

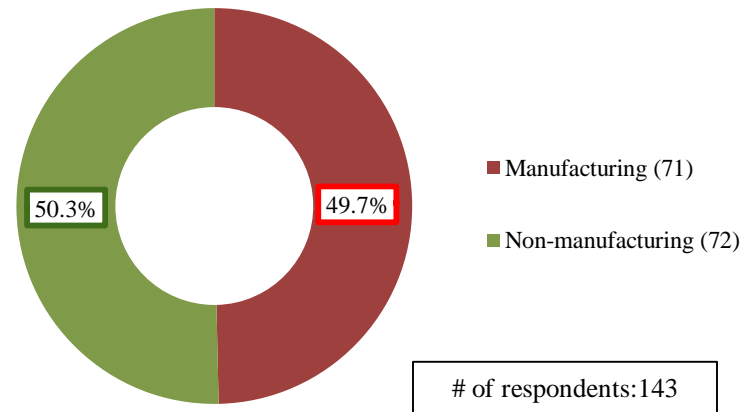
# **FY2018 JETRO Survey on Business Conditions for Japanese Companies in Canada (29th Annual Survey)**

Americas Division, Overseas Research Department  
Japan External Trade Organization (JETRO)  
February 22 , 2019

# Overview

- ❑ Survey period: November 9 – December 7, 2018
- ❑ Valid responses: 79.4% (143 of 180 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 29th 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.

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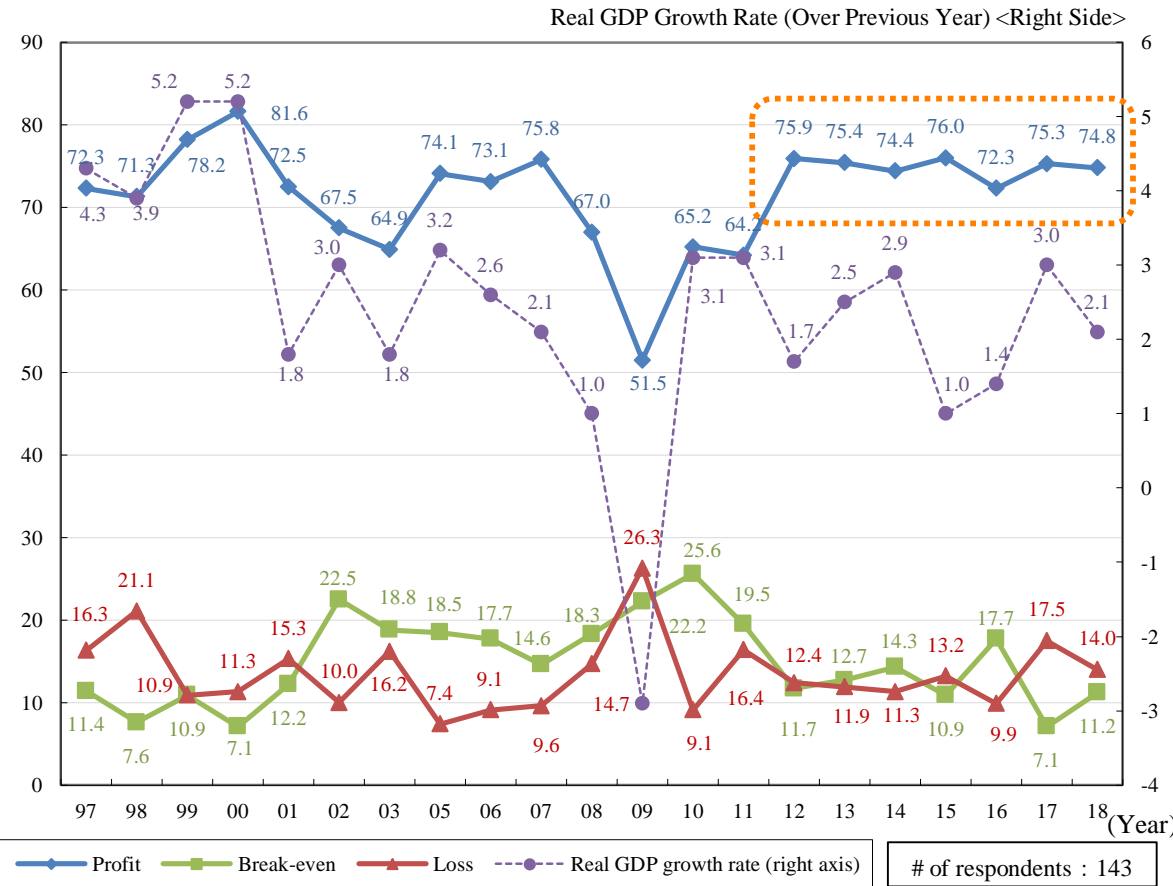
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# 1. 2018 Profit Forecast:

## 74.8% Said Profit – Figure Surpasses 70% for Seven Consecutive Years

Among respondents, 74.8% said they expected positive operating profits in 2018. Though the ratio of profitable companies were down 0.5 points from the previous year, it's still been over 70% for seven consecutive years (manufacturing: 78.9%; non-manufacturing: 70.8%). While real GDP growth for 2018 is expected to be slower than it was in the previous year, Japanese companies' profitability remained solid.

**Fig. 1: Operating profit forecast and real Canadian GDP growth** (%)



Note: The GDP growth rate for 2018 is the IMF estimate (announced Oct. 2018). No survey conducted in 2004.

### Factors behind profitability

- We sell mainly to the food industry, which is considered to be recession-proof, so we were able to maintain the same level of profitability as before. **[Sales]**
- We've boosted our sales strength at all our locations. **[IT]**
- We were able to sell products at prices that both recovered costs and SG&A expenses that were properly controlled and yielded profits. **[Food/agricultural products]**
- Cost cutting went smoothly, and although sales declined slightly, we had no major losses, so we were able to profit. **[Transportation equipment (motor vehicles/motorcycles)]**
- Since our business is B to B, our customer base is stable. **[Transportation equipment (motor vehicles/motorcycles)]**

