

2015 JETRO Survey on Business Conditions of Japanese Companies in North America

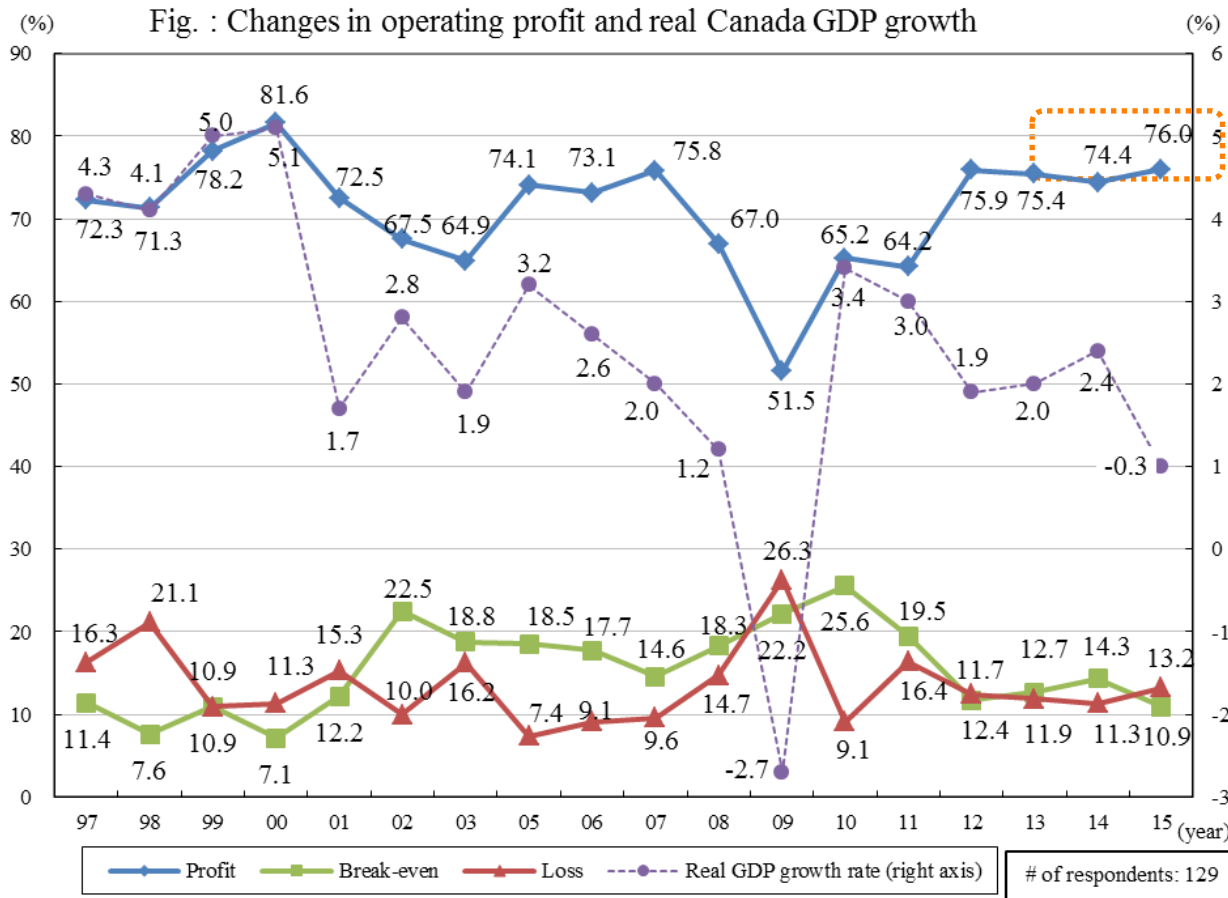
Japan External Trade Organization (JETRO)
Americas Division, Overseas Research Department
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Canada

2015 JETRO Survey on Business Conditions of Japanese Companies in North America

- Survey Period: September 11th – October 16th, 2015
- Valid Response: 62.5% (130 /208)
- Survey Coverage: “Japanese-affiliated companies” are companies in which the capital contribution ratio of the parent firm in Japan is at least 10%, including direct or indirect investment.

In 2015, 76.0% Japanese-affiliated companies in Canada will likely show a profit, slightly higher than 2014 (74.4%). Many respondents maintained their profits because of strong sales in the U.S., even with the uncertain domestic economy.



Note: The GDP growth rate for 2015 is the IMF estimate (announced Oct. 2015). No survey conducted in 2004.

<Perception of the economy>

- We feel it is getting better in a stable way because of increasing sales, although the cheaper oil price has negatively hit some regions (Transportation machines)
- The economy is recovering with the U.S. being the engine for growth. (Parts for transportation machines)
- We see no change. (Parts for transportation machines)
- Our sales are strong, even though we see the Canadian economy yet to recover. (Chemical products, oil products)
- We consider it is getting better because the number of Canadians traveling to Japan is increasing. (Hotel/travel/restaurant)
- We recognize that the economy is getting better as we will register higher profits than the previous year. (Transportation/warehouse)

Business confidence showed little change from the previous year. Decline in oil prices, and the elimination of preferential tariff treatments in various regions around the world, brought profits down but, balanced by an increase in sales volume, business confidence remained roughly the same.

