

-Economic Trends and Forecast for Kansai-

Kansai Economic Insight

関西エコノミックインサイト

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▼ "Kansai Economic Insight" is the trend analysis and forecast report of economy in Kansai area. This report is organized by Macroeconomic Analysis Project Team in the Kansai Institute for Social and Economic Research (KISER) supervised by Prof. Yoshihisa Inada (Konan University), and Prof. Kikuo Takabayashi (Kwansei Gakuin University).

▼ In this report, "Kansai" (alternatively referred to as "Kinki region" by the Japanese Statistics Bureau which is the original data source) includes Fukui, Shiga, Kyoto, Osaka, Hyogo, Nara and Wakayama Prefecture. Data are for each fiscal year (FY) which in Japan runs from April to March.

Kansai Economy in Brief

- Fluctuating trend but steady recovery, thanks to external demand and policy effect -

1. The Kansai economy is recovering steadily but gradually. The external demand supported by the growth of Asian economy is the main factor contributing to the economic recovery. Private sector improved through the effects of household income-enhancing policies. After a period of stagnation, employment and the residential real estate market are showing signs of an upturn. This may imply that favorable effects of external demand is spreading to the domestic demand.
2. Taking into consideration the latest forecast for the Japanese economy, GRP growth in Kansai will go up 2.4% for 2010FY based on our estimates. Driven by private consumption and external demand, growth in Kansai is expected to slow down to 1.4% for 2011FY.
3. The "contagion" in the world economy brought about by the debt problems of Greece, will lower Kansai's GRP by 0.05%, according to our simulation. "Aegean Contagion" is expected to have a limited impact on the Kansai economy.

	2009FY	2010FY	2011FY
Kansai	▲ 1.3%	2.4%	1.3%
Japan	▲ 1.9%	2.8%	1.4%

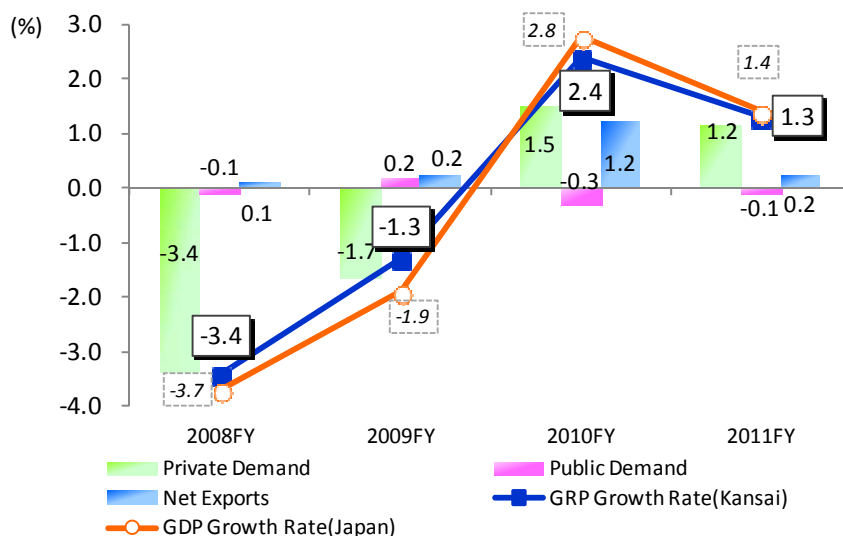
Note: The forecast of Japan is quoted from KISER
"Economic analysis and forecasting No.83" May 28,2010.

