
2016 JETRO Survey on Business Conditions of Japanese Companies in the U.S. and Canada

Japan External Trade Organization (JETRO)
Americas Division, Overseas Research Department
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The United States

2016 JETRO Survey on Business Conditions of Japanese Companies in the United States

- Survey period: September 15th – October 28th, 2016
- Valid responses: 68.7% (706/1,027 of companies responded)
- Survey coverage: “Japanese-affiliated manufacturing firms in the United States” are companies in which the capital contribution ratio of the parent firm in Japan is at least 10%, including direct and indirect investment.

Operating profit forecast: Profit ratio maintains high level at 77.5%

In 2016, 77.5% of the respondents indicate that they expect their businesses to make a profit. The ratio decreased by 3.9 points from the previous year, but remains at a high level. Profit ratios are high in the “parts for transportation machines” and “machinery” fields. The Midwest, where many of these companies are located maintains an 80% ratio of profitable companies, and the South also decreases by only 2.7 points.

Fig. Changes in operating profit forecast and real U.S. GDP growth

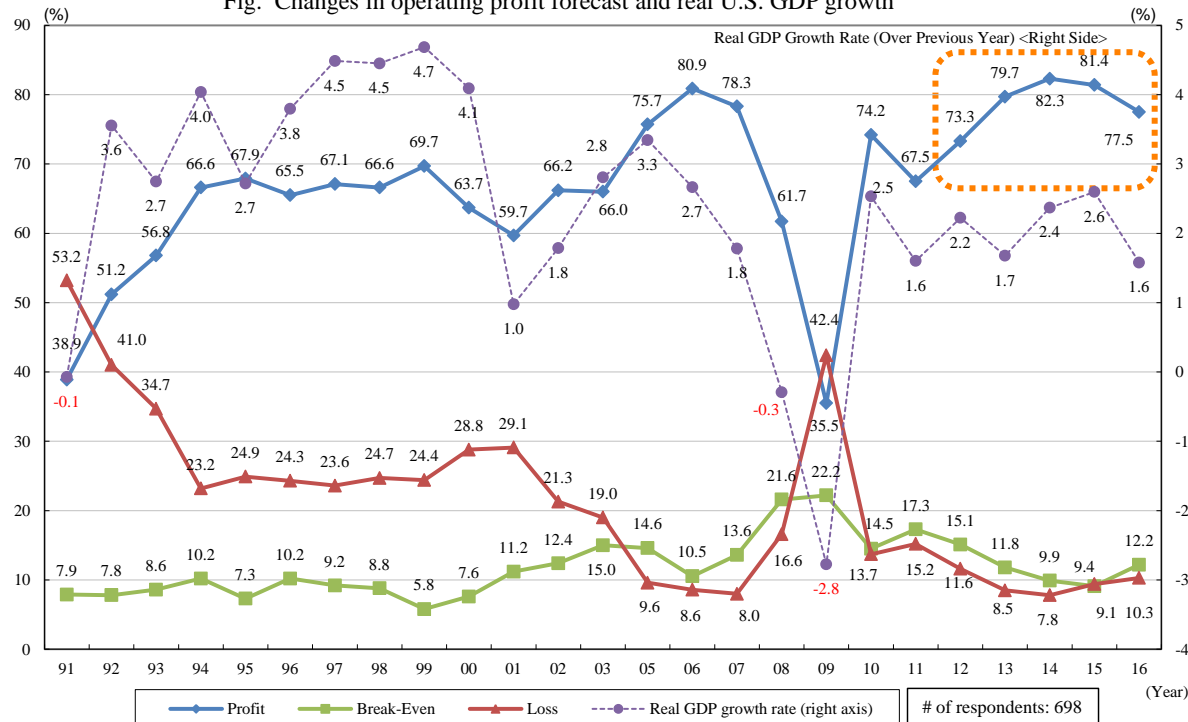
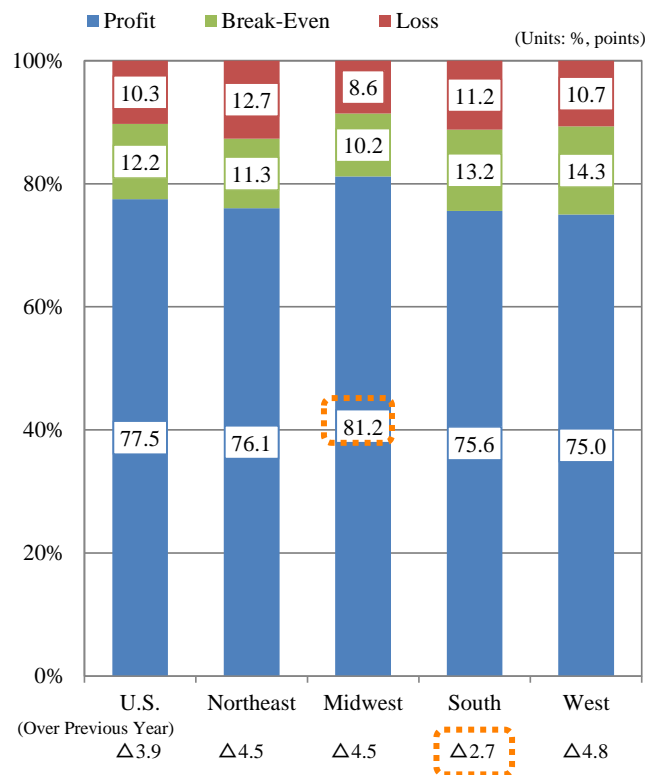


Fig. Operating profit forecast for 2016 (by regions)



Note: The GDP growth rate for 2016 is the IMF estimate (announced Oct. 2016). No survey conducted in 2004.

of respondents: 698

Business confidence: Decreases by 9.8 points from the previous year

Business confidence (diffusion index [subtracting “decrease” from “increase”] is 17.5) decreased by 9.8 points from the previous year. The ratio of replies anticipating increased operating profit from last year dropped by 6.5 points, and the ratio of replies anticipating decreased operating profits from last year increased by 3.3 points from the previous year. Major reasons for anticipating decreased operating profits are the same as last year, such as “sales decrease in local markets” and “increase of labor costs.”

Fig. Year-to-year operating profit forecast changes

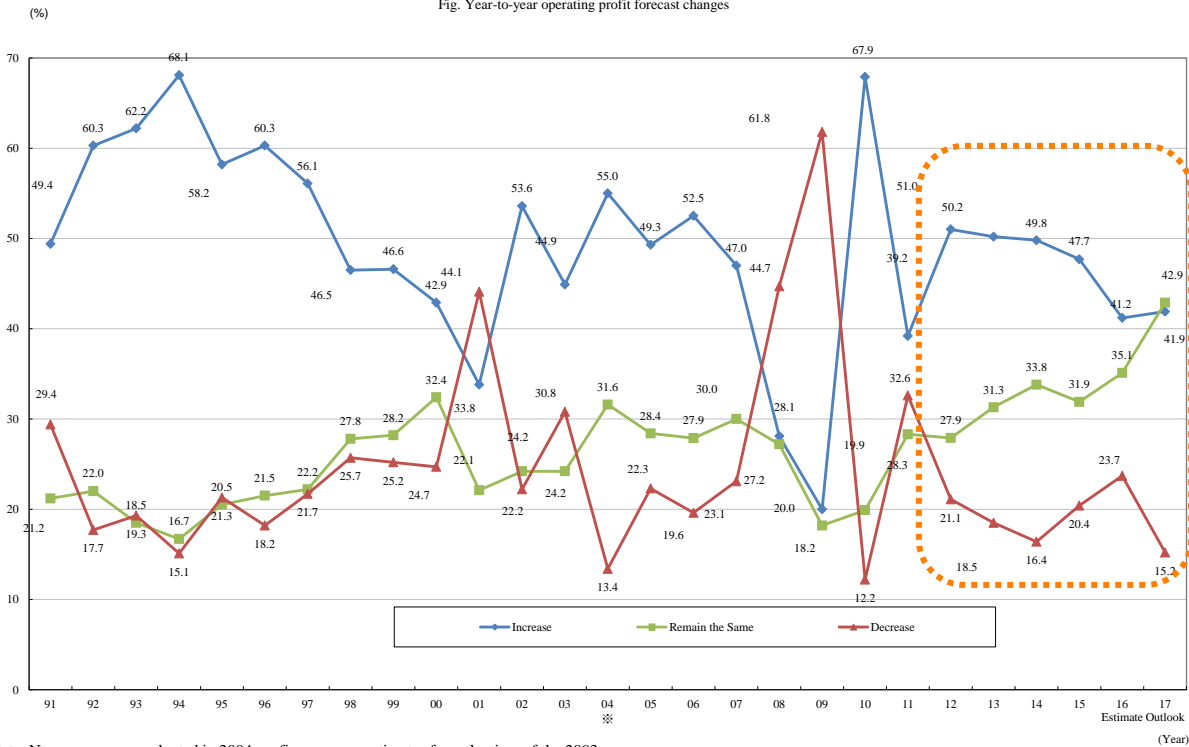
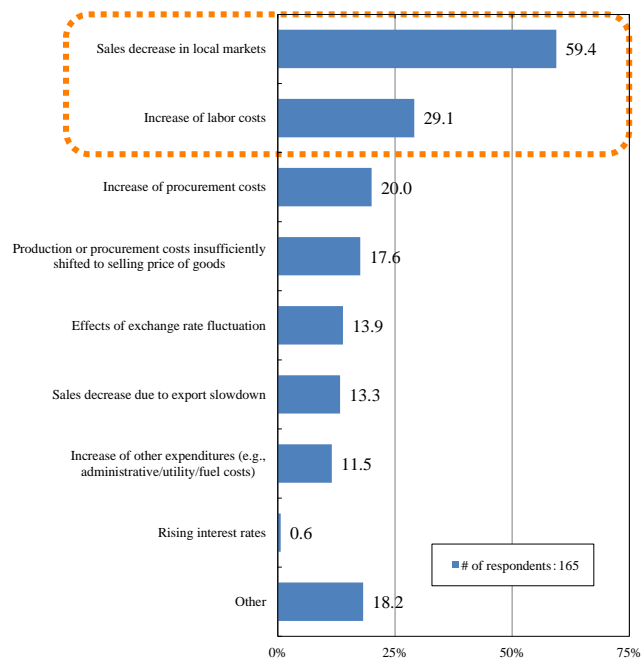


Fig. Reasons for lower operating profit forecast for 2016 (multiple answers)



Note: No survey was conducted in 2004, so figures were estimates from the time of the 2003 survey.

Future business plans: Business expansion continues centered on sales and production function

53.4% of the respondents plan to expand their business in the next 1 to 2 years, which was down 3.3 points from the previous year. Major functions for expansion include strengthening sales and production (high-value added products). By industry, high ratios of the companies are expected to expand in the chemical and oil products, process food, agricultural or fishery products, and precision machines and apparatuses industries.

Fig. Future business in the U.S.

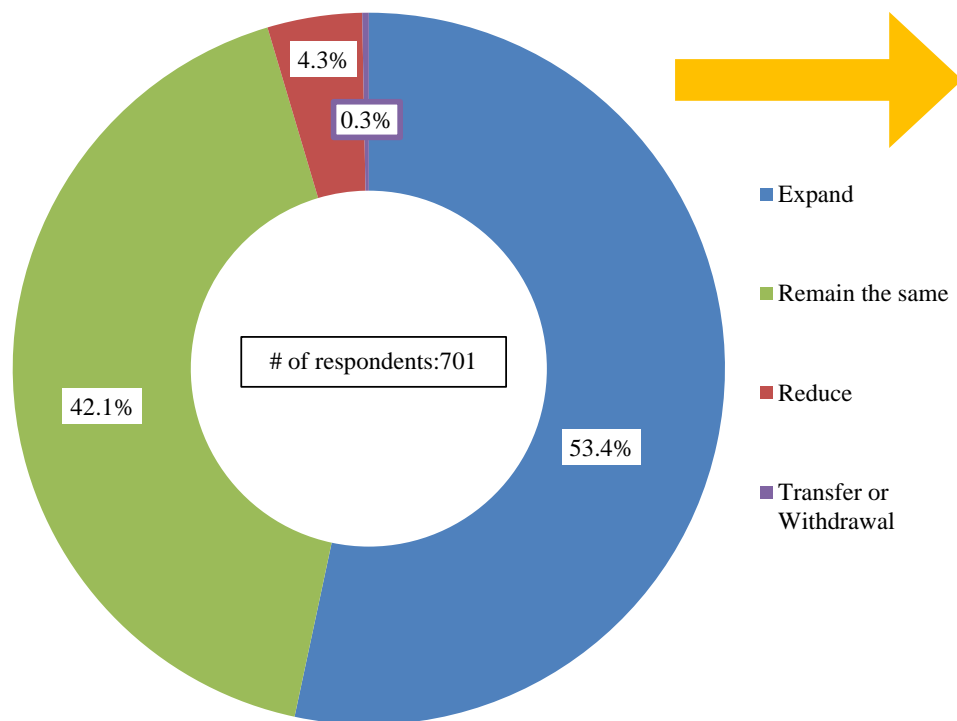
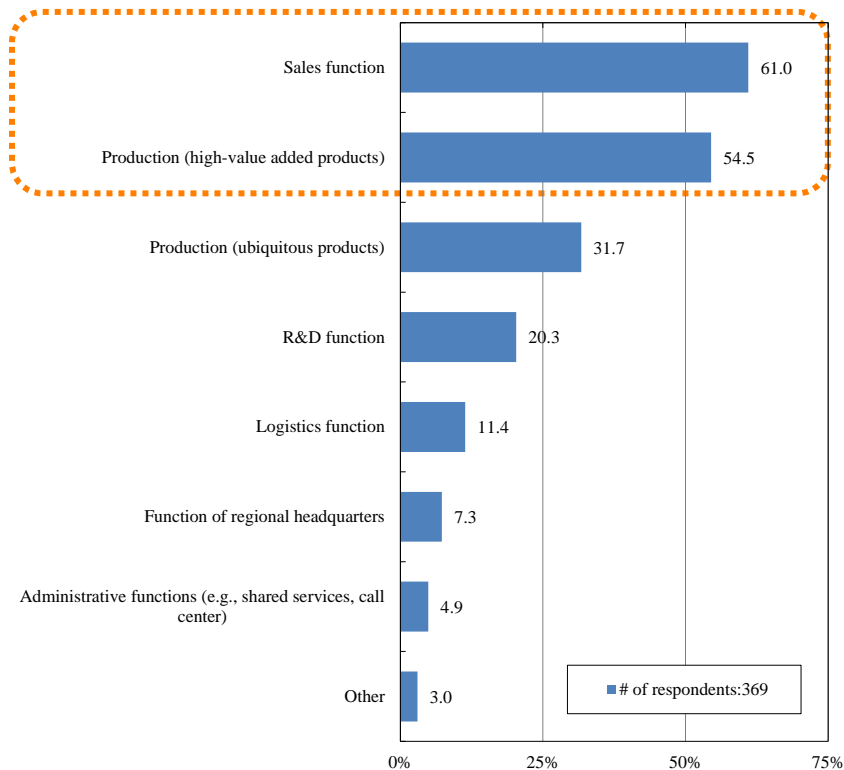


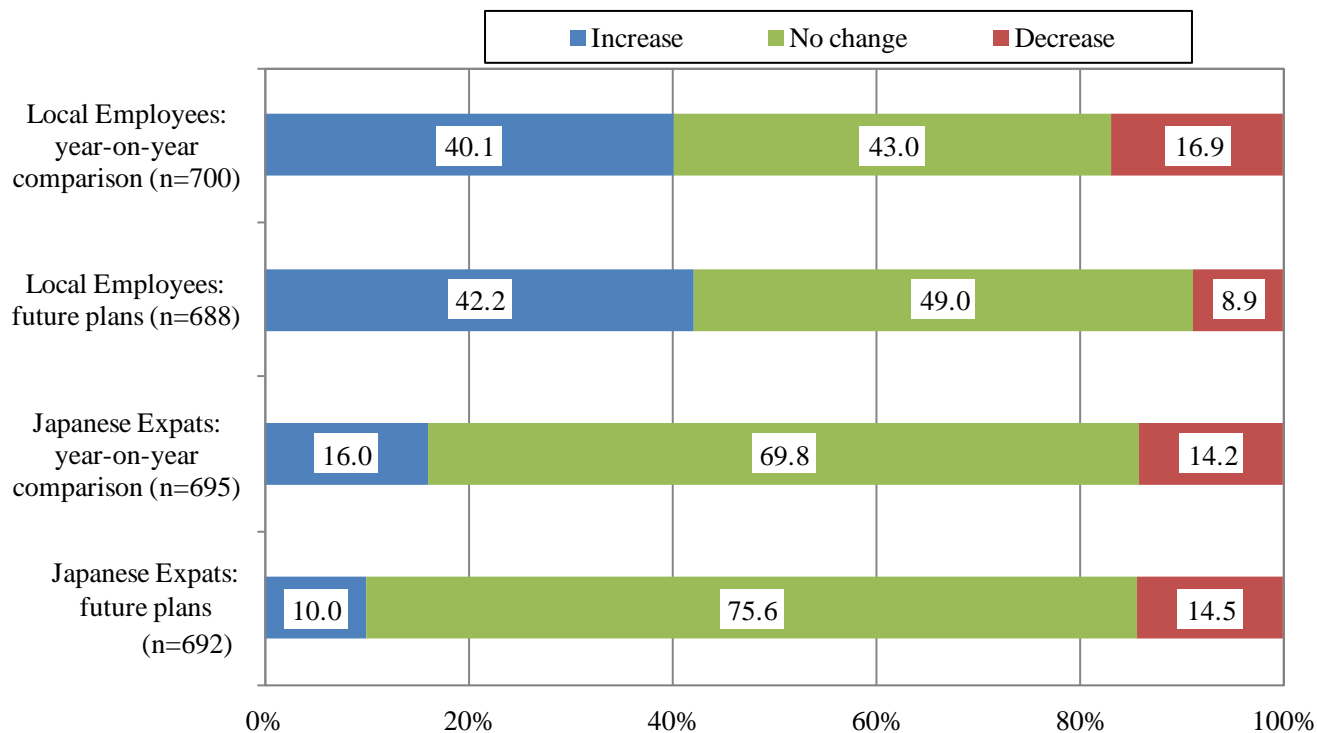
Fig. Specific functions to expand (multiple answers)



Employee numbers: Continued trend of increasing local employment

The ratio of respondents which increased local employment in the past year reached 40.1%. In the future as well, 42.2% of the respondents plan to increase local employment. 69.8% of respondents reply that their number of Japanese expats remained at the same level as the previous year. 75.6% of respondents reply that they expect their number of Japanese expats will remain at the same level.

