

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 & Konan University Professor).

• Authors: Yoshihisa Inada, Hiroaki Irie (Kindai University Associate Professor & APIR Researcher), Ryo Ogawa (Osaka City University Associate Professor & APIR Researcher) Yusuke Kinoshita (APIR Program Officer) Chiu-Wei Kuo, Yani Karavasilev (APIR Research Fellows), Shigekazu Yoshida, Ryosuke Nomura (APIR Research Promotion Officers), and Jingfei Che (APIR Intern).

• 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.

Overview

Covid-19 to further debilitate Kansai's economy: a slump in private and external demand

- ◆ Japan's real GDP in 2020 Q1 shrank an annualized -3.4% (-0.9% QoQ). As a result, growth remained in negative territory for two consecutive quarters. Both private consumption and exports suffered a major decline due to the Covid-19 pandemic. GDP growth is likely to see an even steeper slump in 2020 Q2.
- ◆ **Private and external demand in Kansai slumped in 2020 Q1.** In addition to the consumption tax hike in October 2019 and the slowdown of the Chinese economy, the Covid-19 pandemic dealt another blow to the economy in the form of entry restrictions for international visitors and lockdown-like measures. Many indices related to business confidence, consumer sentiments and inbound tourism have reached their lowest levels since statistical records began.
- ◆ **Our forecast for Kansai's real GRP growth is -5.1% in FY 2020 and +2.6% in FY 2021.** Similar to the rest of Japan, Kansai's economy will start recovering in 2021, but it will not reach its pre-pandemic level until after 2022.
- ◆ Compared with our previous forecast, we have revised FY 2020 growth down by -4.6%pt, and FY 2021 growth up by +1.5%pt, reflecting the deceleration of the domestic and global economies caused by the Covid-19 outbreak. The upward revision in the FY 2021 forecast reflects an expected recovery in all major GDP components, most conspicuously private demand.
- ◆ In terms of contribution to growth, in FY 2020, private demand will suppress growth by -4.7%pt, and external demand by -0.7%pt. Public demand will make a small positive contribution of +0.3%pt, but it will not be sufficient to offset the negative contribution of private demand. In FY 2021, we forecast contributions of +1.8%pt for private, +0.3%pt for public, and +0.5%pt for external demand, adding up to a total of +2.6% YoY growth.
- ◆ Although we did not take into account the impact of reduced economic activities as a result of the government's state of emergency declaration in our previous forecast, we did so in the latest one presented here. Comparing the two forecasts, **we estimate that the economic loss caused by the state of emergency in Kansai will be JPY 154.3 billion in terms of private final consumption expenditure, JPY 825.2 billion in terms of private capital investment, and JPY 3,211.8 billion in terms of exports, adding up to a total GRP loss of JPY 3.75 trillion.** In addition, 158 thousand employees are expected to lose their jobs.

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

	FY	2017	2018	2019	2020	2021
Kansai GRP growth (%)		2.2	0.7	-0.2	-5.1	2.6
Japan GDP growth (%)		1.9	0.3	-0.1	-5.6	2.5

Summary of Forecast Results

FY	Kansai					Japan				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Household final consumption expenditure (HFCE)	0.6	0.1	▲ 0.6	▲ 5.1	3.4	1.1	0.1	▲ 0.6	▲ 4.9	3.5
Private residential investment	▲ 4.8	0.9	▲ 1.7	▲ 9.5	3.7	▲ 1.4	▲ 4.9	0.3	▲ 8.3	2.4
Private non-residential capital investment	4.8	1.3	0.1	▲ 9.8	3.8	4.3	1.7	▲ 0.9	▲ 7.8	0.7
Government final consumption expenditure (GFCE)	0.8	0.7	1.8	1.5	1.0	0.3	0.9	2.4	1.3	0.9
Public fixed capital formation	0.4	0.1	3.7	2.7	3.0	0.5	0.6	3.3	2.3	4.8
Exports	7.3	▲ 1.2	▲ 2.4	▲ 16.2	9.4	6.4	1.7	▲ 2.7	▲ 20.3	7.8
Imports	4.8	▲ 1.2	▲ 1.8	▲ 15.4	7.8	3.9	2.5	▲ 1.7	▲ 10.3	6.4
Real GRP/GDP	2.2	0.7	▲ 0.2	▲ 5.1	2.6	1.9	0.3	▲ 0.1	▲ 5.6	2.5
Private demand (contribution)	0.7	0.6	▲ 0.5	▲ 4.7	1.8	1.4	0.2	▲ 0.5	▲ 4.3	2.0
Public demand (contribution)	0.2	0.1	0.5	0.4	0.3	0.1	0.2	0.6	0.4	0.5
Net exports (contribution)	1.3	▲ 0.0	▲ 0.2	▲ 0.7	0.5	0.5	▲ 0.1	▲ 0.2	▲ 1.6	0.1
Nominal GRP/GDP	2.4	0.4	0.6	▲ 4.7	2.6	2.0	0.1	0.7	▲ 5.1	2.4
GRP/GDP deflator	0.1	▲ 0.2	0.7	0.4	▲ 0.1	0.1	▲ 0.2	0.8	0.4	▲ 0.1
Consumer price index	0.5	0.5	0.7	▲ 0.2	0.2	0.7	0.8	0.6	▲ 0.4	0.4
Industrial Production Index	2.5	▲ 0.1	▲ 3.8	▲ 8.6	4.9	2.9	0.3	▲ 3.8	▲ 9.0	5.7
Unemployment rate	2.9	2.8	2.6	4.2	4.1	2.7	2.4	2.4	3.6	3.5

Notes: Unit= %. Figures for all components except 'Total unemployment rate' are growth rates. 2017-8 figures are official, 2019-21 figures are APIR forecasts. Forecasts for the Japanese economy are sourced from APIR's *Economic Forecast and Analysis No. 128*.

Previous Forecast

FY	Kansai					Japan				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Household final consumption expenditure (HFCE)	1.0	0.2	▲ 0.6	▲ 1.2	0.6	1.1	0.1	▲ 0.6	▲ 1.1	0.9
Private residential investment	▲ 3.5	1.3	▲ 1.4	▲ 2.6	2.7	▲ 1.4	▲ 4.9	0.2	▲ 3.0	3.5
Private non-residential capital investment	3.7	1.0	0.8	▲ 2.0	1.6	4.3	1.7	▲ 0.7	▲ 1.2	2.6
Government final consumption expenditure (GFCE)	0.5	0.7	1.9	1.3	0.8	0.3	0.9	2.6	1.6	0.7
Public fixed capital formation	▲ 5.1	▲ 1.0	4.2	2.7	1.7	0.5	0.6	3.6	2.2	1.1
Exports	7.2	▲ 1.1	▲ 2.7	1.1	3.2	6.4	1.6	▲ 2.3	0.9	3.4
Imports	5.3	▲ 1.9	▲ 1.3	▲ 0.7	2.1	3.9	2.2	▲ 0.8	▲ 0.3	2.3
Real GRP/GDP	2.0	0.8	▲ 0.2	▲ 0.5	1.1	1.9	0.3	▲ 0.0	▲ 0.4	1.2
Private demand (contribution)	0.9	0.5	▲ 0.3	▲ 1.2	0.5	1.4	0.2	▲ 0.4	▲ 1.0	0.8
Public demand (contribution)	▲ 0.0	0.1	0.5	0.3	0.2	0.1	0.2	0.7	0.4	0.2
Net exports (contribution)	1.2	0.2	▲ 0.3	0.4	0.3	0.4	▲ 0.1	▲ 0.3	0.2	0.2

(2020/3/16)