

FY2017 JETRO Survey on Business Conditions for Japanese Companies in Canada (28th Annual Survey)

Americas Division, Overseas Research Department
Japan External Trade Organization (JETRO)
January 11, 2018

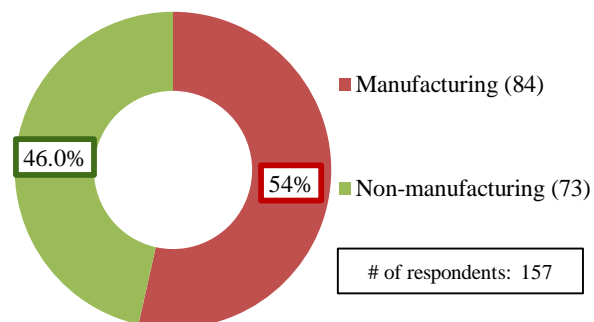
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Overview

- ❑ Survey period: October 3 – November 15, 2017
- ❑ Valid responses: 83.5% (157 of 188 companies)
- ❑ 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.
- ❑ Note: This is the 28th annual survey, initiated since 1989 (not conducted in 2004).

Manufacturers and non-manufacturers



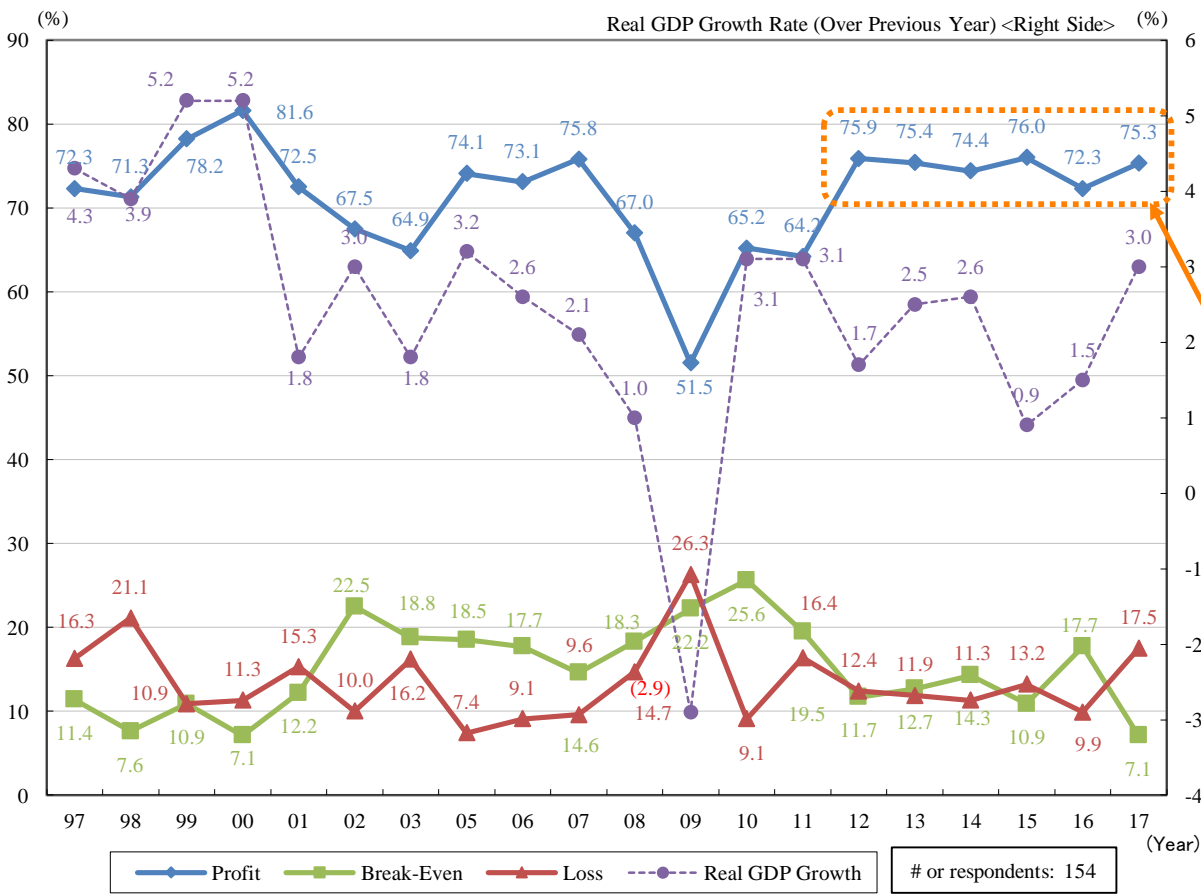
(1) The totals in the surveys in this report may not be 100 because the numbers are rounded off to the first decimal point.

(2) The firms participated in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected.

1. 2017 Profit Forecast: 75.3% expect profit – Figure remains above 70% for six consecutive years

75.3% of the respondents said they expected positive operating profits in 2017, up three points from the previous year. The figure has stayed over 70% for six consecutive years (manufacturing: 77.1%, non-manufacturing: 73.2%). Real GDP growth - due to higher crude oil prices compared to the previous year, and strong domestic demand - helped improve the overall performance of the Japanese companies.

Fig. 1: Operating profit forecast and real Canadian GDP growth



Economic Recovery and Stability

- We felt a recovery in sales and growth in construction in 2017, though we initially expected a drop in housing sales due to new tax laws. (Sales)
- Recruitment is becoming harder. We believe this is a sign of economic recovery. (Manufacturing)
- We don't feel significant changes in the west, but orders from the east (Toronto, Montreal) are increasing. The local economies must be improving. (Sales)
- With the Canadian oil market improving, we feel economic improvement in the Midwest and west. There has been increased use of our products for shipment and excavation, contributing to our profits. (Plastic products)
- We think the recovery of the oil business is a positive factor. Introduction of new products is also contributing to increased sales. (Transportation equipment - motor vehicles/motorcycles)

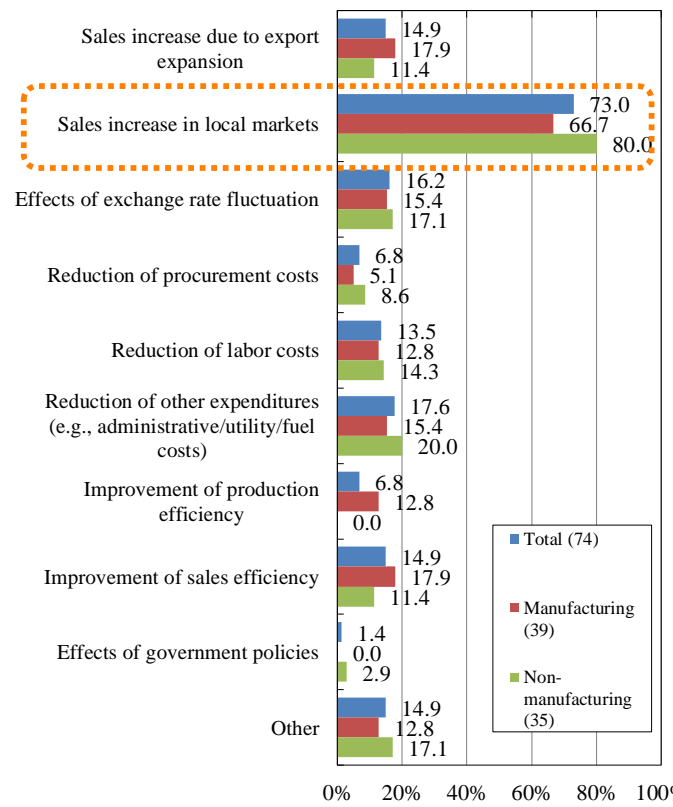
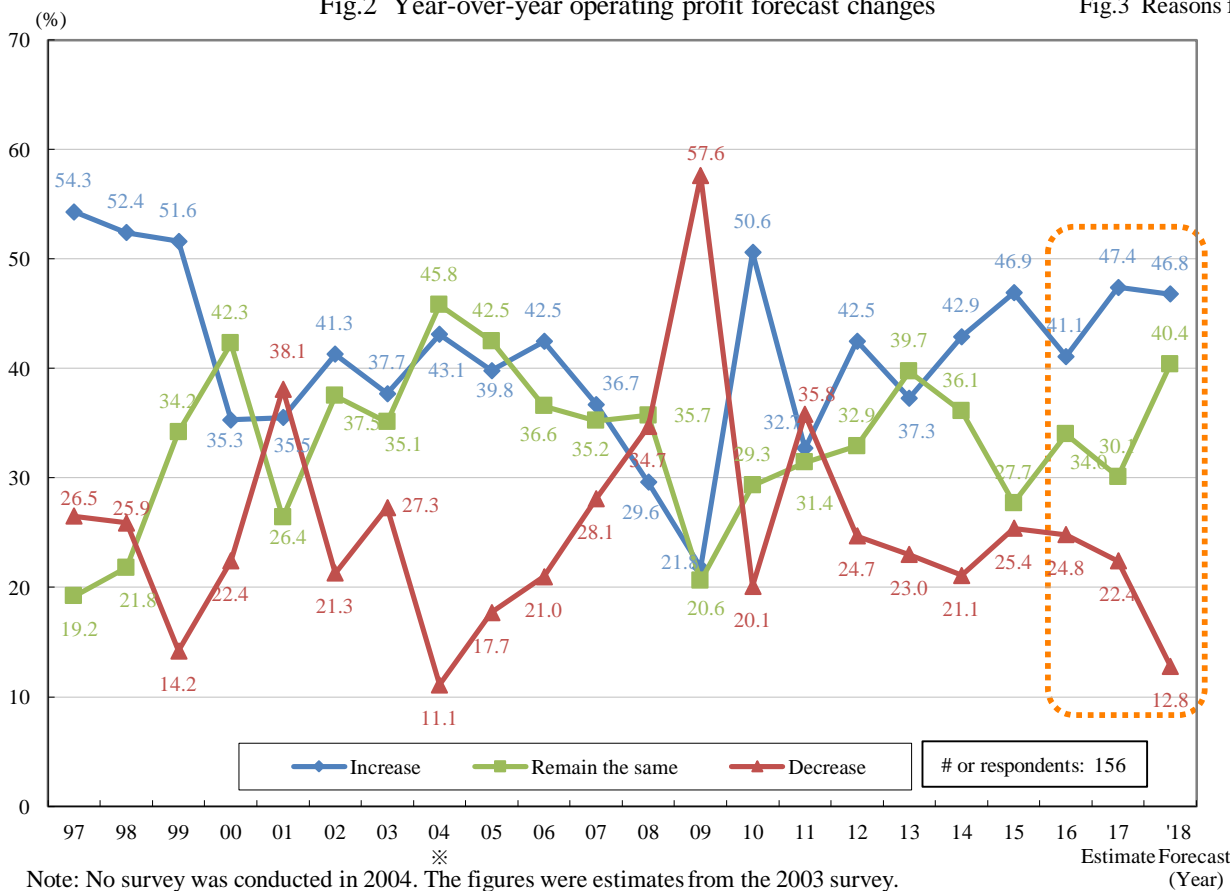
Note: The GDP growth rate for 2016 is the IMF estimate (announced Oct. 2016). No survey conducted in 2004.