Fig. Number of local employees and Japanese expatriates



Procurement:

Trends in procurement of raw materials and parts from Japan differ by industry

The average ratio of procurement from within the U.S. decreased by 1.1 points from the previous year to 57.2%, while the average ratio of procurement from Japan increased by 1.4 points. Many companies increased their ratios of procurement from Japan for medical devices and electrical and electronic parts. Future plans include expanding procurement from U.S. domestic companies (145) and Japanese affiliates in the U.S. (89). Yet the trend of reducing procurement from Japan continues for transportation machines and their parts.

Fig. Average Procurement proportion by countries/regions

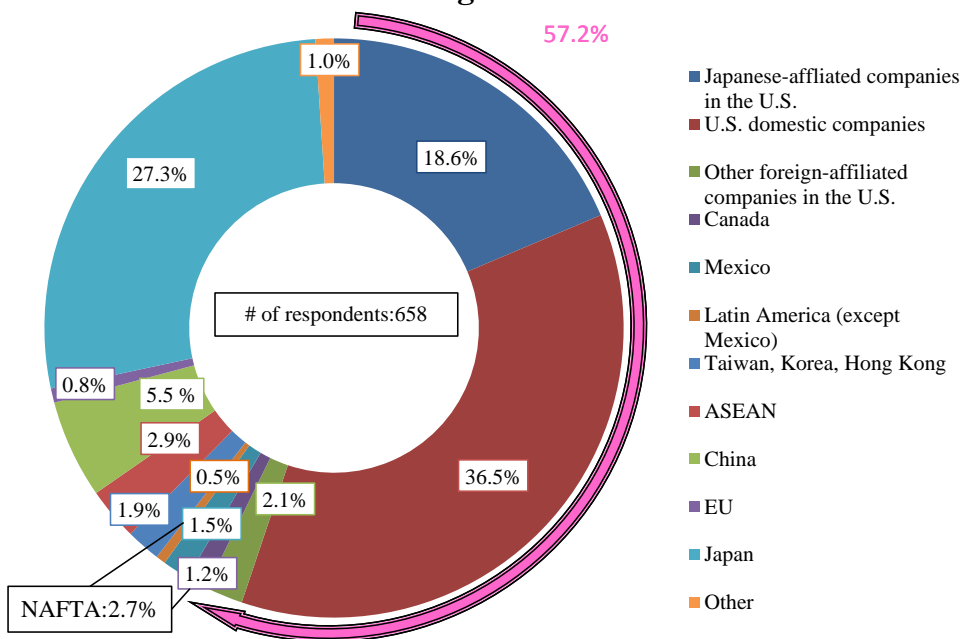
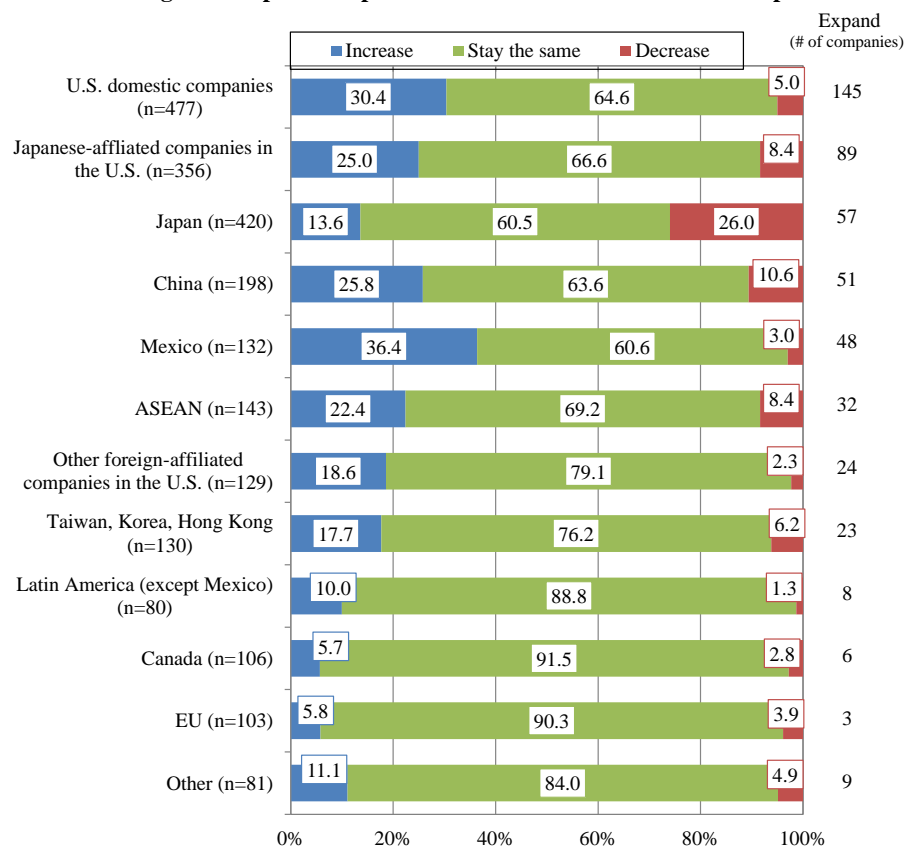


Fig. Future plans for procurement sources for raw materials/parts



Production: U.S. remains predominant production site for U.S. market

The average ratio of U.S. production for the U.S. market is 70%, the same level as the previous year. The U.S. is the most commonly selected country among companies planning to increase production for the U.S. market, given by 170 companies (32.3% of the respondents), followed by Mexico with 68 companies (57.1%). Among the companies that partially shifted production to Mexico because of their favorable low wages, some point out that the legal system is opaque compared with the U.S.

Fig. Average production proportion for the U.S. market by countries/regions

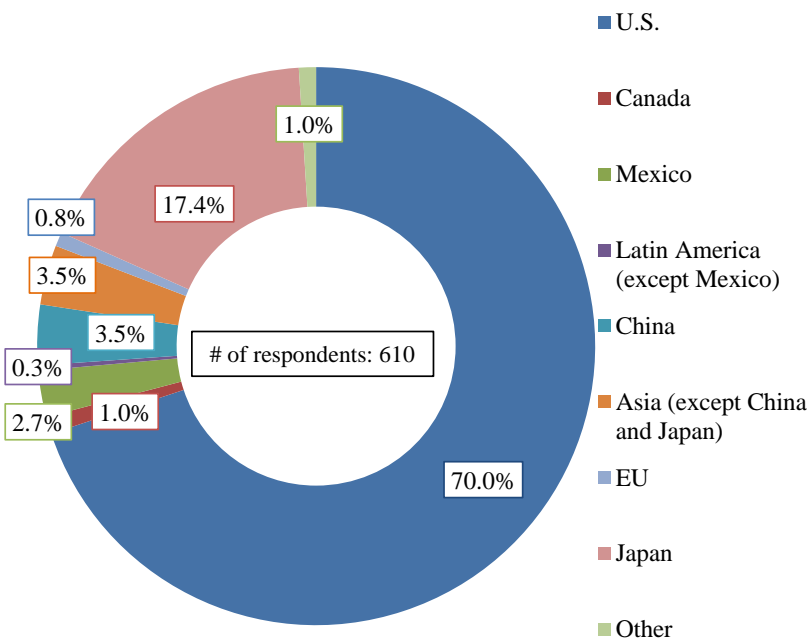
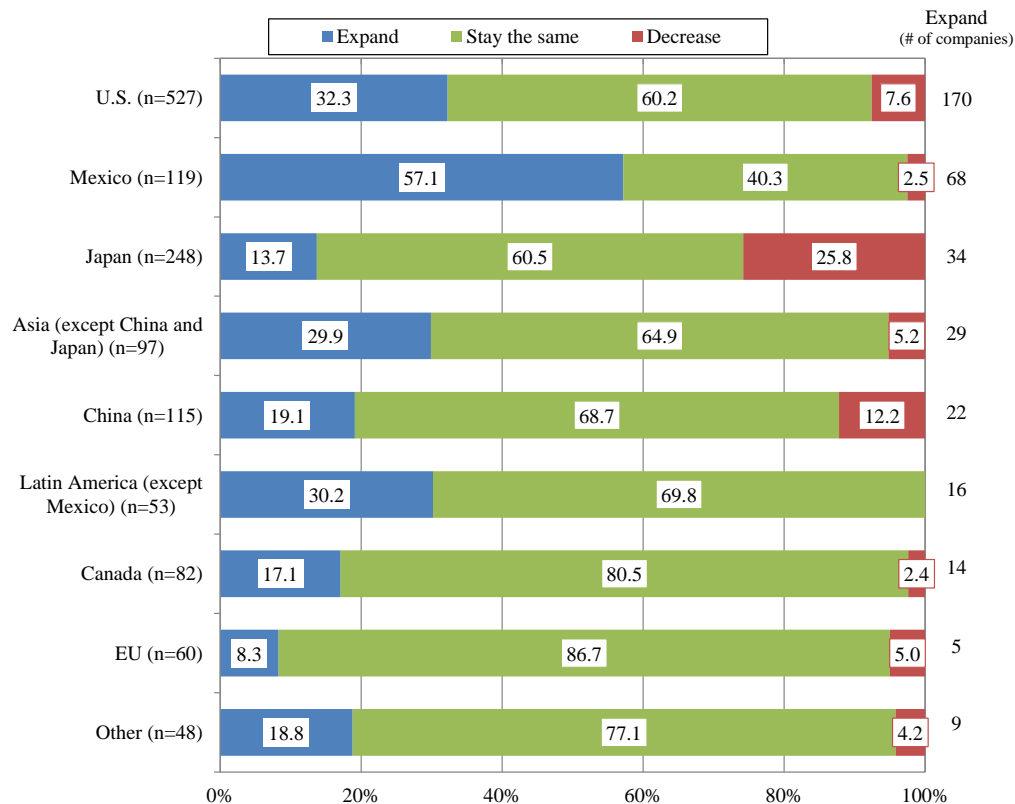


Fig. Future production plans in each country and region for the U.S. market

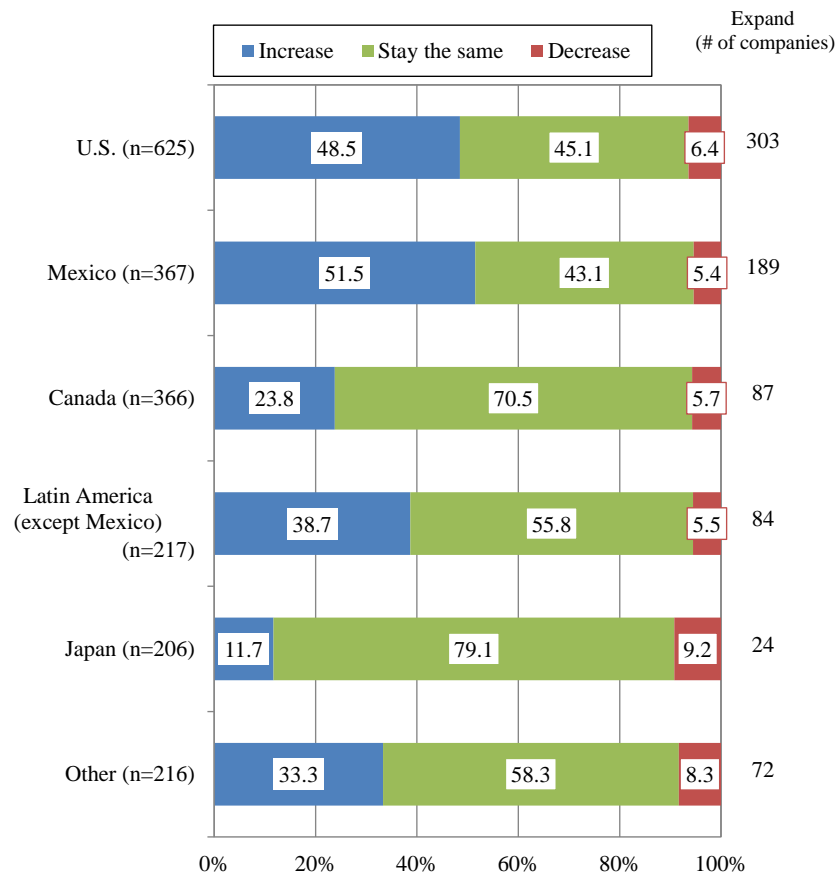
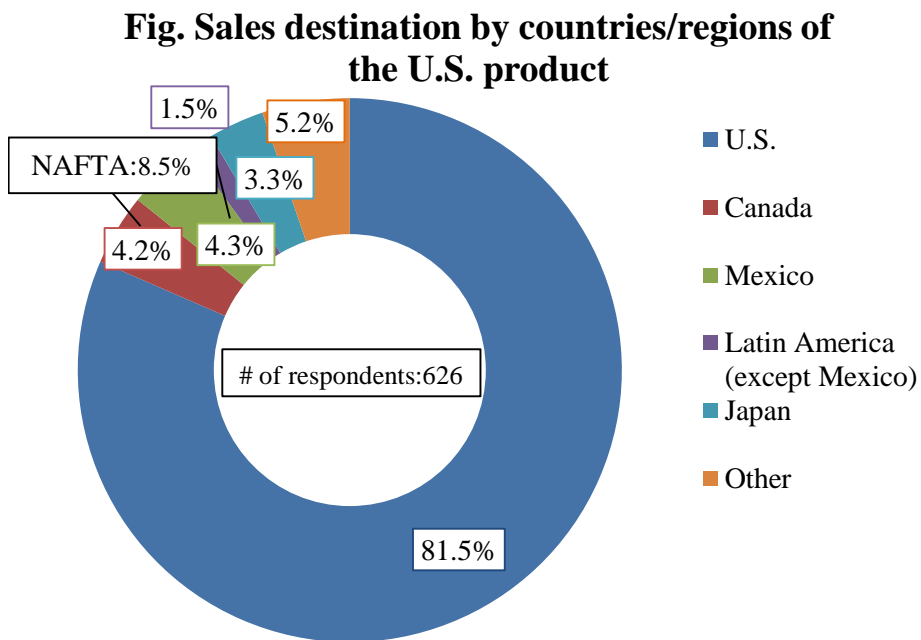


Sales:

The average sales ratio of U.S. products in NAFTA market accounts for 90%

The U.S. market accounts for an average ratio of 81.5%, and the NAFTA market accounts for an average ratio of 90% of sales destinations of the products made at the U.S. facilities. 303 companies plan to expand sales in the U.S. (48.5% of the respondents), followed by 189 companies planning to expand sales to Mexico (51.5%). Many companies in the transportation machinery and parts industry, and the chemical and oil products industry show interest in expanding sales routes to Mexico.

Fig. Future plans for sales destination



Utilizing FTAs: Nearly 30% of Japanese affiliates in the U.S. utilize NAFTA

27.2% of the companies utilized NAFTA for either imports or exports. 143 companies utilize it for exports to Mexico and 133 companies utilize it for exports to Canada. For imports, 68 companies utilize it for imports from Mexico and 40 companies utilize it for imports from Canada.