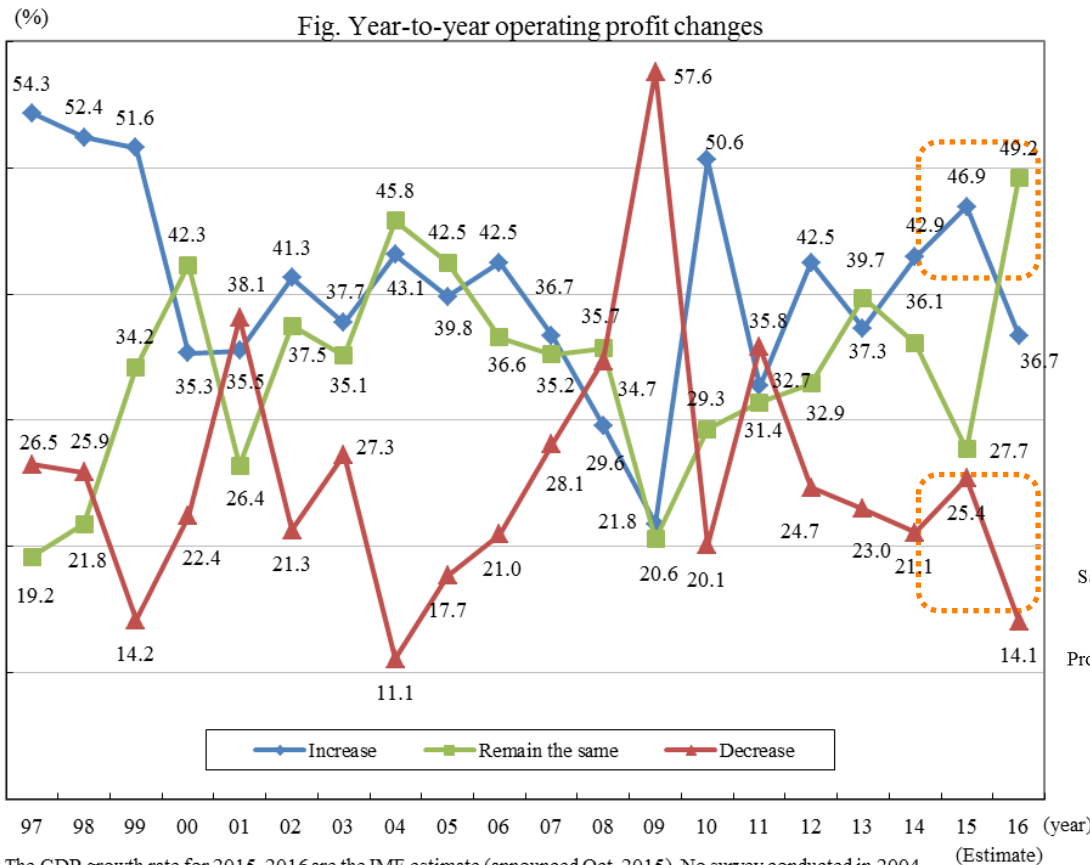
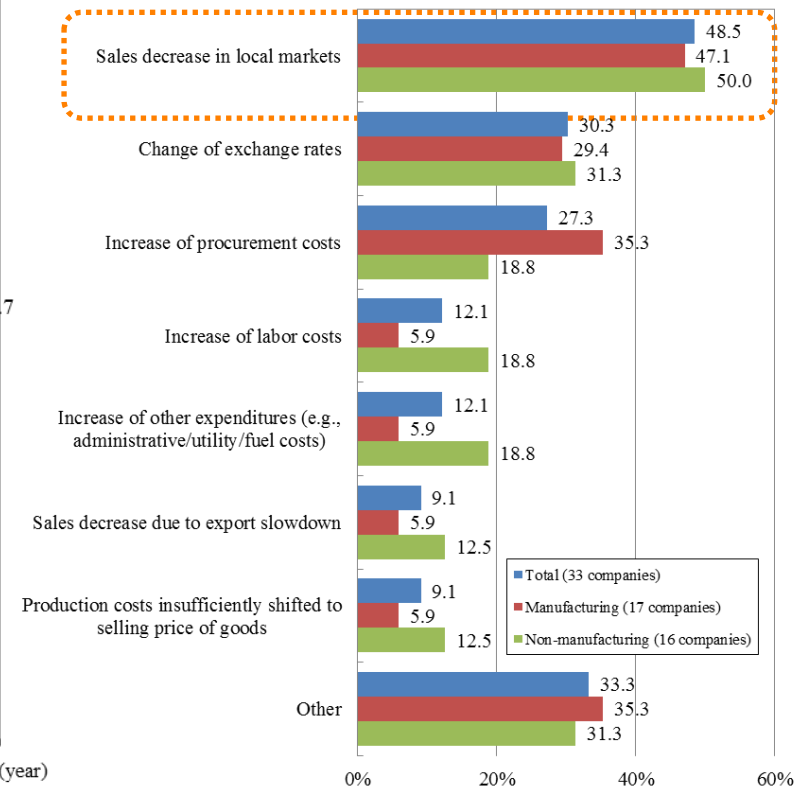
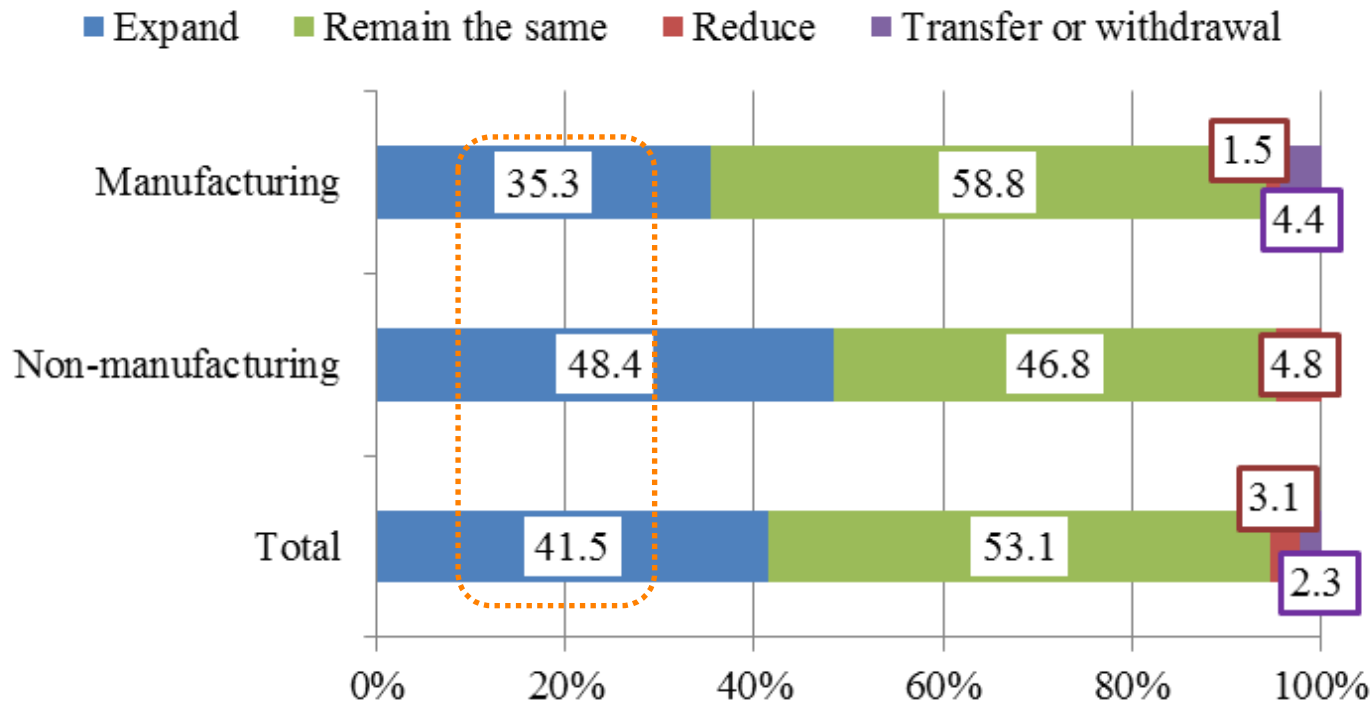