Forecast Summary Table

	Kansai			Japan		
	2009FY	2010FY	2011FY	2009FY	2010FY	2011FY
% Change Year Ago						
Gross Regional Products	▲ 1.3	2.4	1.3	▲ 1.9	2.8	1.4
Private Consumption	0.3	1.5	0.8	0.6	1.4	1.0
Residential Investment	▲ 5.1	5.7	3.8	▲ 18.5	▲ 0.1	6.7
Non-Resi. Investment	▲ 10.8	4.8	5.5	▲ 15.1	4.8	3.5
Government Consumption	0.5	0.9	0.6	1.8	1.0	0.6
Public Investment	2.2	▲ 14.7	▲ 7.6	8.7	▲ 14.4	▲ 7.2
Exports	▲ 1.3	4.3	1.8			
Foreign Export	▲ 3.6	12.4	6.4	▲ 9.6	15.9	3.8
Domestic Export	▲ 0.7	2.6	0.7			
Imports	▲ 2.1	2.5	1.7			
Foreign Imports	▲ 8.8	3.3	1.3	▲ 11.8	5.3	3.0
Domestic Imports	▲ 1.1	2.4	1.8			
GRP at current price	▲ 4.3	0.6	2.1	▲ 3.7	1.5	1.7
Deflator of GRP	▲ 3.1	▲ 1.7	0.8	▲ 1.8	▲ 1.2	0.2
IIP (2005=100)	81.4	94.8	99.8	86.2	97.9	104.2
Unemployment Rate (%)	5.8	5.4	5.2	5.2	4.9	4.7

Note: The forecast of Japan is quoted from KISER "Economic analysis and forecasting No.83" May 28, 2010.

GRP Growth Rate and Contribution of Kansai (Forecast)



Current Forecasts

1. Preconditions

This forecast for the Kansai economy is based on economic trends for other regions which are assumed as follows:

Japanese Economic Forecast

2010FY +2.8%

2011FY +1.4%

Trends in the Japanese economy are based on the quarterly economic report, "Economic analysis and forecasting No.83"(KISER,May 28,2010) which forecasts 2.8% GDP growth for Japan in 2010FY and 1.3% in 2011FY. In addition, prices and the monetary and fiscal policy basically follow the Japanese economic quarterly forecast.

Economic forecast for the U.S., EU, and China according to KISER estimates are shown below (Table 1). China is projected to continue to grow much faster than other regions with the US, EU and Japan trailing with modest to relatively low growth rates.

Table.1 Preconditions for GDP growth rates

	2010CY	2011CY
U.S.	+3.5%	+2.9%
EU	+1.0%	+1.5%
China	+10.2%	+8.5%

2. Forecast

Kansai Economic Forecast

2010FY +2.4%

2011FY +1.3%

According to our predictions, Kansai real GRP growth rates for 2010FY and 2011FY is expected to be +2.4% and +1.3% respectively (Fig.1). Kansai GRP growth rate is expected to be slightly lower than the GDP growth rate of Japan.

Though official figures for Kansai economic growth in 2009FY has not been released as of this writing, according to previous forecasts, growth in Kansai is expected to be -1.3%. Quarterly Estimates of GDP show that Japanese GDP growth rate in 2009FY is -1.9%. This implies that the decline in 2009FY was relatively moderate in Kansai compared to other regions in Japan .

Contributions to GRP growth rate of private consumption, public expenditures, and net exports are shown in Fig.1.

Private demand in 2010FY and 2011FY contributed +1.3 and

+1.5 percentage points respectively to real GRP growth. Due to drastic reductions in fiscal expenditures, public sector impact on GRP is seen to be -0.3 percentage point and -0.1 percentage point in 2010FY and 2011FY respectively.. With economic buoyancy outside Kansai, the contribution of net exports to real GRP in 2010FY is expected to be +1.2 percentage points, tapering off to +0.2 percentage point in 2011FY.

Fig.1 GDP Growth Rate and Contribution of Japan (Forecast)