1. Diffusion Index: Up 8.7 Points from 2016, Positive Outlook for 2018

The diffusion index (25) improved by 8.7 points from 2016 to 2017. Companies expecting improvement in operating profit increased by 6.3 points, while those expecting a decrease dropped by 2.4 points. The DI value in 2018 reached 34, and only 12.8% expect a decrease in operating profit in 2018.

Fig.2 Year-over-year operating profit forecast changes

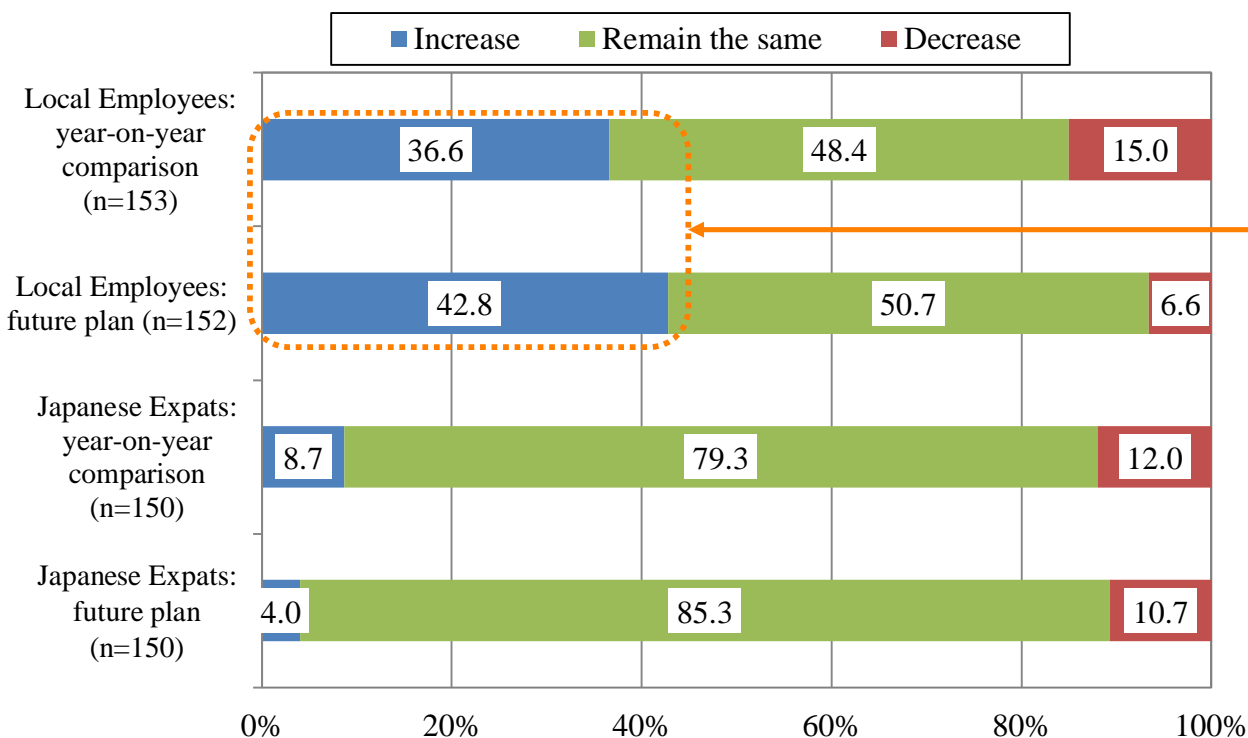
Fig.3 Reasons for higher operating profit estimates for 2017 (multiple answers)



2. Workforce: Nearly 40% Indicate Increase in Local Workforce

36.6% of the respondents said they “increased” the number of local employees during the previous year and 42.8% plan to “increase” it in the future. The rates in 2016 were 28.2% and 28.4%, respectively. Some said business expansion and localization are the contributing factors. 79.3% of the respondents said the figure remained “flat.” 85.3% answered it will remain the same in the future.

Fig.4 Local employees and Japanese expatriates



<Local Employment>

- We increased salespeople and skilled factory workers to cultivate new markets. (General/manufacturing equipment)
- We hired more people at factories and offices due to business expansion. The positions include accounting. (Food/agricultural products)
- We increased area-based sales and customer service due to business expansion. To localize the organization, we'll increase local managers in the future. (General/production machinery)
- In expanding business, we are expanding service areas and regional offices. We are hiring for regional sales and related positions. (Information and communications)
- We intend to hire more machine operators and skilled workers onsite. (Miscellaneous manufacturing)

2. Recruitment: Approx. 70% Utilized Agencies

69.1% of the respondents utilized “recruitment agencies.” “Rehiring part-time employees to full-time” (41.0%) and “internships” (34.5%) were also notable answers. While 52.5% of the firms with 50 or more employees accepted interns, only 14.5% with companies with less than 50 employees did. 44.4% said “utilizing recruitment agencies” was most effective, followed by “rehiring part-time employees to full-time” (22.2%).

Fig.5 Measures for the recruitment (multiple answers)

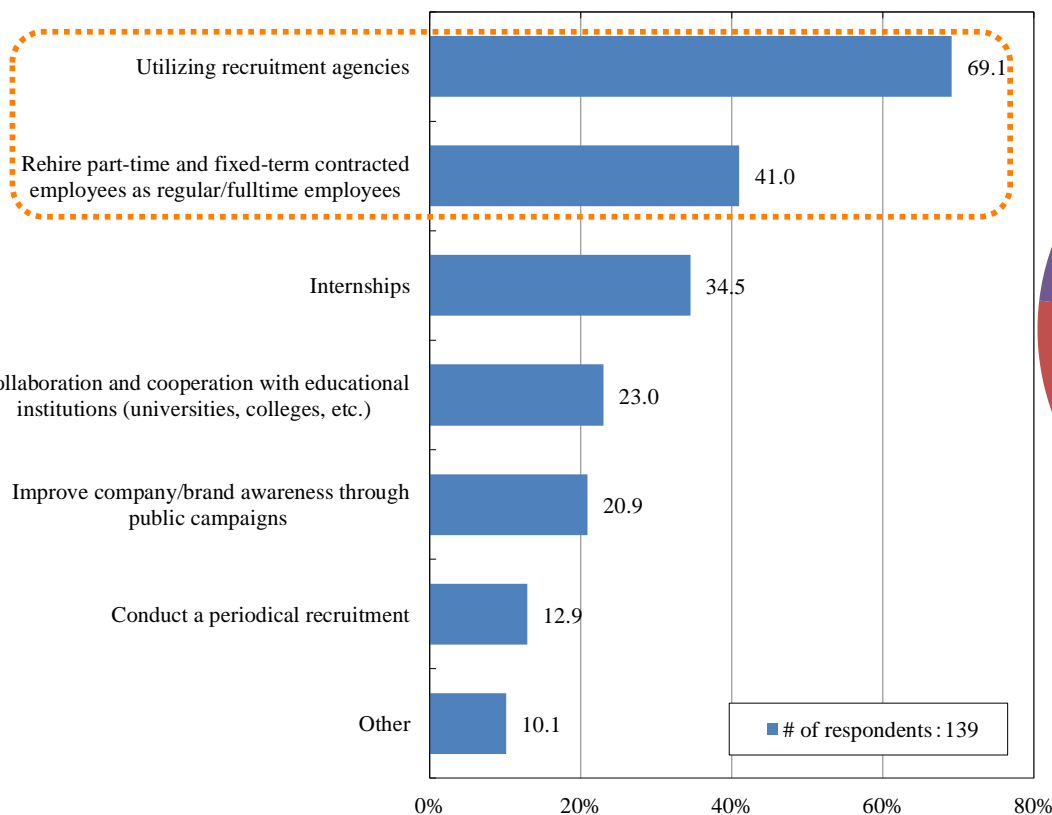
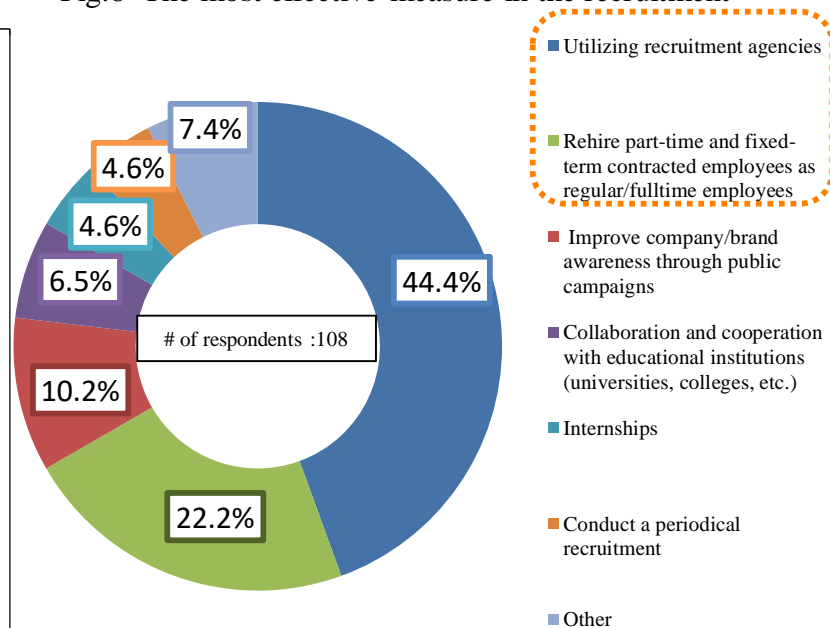