Table: Status of utilization of bilateral/multilateral FTAs (Units: companies, %)

	Is exporting	Is not exporting/no response	Utilizing FTA in exports			Is importing	Is not importing/no response	Utilizing FTA in imports		
			Utilizing	Considering utilization	Not utilizing (no plans)			Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA										
Canada	284 (40.2%)	422 (59.8%)	133 (18.8%)	26 (3.7%)	125 (17.7%)	65 (9.2%)	641 (90.8%)	40 (5.7%)	6 (0.8%)	19 (2.7%)
Mexico	279 (39.5%)	427 (60.5%)	143 (20.3%)	24 (3.4%)	112 (15.9%)	101 (14.3%)	605 (85.7%)	68 (9.6%)	12 (1.7%)	21 (3.0%)
Singapore	30 (4.2%)	676 (95.8%)	7 (1.0%)	4 (0.6%)	19 (2.7%)	22 (3.1%)	684 (96.9%)	9 (1.3%)	5 (0.7%)	8 (1.1%)
Australia	44 (6.2%)	662 (93.8%)	13 (1.8%)	5 (0.7%)	26 (3.7%)	8 (1.1%)	698 (98.9%)	3 (0.4%)	-	5 (0.7%)
Korea	39 (5.5%)	667 (94.5%)	14 (2.0%)	3 (0.4%)	22 (3.1%)	41 (5.8%)	665 (94.2%)	22 (3.1%)	4 (0.6%)	15 (2.1%)
Chile	41 (5.8%)	665 (94.2%)	8 (1.1%)	4 (0.6%)	29 (4.1%)	5 (0.7%)	701 (99.3%)	2 (0.3%)	-	3 (0.4%)
Peru	35 (5.0%)	671 (95.0%)	8 (1.1%)	4 (0.6%)	23 (3.3%)	4 (0.6%)	702 (99.4%)	2 (0.3%)	-	2 (0.3%)
Panama	21 (3.0%)	685 (97.0%)	6 (0.8%)	1 (0.1%)	14 (2.0%)	1 (0.1%)	705 (99.9%)	1 (0.1%)	-	-
Colombia	48 (6.8%)	658 (93.2%)	11 (1.6%)	5 (0.7%)	32 (4.5%)	2 (0.3%)	704 (99.7%)	1 (0.1%)	-	1 (0.1%)
Other Latin American countries	74 (10.5%)	632 (89.5%)	18 (2.5%)	12 (1.7%)	44 (6.2%)	9 (1.3%)	697 (98.7%)	5 (0.7%)	4 (0.6%)	-
Middle East and North Africa	21 (3.0%)	685 (97.0%)	8 (1.1%)	2 (0.3%)	11 (1.6%)	3 (0.4%)	703 (99.6%)	2 (0.3%)	-	1 (0.1%)
FTA/EPA Signed/under negotiation										
TPP Japan	156 (22.1%)	550 (77.9%)	-	65 (9.2%)	91 (12.9%)	317 (44.9%)	389 (55.1%)	-	130 (18.4%)	187 (26.5%)
Malaysia	19 (2.7%)	687 (97.3%)	-	7 (1.0%)	12 (1.7%)	20 (2.8%)	686 (97.2%)	-	9 (1.3%)	11 (1.6%)
Vietnam	15 (2.1%)	691 (97.9%)	-	6 (0.8%)	9 (1.3%)	26 (3.7%)	680 (96.3%)	-	16 (2.3%)	10 (1.4%)
New Zealand	15 (2.1%)	691 (97.9%)	-	6 (0.8%)	9 (1.3%)	1 (0.1%)	705 (99.9%)	-	-	1 (0.1%)
Other	7 (1.0%)	699 (99.0%)	-	2 (0.3%)	5 (0.7%)	15 (2.1%)	691 (97.9%)	-	2 (0.3%)	13 (1.8%)
TTIP EU	100 (14.2%)	606 (85.8%)	-	36 (5.1%)	64 (9.1%)	48 (6.8%)	658 (93.2%)	-	20 (2.8%)	28 (4.0%)

* Other Latin American countries = El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Colombia

Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

TPP Signatories = U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei, Vietnam

Utilizing FTA: Over 40% of respondents which export/import utilize NAFTA

Among the companies which report either export to or import from respective countries or regions, 51.3% of the respondents utilize NAFTA to export to Mexico, and 46.8% utilize NAFTA to export to Canada. For import, 67.3% utilize NAFTA to import from Mexico, and 61.5% utilize NAFTA to import from Canada. There are high expectations toward utilizing an FTA between Japan and the U.S. if the one enters into force.

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Australia	44	662	13 (29.5%)	5 (11.4%)	26 (59.1%)	8	698	3 (37.5%)	-	5 (62.5%)	
Korea	39	667	14 (35.9%)	3 (7.7%)	22 (56.4%)	41	665	22 (53.7%)	4 (9.8%)	15 (36.6%)	
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Peru	35	671	8 (22.9%)	4 (11.4%)	23 (65.7%)	4	702	2 (50.0%)	-	2 (50.0%)	
Panama	21	685	6 (28.6%)	1 (4.8%)	14 (66.7%)	1	705	1 (100.0%)	-	-	
Colombia	48	658	11 (22.9%)	5 (10.4%)	32 (66.7%)	2	704	1 (50.0%)	-	1 (50.0%)	
Other Latin American countries	74	632	18 (24.3%)	12 (16.2%)	44 (59.5%)	9	697	5 (55.6%)	4 (44.4%)	-	
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	New Zealand	15	691	-	6 (40.0%)	9 (60.0%)	1	705	-	-	1 (100.0%)
	Other	7	699	-	2 (28.6%)	5 (71.4%)	15	691	-	2 (13.3%)	13 (86.7%)
TTIP	EU	100	606	-	36 (36.0%)	64 (64.0%)	48	658	-	20 (41.7%)	28 (58.3%)

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Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

TPP Signatories = U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei, Vietnam

TPP: High expectations for reducing procurement costs

18.6% of the respondents reply that if the TPP comes into force, it would have an effect on them. Specific effects include “lower procurement costs (from existing suppliers)” and “increased production in the U.S.” Among the respondents stating they would not be affected or don’t know if they would be affected, many of them cite they procure almost all of their parts and materials in the U.S. as the reason.

Fig. Effect of TPP when it enters into force

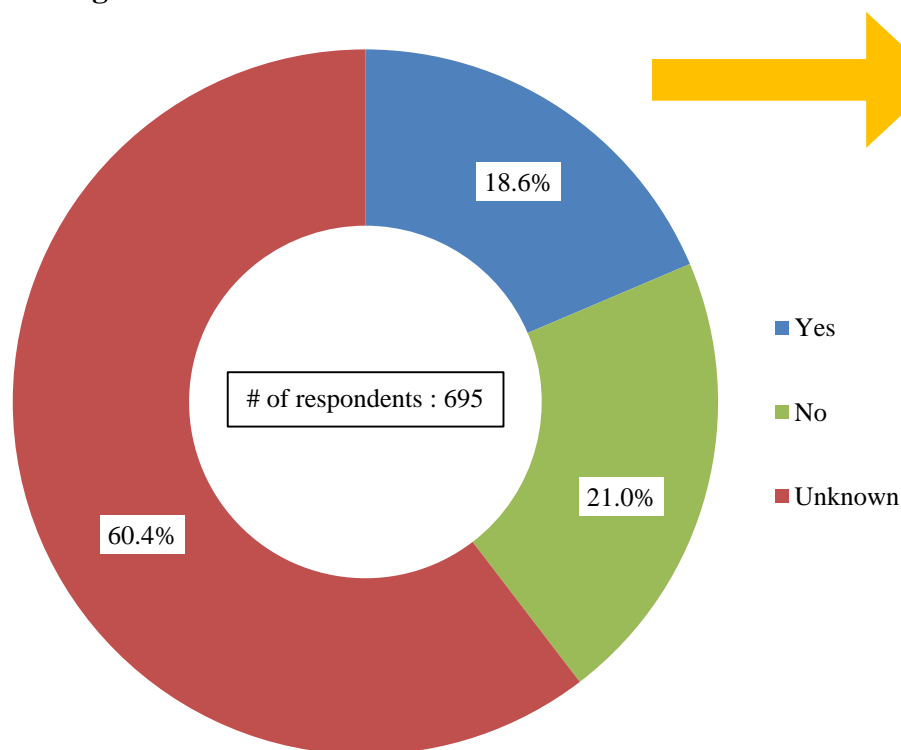
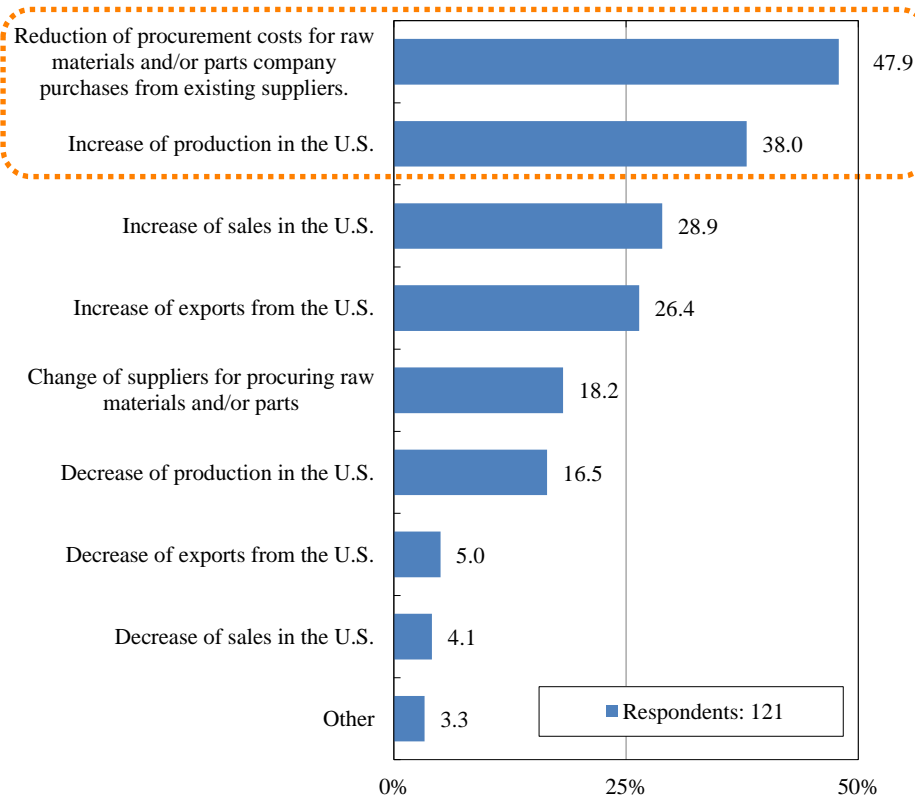


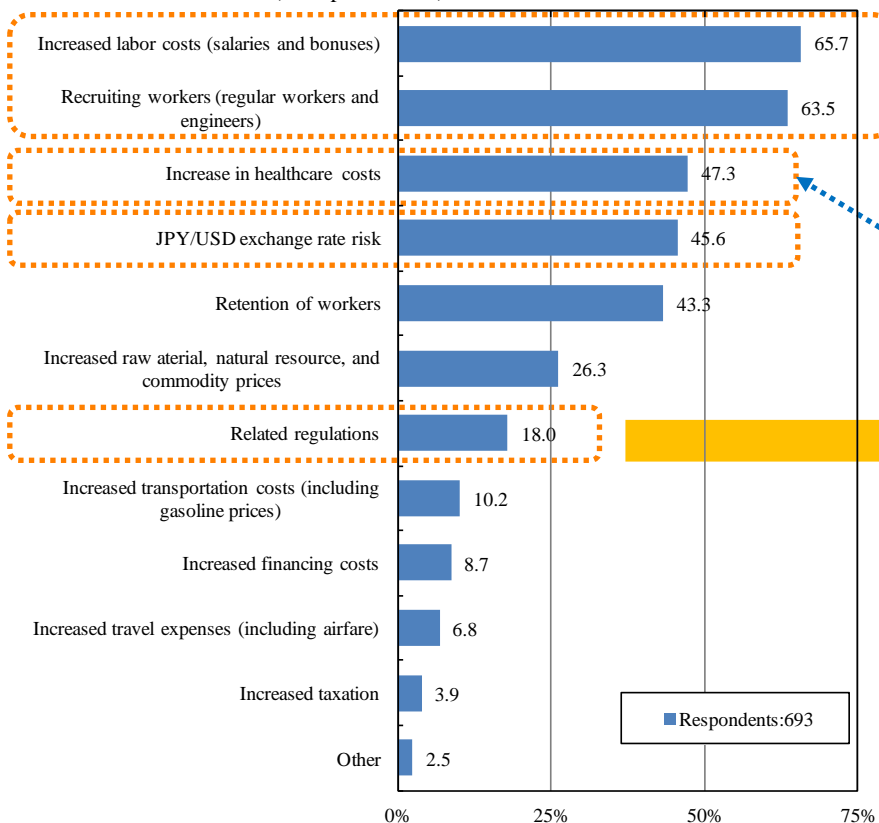
Fig. Specific Effects (multiple answers)



Factors for increased costs: Labor costs continue to rise due to the economic recovery

As with last year, the main reasons for increased costs are “increase in labor costs,” “recruiting workers,” and “increase in healthcare burden.” Besides these, “exchange rate fluctuation risks” (45.6%) increased by 15.7 points from the previous year. On the regulatory side, environmental policies have a great impact, and some respondents voice their concerns on greenhouse gas emission regulations.

Fig. Management Issues (1) Cost Increase Factors (multiple answers)

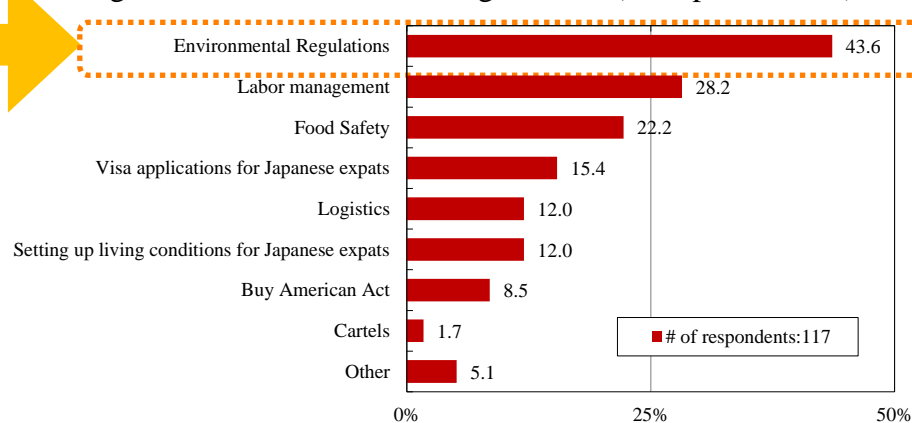


< Increase in labor costs due to the economic recovery >

- The U.S. economic growth increased the liquidity of laborers. [Metal goods (including plated products)]
- Economic development in surrounding regions was remarkable and more companies entered into the market, so we had to raise wages in order to secure labor. [Other manufacturing]

• By industry, a high ratio of pharmaceutical companies cite healthcare cost as the cost increase factor.

Fig. Breakdown of Related Regulations (multiple answers)

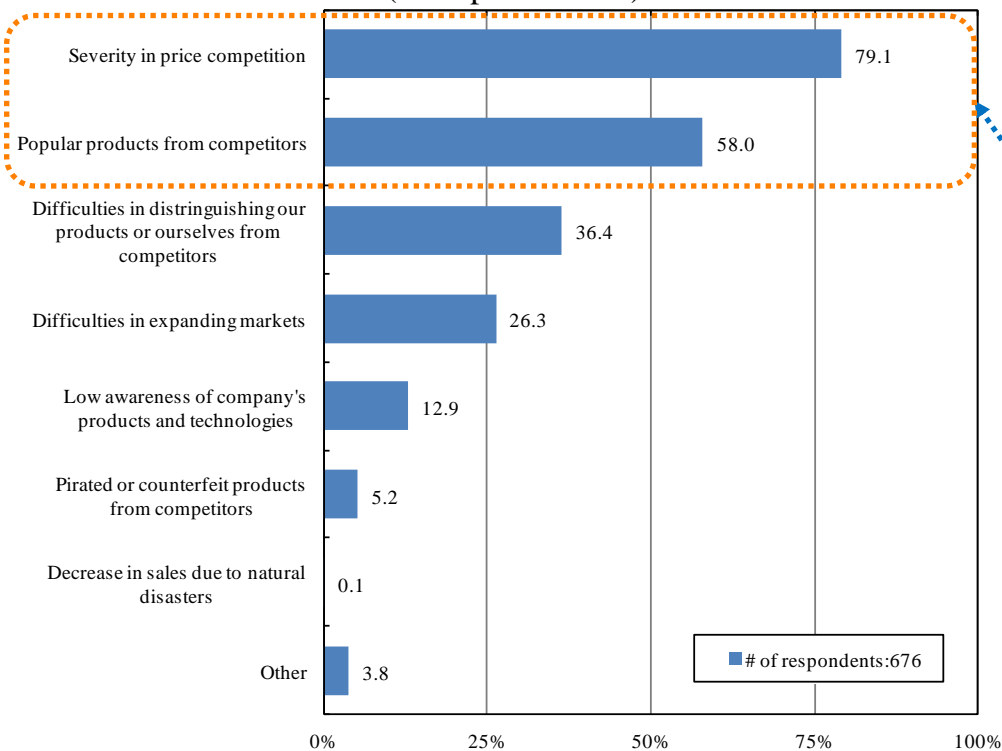


Factors for decreased sales:

Severe price competition continues, with trend to differentiate in other ways

Primary reasons for reduced sales are the same as in previous years, with “intensified price competition” and “popular products from competitors.” It can be inferred from many companies that they are working to expand sales routes by increasing added value while keeping prices the same, and building long term trust relationships, rather than facing the challenge of price competition with Chinese and Korean companies.

