Summary of the Result of
2009 JETRO Survey on Business Conditions of
Japanese companies in the U.S. and Canada

- Japanese companies' business confidence in the U.S. and Canada is the worst since these surveys began -

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North American Division, Overseas Research Department
Japan External Trade Organization

Method of Survey, Remarks, Etc.

1. Coverage of survey

"Japanese company" is defined as a company which is directly or indirectly "owned by a Japanese parent company with more than 10% of its capital." For example, if a Japanese parent company owns 20% of the capital of its U.S. subsidiary ("X company") and "X company" owns 50% of the capital of its subsidiary company ("X company"), then the Japanese parent company's ownership in "x company" is deemed to be 10% (50% of 20%) and therefore "X company" is considered to be a "Japanese company" ("X company" is a grand-daughter company of the Japanese parent). A great-granddaughter company is treated the same way.

2. Method of survey

The internet address (URL) where a questionnaire form was located was sent to the respondent's email address, via JETRO's six U.S. offices (New York, San Francisco, Los Angeles, Chicago, Houston, Atlanta) and two Canada offices (Toronto, Vancouver). Respondents entered their responses directly into the form on the screen of the computer and sent it to JETRO through the internet.

3. Period of survey

July to August 2009

4. Collection of responses

(1) The U.S.

1,262 representative companies (controlling companies) of Japanese manufacturers in the U.S. were requested to reply to the survey via email or fax. Valid responses were obtained from 889 companies. The response rate was 70.4%.

(2) Canada

261 representative companies (controlling companies) of the Japanese companies (both manufacturers and non-manufacturers) in Canada were requested to reply to the survey via email or fax. Valid responses were obtained from 173 companies. The response rate was 66.3%.

Note: Each JETRO office in the U.S. and Canada used information sources thought reliable, and tallied data based on each company's cooperation. However, JETRO does not guarantee that the information is completely accurate and comprehensive.

● U.S.

Main Points

Business confidence of Japanese manufacturing companies in the U.S. was the worst in history since JETRO started the survey. However, the consensus is "2009 is the cycle's bottom". They feel it will now head towards slow recovery. Many Japanese companies in the U.S. are involved in the auto industry, and has been suffering in the worst market in history. Even under such harsh economic conditions, "Food is the only industry with positive figures, due to a trend towards eating at home". "There is opportunity even in crisis".

● 2009 business confidence is the lowest ever, below 2008 when the financial crisis began. Most companies report "loss", "lower capital investment" and "fewer employees".

In 2009, Japanese manufacturing companies in the U.S. have been impacted by the serious lack of demand and weak sales since the economic slowdown. The DI value indicates business confidence (calculated by subtracting the percentage of the companies that replied "decrease" concerning their operating profit in the survey year, from the percentage of companies that replied "increase" concerning their operating profit), recording the lowest level since these surveys began.*

*Surveys on business confidence have been done since 1991.

The percentage of companies reporting "loss" is higher than the percentage reporting "profit", and companies with capital investment "decrease" exceed those with "increase", with most industries also reporting lower employment. Company comments reflect the harsh economic conditions: "The 3 to 4 months since the start of the year has been a continuously harsh period", "This year's first half sales are down by half compared to normal years", etc.

When will demand recover by a full economic recovery? Companies are focused on the issue of how long the "weak auto market" will continue, which affects transportation machines and parts, in addition to various other industries which are involved, such as electric machines, machines, chemicals, and steel.

● 2009, sharp contrast between industries:
Autos impacted by weak market ↔ Foods demonstrated their strong foundation

Japanese auto and auto parts manufacturers comprising about 30% of respondents were impacted by the weak auto market. About 60% of them had losses (the average of all industries were 42.4%). The number of employees "decreased" at over 90% of companies over the past year. In order to overcome their difficult situations, parts manufacturers have implemented "week-long shutdowns", "layoff, halt to factory operations, salary cuts for managers", etc. There are expectations of "moving towards recovery with 2009 as the bottom", but it seems the market's complete recovery will require several years.

On the other hand, the food industry which is said to be "strong in recession", showed many positive responses such as "profit", "operating profit above last year", "increased local employment" and "increased capital investment". It was the only industry giving largely positive responses. Firstly, sales decreased related to eating out such as to restaurants, while there was firm growth in sales for retail due to the trend towards eating in. Amidst the weak economy, this is viewed as "Instead of going to restaurants, there seem to be increased opportunities to cook at home". There were also comments that "We strived constantly over many years to raise profitability". It seems that Japanese companies which thoroughly implemented higher efficiencies are now demonstrating their steady building of a foundation for solid sales strength in recession.

● A sense that 2009 is the "bottom", and 2010 will be "improvement"

Business confidence (forecast) for 2010 is for the largest ever recovery from the previous year. Companies show expectations that they foresee a slow recovery from the year's second half, commenting "There is a recent pick-up with steady improvement", "The general market is slowly returning to a proper level", "Steady improvement since August", etc. The consensus is that "2009 is the bottom". They generally comment that local employment will be "no change" or "increase". In

2009, companies have decisively cut production activities to the absolute minimum, slimming down as much as possible.

● While there are expectations for opportunities from climate change and environmental measures, there are also concerns of higher related costs

Many companies are positive about the increased interest in climate change and environmental measures, commenting on "expansion of opportunities for business", "PR for environment-friendly business image", etc. The flip side of this is the confidence of many companies that there will be "No effect". Transportation machine manufacturers show confidence in competition vs. U.S. manufacturers in the environmentally friendly auto market. They view opportunities in a wide range of environmental businesses: solar power, wind power, LED lights, smart grids, and seawater purification technology.

On the other hand, transportation machine companies and others voiced many concerns about higher related costs. There are more intense environmental discussions at the federal government level, and they face the reality of higher costs to comply with stronger regulations.

● The level of wariness about protectionism has slowly risen. Rising labor costs are another concern.

Concerns about trade protectionism are somewhat higher than the previous year. In addition to the Buy American clauses in the 2009 American Recovery and Reinvestment Act, concerns focused on difficulties in obtaining visas, stronger distribution regulations (10+2 rule), and in the food industry there are stronger import regulations for products including meat.

Regarding the impact of health care reform, 51.4% responded that "employer burdens will increase". Companies are wary of upward pressure on labor costs.

● Its attraction as a large consumption market is unchanged. However, its previous vitality cannot be expected.

About 80% of respondents expect that "Consumption will recover, but not to the level before the recession".

Data: Summary, Graphs and Tables
2009 JETRO Survey on Business Conditions of Japanese companies in the U.S.

Below, bracketed parts (industry shown in [ ]) indicate some of the comments JETRO obtained in interviews, phone calls, etc. from 46 Japanese manufacturing companies in the U.S. (food/ agriculture/seafood processing, transportation machines and parts, electric machines and parts, machines, chemicals, etc.), from the end of August through the first week of September of 2009.

1. 2009 business confidence is the lowest ever, below 2008 when the financial crisis deepened. Most companies report "loss", "lower capital investment" and "fewer employees".

In 2009, Japanese manufacturing companies in the U.S. have been impacted by the serious lack of demand and weak sales since the economic slowdown. The DI value indicates business confidence (calculated by subtracting the percentage of the companies that replied "decrease" concerning their operating profit in the survey year, from the percentage of companies that replied "increase" concerning their operating profit), recording the lowest level since these surveys began.*

* Surveys on business confidence have been conducted since 1991.

The percentage of companies reporting "loss" is higher than the percentage reporting "profit" (for the first time in 18 years since 1991), companies with capital investment "decrease" exceed those with "increase" (lowest since these surveys began), with 66.2% of companies reporting decrease in local employees over the past year. These show a clear declining situation.

The worst period of the economic downturn is the first half of 2009

- Since the beginning of autumn last year, the recession's impacts have begun to be steadily felt, with a continuing harsh period over the 3 to 4 months since the start of this year. Recently, there has been a pick-up and steady improvement. [Food, agriculture and seafood processing]
- This year's sales in the first half were down by close to half compared to normal years. [Parts for transportation machines]
- Production fell by half from the end of the last year through March this year. [Parts for transportation machines]
- From 2007 to 2008, sales fell by half, and were almost flat through this July [Parts for transportation machines]
- Business bottomed out in January-February this year. Recovery of the housing industry is a little late, but our experience is that the general market is steadily returning to proper levels. [Chemicals]

Employment is mostly down

- In this year's first half, we cut employment at several locations (both permanent and temporary employees). But we cut a smaller percentage of our total employees than U.S. companies in our industry. [Electric and electronic parts]

  (*For auto industry comments, see 2. Sharp contrast between industries starting on page 7)

Special opportunities during recession

- Land prices fell, and good locations are easy to obtain. Especially in this time, we are investigating real estate investment for factory expansion. [Food, agriculture and seafood processing]

As a cause for worse operating profit, "Decrease of sales in domestic market" (82.3% of responses) was far more common than other reasons (Figure 2). Companies which finally export products outside the U.S. are faced with "Decrease of sales in foreign markets" (39.7%), and companies importing parts from Japan had profits cut by the "Impact of currency fluctuations" (29.9%).

On the other hand, companies with improved business confidence gave "Reduction in labor costs" (58.5% of respondents) and "Decrease in administrative and energy costs" (58.0%) as reasons. At companies with improved profits (20.0%), more than positive factors such as higher sales, they have strived for profits by cutting costs and restructuring.

