

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No.64

30 May, 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).

• Authors: Yoshihisa Inada, Hiroaki Irie (Kindai University Professor & APIR Researcher), Ryo Ogawa (Osaka Metropolitan University Professor & APIR Researcher), Chiu-Wei Kuo, Lu Zhaoying, 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

Kansai economy heading for a virtuous circle led by recovery in consumption: Upward economic trend likely to continue.

- ◆ In 2023 Q1, Kansai's economy showed a moderate recovery led by the household sector. The trend was driven by the lifting of restrictions on activities imposed during the Covid-19 pandemic, as well as an increasing number of companies raising wages. On the other hand, the corporate sector and external sector both showed weak trends due to uncertainties including soaring raw material prices and the slowdown of overseas economies. Looking ahead, whether or not the positive impact of the recovery in consumption will spill over to the private sector as a whole, leading to increased investment and continued wage increases, is critical for the outlook of the economy.
- ◆ The environment surrounding the household sector kept improving, owing to the resumption of full-fledged economic activity, wage hikes driven by inflation, and a recovery in sentiments. As a result, the household sector kept recovering at the same pace as in the previous quarter. Consumer sentiments, sales by large retailers, income and employment conditions, and the housing market are all holding steady. Although the negative impact of rising prices can still be seen, it has eased somewhat, partly due to the effects of government policies.
- ◆ In the corporate sector, there is a clear divide between industries. In the manufacturing sector, both production and business confidence remain weak due to soaring raw material prices and the slowdown in overseas economies. On the other hand, the non-manufacturing sector is generally recovering with the resumption of economic activity, especially in face-to-face services, including accommodation, food services, and retail. In addition, planned capital investment in FY 2023 remains at the same level as the previous year, when it increased, and remains robust across all industries.
- ◆ In the external sector, both exports and imports of goods increased YoY, but the growth rate decelerated from the previous quarter. By destination, exports to Europe and the U.S. slowed, while those to China fell below the previous year's level. On the other hand, demand generated by inbound tourism was robust, with the number of foreign arrivals and duty-free sales at KIX recovering to more than 50% of their respective pre-pandemic peaks.
- ◆ The public sector remained in a good shape.
- ◆ Real GRP growth in Kansai is projected to be +1.3% in FY 2023, and +1.7% in FY 2024. Following two consecutive years of negative growth in FY 2019 and FY 2020, Kansai has seen positive growth in the 1-2% range since FY 2021. In FY 2023, Kansai's GRP will almost recover to the pre-pandemic level. Compared to our previous forecast (released on February 28, 2023), there is no revision for FY2023, while the forecast for FY 2024 has been revised upward by +0.1 percentage point.
- ◆ Looking at the contributions to growth, private demand will be the driver of growth with +1.1% pts in FY 2023, and +1.4% pts in FY 2024. Public demand will support growth by +0.2% pts in both FY 2023 and FY 2024. External demand will contribute little to growth, mainly due to weak exports to Asia.
- ◆ In Japan as a whole, exports are expected to stall in FY 2023 due to the stagnant European and U.S. economies. In contrast, Kansai's exports are expected to increase slightly due to a pickup in exports to Asia, which accounts for a large share of exports in Kansai than in Japan as a whole.
- ◆ In the "Topics" section of the Japanese-language version of this report, we present our advanced estimates of the gross regional products (GRP) of Kansai prefectures, and we discuss "the rapidly recovering inbound tourism".

Forecast Summary

FY	Kansai					Japan				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Private final consumption expenditure	▲ 5.4	1.9	2.3	1.4	1.5	▲ 5.1	1.5	2.4	1.6	1.5
Private residential investment	▲ 3.0	▲ 4.2	▲ 4.2	1.5	0.7	▲ 7.6	▲ 1.1	▲ 4.4	0.5	1.0
Private non-residential capital investment	▲ 6.8	1.7	3.4	3.0	3.1	▲ 5.7	2.1	3.0	2.3	2.4
Government final consumption expenditure	2.8	3.0	1.1	0.9	0.9	2.7	3.4	1.1	0.5	0.5
Public fixed capital formation	8.3	▲ 1.5	1.0	1.6	2.1	4.9	▲ 6.4	▲ 2.6	3.0	0.7
Exports	▲ 2.1	7.2	1.3	1.2	2.1	▲ 9.9	12.4	4.4	▲ 1.2	2.1
Imports	▲ 2.4	5.8	4.1	1.7	2.7	▲ 6.3	7.1	7.1	0.8	2.1
Real GRP/GDP	▲ 4.1	2.0	1.3	1.3	1.7	▲ 4.1	2.6	1.2	0.9	1.4
Private demand (contribution)	▲ 4.9	0.8	2.0	1.1	1.4	▲ 4.3	1.4	1.7	1.0	1.2
Public demand (contribution)	0.7	0.4	0.2	0.2	0.2	0.8	0.4	0.1	0.3	0.1
Net exports (contribution)	0.1	0.8	▲ 0.8	0.0	0.1	▲ 0.6	0.8	▲ 0.6	▲ 0.4	▲ 0.0
Nominal GRP/GDP	▲ 3.3	1.9	2.1	4.3	2.6	▲ 3.5	2.4	1.9	3.7	2.6
GRP/GDP deflator	0.8	▲ 0.1	0.7	2.9	0.9	0.7	▲ 0.2	0.7	2.8	1.2
Consumer price index	▲ 0.3	▲ 0.0	2.8	2.6	1.6	▲ 0.4	0.0	3.1	2.5	1.3
Industrial Production Index	▲ 8.3	5.2	▲ 2.2	0.0	1.8	▲ 9.6	5.8	▲ 0.2	▲ 0.1	2.2
Unemployment rate	3.1	3.0	2.9	2.7	2.7	2.9	2.8	2.6	2.6	2.4

Notes: Unit= %. All figures except 'Unemployment rate' are growth rates. Figures on Kansai's economy for FY 2020-22 are estimates, and figures for FY 2023-24 are forecasts. Figures on Japan's economy are official until FY 2022. Forecasts for the Japanese economy (FY 2023-24) are sourced from APIR's Economic Forecast and Analysis No. 143.