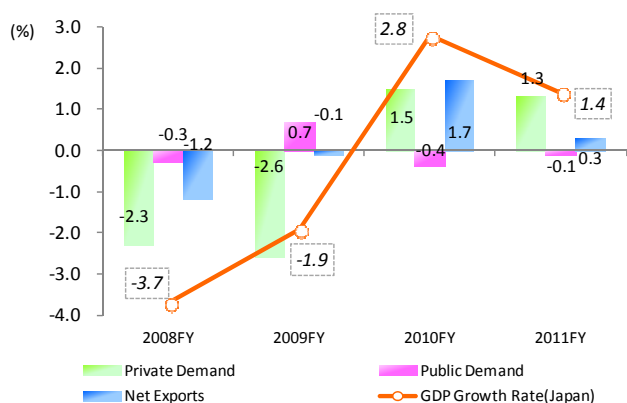
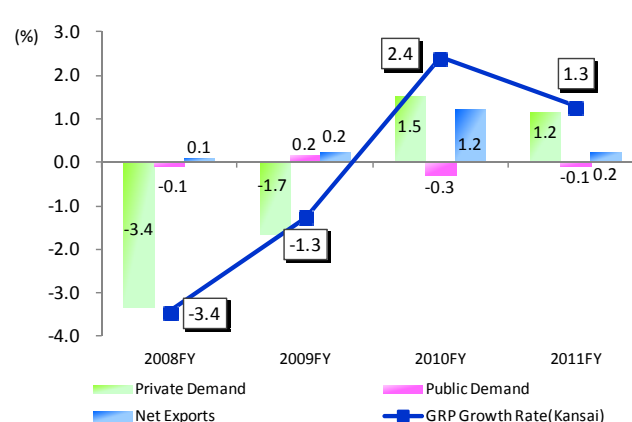


Fig.2 GRP Growth Rate and Contribution of Kansai (Forecast)



The following discusses the demand components of GRP.

[Household sector]

Private consumption is up by 1.5% and 0.8% in 2010FY and 2011FY respectively, showing steady but modest growth for the past three years. This is seen as a policy effect of subsidy incentives to the household sector, such as childcare allowances and eco-point system for the household appliance purchases, etc. The income environment in the household is expected to improve gradually. However, the contribution of private consumption to GRP growth is less than the forecasted impact of the household sector for the whole of Japan. This may imply relatively weak policy transmission effects in Kansai compared to other regions.

Residential market appears to have hit bottom and is likely to see healthy recovery in the future. The factors are: (1) improved income environment, (2) stock adjustment, and (3) the eco-point system for housing introduced in January 2010. Private residential investment turns positive with 5.7% and 3.8% in 2010FY and 2011FY respectively, recovering from a considerable setback

(-5.1%) in 2009FY.

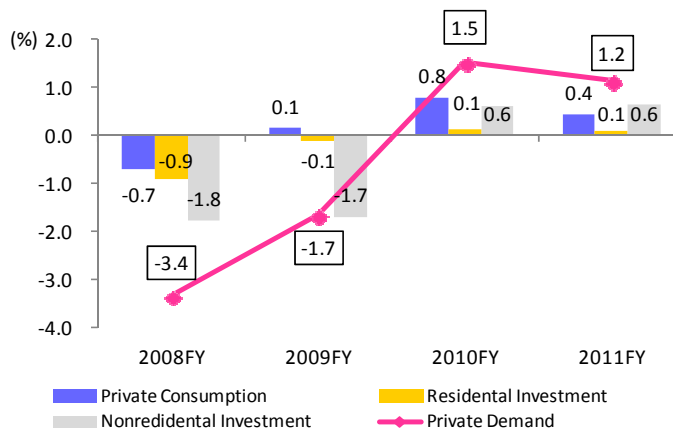
As a result, the household sector is expected to pull up growth by 0.9 and 0.5 percentage points in 2010FY and 2011FY respectively.

[Corporate sector]

Private non-residential investment will increase with the steady recovery in the production sector. Real nonresidential investment rises 4.8% in 2010FY and 0.6% in 2011FY contributing a 0.6 percentage point increase to real GRP growth in 2010FY and 2011FY.

The above describes gradual recovery for all private-sector demand components. The private sector composed of the household and corporate sectors is expected to contribute 1.5 and 1.2 percentage point increases to growth in 2010FY and 2011FY respectively (Fig.3).

Fig.3 Contribution of Private Demand



[Public sector]

Public consumption continues to grow at a modest pace of +0.9% and +0.6% in 2010FY and 2011FY respectively. Public investment in 2010FY is down (-14.7%) from the previous year (2009FY) when economic stimulus measures were implemented to boost the economy. Due to the tight fiscal situation, fiscal expenditures are further reduced in 2011FY (-7.6%) and this declining trend in public investments will continue. Thus, the public sector contribution to real GRP growth rate is 0.3 percentage point and 0.1 percentage point decreases in 2010FY and 2011FY respectively.