Fig. Reasons for decreased operating profits forecast for 2015



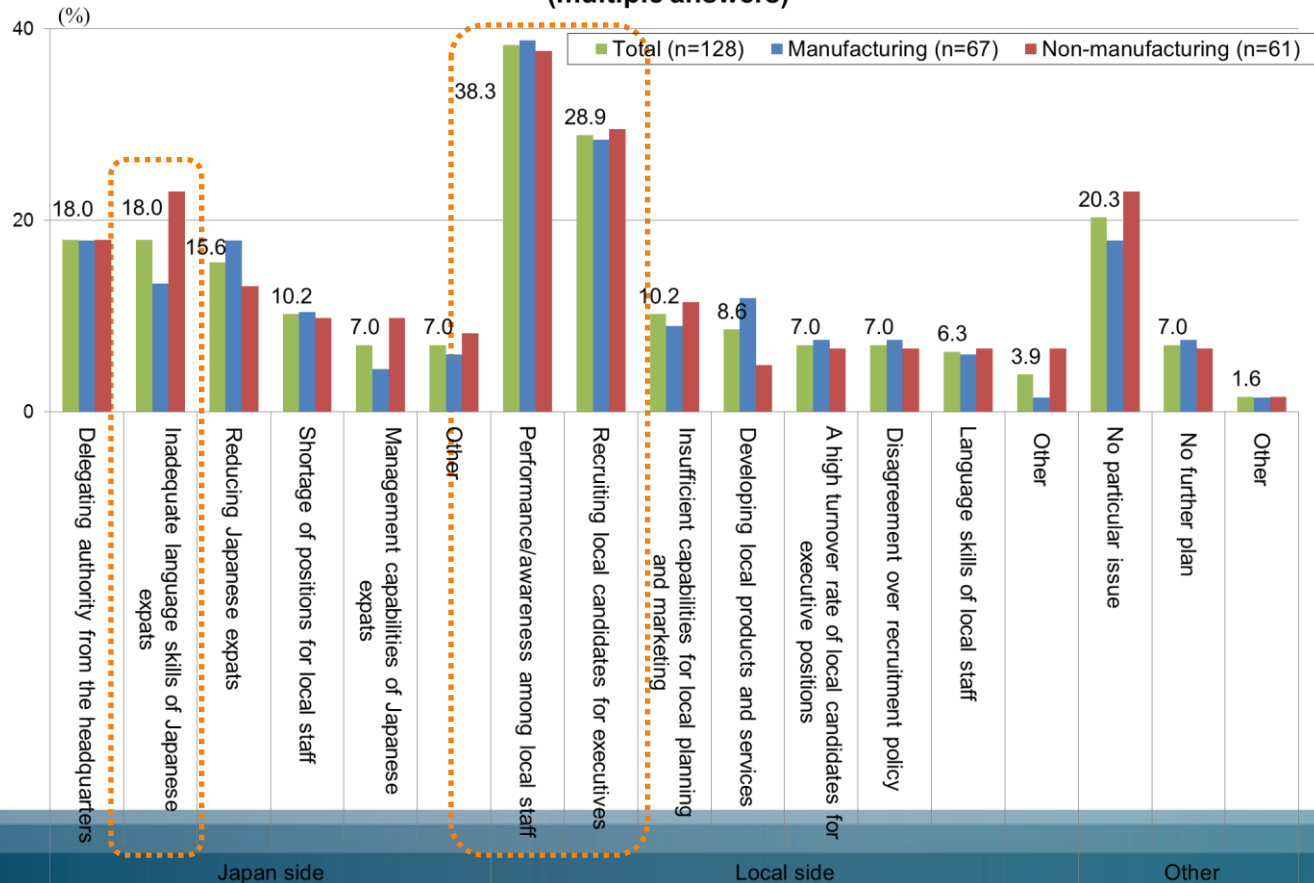
41.5% of respondents plan to expand their business in the next two years.
48.4% of non-manufacturing companies indicated more willingness to expand while the figure for the manufacturing sector was 35.3%.

Fig. Future business in Canada



As for challenges in promoting localization of management, many respondents listed “performance/awareness among local staff” and “recruiting local candidates for executives” as key issues faced by their subsidiary operations in Canada. In contrast, the key issue for Japanese companies in U.S. was “inadequate language skills of Japanese expats”, a problem that was of much less concern to Japanese companies in Canada.

Fig. Major issues companies face in promoting management localization (multiple answers)



The average rate at which Japanese companies procure raw materials and parts for their products within Canada reached 43.0%, an increase of 4.5 points from 2014 compared to an 8.5 points decrease (24.3%) by Japanese companies in the U.S. Many foresee expansion in procurements from companies in ASEAN countries and China.

