December, 2011

Summary of Results of the 2011 JETRO Survey on Business Conditions of Japanese Companies in the U.S. and Canada

The Japan External Trade Organization (JETRO) conducted surveys on Japanese companies operating in the U.S. and Canada, between July and August 2011, and 847 valid replies were received from companies in the US (a 77.6% response rate), and 163 replies were received for the Canada survey (a 72.1% response rate). These surveys have been conducted annually since 1981 for the US, marking its 30th time, and 1989 for Canada, marking its 22nd.

<Impact of the Great East Japan Earthquake>

1. About 70% of Japanese companies' operations both in the US and Canada were affected by Earthquake.

75.1% of companies in the US and 76.9% of ones in Canada were affected by the Great East Japan Earthquake. It especially resulted in considerable impact on manufacturers of automobiles (four-wheel and two-wheel vehicles) and their parts. Over 40% of companies from the mid-west and southern part of the US, where the auto industry is highly concentrated, responded that their businesses were seriously affected, as did all automobile parts manufacturers in Canada.

2. Lower procurement from Japan and lower local sales have been evident, but in most cases the affected period was, or will be, over within 6 months.

Some of the major influences on business are as follows:

- Downsizing of purchases or procurement from Japan
- Reduced local sales
- Reduction in local production or processing on site

Meanwhile, most companies estimate that the effects of the earthquake lasted, or will last, less than 6 months. Effects of the disaster seem to have calmed down in a relatively short period of time as a whole.

3. About 60% of companies will not reexamine business strategies or policies in light of the quake.

Regarding revision of business strategies and policies after the earthquake, about 60% of respondent companies have no plans to make a review. Some of the major reasons are that supply chains of those companies have already recovered, and that they source irreplaceable parts and raw materials from Japan. Meanwhile, 6.1% of manufacturers in the US and 10.1% of companies in Canada have plans to make drastic reviews of strategies and policies. 36.8% of manufactures in the US and 31.6% of companies in Canada will conduct a few reviews. Some concrete revisions given are downsizing of purchases or procurements from Japan, expansion of local procurements and purchases and greater inventory accumulation (parts, raw materials).

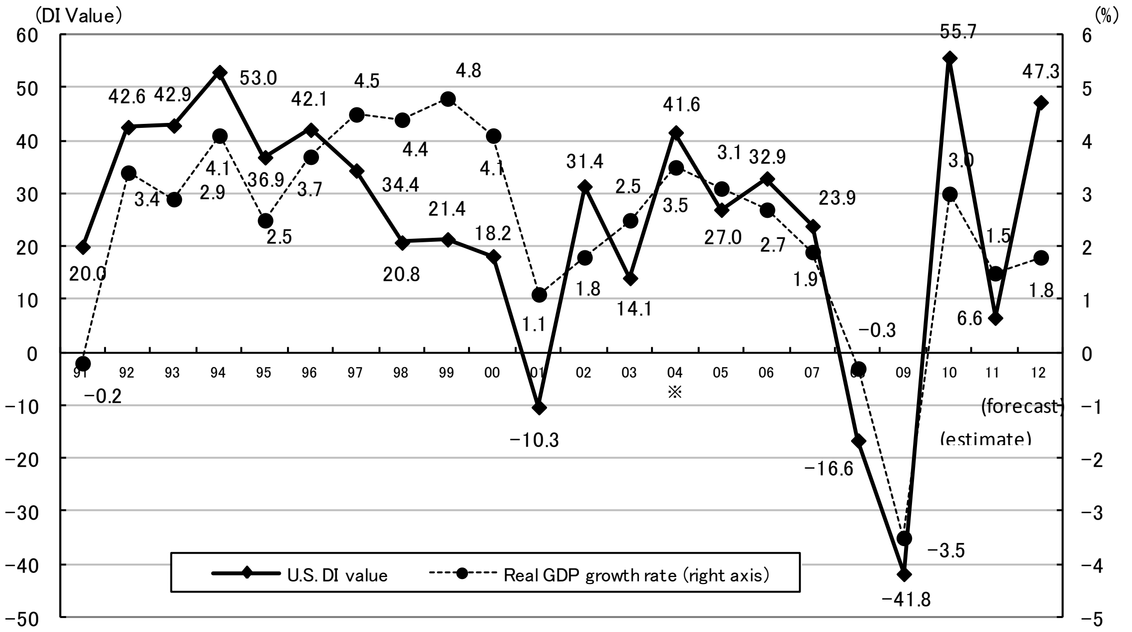
<Results of survey on business conditions of Japanese manufacturers in the US>

1. About 70% of Japanese manufacturers expect to post an operating profit in 2011. However, sales have slowed compared with last year.

The diffusion index (DI) - the proportion of businesses reporting increased operating profits minus those reporting decreased operating profits compared to the previous year - is used to measure business confidence, and for 2011 it came to 6.6. This figure shows a huge drop compared with 2010, which marked a record high since the survey began in 1991, at 55.7 (Figure1). However, half of the companies forecast improved business in 2012. The main factors which led to improvements compared with 2010 are increased sales volumes both in the domestic and the overseas markets, and an increase in final product prices.

The factors which led to profit recessions for other companies are decreased sales volumes in the domestic market and effects of exchange rate fluctuations. Many companies handling metal goods including plated products, general machinery including mold and machinery tools, and transportation machine parts such as automobiles and motorcycles had increased domestic sales volumes, while companies handling steel including cast and wrought products, and plastic products saw a decrease.

Figure 1. Trend in operating profits as measured by the Diffusion Index (DI) and U.S. real GDP growth rate



Note: The Diffusion Index (DI) is calculated by subtracting the proportion of companies reporting poorer performance than the previous year from the proportion of companies reporting better performance. It indicates changes in direction of business outlook. Real GDP growth rates for 2011 and 2012 are estimated based on predictions IMF (as of Sep. 2011). ＊Because the survey was not conducted in 2004, DI for that year is estimated based on results from 2003.

# of respondents: 835

2. A spike in raw material prices, the rising yen and growing health care costs are the main contributors to cost increases.

Companies state that the major reasons for increased costs are a spike in raw materials /resources/commodity prices, yen appreciation and increased health care cost (Figure2). In addition, many manufacturers stated that severity in price competition and popular products from competitors have had a negative impact on sales (Figure3). However, it is the increased costs, such as for raw materials, and effects from the prolonged rise of the yen that stand out as the greatest challenges.

Figure 2: Management problems: Factors for cost increase (Multiple answers allowed)

