

Analysis and Forecasts for the Kansai Economy

Kansai Economic Insight Quarterly No. 43

11 June, 2019

• 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 Qualitative Economic Analysis & Konan University professor).

• Authors: Yoshihisa Inada, Hiroaki Irie (Kindai University professor & APIR researcher), Ryosuke Nomura (APIR research promotion officer), Nguyet Thi Khanh Cao (Kwansei University lecturer), Teng Ma and Yani Karavasilev (APIR research fellows).

• 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.

Contents

Overview	Page 1
Forecast Summary	Page 2

Overview

Some sectors of the economy are robust but the outlook remains uncertain, dimmed by US-China trade frictions and the upcoming consumption tax hike.

1. In 2019Q1 Japan's real GDP registered the second consecutive quarter of positive growth, expanding +0.5% QoQ (+2.1% if annualized). Among the components of domestic demand, changes in private inventories and public fixed capital formation made a positive contribution to growth, whereas private final consumption expenditure and private capital investment had a negative impact. Concerning external demand, although both exports and imports shrank, since the latter declined more than the former, the overall contribution of net exports was positive.
2. **Although some sectors of Kansai's economy remained robust in 2019Q1, there are growing risks of recession.** China-bound exports are stagnant due to the deceleration of China's economy. In addition, there is a noticeable deterioration in expectations-related indicators, such as the consumer sentiment and business confidence indices. In these unfavorable circumstances, the uncertainties surrounding US-China trade frictions and the impact of the consumption tax hike raise concerns about future economic prospects.
3. **Our forecast for Kansai's real GRP growth is +0.7% in FY2019 and +0.4% in FY2020.** The figures are respectively -0.1%pt and -0.3%pt lower than our previous forecast. The downward revision is due to the deceleration in external demand (outside Kansai), especially exports. The US-China trade frictions and the upcoming consumption tax hike pose further risks to the materialization of our baseline forecast.
4. Among the major GDP components, private demand is expected to contribute less to Kansai's economic growth than it did last year (+0.5%pt), but it will continue to drive growth. Increased government spending, due to policies aimed at mitigating the negative impact of the consumption tax hike on private demand, will make a +0.3%pt contribution to growth. In contrast, external demand (outside Kansai) will suppress growth by -0.1%pt. The expected contributions for FY2020 are +0.3%pt for private demand, +0.3%pt for government spending, and -0.1%pt for external demand, largely repeating the pattern from FY2019, with private demand shrinking slightly.
5. The insufficient frequency of, and the excessive time lag in the release of final official figures on regional economic statistics are often problematic. Since our aim at APIR is to provide an accurate and timely assessment of current economic conditions, we are dedicated to estimating economic data prior to the release of final official figures. In the Japanese-language edition of this report, we introduce our estimates of the number of foreign visitors and the gross regional product (GRP) in each prefecture.

FY	2016	2017	2018	2019	2020
Kansai GRP growth %	0.0	2.5	1.2	0.7	0.4
Japan GDP growth %	(0.9)	(1.9)	(0.6)	(0.6)	(0.6)

Forecast Summary

FY	Kansai					Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	▲ 0.3	1.3	0.7	0.4	0.3	0.0	1.1	0.4	0.1	0.3
Private residential investment	3.6	▲ 3.3	0.1	1.6	▲ 1.6	6.3	▲ 0.7	▲ 4.2	3.0	▲ 3.4
Private non-residential capital investment	▲ 0.4	4.4	4.0	2.7	1.7	▲ 0.5	4.5	3.2	1.4	1.5
Government final consumption expenditure	0.3	0.4	0.6	1.2	1.1	0.7	0.4	0.8	1.1	1.1
Public fixed capital formation	0.4	▲ 2.2	▲ 0.9	1.9	1.9	0.6	0.5	▲ 3.8	2.7	2.0
Exports	1.8	8.5	▲ 0.2	▲ 0.7	1.0	3.6	6.4	1.3	▲ 0.6	0.5
Imports	1.7	3.3	▲ 0.6	0.2	1.7	▲ 0.9	4.1	2.0	0.2	1.6
Real GRP/GDP	0.0	2.5	1.2	0.7	0.4	0.9	1.9	0.6	0.6	0.6
Private demand (contribution)	▲ 0.1	1.3	1.1	0.5	0.3	▲ 0.1	1.3	0.8	0.4	0.4
Public demand (contribution)	0.1	▲ 0.0	0.1	0.3	0.3	0.2	0.1	▲ 0.0	0.3	0.3
Net exports (contribution)	0.0	1.2	0.0	▲ 0.1	▲ 0.1	0.8	0.4	▲ 0.1	▲ 0.1	▲ 0.2
Nominal GRP/GDP	▲ 0.3	2.7	0.8	1.1	1.4	0.7	2.0	0.5	0.9	1.3
GRP/GDP deflator	▲ 0.3	0.2	▲ 0.4	0.4	0.9	▲ 0.2	0.1	▲ 0.2	0.3	0.8
Consumer price index	▲ 0.2	0.5	0.5	0.8	0.8	▲ 0.3	0.7	0.8	0.7	0.8
Industrial Production Index	1.9	2.5	▲ 0.6	0.5	0.6	0.8	2.9	0.3	0.2	0.6
Unemployment rate	3.4	2.9	2.9	2.8	2.8	3.0	2.7	2.6	2.5	2.5

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2015-17 figures are official, 2018-20 figures are APIR forecasts. Forecasts for the Japanese economy are sourced from APIR's Economic Forecast and Analysis No. 121.

Previous Forecast

(2019/2/27)

年度	Kansai					Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	▲ 0.3	1.3	0.7	0.4	0.4	0.0	1.1	0.7	0.4	0.5
Private residential investment	3.6	▲ 3.4	▲ 0.3	0.7	▲ 2.1	6.3	▲ 0.7	▲ 4.2	0.7	▲ 2.2
Private non-residential capital investment	▲ 0.3	4.0	3.1	2.3	1.8	▲ 0.5	4.6	3.2	1.9	1.3
Government final consumption expenditure	0.3	0.4	0.6	1.0	1.0	0.7	0.4	1.0	1.2	1.1
Public fixed capital formation	0.4	▲ 2.2	▲ 0.6	1.6	1.7	0.6	0.5	▲ 3.8	2.1	2.3
Exports	1.9	8.7	1.9	1.4	1.4	3.6	6.4	1.8	1.9	1.8
Imports	1.8	3.3	0.1	1.3	1.5	▲ 0.9	4.0	3.1	2.0	1.1
Real GRP/GDP	0.0	2.5	1.4	0.8	0.6	0.9	1.9	0.5	0.6	0.7
Private demand (contribution)	▲ 0.1	1.3	1.0	0.5	0.3	▲ 0.0	1.4	0.8	0.3	0.3
Public demand (contribution)	0.1	▲ 0.0	0.1	0.2	0.2	0.2	0.1	0.0	0.3	0.3
Net exports (contribution)	0.1	1.3	0.4	0.1	0.0	0.7	0.4	▲ 0.2	▲ 0.0	0.1