Figure. Procurement proportion by country/region

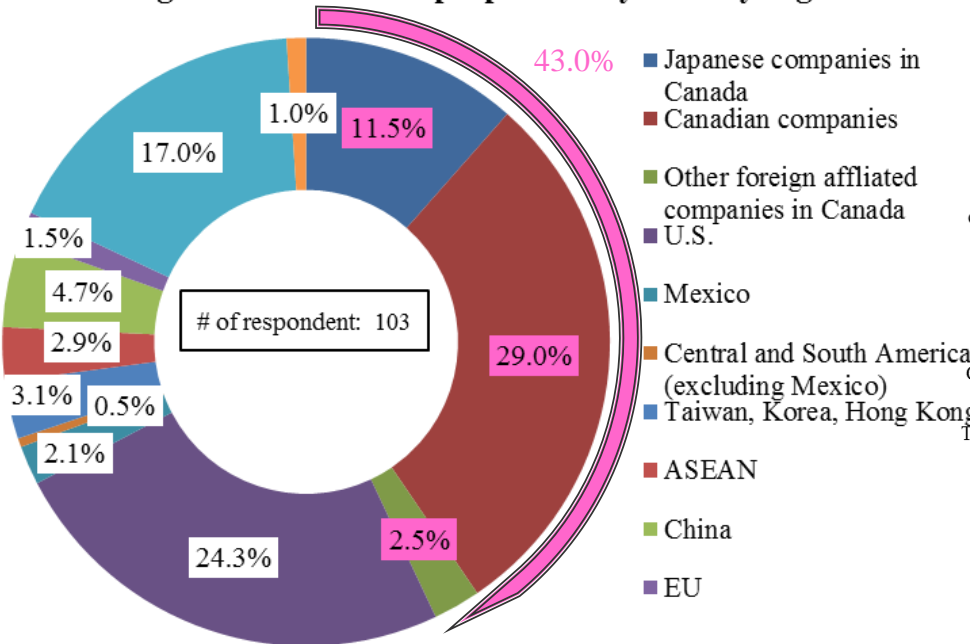
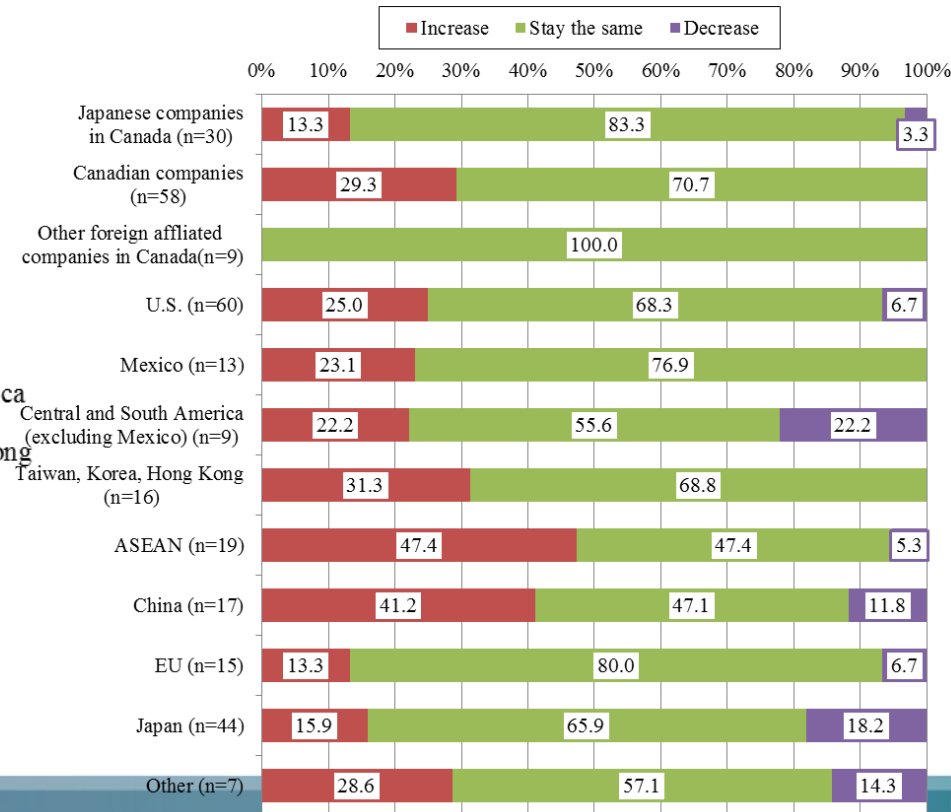


Fig. Future plan for procurement by country/region



The Canadian market accounts for 67.4% of the sales destination of Japanese firms operating in Canada, an increase of 3.9 points from 2014 . The U.S. attracted the largest number of respondents as a destination to increase their sales followed by Canada.