### Factors behind unprofitability

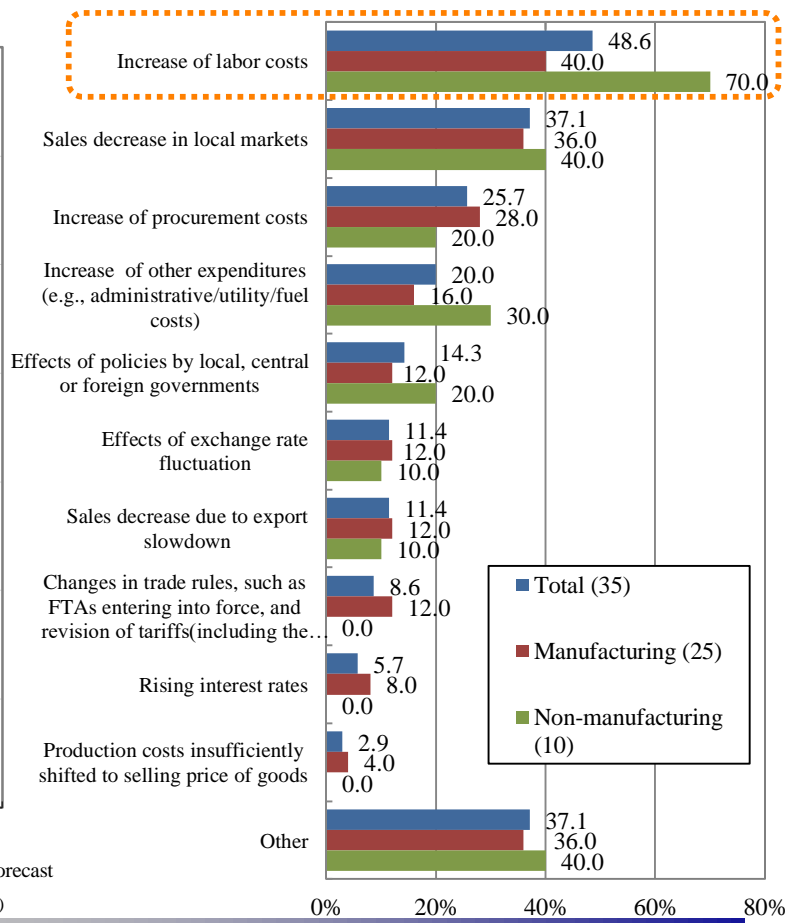
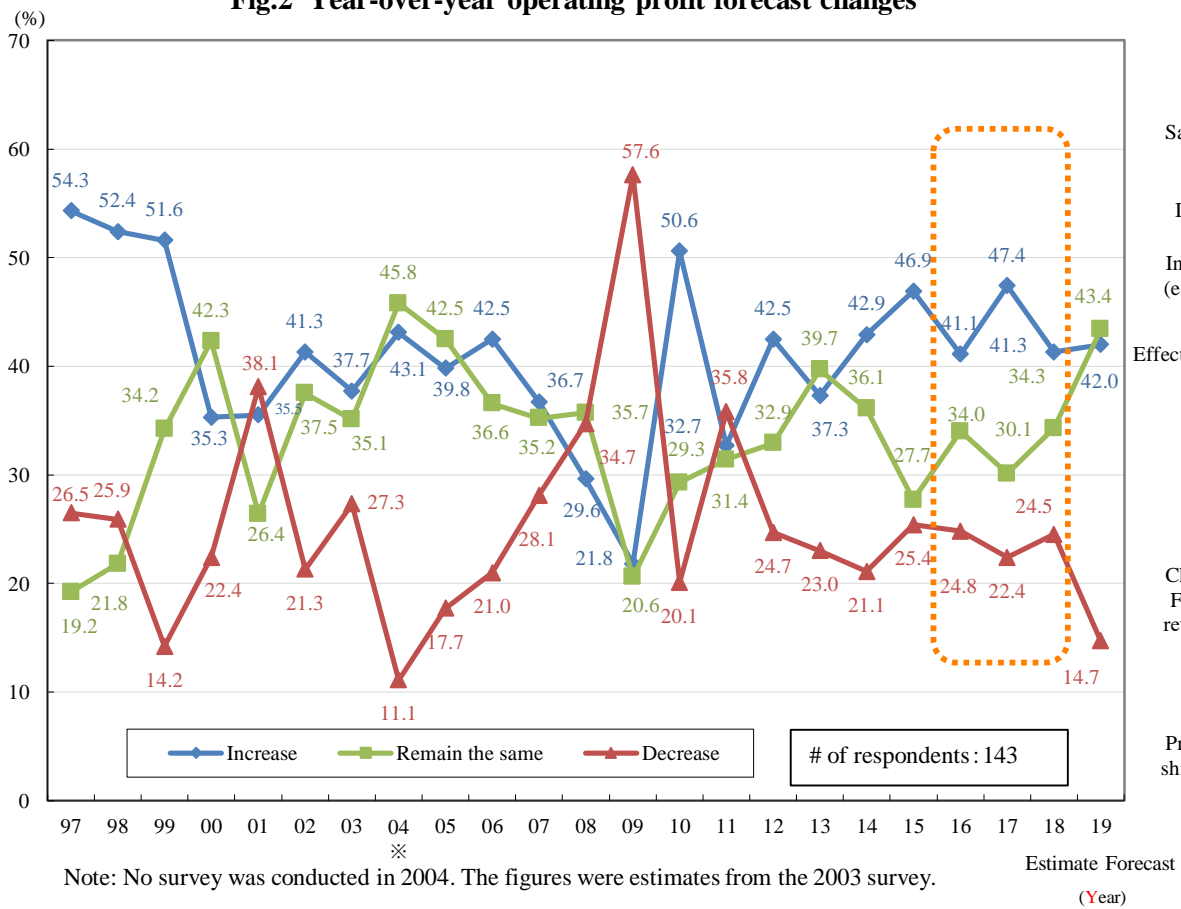
- Our procurement of raw material has become unstable, and this caused prices to soar. **[Food/agricultural products]**
- Gas production volumes fell as a result of stagnating gas prices. **[Mining]**

# 1. Diffusion Index: Down 8.2 Points from 2017, Positive Outlook for 2019

The diffusion index (DI) for business sentiment (the difference between the rates of increased and decreased business sentiment) was 16.8, down 8.2 points from 2017. Companies expecting improvement in operating profit in 2018 dropped by 6.1 points year-on-year, while those expecting a decrease from 2017 were up 2.1 points. With the DI value in 2019 at 27.3, companies expecting their operating profits to decrease dropped to 14.7%.

Fig.3 Reasons for lower operating profit estimates for 2018 (Multiple answers)

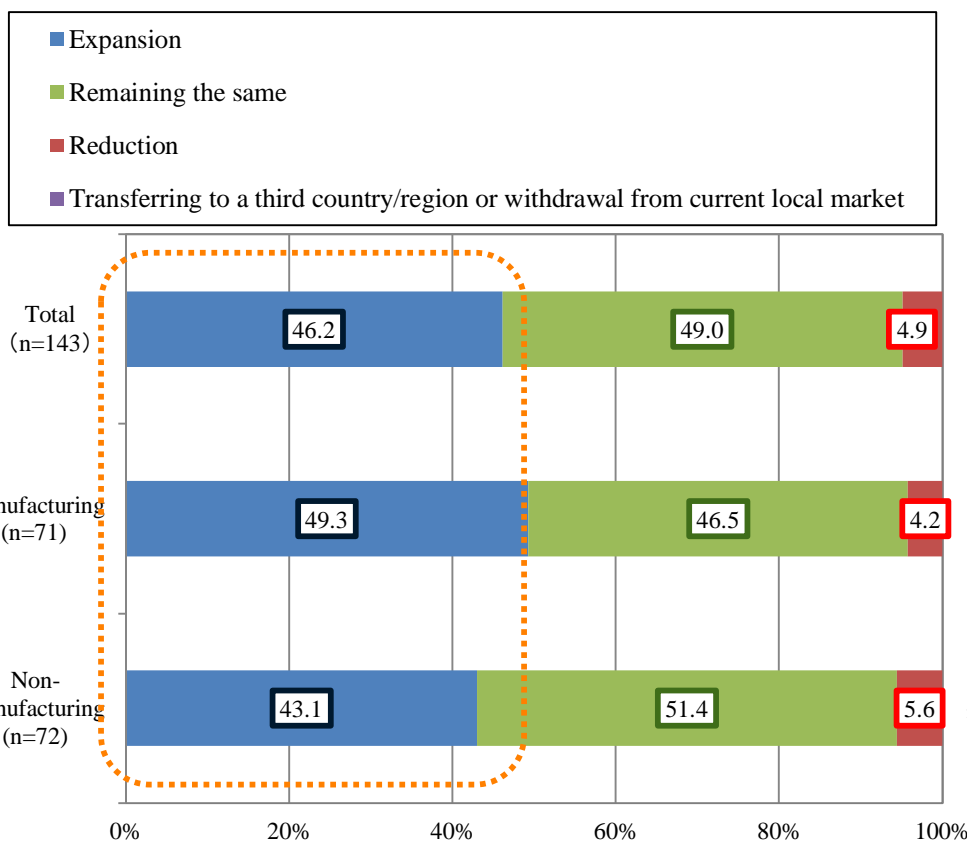
Fig.2 Year-over-year operating profit forecast changes