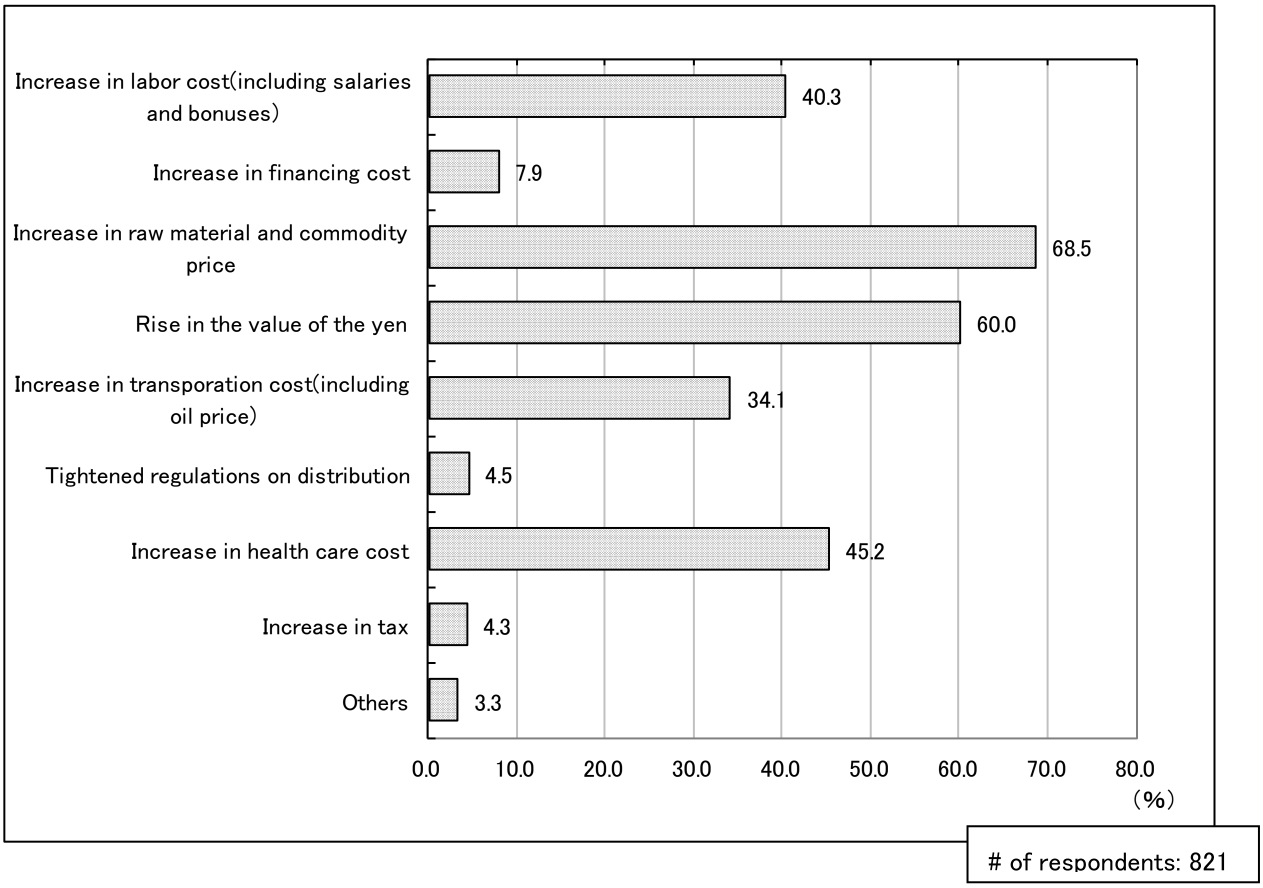
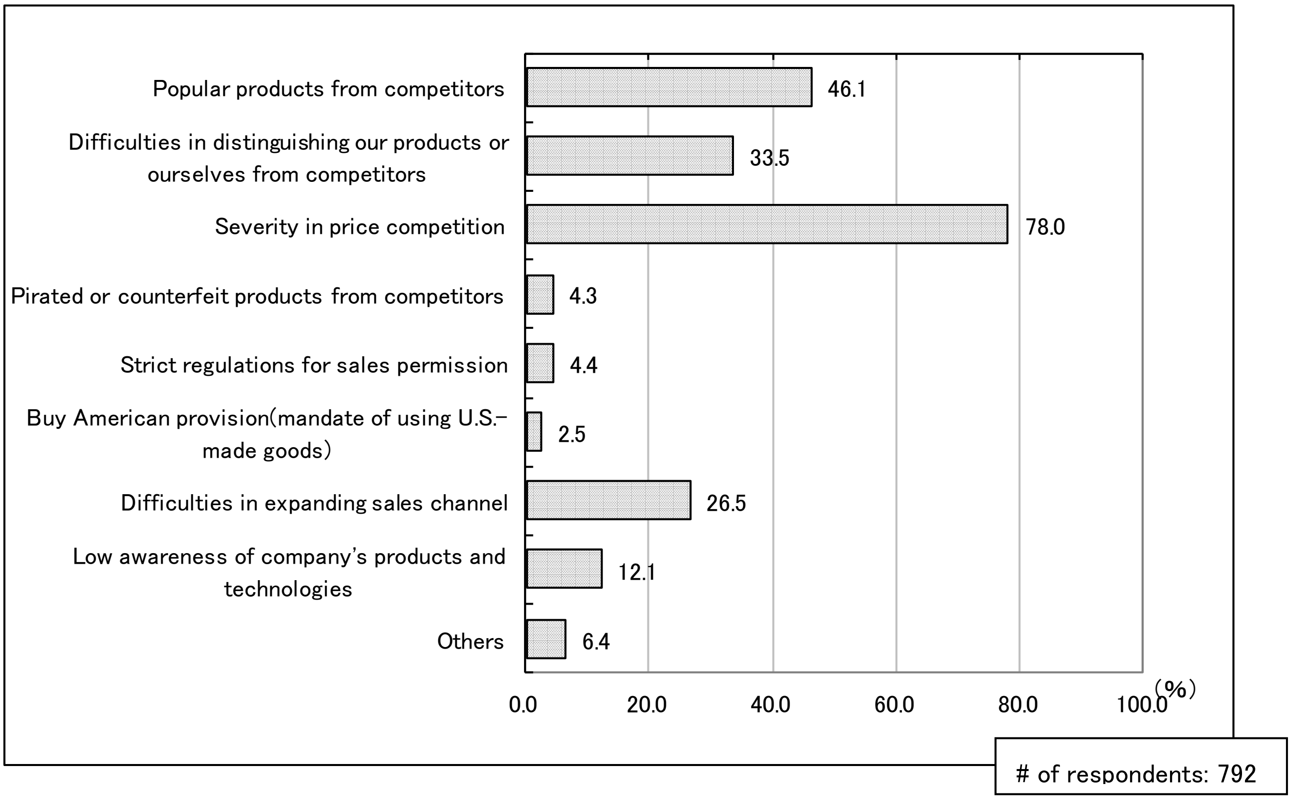


Figure 3: Management problems: Factors for weak sales (Multiple answers allowed)

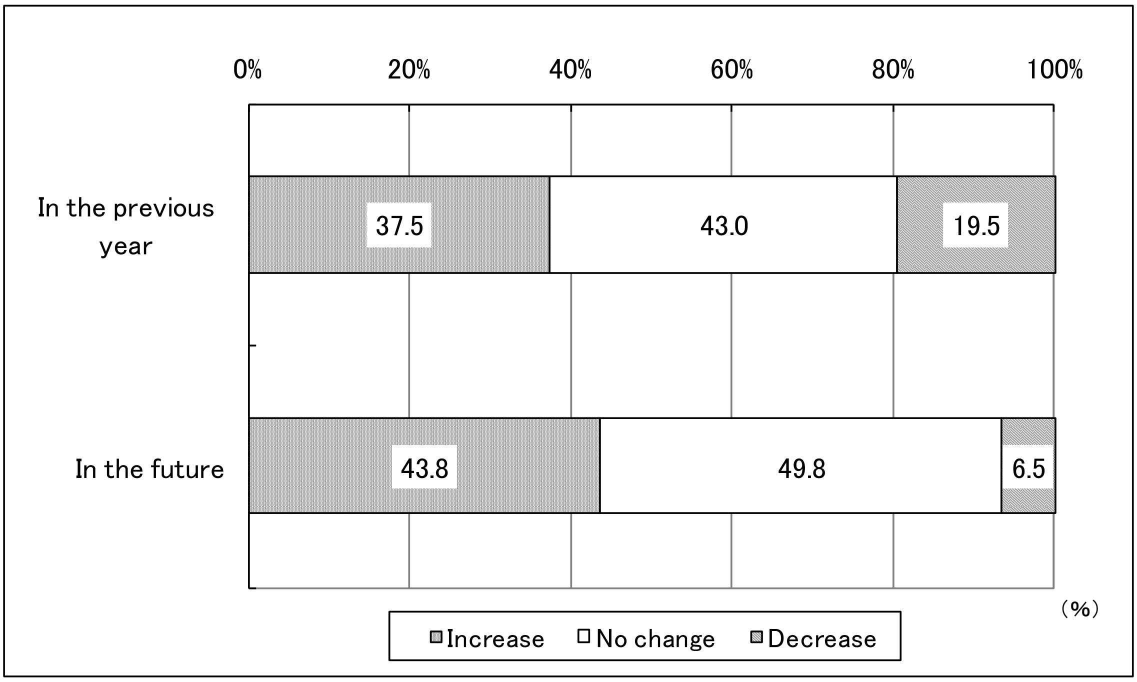


3. Local employment has increased. Many Japanese manufacturers are using capital investment to promote cost-saving streamlining.

Fewer than 40% of companies increased their number of local employees in the past year, while more than 40% intend to do so in the future (Figure4).

