

## Analysis and Forecasts for the Kansai Economy

# Kansai Economic Insight Quarterly No.63

28 February, 2023

• 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 Highlights

### Gradual recovery driven by domestic demand expected to continue. Soaring prices and global economic trends remain risk factors.

- ◆ Kansai's economy kept recovering moderately in 2022 Q4. With the normalization of economic activities, a solid recovery was seen in a wide range of sectors, most notably in domestic demand, including production, employment, and public investment. Looking ahead, however, a strong recovery is unlikely due to the impact of soaring prices on households and businesses, as well as economic trends in the U.S., Europe, and China.
- ◆ In the household sector, the lifting of restrictions on various economic activities, has led to a general recovery, although high prices have been a drag on recovery in some areas. The sales of large retailers, income and employment conditions, and the housing market have been firm. There are signs of bottoming out in several previously weak indicators, including consumer sentiment and real wages.
- ◆ The corporate sector picked up moderately as economic activity moved toward normalization. Although production has been sluggish, business confidence is picking up, especially in the non-manufacturing sector, and planned capital investment is on the uptick.
- ◆ In the external sector, both the exports and imports of goods in 2022 Q4 increased from the previous year. However, the growth rate decelerated. By region, exports to the U.S. were firm, while those to the EU were somewhat sluggish, and those to China stagnated. Inbound demand-related indicators, including the number of international arrivals via Kansai International Airport and duty-free sales at department stores, recovered sharply due to the easing of border control measures.
- ◆ In 2022 Q4, Kansai outperformed Japan in terms of public-sector activity.
- ◆ Following two consecutive years of negative growth in FY 2019 and FY 20, real GRP growth in Kansai is projected to be +1.3% in FY 22, +1.3% in FY 23, and +1.6% in FY 24. Domestic demand has been the main driver of growth since FY 21. Kansai's GRP is not expected to reach its pre-pandemic level until FY 24, which is later than our previous forecast.
- ◆ Looking at the contribution to growth, private demand will be the growth driver with +1.8% point in FY2022, +1.0% point in FY23, and +1.3% point in FY24. Public demand will also support growth by +0.2 percentage points from FY22 to FY24. External demand will depress growth by -0.7 percentage points in FY22, and will make a positive contribution from FY23 onward, but only modestly.
- ◆ Compared to the previous forecast (released on December 19, 2022), we have revised our FY 22 real GRP growth forecast downward by -0.2 percentage points. On the other hand, we have revised our forecast FY 23 upward by +0.1 percentage points. There has been no major revision in our FY 24 forecast.
- ◆ In the "Topics" section of the Japanese-language version of this report, we estimate the economic effects of the Osaka-Kansai Expo based on our updated assumptions on consumption demand. According to our baseline scenario, the Expo is expected to generate JPY 2.4 trillion in the form of induced production. In the case of a "Greater Expo", a scenario which incorporates increases in the number of day-trips and overnight stays, the amount of induced production is estimated at JPY 2.9 trillion.

## Forecast Summary

	FY	Kansai					Japan				
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure		▲ 5.4	1.9	2.1	1.1	1.3	▲ 5.1	1.5	2.5	1.0	1.3
Private residential investment		▲ 3.0	▲ 3.4	▲ 4.9	0.9	0.7	▲ 7.6	▲ 1.1	▲ 4.6	▲ 0.2	0.0
Private non-residential capital investment		▲ 6.8	1.7	3.3	3.0	2.8	▲ 5.7	2.1	2.8	1.8	3.1
Government final consumption expenditure		2.8	3.0	1.1	1.0	0.9	2.7	3.4	1.3	0.9	0.4
Public fixed capital formation		8.0	▲ 1.5	0.8	1.5	2.1	4.9	▲ 6.4	▲ 3.7	1.0	0.9
Exports		▲ 2.1	7.0	1.2	1.3	2.5	▲ 10.0	12.3	4.6	▲ 0.4	3.1
Imports		▲ 2.4	5.7	3.5	1.3	2.9	▲ 6.3	7.0	7.4	0.6	2.8
Real GRP/GDP		▲ 4.1	2.0	1.3	1.3	1.6	▲ 4.1	2.6	1.3	0.9	1.5
Private demand (contribution)		▲ 4.9	0.9	1.8	1.0	1.3	▲ 4.3	1.4	1.7	0.8	1.3
Public demand (contribution)		0.7	0.4	0.2	0.2	0.2	0.8	0.4	0.1	0.2	0.1
Net exports (contribution)		0.1	0.7	▲ 0.7	0.2	0.1	▲ 0.6	0.8	▲ 0.5	▲ 0.2	0.0
Nominal GRP/GDP		▲ 3.3	1.9	2.0	3.9	2.5	▲ 3.5	2.4	2.2	3.6	2.6
GRP/GDP deflator		0.8	▲ 0.0	0.7	2.5	0.9	0.7	▲ 0.1	0.9	2.7	1.1
Consumer price index		▲ 0.3	0.0	3.1	2.1	1.5	▲ 0.4	0.0	3.1	2.2	1.3
Industrial Production Index		▲ 8.3	5.2	▲ 0.6	1.4	1.8	▲ 9.6	5.8	0.3	1.3	2.0
Unemployment rate		3.1	3.0	2.9	2.7	2.7	2.9	2.8	2.5	2.4	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. 141.

