

## 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

### Despite Kansai's Continued Recovery, Caution About Economic Recession Grows

#### Concerns include slowdown in overseas economies and inflation

- ◆ Kansai's economy continued its gradual recovery in Q3. Economic activity returned to normal as no restrictive measures were taken in response to the seventh wave of COVID-19 infections. In addition, the impact of the Chinese lockdown in Q2 subsided somewhat. However, fears of a slowdown in overseas economies and inflation have raised concerns about an economic recession.
- ◆ In the **household sector**, a partial recovery can be seen. However, inflation is a hurdle to a full-fledged recovery. Department store sales are recovering and the employment environment is improving as a result of the lifting of various anti-COVID restrictions. However, soaring consumer prices, including food and energy prices, have led to weak sentiment and a decline in real wages and purchasing power.
- ◆ The **corporate sector** saw a moderate recovery as economic activity moved toward normalization and the impact of the lockdowns in China subsided. Production picked up somewhat, and capital investment plans are on an upward trajectory. On the other hand, business confidence remained at a standstill due to persistently high raw material prices and also due to concerns about a possible recession overseas.
- ◆ In the **external sector**, both the exports and imports of goods continued to increase. Imports grew substantially, causing a trade balance into deficit. By region, export growth to the U.S. and the EU remained robust, but China-bound export growth decelerated. With regard to service exports, such as inbound tourism, there was a significant improvement in the number of international arrivals and department store duty-free sales at Kansai International Airport due to the easing of immigration restrictions.
- ◆ Kansai's **public sector** continued to perform well relative to the rest of Japan.
- ◆ Real GRP growth in Kansai is projected to be +1.8% in FY 2022, +1.1% in FY 23, and +1.4% in FY 24, following two consecutive years of negative growth in FY 19 and FY 20. With economic growth in the 1% range, however, Kansai's recovery will lack strength. Kansai's recovery path is likely to be similar to that of Japan as a whole.
- ◆<sup>1</sup> In terms of contributions to growth, private demand will be the driver of growth with +2.3 percentage points in FY 2022, +0.8 percentage points in FY 23, and +1.2% in FY 24.
- 2 Public demand will prop up growth by +0.2 percentage points throughout the three-year period. In contrast, external demand will suppress growth by -0.6 percentage points in FY22 and will not make a significant contribution to growth in FY23 and FY 24.
- 3
- ◆ In the "Topics" section of the Japanese-language version of this report, we present our Estimates of GRPs for Kansai Prefectures" and we analyze the impact of the Chinese Economic Deceleration on the Kansai Economy. According our estimates, a 1% decline in China's real GDP would result in a 0.462% decline in Kansai's real exports and a 0.12-0.13% decline in Kansai's real GRP.

## Forecast Summary

| FY   | Kansai |       |       |       |      | Japan  |       |       |       |      |
|--|--------|-------|-------|-------|------|--------|-------|-------|-------|------|
|  | 2020   | 2021  | 2022  | 2023  | 2024 | 2020   | 2021  | 2022  | 2023  | 2024 |
| Private final consumption expenditure      | ▲ 5.9  | 2.3   | 2.9   | 1.1   | 1.1  | ▲ 5.4  | 2.6   | 3.0   | 1.2   | 1.1  |
| Private residential investment             | ▲ 3.9  | ▲ 3.7 | ▲ 4.6 | 2.8   | 1.0  | ▲ 7.8  | ▲ 1.7 | ▲ 3.8 | 0.9   | 0.6  |
| Private non-residential capital investment | ▲ 6.5  | 0.6   | 3.8   | 2.1   | 3.3  | ▲ 7.7  | 0.6   | 3.3   | 3.2   | 2.9  |
| Government final consumption expenditure   | 2.8    | 1.9   | 1.1   | 1.0   | 0.7  | 2.5    | 2.0   | 1.5   | 1.0   | 0.5  |
| Public fixed capital formation             | 8.0    | ▲ 1.6 | 1.2   | 2.6   | 2.0  | 5.1    | ▲ 7.5 | ▲ 2.2 | 2.1   | 1.0  |
| Exports                                    | ▲ 2.0  | 6.9   | 2.4   | 0.2   | 3.3  | ▲ 10.0 | 12.4  | 3.7   | ▲ 0.6 | 3.2  |
| Imports                                    | ▲ 2.3  | 5.2   | 5.0   | ▲ 0.3 | 3.4  | ▲ 6.3  | 7.1   | 7.1   | ▲ 0.3 | 2.6  |
| Real GRP/GDP                               | ▲ 4.4  | 1.9   | 1.8   | 1.1   | 1.4  | ▲ 4.6  | 2.3   | 1.7   | 1.2   | 1.4  |
| Private demand (contribution)              | ▲ 5.1  | 0.9   | 2.3   | 0.8   | 1.2  | ▲ 4.7  | 1.5   | 2.1   | 0.9   | 1.1  |
| Public demand (contribution)               | 0.7    | 0.2   | 0.2   | 0.2   | 0.2  | 0.8    | 0.0   | 0.2   | 0.3   | 0.2  |
| Net exports (contribution)                 | 0.1    | 0.9   | ▲ 0.6 | 0.1   | 0.1  | ▲ 0.6  | 0.8   | ▲ 0.6 | ▲ 0.1 | 0.1  |
| Nominal GRP/GDP                            | ▲ 3.5  | 0.8   | 1.6   | 3.0   | 2.6  | ▲ 3.9  | 1.3   | 1.4   | 2.9   | 2.6  |
| GRP/GDP deflator                           | 0.9    | ▲ 1.1 | ▲ 0.3 | 1.8   | 1.1  | 0.7    | ▲ 1.0 | ▲ 0.3 | 1.7   | 1.2  |
| Consumer price index                       | ▲ 0.3  | 0.0   | 2.2   | 1.9   | 1.5  | ▲ 0.4  | 0.0   | 2.7   | 1.9   | 1.3  |
| Industrial Production Index                | ▲ 8.3  | 5.2   | 1.8   | 1.6   | 1.8  | ▲ 9.6  | 5.8   | 1.8   | 1.9   | 2.1  |
| Unemployment rate                          | 3.1    | 3.0   | 2.8   | 2.6   | 2.6  | 2.9    | 2.8   | 2.5   | 2.3   | 2.3  |