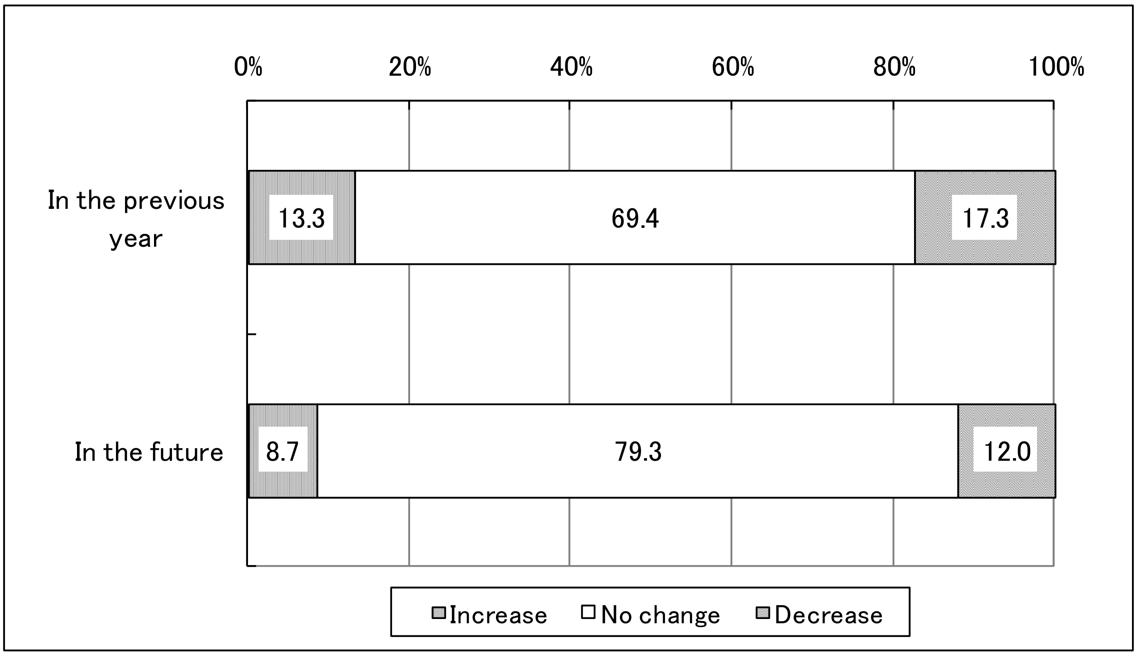
About 70-80% of companies answered that their number of Japanese representatives remains, or will remain, the same both in the past year and in their future outlook, showing evidence of increasing localization of employment (Figure5). In over 40% of companies capital investment has also increased compared with 2010 (Figure6). Particularly common were investments into "modernization and efficiency improvement of the plant" including expanding or renewing machines and facilities, aimed at reducing production costs.

Figure 4: Proportions of companies reporting “Increase”, “No change”, and “Decrease” in number of locally-hired employees in the previous year (actual) and in the future (expected)



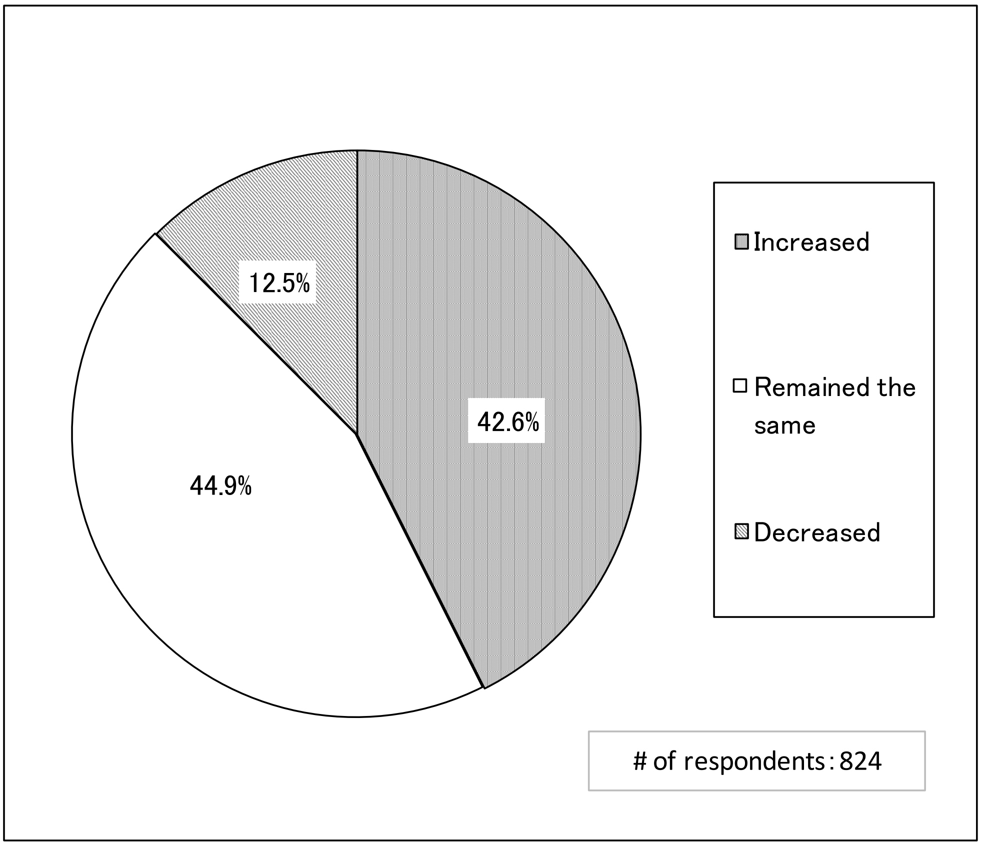
# of respondents for “previous year”:827 “in the future”:804

Figure 5: Proportions of companies reporting “Increase”, “No change”, and “Decrease” in number of Japanese expatriates in the previous year (actual) and in the future (expected)



# of respondents for “previous year”:798 “in the future”:773

Figure 6: Capital Investment change in 2011 compared to 2010.

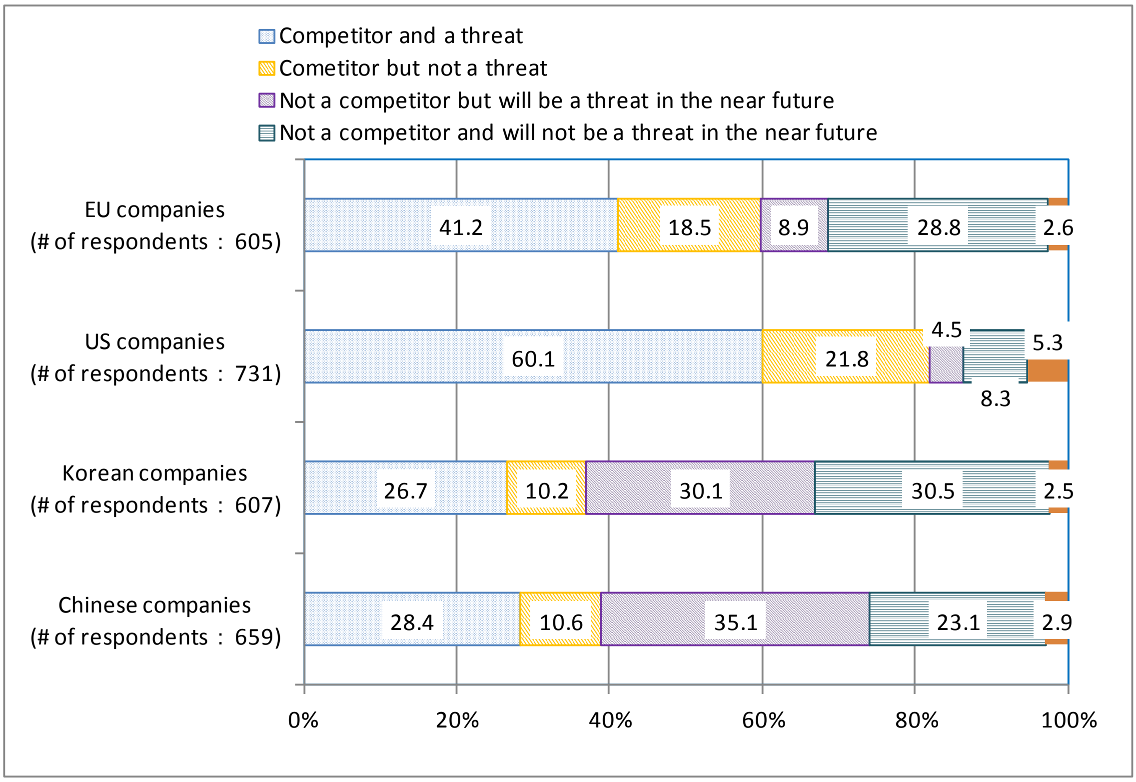


4. US and European companies have the market advantage on the balance between quality and price, while Chinese and South Korean ones have more competitive prices.