Fig. Sales destination by country/region

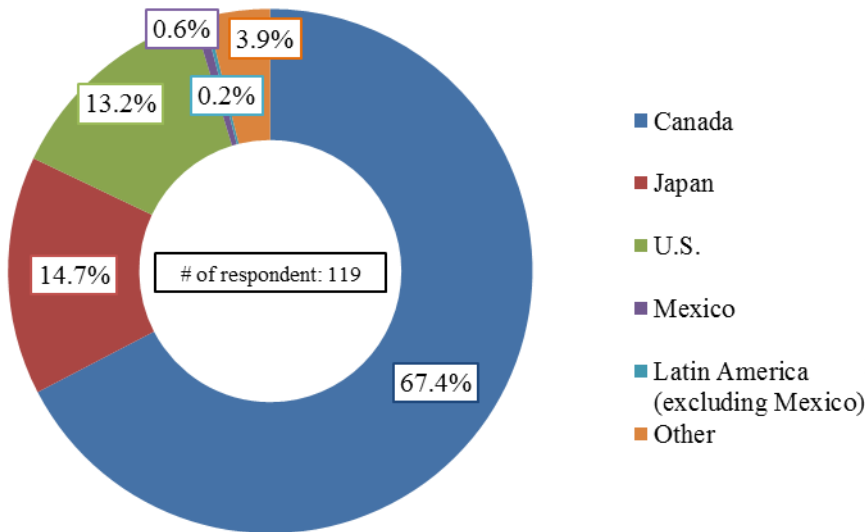
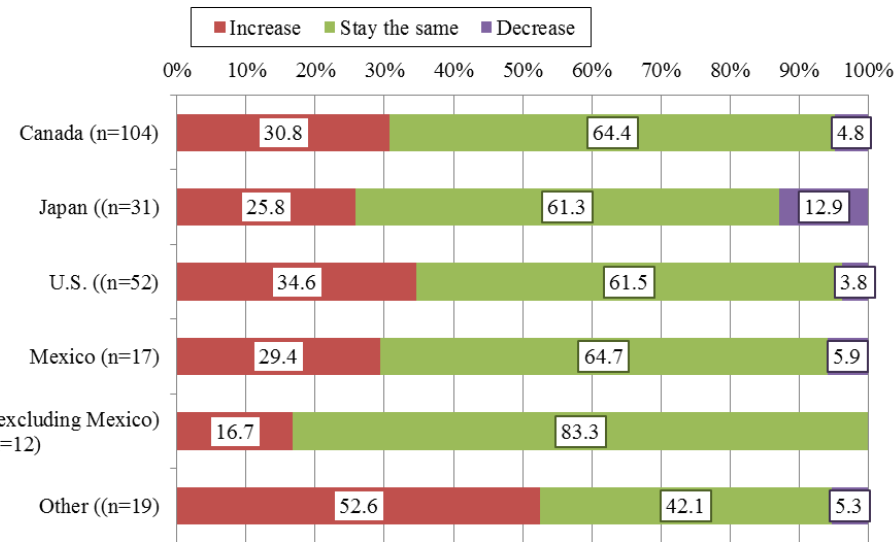
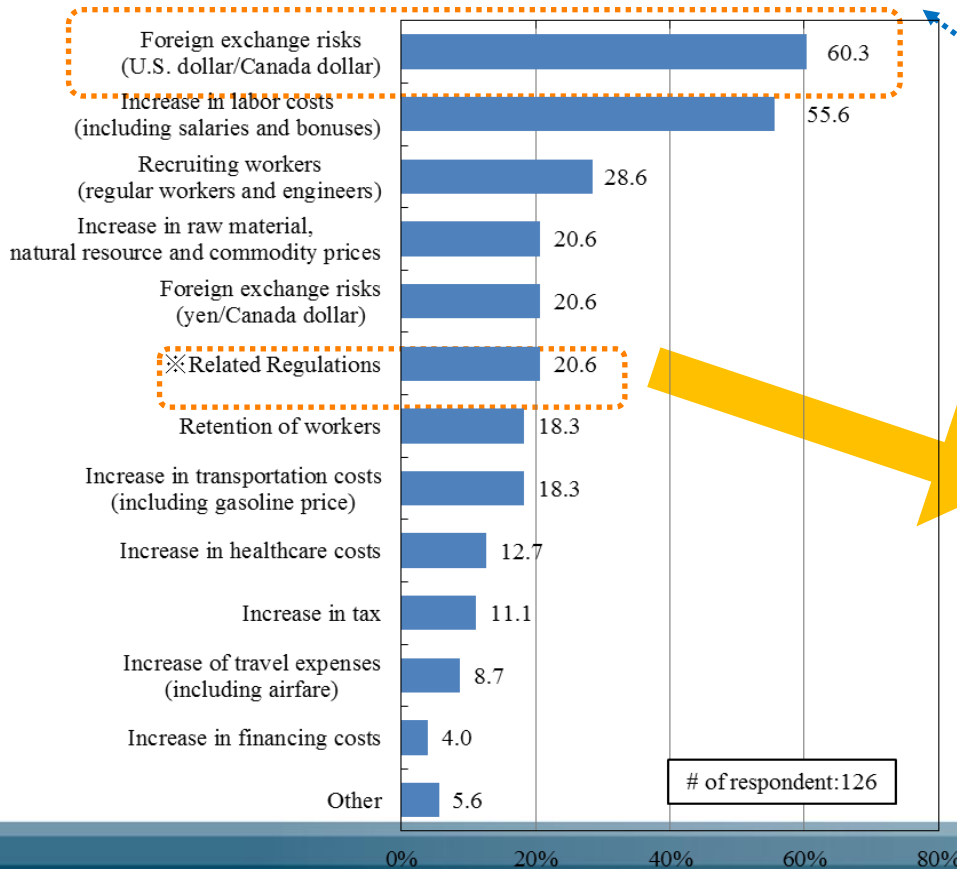


Fig. Future plan for sales destination



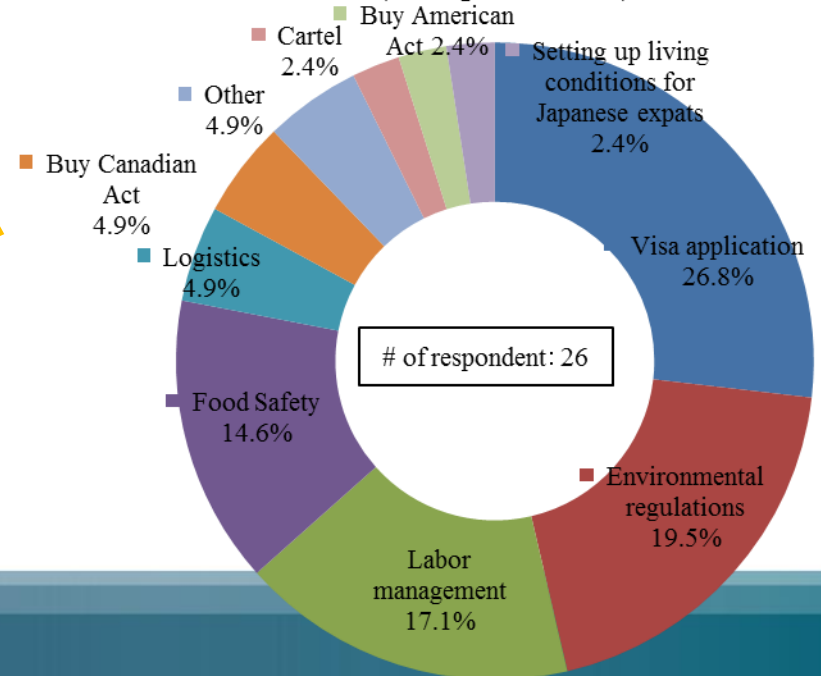
As for the primary reasons for increased costs, many respondents cited the “exchange risks with the U.S. dollar” and “increase in labor costs”. Among “related regulations” as factors related to an increase in costs, “visa application for Japanese expats” was the most dominant.

