant exports. In FY 2023, private demand will add +1.2%pt to GDP growth, public demand will add +0.3%pt, and external demand will add +0.4%pt, all three contributing to growth in a balanced manner.
- ◆ In the "Topics" section of the Japanese-language issue of this report, we present our advance estimates of the Gross Regional Product (GRP) of Kansai prefectures, and we discuss the various risks to Kansai's economy emerging from Russia's invasion of Ukraine.

Forecast Summary

FY	Kansai					Japan				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Private final consumption expenditure	▲ 1.1	▲ 5.8	1.9	2.8	1.3	▲ 1.0	▲ 5.4	2.6	2.9	0.9
Private residential investment	8.3	▲ 2.7	▲ 2.2	0.3	1.4	2.6	▲ 7.8	▲ 1.6	▲ 1.8	0.5
Private non-residential capital investment	0.1	▲ 6.8	0.3	2.0	2.3	▲ 0.6	▲ 7.5	1.3	2.3	3.4
Government final consumption expenditure	2.0	2.5	2.3	1.3	0.9	2.1	2.5	2.0	1.0	0.6
Public fixed capital formation	5.5	4.0	0.9	2.0	2.5	1.6	5.1	▲ 9.3	▲ 1.8	1.7
Exports	▲ 1.1	▲ 1.8	6.1	0.9	4.6	▲ 2.3	▲ 10.2	12.5	1.9	4.1
Imports	0.1	▲ 0.9	3.3	1.5	3.5	0.2	▲ 6.5	7.2	2.1	2.2
Real GRP/GDP	▲ 0.5	▲ 4.5	2.1	2.0	1.9	▲ 0.7	▲ 4.5	2.1	1.9	1.7
Private demand (contribution)	▲ 0.5	▲ 4.6	0.8	1.9	1.2	▲ 0.7	▲ 4.7	1.5	1.8	1.1
Public demand (contribution)	0.6	0.6	0.5	0.3	0.3	0.5	0.8	▲ 0.1	0.1	0.2
Net exports (contribution)	▲ 0.5	▲ 0.5	0.8	▲ 0.2	0.4	▲ 0.5	▲ 0.6	0.8	▲ 0.0	0.4
Nominal GRP/GDP	0.3	▲ 3.8	1.3	1.9	2.6	0.2	▲ 3.9	1.1	1.6	2.5
GRP/GDP deflator	0.8	0.7	▲ 0.8	▲ 0.1	0.7	0.8	0.6	▲ 1.0	▲ 0.3	0.7
Consumer price index	0.6	▲ 0.3	▲ 0.1	1.7	1.0	0.6	▲ 0.4	0.0	1.8	0.8
Industrial Production Index	▲ 4.5	▲ 8.2	4.7	2.4	2.4	▲ 3.8	▲ 9.6	5.8	1.9	2.1
Unemployment rate	2.6	3.1	3.1	2.9	2.9	2.3	2.9	2.8	2.6	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. 138.

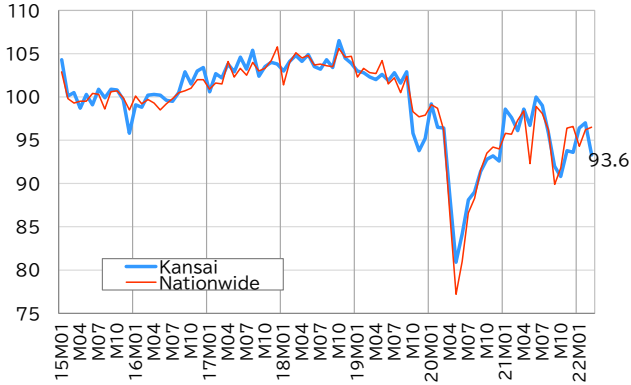
Previous Forecast

(2022/3/1)

FY	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 1.0	▲ 5.8	1.8	2.3	1.4	▲ 1.0	▲ 5.4	2.6	2.5	1.4
Private residential investment	▲ 0.9	▲ 1.8	▲ 1.1	0.6	1.8	2.6	▲ 7.8	▲ 1.4	▲ 0.6	1.2
Private non-residential capital investment	0.4	▲ 4.7	1.2	2.9	2.9	▲ 0.6	▲ 7.5	1.3	2.5	2.7
Government final consumption expenditure	1.7	3.0	2.3	1.5	0.9	2.1	2.5	1.9	0.9	0.9
Public fixed capital formation	1.2	5.8	1.5	2.5	2.5	1.6	5.2	▲ 7.3	▲ 1.3	2.0
Exports	0.5	▲ 2.8	7.8	5.1	3.3	▲ 2.2	▲ 10.5	12.8	4.5	3.5
Imports	0.3	▲ 1.2	5.0	4.7	3.1	0.2	▲ 6.7	6.3	2.3	3.0
Real GRP/GDP	▲ 0.2	▲ 3.8	2.6	2.5	1.9	▲ 0.7	▲ 4.5	2.4	2.3	1.7
Private demand (contribution)	▲ 0.7	▲ 4.2	1.0	1.7	1.4	▲ 0.7	▲ 4.6	1.4	1.7	1.3
Public demand (contribution)	0.4	0.8	0.5	0.4	0.3	0.5	0.8	▲ 0.0	0.1	0.3
Net exports (contribution)	0.1	▲ 0.4	1.0	0.4	0.3	▲ 0.4	▲ 0.6	1.1	0.4	0.1