- Cost cutting led to profit turnaround and improved profits, by strictly looking at labor costs and eliminating wasteful overtime, etc. [Food, agriculture and seafood processing]
- (Example of higher profits by currency fluctuation) We are manufacturing processed meats in the U.S. and exporting to Japan. The cheaper dollar in currency markets is compensating for negative aspects of the recession. [Food, agriculture and seafood processing]
- We produce beverages in Canada and sell them in the U.S. The U.S. dollar was strong against the Canada dollar, which benefited our results. [Food, agriculture and seafood processing]

Some business risks in the U.S. are "Economic recession" (91.8% of respondents), "Weak auto market" (55.0%), "Yen/US$ exchange rate fluctuations" (45.1%), and "Fluctuation of energy prices" (21.5%) (Figure 3). When will demand recover by full scale recovery of the economy? Companies are focused on the issue of how long the "weak auto market" will continue, which affects transportation machines and parts, in addition to various other industries which are involved, such as electric machines, machines, chemicals, and steel.

- We sell panel parts for automotive interiors. Demand fell starting January 2009, towards a bottom in March – May. It steadily improved since August 2009, but we forecast full scale recovery from 2010 onwards. [Electric and electronic parts]
- Up to this year's first and second quarters, we reduced our operations to match our customers' demand (auto industry). We also partly reduced staff, but compared to U.S. companies, we minimized layoffs. [Chemicals]

  (*For auto industry comments, see 2. Sharp contrast between industries starting on this page)
- Due to higher oil prices, petroleum product packaging material costs rose, leading to worse operating profit. [Food, agriculture and seafood processing]

2. Sharp contrast between industries in 2009: Autos impacted by weak market ↔ Foods demonstrated their strong foundation in recession

(1) Transportation machines and parts

U.S. new vehicle sales are forecast at around 10 million units in 2009. Compared to four years ago (16,990,000 units), about 40% of demand has "evaporated", going through a historically weak market. Japanese auto and auto parts manufacturers comprise about 30% of respondents, and are directly impacted by the weak market (Figure 4). About 60% reported "loss" (transportation machines 57.1%, parts for transportation machines 62.6%. The all industry average was 42.4%). After going through fewer operating days and hours, work sharing, etc., as a final means they closed factories and also cut employment. Over 90% of companies "decreased" the number of local employees over the past one year (transportation machines 95.5%, transportation machine parts 91.9%).

Auto production recovered due to the effects of the Car Allowance Rebate System (CARS*). However, there are concerns that it was a temporary recovery. Many feel that several years are required to recover to the level in 2007 of over 16 million new vehicle sales.

*Implemented in the U.S. July-August 2009. When replacing a vehicle with a fuel efficient vehicle purchase, Federal government provides up to a $4,500 subsidy. About 700,000 fuel efficient vehicles were purchased for replacement. 7 of the 10 best selling models in the program were Japanese vehicles.

"Loss" exceeded "profit" in the Midwest (52.6% of respondents) and South (48.1%), where the auto industry is concentrated ("profit" exceeded "loss" in the Northeast and West).

Reduced operations, staff reductions

- We peaked at 200 employees, and cut them in stages to 160 at our lowest point. It now recovered a little, to 180. [Parts for transportation machines]
- Along with the drastic drop in sales, we mainly cut staff in production and technical units by factory closure and merging locations. We also made large production adjustments by week-long shutdowns, shift adjustments, etc. [Parts for transportation machines].

- To cut costs, we implemented layoffs, suspended factory operations, cut manager salaries, etc. [Parts for transportation machines]
- We suspended factory operations several times, and put factory employees on unpaid leave. [Parts for transportation machines]
- Japanese companies emphasize a long term viewpoint, and treat "maintaining employment" as a highest priority issue. Thus forced layoff is positioned as a last resort for cutting staff, with most companies working to cut by voluntary retirement. There is now a pause in employment reductions at both Japanese and U.S. manufacturers. [Parts for transportation machines]

Impacts of business problems at U.S. automotive and auto parts manufacturers

- One of our suppliers which was also selling to U.S. auto manufacturers suffered a chain reaction bankruptcy, and we were in danger of becoming unable to purchase a small part which attaches to our product. [Parts for transportation machines]
- Due to the GM and Chrysler bankruptcies, sales plummeted at companies which had been developing their business towards U.S. auto manufacturers focused on these two companies. They closed Detroit sales locations which handle U.S. auto manufacturers, with a trend towards a concentration of factories in southern states. [Parts for transportation machines]
- We used to do business with GM, but it was difficult to build relations with GM, and our business relation declined. GM's procurement unit was stronger than its technology unit, so more than quality it was strict on cost, with low profitability for us. Japanese auto manufacturers usually engage in work with a medium and long term vision with their suppliers. We had different working cultures. [Parts for transportation machines]

Even if orders increased, cannot make capital investments

- Thanks to special demand from China for automotive brake friction material, we are now also working on Saturdays. But we do not know how long this special demand will continue, and our experience is that it took six years to recover capital investment when establishing a factory, so it is difficult to expand our facilities. If our deals increase, our only choice is to also operate on Sundays. [Parts for transportation machines]

Automotive market forecast

- Our view is that the auto market is bottoming out in 2009, and moving towards recovery. But it will take time for both sales and revenues to return to the level of 2007 (16,150,000 units sold). Luxury items like navigation systems have especially declined. [Parts for transportation machines]
- The new vehicle sales situation has slightly improved. We do not see the level falling to 9 million units per year again. The auto loan approval rate (60% - 70% last year) also rose to about 80% for prime borrowers with strong credit, and 70% for near prime borrowers, and this improvement boosts sales. Many vehicles sold in the new vehicle boom of 2001 are approaching their replacement purchase periods, with significant postponed demand. New vehicle sales just to meet replacement purchase demand are said to be 13 to 14 million. But maybe levels will not reach 16 million per year until 2014. [Parts for transportation machines]
- Auto production recovered temporarily due to effects of the Car Allowance Rebate System (CARS). But we can't immediately call back dispatched factory workers, so engineers are even lending a hand in manufacturing at some Japanese parts manufacturers to urgently tide them over. We are now boosting production due to insufficient stocks, but we see demand falling again by the end of the year. [Parts for transportation machines]
- Due to CARS, we received large orders since the end of July. But we had made large production adjustments, so we cannot keep up even with parts supplied from secondary parts suppliers, and we cannot meet production goals at all. It seems this higher production system will continue until October or November. However, we cannot foresee what will happen thereafter, so we are careful about whether we should quickly expand production capacity. [Parts for transportation machines]
- Sales fell to 40% from the end of the last year to this May. Sales have risen since then. Sales grew because of (1) Increased demand for automotive brake friction material from China, and (2) Effect of CARS. [Parts for transportation machines]
- CARS will end, so maybe 2010 auto sales will be about the same as this year (about 10 million units). [Parts for transportation machines]
- Even if unit sales does not return to previous levels, with the larger market share Japanese manufacturers, Japanese suppliers may have greater business opportunities. [Parts for transportation machines]

(2) Food, agriculture and seafood processing

The food industry is said to be "strong in recession", with many positive responses such as "profit", "operating profit above last year", "increased local employment" and "increased capital investment". It was almost the only industry giving largely positive responses (Figure 4). (1) Sales related to eating out decreased such as to restaurants, while there was firm growth in sales for retail due to the trend towards eating in, (2) Efforts to thoroughly implement higher efficiencies to steadily build a foundation for solid sales strength are demonstrated in recession.

• All the followings are comments of food, agriculture and seafood processing manufacturers

Sales to restaurants are difficult, but favorable to retail

- Amidst the recession, sales are falling in restaurants and bars, but are not so bad in volume markets (supermarkets, drug stores).
- There is a stronger trend among consumers towards eating in. About 80% of our company's products are for retail, so sales are relatively favorable. Sales to restaurants are not growing.
- Due to more people eating in, processed goods sales are in an expansion trend. On the other hand, wholesale ingredients to restaurants is forecasted to decline from last year due to effects of the recession.
- Retail is growing. Instead of going to restaurants, there seem to be increased opportunities to cook at home. There is insufficient recovery in sales to restaurants, but it is not so bad recently.
- Sales of products for retail (beverages) have not changed much. Sales to restaurants (dried foodstuff) are reflecting the bad economy, with growing demand for low grade, cheap products.
- Sales to restaurants (alcohol beverages) are very bad. Sales to retail are growing a little.
- Customers are trying to cut costs, and the price range of product is falling even lower than before.

Maintaining employment

- Japanese companies have a unique company culture of "protecting employment", and we have not cut staff yet.

A key to higher sales is whether it is possible to transfer costs into prices

- We raised some of our prices, so our business situation improved.
- Over the past few years, we were affected by high prices in product markets such as oil, wheat, and palm oil, so we raised unit prices. The situation has calmed down now, so sales volume is not growing but our business is improved.
- We raised product prices when raw materials prices were rising, so shipment volumes fell but sales revenues rose.
- Maybe companies which replied that 2009 profits are "better than last year" are not lowering prices. The fodders our company handles are primary processed goods which are nearly raw materials, so our sales prices are easily fluctuated by raw materials prices.

Management efforts and strictness in food industry

- It is true that "the food industry is strong in recession". But food companies sell at low margin, with high volume. In these conditions, we strived constantly over many years to raise profitability. We didn't start cutting costs in a panic because of the recession.
- We export processed meat products to Japan. In the Japanese market, consumers have become increasingly strict over the years, so we can't raise retail prices even if procurement prices rise. Also, major retailers demand stable shipments without volume guarantees, so management is difficult.
- In Japan, from the viewpoints consumers emphasize, we focus on "food safety", "freshness", "24x365 business", so we must send partially load trucks, and also operate factories with alternate shifts on weekends and holidays. This situation results in large volumes of wastes which had no quality problems, and makes it difficult to cut costs and emissions of greenhouse gases.

The next issue is pioneering markets

- We manufacture and sell tofu. The issue is penetration among people who don't usually eat tofu. We have not reached the point where large U.S. supermarket chains, health and natural foods supermarkets now feel "trouble if we don't have it".
- The trend towards healthy eating is good for rice crackers.