Fig. Factors for Cost Increase



< Foreign exchange risks(U.S. dollar/Canada dollar) >
 - We have experienced drastic increase in procurement costs. (Electric or electronic machines)
 - Exchange rates affect the price of the products which we purchase from U.S. factories in U.S. dollar. (Sales (retail/wholesale))

Fig. Breakdown of Related Regulations (multiple answers)



NAFTA maintained high utilization rates among Japanese firms when doing business with the U.S. and Mexico. 3 out of 7 (42.9%) Japanese firms utilize the Canada-Korea FTA which entered into force in January 2015.

Table Utilization of bilateral or multilateral FTAs/ EPAs by country/region

(Unit: firms, %)

	Export				Import			
	# of Respondents	Utilizing	Considering utilization	Not utilizing (no plan to utilize)	# of Respondents	Utilizing	Considering utilization	Not utilizing (no plan to utilize)
Existing FTA/EPA								
U.S.	42	61.9	7.1	31.0	57	59.6	8.8	31.6
Mexico	9	55.6	22.2	22.2	13	61.5	7.7	30.8
South Korea	1	0.0	0.0	100.0	7	42.9	42.9	14.3
Chile	2	0.0	0.0	100.0	2	50.0	50.0	0.0
Peru	1	0.0	0.0	100.0	1	100.0	0.0	0.0
Other Central and South American countries*	3	0.0	0.0	100.0	1	0.0	100.0	0.0
EFTA	0	-	-	-	1	100.0	0.0	0.0
Middle East and North Africa*	1	0.0	0.0	100.0	0	-	-	-
FTA/EPA under negotiation								
TPP* Japan	13	-	30.8	69.2	45	-	37.8	62.2
Singapore	1	-	0.0	100.0	2	-	0.0	100.0
Malaysia	0	-	-	-	6	-	33.3	66.7
Vietnam	1	-	0.0	100.0	4	-	50.0	50.0
Oceania	2	-	0.0	100.0	0	-	-	-
Other	0	-	-	-	3	-	0.0	100.0
TTIP EU	1	-	100.0	0.0	5	-	20.0	80.0

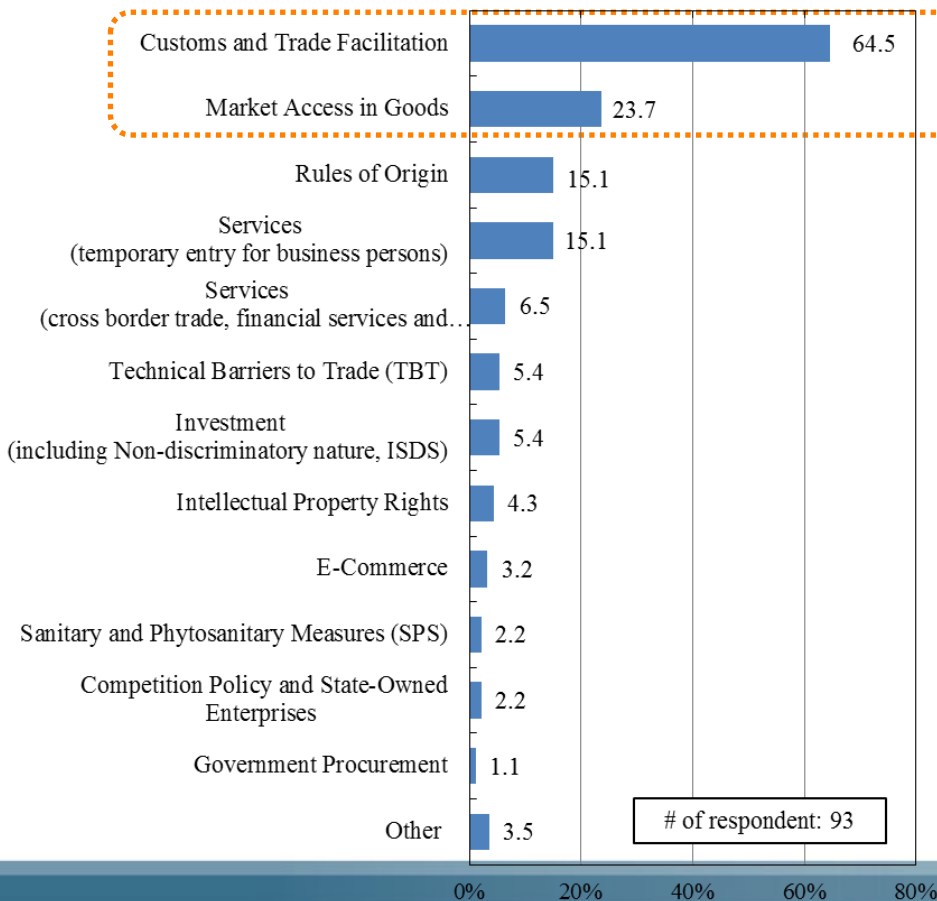
* El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama and Colombia

** Israel, Jordan, Morocco, Bahrain and Oman

**** TPP participants: U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei and Vietnam

With respect to the expectations toward the TPP, many respondents hope that it will contribute to “customs and trade facilitation” and “market access in goods” which showed the same trend as the U.S. firms.

Fig. The expectation on the TPP (multiple answers)



<Customs and Trade Facilitation>

- Facilitating simple and expedited customs procedure for picking up and express cargos will make TPP valuable. (Other manufacturing)
- Facilitating and stabilizing trade in the West coast has direct impact on our business. (Process food, agricultural or fishery products)
- Ports slowdown hit our operation. Possibility of prolonged labor dispute is a great risk. (Parts for transportation machines)
- We don't consider the impact of the ports slowdown much. We expect TPP to realize simplification of importing procedure. (Sales (retail/wholesale))

Although the same percentage of respondents regard declining crude oil prices as positive and negative, 32.0% each, in the broader context, many firms perceived low oil prices as a negative factor due to the fact that the energy sector plays such a dominant role in the Canadian economy.