According to the survey, many Japanese manufacturers believe US companies to be their most formidable competitors. There is the same tendency in regards to European companies. Both have been respected by most for their balance between quality and price, advanced skill in brand-building, and product making that meets consumer needs.

Chinese and South Korean companies, on the other hand, are not considered serious competition by Japanese companies at the moment, but are expected to be a threat in the near future due to their competitively low prices (Figure7).

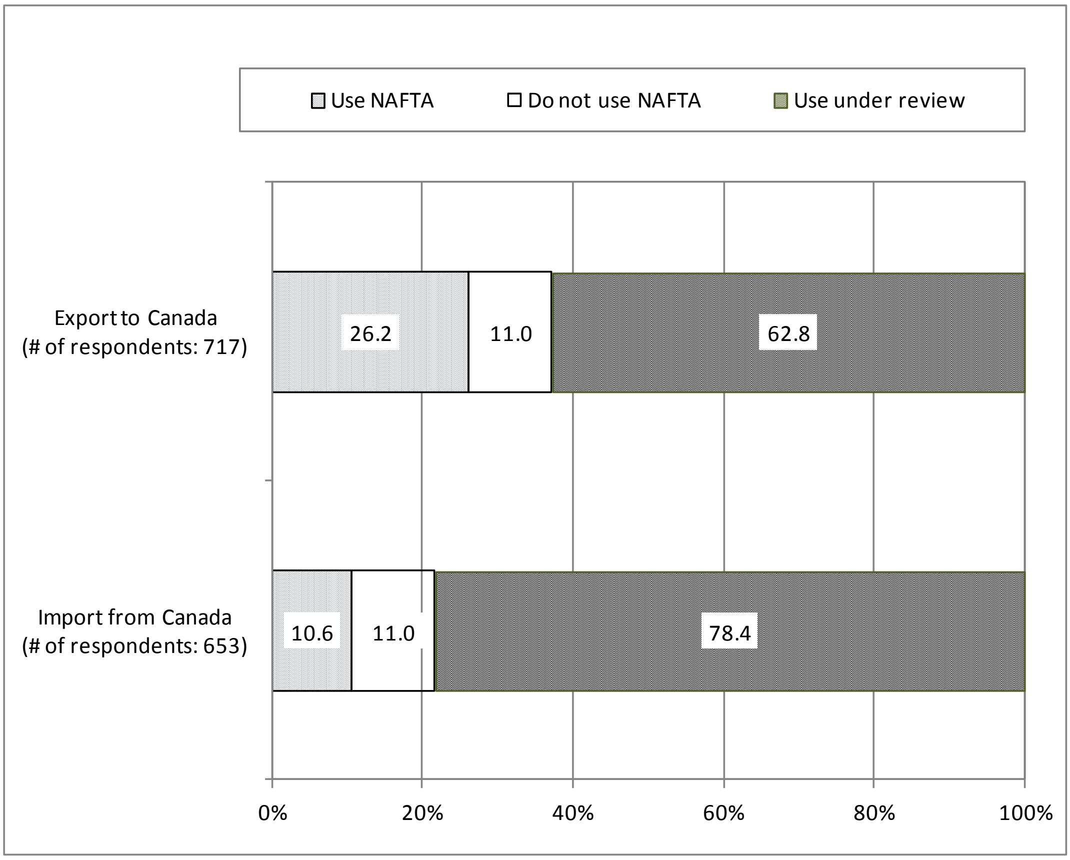
Figure 7: Competition with foreign companies in the US market.(Multiple answers allowed)

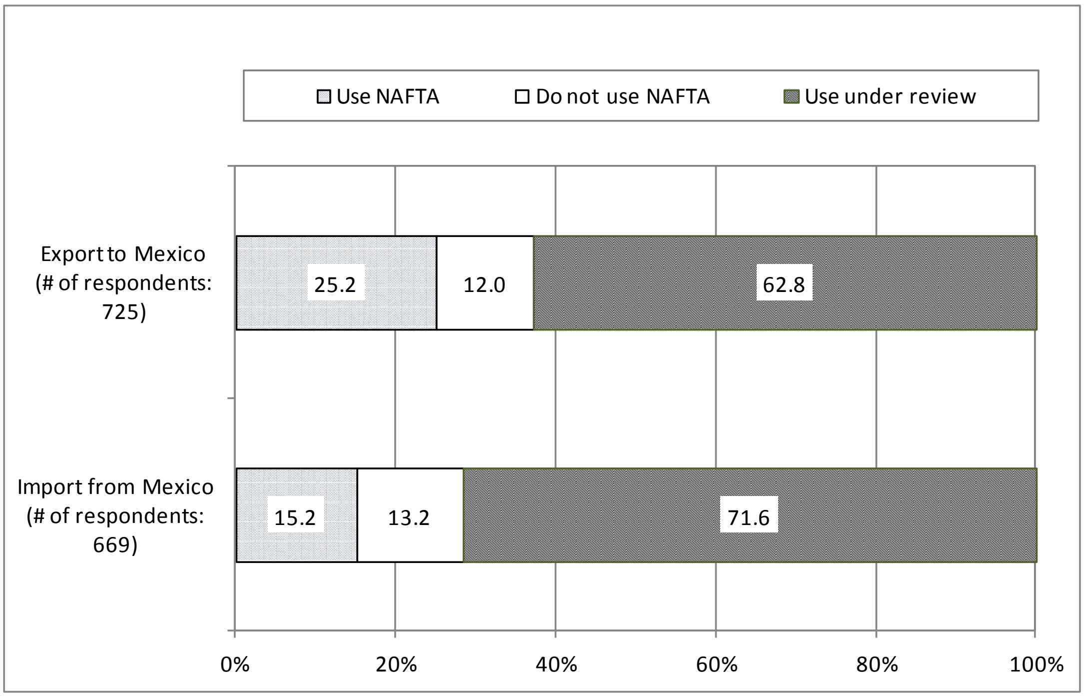


5. The North America Free Trade Agreement (NAFTA) has been mainly used by manufacturers that handle transportation machines.

Regarding the preferential duty rates stipulated by NAFTA, about 25% of manufacturers use it for exportation to Canada and Mexico(Figure8). In particular, 60% of companies that handle transportation equipment take advantage of this tax system for their export.