3. A sense that 2009 is the "bottom", and 2010 will be "improvement"

Business confidence (forecast) for 2010 is for the largest ever recovery from the previous year (Figure 1). The percentage saying "decrease" is overwhelmingly low, and the "consensus is that 2009 is the bottom". This is generally in line with the actual and forecast economic growth rate {U.S. 2008 +0.4% → 2009 shrink 2.6% → 2010 +2.4% (2009 and 2010 figures are the Blue Chip September forecast)}

Local employees "decreased" at 66.2% of companies over the past year, but 59.8% report there will be "no change", and 22.4% that it will "increase". No industries forecast "it will decrease more than 50%" among more than 10 industries responded. In 2009, companies decisively cut production activities to the absolute minimum, slimming down as much as possible. In the future they will carefully reinforce staff in line with the degree of demand recovery.

- We retain highly skilled employees as much as possible, with flexible and rapid response to suddenly higher or lower production becoming increasingly important. [Parts for transportation machines]

4. While there are expectations for opportunities from climate change and environmental measures, there are also concerns of higher related costs

With increased interest in climate change and environmental measures, many Japanese companies are strong in environmental technology, and are positive about utilizing this to boost their reputation, commenting on "expansion of opportunities for business", "PR for environment-friendly business image", etc. (Figure 5). One can also say that the many comments of "No effect" indicate confidence. Transportation machine manufacturer comments stand out: "Our products will be more competitive compared to other companies" (all industries 11.9%, transportation machines 40.9%). In the Car Allowance Rebate System (CARS) implemented in the U.S. in July-August 2009, 7 of the 10 best selling models in the program were fuel efficient Japanese vehicles. This showed competitive strength in environmentally friendly vehicles compared to U.S. manufacturers. With the heightened environmental awareness seen in the U.S., Japanese companies see a wide range of opportunities in environmental businesses: renewable energies such as solar power and wind power, in addition to LED lights, catalysts useful in pollutant removal, energy conservation products, smart grids, seawater purification technology, etc.

On the other hand, there were many concerns about higher related costs, especially from transportation machine companies (54.5%). The Obama administration which took office in January 2009 is serious about environmental measures. In the U.S. federal House of Representatives, American Clean Energy and Security Act of 2009 incorporating mandatory cuts in greenhouse gases was approved in June. Environmental discussions are becoming more serious, and they may face the reality of higher costs to comply with stronger regulations.

Many companies think that environmental business will be a driving force for the economy ("Will be a driving force" 41.6%, "Will not" 18.5%, "Don't know" 39.9%). This feeling is especially common in the Northeast and West, where there is generally strong environmental awareness (Figure 6). On the other hand, "Don't know" was the most common response from the Midwest and South. The central U.S. is called "wind corridor", and some areas have plentiful wind power, but it is considered to have low environmental awareness overall. When making "environment" a pillar of business strategy for the U.S., one must consider such "subtle differences in awareness between regions".

Increased Environmental Awareness in U.S. citizens

- CARS had a much larger result than initially forecast. The trend towards choosing small cars is clearly getting stronger in the U.S. [Transportation machines]
- For electric machines targeting retail, there are growing environment related inquiries about

exterior parts, such as “How is it green?” and “Is it recyclable?”. [Electric and electronic parts]

- We get purchase inquiries for environmentally friendly products from companies, government offices and local governments. There are sometimes bidding conditions like low power consumption, and chemical substances. Meanwhile, general consumer awareness is increasing, with many more environment related inquiries than in 2008. We see business opportunities for environmentally friendly products. [Electric and electronic parts]
- We started selling an alcohol beverage which reuses bottles, and it gained attention. [Food, agriculture and seafood processing]

Expanded opportunities for environmental business

- There is heightened interest in environmental business, with more business talks. [Machines manufacturer]
- We feel there are growing opportunities for environmental business. Especially materials for solar cells, wind power generators, lithium ion batteries, materials for biomass systems, etc. [Textiles]
- There is a focus on solar cells, lithium ion batteries, LED lights, and biomass. [Chemicals]
- We expect increased opportunities in solar and LED related products. [Electric and electronic parts]
- We already built a manufacturing plant for catalysts to remove pollutants such as nitrogen oxides generated by thermal power using oil and coal. It has not started operating yet, but it is scheduled to start operating in the spring of 2010 in response to growing demand for catalysts. [Machines]
- Opportunities in seawater purification and water reuse technologies. [Machines]
- We want to expand our business opportunities in carbon capture and storage (CCS), smart grids (including power generation, electricity transport, batteries), and in various energy conservation equipment. [Electric machines]
- With higher “eco” awareness, there is the possibility of moves to change product container materials from Styrofoam to paper. [Food, agriculture and seafood processing]
- There is more potential demand in Europe than in the U.S. for the solar cell industry. We will be working to develop the U.S. market, and we set up a survey team this spring. [Chemicals]

Automotive related: environmentally friendly vehicles, etc.

- There is growing business for energy conservation and environmental improvement technologies, such as FFV (vehicles which can use gasoline/ethanol fuel mixtures), GDI (gasoline direct injection), and HEV (hybrid electric vehicles). In addition to these engine related technologies which lead to direct fuel conservation, we can also cut energy loss in auto parts such as air conditioners. [Parts for transportation machines]
- Electric car brake systems are different than those for conventional autos, with a lower

replacement rate for our company's products, which makes the growth in environmentally friendly autos a threat to our company. [Parts for transportation machines]

- Electric power steering devices have superior energy efficiency and are smaller and lighter than conventional oil pressure type. These are attracting attention. [Parts for transportation machines]
- We are closely watching the environmental related policies of the Obama administration, while we actively strengthen our production and sales of environment related parts in which growth is expected: batteries, capacitors (the part which temporarily stores electricity), peripheral parts, etc. [Parts for transportation machines]

Clear environmental shift of the U.S. government

- We are increasing our R&D related investments in response to the stronger fuel efficiency regulations announced by the Obama administration. [Transportation machines]

5. The level of wariness about protectionism has slowly risen. Rising labor costs are another concern.

Concerns about trade protectionism are somewhat higher than the previous year (Figure 7. 38.1% → 49.3%). In addition to the Buy American clauses in the 2009 American Recovery and Reinvestment Act, various obstacles to developing international business are arising: difficulties in obtaining visas, stronger distribution security regulations (10+2 rule), and stronger import regulations for products containing meat which mainly affect the food industry, etc. (Figure 8).

Regarding the impact of health care reform, 51.4% responded that "employer burdens will increase" (Figure 9). Companies are wary of upward pressure on labor costs.

Buy American related

- Buy American clauses are incorporated into public construction projects, resulting in cases where we are forced to rush to revise our supply chain. [Machines]
- When participating in transport related projects, the need arose for us to work on modifying our production structure to meet criteria for U.S. manufacturing. [Machines]
- It will become difficult to use imported parts for supplying our parent company which sells to the U.S. government. We are concerned that our parent company emphasizes Buy American, and gives priority to purchasing U.S. made parts. [Electric machines]
- There are no actual losses, but we are concerned that it will become difficult for Japanese companies to participate in construction projects of steel structure which are subject to a Buy American clause. [Machines]
- There are no visible losses, but it is a concern. [Electric machines]
- An initial proposal for the Car Allowance Rebate System (CARS) only covered big three autos.

We are wary of the Buy American debate. [Transportation machines]

- Many of our company's products are U.S. made, so it's not a problem. In auto related business, Korean manufacturers import a lot, so it may affect them more. [Parts for transportation machines]
- We use U.S. made soybeans to manufacture and export products, so it does not affect us. [Food, agriculture and seafood processing]

Stronger regulations on imports of products containing meat, etc.

(Comments below are by food, agriculture and seafood processing companies)

- We are unavoidably manufacturing products excluding meat extracts for the U.S., but the taste ends up different.
- We have no choice. In products for which we can change the mixture in Japan, we switch to only non-animal ingredients. For products which cannot change, we must apologize to customers that we don't sell in the U.S.
- Even before the stronger regulations were enacted in June 22, we were preparing based on the assumption that we cannot import products containing livestock meat extracts.

Stronger distribution security regulations

- Regarding the "10+2 rule" (Note 1) which will start to be fully applied on January 26, 2010, we are worried about how strictly the customs department will enforce them. We are also concerned that customs will focus on us if we do not participate in C-TPAT (Note 2). [Food, agriculture and seafood processing]

(Note 1) 10 items of information are required in advance from importers, and 2 items from the shipping companies.

(Note 2) Customs-Trade Partnership Against Terrorism. Implemented since April 2002.
Preferential treatment such as lower inspection rates are provided for importers which provide superior compliance with security aspects.

- The "10+2 rule" and other food import regulations are becoming stricter, placing a much greater work burden on people in charge. [Food, agriculture and seafood processing]
- We participated in C-TPAT, but preparation for site inspections and post-inspection handling are taking a lot of time and expense. [Food, agriculture and seafood processing]
- There are stricter inspections by the Department of Agriculture and the Food and Drug Administration (FDA), with many recent cases of products being halted. [Food, agriculture and seafood processing]

6. Its attraction as a large consumption market is unchanged. However, its previous vitality cannot be expected.

79.0% of respondents expect that "Consumption will recover, but not to the level before the recession" (Figure 10). The U.S. consumption market is the worlds largest, on the scale of 1,000 trillion yen, and it will continue to be attractive. However, the asset bubble which supported excessive consumption in recent years collapsed, and income growth is slow, so as savings rates remain high, we foresee a several percent decline in the percentage for personal consumption which now comprises 70% of GDP. We also learned about U.S. consumption trends from the local perceptions of Japanese company employees.