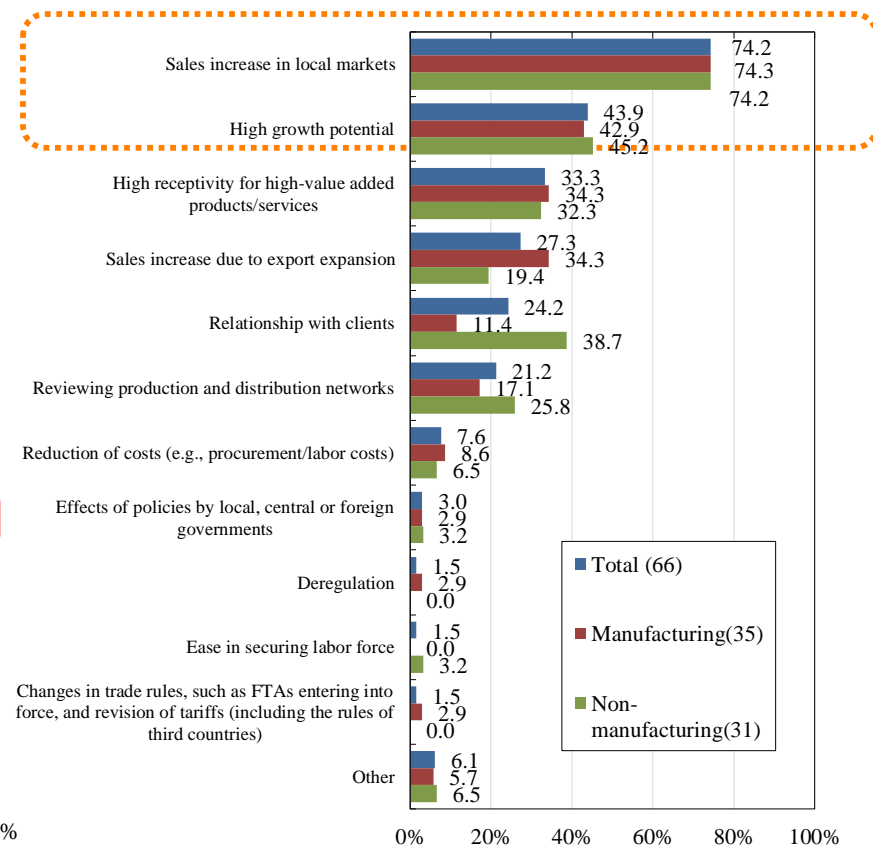
## 2. Future Business Direction : 46% of Companies Plan to “Expand”

Of respondents, 46.2% said they have plans for expansion in the next year or two, down 4.1 points from 2017 survey. In terms of specific industries, 49.3% of manufacturers are looking to expand, up 0.5 points from the last survey (48.8%), but only 43.1% of non-manufacturers said they plan to expand this time, a 9.0-point decrease from the last survey (52.1%). The main reasons cited for plans for business expansion were “sales increase in local markets” and “high growth potential.”

**Fig.4 Direction of business expansion in the next two years**



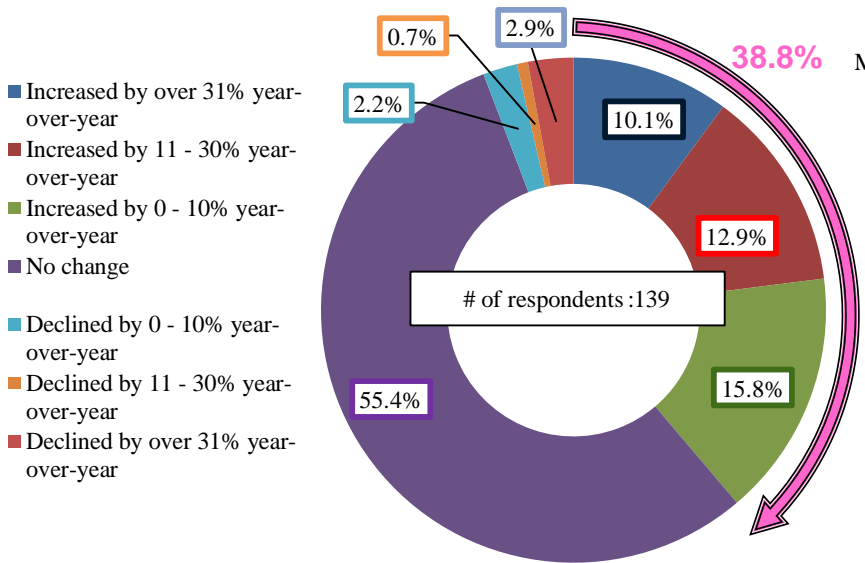
**Fig.5 Reasons for planned business expansion in next 1 to 2 years (Multiple answers)**



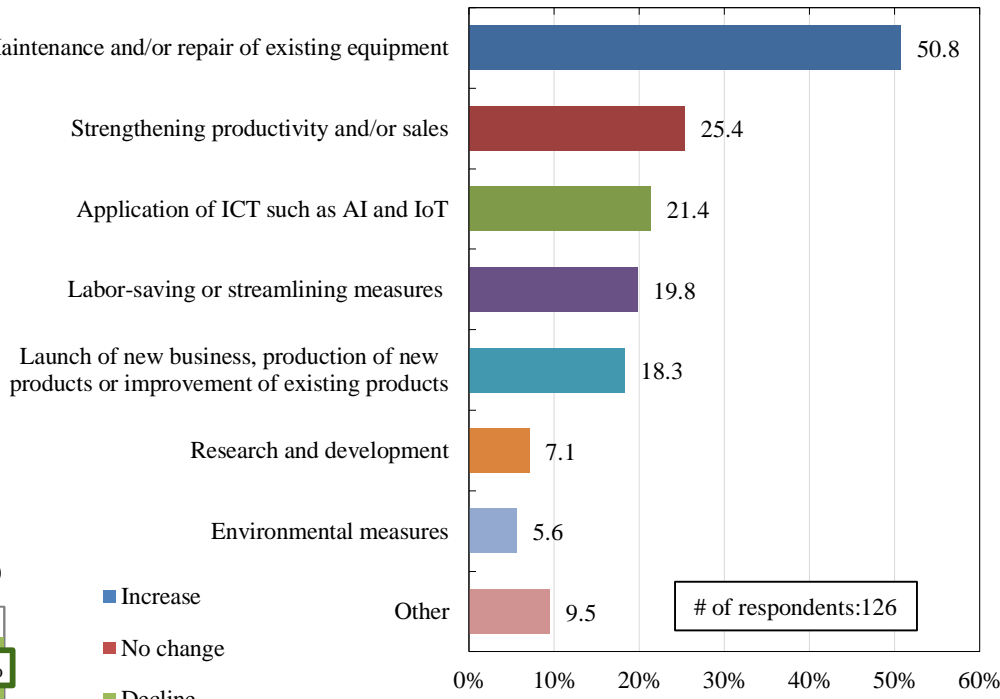
## 2. Capital Investment: Investments in Maintenance and/or Repair of Existing Equipment and Strengthening Productivity and/or Sales

In 2018, 38.8% of respondents spent more on capital investment than in the previous year, an increase of 5.2 points from those giving the same answer for the 2017 survey. Meanwhile, 55.4% said the amount remained the same. In terms of specific purposes, 50.8% of respondents said their capital investment was for “maintenance and/or repair of existing equipment,” while “strengthening productivity and/or sales” (25.4%) and “application of ICT such as AI and IoT” (21.4%) were also among the top purposes. Industries which saw a notable amount of capital investment this year included “transportation equipment and parts” (73.4%) and “food/agricultural products” (80.0%).