Figure 8: Use of NAFTA preferential duty rates





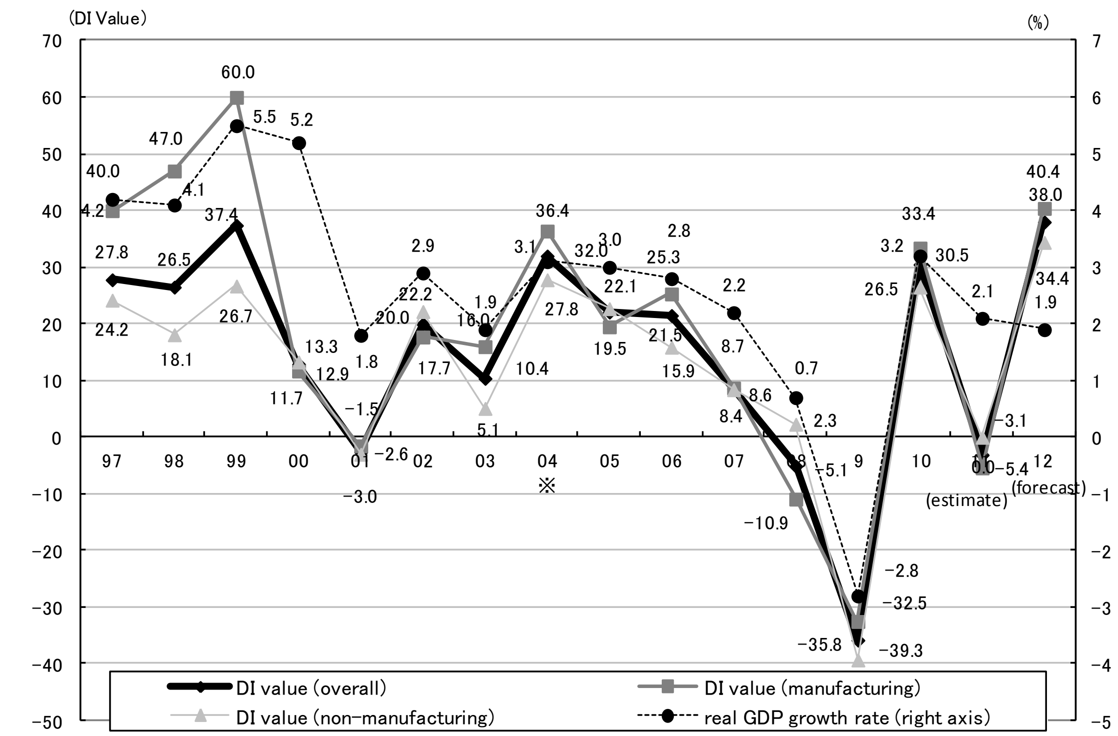
<Results of survey on business conditions of Japanese companies in Canada>

1. 60% of Japanese companies in Canada forecast improved business in 2011. However, their business results are showing a drastic slow down compared with 2010.

The diffusion index (DI) drastically fell to minus 3.1 from 30.5 the previous year (Figure1). The main reasons for this decline in operating profit outlook were "exchange rate fluctuations" and a "decrease in volume of sales in the domestic market".

The prolonged rise of the Canadian dollar in particular is greatly affecting business.

Figure 1. Trend in operating profits as measured by the Diffusion Index (DI) and real GDP growth rate



Note: The Diffusion Index (DI) is calculated by subtracting the proportion of companies reporting poorer performance than the previous year from the proportion of companies reporting better performance. It indicates changes in direction of business outlook. Real GDP growth rates for 2011 and 2012 are estimated based on predictions IMF (as of Sep. 2011). ＊Because the survey was not conducted in 2004, DI for that year is estimated based on results from 2003.

# of respondents

Manufacturing: 93

Non-manufacturing 66

2. The Canadian dollar's rise against the US dollar and price hikes in raw materials led to serious cost increase. Japanese manufacturers sometimes have to pass these costs on in their retail prices.

The main factors contributing to increased costs for management are the following (Figure2):

- The Canadian dollar rising against the US dollar
- An increase in transportation cost (price of gasoline)
- Increased price of raw materials, resources and commodities
- Hiked labor costs including salaries and bonuses

In particular, the cost increase caused by the Canadian dollar's rise is seriously affecting business management. Regarding major factors constraining sales, many cited "severity in price competition", "product presence of dominant competitors" and "difficulty in differentiation of their products and services" (Figure3).

Figure 2: Management problems: Factors for cost increase (Multiple answers allowed)

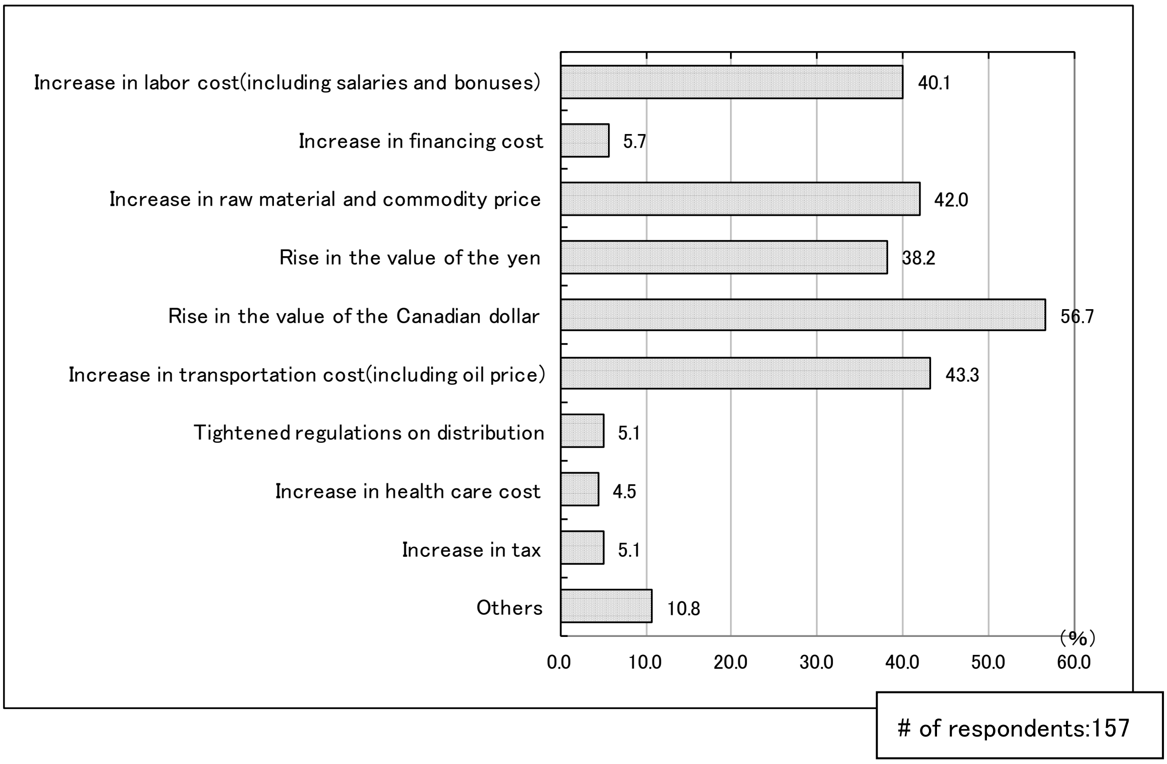
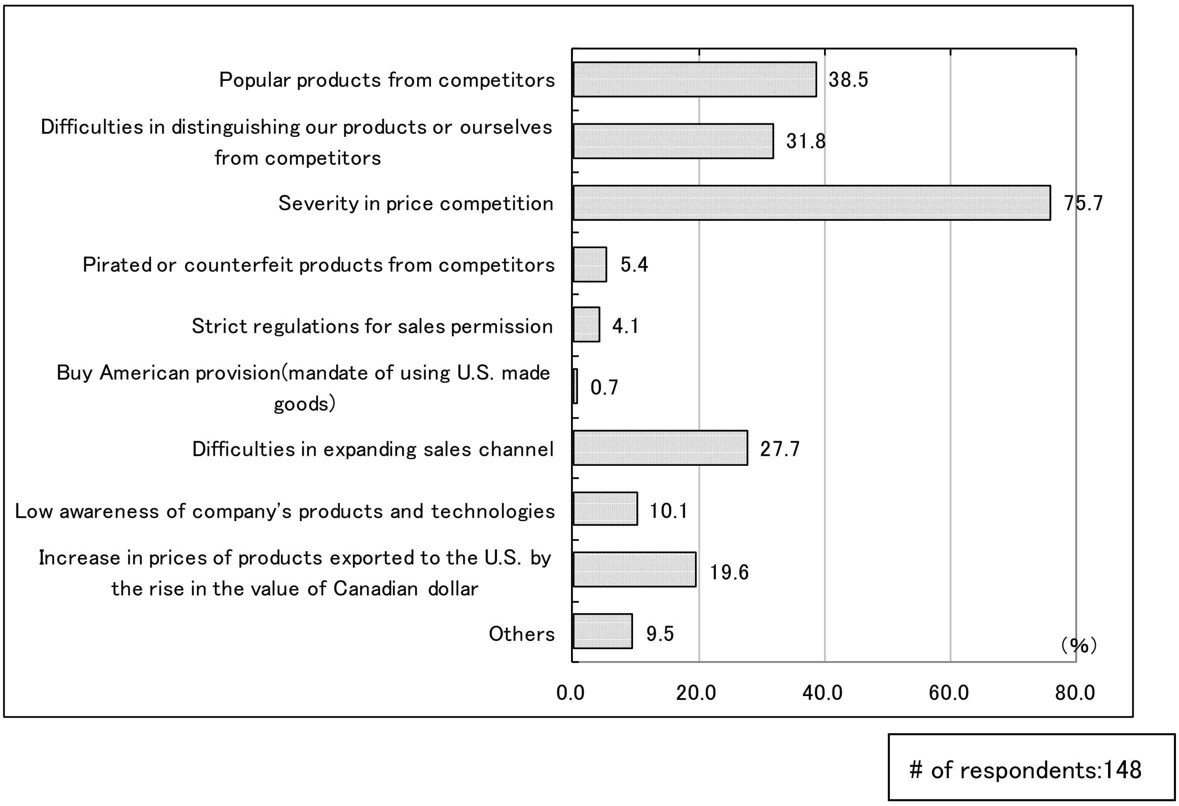


Figure 3: Management problems: Factors for weak sales (Multiple answers allowed)



3. Local employment remains at the same level. Many capital investments have been made to promote streamlining and efficiency of facilities.