Fig. The effect of declining crude oil price

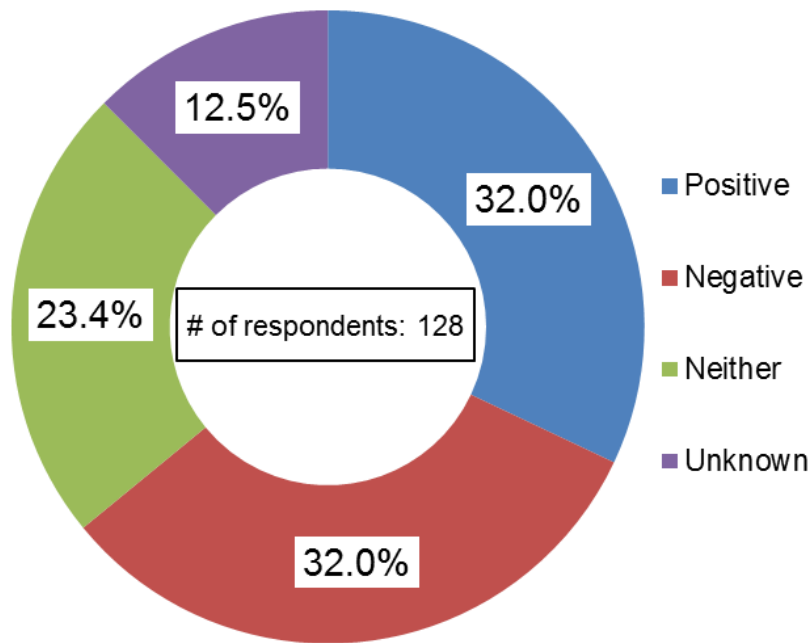
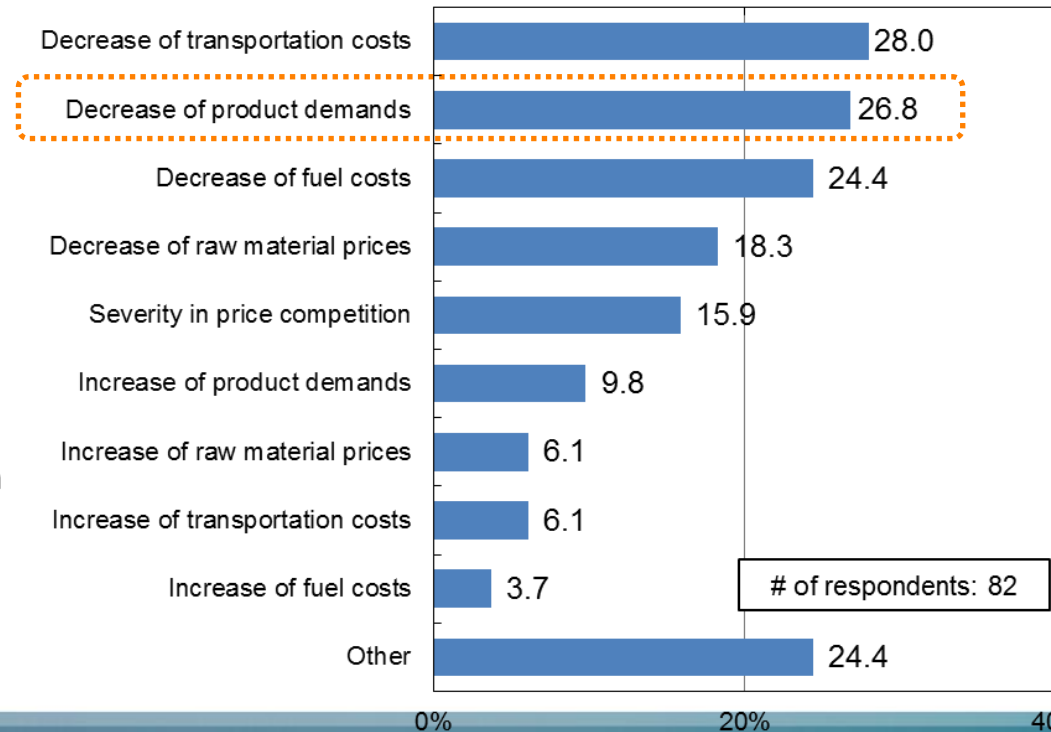


Fig. Specific effects on business



The ports slowdown in the U.S. West Coast due to the labor dispute in 2014 affected 53.1% of respondents, which includes 64.7% of manufacturing firms. Japanese firms dealt with the slowdown by using air transportation, early shipment and shifting to other ports primarily to Canada. However, many respondents are not considering further countermeasures at this point.