- In Japan like in other major developed countries, the declining population shrinks its market. Thus the U.S. market is attractive with its continued population growth. However, steady marketing and advantage of products are required to enter the market. [Food, agriculture and seafood processing]

Figure 1: Changes in DI value focusing on companies' operating profit and real GDP growth ratio

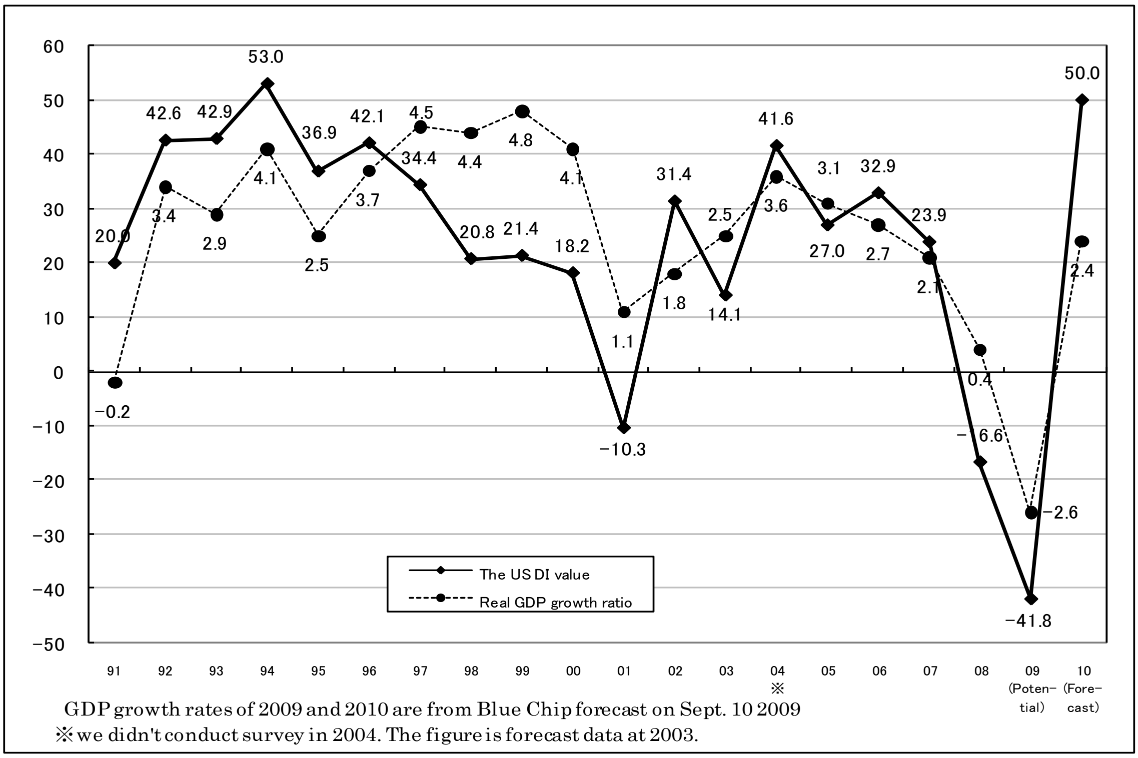


Figure 2: Reasons why the company's operating profit in 2009 will "decrease" from the previous year (multiple answers allowed)

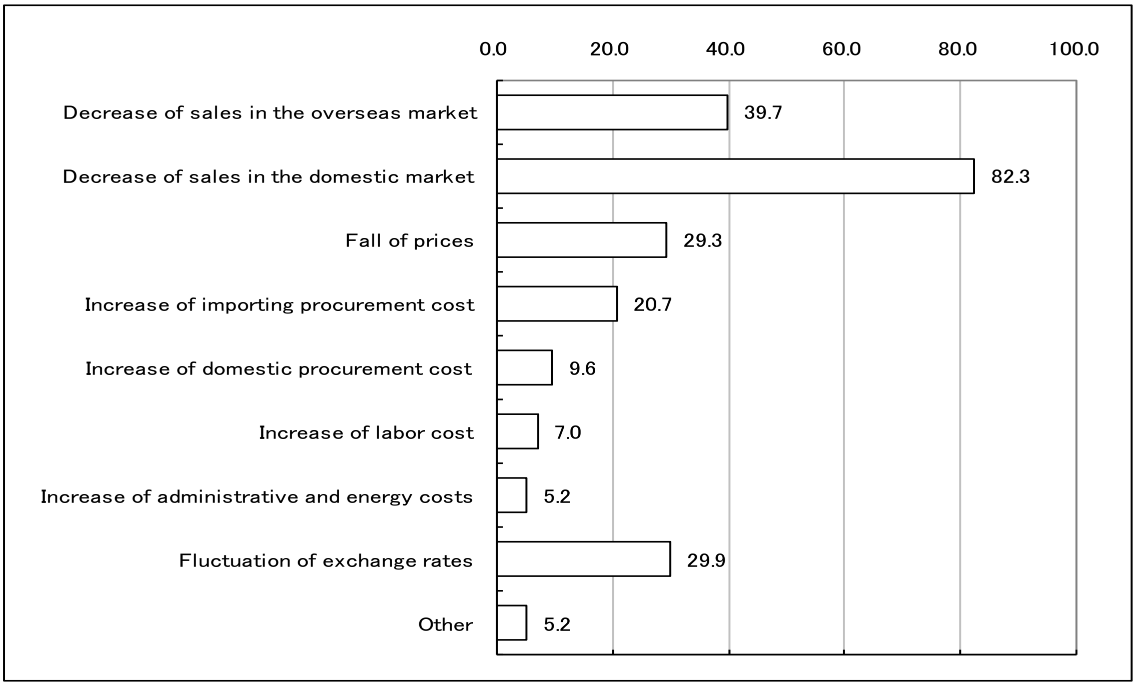


Figure 3: Issues that are considered obstacles,

problems or risks in the domestic business

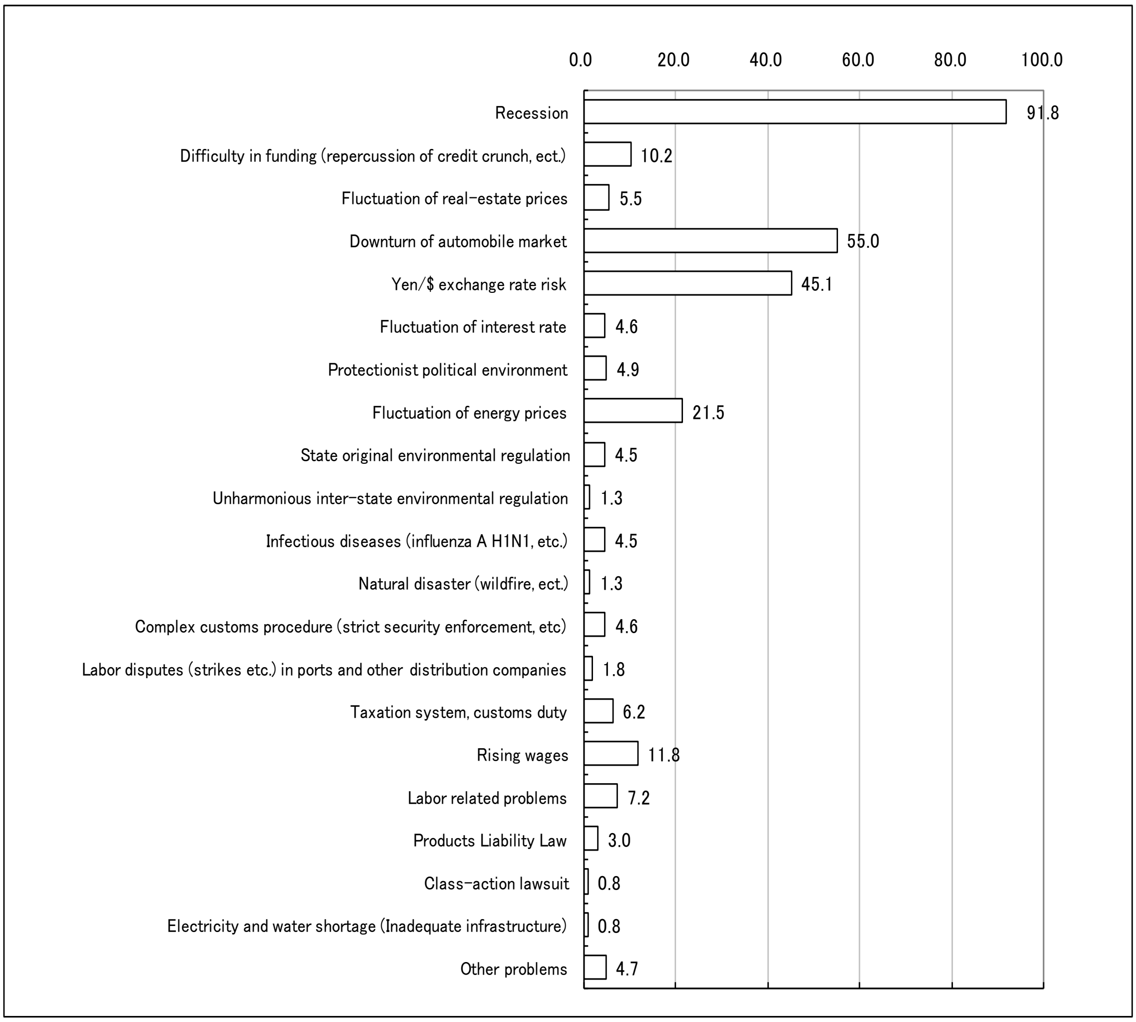
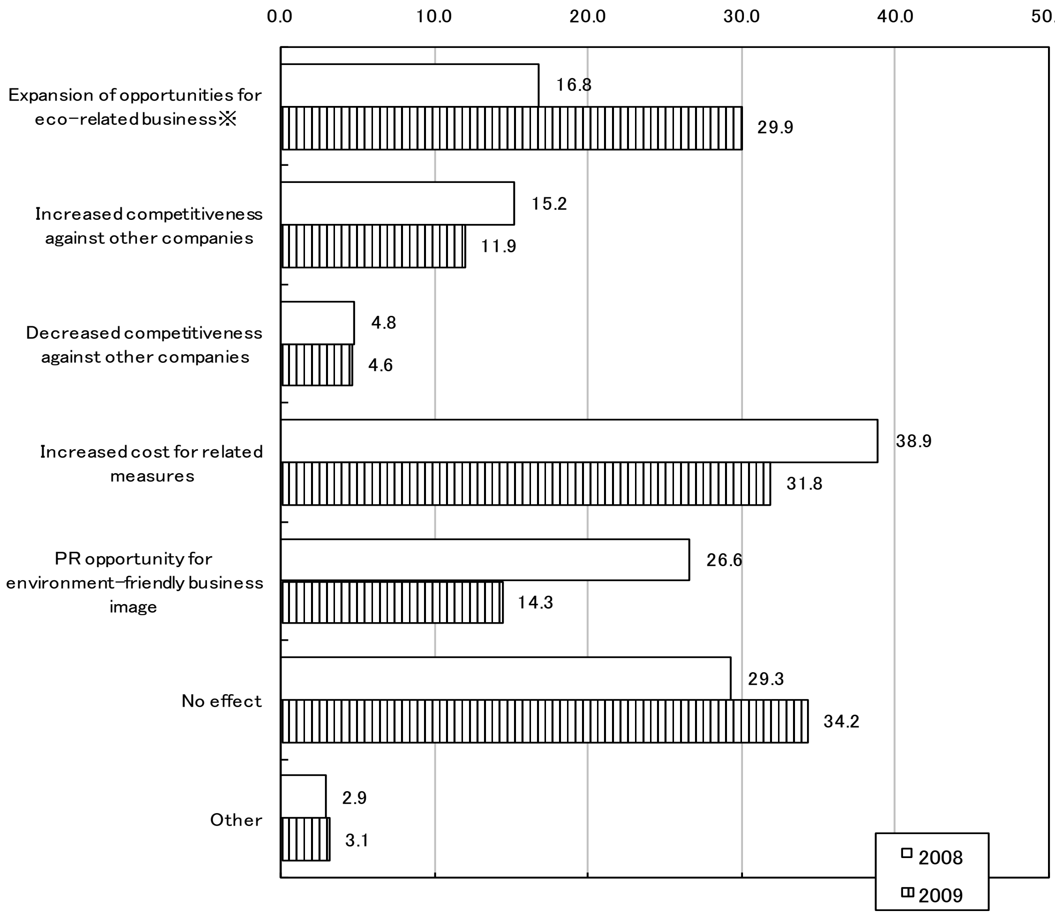