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. 140.

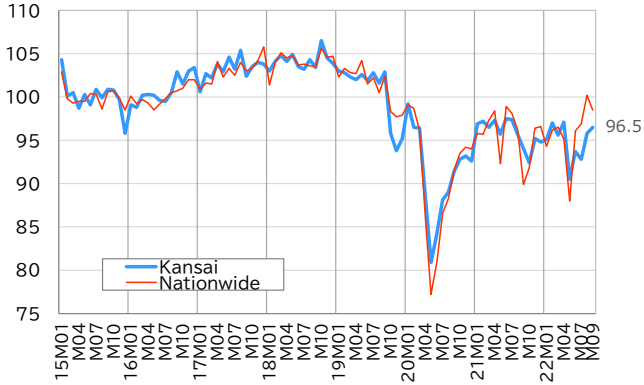
## Previous Forecast

(2022/8/29)

| 年度   | Kansai |       |       |      | Japan  |       |       |       |
|--|--------|-------|-------|------|--------|-------|-------|-------|
|  | 2020   | 2021  | 2022  | 2023 | 2020   | 2021  | 2022  | 2023  |
| Private final consumption expenditure      | ▲ 5.9  | 2.2   | 2.8   | 1.3  | ▲ 5.4  | 2.6   | 2.8   | 1.0   |
| Private residential investment             | ▲ 3.1  | ▲ 4.7 | ▲ 3.8 | 1.7  | ▲ 7.8  | ▲ 1.6 | ▲ 4.4 | 0.5   |
| Private non-residential capital investment | ▲ 5.3  | 0.2   | 2.4   | 2.3  | ▲ 7.7  | 0.6   | 2.4   | 3.8   |
| Government final consumption expenditure   | 2.8    | 1.9   | 1.1   | 0.9  | 2.5    | 2.0   | 1.3   | 0.8   |
| Public fixed capital formation             | 6.0    | ▲ 0.9 | 1.2   | 2.8  | 5.1    | ▲ 7.5 | ▲ 2.9 | 2.6   |
| Exports                                    | ▲ 1.8  | 6.0   | 0.9   | 2.7  | ▲ 10.0 | 12.5  | 2.0   | 0.4   |
| Imports                                    | ▲ 1.0  | 3.9   | 2.2   | 2.9  | ▲ 6.3  | 7.2   | 3.1   | 1.2   |
| Real GRP/GDP                               | ▲ 4.2  | 1.9   | 1.8   | 1.5  | ▲ 4.5  | 2.3   | 1.5   | 1.5   |
| Private demand (contribution)              | ▲ 4.5  | 1.0   | 1.8   | 1.2  | ▲ 4.7  | 1.5   | 1.6   | 1.3   |
| Public demand (contribution)               | 0.7    | 0.3   | 0.3   | 0.3  | 0.8    | 0.0   | 0.1   | 0.3   |
| Net exports (contribution)                 | ▲ 0.4  | 0.6   | ▲ 0.2 | 0.0  | ▲ 0.6  | 0.8   | ▲ 0.2 | ▲ 0.2 |