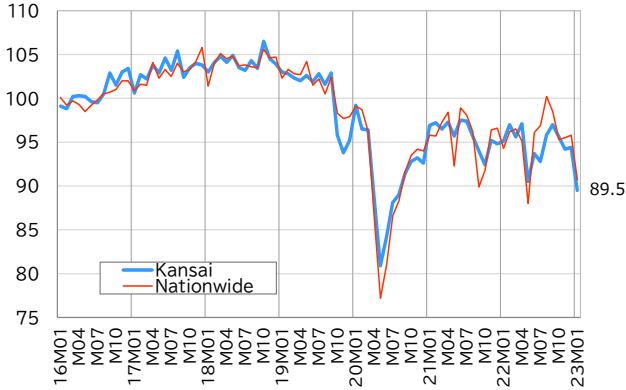
## Previous Forecast

(2022/12/19)

	FY	Kansai					Japan				
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure		▲ 5.4	1.9	2.1	1.2	1.2	▲ 5.1	1.5	2.5	1.4	1.3
Private residential investment		▲ 3.0	▲ 4.0	▲ 3.4	1.8	1.7	▲ 7.6	▲ 1.1	▲ 4.2	0.9	0.8
Private non-residential capital investment		▲ 6.8	1.6	2.8	3.1	3.1	▲ 5.7	2.1	3.3	2.9	2.7
Government final consumption expenditure		2.8	3.0	1.0	1.0	0.7	2.7	3.4	1.2	0.8	0.4
Public fixed capital formation		8.0	▲ 1.5	0.9	2.6	2.2	4.9	▲ 6.4	▲ 2.8	2.1	1.5
Exports		▲ 2.1	6.9	2.2	0.6	2.8	▲ 10.0	12.3	4.6	0.3	3.4
Imports		▲ 2.4	5.6	3.7	0.1	2.7	▲ 6.3	7.1	7.9	0.5	2.9
Real GRP/GDP		▲ 4.1	1.9	1.5	1.2	1.5	▲ 4.1	2.5	1.5	1.1	1.4
Private demand (contribution)		▲ 4.9	0.8	1.7	0.9	1.2	▲ 4.3	1.4	2.0	0.9	1.2
Public demand (contribution)		0.7	0.4	0.2	0.2	0.2	0.8	0.4	0.1	0.3	0.2
Net exports (contribution)		0.1	0.7	▲ 0.4	0.1	0.1	▲ 0.6	0.8	▲ 0.6	▲ 0.0	0.1