Figure4：Outcome of food, agriculture, fishery processing and automobile industries

	Average of all sectors	Transportation machines	Parts for transportation machines	Food, agriculture, and fishery process
Anticipated operating profit	Profit：35.5% Loss：42.4%	Profit ：23.8% Loss ：57.1%	Profit ：18.7% Loss ：62.6%	Profit：66.7% Loss：18.1%
Operating profit in 2009 in comparison with 2008	Increase：20.0% Decrease：61.8%	Increase：23.8% Decrease：57.1%	Increase：20.8% Decrease ：67.4%	Increase：42.5% Decrease：24.7%
Number of local staff (past 1year)	Increase：8.5% Decrease：66.2%	Increase ：0.0% Decrease ：95.5%	Increase ：1.8% Decrease ：91.9%	Increase：32.4% Decrease：13.5%
Capital investment in 2009 in comparison with 2008	Increase：12.9% Decrease：55.9%	Increase ：9.5% Decrease ：76.2%	Increase ：7.7% Decrease ：73.2%	Increase：36.6% Decrease：16.9%

Figure5：Effects of climate change and environmental issues on future business



※The figure of 2008 is the response to the "Expansion of opportunities for alternative energy-related business"

Figure 6: Will eco-business become a leading force in the economy?

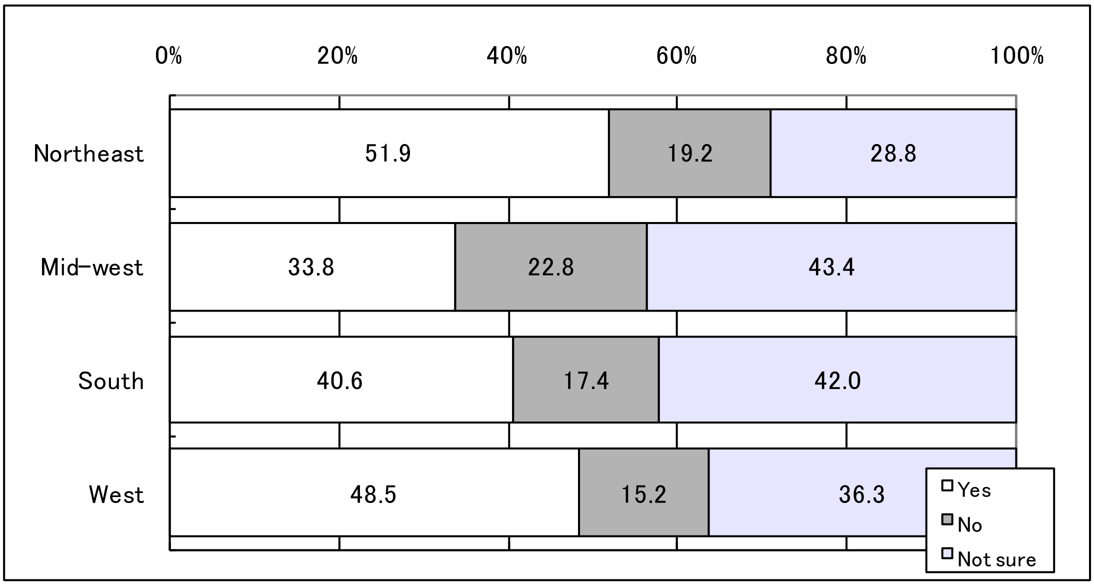


Figure7：Effects of the trend of trade protectionism

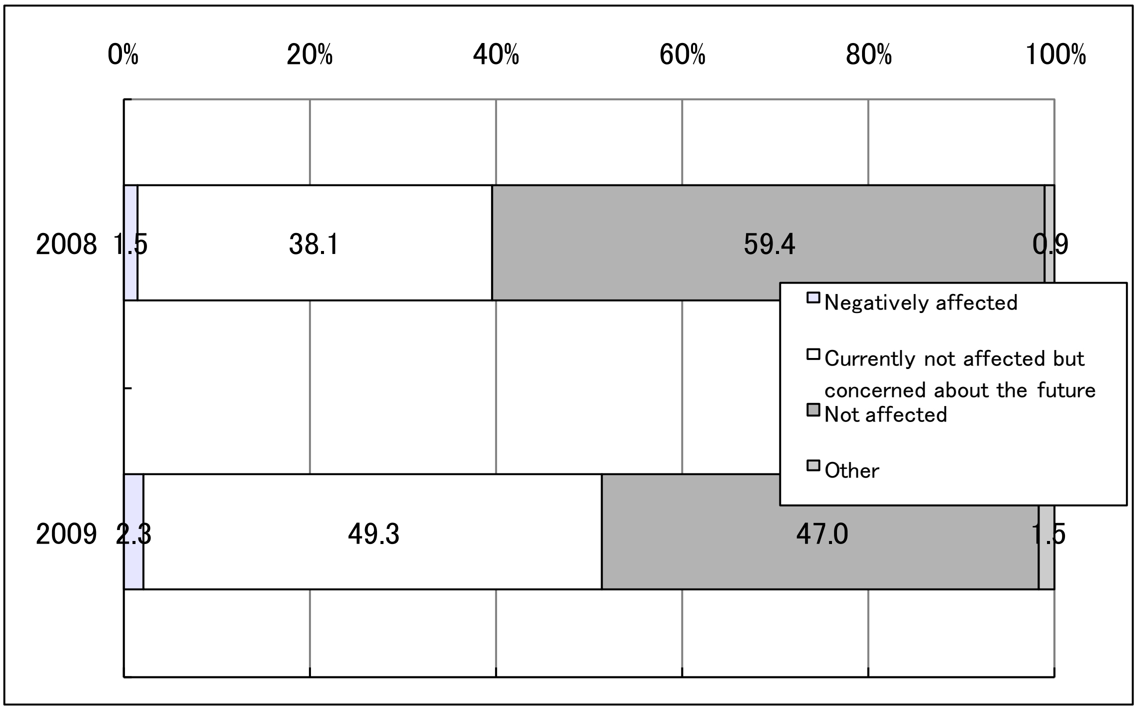


Figure8 : Which protective policies could affect your company?