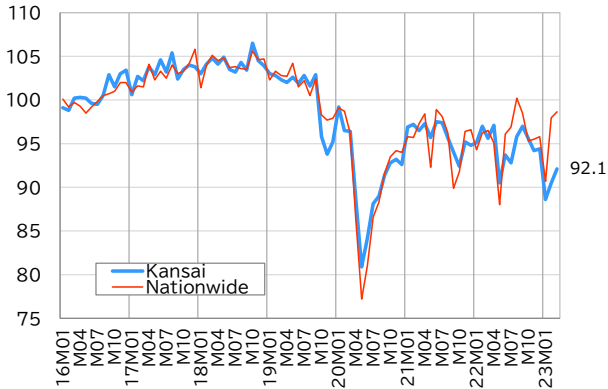
Previous Forecast

(2023/2/28)

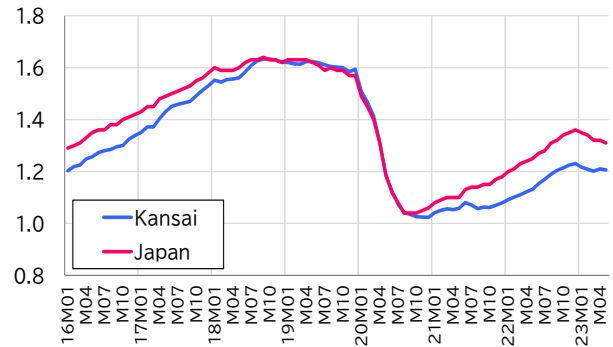
FY	Kansai					Japan				
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Private non-residential capital investment	▲ 6.8	1.7	3.3	3.0	2.8	▲ 5.7	2.1	2.8	1.8	3.1
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Exports	▲ 2.1	7.0	1.2	1.3	2.5	▲ 10.0	12.3	4.6	▲ 0.4	3.1
Imports	▲ 2.4	5.7	3.5	1.3	2.9	▲ 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

Forecasts at a Glance

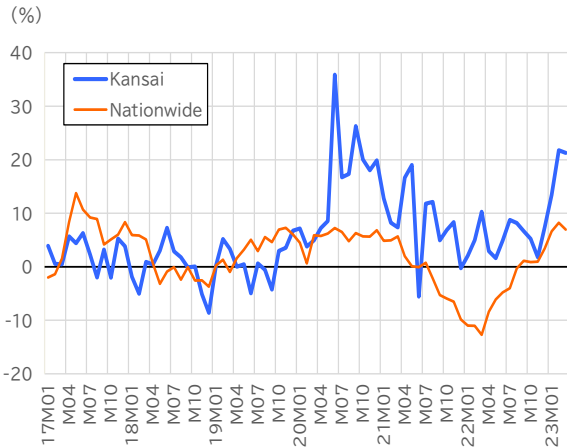
【Index of Industrial Production (2015=100), including Fukui Prefecture】



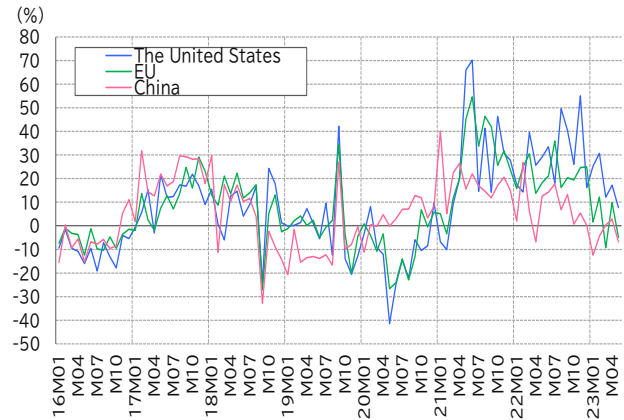
【Effective job offers-to-applicants ratio】



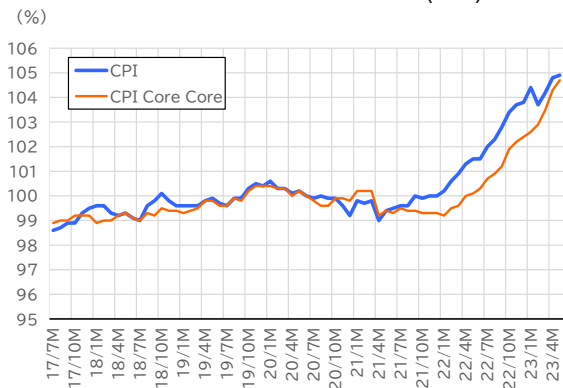
【The amount of completed public works】



【Exports by destination (YoY changes)】



【Kansai Consumer Price Index (CPI)】



【Forecast comparison: Kansai vs. Japan】