[Net Exports]

Looking at developments overseas, the recovery of the Asian economy has been rapid, while the U.S. and Europe are seen to

have positive growth. This forecast basically considers the domestic regional economic situation with respect to the economic forecast for Japan. As a result, contributions to real GRP growth rate of net exports are 1.2 percentage points and 0.2 percentage point increases in 2010FY and 2011FY.

3. How does an Aegean Contagion hit the Kansai economy?

As one of downside risks for the external economy, it is often pointed out that the EU economic slump originated the Greek debt crisis. How does an Aegean Contagion affect the Kansai economy?

To clarify the problem, we simulate the case where the world economy decelerates and confirm the impact on the Kansai economy. In this case, EU economy contracts by 1 percentage point, and both the U.S. and China experience economic decline by 0.5 percentage point.

The simulation results are shown in Table.2. Real GRP of Kansai is reduced by 0.05% comparable to the baseline scenario reflecting the downturn in the global economy. This implies that the "Aegean Contagion" is expected to have a limited impact on the Kansai economy.

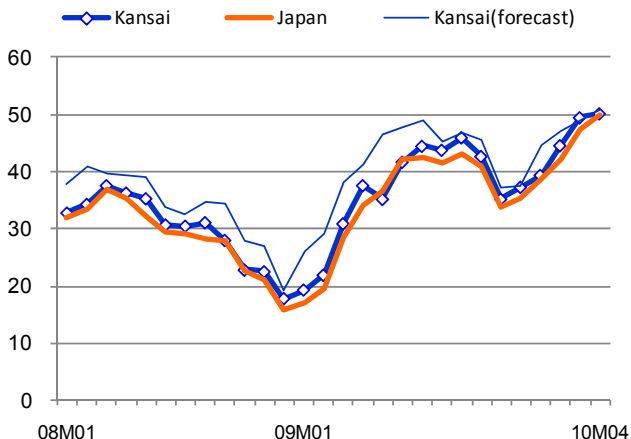
Table.2 Results of "Contagion simulation"

	2010FY	2011FY
Gross Regional Products (billion yen)	87595.1	88677.8
compared with baseline(billion yen)	-39.6	-90.4
Rate of divergence(%)	-0.05	-0.10
Exports (billion yen)	8641.8	9154.7
compared with baseline(billion yen)	-34.0	-79.1
Rate of divergence(%)	-0.39	-0.86
Exports to U.S.(billion yen)	994.7	1017.0
compared with baseline(billion yen)	-1.2	-3.4
Rate of divergence(%)	-0.12	-0.33
Exports to China(billion yen)	2032.5	2201.1
compared with baseline(billion yen)	-7.5	-19.0
Rate of divergence(%)	-0.37	-0.86
Exports to Asia excluding China(billion yen)	3921.9	4237.1
compared with baseline(billion yen)	-21.7	-47.4
Rate of divergence(%)	-0.55	-1.11
Exports to Rest of World(billion yen)	1692.7	1699.5
compared with baseline(billion yen)	-3.6	-9.3
Rate of divergence(%)	-0.21	-0.54

Economic Indicator

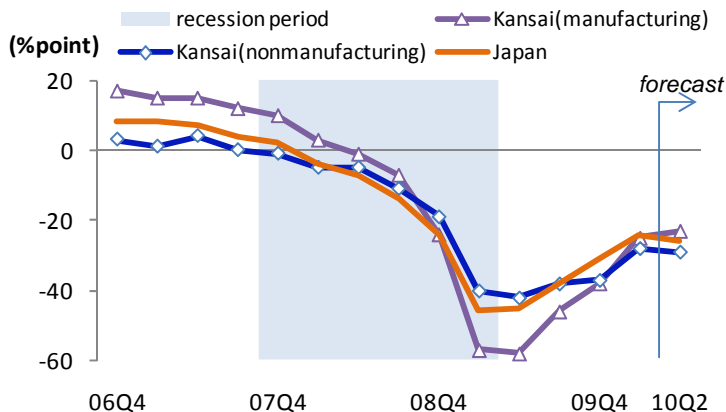
(1) Economic Trend

1-1. Economy Watchers Survey



Source:Cabinet Office "Economy Watchers Survey"

