

## 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).

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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.

### Overview

#### - Covid-19 deals historic blow to Kansai's economy - Risks abound despite recovering exports to China

- ◆ **Kansai's economy contracted sharply in Q2 due to the state of emergency imposed in response to the Covid-19 pandemic.** Although the state has since been lifted, and the economy seems to have bottomed out, the *status quo* remains severe. Japan's real GDP in Q2 shrank an annualized -27.8% QoQ. Growth has remained in negative territory for three consecutive quarters.
- ◆ The **household sector** remains in a severe state. The Covid-19 state of emergency dealt a major blow to the consumer sentiment and to sales by large retailers. Although the decline seems to have now come to an end, indicators are a far cry from their pre-pandemic levels. The pandemic has also led to a further deterioration in the already stagnant employment and income environments.
- ◆ In the **corporate sector**, production trends and business confidence are worsening. Despite the good outlook for planned fixed capital investment in FY 2020, there are concerns of overinvestment, which might lead to downward revisions.
- ◆ The **external sector** remains weak too. Both exports and imports have been shrinking. Although China-bound exports seem to be recovering, there are multiple risk factors, collectively referred to as "the China risk" in Japan. Services exports, including inbound demand, remain virtually non-existent.
- ◆ **Our forecast for Kansai's real GRP growth is -5.2% in FY 2020 and +3.3% in FY 2021.** FY 2020 will be a year of record decline. The economy will start recovering in 2021, but it will not reach its pre-pandemic level until after 2022.
- ◆ Compared with our previous forecast (May 28), we have revised the FY 2020 growth forecast down by -0.1%pt, and the FY 2021 one up by +0.7%pt. There was an upward revision in our FY 2020 capital investment forecast, but a downward one in external demand, resulting in an overall downward revision for FY 2020. We also revised up our FY 2021 external demand forecast.
- ◆ In terms of contribution to growth, in FY 2020, private demand will suppress growth by -4.4%pt, and external demand by -1.1%pt. Public demand will make a small positive contribution of +0.3%pt, but it will not be sufficient to offset the negative trends in private demand. In FY 2021, we forecast contributions of +2.1%pt by private, +0.3%pt by public, and +1.0%pt by external demand.
- ◆ Kansai's China-bound exports are recovering quickly, as the region has strong economic ties with China. However, the outlook is not so rosy due to numerous concerns (the abovementioned "China risk"). Among these, the future of the China-US trade conflict, the huge environmental risks of the Three Gorges Dam on the Yangtze River, and the uncertain denouement of the Covid-19 pandemic pose serious difficulties to making forecasts.

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	-0.1	-5.2	3.3
Japan GDP growth %		(1.9)	(0.3)	(0)	(-5.9)	(3.3)

## Forecast Summary

FY	Kansai					Japan				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Private final consumption expenditure	0.6	▲ 0.0	▲ 0.6	▲ 5.8	3.3	1.1	0.07	▲ 0.6	▲ 6.1	3.4
Private residential investment	▲ 4.9	1.1	▲ 1.6	▲ 4.8	1.5	▲ 1.4	▲ 4.9	0.5	▲ 6.3	▲ 0.9
Private non-residential capital investment	4.5	1.6	▲ 0.5	▲ 5.1	2.1	4.3	1.8	▲ 0.3	▲ 4.0	1.3
Government final consumption expenditure	0.8	0.5	1.8	1.3	0.6	0.3	0.9	2.3	0.7	1.1
Public fixed capital formation	0.8	2.0	5.2	2.6	3.7	0.5	0.6	3.3	3.4	4.0
Exports	7.5	▲ 1.2	▲ 1.1	▲ 10.7	10.3	6.4	1.7	▲ 2.6	▲ 13.3	9.2
Imports	3.6	▲ 1.5	▲ 2.4	▲ 8.5	4.5	3.9	2.6	▲ 1.5	▲ 3.0	3.8
Real GRP/GDP	2.2	0.7	▲ 0.1	▲ 5.2	3.3	1.9	0.3	0.0	▲ 5.9	3.3
Private demand (contribution)	1.1	0.4	▲ 0.7	▲ 4.4	1.7	1.4	0.2	▲ 0.4	▲ 4.5	2.0
Public demand (contribution)	0.3	0.1	0.5	0.3	0.3	0.1	0.2	0.6	0.3	0.5
Net exports (contribution)	0.8	0.2	0.0	▲ 1.1	1.3	0.5	▲ 0.1	▲ 0.2	▲ 1.7	0.8
Nominal GRP/GDP	2.3	0.6	0.6	▲ 4.5	3.6	2.0	0.1	0.8	▲ 5.3	3.9
GRP/GDP deflator	0.1	▲ 0.1	0.7	0.8	0.3	0.1	▲ 0.2	0.8	0.7	0.6
Consumer price index	0.5	0.5	0.7	▲ 0.2	0.3	0.7	0.8	0.6	▲ 0.3	0.4
Industrial Production Index	2.4	▲ 0.1	▲ 3.9	▲ 9.0	5.2	2.9	0.3	▲ 3.8	▲ 10.9	6.6
Unemployment rate	2.9	2.8	2.6	4.0	4.2	2.7	2.4	2.4	3.5	3.7

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. 126.

## Previous Forecast

(2020/5/28)

年度						Japan				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Private final consumption expenditure	0.6	0.0815	▲ 0.6	▲ 5.1	3.4	1.1	0.0698	▲ 0.6	▲ 4.9	3.5
Private residential investment	▲ 4.8	0.9	▲ 1.7	▲ 9.4	3.6	▲ 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	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