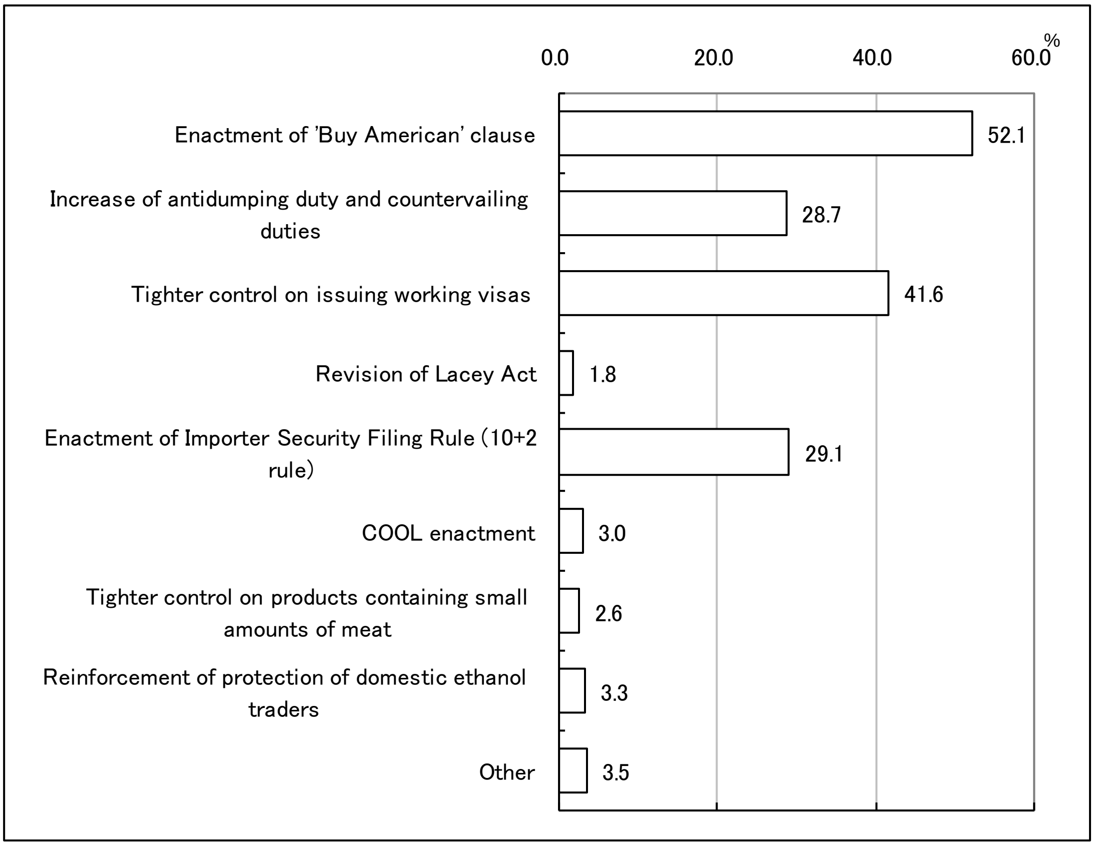
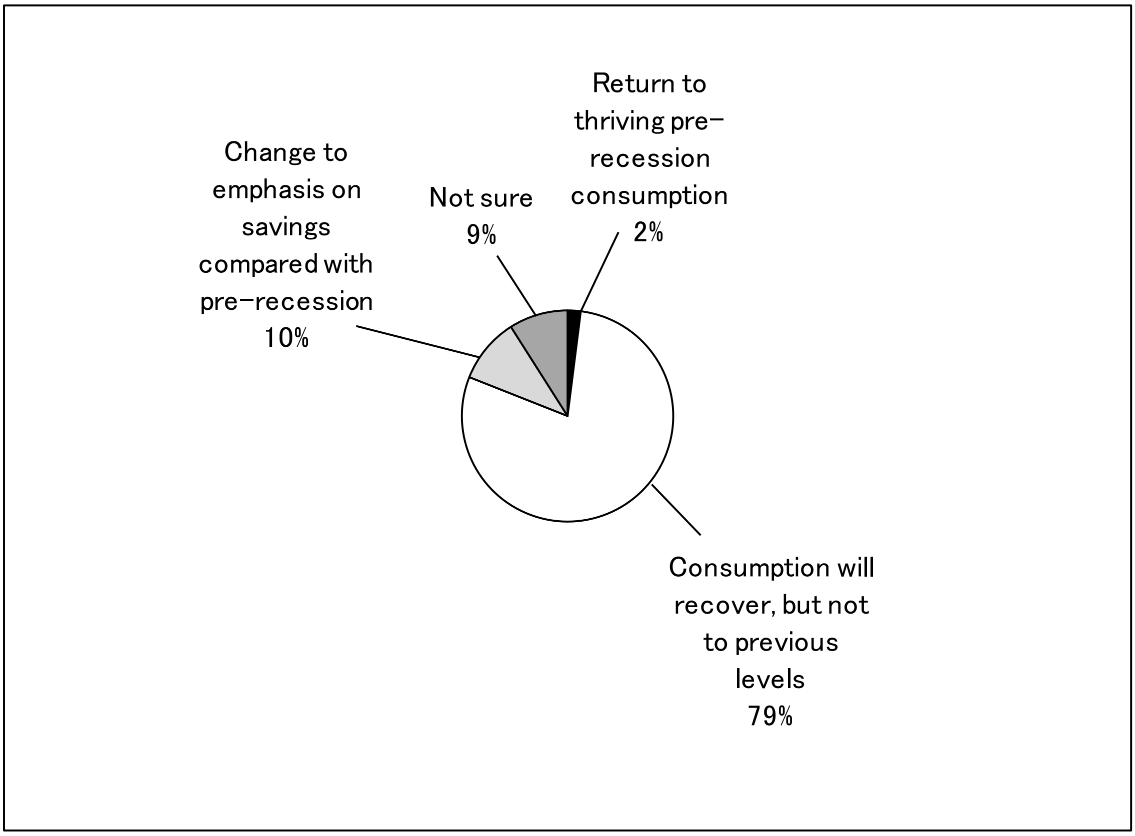


Figure9：Enforced healthcare increases burden on employers

Upper row：Number of companies responded, Lower row：Percentage（%）

	Enforced healthcare burdens employers			
	Valid responses	Increase	Not increase	Not sure
Total	883	454	108	321
	100.0	51.4	12.2	36.4
Food, agriculture, and fishery process	72	42	5	25
	100.0	58.3	6.9	34.7
Textile (yarn, woven and chemical products)	8	3	1	4
	100.0	37.5	12.5	50.0
Clothes and textiles	3	2	-	1
	100.0	66.7	-	33.3
Timber and wooden goods (excluding furniture and interior design products)	2	2	-	-
	100.0	100.0	-	-
Furniture and interior design products	3	1	-	2
	100.0	33.3	-	66.7
Paper and pulp	5	2	2	1
	100.0	40.0	40.0	20.0
Chemical and oil products	83	39	7	37
	100.0	47.0	8.4	44.6
Plastic products	21	11	3	7
	100.0	52.4	14.3	33.3
Phermaceuticals	6	3	3	-
	100.0	50.0	50.0	-
Rubber goods	17	4	1	12
	100.0	23.5	5.9	70.6
Ceramic, earth and stone	14	7	1	6
	100.0	50.0	7.1	42.9
Steel (including cast and wrought products)	32	16	5	11
	100.0	50.0	15.6	34.4
Non-ferrous metals	16	8	-	8
	100.0	50.0	-	50.0
Metal goods (including plated products)	36	16	3	17
	100.0	44.4	8.3	47.2
Machines (including mold and power tools)	75	36	11	28
	100.0	48.0	14.7	37.3
Electric machines	50	20	10	20
	100.0	40.0	20.0	40.0
Electric and electronic parts	70	35	13	22
	100.0	50.0	18.6	31.4
Transportation machines (motor vehicles and two-wheeled vehicles)	22	11	2	9
	100.0	50.0	9.1	40.9
Parts for transportation machines (motor vehicles and two-wheeled vehicles)	221	125	24	72
	100.0	56.6	10.9	32.6
Precision machines and apparatuses	35	19	3	13
	100.0	54.3	8.6	37.1
Medical equipments	1	1	-	-
	100.0	100.0	-	-
Printing and publishing	1	1	-	-
	100.0	100.0	-	-
Other	90	50	14	26
	100.0	55.6	15.6	28.9

Figure 10：Changes in consumer behavior in future



● Canada

[Main Points]

● 2009 business confidence is the lowest ever, below 2008 when the financial crisis began. The situation is the worst in the history. Still, the situation is different from Japanese companies in the U.S. which are generally facing "loss". Many companies in Canada are gaining "profit".

In 2009, Japanese companies in Canada (manufacturing and non-manufacturing industries) have been impacted directly by a serious lack of demand and weak sales since the economic slowdown. The DI value indicates business confidence (calculated by subtracting the percentage of the companies that replied "decrease" concerning their operating profit in the survey year, from the percentage of companies that replied "increase" concerning their operating profit), recording the lowest level since these surveys began. (Surveys on business confidence have been conducted since 1997)

Companies with capital investment "decrease" exceed those with "increase" as compared to the previous year. Companies generally reported "no change" or "decrease" in employment over the past year. However, it can be seen that the percentage of companies reporting "profit" is still higher than the companies reporting "loss", and the situation is not as bad as that of most Japanese companies in the U.S. which are suffering "loss".

The biggest business risk is "economic recession" (85.9%). With regards to exchange rate fluctuations (66.5%), there is a risk of negative impact on exports to the U.S. if the Canadian dollar strengthens with higher resource prices.

● Auto industry directly impacted by the weak market

The automotive and automotive parts industries have been directly impacted by the weak market. Transportation machine companies reporting "loss" have surpassed those reporting "profit" and about equal numbers of transportation machine parts companies report "loss" and "profit". 6 of the 7 transportation equipment manufacturers reported "decrease" in operating profits from the previous year, citing "decrease of sales in domestic and foreign markets". The weak U.S. automobile market has caused great downward pressure on the operations of Japanese companies in Canada as well.

● A sense that 2009 is the "bottom", and 2010 will be "improvement"

Business confidence (forecast) for 2010 is for the largest ever recovery from the previous year. The consensus is that "2009 is the bottom". It is generally commented that local employment "decreased" in the past one year and there will be "no change" hereafter.

● Strong expectations for environment-related businesses

More companies in all industries responded that "environmental business will be a driving force for the economy", compared to those who said it "Will not". Expectations from non-manufacturing industries are especially high. On the other hand, the most conspicuous response was “Don’t know”, especially from manufacturing industries. It still could not be ascertained whether there is sufficient potential and promise in environment-related businesses.

● Concerns regarding trade protectionism in U.S.