Fig.6 The most effective measure in the recruitment



2. Human Resource Development: Internal/External Training Programs

For human resource development, 61.7% utilized “in-house ability training programs” and 54.1% utilized “external ability training programs” 34.6% used both. While 77% of the companies with 50 or more employees utilized in-house ability programs, those with less than 50 relied most on external programs (50.9%). 42.6% said “in-house ability training programs” were most effective, while 23.4% said “external ability training programs” were most effective.

Fig.7 Measures for the development of human resources (multiple answers)

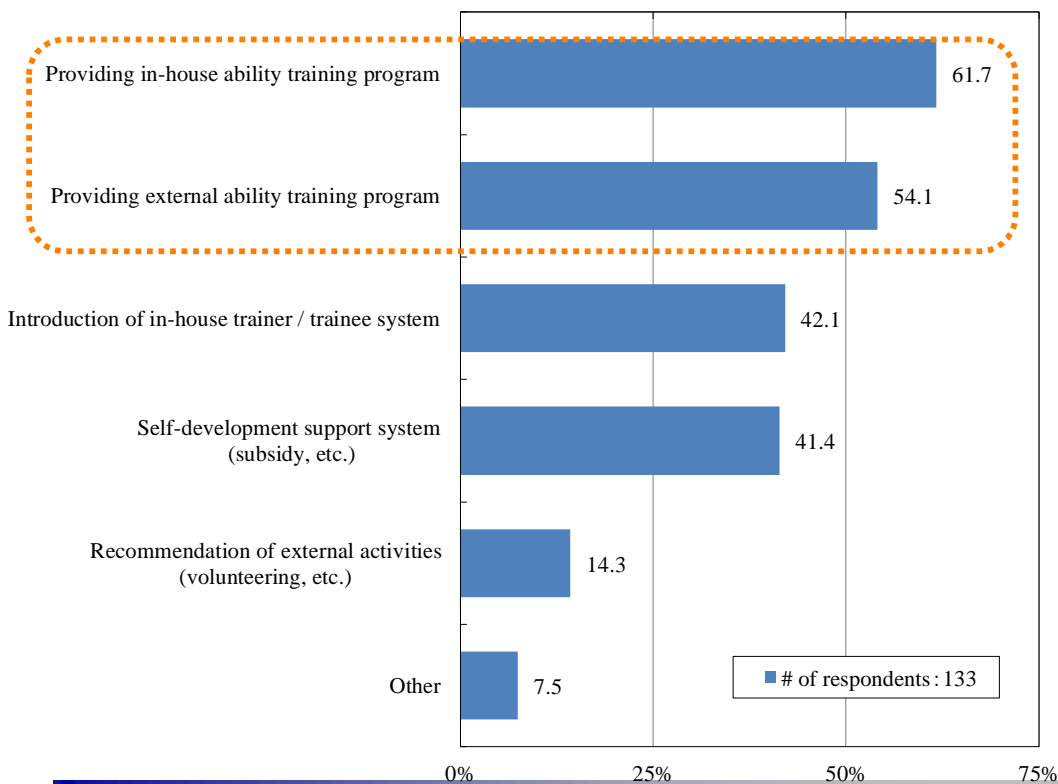
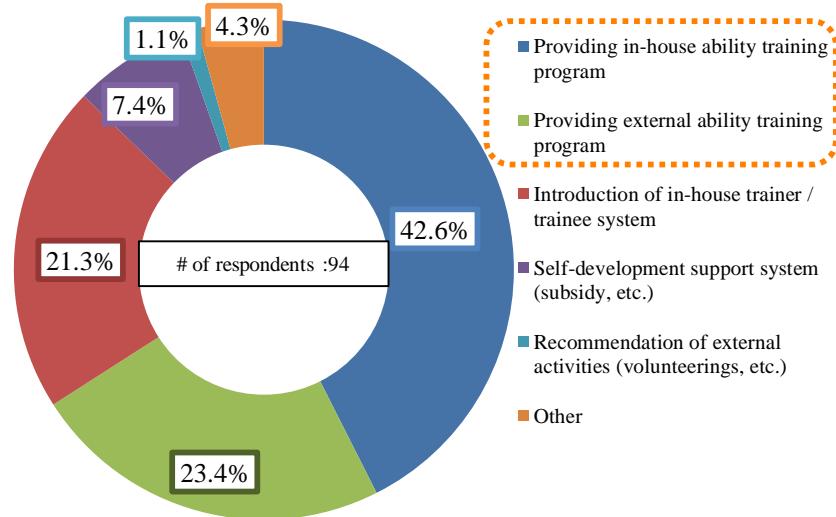


Fig.8 The most effective measures in the development of human resources



2. Capital Investment: Strong Investment for Factory Rationalization and Optimization and for AI, IoT

33.6% of the respondents spent more on capital investment in 2017 than 2016, while 56.8% said the amounts remained the same. “Factory rationalization and/or optimization” and “AI, IoT investment” were the top two purposes.

Fig.9 The change in capital investment in 2017
(value basis)

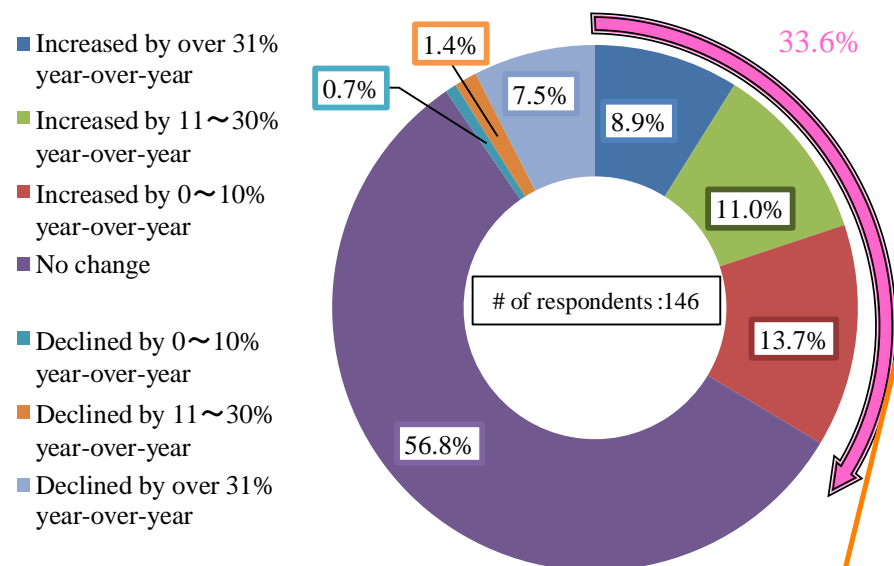
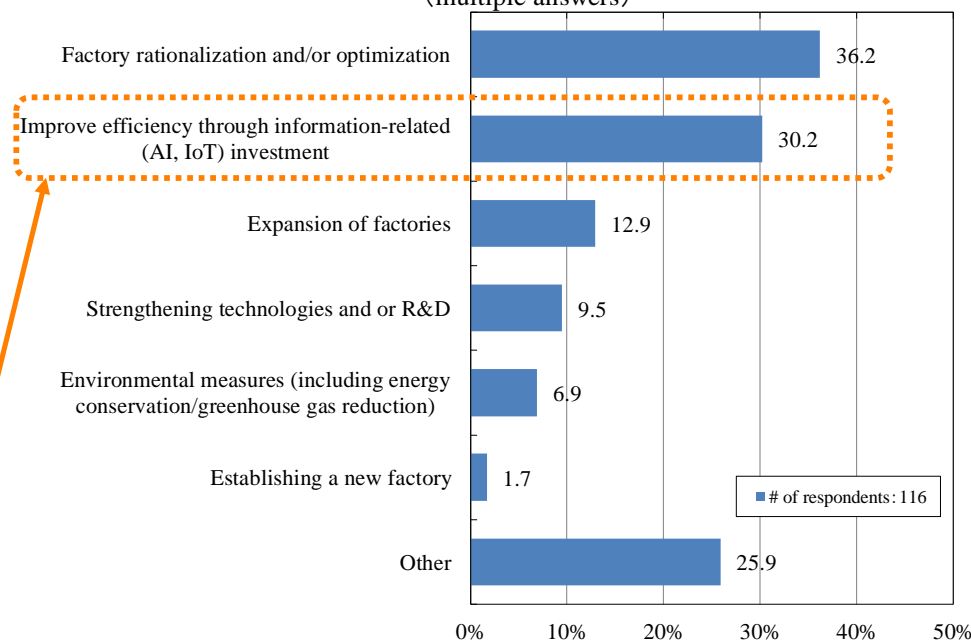


Fig.10 The purpose of capital investment in 2017
(multiple answers)



<Improving efficiency through IT-related (AI, IoT) investment>

- Additional warehouses, system reinforcements and improvements (Sales)
- In discussion with HQ and AI partners to introduce a system that enable to manage massive databases (Mining)
- Facility improvement for new products and IT system improvements have been completed (Transportation Equipment – motor vehicles/motorcycles)
- Introduced HR systems to manage employment data. Attendance and personnel information were manually handled in the past, but the new systems resulted in improved efficiency. (General/production machinery)

2. Future Business Direction: Focus on Sales function and Production

50.3% said they had plans to “expand” their business in the next two years, including 48.8% of manufacturers (up 11.3 points from 37.5% in 2016) and 52.1% of non-manufacturers (up 8.5 points from 43.6% in 2016). The main areas of expansion included “sales function” and “production (high-value-added products).”