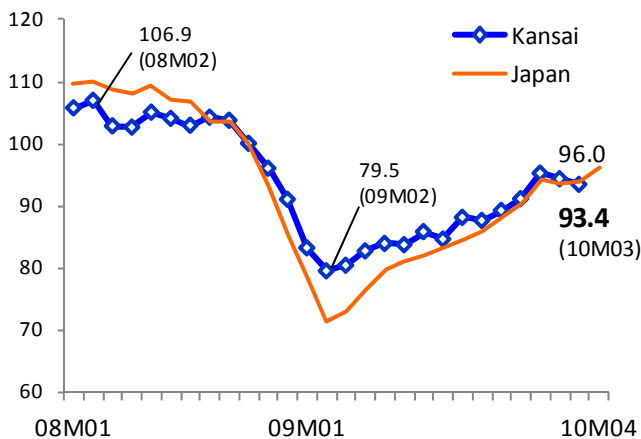
1-2. Business Conditions DI



Source: Bank of Japan Osaka branch "Tankan"

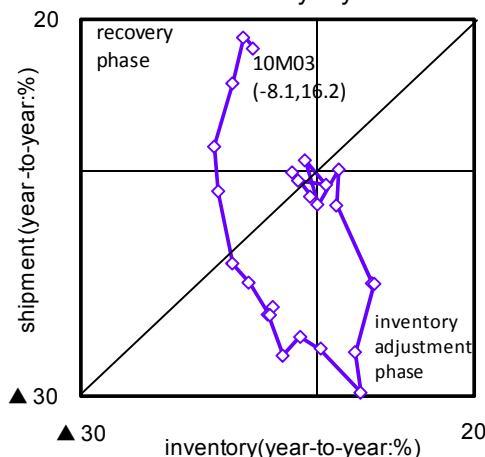
(2) Production/Labor

2-1. Indices of Industrial Production



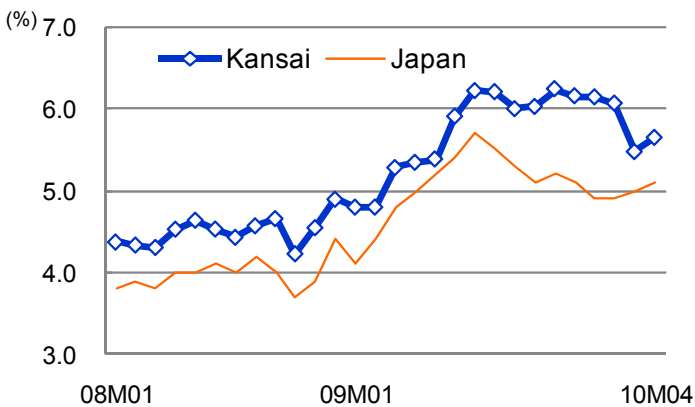
Source:METI-KANSAI"Indices of Industrial Production"

2-2. Inventory Cycle



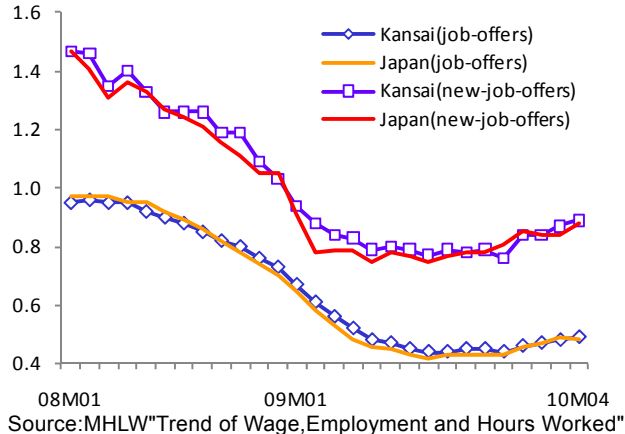
Source:METI-KANSAI"Indices of Industrial Production"