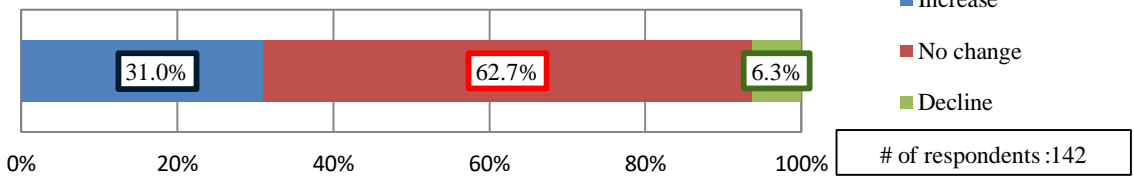
**Fig.6 The change in capital investment in 2018 (Value basis)**



**Fig.7 The purpose of capital investment in 2018 (Multiple answers)**



**Fig. 8: Purposes of capital investment planning from 2019**



# <Ref.>Capital investment: Trends in Capital Investment Since the 2000 Survey

Since 2010, the percentage of companies that have reported increased spending on capital investment has hovered around 30%. Compared to 2014 (28.8%), the figure was higher in 2017 at 33.6% and in 2018 at 38.8%, but it is expected to decrease in 2019 to 31.0%.

**Fig.9 Capital investment from 2000**



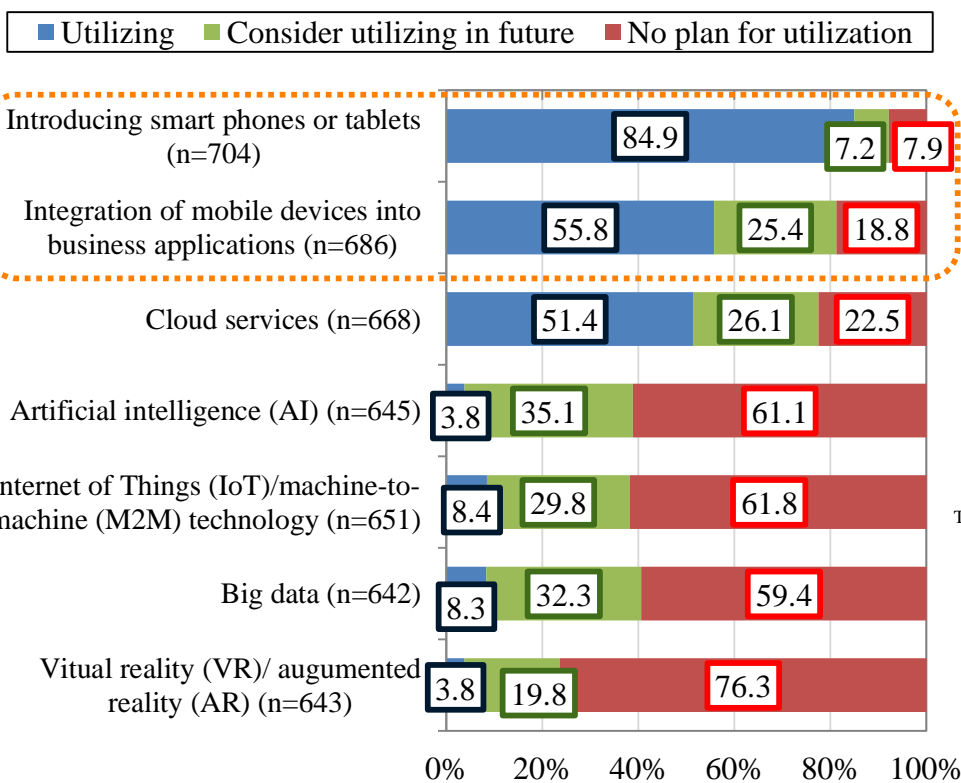
Note: No survey was conducted in 2004 2015 and 2016 were not included in the questions



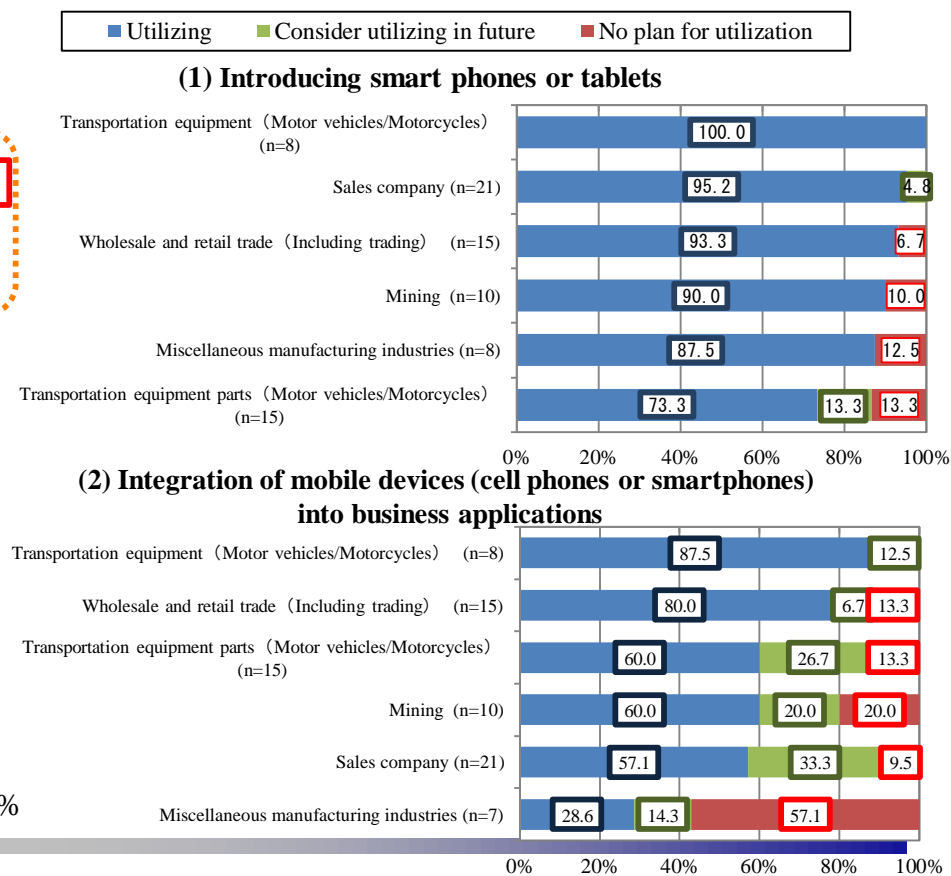
## 2. Leveraging ICT: Smartphones, Tablets Enjoy High Penetration

In the ICT field, 84.9% of companies have introduced smartphones or tablets, while 55.8% have integrated mobile devices (cell phones or smart phones) into business applications, indicating high rates of adoption in these areas. Among manufacturers, companies in the transportation equipment and parts industry (motor vehicles/motorcycles) are making the most use of these technologies, whereas among non-manufacturers, it is wholesale and retail, and sales companies that use them the most. “IoT/M2M solutions” are used by 19.0% of sales companies, while 37.5% of companies dealing in transportation equipment (motor vehicles/motorcycles) are using “VR (virtual reality)/AR (augmented reality).”