Fig. Factors related to weakening sales
(multiple answers)



< Intensified price competition, popular products from competition >

- Competition with Chinese and Korean products of low price/low quality. [Other manufacturing]
- In particular, general-use products must compete with Asian products in price, making for severe conditions [Non-ferrous metals]
- In the industry, mega-suppliers are growing stronger (particularly European manufacturers) and making price competition more severe. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- Price competition is growing more intense. Our challenge is how much added value we can provide to customers while keeping current prices as much as possible. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- We face threats of unit price competition and improved quality of Asian products. However, expansion in the U.S. is much easier, compared with the difficulty of competition in the Japanese market. [Plastic products]
- The U.S. leaves the impression of making business-like judgment of price and performance (unlike Japan), but in reality building personal relationships and trust-based relationships is important and takes time. [Chemical and oil products]

Exchange rate fluctuations: 53.2% of the respondents anticipate a negative effect

53.2% of the respondents anticipate a negative effect such as “increased raw materials prices” and “exchange losses” as the Japanese yen gained in value against U.S. dollar until October 2016. Since the ratio of respondents using U.S. dollars for merchandise transactions reached 90% and the ratio of respondents procuring material in the U.S. is also high, 30% of the respondents reply they are “not affected.” Aside from expanding procurement in the NAFTA region, many respondents reply they are not taking any special measures.

Fig. Effect of strong yen and weak dollar

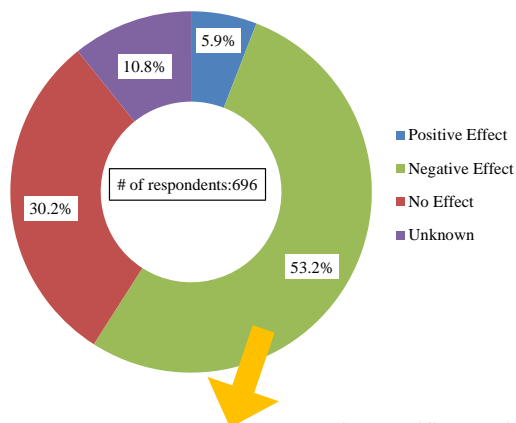


Fig. Currencies used in merchandise transactions

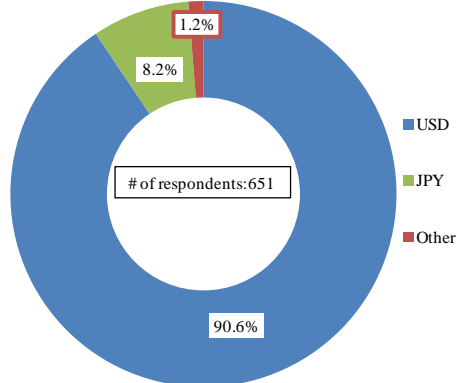
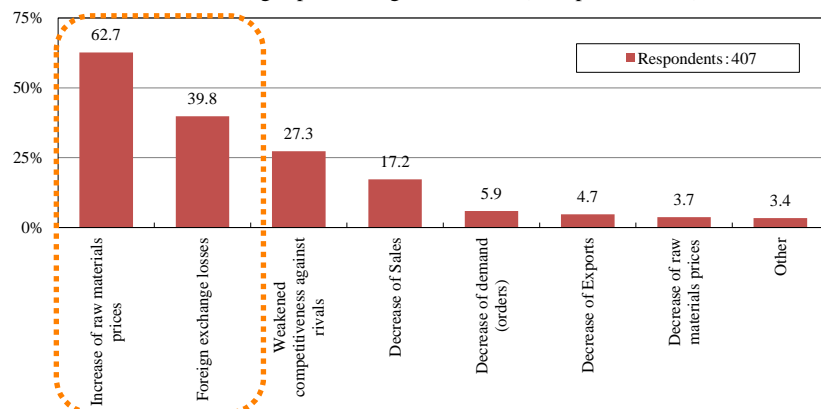


Fig. Specific negative effects (Multiple Answers)



< Effect on local subsidiaries is negative or limited >

- Some ingredients are procured from Japan, so we feel the effect of the strong yen and weak dollar as a disadvantage. [process food, agricultural or fishery products]
- We export many products, so we are more likely to be affected negatively by the strong dollar. [Electric or Electronic machines]
- Our transaction currency is 100% USD, so there is only an indirect effect. [Steel (including castings and wrought products)]
- We procure the majority of raw materials locally, so we feel almost no effect from exchange. [Other manufacturers]

< Expanding procurement in the NAFTA region as a countermeasure >

- Advancing raw material procurement from Canada. [processed food, agricultural or fishery products]
- Considering increased production/transferring production to Mexico. [Electric parts/electronic parts]
- Operating Mexican factories and shifting the production to Mexico in order to take advantage of low wages. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- As localization is in progress, there is not much impact. Also, adjustments and offsetting are made in procurement. [Textiles (yarn, woven, and chemical fiber products)]

Crude oil price fluctuations: The ratio of “negative” effect exceeds the “positive” effects

23.8% of the respondents expect to be negatively affected by crude oil prices in 2016, which exceeded that expecting to be positively affected (20.8%). While reduced costs in raw material prices and transportation costs are the major benefits of crude oil prices staying at a low level, more respondents bring up the negative impact of reduced orders from energy-related companies.

Fig. The effect of the fall in crude oil prices

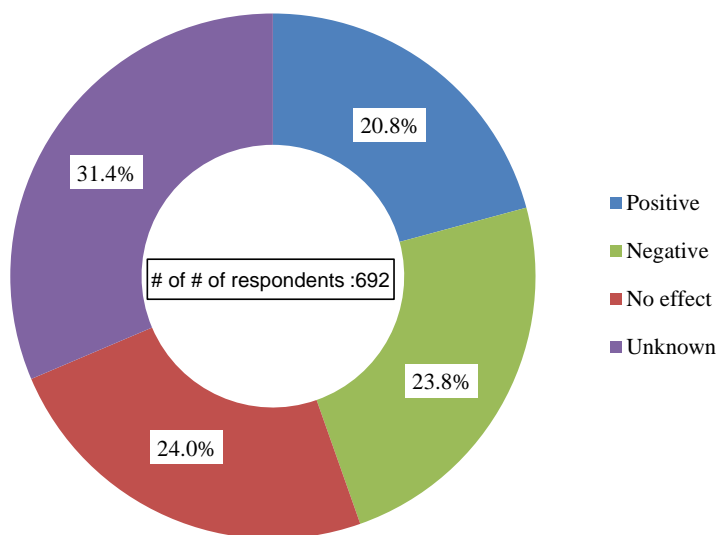
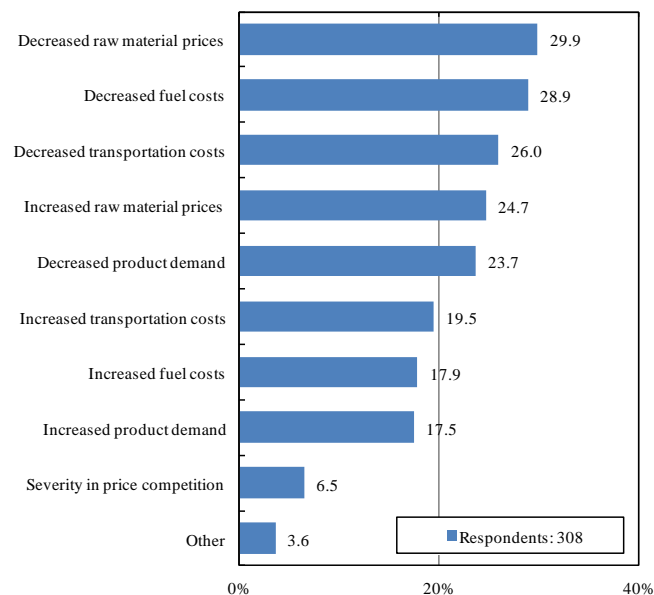


Fig. Specific effects on business (multiple answers)



< Diverse impacts of crude oil price fluctuations >

- Falling crude oil prices has a major affect on the oil business around Texas, and sales are depressed. Conversely, thanks to the fact that gasoline prices are cheaper, so many are buying larger motor vehicles, and there is more expansion of sales into the motor vehicle manufacturing industry. [Precision machines and apparatuses]
- When crude oil is cheaper, sales of trucks rise, and when it is more expensive, sales of passenger vehicles and hybrid vehicles rise. Since we handle related parts for both types, we are constantly aware of trends in crude oil prices. [Non-ferrous metals]
- We felt decreased transportation costs as an impact of crude oil prices. [Processed food, agricultural or fishery products]
- Raw material prices, fuel costs, and transportation costs are rising, so there is concern of a direct negative impact on our business. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]

Interests in policies of the new administration: Interests in “diplomacy” and “trade” are high

“Diplomacy,” “trade,” and “tax regime” rank in the top three fields of interest. In addition, nearly half the respondents indicate interest in healthcare, wages and employment. In terms of diplomacy, Japan, China, and Mexico rank in the top three. Regarding China, many respondents are concerned about the impact on imports from China to the U.S. as a procurement source.

Fig. Interest in policies of the new administration

(Multiple answers)

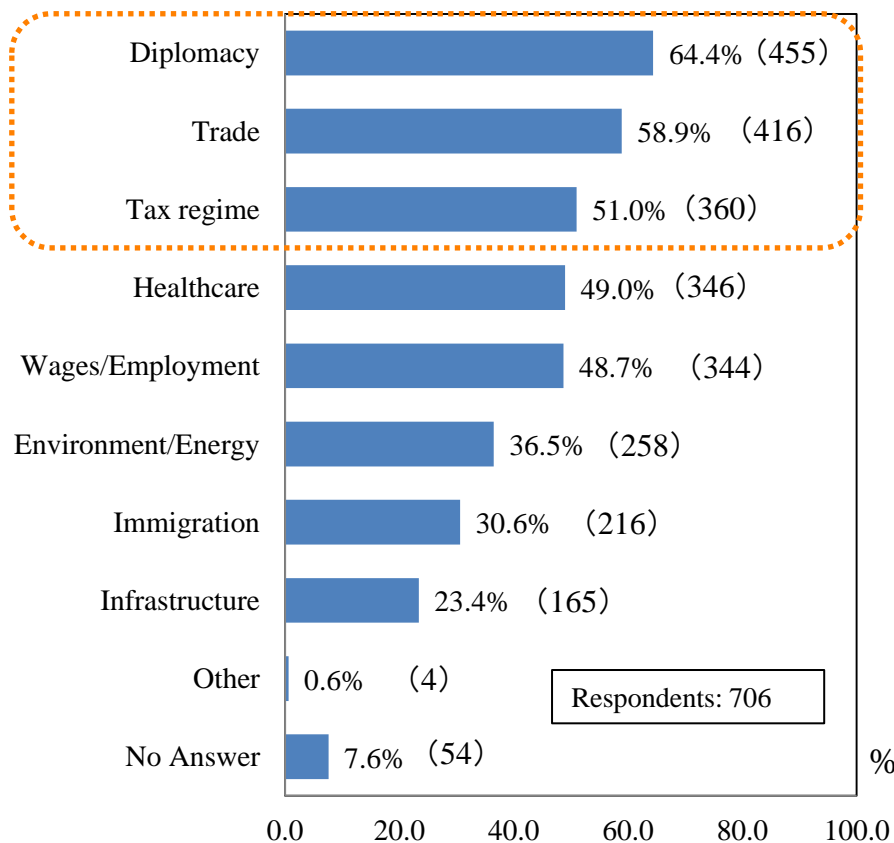
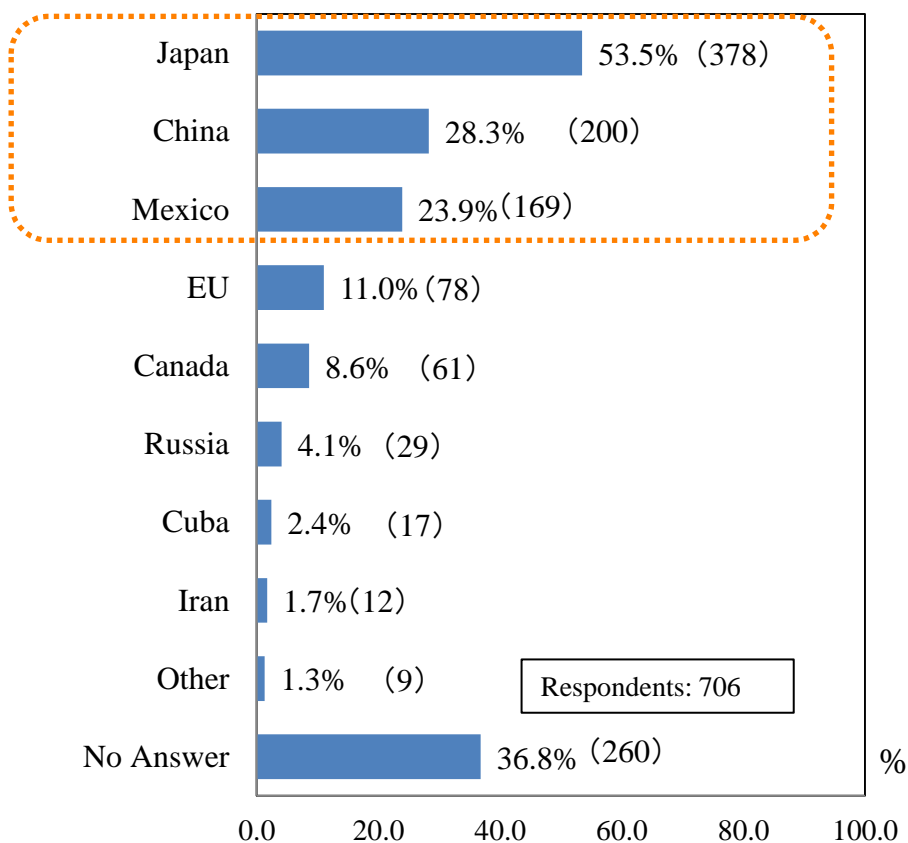


Fig. Interest in “Diplomacy”

(Multiple answers)



Interest in the trade policy of the new administration: High interest in the TPP and NAFTA

Regarding specific trade policies in which companies are interested in, the TPP is the highest followed by NAFTA, anti-dumping duties (AD) and countervailing duties (CVD). Regarding the TPP, interest has grown in the enactment outlook and policies of the new administration. Infrastructure has especially gained attention in President-elect Trump's economic policies, with ports, railroads, and highways ranking in the top three.