2-3. Unemployment Rate(ex.Fukui,SA by KISER)



Source:MIAC"Labour Force Survey"

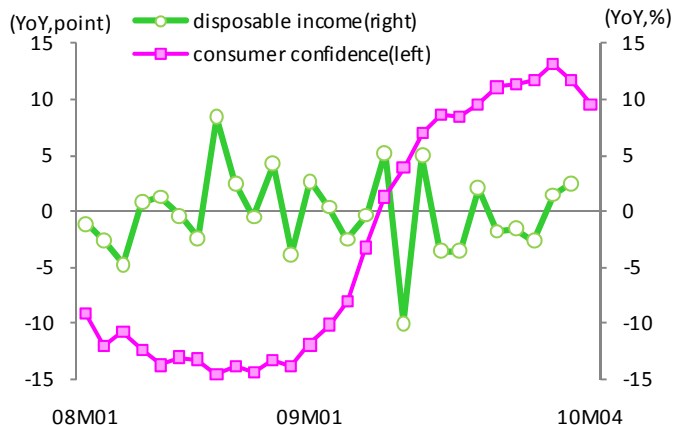
2-4. Ratio of Job Offers to Job Seekers(ex.Fukui,SA by KISER)



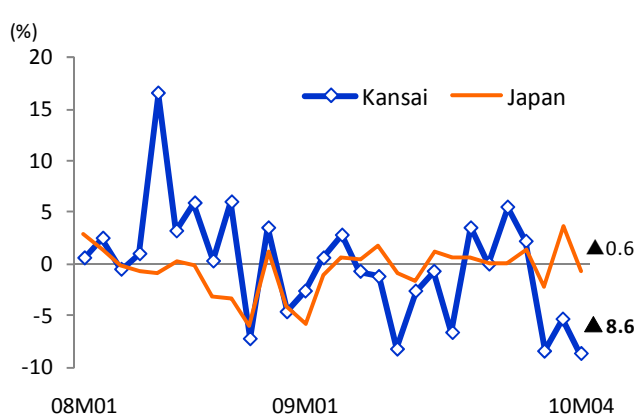
Source:MHLW"Trend of Wage,Employment and Hours Worked"

(3) Household Sec.

3-1. Disposable Income & Consumer Confidence

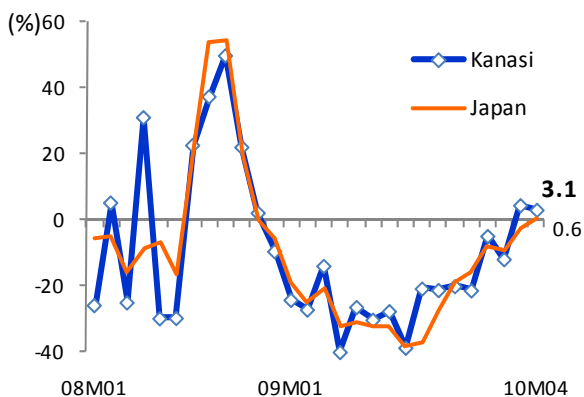


3-2. Expenditures of Workers' Households(YoY)



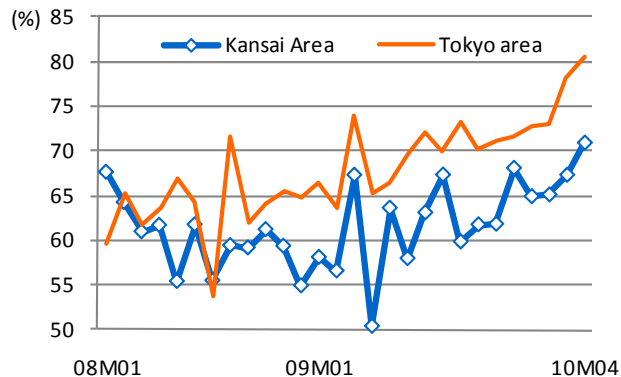
Source:MIAC"Consumer Confidence Survey" and "Family Income and Expenditure Survey"