Fig.11 Direction of business expansion in the next two years

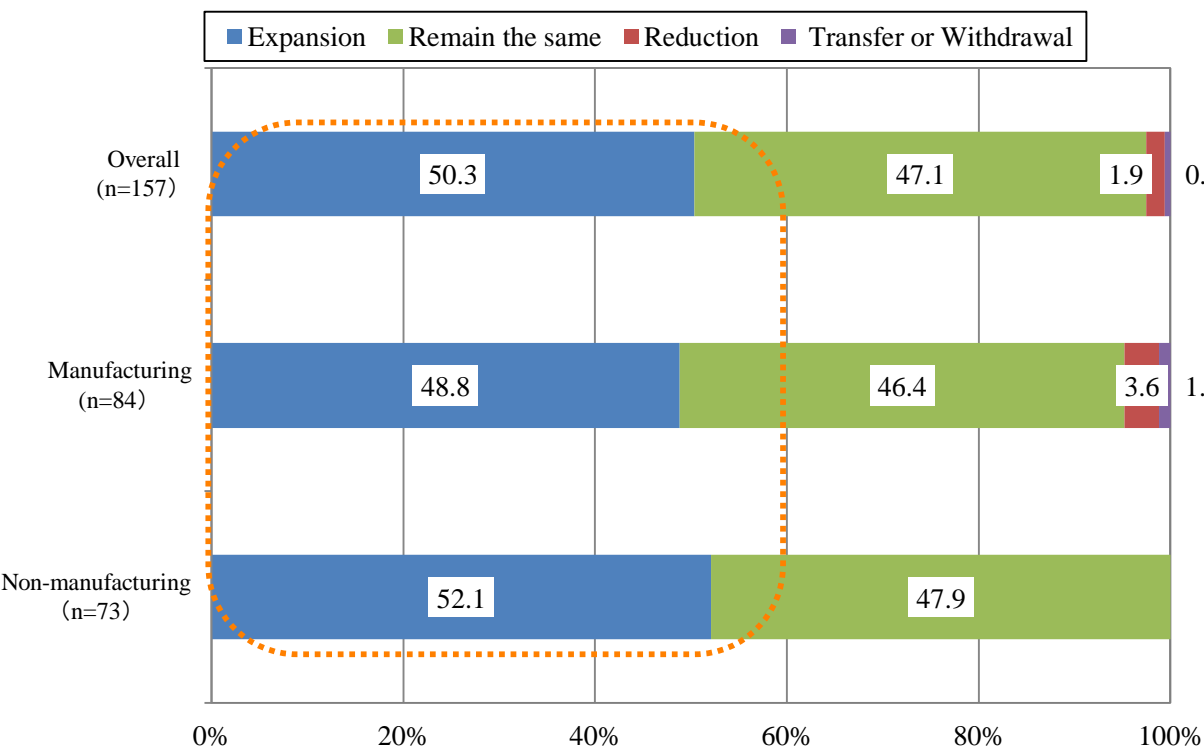
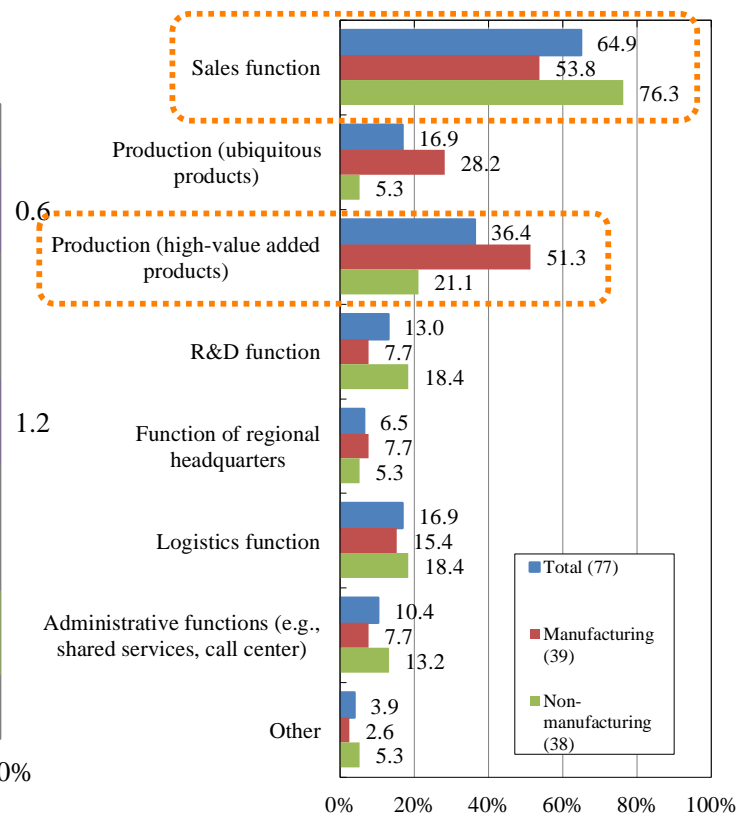


Fig. 12 Specific functions to expand (multiple answers)



2. Relocation and Expansion to Other Provinces: Market, Logistics, Labor Cost

To consider relocation and expansion to other provinces (regions), “size of market,” “proximity to customers,” “logistics and transportation,” “labor cost” were listed as key factors. For manufacturers, “proximity to customers” is the most important factor, while “market size” is the most important factor for non-manufacturers.

Fig.13 Factors when relocating or newly establishing a business base in a new state (region) within Canada (multiple answers)

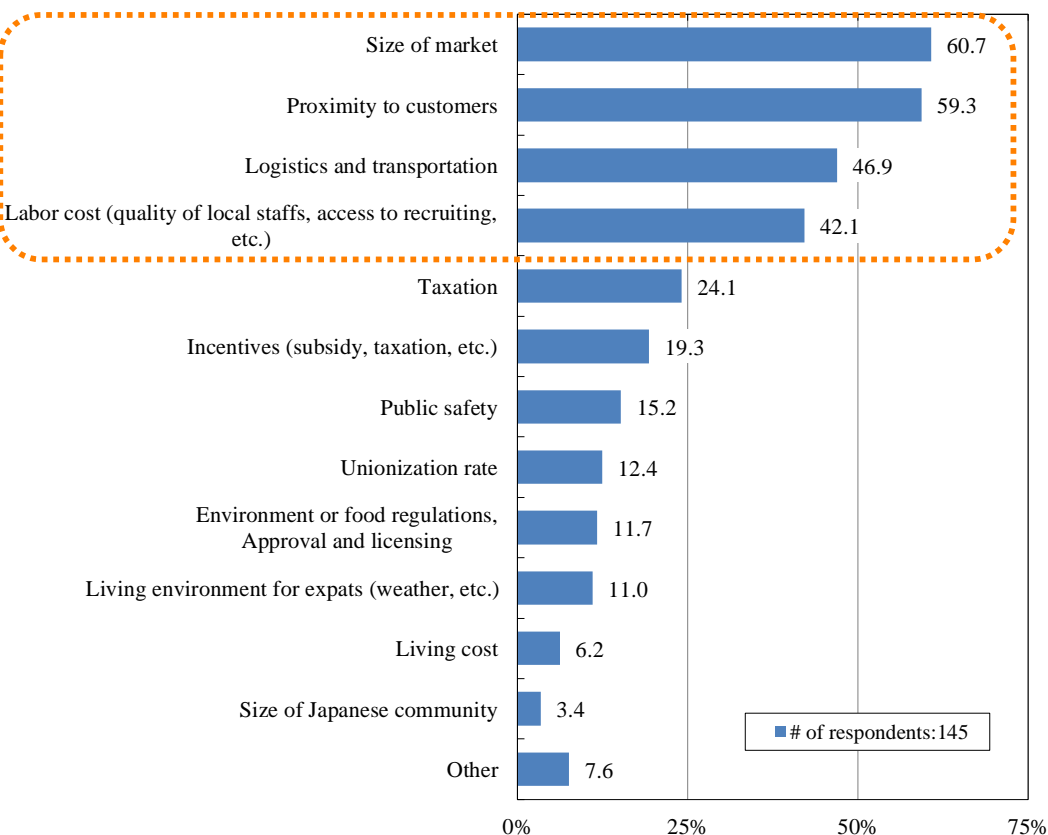
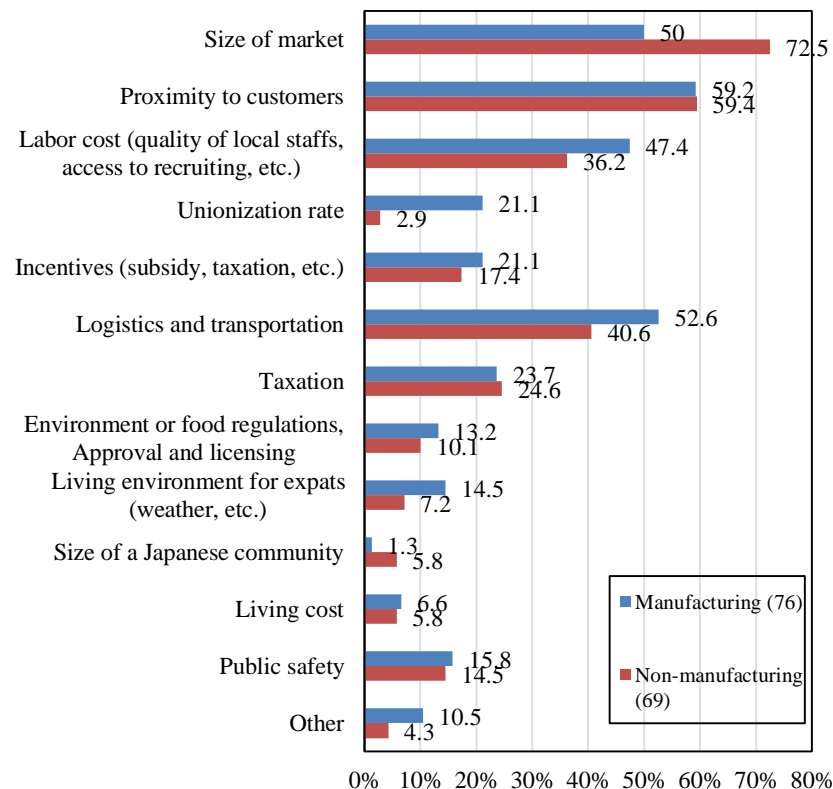