Regarding the number of local employees both in the past year and in future plans, many companies answered that they remain at the same level (Figure4). The same can be said for the number of Japanese representatives (Figure5). Half of the respondents said the levels of capital investment also remained the same as 2010 (Figure6). Most are focusing on investments designed to increase business efficiency.

Figure 4: Proportions of companies reporting “Increase”, “No change”, and “Decrease” in number of locally-hired employees in the previous year (actual) and in the future (expected)

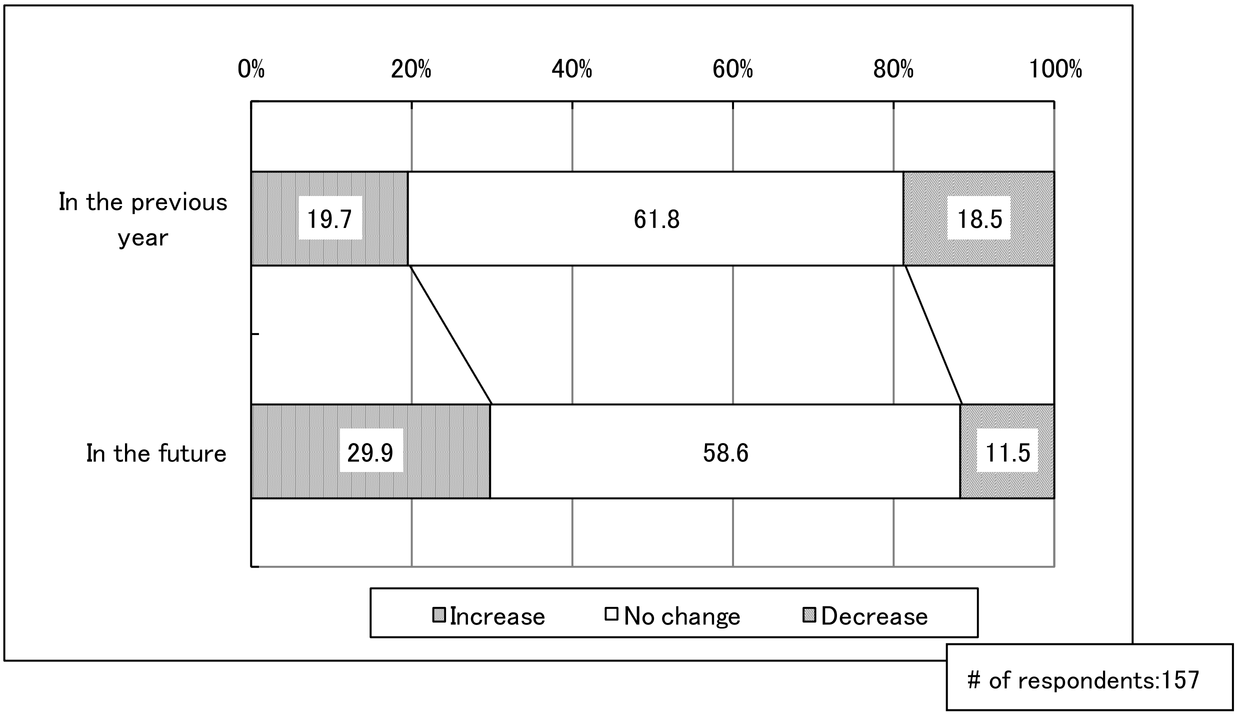


Figure 5: Proportions of companies reporting “Increase”, “No change”, and “Decrease” in number of Japanese expatriates in the previous year (actual) and in the future (expected)

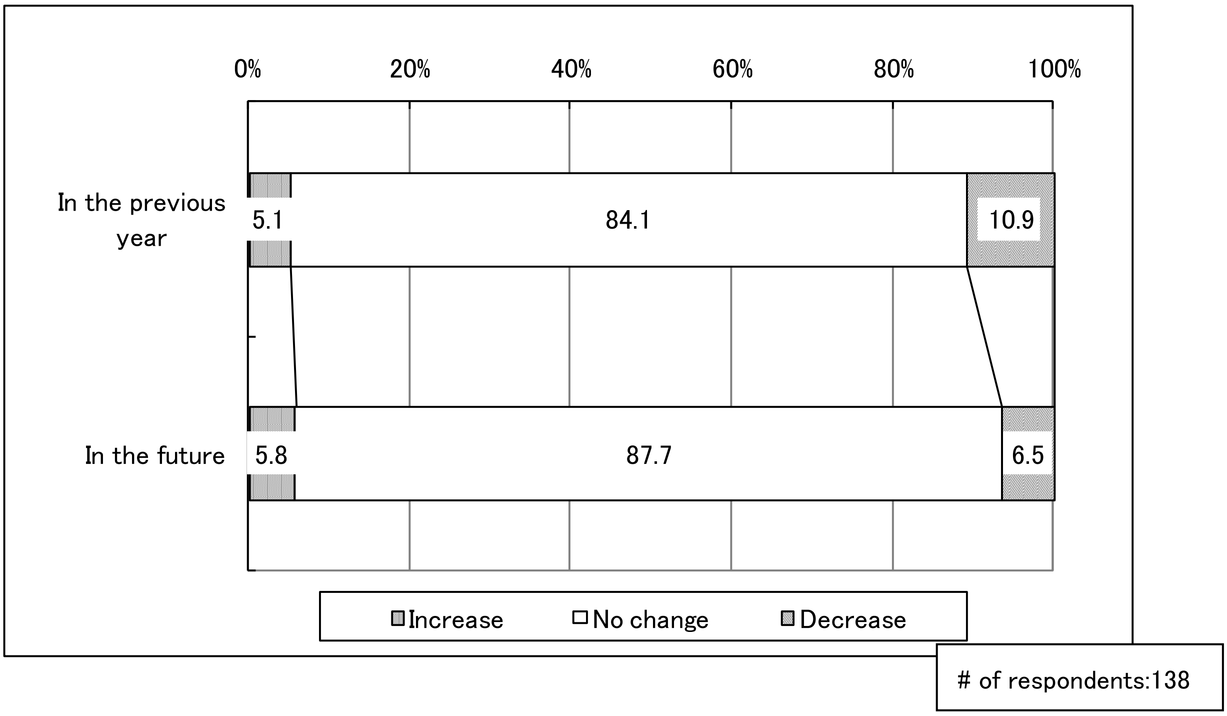
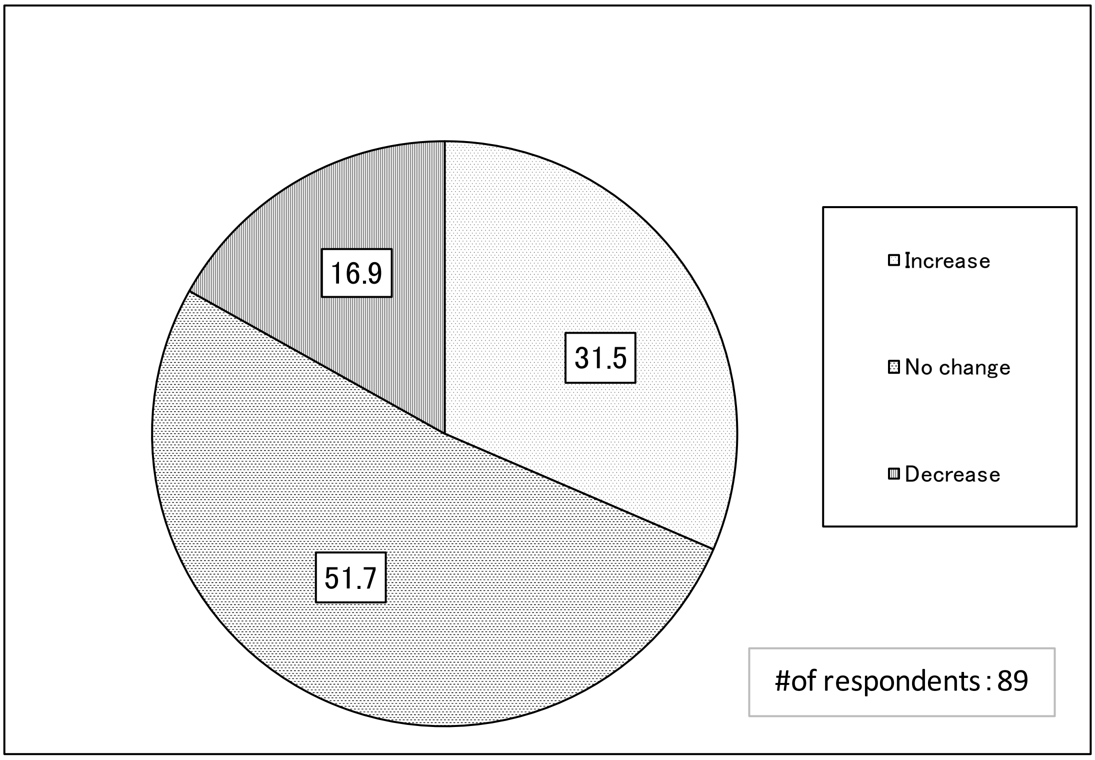