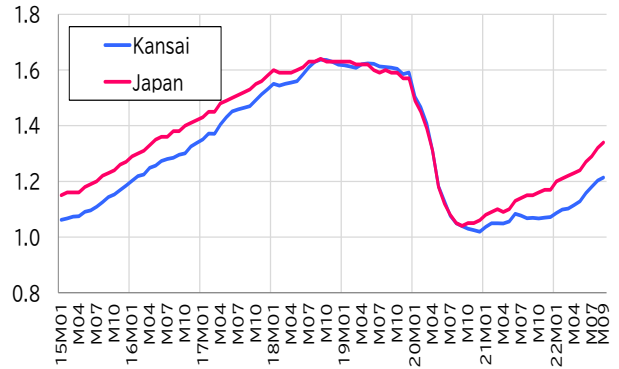
## Forecasts at a Glance

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



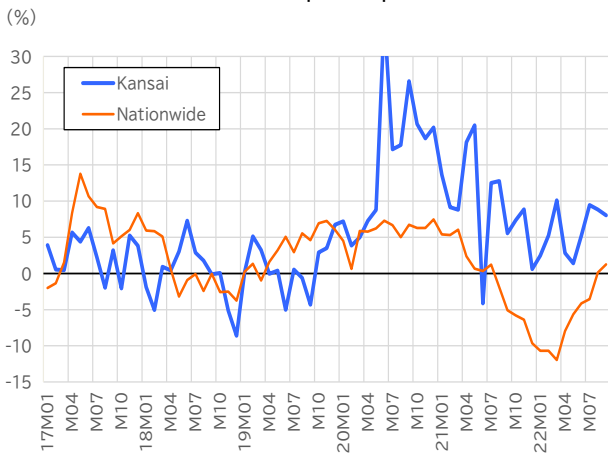
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



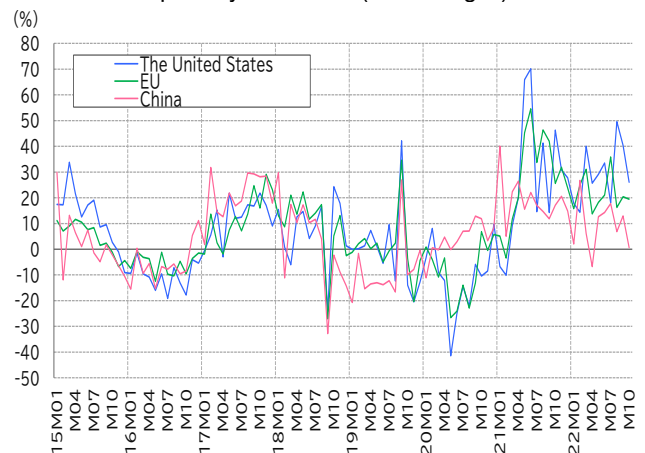
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



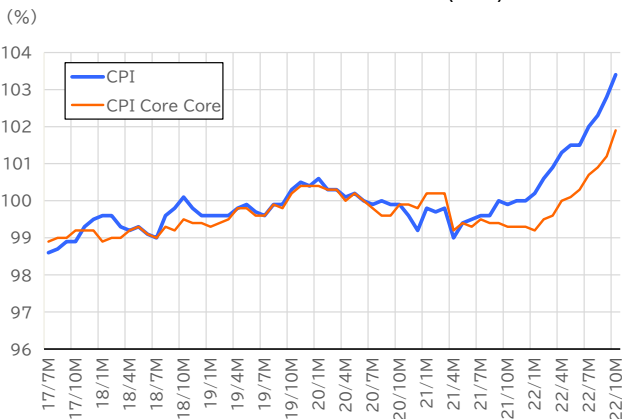
Source: MLIT

【Exports by destination (YoY changes)】



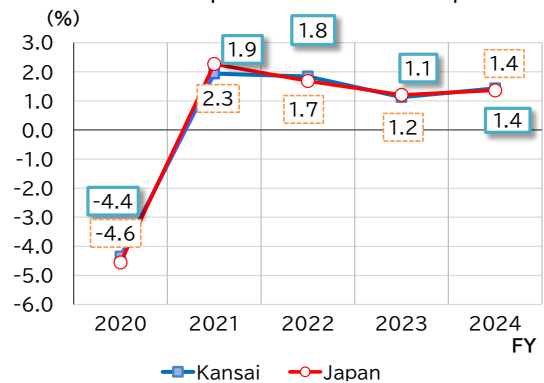
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: METI

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.61"