Fig.14 Factors when relocating or newly establishing a business base in a new state (region) within Canada (multiple answers, by industries)



3. Procurement: Over 60% within the NAFTA Region

The average procurement ratios in Canada and the NAFTA region (incl. the U.S. and Mexico) were 34.7% and 61.4%, respectively. Procurement from Asia included 23.9% from Japan, 5.8% from China, and 3.5% from ASEAN. In the future, increased procurement from the U.S., Canada, and Japan are anticipated. 48.7% chose “changes in cost” and 39.3% chose “distribution cost,” as main reasons for the change.

Fig.15 Procurement ratio by countries/regions

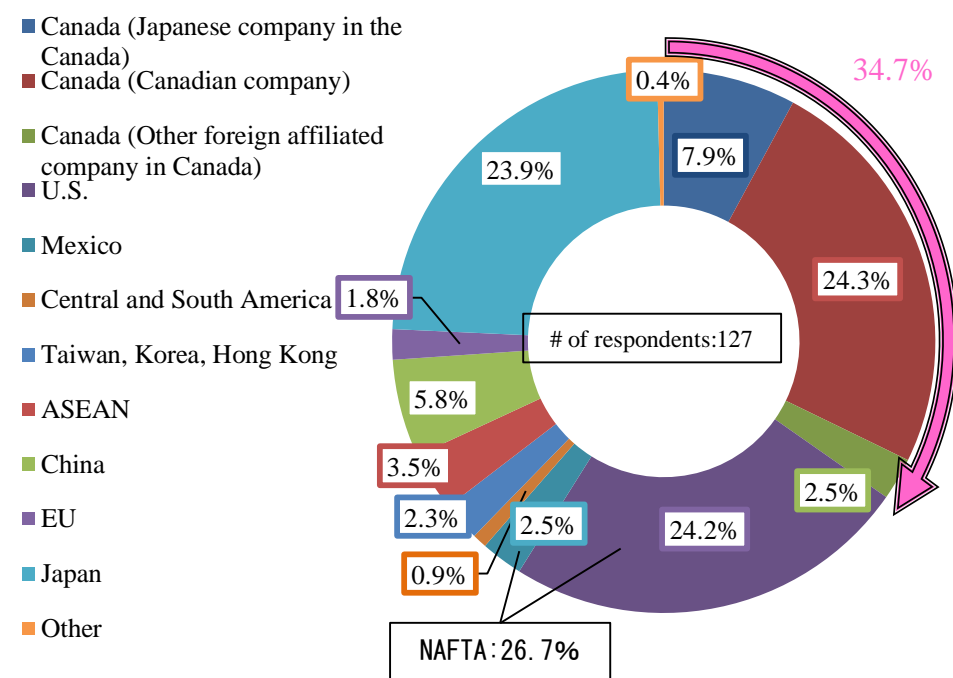
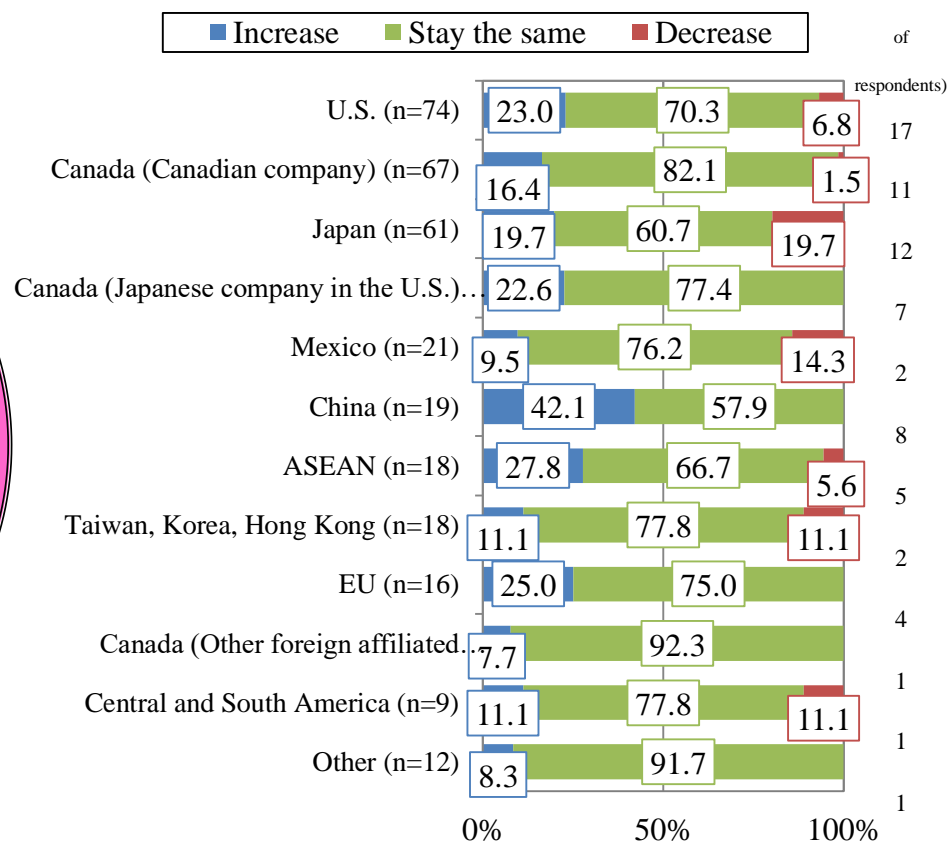


Fig.16 Future plans for procurement sources for raw material/parts



Note: Respondents calculated their ratios in these countries and regions based on monetary amounts. Total sales equals 100%. The chart indicates the average.

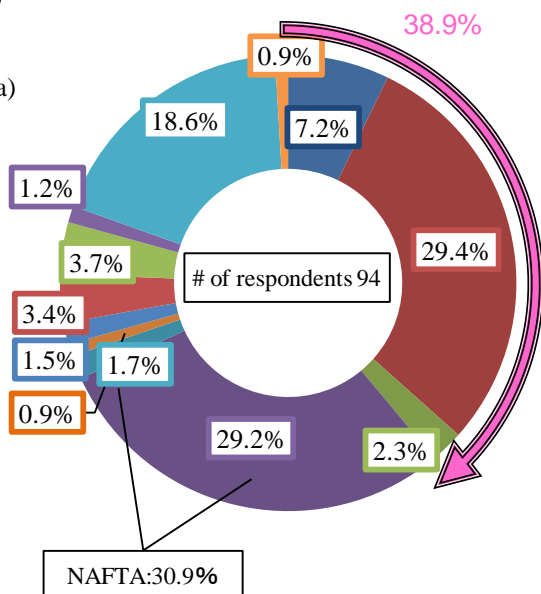
<Ref.> Procurement: Changes Between 2016 and 2017

Among the companies that responded both in 2016 and 2017, the procurement ratios in Canada (36.6%) and from the U.S. (26.7%) dropped by 2.3 points and 2.5 points respectively, while China (5.7%) and Mexico (3.2%) marked 2.0 and 1.5 points increase respectively. By industry, many sales companies reduced procurement from Canada and Japan, and increased procurement from China and Mexico.

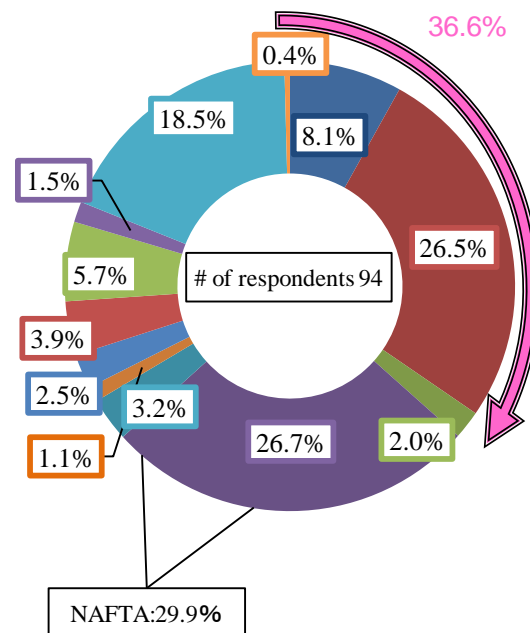
Fig. 17 Changes in Material and Parts Procurement Between 2016 and 2017

(1) 2016 procurement ratio by countries/regions

- Canada (Japanese company in Canada)
- Canada (Canadian company)
- Canada (Other foreign affiliated company in Canada)
- U.S.
- Mexico
- Central and South America
- Taiwan, Korea, Hong Kong
- ASEAN
- China
- EU
- Japan
- Other



(2) 2017 procurement ratio by countries/regions



Note: Respondents calculated their ratios in these countries and regions based on monetary amounts. Total sales equals 100%. The chart indicates the average.