**Fig. 10 State of use in ICT field**



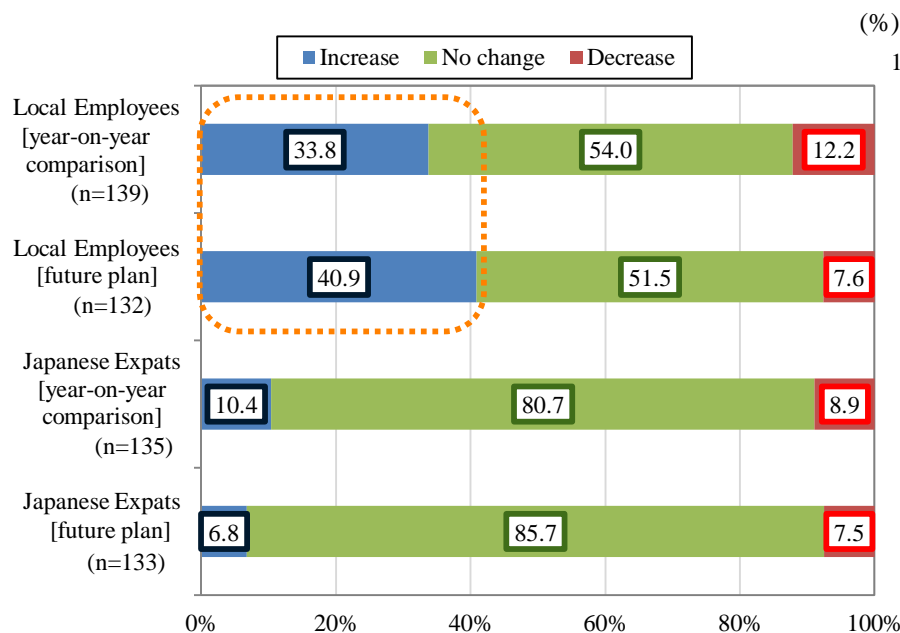
**Fig. 11: Status of use of ICT in different industries**



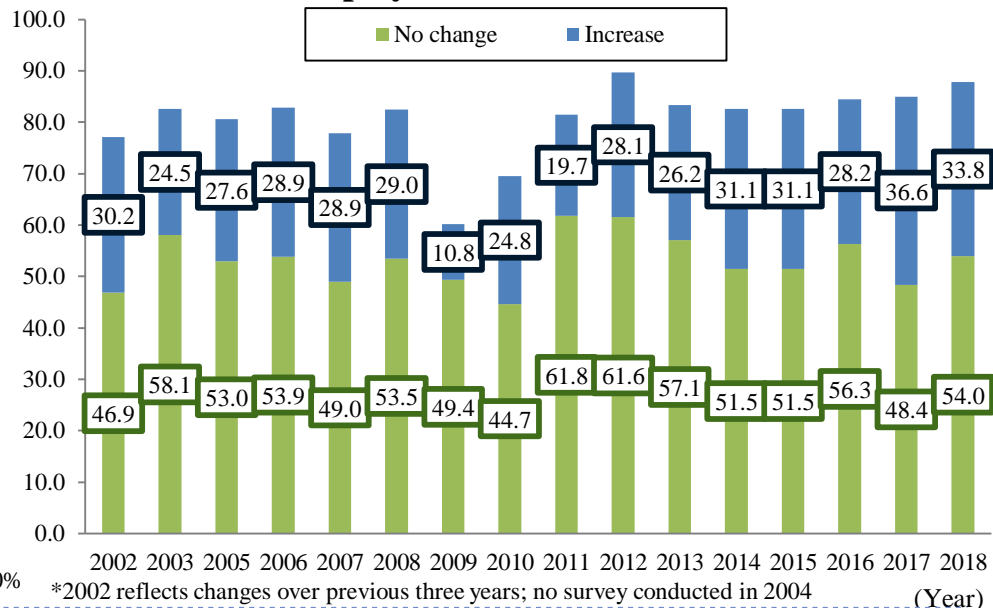
## 2. Workforce: Fewer Companies Added More Local Workers

Of respondents, 33.8% said that they had “increased” the number of local workers during the past year, 2.8 points lower than the 36.6% seen in the last survey, while 40.9% said they were planning to “increase” the number in the near future. Meanwhile, 80.7% of respondents said the number of Japanese expats remained “flat” over the previous year, with 85.7% saying the number would remain flat for the foreseeable future.

**Fig.12 Local employees and Japanese expatriates**



**Fig.13 Percentage of companies that increased local employment in the last 12 months**



### Local employment

- Attracting personnel is itself difficult, so we have to set wages high. For this reason, our labor costs have gone up. We’ve been trying to recruit workers and take other countermeasures to attract people since early on, but it’s hard to take action by raising wages further.

[Sales]

### 3. Procurement: Increased Procurement within Canada, Procurement Rate in NAFTA Region Surpasses 60%

The procurement rate of materials and parts from within Canada stood at 36.1%, a rise of 1.4 points since the last survey, while procurement rate in the NAFTA region, including the US and Mexico was 66.1%. With regard to procurement from Asia, Japan accounted for 18%, followed by China at 5.9% and the ASEAN region at 3.6%. In terms of procurement plans for the near future, although more companies overall intend to maintain the status quo than in the last survey, some are planning to procure more from Canada (local companies). The main reasons for the change included procurement cost fluctuations (42.9%) and distribution costs (28.6%).

Fig.14 Procurement ratio by countries/regions

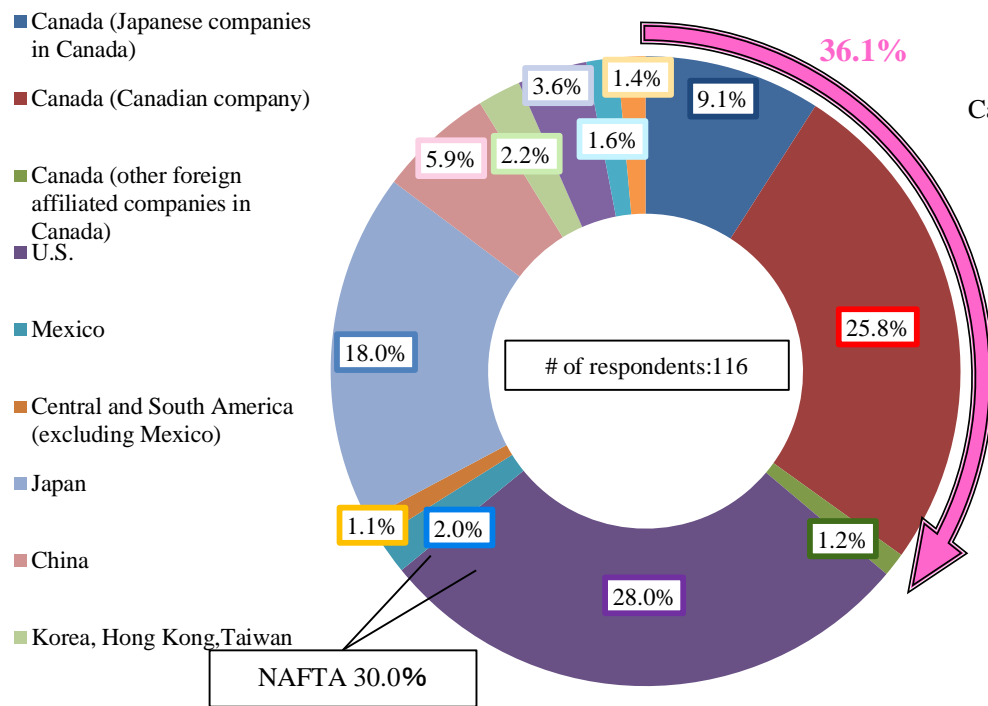
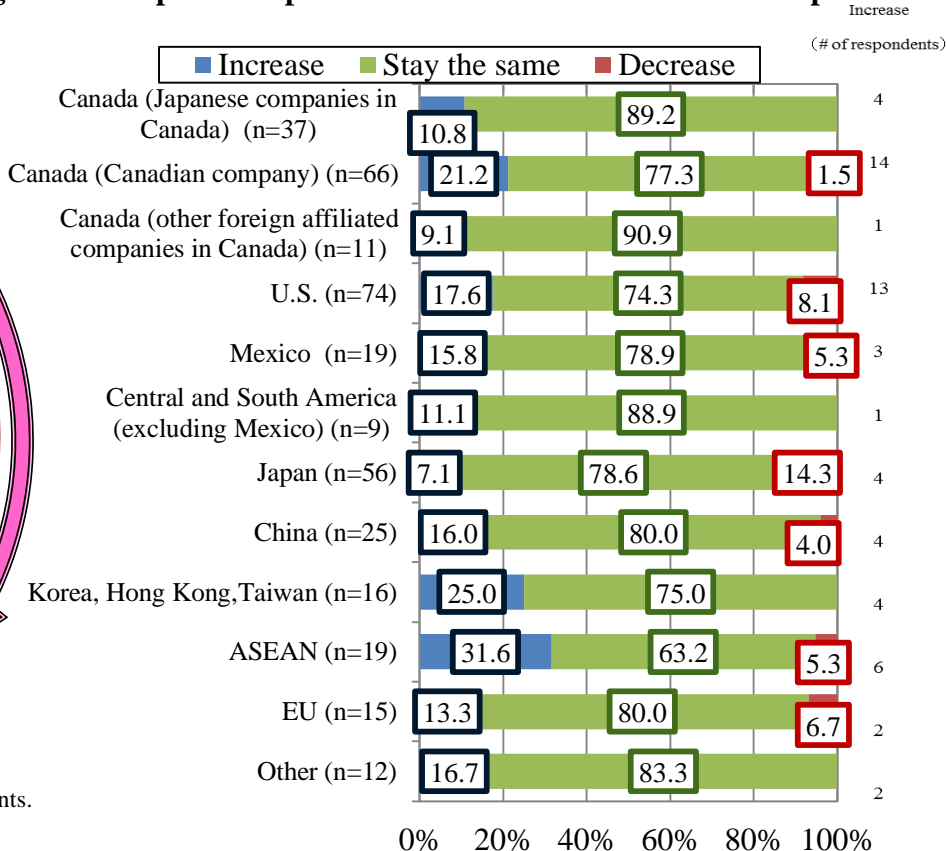