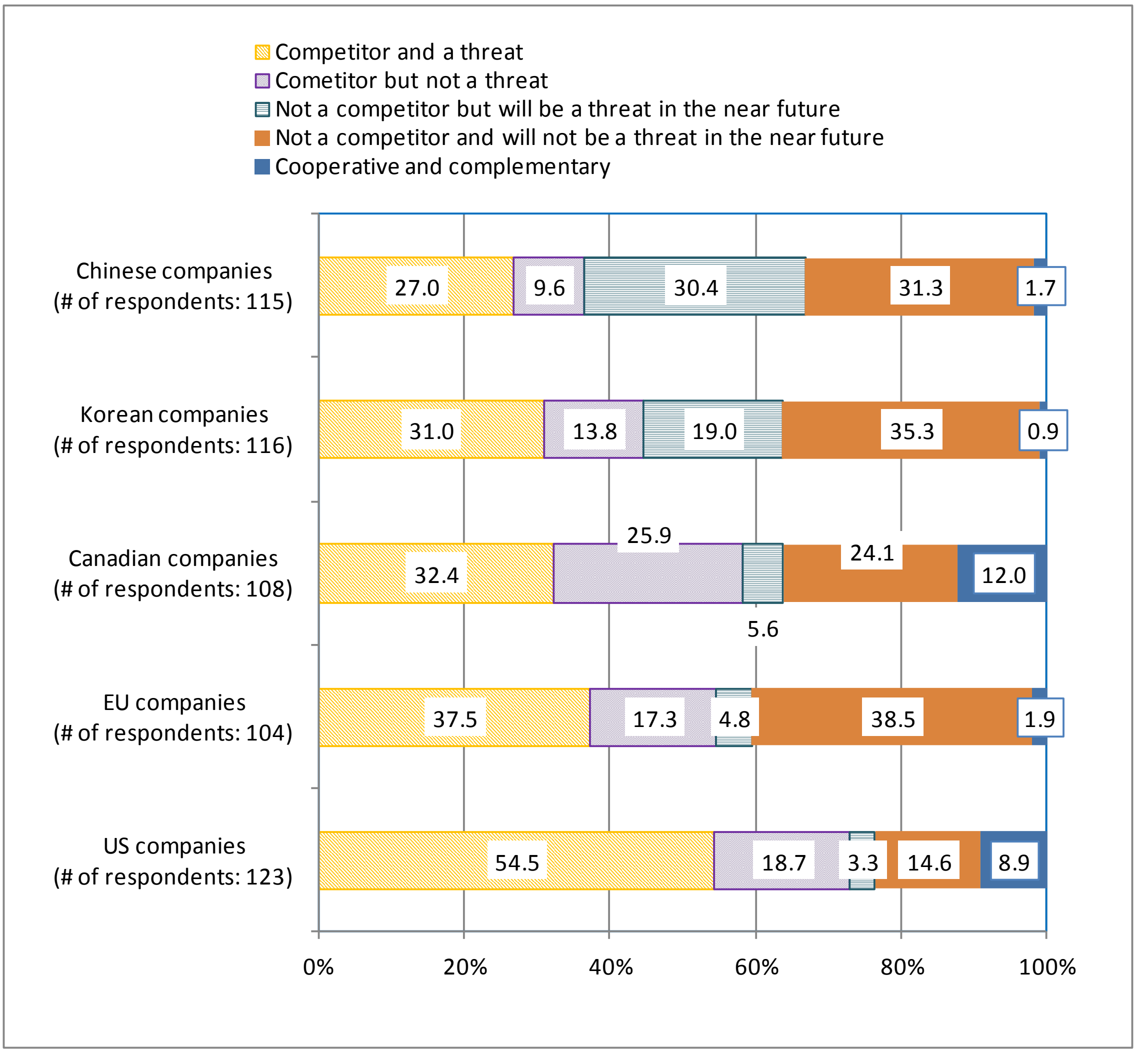
Figure 6: Capital Investment change in 2011 compared to 2010.



4. US companies possessing advanced brand strategies with a wide range of products are dominant in the market, while Chinese and South Korean ones are competitive in price.

Regarding competition with foreign companies, half of the respondents believe US companies are their greatest competitors. European companies follow as second and Canadian ones are third in the survey. As for US and European companies, most cited their superiority in terms of brand-building, wide range of product lines and high quality. 30% of Japanese companies consider Chinese companies to not be serious competition now, but a threat in the near future. Most companies acknowledge the competitiveness of their prices. As for South Korean companies, many cited their superiority in terms of competitive price, balance between quality and price, and incentives offered to customers (Figure7).

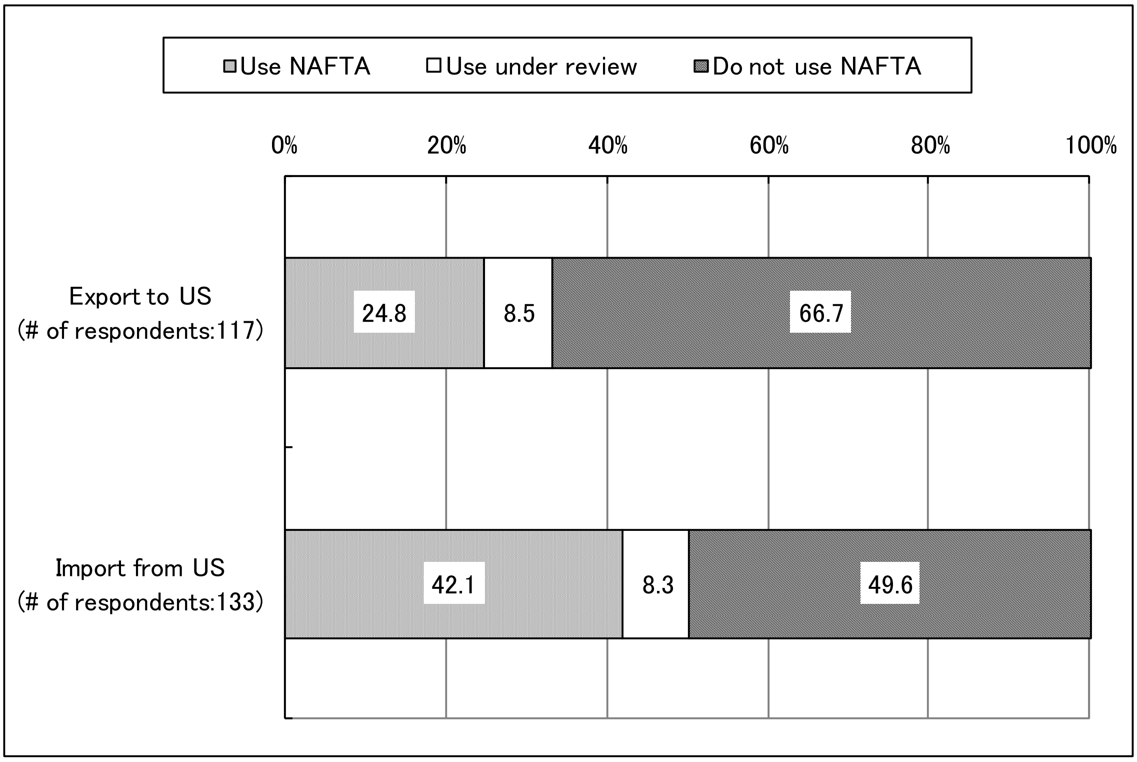
Figure 7: Competition with foreign companies in the Canadian market. (Multiple answers allowed)