3. Sales Destination: 82.4% for NAFTA, 12.7% for Japan

An average of 67.0% of the products and services were sold to Canada, 82.4% to NAFTA (including Canada), and 12.7% to Japan. Many companies plan to expand sales in the NAFTA region, especially in Canada and the U.S.

Fig.18 Sales destination by countries/regions

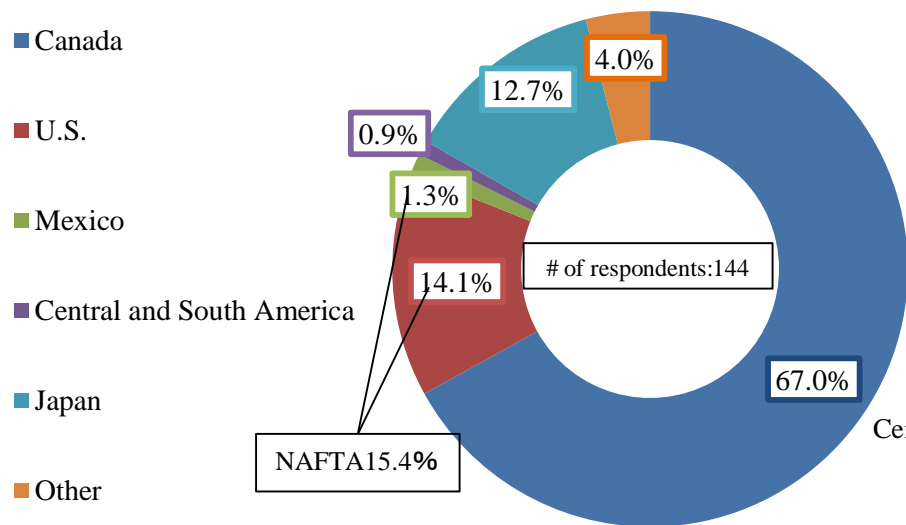
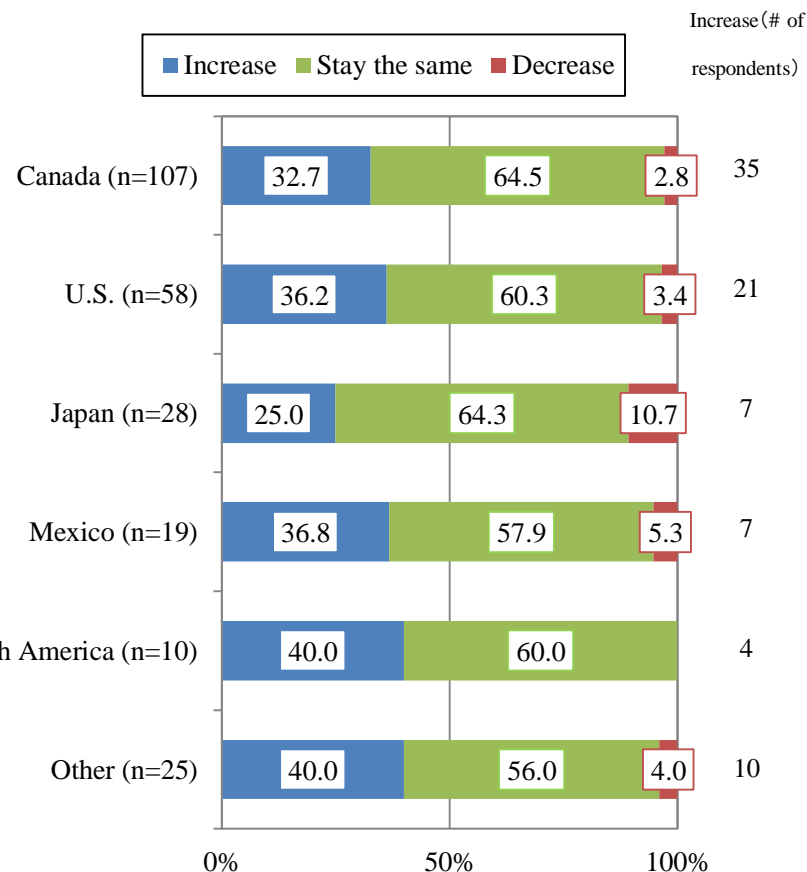


Fig.19 Future plan for sales destination



Note: Respondents calculated their ratios in these countries and regions based on monetary amounts. Total sales equals 100%. The chart indicates the average.

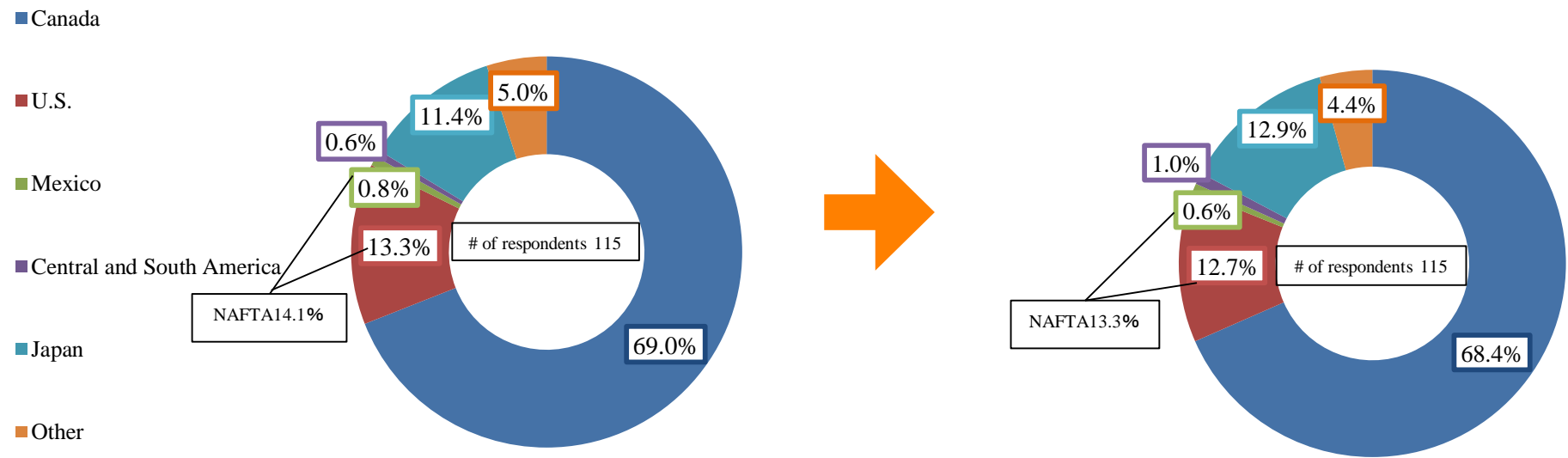
<Ref.> Sales Destination: Changes Between 2016 and 2017

Among the companies that responded both in 2016 and 2017, sales for Canada (68.4%) and the U.S. (12.7%) dropped by 0.6 points each, while sales for Japan (12.9%) increased by 1.5 points.

Figure 20: Changes in sales destination between 2016 and 2017

(1) 2016 Sales destination by countries/regions

(2) 2017 Sales destination by countries/regions



Note: Respondents calculated their ratios in these countries and regions based on monetary amounts. Total sales equals 100%. The chart indicates the average.

3. FTA Utilization: Over 40% of Japanese Affiliates in Canada utilized NAFTA

Among all companies surveyed (incl. non-exporters and non-responders), 40.8% (64 companies) utilized NAFTA, mainly for imports. 35.7% (56 companies) utilized NAFTA for import from the U.S. For imports from and exports to Mexico, the utilization rates were both over 10%.

Table 1: Utilization of bilateral/multilateral FTAs (# of respondents: 157)

(Unit : 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.	55 (35.0%)	102 (65.0%)	36 (22.9%)	-	19 (12.1%)	84 (53.5%)	73 (46.5%)	56 (35.7%)	2 (1.3%)	26 (16.6%)
Mexico	20 (12.7%)	137 (87.3%)	16 (10.2%)	-	4 (2.5%)	20 (12.7%)	137 (87.3%)	18 (11.5%)	-	2 (1.3%)
EU28 countries	12 (7.6%)	145 (92.4%)	6 (3.8%)	1 (0.6%)	5 (3.2%)	17 (10.8%)	140 (89.2%)	10 (6.4%)	-	7 (4.5%)
Non-EU 4 European countries	2 (1.3%)	155 (98.7%)	2 (1.3%)	-	-	2 (1.3%)	155 (98.7%)	2 (1.3%)	-	-
Korea	4 (2.5%)	153 (97.5%)	1 (0.6%)	1 (0.6%)	2 (1.3%)	5 (3.2%)	152 (96.8%)	2 (1.3%)	-	3 (1.9%)
Chile	2 (1.3%)	155 (98.7%)	1 (0.6%)	-	1 (0.6%)	1 (0.6%)	156 (99.4%)	-	-	1 (0.6%)
Peru	2 (1.3%)	155 (98.7%)	1 (0.6%)	-	1 (0.6%)	2 (1.3%)	155 (98.7%)	1 (0.6%)	-	1 (0.6%)
Other 4 Central and South American countries	1 (0.6%)	156 (99.4%)	1 (0.6%)	-	-	0 (0.0%)	157 (100.0%)	-	-	-
2 Middle Eastern countries	0 (0.0%)	157 (100.0%)	-	-	-	0 (0.0%)	157 (100.0%)	-	-	-
Ukraine	0 (0.0%)	157 (100.0%)	-	-	-	0 (0.0%)	157 (100.0%)	-	-	-
FTA/EPA Signed/under negotiation										
TPP										
Japan	23 (14.6%)	134 (85.4%)	-	7 (4.5%)	16 (10.2%)	61 (38.9%)	96 (61.1%)	-	29 (18.5%)	32 (20.4%)
Other	2 (1.3%)	155 (98.7%)	-	1 (0.6%)	1 (0.6%)	2 (1.3%)	155 (98.7%)	-	1 (0.6%)	1 (0.6%)

*Colombia, Costa Rica, Honduras and Panama

*Israel and Jordan

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

3. FTA Utilization : Over 60% of Importers and Exporters utilized NAFTA

66.7% of importers and exporters utilized NAFTA. (Exports to U.S.: 65.5%, Imports from U.S.: 66.7%, Exports to Mexico: 80.0%, Imports from Mexico: 90%). 47.5% of the companies were considering the utilization of TPP for imports from Japan.