51.8% of respondents expressed concerns about trade protectionism in the U.S. There is overwhelming concern about the “Buy American” clause included in the American Recovery and Reinvestment Act of 2009. Besides this, there are apprehensions about “stronger distribution restriction rules (10+2 Rule)”, “difficulties in obtaining visas”, “stronger anti-dumping duties and countervailing duties”, etc.

Data: Summary, Graphs and Tables

2009 JETRO Survey on Business Conditions of Japanese companies in Canada

Below, bracketed parts (industry shown in [ ]) indicate some of the comments JETRO obtained in interviews, phone calls, etc. from Japanese companies in Canada (parts for transportation machines, machines, timber and wooden goods, paper and pulp, etc.) from the end of August through the first week of September of 2009.

1. 2009 business confidence is the lowest ever, below 2008 when the financial crisis began. Still, the situation is different from Japanese companies in the U.S., which are generally facing "loss". Many companies are securing "profit".

In 2009, Japanese companies in Canada (manufacturing and non-manufacturing industries) have been impacted directly by a serious lack of demand and weak sales since the economic slowdown. The DI value indicates business confidence (calculated by subtracting the percentage of the companies that replied "decrease" concerning their operating profit in the survey year, from the percentage of companies that replied "increase" concerning their operating profit), recording the lowest level since these surveys began.* (Figure 1)

*Surveys related to business confidence have been conducted since 1997

Most of the companies (64.3%) reported "decrease of sales in domestic market" as a factor for the decrease in the operating profits, followed by "decrease of sales in foreign markets" (46.9%) and "impact of currency fluctuations" (44.9%) (Figure 2).

Companies with capital investment "decrease" compared to the previous year exceed those reporting "increase". Companies generally reported "no change" or "decrease" in employment over the past year. However, we see that the percentage of companies reporting "profit" still exceeds companies reporting "loss", and the situation is not as bad as that of Japanese companies in the U.S., which are generally facing "loss".

85.9% cited "economic recession" as the biggest business risk, followed by "exchange rate fluctuation" (66.5%), "weak auto market" (48.8%) and "fluctuation of energy prices" (22.4%) (Figure 3). With regards to exchange rate fluctuation, there is a risk of negative impact on exports to the U.S. if the Canadian dollar strengthens following higher resource prices.

- Though there is a feeling that the market has reached the bottom, there is no belief that it will recover as before. [Timber and wooden goods]
- Though the market has reached the bottom, real recovery is a long way away. [Paper manufacturing]
- Although pulp market conditions weakened from the second half of last year, there has been a recovery from around June this year. There was an increase in demand from China and prices

recovered. We squeezed investment down to the bare minimum. [Paper and pulp]

- Since there was an increase in the sales quoted in US dollars, the appreciation of Canadian dollar led to lower profits. There are concerns about the rise in crude oil prices as well as appreciation of the Canadian dollar. [Parts for transportation machines]
- We are developing our business with a 4:1 ratio of *exports to U.S.* : *sales for Canadian domestic market.* Business is affected greatly by U.S. market trends and the impact of currency exchange. [Parts for transportation machines]
- Almost all our parts are procured from the U.S., so the appreciation of the Canadian dollar was advantageous. [Parts for transportation machines]

2. Automobile industry directly impacted by the weak market

The automotive and auto parts industries have been directly impacted by the weak market (Figure 4). Transportation machine companies reporting "loss" (28.6%) have surpassed those reporting "profit" (14.3%) and the percentage of transportation machine parts companies reporting "loss" (41.2%) was similar to those reporting "profit" (47.1%). 6 of the 7 transportation machine manufacturers reported "decrease" in operating profits from the previous year. Almost all of the companies cited "decrease of sales in domestic and foreign markets" as a reason. Development, manufacturing, and sales of the North American automobile industries have developed with close relationships between the U.S. and Canada. The weak U.S. auto market has put great downward pressure on the operations of Japanese companies in Canada as well. Although a gradual recovery is being seen from the ground level, real recovery will still require some time.

Reduced operations and staff layoff

- We have reduced our employees from 180 at the peak period, temporarily reaching 110 employees. At present the work force has almost reached the previous level as a result of increased sales and reduced stocks. [Parts for transportation machines]
- Seasonal employees have been laid off, and work-sharing activities have been implemented for permanent employees. [Parts for transportation machines]

Auto market forecasts

- Profits will recover for now. However, we cannot judge how much the demand for automobiles will increase following the U.S. economic stimulus package [Parts for transportation machines].
- It is forecast that there may be changes in the car models that are being produced, and there is a possibility of product demand that cannot be produced with our current facilities. Thus we are studying the necessity of capital investment for replacing equipment rather than for reinforcing

production capacity. [Parts for transportation machines]

- Although the consensus within the company is for a recover gradually, it will not return to the level prior to the economic recession within the next 1 to 2 years. [Parts for transportation machines].
- At present, there is no feeling that business conditions will improve. We see the present condition continuing till next spring. [Parts for transportation machines]
- It seems that there will be no recovery from the middle of 2010 till the end of 2010. Business decisions of Japanese companies has become extremely slow for the past few years. Since capital investments cannot be made just by a decision of the local subsidiary, a lot of time will be required till the start of actual investments. [Machines]
- Amongst our North American bases, there was almost no slump in Canada. However, looking at the overall North American market, it looks like there will be no recovery until 2011. [Parts for transportation machines]

3. 2009 is the "bottom", and 2010 will be "improvement"

Business confidence (forecast) for 2010 is for the largest ever recovery from the previous year (Figure 1). The percentage of "decrease" was overwhelmingly small and the general feeling is that "2009 is the bottom". This forecast is roughly parallel to the results/forecast of economic growth rates {+0.5% in 2008 → Shrink 2.3% in 2009 → +1.6% in 2010 (values of 2009 and 2010 forecast in July by IMF)}. However, it is believed that complete recovery will take time.

It is generally commented that the local employment "decreased" in the past year and there will be "No change" hereafter. In 2009, companies decisively cut production activities to the absolute minimum, slimming down as much as possible.

- Training period is necessary in order to increase the workforce. It is not possible to increase the workforce immediately. [Parts for transportation machines]

4. Strong expectations for environment-related businesses

More companies in all industries responded that "environmental business will be a driving force for the economy", compared to those who said it "Will not". Expectations from non-manufacturing industries are especially high (Figure 5). On the other hand, the response "Don't know" was also high, especially form manufacturing industries. It still could not be ascertained whether there is sufficient potential and promise in environment-related businesses.

- We are investigating whether environmentally friendly housing materials can be imported from

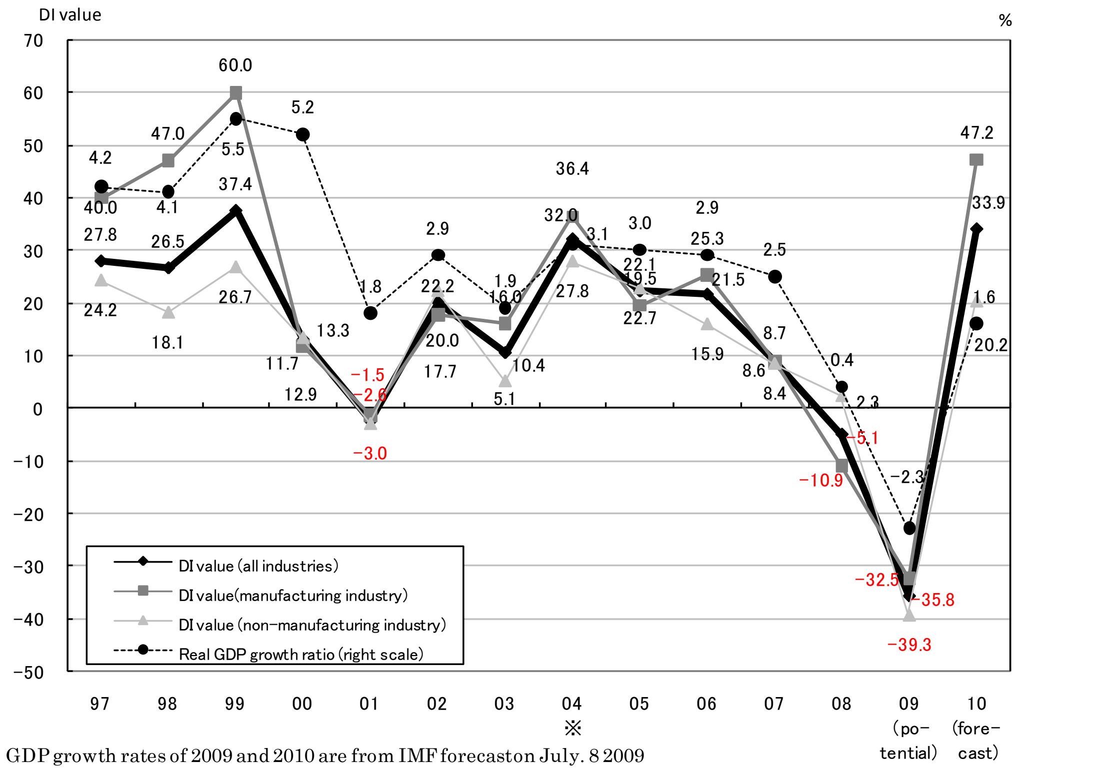
Japan. [Timber and wooden goods]

- In June, the federal government decided to provide subsidies for investments to improve the energy efficiency of the paper and pulp industry. We are investigating investments that can get this subsidy (its period starts in 2010). [Paper and pulp]

5. Concerns regarding trade protectionism in U.S.

51.8% of the respondents expressed concerns about trade protectionism in the U.S. There is overwhelming concern about the "Buy American" clause included in the American Recovery and Reinvestment Act of 2009. Besides this, there are apprehensions about "stronger distribution regulations (10+2 Rule)", "difficulties in obtaining visas" and "stronger anti-dumping duties and countervailing duties", etc. (Figure 6).

