

## Analysis and Forecasts for the Kansai Economy

# Kansai Economic Insight Quarterly No.60

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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).

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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.

### Index

Forecast Highlights

Forecast Summary

Forecasts at a Glance

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

### Forecast Highlights

## Kansai's economy is picking up, but the speed of recovery varies significantly across industries.

Despite the weak outlook, increased investment across the entire region is expected to bring about an economic turnaround

- ◆ In 2022 Q2, Kansai's economy recovered moderately, but in a heterogeneous manner, with a mix of favorable and sluggish indicators across sectors, industries, firm sizes, etc. There are a number of factors putting downward pressure on the economy, including high prices, supply constraints such as semiconductor shortages, a slowdown in the global economy, and heightened geopolitical risks. As a result, the outlook for the economy is becoming increasingly uncertain.
- ◆ Although the **household sector** kept recovering in 2022 Q2, it has yet to achieve a full-fledged recovery. Various restrictions on human activity were gradually lifted, which led to a recovery in department store sales. The ratio of job offers to applicants picked up as well, albeit more moderately than in the rest of Japan. However, wage increases did not keep pace with rising prices, putting pressure on households.
- ◆ In the **corporate sector**, production trends and the business sentiment were generally weak in 2022 Q2. The impact of soaring raw material prices and the lockdowns in China was particularly large in the manufacturing sector. On the other hand, the corporate sector showed a positive attitude toward capital investment in FY 2022 as a whole.
- ◆ In the **external sector**, both exports and imports of goods kept increasing in 2022 Q2. By destination, exports to the U.S. and the EU logged robust growth, while those to China grew only modestly, due to the impact of the lockdowns. The export of services, including inbound tourism, picked up.
- ◆ Kansai's public sector is performing well compared to the rest of the country.
- ◆ **Kansai's real GRP growth is projected to be +1.8% in FY 2022 and +1.5% in FY 2023.** Compared to our last forecast, the FY 2022 figure has been revised downward, albeit slightly, due to downward revisions in all demand components (private, public, and external demand). Likewise, the forecast for FY 2023 was revised down due to the worsening outlook for exports, as well as due to the slow recovery of the global economy.
- ◆<sup>1</sup> The contribution of public demand to economic growth in Kansai in FY 2022 is forecast to be larger than in the rest of Japan. As a result, Kansai's overall economic growth rate<sup>2</sup> is also expected to be higher.
- ◆<sup>3</sup> In terms of contributions to Kansai's economic growth, private demand will drive growth by +1.8 %pts in FY 2022, and +1.2 %pts in FY 2023. Public demand will prop up growth by +0.3 %pts in both FY 2022 and FY 2023. On the other hand, external demand will suppress growth by -0.2 %pts in FY 2022, and it will not contribute to growth in FY 2023.
- ◆ In the "Topics" section of the Japanese-language version of this report, we discuss how the 2025 World Expo in Osaka-Kansai and Integrated Resorts (IR) can be leveraged in order to put Kansai's economy back on an upward trajectory. We emphasize the importance of boosting investment throughout the Kansai region, starting with the Bay Area.

## Forecast Summary

FY	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 0.7	▲ 5.9	2.2	2.8	1.3	▲ 1.0	▲ 5.4	2.6	2.8	1.0
Private residential investment	8.0	▲ 3.1	▲ 4.7	▲ 3.8	1.7	2.5	▲ 7.8	▲ 1.6	▲ 4.4	0.5
Private non-residential capital investment	▲ 0.8	▲ 5.3	0.2	2.4	2.3	▲ 1.7	▲ 7.7	0.6	2.4	3.8
Government final consumption expenditure	1.0	2.8	1.9	1.1	0.9	2.1	2.5	2.0	1.3	0.8
Public fixed capital formation	8.0	6.0	▲ 0.9	1.2	2.8	1.7	5.1	▲ 7.5	▲ 2.9	2.6
Exports	▲ 1.2	▲ 1.8	6.0	0.9	2.7	▲ 2.3	▲ 10.0	12.5	2.0	0.4
Imports	0.6	▲ 1.0	3.9	2.2	2.9	0.2	▲ 6.3	7.2	3.1	1.2
Real GRP/GDP	▲ 0.7	▲ 4.2	1.9	1.8	1.5	▲ 0.9	▲ 4.5	2.3	1.5	1.5
Private demand (contribution)	▲ 0.5	▲ 4.5	1.0	1.8	1.2	▲ 0.9	▲ 4.7	1.5	1.6	1.3
Public demand (contribution)	0.5	0.7	0.3	0.3	0.3	0.5	0.8	0.0	0.1	0.3
Net exports (contribution)	▲ 0.7	▲ 0.4	0.6	▲ 0.2	0.0	▲ 0.5	▲ 0.6	0.8	▲ 0.2	▲ 0.2
Nominal GRP/GDP	0.1	▲ 3.5	1.0	1.7	3.4	▲ 0.0	▲ 3.9	1.3	1.2	3.2
GRP/GDP deflator	0.8	0.7	▲ 0.9	▲ 0.1	1.8	0.8	0.7	▲ 1.0	▲ 0.3	1.7
Consumer price index	0.6	▲ 0.3	▲ 0.0	2.0	1.3	0.6	▲ 0.4	0.0	2.3	1.0
Industrial Production Index	▲ 4.5	▲ 8.2	5.0	1.3	2.7	▲ 3.8	▲ 9.6	5.8	0.8	2.6
Unemployment rate	2.6	3.1	3.0	2.8	2.7	2.3	2.9	2.8	2.6	2.5

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. 131.