Table 2: Utilization of bilateral/multilateral FTAs (Is exporting/Is importing)

(Unit : 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.	55 (35.0%)	102 (65.0%)	36 (65.5%)	-	19 (34.5%)	84 (53.5%)	73 (46.5%)	56 (66.7%)	2 (2.4%)	26 (31.0%)
Mexico	20 (12.7%)	137 (87.3%)	16 (80.0%)	-	4 (20.0%)	20 (12.7%)	137 (87.3%)	18 (90.0%)	-	2 (10.0%)
EU28 countries	12 (7.6%)	145 (92.4%)	6 (50.0%)	1 (8.3%)	5 (41.7%)	17 (10.8%)	140 (89.2%)	10 (58.8%)	-	7 (41.2%)
Non-EU 4 European countries	2 (1.3%)	155 (98.7%)	2 (100.0%)	-	-	2 (1.3%)	155 (98.7%)	2 (100.0%)	-	-
Korea	4 (2.5%)	153 (97.5%)	1 (25.0%)	1 (25.0%)	2 (50.0%)	5 (3.2%)	152 (96.8%)	2 (40.0%)	-	3 (60.0%)
Chile	2 (1.3%)	155 (98.7%)	1 (50.0%)	-	1 (50.0%)	1 (0.6%)	156 (99.4%)	-	-	1 (100.0%)
Peru	2 (1.3%)	155 (98.7%)	1 (50.0%)	-	1 (50.0%)	2 (1.3%)	155 (98.7%)	1 (50.0%)	-	1 (50.0%)
Other 4 Central and South American countries	1 (0.6%)	156 (99.4%)	1 (100.0%)	-	-	0 (0.0%)	157 (100.0%)	-	-	-
2 Middle Eastern countries	0 (0.0%)	157 (100.0%)	-	-	-	0 (0.0%)	157 (100.0%)	-	-	-
Ukraine	0 (0.0%)	157 (100.0%)	-	-	-	0 (0.0%)	157 (100.0%)	-	-	-
FTA/EPA Signed/under negotiation										
TPP	23 (14.6%)	134 (85.4%)	-	7 (30.4%)	16 (69.6%)	61 (38.9%)	96 (61.1%)	-	29 (47.5%)	32 (52.5%)
Other	2 (1.3%)	155 (98.7%)	-	1 (50.0%)	1 (50.0%)	2 (1.3%)	155 (98.7%)	-	1 (50.0%)	1 (50.0%)

*Colombia, Costa Rica, Honduras and Panama

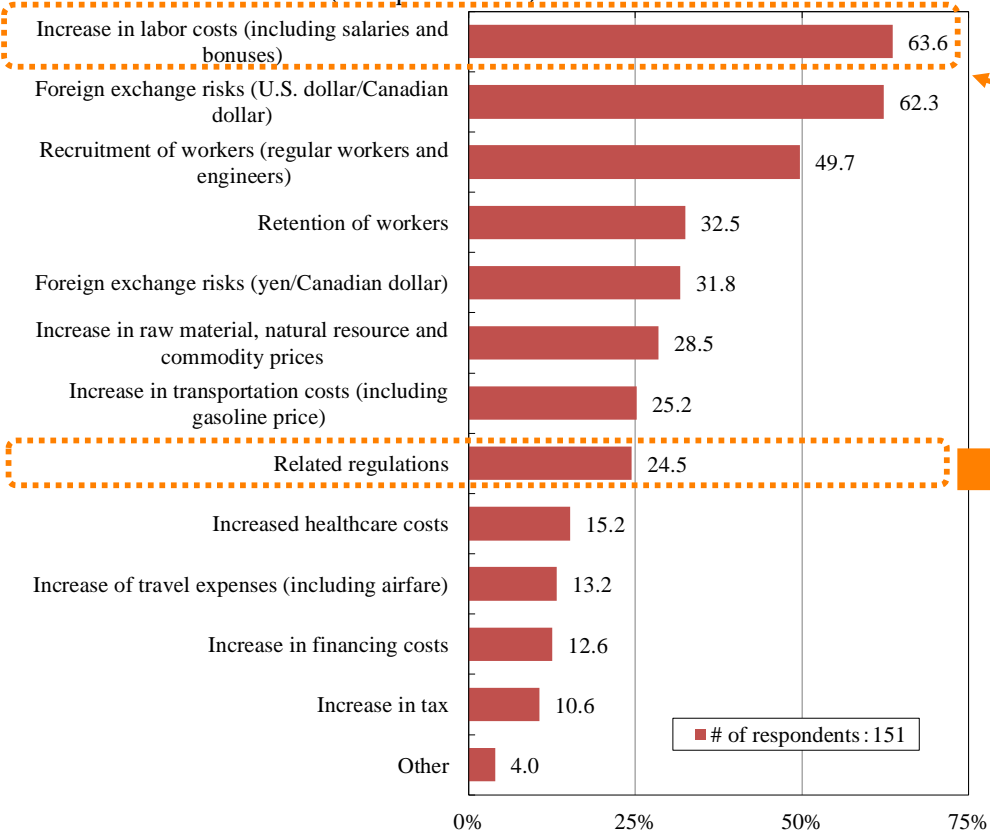
*Israel and Jordan

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

4. Factors for Increased Cost: “Labor Costs” and “Canadian/US dollar Exchange risk” are Ongoing Challenges

Concerns over “labor cost,” including salaries and bonuses, increased by 17.2 points from 46.4% in 2016, and became one of the top factors along with “Canadian/U.S. dollar exchange risk”. “Recruitment of workers” increased by 10.4 points from 39.3% in 2016. In “regulations,” environmental regulations and visas for Japanese expats remained major factors.

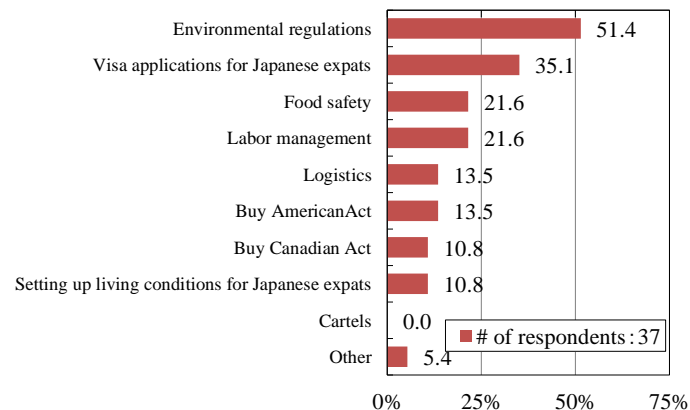
Fig.21 Management Issues (1) Factors for increased cost (multiple answers)



<Labor Costs>

- Wages increased by 20% in the last six months due to the increased rate of minimum wage. We increased wages by an average of \$4.00. (Food/agricultural products)
- There is a shortage of skilled workers in the industry. Retention is difficult because they are headhunted by competitors. (Transportation equipment - railway vehicles/vessels/airline/transportation vehicles)
- The wage gap between our area and big cities makes skilled workers leave. (Iron and steel)

Fig. 22 Breakdown of Related Regulations (multiple answers)



5. Interests in Trudeau Administration Policies: Overwhelmingly in Trade, Focusing on NAFTA

“Trade” (78.4%), “tax” (70.6%), “diplomacy” (62.1%) were the top three items. In trade, interests in NAFTA was most significant (66.0%), followed by “the Japan-Canada FTA” (35.3%) and “the TPP” (29.4%), indicating interest in FTAs involving Japan. In taxation, nearly 60% (58.2%) showed interest in corporate tax.