Figure 1: Changes in DI value focusing on companies' operating profit and real GDP growth ratio



GDP growth rates of 2009 and 2010 are from IMF forecaston July. 8 2009

※we didn't conduct survey in 2004. The figure is forecast data at 2003.

Figure 2: Reasons why the company's operating profit in 2009 will "decrease" from the previous year (multiple answers allowed)

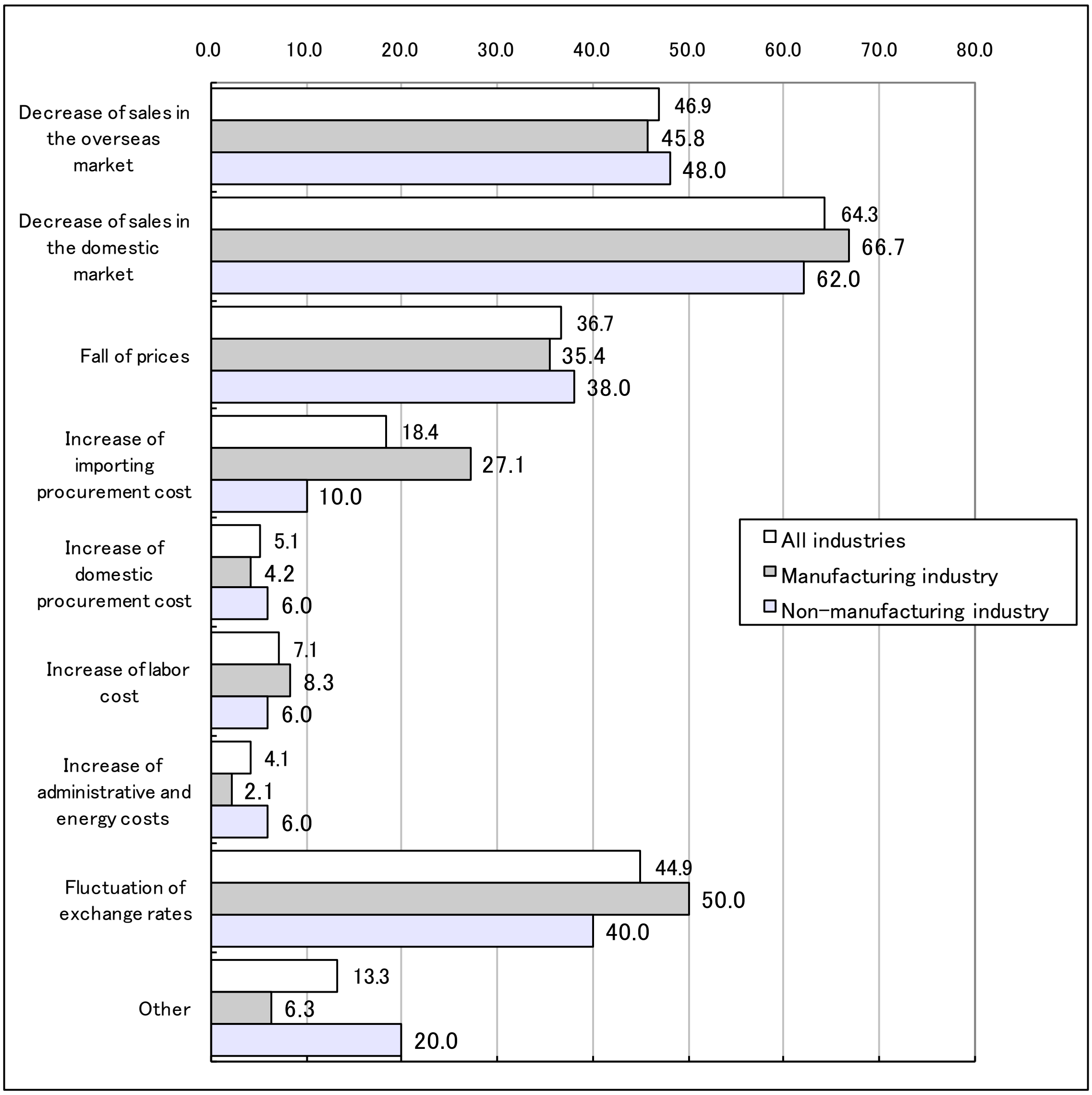


Figure 3: Issues that are considered obstacles, problems or risks in the domestic business

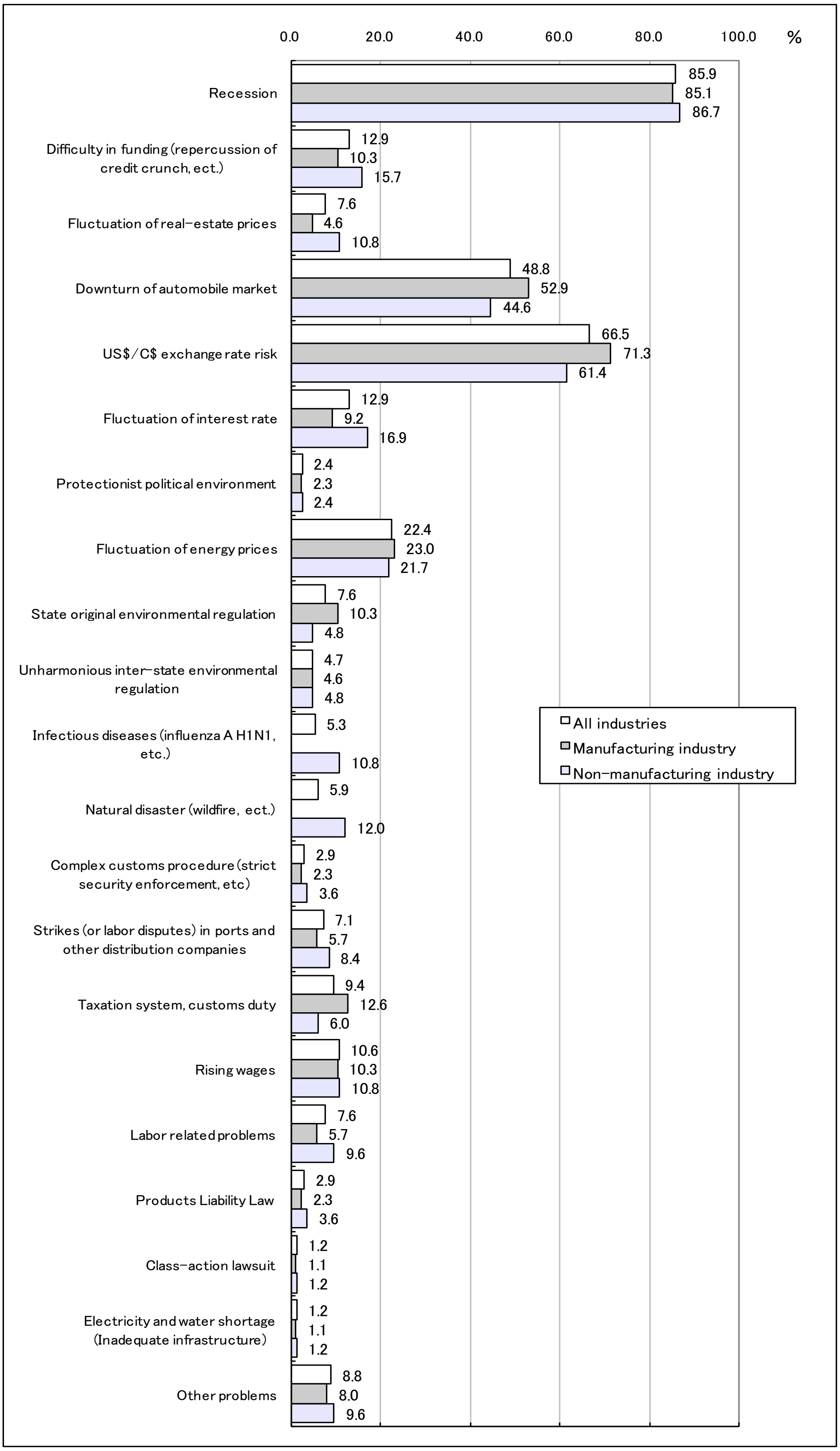


Figure4：Automobile industry is facing difficulties

	Average of all sectors	Transportation machines	Parts for transportation machines	【Reference：Survey results in the USA】 Average of all sectors
Anticipated operating profit	Profit：51.5% Loss：26.3%	*Profit ：14.3%* *Loss ：28.6%*	*Profit ：47.1%* *Loss ：41.2%*	Profit：35.5% Loss：42.4%
Operating profit in 2009 in comparison with 2008	Increase：21.8% Decrease：57.6%	*Increase ：14.3%* *Decrease ：85.7%*	Increase：35.3% Decrease：47.1%	Increase：20.0% Decrease：61.8%
Number of local staff (past 1 year)	Increase：10.8% Decrease：39.8%	Increase：28.6% Decrease：28.6%	Increase：17.6% *Decrease ：70.6%*	Increase：8.5% Decrease：66.2%
Capital investment in 2009 in comparison with 2008	Increase：9.2% Decrease：50.8%	*Increase ：0.0%* *Decrease ：66.7%*	Increase：12.5% *Decrease ：75.0%*	Increase：12.9% Decrease：55.9%

Figure5：Will eco-business become a leading force in the economy?

Upper row：Number of companies that responded, Lower row：Percentage（%）

	Valid response	Yes	No	Not sure
Total	172 100.0	78 45.3	26 15.1	68 39.5
Manufacturing industry	87 100.0	33 37.9	13 14.9	41 47.1
Non-manufacturing industry	85 100.0	45 52.9	13 15.3	27 31.8

Figure 6: Which protective policies by the U.S. could affect your company?