

## Analysis and Forecasts for the Kansai Economy

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• This report is an analysis of economic trends in the Kansai region produced by APIR's *Japanese and Kansai Economy Short-term Forecast* project team. The project team is led by the Director of the Centre for Qualitative Economic Analysis at APIR, Professor Yoshihisa Inada of Konan University. The report was written by Professor Inada, Associate Professor Hiroaki Irie (Kindai University Junior College, APIR researcher), and APIR researchers Yusuke Kinoshita, Yusuke Ikuta, Nguyet Thi Khanh Cao, and Teng Ma.

• In this report, 'Kansai' represents 6 prefectures: Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama. References to 'Kinki' (another term for the region) in official data have been changed to 'Kansai' for consistency purposes.

• Forecasts are made using APIR's original Kansai economy forecast model and are supervised by Professors Inada and Irie.

### Overview

#### The Kansai economy is at a crossroads. The economy has plateaued and risks are looming. Will the gradual improvement continue?

1. In 2018Q2, Japan's real GDP expanded +0.5% QoQ (+1.9% annualized), growing for the first time in two quarters. Among the main contributors to growth, domestic demand increased by +0.6%pt, expanding for the first time in two quarters. In particular, the contributions of private consumption and non-residential capital investment were substantial. In contrast, the contribution of net exports registered a slight decrease for the first time in two quarters, falling by -0.1%pt. These trends confirmed that the Q1 slump was indeed temporary.
2. In 2018Q2 the Kansai economy saw a gradual improvement, but the plateau continues as certain indicators remain weak. In the household sector, the consumer sentiment deteriorated despite improving incomes and employment environment. In the corporate sector, production remained mostly unchanged despite improving business confidence and strong capital investment intentions for the current fiscal year. In the external sector, net exports expanded and inbound demand of foreign visitors remained robust. The public sector stagnated for the most part. The impact of the earthquake in Northern Osaka was limited.
3. We forecast a real Kansai GRP growth of +1.8% in FY2018, +1.0% in FY2019, and +0.8% in FY2020. Our previous FY2018 and FY2019 forecasts were revised upwards by +0.5%pt and +0.1%pt, respectively. Likewise, we have revised upwards our advance estimates for the previous fiscal years by +0.1% for FY 2016 and +2.5% for FY 2017.
4. Regarding the individual contributions of GRP components in FY2018, we forecast that private demand will contribute +1.1%pts, external demand +0.6%pt, and public demand +0.1%pt (in real terms), with the former two making balanced contributions to growth. The respective values for FY2019 are +0.4%pt, +0.5%pt and +0.1%pt, among which the contribution of private demand will decline visibly. The respective forecast values for FY2020 are +0.1%pt, +0.6%pt and +0.2%pt, with the contribution of private demand shrinking even further as a result of the consumption tax hike.
5. We expect that the growth rate of the Kansai economy in FY2018 will outpace Japan's, due to the recovery in income growth as well as the re-acceleration trends in external demand. Starting FY2019, Kansai's economic expansion will slow down under the influence of the consumption tax hike, and so will the Japanese economy as a whole.
6. We have estimated the spillover effects of the massive growth in consumption of foreign visitors in 2017. External consumer demand in Kansai grew an impressive +16.4% YoY, which meant the total contribution of external demand to Kansai's GRP increased to 1%. Accelerating external demand led to a rapid growth in large-scale investments in accommodation facilities, especially in the years following the onset of the shopping-spree period in 2015. Considering the current occupancy rates of lodging facilities, those investments cannot be considered excessive.