Fig. Interest in "Trade"

(Multiple answers)

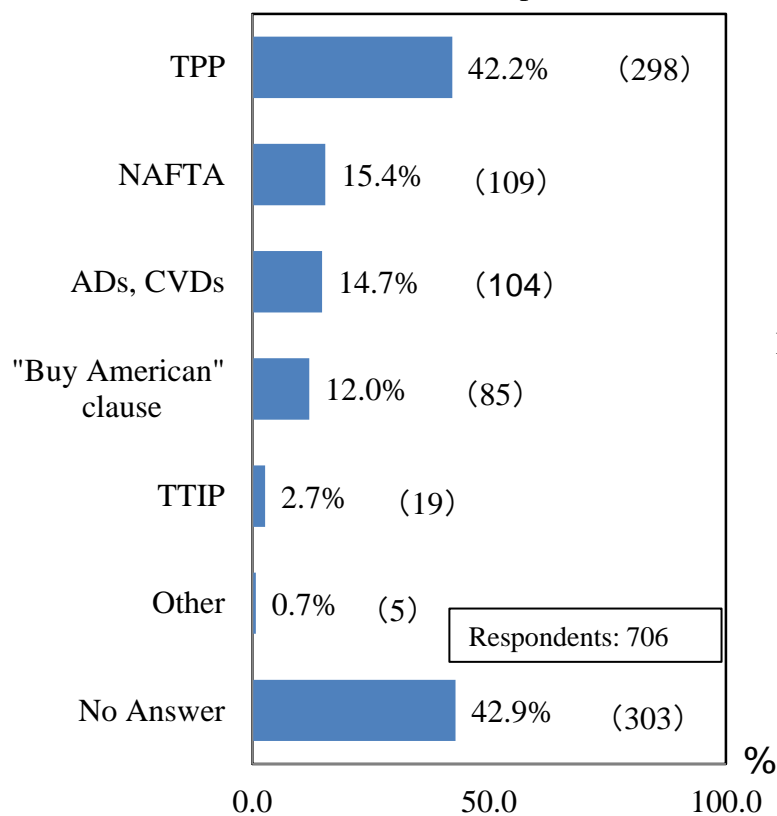
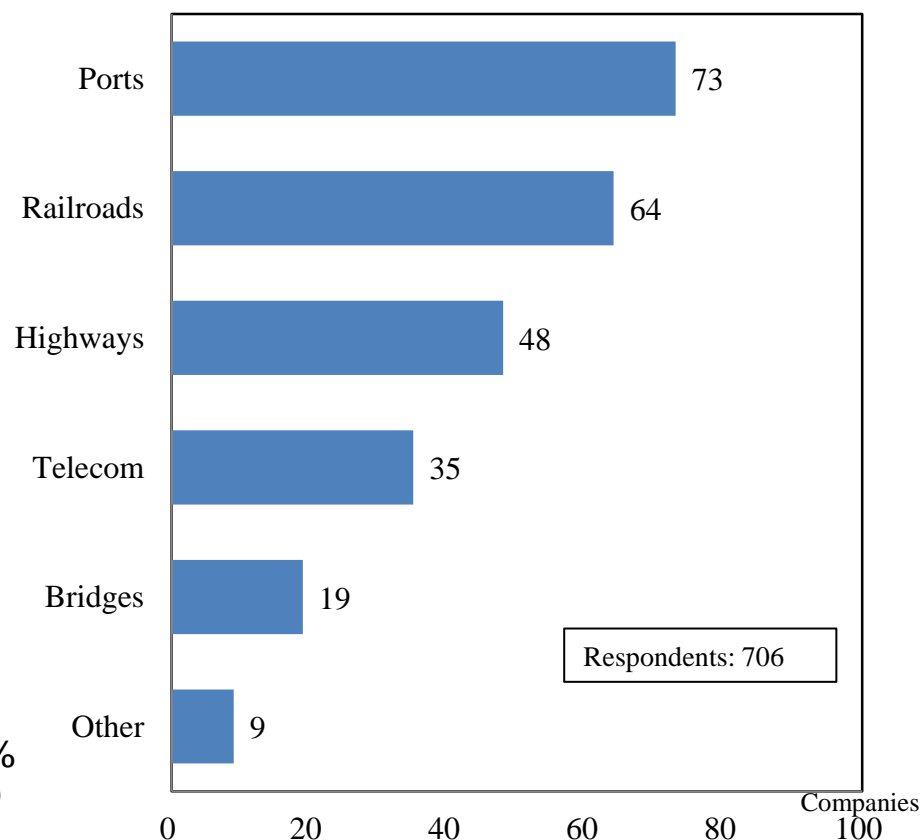


Fig. Interest in "Infrastructure"

(Multiple answers)



Markets most likely to grow next: High expectations for IT/cloud/mobile

The IT/cloud/mobile market is selected as the market likely to grow the most rapidly in the next few years, followed by the medical and environmental fields. Robotics/mechatronics and nanotech also rose in rank.

Fig. Markets most likely to grow in the next 2 to 3 years

Table: Markets most likely to grow in the next 2 to 3 years (MA)

Year 2015 (639 respondents)		Year 2016 (651 respondents)	
(Unit: %)			
Medical	49.7	IT/Cloud/Mobile	51.5
Environment	45.0	Medical	46.9
IT/Cloud/Mobile	42.6	Environment	43.2
Health	30.6	Health	26.1
Oil/Natural Gas	17.3	Robotics/Mechatronics	17.1
Information Security	13.8	Information Security	14.3
Robotics/Mechatronics	12.9	Oil/Natural Gas	11.7
Biotechnology	10.9	Biotechnology	11.2
Transportation/Logistics	9.2	Transportation/Logistics	7.8
Rail/Roads/Bridges	6.5	Nanotechnology	5.5
Agriculture/Food Processing	4.9	Rail/Roads/Bridges	4.6
Nanotechnology	4.2	Agriculture/Food Processing	3.4
Real Estate	3.6	Real Estate	3.2
Electricity/Water/Gas	2.5	Electricity/Water/Gas	2.9
Pro and business services	2.0	Pro and business services	2.8
Hotels/Food/Entertainment	1.9	Other	2.2
Educational Services	0.8	Educational Services	2.0
Other	0.8	Hotels/Food/Entertainment	0.8

Main comments from respondents that selected “IT/Cloud/Mobile”

- We feel information linkage between car navigation/audio and smartphones will develop. Improvement of production efficiency in factories with IT, IT investment efficiency with cloud utilization, and development competition of automatic driving technology will intensify. [Transportation machines (motor vehicles/two-wheeled vehicles)]
- Development of automatic driving vehicles is accelerating due to progress in IT. Product development supporting automatic driving is an urgent task. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- It is self-evident that utilization of ERP will develop and streamline corporate activities, and this market is expected to continue developing. [Machines (including molds and machine tools)]
- Improvement of production technology in the manufacturing industry due to the introduction of the IoT is remarkable. We intend to consider introducing IoT technology not only to improve factory productivity and quality, but with the goal of factory operation that does not rely on factory employees, as a countermeasure for rising personnel costs including welfare expenses such as healthcare. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- In the industry, automation in production processes is advancing, and in analog production, there is an emerging trend for things that were previously done by humans to be robotized. [Textiles (yarn, woven, and chemical fiber products)]

Regions most likely to grow in the next 2 to 3 years:

The South stays the most popular region, while Midwest states are attractive

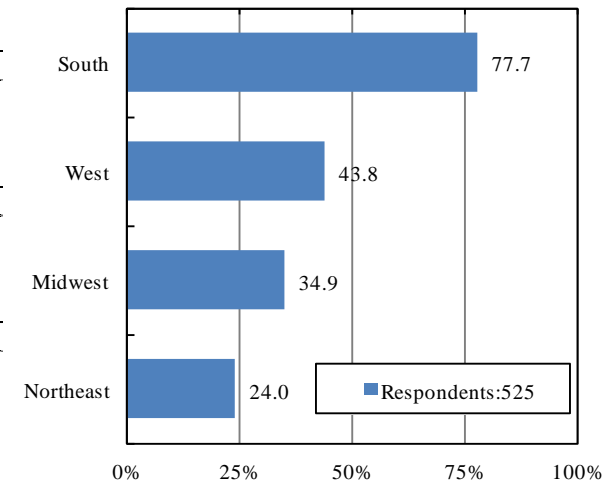
Nearly 80% of respondents focus on the South as the region most likely to grow in the next 2 to 3 years. By state, Texas, California, and Georgia have kept the top three rank for the 3rd year in a row. Michigan rose from 7th to 5th place and Illinois rose from 12th to 6th place compared to the previous year.

Fig. States where the market is most likely to grow in the next 2 to 3 years (By industry, multiple answers)

Order	State	Industry	Responses	Order	State	Industry	Responses
1	Texas		273	6	Illinois		66
		Parts for transportation machines (motor vehicles and two-wheeled vehicles)	65			Chemical products, oil products	10
		Chemical products, oil products	34			Parts for transportation machines (motor vehicles and two-wheeled vehicles)	9
		Machines (including molds and power tools)	29			Other manufacturing	7
2	California		175	6	Indiana		66
		Chemical products, oil products	21			Parts for transportation machines (motor vehicles and two-wheeled vehicles)	22
		Process food, agricultural and fishery products	19			Chemical products, oil products	8
		Electric or electronic machines	18			Steel (including cast and wrought products)	6
3	Georgia		88	8	Ohio		60
		Parts for transportation machines (motor vehicles and two-wheeled vehicles)	16			Parts for transportation machines (motor vehicles and two-wheeled vehicles)	15
		Machines (including molds and power tools)	15			Machines (including molds and power tools)	12
		Process food, agricultural and fishery products	9			Chemical products, oil products	8
		Chemical products, oil products	9	8	Alabama		60
4	New York		74			Parts for transportation machines (motor vehicles and two-wheeled vehicles)	22
		Chemical products, oil products	12			Machines (including molds and power tools)	6
		Process food, agricultural and fishery products	9			Chemical products, oil products	5
		Electric or electronic machines	9			Steel (including cast and wrought products)	5
5	Michigan		67			Metal goods (including plated products)	5
		Parts for transportation machines (motor vehicles and two-wheeled vehicles)	20	10	Tennessee		59
		Chemical products, oil products	11			Parts for transportation machines (motor vehicles and two-wheeled vehicles)	15
		Machines (including molds and power tools)	7			Steel (including cast and wrought products)	7
						Chemical products, oil products	5

of respondents: 461

Fig. Regions where the market is most likely to grow in the next 2 to 3 years (Multiple answers)



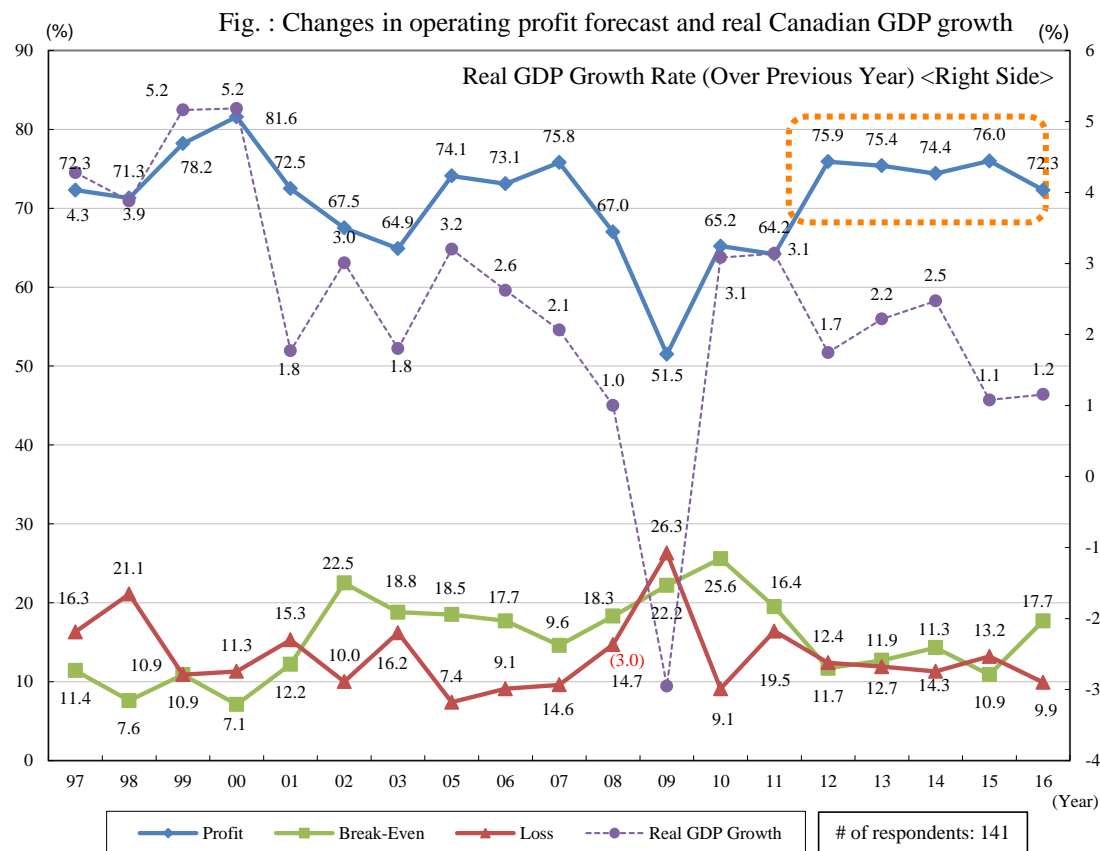
Canada

2016 JETRO Survey on Business Conditions of Japanese Companies in Canada

- Survey period: September 15th – October 28th, 2016
- Valid responses: 75.7% (143/189 of companies responded)
- Survey coverage: “Japanese-affiliated firms in Canada” are companies in which the capital contribution ratio of the parent firm in Japan is at least 10%, including direct and indirect investment.

Operating profit forecast: Profit ratio maintains high level at 70%

72.3% of Japanese companies in Canada will likely show a profit in 2016. Although this was down by 3.7 points from the previous year, it has maintained the range of 70% for 5 years. Although the effects of crude oil price fluctuations and natural disasters are felt temporarily, few consider the economy itself to be getting worse.



Note: The GDP growth rate for 2016 is the IMF estimate (announced Oct. 2016). No survey conducted in 2004.

< Few see the economy as getting worse >

- We do not feel that the economy is worsening much although a change of products negatively affected our profits. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- Although crude oil prices continue to depress in the oil industry, we feel that agriculture is very solid. [Plastic products]
- According to the media including newspapers, it seems that the economy in Eastern Canada is getting better. [Chemical/Oil products]

< Affected by exchange fluctuations, crude oil prices >

- We import many items from the U.S., so we feel the negative effect of the weak Canadian dollar. [Sales companies]
- We import with the USD, so the effect of the Canadian dollar is strong. We cannot completely absorb the exchange loss, so even if sales grow, it doesn't lead to profit. [Machines (including molds and machine tools)]
- We were affected by wildfires in Alberta. [Other services]
- Our business is related to oil and natural gas, so we are affected negatively. [Other services]

Business confidence: Decreases by 5.2 points from the previous year

Business confidence (diffusion index [subtracting “decrease” from “increase”] is 16.3) decreased by 5.2 points from the previous year. In 2016, The ratio of replies anticipating increased operating profit from last year decreases by 5.8 points, and the ratio of replies anticipating decreased operating profits dropped by 0.6 points from the previous year. The ratio of replies anticipating the same operating profit in 2017 reached 51.8%.

Fig. Year-to-year operating profit forecast changes

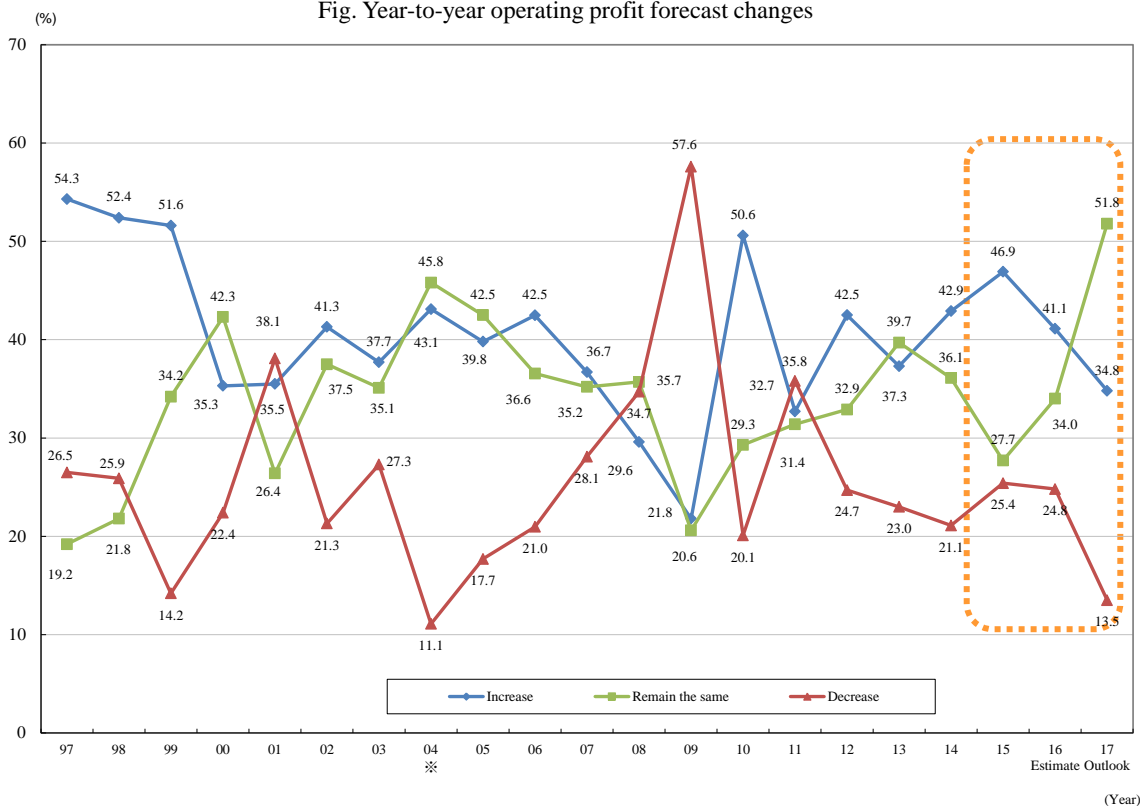
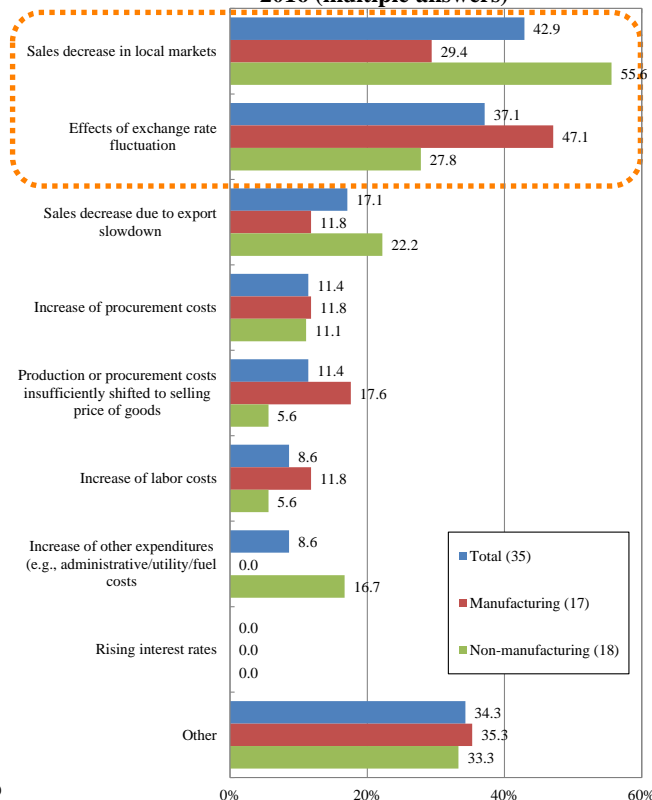