3-3. New Housing Starts(YoY)



Source:MLTI"Housing Starts"

3-4. Contract Rate Apartments(ex.Fukui,SA by KISER)



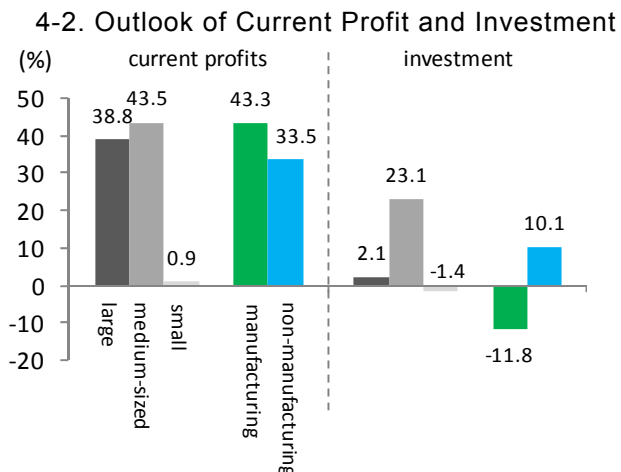
Source:Real Estate Economic Institute"Condominium Market Trend"

(4) Firm Sec.

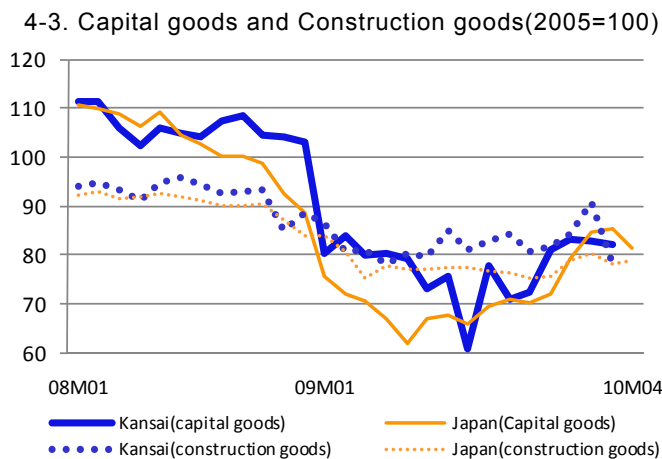
4-1. Outlook of Non-resi.Investment(YoY:%,including)

	2009FY		2010FY		First semester(plan)		Second semester(plan)	
	Kansai	Japan	Kansai	Japan	Kansai	Japan	Kansai	Japan
All	▲ 16.3	▲ 17.8	▲ 3.4	▲ 3.9	3.9	0.1	▲ 9.7	▲ 7.2
manufacturing	▲ 28.7	▲ 30.9	▲ 2.6	▲ 2.4	▲ 1.6	0.9	▲ 3.7	▲ 5.5
Large	▲ 27.6	▲ 30.0	▲ 2.9	▲ 0.9	▲ 1.4	2.3	▲ 4.3	▲ 3.8
Middle-sized	▲ 45.9	▲ 34.3	7.8	4.2	7.9	10.1	7.7	▲ 1.2
Small	▲ 42.2	▲ 31.9	▲ 11.4	▲ 17.9	▲ 24.5	▲ 15.2	9.6	▲ 20.8
nonmanufacturing	▲ 4.5	▲ 11.1	▲ 3.9	▲ 4.4	8.3	▲ 0.3	▲ 13.4	▲ 7.8
Large	▲ 0.4	▲ 5.6	▲ 0.2	▲ 0.2	13.7	3.1	▲ 10.7	▲ 2.8
Middle-sized	▲ 24.7	▲ 24.7	▲ 36.2	▲ 9.7	▲ 36.3	1.0	▲ 36.1	▲ 18.9
Small	▲ 28.6	▲ 20.1	▲ 6.7	▲ 19.9	16.0	▲ 16.5	▲ 26.1	▲ 22.8

Source: Bank of Japan Osaka branch "Tankan"