5. **40% of Japanese manufacturers perceive that the Japan-Canada Economic Partnership Agreement (EPA) will have positive effects on business. Meanwhile, more than 70% of companies that handle transportation machine parts and general machinery make use of NAFTA for importation from the US.**

The preferential duty rates stipulated in NAFTA have been often used by many companies handling transportation machine parts such as automobiles and motorcycles, as well as general machinery including mold and machinery tools (Figure8). As for the Japan-Canada EPA which is at the stage of joint preliminary study, 40% of companies believe it will be a boon to their business, especially non-manufacturers such as trading companies, sales companies, forwarders and warehouse businesses (Figure9).

Figure 8: Use of NAFTA preferential duty rates



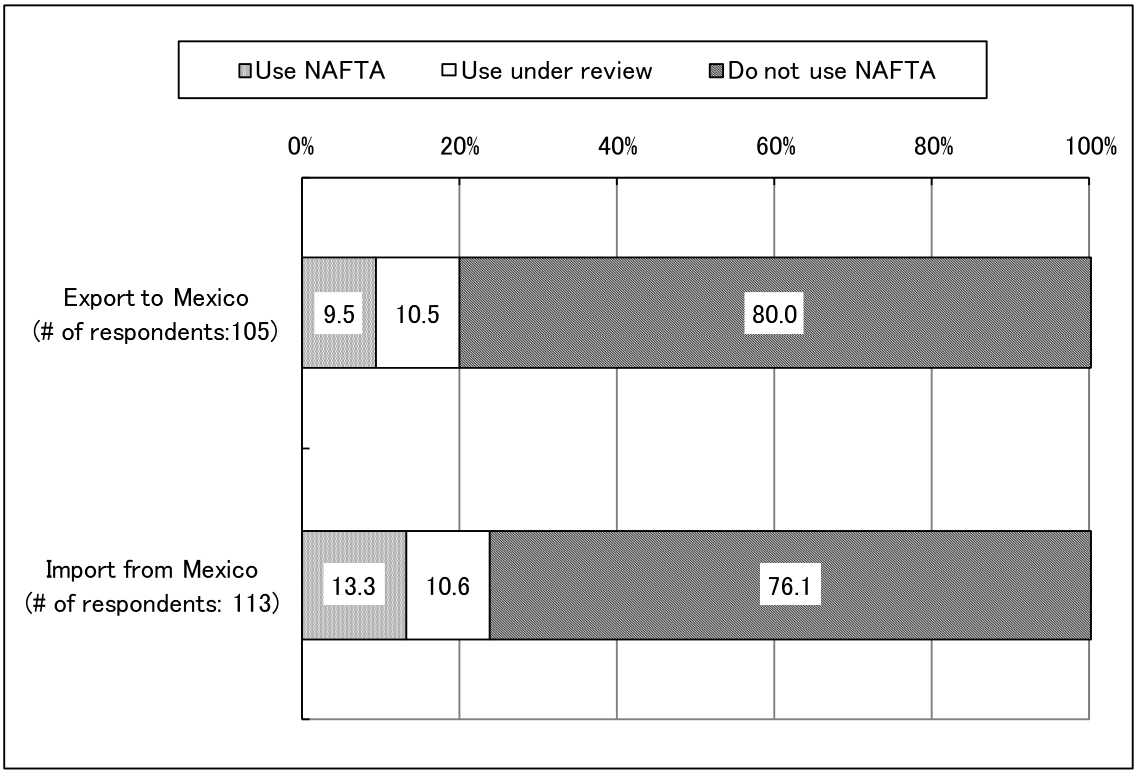
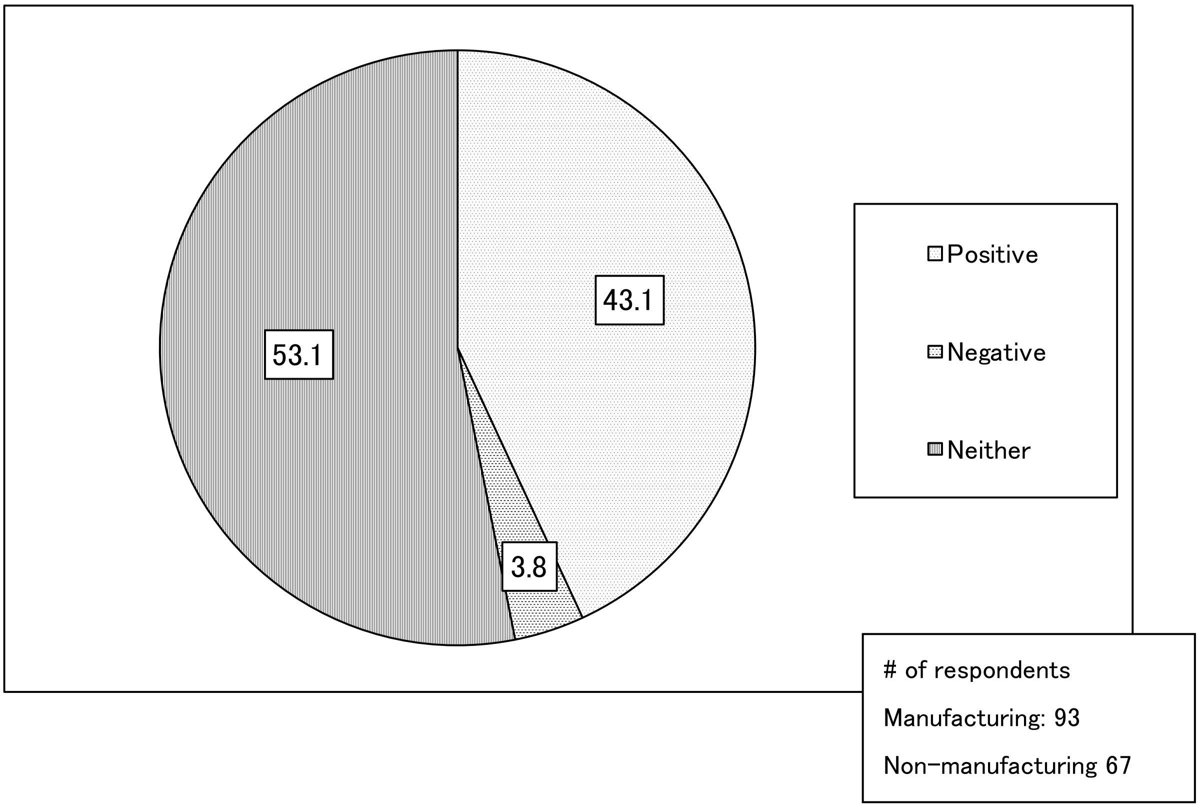


Figure 9: Effects of the Japan-Canada EPA on business



For more information:
Mr. Nakajima, Mr. Sakurauchi or Ms. Ando
North America Division
Phone: (03) 3582-5545