Fig.15 Future plans for procurement sources for raw material/parts



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

### 3. Sales Destination: 82.7% for NAFTA, 12.9% for Japan

Of products and services, 67.1% were sold to the domestic market in Canada, and 82.7% to NAFTA (including Canada), while Japan accounted for 12.9% of sales. Numerous companies said they are looking to expand their sales routes in Canada and the US.

Fig.16 Sales destination by countries/regions

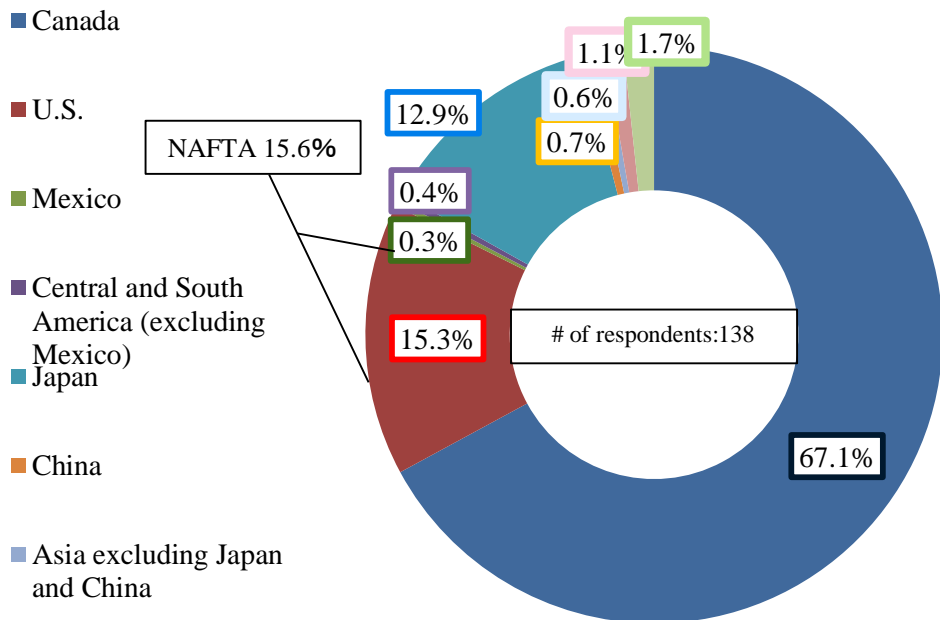
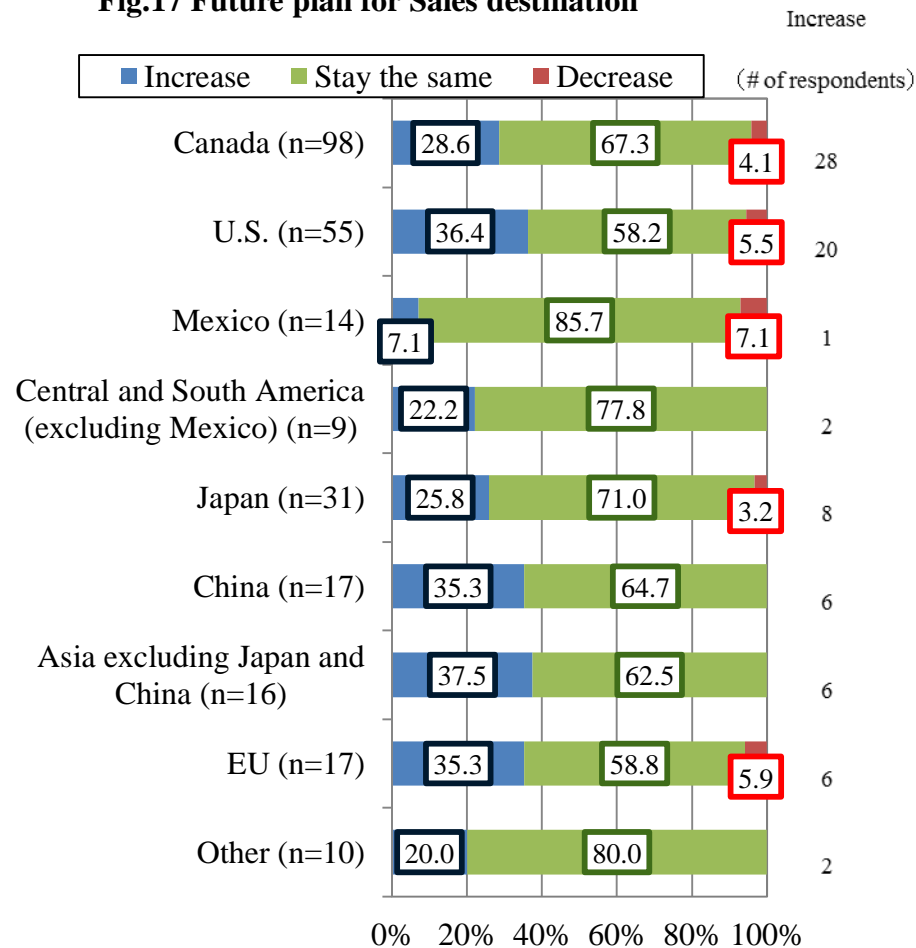


Fig.17 Future plan for Sales destination



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

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

Among all companies surveyed (including non-exporters and non-responders), 41.6% (47 companies) utilized NAFTA, mainly for imports. 37.2% (42 companies) utilized NAFTA for import from the U.S. For imports from Mexico, the utilization rates were over 10%.