Fig. Reasons for lower operating profit forecast for 2016 (multiple answers)

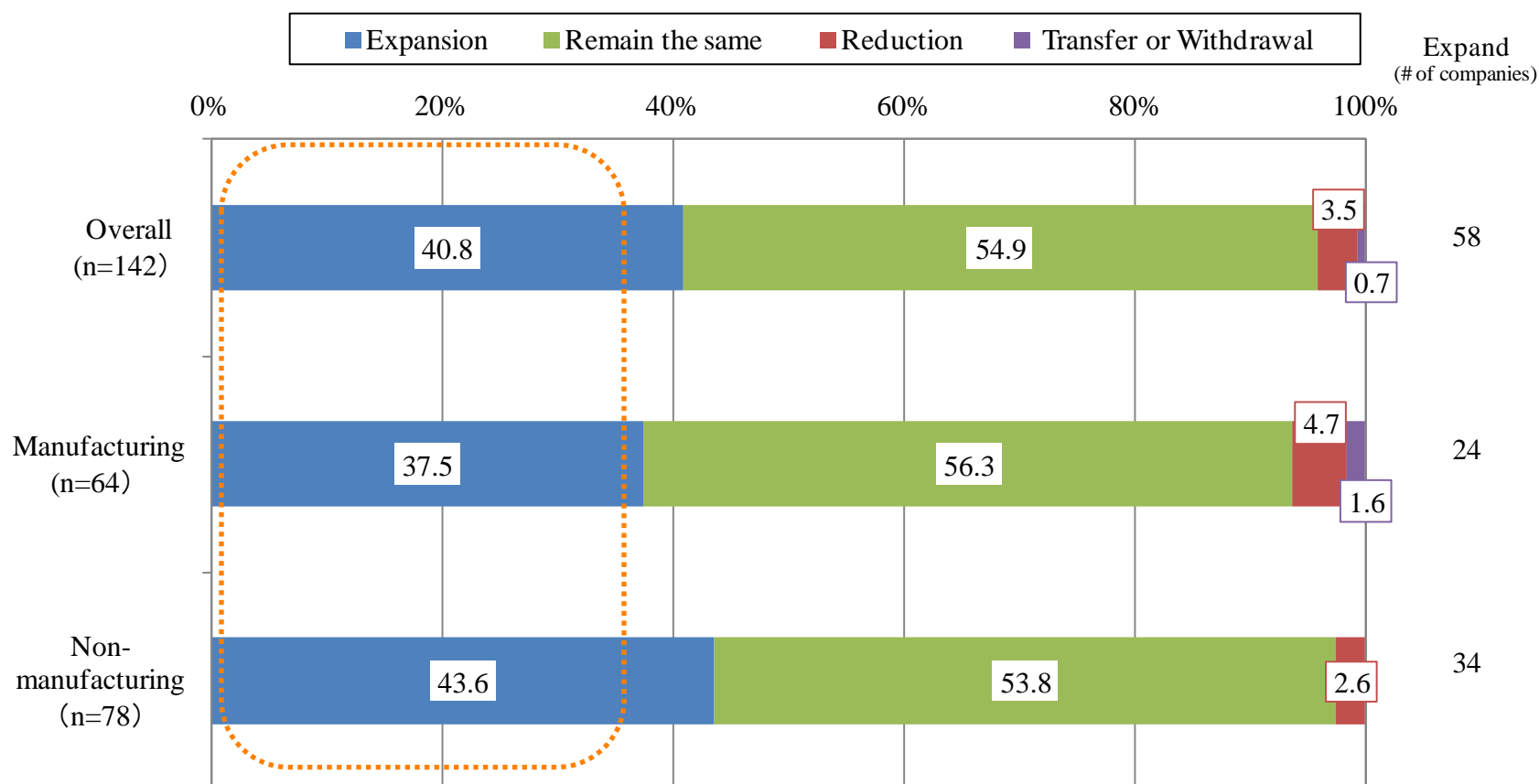


Note: No survey was conducted in 2004, so figures were estimates of the 2003 survey.

Future business plans: Intent to expand grows among manufacturers

40.8% of the respondents plan to expand their business in the next 1 to 2 years. By industry, 37.5% of manufacturers plan to expand, up 2.2 points from the previous year. Although the ratio of non-manufacturing companies planning to expand decreased by 4.8 points from the previous year to 43.6%, they continue to show ambition to expand business.

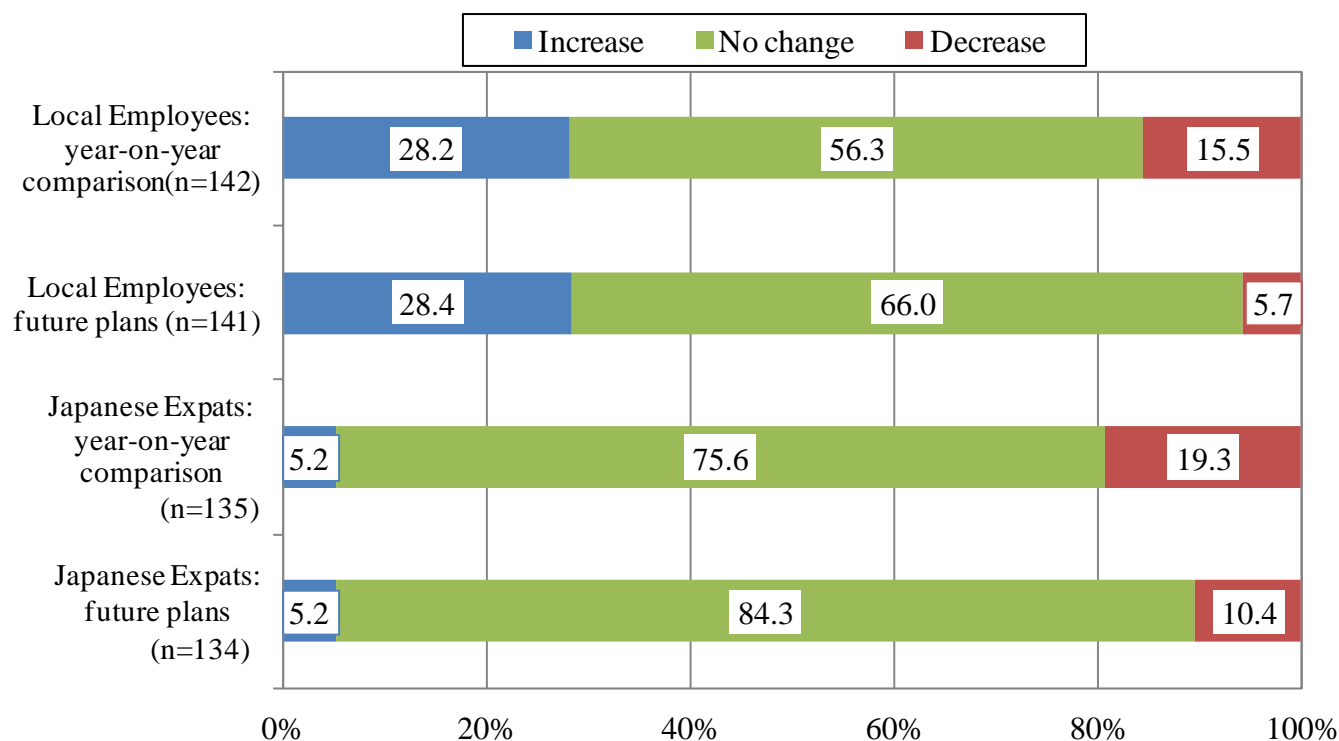
Fig. Direction of business expansion in the next 1 to 2 years



Employee numbers: Continued trend of increasing local employment

The number of respondents indicating increased local employment reached 28.2%. In the future as well, 28.4% of the respondents plan to increase local employment. 75.6% of the respondents reply that their number of Japanese expats remained at the same level as the previous year. 84.3% of the respondents reply that they expect their number of Japanese expats will remain at the same level.

Fig. Number of local employees and Japanese expatriates



Procurement:

Increasing procurement from the U.S. while maintaining the same level of local procurement

While the average ratio of procurement within Canada is 42.5%, down 0.5 points from the previous year, the average ratio of procurement from the U.S. increased by 2.3 points. Many companies plan expansion in procurement from the U.S., Canada, and Japan.

Fig. Procurement ratio by country/region

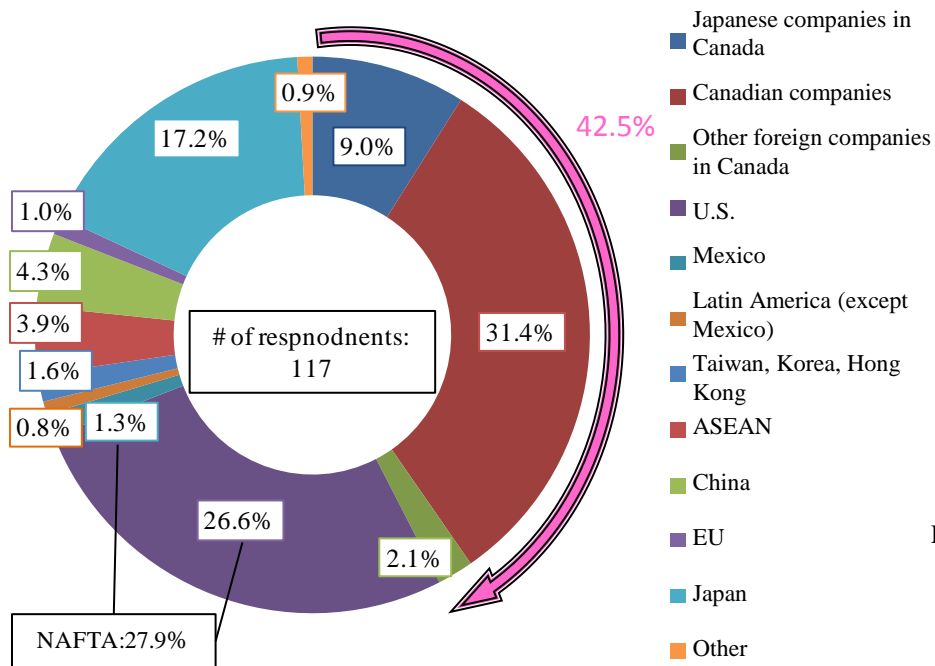
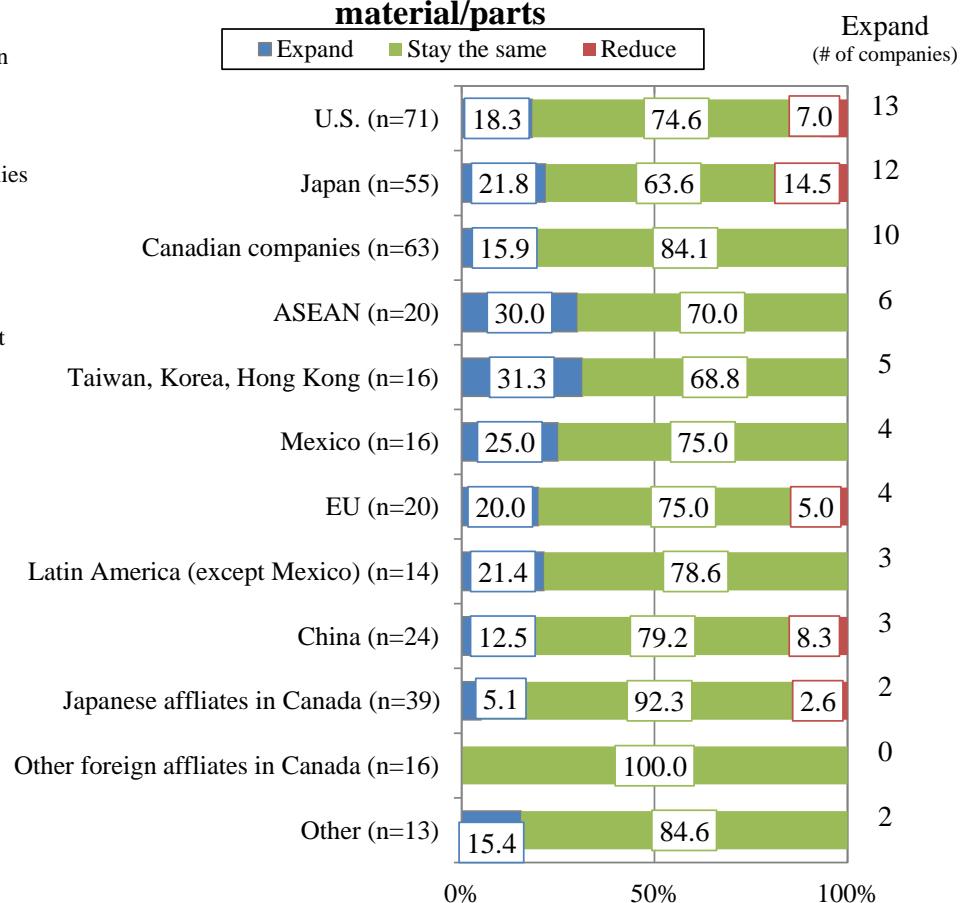


Fig. Future plans for procurement sources for raw material/parts



Sales: The average sales ratio of Canadian products in NAFTA market account for over 80%, considering expansion of sales routes in Japan

The Canadian market accounts for an average ratio of 67.1%, and the NAFTA region accounts for an average ratio of over 80% of sales destinations of the products made at Canadian facilities. As for future policies, many firms will expand sales in the NAFTA region, including Canada, the U.S., and Mexico, and are considering Japan as a potential sales destination.