Fig.23 Interests in policy areas under the Trudeau administration

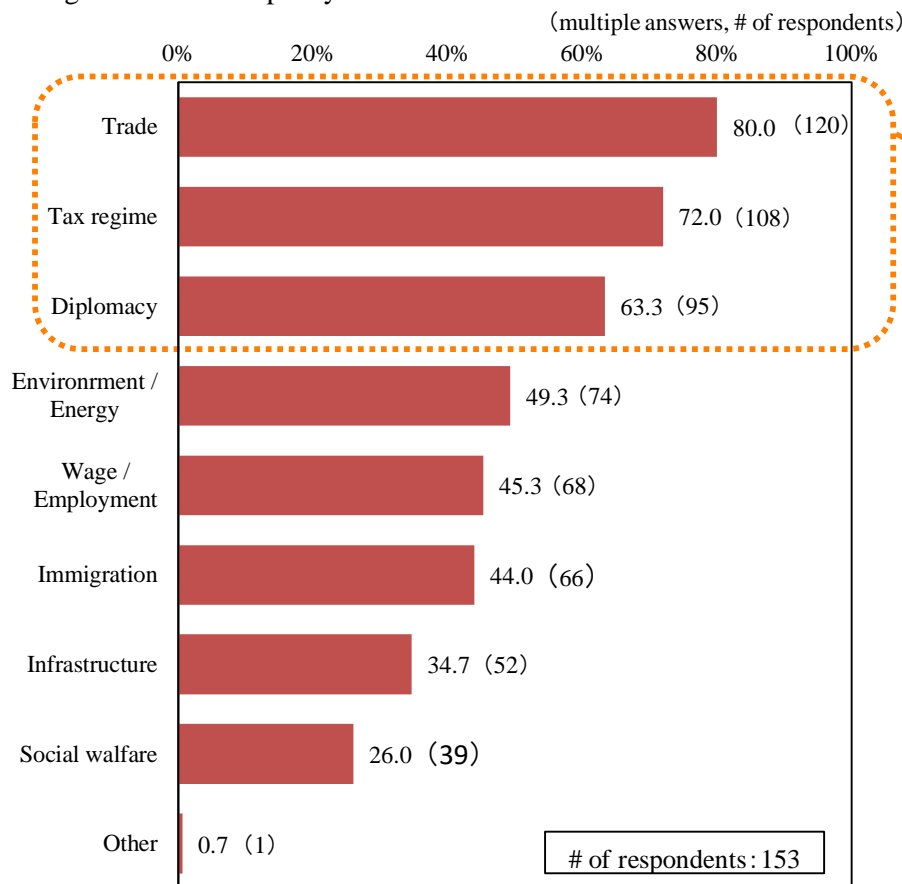
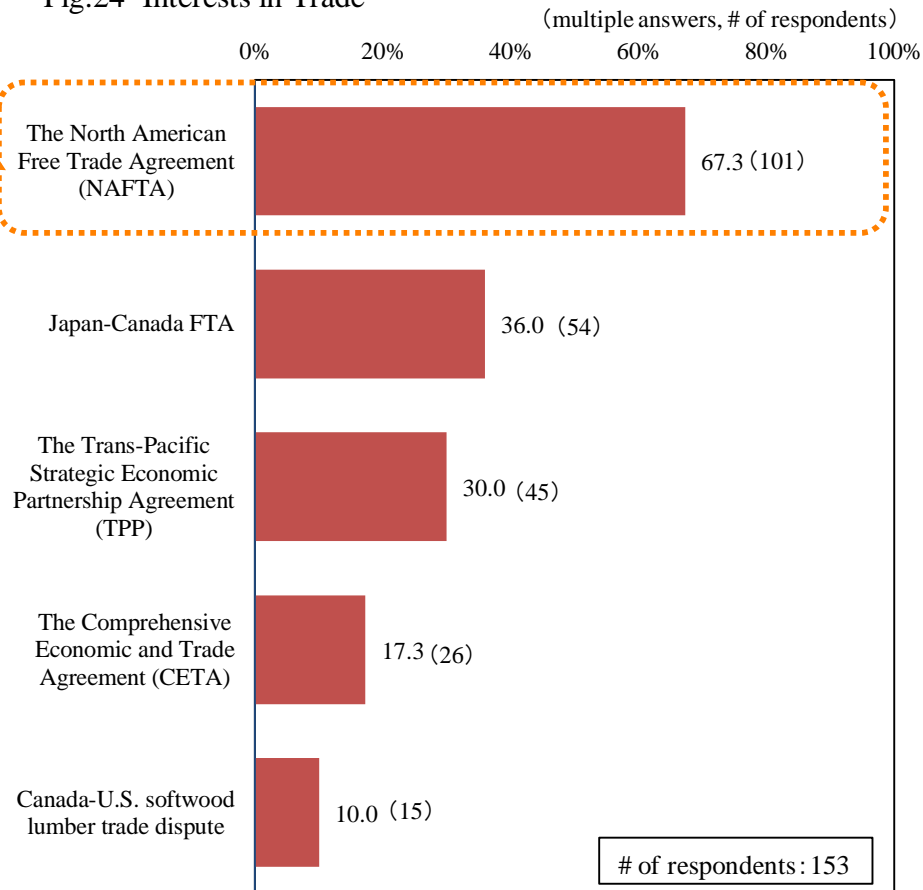


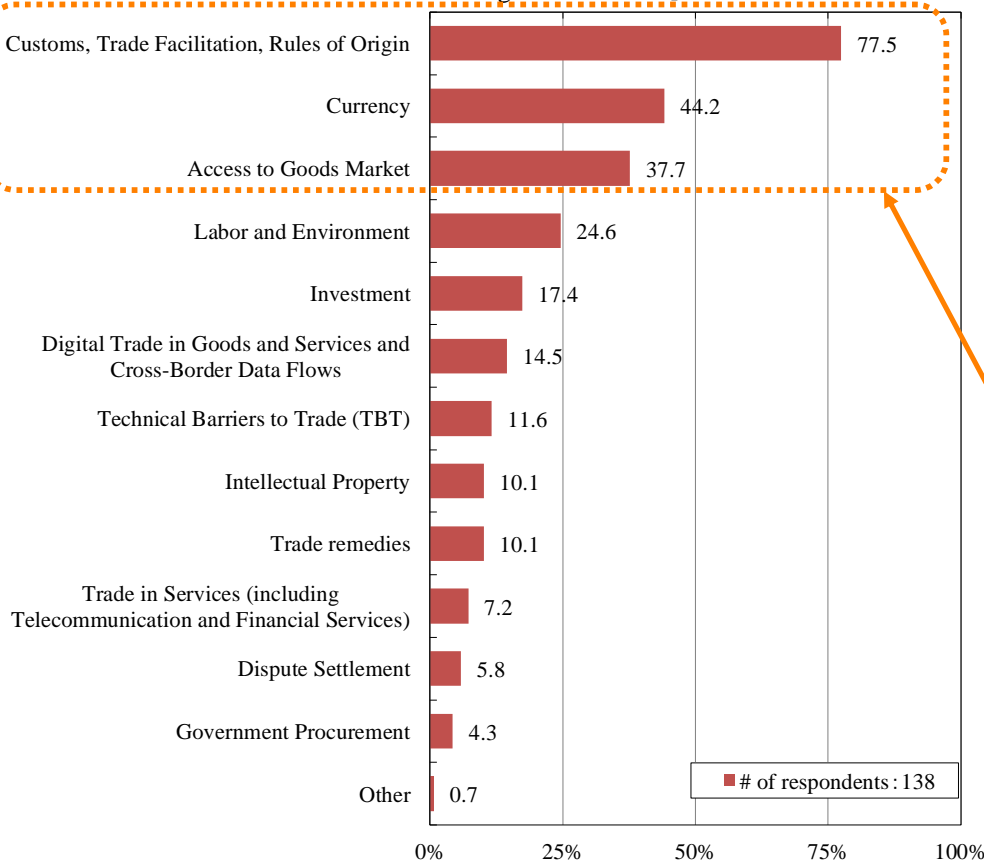
Fig.24 Interests in Trade



5. Renegotiation of NAFTA: Attention to Rules of Origin, Currency, etc.

“Customs, trade facilitation, rules of origin,” “currency,” and “access to the goods market” were the top three areas of interest. 100% of respondents in transportation equipment and parts were interested in “customs, trade facilitation, rules of origin.” The rate of interest in “Customs, trade facilitation, rules of origin,” exceeded that of the respondents in the US. (68.3%).

Fig.25 Effects of The North American Free Trade Agreement (NAFTA) renegotiations (multiple answers)



In addition to the rules of origin, many companies expressed concerns over access to the goods market affected by changes in taxation.

- Stricter rules of origin and US origin requirement (Transportation equipment parts and many others)
- Stricter rules governing imports from the US and manufacturing in Canada, and stricter rules of origin (Sales)
- If the US gets their way, it will affect material costs. (Chemical/petroleum products)
- As we buy 25% of our goods from the US and Mexico, tariffs will significantly affect the cost should we be left without NAFTA. (Miscellaneous manufacturing)
- Taxation on US steel products and the exchange rate, and taxation on Mexican steel products, when they are imported to Canada. (Sales)
- We manufacture in Canada, export to the US, and reimport some of the products for sale in Canada. If taxes are revised, we'll have to make changes accordingly. (Rubber products)
- The automotive business is expected to grow. NAFTA is crucial to succeed in this area. (Miscellaneous manufacturing)
- Taxation and its impact on the macro economy in Canada. (Electrical machinery/electronic devices)
- Changes in NAFTA will affect business with US customers. (Miscellaneous manufacturing)

5. Contributions to Local Economy and Community (selected)

Contributions to Local Economy

- Canadian Awards for Excellence (Rubber products)
- Awards from Chamber of Commerce (Transportation equipment parts - motor vehicles/motorcycles, food/agricultural product, and many others)

Contributions to Employment

- Within the top 100 employers for several years in a row (Paper/pulp)
- Recognition for improved employment (Transportation equipment parts - motor vehicles/motorcycles)

Contributions to Local Community

- Award from the Province of Alberta for contributing to the indigenous community (Mining)
- Donations to local community and sport organization (Ceramic/stone and clay, transportation equipment - motor vehicles/motorcycles)

Contributions to Environment

- Sustainable tourism award in Canadian tourism industry (Accommodations/travel/restaurant)
- Energy efficiency leadership award (Food/agricultural products)
- Environmental award (Sales, transportation equipment parts - motor vehicles/motorcycles)



Contact details for inquiries:
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