Table1: Utilization of bilateral/multilateral FTAs (# of respondents: 113)

(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 plan to utilize)			Utilizing	Considering utilization	Not utilizing (no plan to utilize)
<b>Existing FTA/EPA</b>										
U.S.	55 (48.7%)	58 (51.3%)	33 (29.2%)	4 (3.5%)	18 (15.9%)	76 (67.3%)	37 (32.7%)	42 (37.2%)	8 (7.1%)	26 (23.0%)
Mexico	16 (14.2%)	97 (85.8%)	10 (8.8%)	2 (1.8%)	4 (3.5%)	19 (16.8%)	94 (83.2%)	13 (11.5%)	2 (1.8%)	4 (3.5%)
EU 28 countries	9 (8.0%)	104 (92.0%)	3 (2.7%)	1 (0.9%)	5 (4.4%)	22 (19.5%)	91 (80.5%)	9 (8.0%)	3 (2.7%)	10 (8.8%)
EU 4 European count	1 (0.9%)	112 (99.1%)	-	-	1 (0.9%)	3 (2.7%)	110 (97.3%)	1 (0.9%)	-	2 (1.8%)
South Korea	4 (3.5%)	109 (96.5%)	2 (1.8%)	-	2 (1.8%)	9 (8.0%)	104 (92.0%)	2 (1.8%)	2 (1.8%)	5 (4.4%)
Chile	2 (1.8%)	111 (98.2%)	1 (0.9%)	-	1 (0.9%)	1 (0.9%)	112 (99.1%)	1 (0.9%)	-	-
Peru	2 (1.8%)	111 (98.2%)	1 (0.9%)	-	1 (0.9%)	1 (0.9%)	112 (99.1%)	1 (0.9%)	-	-
Other	1 (0.9%)	112 (99.1%)	1 (0.6%)	-	-	1 (0.9%)	112 (99.1%)	-	-	-
<b>FTA/EPA signed/under negotiation</b>										
TPP										
Japan	20 (17.7%)	93 (82.3%)	-	8 (7.1%)	12 (10.6%)	60 (53.1%)	53 (46.9%)	-	27 (23.9%)	33 (29.2%)
Other	1 (0.9%)	112 (99.1%)	-	1 (0.9%)	-	2 (1.8%)	111 (98.2%)	-	1 (0.9%)	1 (0.9%)

※North American Free Trade Agreement

※EU-Canada Comprehensive Economic and Trade Agreement

### 3. FTA Utilization : Over 50% of Importers and Exporters Utilized NAFTA

52.8% of importers and exporters utilized NAFTA (Exports to U.S.: 60.0%, Imports from U.S.: 55.3%, Exports to Mexico: 62.5%, Imports from Mexico: 68.4%). 45.0% of the companies were considering the utilization of TPP for imports from Japan.

Table 2: Utilization of bilateral/multilateral FTAs (Importers and Exporters)

(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 plan to utilize)			Utilizing	Considering utilization	Not utilizing (no plan to utilize)
<b>Existing FTA/EPA</b>										
U.S.	55 (48.7%)	58 (51.3%)	33 (60.0%)	4 (7.3%)	18 (32.7%)	76 (67.3%)	37 (32.7%)	42 (55.3%)	8 (10.5%)	26 (34.2%)
Mexico	16 (14.2%)	97 (85.8%)	10 (62.5%)	2 (12.5%)	4 (25.0%)	19 (16.8%)	94 (83.2%)	13 (68.4%)	2 (10.5%)	4 (21.0%)
EU 28 countries	9 (8.0%)	104 (92.0%)	3 (33.3%)	1 (11.1%)	5 (55.6%)	22 (19.5%)	91 (80.5%)	9 (40.9%)	3 (13.6%)	10 (45.5%)
1-EU 4 European count	1 (0.9%)	112 (99.1%)	- -	- -	1 (100.0%)	3 (2.7%)	110 (97.3%)	1 (33.3%)	- -	2 (66.7%)
South Korea	4 (3.5%)	109 (96.5%)	2 (50.0%)	- -	2 (50.0%)	9 (8.0%)	104 (92.0%)	2 (22.2%)	2 (22.2%)	5 (55.6%)
Chile	2 (1.8%)	111 (98.2%)	1 (50.0%)	- -	1 (50.0%)	1 (0.9%)	112 (99.1%)	1 (100.0%)	- -	- -
Peru	2 (1.8%)	111 (98.2%)	1 (50.0%)	- -	1 (50.0%)	1 (0.9%)	112 (99.1%)	1 (100.0%)	- -	- -
Other	1 (0.9%)	112 (99.1%)	1 (100.0%)	- -	- -	1 (0.9%)	112 (99.1%)	- -	- -	1 (100.0%)
<b>FTA/EPA signed/under negotiation</b>										
TPP										
Japan	20 (17.7%)	93 (82.3%)	- -	8 (40.0%)	12 (60.0%)	60 (53.1%)	53 (46.9%)	- -	27 (45.0%)	33 (55.0%)
Other	1 (0.9%)	112 (99.1%)	- -	1 (100.0%)	- -	2 (1.8%)	111 (98.2%)	- -	1 (50.0%)	1 (50.0%)

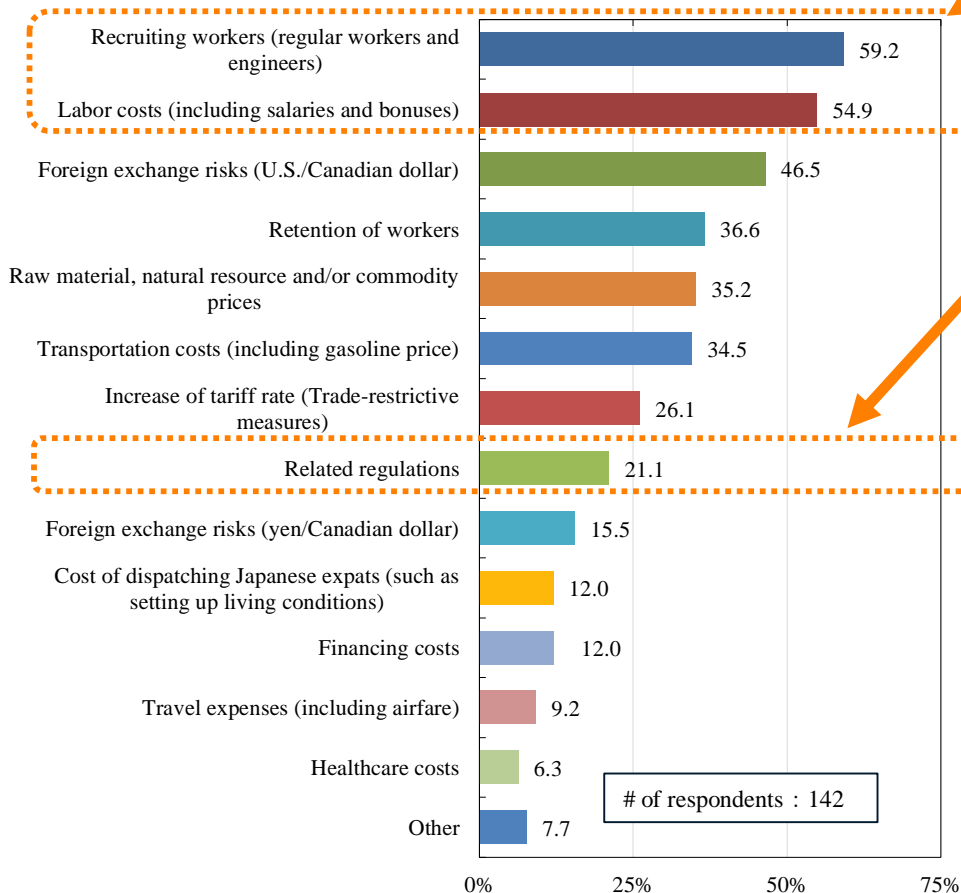
※North American Free Trade Agreement

※EU-Canada Comprehensive Economic and Trade Agreement

# 4. Factors for Increased Cost: “Recruiting” a Primary Factor

“Recruiting workers” was a top factor in increased costs, rising 9.5% points from the last survey (49.7%) to reach 59.2%. In terms of regulations, “environmental regulations” (56.7%) and “labor management” (30.0%) remained major contributing factors.