Fig. Sales destination by country or region

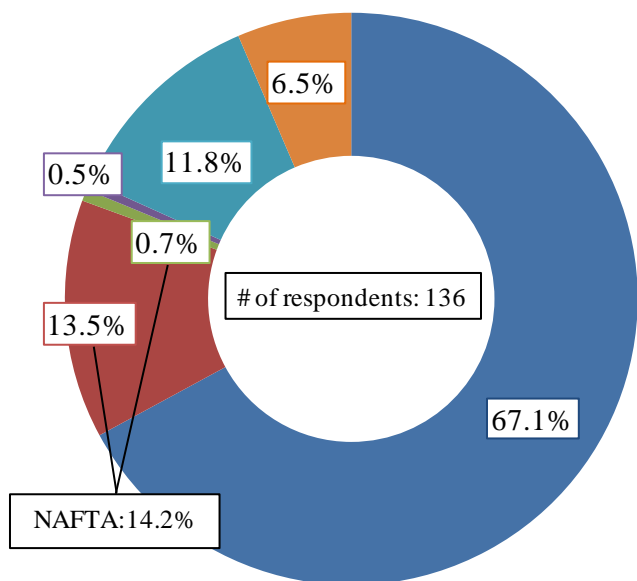
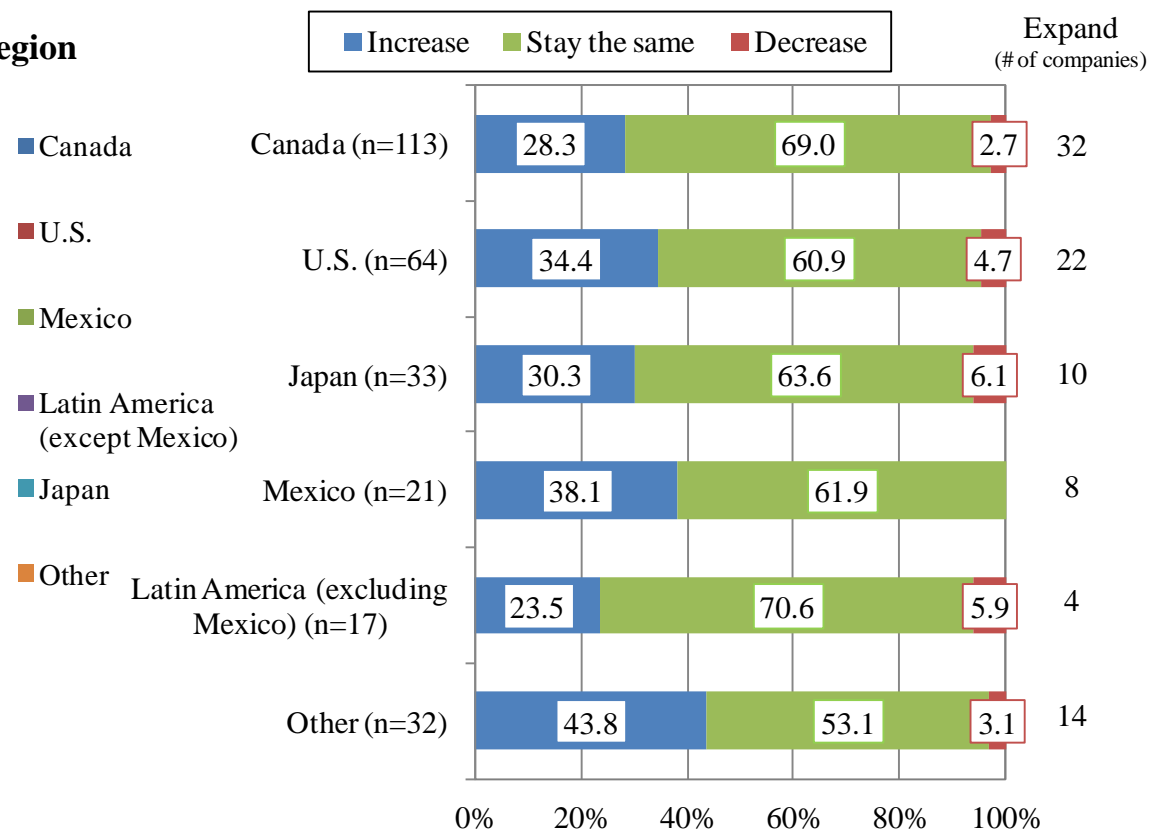


Fig. Future plan for sales destination



Utilizing FTAs: Over 40% of companies utilize NAFTA

41.3% of companies utilize NAFTA when importing from or exporting to the U.S. and Mexico. 52 companies import from the U.S., while only 37 export to the U.S. 16 companies import from Mexico and 16 export to Mexico, which account for approximately 10% of all the companies.

Table: Status of utilization of bilateral/multilateral FTAs

(Units: companies, %)

	Is exporting	Is not exporting/ no response	Utilizing FTA in exports			Is importing	Is not importing/ no response	Utilizing FTA in imports		
			Utilizing	Considering utilization	Not utilizing (no plans)			Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA										
U.S.	50 (35.0%)	93 (65.0%)	37 (25.9%)	6 (4.2%)	7 (4.9%)	77 (53.8%)	66 (46.2%)	52 (36.4%)	7 (4.9%)	18 (12.6%)
Mexico	20 (14.0%)	123 (86.0%)	16 (11.2%)	-	4 (2.8%)	21 (14.7%)	122 (85.3%)	16 (11.2%)	1 (0.7%)	4 (2.8%)
Korea	9 (6.3%)	134 (93.7%)	1 (0.7%)	2 (1.4%)	6 (4.2%)	5 (3.5%)	138 (96.5%)	-	1 (0.7%)	4 (2.8%)
Chile	5 (3.5%)	138 (96.5%)	1 (0.7%)	1 (0.7%)	3 (2.1%)	2 (1.4%)	141 (98.6%)	1 (0.7%)	-	1 (0.7%)
Peru	4 (2.8%)	139 (97.2%)	-	1 (0.7%)	3 (2.1%)	3 (2.1%)	140 (97.9%)	1 (0.7%)	-	2 (1.4%)
Other Latin American countries	9 (6.3%)	134 (93.7%)	3 (2.1%)	1 (0.7%)	5 (3.5%)	4 (2.8%)	139 (97.2%)	1 (0.7%)	1 (0.7%)	2 (1.4%)
EFTA	3 (2.1%)	140 (97.9%)	-	-	3 (2.1%)	2 (1.4%)	141 (98.6%)	1 (0.7%)	-	1 (0.7%)
Middle East and North Africa	6 (4.2%)	137 (95.8%)	-	2 (1.4%)	4 (2.8%)	1 (0.7%)	142 (99.3%)	-	-	1 (0.7%)
FTA/EPA signed/under negotiation										
TPP Japan	25 (17.5%)	118 (82.5%)	-	13 (9.1%)	12 (8.4%)	56 (39.2%)	87 (60.8%)	-	26 (18.2%)	30 (21.0%)
Singapore	6 (4.2%)	137 (95.8%)	-	3 (2.1%)	3 (2.1%)	5 (3.5%)	138 (96.5%)	-	2 (1.4%)	3 (2.1%)
Malaysia	3 (2.1%)	140 (97.9%)	-	-	3 (2.1%)	9 (6.3%)	134 (93.7%)	-	3 (2.1%)	6 (4.2%)
Vietnam	6 (4.2%)	137 (95.8%)	-	3 (2.1%)	3 (2.1%)	6 (4.2%)	137 (95.8%)	-	3 (2.1%)	3 (2.1%)
Oceania	4 (2.8%)	139 (97.2%)	-	2 (1.4%)	2 (1.4%)	2 (1.4%)	141 (98.6%)	-	1 (0.7%)	1 (0.7%)
Other	4 (2.8%)	139 (97.2%)	-	2 (1.4%)	2 (1.4%)	3 (2.1%)	140 (97.9%)	-	1 (0.7%)	2 (1.4%)
CETA EU	12 (8.4%)	131 (91.6%)	-	6 (4.2%)	6 (4.2%)	11 (7.7%)	132 (92.3%)	-	6 (4.2%)	5 (3.5%)

* Other Latin American countries = El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Colombia
 Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman
 TPP Signatories = U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei, Vietnam

Utilizing FTAs: Over 60% of respondents which export/import utilize NAFTA

Looking at the FTA utilization ratio of the respondents who report they export/import, 74.0% utilize NAFTA to export to and 67.5% to import from the U.S. 80.0% utilize NAFTA to export to and 76.2% to import from Mexico. There are high expectations toward utilizing the CETA with the EU signed in October 2016, and an FTA with Japan if the one enters into force.

Table: Status of utilization of bilateral/multilateral FTAs

(Units: companies, %)

	Is exporting	Is not exporting/ no response	Utilizing FTA in exports			Is importing	Is not importing/ no response	Utilizing FTA in imports		
			Utilizing	Considering utilization	Not utilizing (no plans)			Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA										
U.S.	50	93	37 (74.0%)	6 (12.0%)	7 (14.0%)	77	66	52 (67.5%)	7 (9.1%)	18 (23.4%)
Mexico	20	123	16 (80.0%)	-	4 (20.0%)	21	122	16 (76.2%)	1 (4.8%)	4 (19.0%)
Korea	9	134	1 (11.1%)	2 (22.2%)	6 (66.7%)	5	138	-	1 (20.0%)	4 (80.0%)
Chile	5	138	1 (20.0%)	1 (20.0%)	3 (60.0%)	2	141	1 (50.0%)	-	1 (50.0%)
Peru	4	139	-	1 (25.0%)	3 (75.0%)	3	140	1 (33.3%)	-	2 (66.7%)
Other Latin American countries	9	134	3 (33.3%)	1 (11.1%)	5 (55.6%)	4	139	1 (25.0%)	1 (25.0%)	2 (50.0%)
EFTA	3	140	-	-	3 (100.0%)	2	141	1 (50.0%)	-	1 (50.0%)
Middle East and North Africa	6	137	-	2 (33.3%)	4 (66.7%)	1	142	-	-	1 (100.0%)
FTA/EPA signed/under negotiation										
TPP Japan	25	118	-	13 (52.0%)	12 (48.0%)	56	87	-	26 (46.4%)	30 (53.6%)
Singapore	6	137	-	3 (50.0%)	3 (50.0%)	5	138	-	2 (40.0%)	3 (60.0%)
Malaysia	3	140	-	-	3 (100.0%)	9	134	-	3 (33.3%)	6 (66.7%)
Vietnam	6	137	-	3 (50.0%)	3 (50.0%)	6	137	-	3 (50.0%)	3 (50.0%)
Oceania	4	139	-	2 (50.0%)	2 (50.0%)	2	141	-	1 (50.0%)	1 (50.0%)
Other	4	139	-	2 (50.0%)	2 (50.0%)	3	140	-	1 (33.3%)	2 (66.7%)
CETA EU	12	131	-	6 (50.0%)	6 (50.0%)	11	132	-	6 (54.5%)	5 (45.5%)

* Other Latin American countries = El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Colombia

Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

TPP Signatories = U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei, Vietnam

TPP: Some companies anticipating increased exports to Asian countries

17.6% of the respondents expect that if the TPP comes into force, it would have an effect on them. Many companies expect “lower procurement costs,” “increased exports from Canada,” and “increased sales in Canada” as specific effects. Japan, the U.S. and Vietnam are cited as destinations for increased exports.

Fig: Effect of TPP when it enters into force

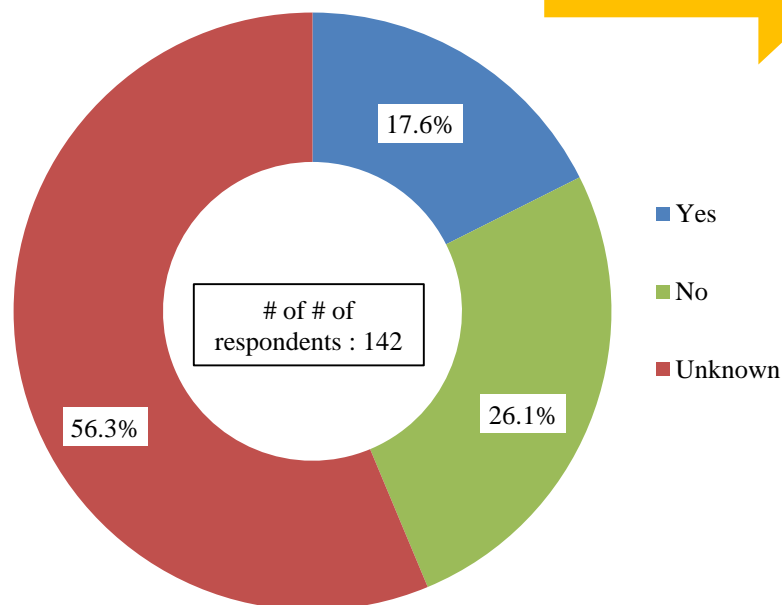
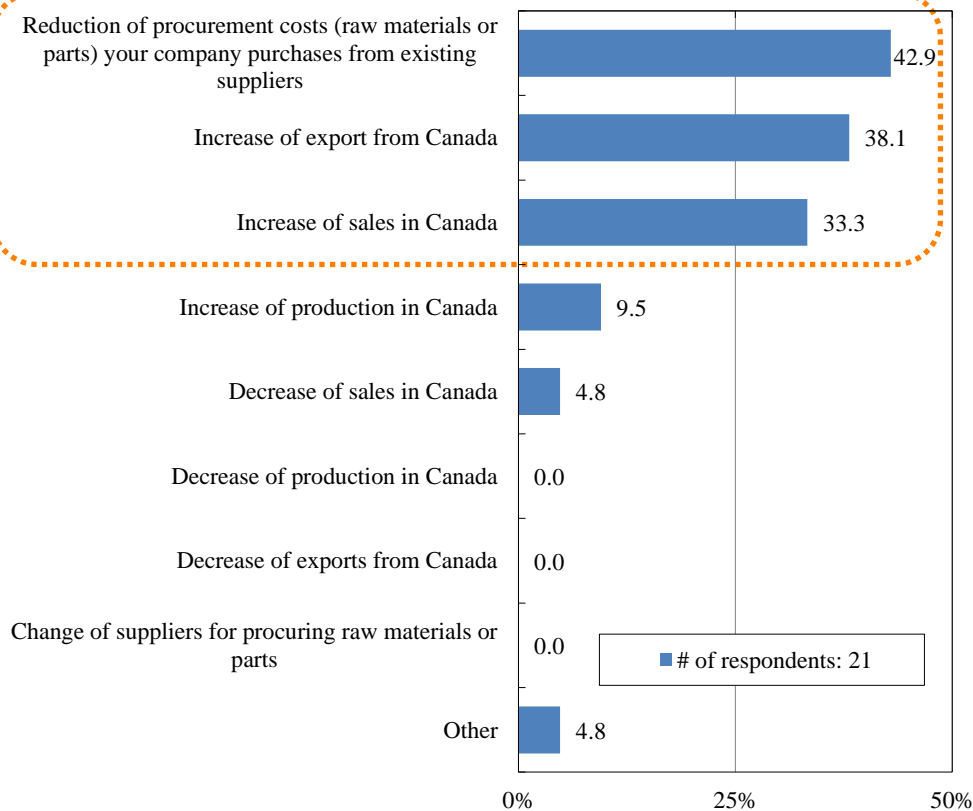


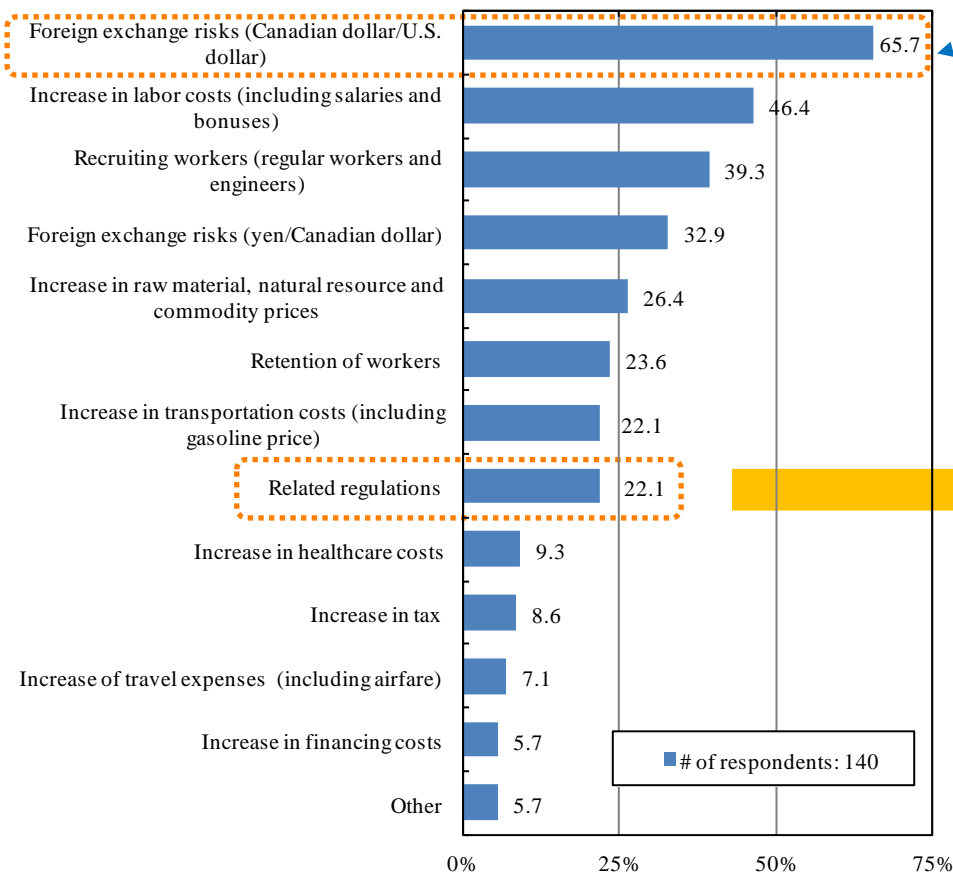
Fig. Specific Effects (multiple answers)



Factors for increased costs: Exchange risk with USD

As with last year, the main reasons for increased costs are “exchange risks with the U.S. dollar” and “increase in labor costs (salary and bonuses).” Among related regulations, some companies express concern over costs related to “environmental regulations” and “visa applications for Japanese expats.”