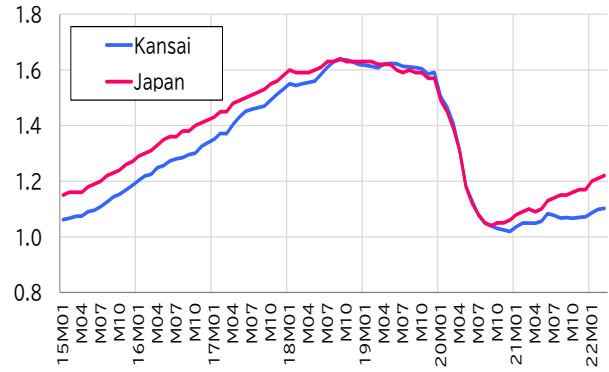
Forecasts at a glance

【Index of Industrial Production (2015=100), including Fukui Prefecture】



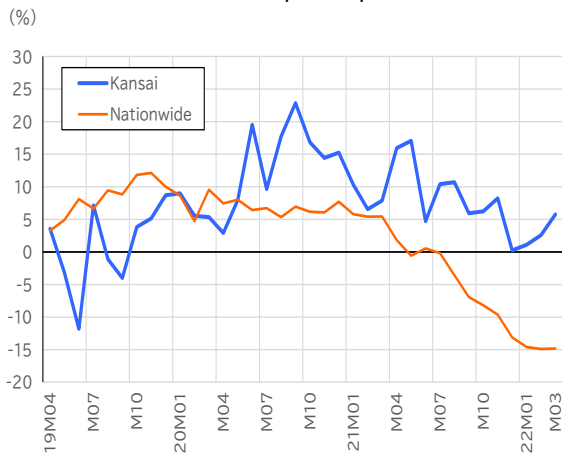
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



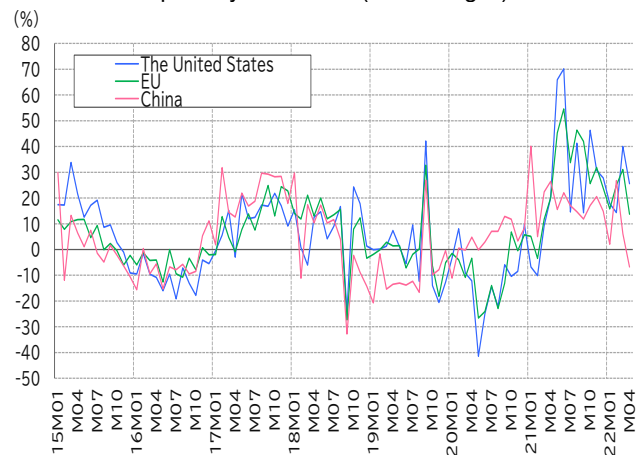
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



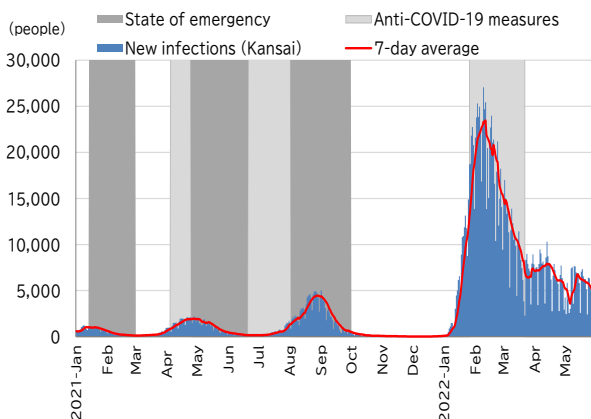
Source: MLIT

【Exports by destination (YoY changes)】



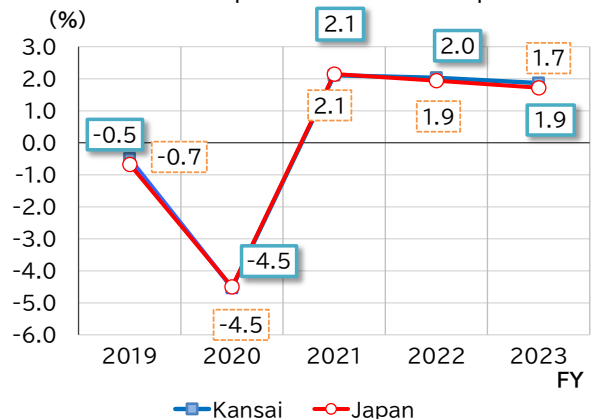
Source: Osaka Customs

【New COVID-19 infections in Kansai】



Source: Prepared by APIR based on various press materials.

【Forecast comparison: Kansai vs. Japan】



Source: APIR "JEAF No. 138"