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The Outlook for the Kansai Economy in Fiscal 2004
— Continued Recovery Centering on the Corporate Sector —

December 9, 2003

The Japan Research Institute, Limited

Economics Department, Kansai Economic Research Center

<http://www.jri.co.jp/>

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Overview

In fiscal 2003, while consumer spending and public investment have remained at low levels, exports and capital investment have grown, and the economy of the Kansai region has continued to recover under the leadership of the corporate sector and especially of manufacturing industry. The key to the continuation of this recovery will be to sustain the forward-looking stance of the corporate sector, based on exports, and ensure that it spreads to the household sector.

The growth of exports from the Kansai region growth slowed in the April-June quarter as the US and Asian economies decelerated under the impact of the war in Iraq and the SARS epidemic, but turned upward in the July-September quarter as overseas economies recovered. On the production side, industrial production has been recovering in conjunction with the recovery in exports from the Kansai that began early in fiscal 2002. Production growth has been higher than during the previous recovery (January-March quarter of 1999 onwards). Growth has been particularly strong in the electrical machinery sector. Firm exports, a rise in sales of digital consumer electronics and a recovery in IT investment by domestic companies have led to increased demand and a rise in electrical machinery-related production, centering on electronic components and devices.

The export growth and increased electrical machinery-related demand in Japan have contributed to an improvement in business performance among companies in the Kansai region by boosting production. As a result, Kansai-based companies have also shown a greater willingness to invest in equipment and facilities.

Turning to the outlook for the Kansai economy in 2004, in the corporate sector, it is likely that the cycle of export growth → production growth → profit recovery → increased capital investment will continue to operate, supported by the recovery of overseas economies, especially that of Asia. However, the pace of recovery of overseas economies, especially that of the United States, is expected to slow once more in the second half of the fiscal year, as is the growth of exports from Asia to the United States, etc., and the effects are likely to spread to the Kansai region's exports to Asia. As the Kansai's exports to Asia decelerate, the improvement in factors that determine capital investment, such as recovery in production and business performance, is also expected to slow.

In the household sector, with employment and income conditions in the Kansai region still severe, consumer spending remains weak overall. In fiscal 2004, with companies working hard to reduce their expenditure on personnel, the rate of improvement in employment and income conditions will be slow and consumer spending is expected to be sluggish.

In the public sector, fiscal 2004 is expected to bring public works relating to urban renewal projects but, given the continued drive to reform public finance on the part of the central government and the austere stance in local government finance, it is likely that public investment in the Kansai region will continue to decline faster than the national average.

Given these considerations, the pace of recovery of the Kansai economy is likely to be slower in fiscal 2004 than in fiscal 2003 but, as exports to Asia are expected to continue to see a relatively high rate of growth and production in the electrical

machinery sector is expected to rise, the Kansai economy is set to maintain a higher rate of growth than the national average.

If the forward-looking movements triggered by the recovery in the corporate sector are to spread, the key issues will include the further promotion of business restructuring, the maintenance and strengthening of the vitality of the concentration of small and medium sized manufacturing enterprises, and the revitalization of the services sector.