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FY	2015	2016	2017	2018	2019	2020
Kansai GRP growth (%)	1.4	0.1	2.5	1.8	1.0	0.8
Japan GDP growth (%)	1.4	1.2	1.6	1.1	0.9	0.6

## Summary of Forecast Results

FY	Kansai Economy						Japanese Economy					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Household final consumption expenditure (HFCE)	0.6	▲ 0.1	1.1	0.7	0.3	▲ 0.0	0.8	0.3	0.8	0.8	0.3	▲ 0.2
Private residential investment	▲ 0.6	2.8	▲ 1.9	▲ 0.6	1.4	0.2	3.7	6.2	▲ 0.3	▲ 5.0	1.7	▲ 1.0
Private non-residential capital investment	▲ 1.7	▲ 0.0	6.4	4.6	1.7	1.5	2.3	1.2	3.1	3.4	2.1	2.4
Government final consumption expenditure (GFCE)	1.5	0.5	0.6	0.5	0.6	0.7	1.9	0.5	0.7	0.6	0.7	0.6
Public fixed capital formation	▲ 2.9	1.0	▲ 1.0	0.0	0.1	1.0	▲ 1.6	0.9	1.4	▲ 0.5	2.0	1.6
Exports	▲ 0.5	2.5	8.6	4.1	3.6	3.0	0.8	3.6	6.3	3.7	3.2	3.1
Imports	1.5	2.2	4.0	1.7	1.7	0.9	0.4	▲ 0.8	4.1	3.0	1.6	0.8
Real GRP/GDP	1.4	0.1	2.5	1.8	1.0	0.8	1.4	1.2	1.6	1.1	0.9	0.6
Private demand (contribution)	1.4	0.1	1.7	1.1	0.4	0.1	1.1	0.3	1.1	0.9	0.4	0.0
Public demand (contribution)	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.1	0.2	0.2
Net exports (contribution)	▲ 0.1	▲ 0.1	0.8	0.6	0.5	0.6	0.1	0.7	0.3	0.1	0.3	0.4
Nominal GRP/GDP	2.7	0.1	2.7	1.9	1.8	1.9	3.0	1.0	1.7	1.1	1.5	1.9
GRP/GDP deflator	1.5	▲ 0.1	0.2	0.1	0.8	1.1	1.5	▲ 0.2	0.1	0.1	0.8	1.2
Consumer price index	0.3	▲ 0.2	0.6	0.7	1.5	1.3	▲ 0.0	▲ 0.2	0.7	0.8	1.3	1.1
Industrial Production Index	▲ 1.6	3.3	1.5	1.1	1.3	0.6	▲ 0.9	1.0	4.1	1.9	1.6	0.8
Unemployment rate	3.7	3.4	2.9	2.7	2.7	2.6	3.3	3.0	2.7	2.4	2.4	2.3

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. 118*.

## Previous Forecast (31 May 2018)

FY	Kansai Economy						Japanese Economy					
	2015	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019	2020
Household final consumption expenditure (HFCE)	0.5	▲ 0.1	1.1	0.8	0.3		0.8	0.3	0.9	0.6	0.3	
Private residential investment	▲ 1.2	5.1	▲ 2.2	▲ 3.0	1.9		3.7	6.2	▲ 0.3	▲ 3.4	2.2	
Private non-residential capital investment	▲ 2.3	▲ 0.7	3.3	2.3	1.7		2.3	1.2	3.2	2.7	2.3	
Government final consumption expenditure (GFCE)	1.7	0.5	0.6	0.7	0.7		1.9	0.5	0.7	0.6	0.7	
Public fixed capital formation	▲ 2.9	0.1	▲ 1.5	▲ 1.2	1.2		▲ 1.6	0.9	1.4	▲ 1.3	1.3	
Exports	▲ 0.5	2.6	8.1	5.2	3.6	N.A.	0.8	3.6	6.2	4.5	3.0	N.A.
Imports	1.5	2.2	6.0	4.0	2.7		0.4	▲ 0.8	4.0	2.8	1.6	
Real GRP/GDP	1.2	0.1	2.2	1.3	0.9		1.4	1.2	1.6	1.1	0.7	
Private demand (contribution)	1.2	▲ 0.0	1.3	0.7	0.4		1.1	0.3	1.1	0.7	0.3	
Public demand (contribution)	0.1	0.1	0.1	0.1	0.2		0.3	0.1	0.2	0.1	0.2	
Net exports (contribution)	▲ 0.2	0.0	0.8	0.5	0.4		0.1	0.7	0.3	0.3	0.2	