Fig. Measures taken for the U.S. ports slowdown

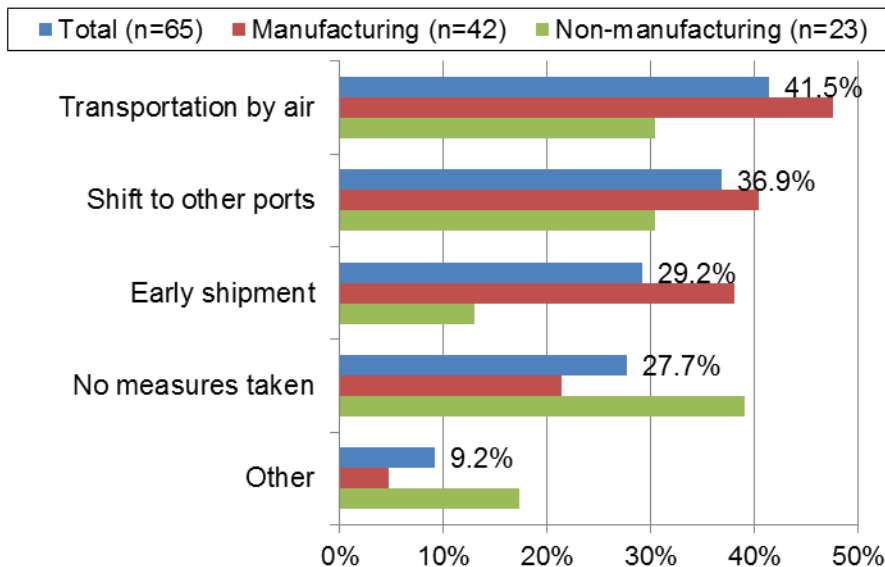


Fig. Major ports to be shifted



Fig. The mid-term plan on port usage

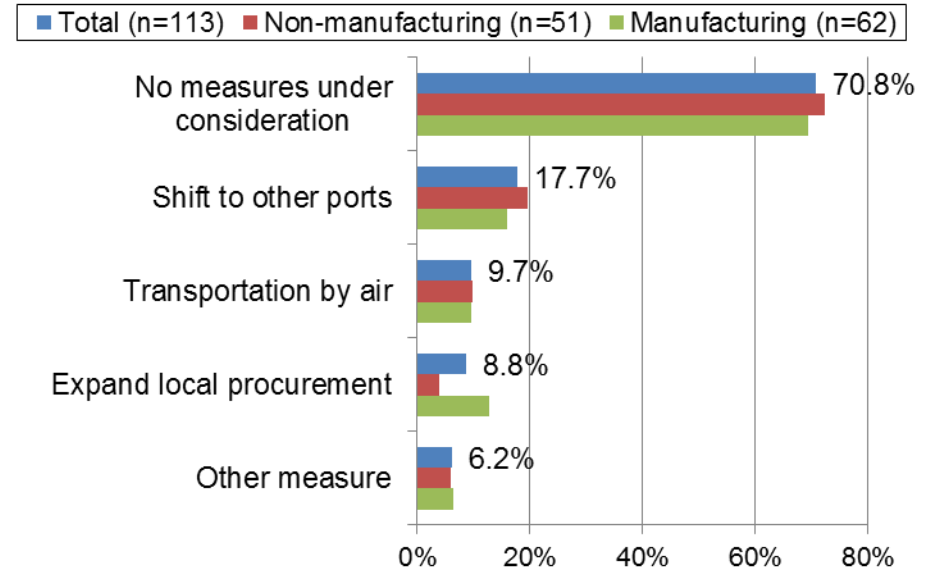
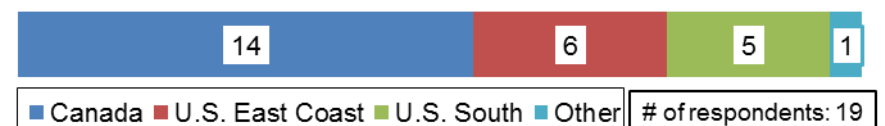
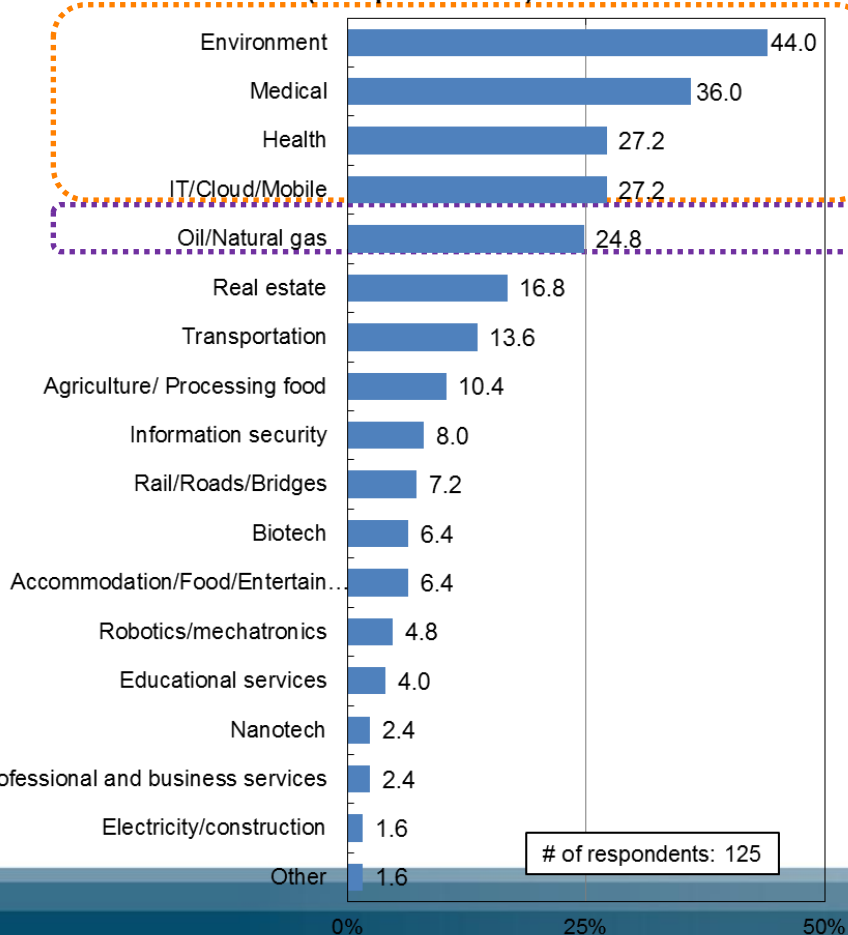


Fig. Major ports under consideration on port usage



The medical and environmental sectors continually gained attention. Expectations towards IT, cloud and mobile markets heightened this year, while oil and natural gas (including shale oil and gas) received a dramatic drop in the rankings.

Fig. The market most likely to grow in the next few years (multiple answers)



<Environment>

- Energy conservation, reducing fuel consumption and carbon dioxide is getting increasingly important in Canada, too. (Sales (retail/wholesale))

<Medial, Health>

- Aging society (Telecommunication, Software)
- Pursuing even healthier life style (Machines)

<IT/ Cloud/ Mobile>

- We have renewed our telephone and data server onto a cloud based system which allowed us more affordable pricing and more efficient functions. (Sales (retail/wholesale))

<Oil/ Natural gas (include shale oil and gas)>

- The oil industry is sure to recover. (Transportation machines)

<Transportation>

- Public transportation will become widespread. (Machines)

<Rail/ Roads/ Bridges>

- Whichever political party is dominant, renewal and maintenance of infrastructure is urgently needed. Despite the possibility of facing a budget deficit, this should be fixed in order to prop up the domestic economy. (Other)