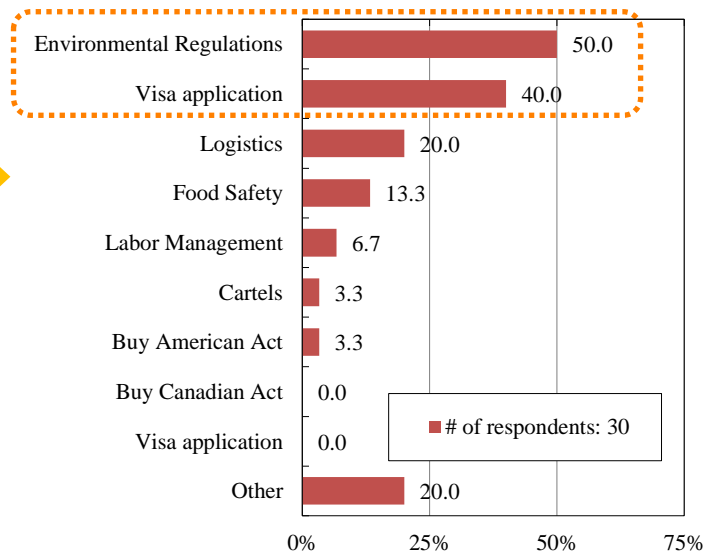
Fig. Factors for Cost Increase (multiple answers)



< Foreign exchange risks (U.S. dollar/Canadian dollar) >

- The impact of the Canadian dollar/U.S. dollar exchange is greater than the impact of the Canadian dollars/Japanese yen. [Parts for transportation machines (motor vehicles /two-wheeled vehicles)]
- The effect of the weaker Canadian dollar is big because we import with the U.S. dollar. We cannot completely absorb the exchange loss, so even if sales grow, it doesn't lead to profit. [Machines (including molds and machine tools)]

Fig. Breakdown of Related Regulations (Multiple Answers)



Exchange rate fluctuations: Sales companies with a high import ratio experiencing major negative effects

The percentages of respondents answering “positive” and “negative” are at the same level for the effect of exchange rate fluctuations until October 2016, when the trend of the weak Canadian dollar against Japanese yen and U.S. dollar ended. At sales companies with a high import ratio, many respondents anticipate negative effects such as “increase of raw materials prices” and “exchange losses.”

Fig. Effect of weak Canada dollar against JPY and USD

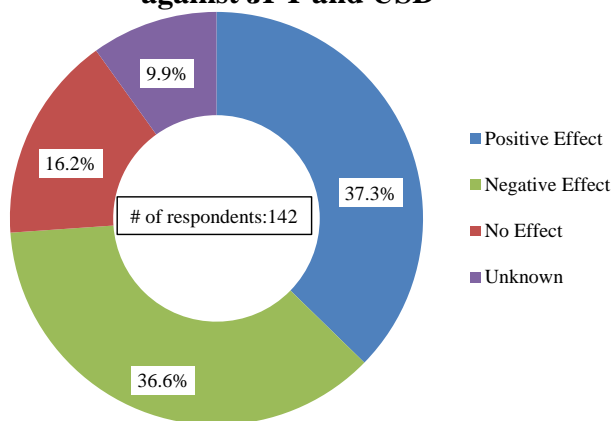


Fig. Currencies used in merchandise transactions

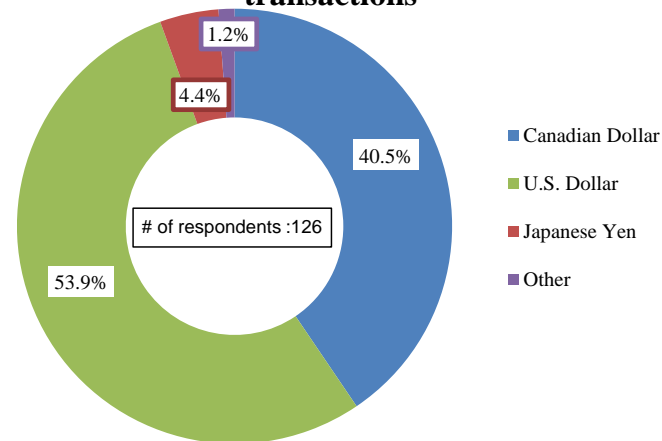


Fig. Specific positive effects (Mutiple Answers)

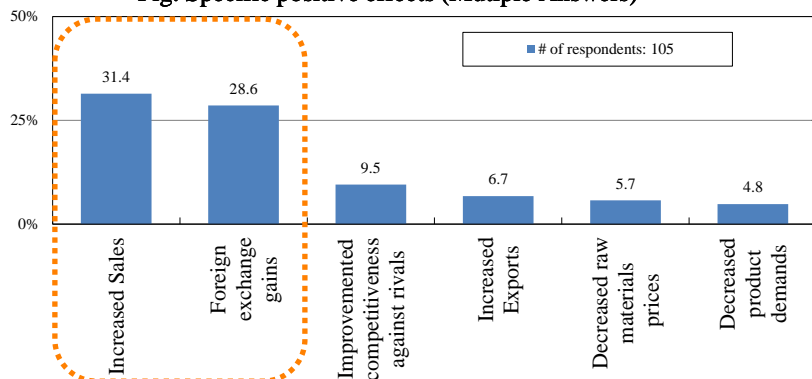
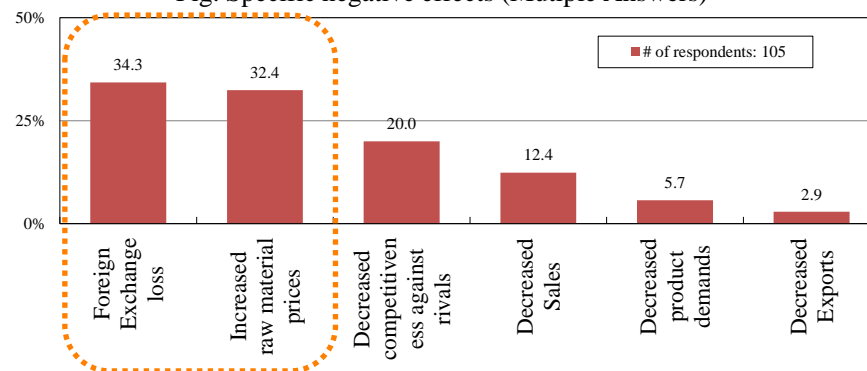


Fig. Specific negative effects (Mutiple Answers)



Crude Oil Price Fluctuations: 40% of the companies are hit

39.6% of the respondents anticipate negative effects from crude oil price fluctuations in 2016, while the ratio of respondents who anticipate a positive effect decreased by 21.2 points. In Canada where the energy industry accounts for a large part of the economy, some respondents comment that stagnation of the energy industry leads to decreased demand for their products.

Fig. The effect of declining crude oil prices in

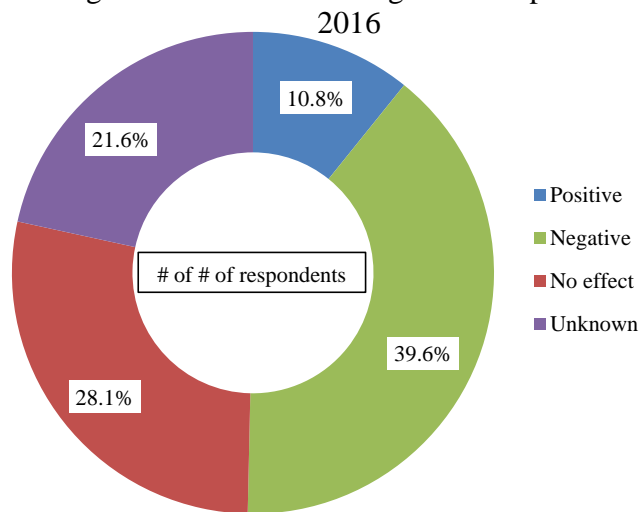
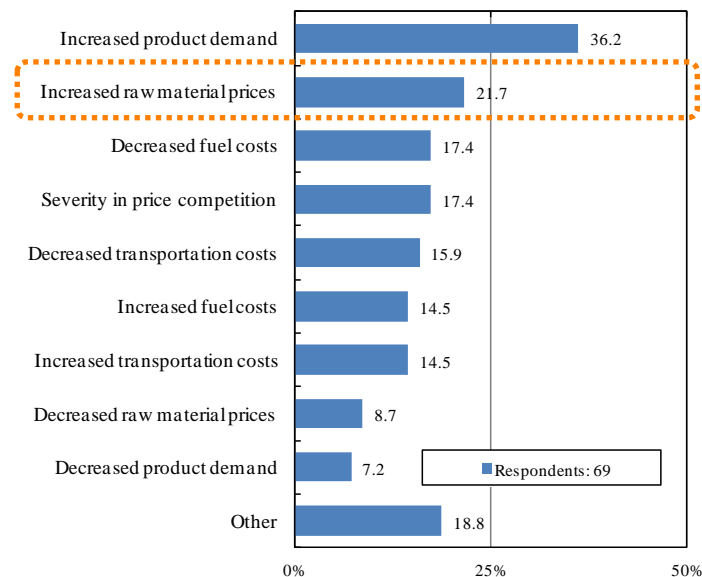


Fig. Specific effects on business (multiple answers)



< Impact of falling crude oil price >

- Drilling being delayed due to falling oil prices recently has caused a decline in demand for electric power, which has had a negative effect on us. [Sales companies]
- Falling crude oil prices leads to suspended drilling and delayed investment, which brings decreased sales related to pumps and pipes. [Machines (including molds and machine tools)]
- We are focused on products related to the Canadian domestic oil industry (work uniforms), so demand declines proportionate to the stagnation of activities of the oil industry, which causes negative effects. [Clothing/textiles]
- Rising crude oil prices leads to increased raw materials costs and transportation costs. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]

Interests in policies of new U.S. administration: Interest in “diplomacy” and “trade” are high

“Diplomacy,” “trade,” and “tax regime” rank in the top three fields of interest. In terms of diplomacy, Japan, Canada, and China rank in the top three. Regarding U.S.-Canada relations, some respondents are concerned that the business of Japanese companies in Canada will stagnate due to the enforcement of policies by the new U.S. administration that impact Canada.

Fig. Interest in policies of the U.S. new administration
(Multiple answers)

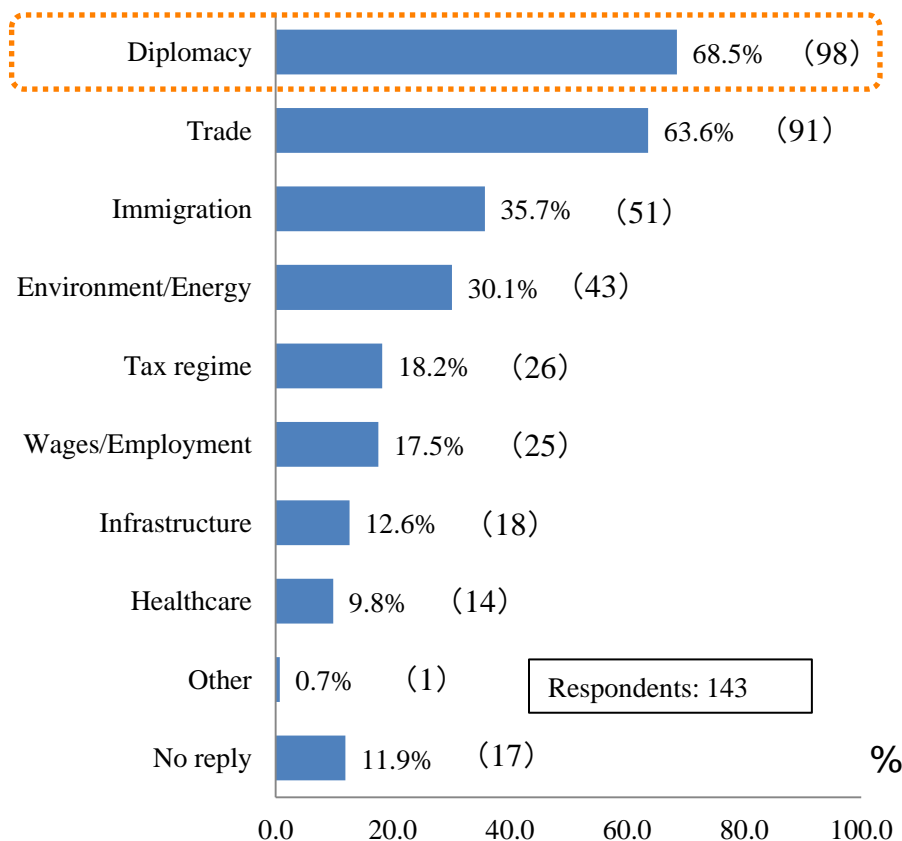
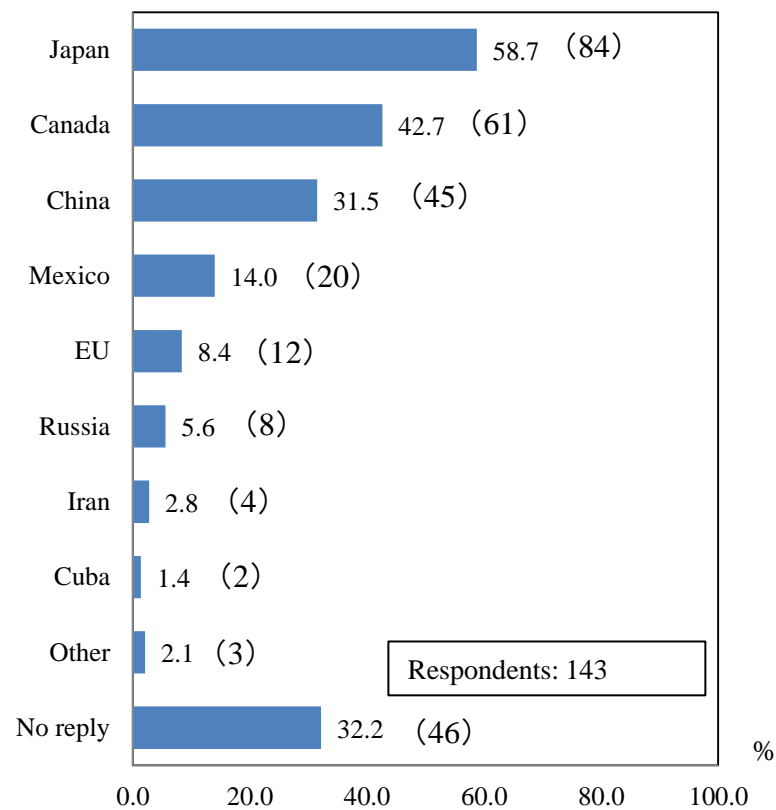


Fig. Interest in “diplomacy”
(Multiple answers)



Markets most likely to grow next: High expectations for environment

“Environment,” “medical,” “health,” and “IT/cloud/mobile” markets stay in the top ranks from last year as markets most likely to grow in the next few years.

Table: Markets most likely to grow in the next few years (Multiple Answers)

Year 2015 (# of respondents: 125)		Year 2016 (# of respondents: 122)	(Unit: %)
Environment	44.0	Environment	49.2
Medical	36.0	Medical	33.6
Health	27.2	Health	31.1
IT/Information Technology	27.2	IT/Information Technology	27.9
Oil and natural gas	24.8	Real Estate	19.7
Real Estate	16.8	Oil and natural gas	13.1
Transportation and logistics	13.6	Information Security	8.2
Agriculture/Food Processing	10.4	Educational Services	8.2
Information Security	8.0	Hotels/Food/Entertainment	8.2
Railroads, roads, bridges	7.2	Biotechnology	7.4
Biotechnology	6.4	Transportation and logistics	6.6
Hotels/Food/Entertainment	6.4	Robotics/Mechatronics	5.7
Robotics/Mechatronics	4.8	Railroads, roads, bridges	4.9
Educational Services	4.0	Agriculture/Food Processing	4.9
Nanotechnology	2.4	Utilities	3.3
Professional and business service	2.4	Nanotechnology	2.5
Utilities	1.6	Professional and business services	2.5
Other	1.6	Other	0.8

Main comments from respondents that selected “environment”

- Conversion from thermal power to clean energies such as hydropower and wind power will be advanced. We focus on it in provinces where there is much thermal power generation because demand is particularly anticipated there with the conversion to clean energy. [Trading companies]
- We feel increased demand for environmentally conscious products since inquiries about organic and recyclable products have increased. [Clothing/textile products]
- While there was attention given to products using recycled materials a few years ago, that is taken for granted now, and weight reduction to improve fuel economy is required even more. [Parts for transportation machines (motor vehicles/two-wheeled vehicles)]
- Although the general trend is to take measures such as waste countermeasures as part of CSR activities, we expect that demand for insurance for avoiding risk of incidents will also increase. [Insurance]
- We feel that demand is growing for electric vehicles capable of driving 200 miles or more on a single charge. [Electric machines/Electronic machines]
- We feel that services that are more environmentally friendly will be necessary for the next few years. Also, the alternative energy resource field is anticipated to expand. [Other services]