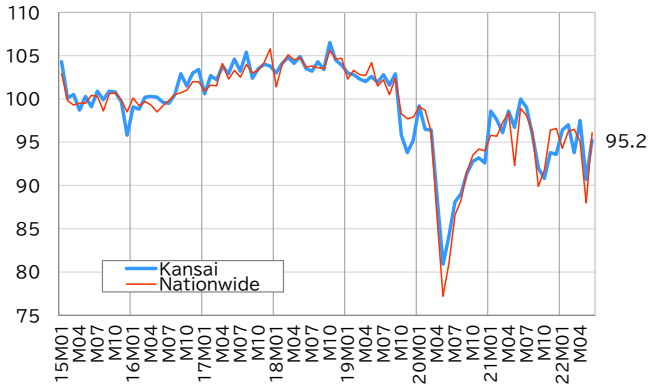
## Previous Forecast

(2022/5/31)

年度	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
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

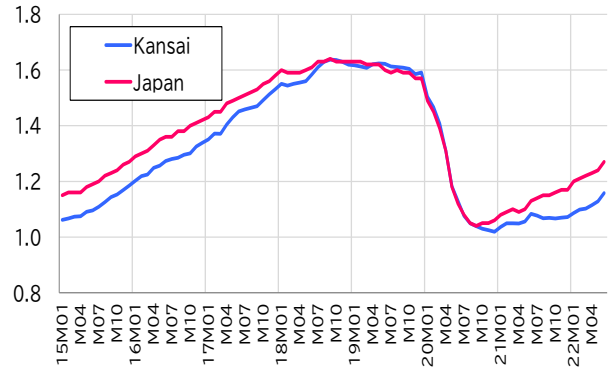
## Forecasts at a Glance

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



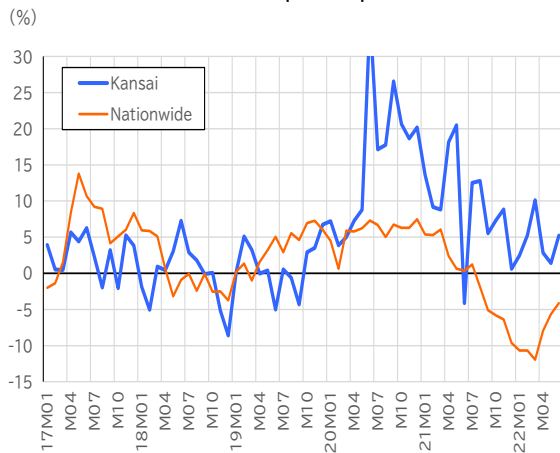
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



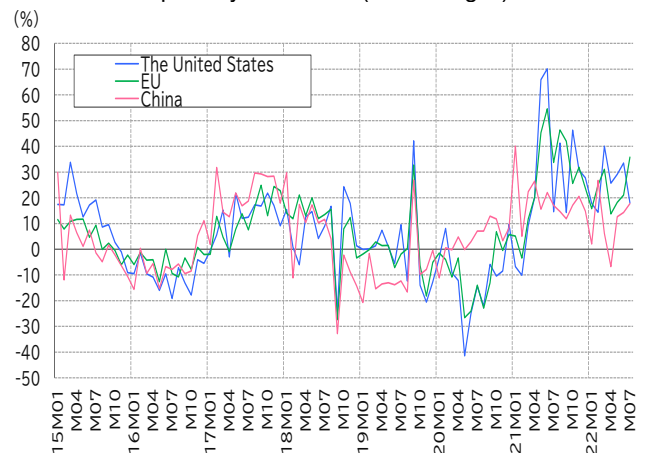
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



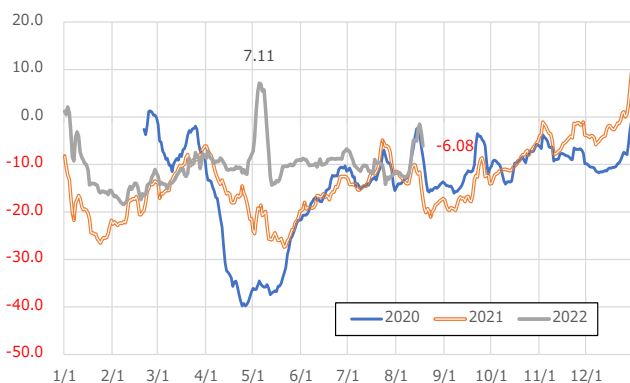
Source: MLIT

【Exports by destination (YoY changes)】



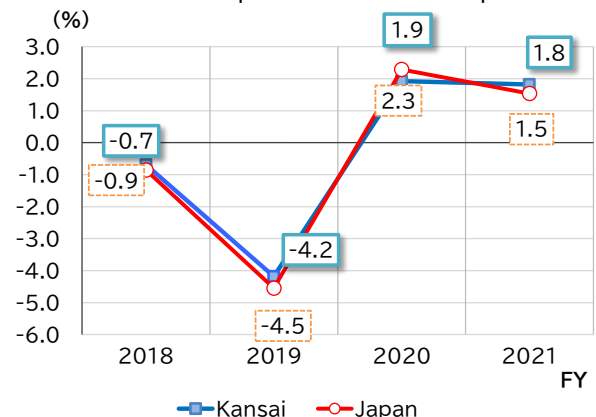
Source: Osaka Customs

【Human Flow Dynamics in Kansai: retail and entertainment establishments: 2020-22】



Source: Compiled by the author from Google LLC, Community Mobility Report.

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.60"