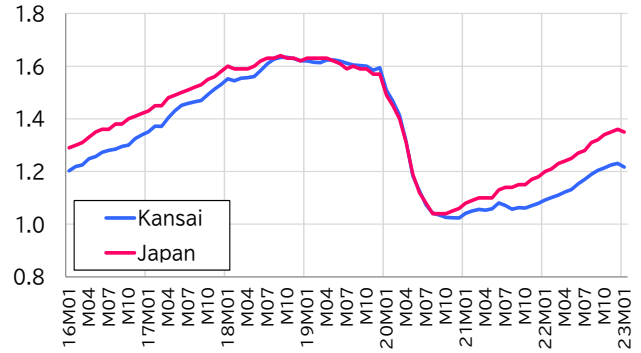
## Forecasts at a Glance

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



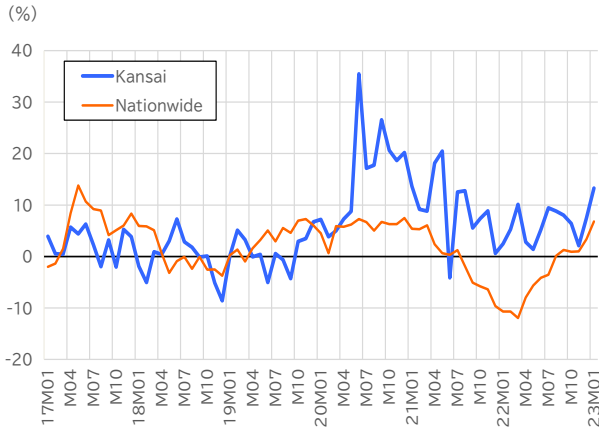
Source: Kansai Bureau of Economy, Trade and Industry

【Effective job offers-to-applicants ratio】



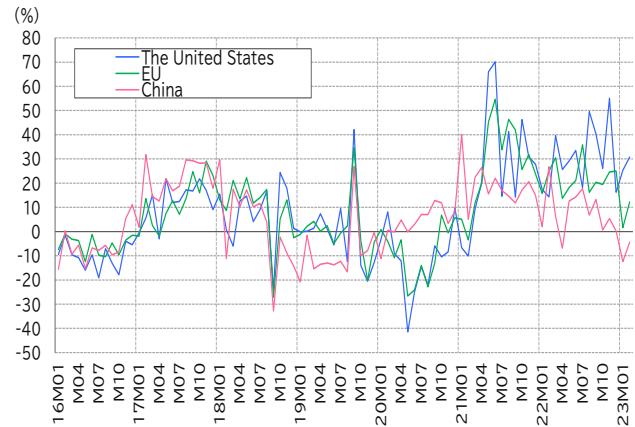
Source: Ministry of Health, Labour and Welfare of Japan

【The amount of completed public works】



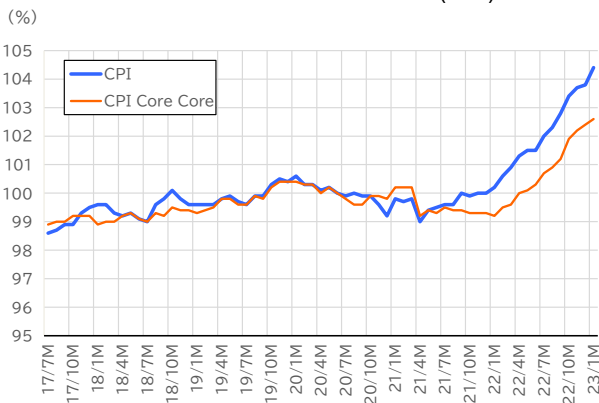
Source: MLIT

【Exports by destination (YoY changes)】



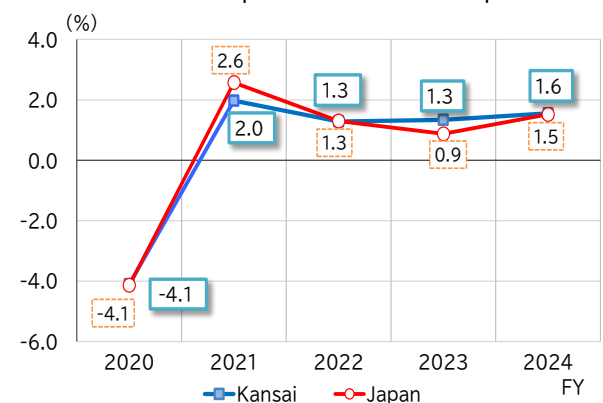
Source: Osaka Customs

【Kansai Consumer Price Index (CPI)】



Source: MIC

【Forecast comparison: Kansai vs. Japan】



Source: APIR "KEIQ No.63"