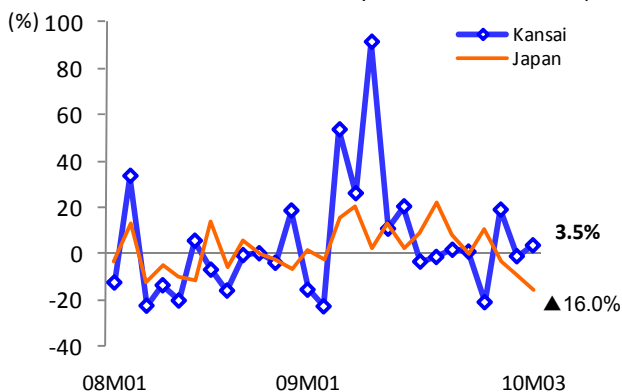
Source: MOF"Business Outlook Survey"(2010Q1)



Source:METI-KANSAI"Indices of Industrial Production"

(5) Public Sec.

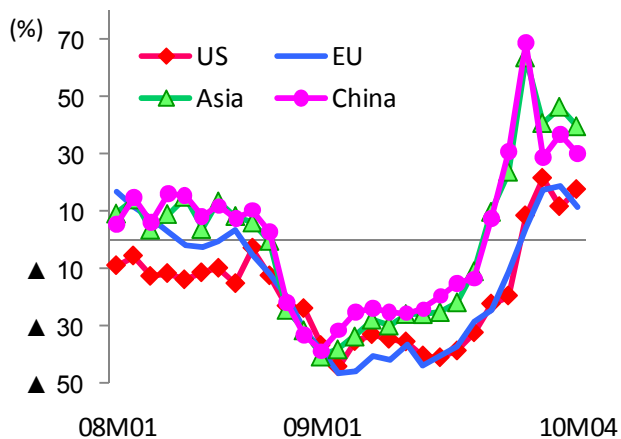
5-1. Public Works Advance Payment Guarantees (YoY)



Source:METI-KANSAI"Kinki Economic Trends"

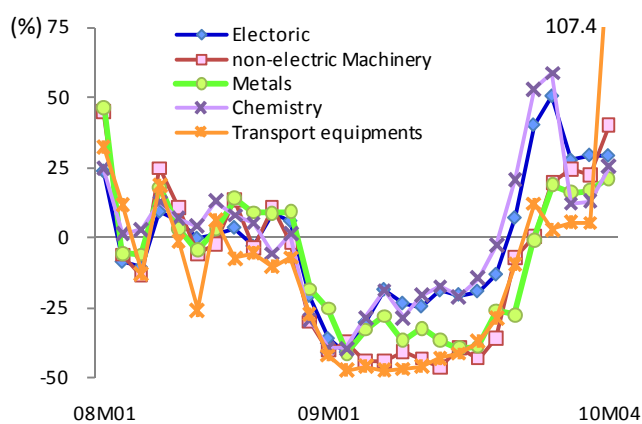
(6) External Sec.

6-1. Export by Destination (YoY)



Source:MOF"Trade Statistics"

6-2. Exports by Commodity (YoY)



Source:MOF"Trade Statistics"

(7) Trends in prefectures

7-1. Indices of Industrial Production of prefectures in Kansai

	Level (2005Year=100)					point		
	the highest (a)	the lowest (b)	last(10M03) (c)	(b)/(a)	(c)/(a)	the highest	the lowest	span (month)
Kansai	106.9	79.5	93.4	74%	87%	08M08	09M02	18
Fukui	110.0	71.5	93.4	65%	85%	08M02	09M03	13
Shiga	112.0	79.1	92.0	71%	82%	08M09	09M03	6
Kyoto	114.4	74.5	98.2	65%	86%	07M10	09M03	17
Osaka	100.6	71.5	80.6	71%	80%	07M12	09M03	15
Hyogo	115.4	78.4	89.3	68%	77%	07M02	09M02	24
Nara	103.6	67.0	74.6	65%	72%	07M06	09M03	21
Wakayama	112.9	79.9	102.7	71%	91%	07M11	09M08	21

Source: Indices of Industrial Production in each prefectures