

## 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.

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

### Overview

#### **Kansai's economy at a crossroads: double-dip recession or recovery? Vaccination and the structural transformation of exports are key**

- ◆ Kansai's economy remained sluggish throughout 2020 Q4. Despite a tepid recovery in early autumn, the recovery of domestic demand came to a halt due to the resurgence of COVID-19 infections in November. The exports of goods and services, which have been the driving force behind Kansai's economy so far, are facing an inevitable transformation.
- ◆ The household sector remained weak, as economic activity was curtailed in response to the resurgence of the virus. Although the economy was in a better shape compared to Q2, when the state of emergency was imposed and the economy hit rock bottom, some indicators, such as the consumer sentiment, are deteriorating again, making it difficult to call it a solid recovery.
- ◆ In the corporate sector, although production trends and business confidence showed an improvement, they remain below their pre-pandemic levels.
- ◆ In the external sector, the exports of goods recovered. However, services exports, notably inbound tourism, remained virtually non-existent as entry restrictions remained in place.
- ◆ At the beginning of 2021, three Kansai prefectures declared a second state of emergency, which lead to a decline in economic activity in Q1. Whether Kansai's economy will return to growth or face a second recession depends on the COVID-19 vaccination rollout, as well as on when inbound tourism will resume.
- ◆ **Our forecast for Kansai's real GRP growth is -4.7% in FY 2020, +3.8% in FY 2021, and +1.6% in FY 2022.** 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 to our previous forecast (December 28), we revised upwards our estimates for FY 2020 (+0.4%pt) and FY 2021 (+0.2%pt). However, we revised down our estimate for FY 2022 (-0.1%pt). As we expect a strong recovery in China-bound exports, we revised upwards our external demand estimates for both FY 2020 and FY 2021. On the other hand, as the recovery in exports is expected to slow down, we made a downward revision for FY 2022.
- ◆ In terms of contribution to growth, in FY 2020, private demand is expected to suppress growth by -4.7%pt, and external demand by -0.6%pt. Public demand is expected to make a positive contribution of +0.7%pt. In FY 2021, we forecast contributions of +1.9%pt by private, +0.4%pt by public, and +1.5%pt by external demand. In FY 2022, we forecast positive yet smaller contributions of +1.1%pt by private, +0.2%pt by public, and +0.3%pt by external demand.
- ◆ In the "Topics" section of the Japanese-language version of this report we make forecasts for consumption trends based on people flow data, and we analyze the impact of re-imposing the state of emergency on Kansai's economy.

## Forecast Summary

FY	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 0.1	▲ 0.9	▲ 6.2	3.0	1.5	0.2	▲ 1.0	▲ 6.3	2.4	1.5
Private residential investment	0.1	▲ 1.7	▲ 3.4	▲ 1.5	2.5	▲ 4.9	2.5	▲ 7.7	▲ 1.5	1.6
Private non-residential capital investment	1.1	0.8	▲ 5.7	2.1	2.6	1.0	▲ 0.6	▲ 6.5	3.4	2.6
Government final consumption expenditure	0.6	1.7	3.0	1.3	0.7	1.1	2.0	3.3	1.4	0.8
Public fixed capital formation	1.0	3.3	3.5	3.0	1.3	0.8	1.5	4.7	2.4	1.3
Exports	▲ 1.1	▲ 0.7	▲ 7.4	11.3	4.2	2.1	▲ 2.6	▲ 11.1	10.4	3.1
Imports	▲ 1.5	▲ 1.1	▲ 5.3	7.4	3.4	2.8	▲ 1.3	▲ 6.4	2.8	2.6
Real GRP/GDP	0.4	▲ 0.3	▲ 4.7	3.8	1.6	0.3	▲ 0.3	▲ 4.8	3.4	1.8
Private demand (contribution)	0.2	▲ 0.7	▲ 4.7	1.9	1.1	0.2	▲ 0.6	▲ 4.9	1.7	1.4
Public demand (contribution)	0.1	0.4	0.7	0.4	0.2	0.2	0.5	0.9	0.4	0.2
Net exports (contribution)	0.1	▲ 0.0	▲ 0.6	1.5	0.3	▲ 0.1	▲ 0.2	▲ 0.9	1.3	0.1
Nominal GRP/GDP	0.3	0.4	▲ 4.0	4.0	1.9	0.2	0.5	▲ 4.1	3.5	2.2
GRP/GDP deflator	▲ 0.1	0.7	0.7	0.2	0.3	▲ 0.1	0.8	0.7	0.1	0.4
Consumer price index	0.5	0.6	▲ 0.2	0.3	0.5	0.8	0.6	▲ 0.4	0.4	0.7
Industrial Production Index	0.2	▲ 4.1	▲ 9.4	7.2	2.5	0.3	▲ 3.8	▲ 9.9	7.9	2.9
Unemployment rate	2.8	2.6	3.2	3.5	3.4	2.4	2.3	2.9	3.2	3.1

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. 131.

## Previous Forecast

(2020/12/28)

年度	Kansai					Japan				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Private final consumption expenditure	▲ 0.0	▲ 0.6	▲ 6.3	3.2	1.3	0.2	▲ 0.9	▲ 5.7	3.5	1.5
Private residential investment	▲ 3.2	▲ 4.5	▲ 5.5	▲ 2.1	2.3	▲ 4.9	2.5	▲ 7.0	▲ 0.9	1.0
Private non-residential capital investment	1.5	▲ 0.8	▲ 5.1	2.0	2.5	1.0	▲ 0.6	▲ 7.5	2.1	2.2
Government final consumption expenditure	0.8	1.7	2.5	1.5	0.8	1.1	2.0	2.7	1.4	0.8
Public fixed capital formation	2.1	3.5	3.2	3.2	1.3	0.8	1.5	4.3	2.3	1.1
Exports	▲ 0.9	▲ 0.5	▲ 7.6	11.2	4.9	2.1	▲ 2.6	▲ 12.7	10.5	4.1
Imports	▲ 1.7	▲ 1.7	▲ 5.1	7.9	2.7	2.8	▲ 1.2	▲ 6.0	4.2	3.1
Real GRP/GDP	0.7	▲ 0.4	▲ 5.1	3.6	1.7	0.3	▲ 0.3	▲ 5.0	3.4	1.6
Private demand (contribution)	0.3	▲ 0.8	▲ 4.8	2.0	1.0	0.2	▲ 0.6	▲ 4.5	1.9	1.2
Public demand (contribution)	0.2	0.4	0.6	0.4	0.2	0.2	0.5	0.8	0.4	0.2
Net exports (contribution)	0.3	▲ 0.0	▲ 0.9	1.2	0.5	▲ 0.1	▲ 0.2	▲ 1.3	1.0	0.2