**Fig.18 Management Issues (1) Factors for increased cost (Multiple answers)**



### Recruiting workers

- Wages increased by around 1.5% to 2.0% from last year. In order to recruit outstanding personnel, we enhanced our benefits package.

### [Transportation equipment (motor vehicles/motorcycles)]

- We’re struggling to secure workers to fill roles left by retiring senior employees, and to pass on their technical knowledge. [Transportation equipment (motor vehicles/motorcycles)]

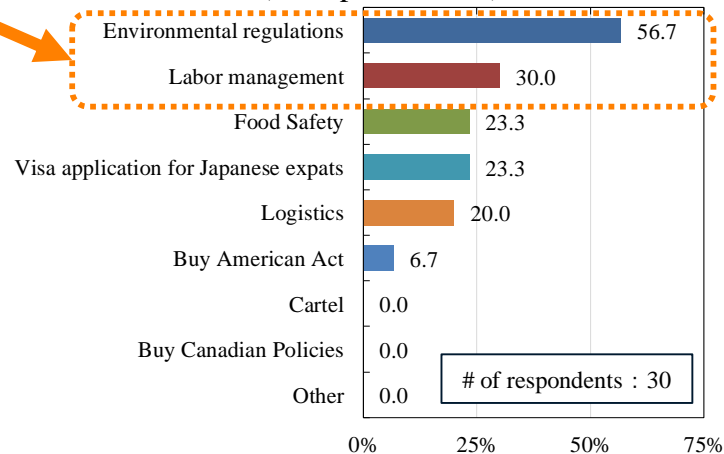
### Related regulations

- Wages increased by around 1.5% to 2.0% from last year. In order to recruit outstanding personnel, we enhanced our benefits package.

### [Transportation equipment (motor vehicles/motorcycles)]

- We’re struggling to secure workers to fill roles left by retiring senior employees, and to pass on their technical knowledge. [Transportation equipment (motor vehicles/motorcycles)]

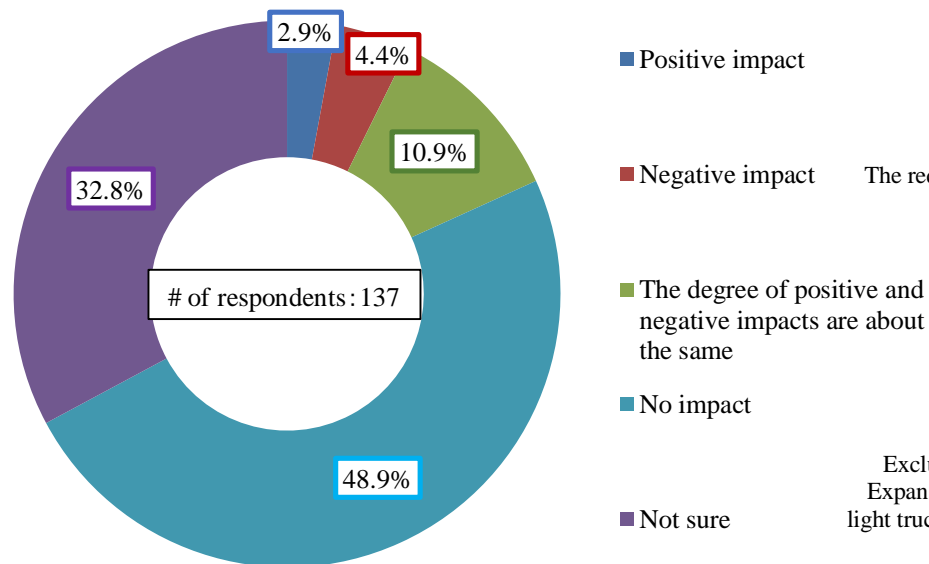
**Fig. 19 Breakdown of Related Regulations (Multiple answers)**



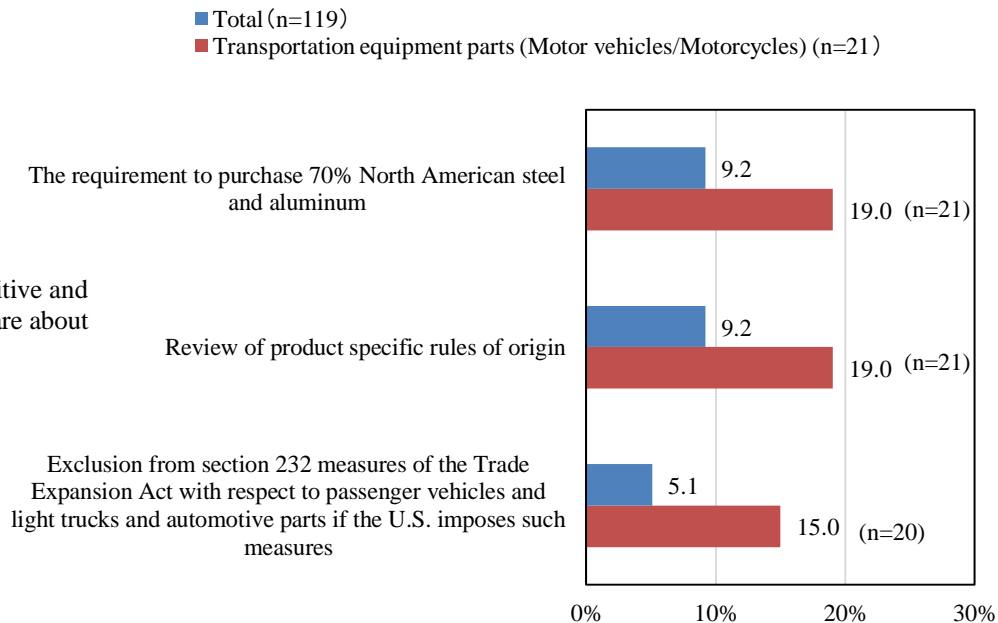
## 5. Effects of USMCA: Most Companies Responded “No Impact”

Asked about the US-Mexico-Canada Agreement (USMCA), a treaty replacing NAFTA, nearly half (48.9%) of respondents said it will have “no impact,” while 32.8% said they are “not sure” and 10.9% replied that “the positive and negative impacts will be about the same.” While just 4.4% said they see “negative impacts,” this was the response offered by 37.5% of companies in the transportation equipment industry (motor vehicles/motorcycles). The types of negative impacts anticipated by companies in that industry are: “the requirement to purchase 70% North American steel and aluminum” (19.0%), “review of product specific rules of origin” (19.0%), and “exclusion from section 232 measures of the Trade Expansion Act with respect to passenger vehicles and light trucks and automotive parts if the U.S. imposes such measures” (15.0%).

**Fig. 20 Effects from the ratification of USMCA**



**Fig. 21: Companies expecting “negative impacts” from the ratification of USMCA (Top 3 items)**





## 5. USMCA Countermeasures: Majority Has Yet to Respond

Asked about measures to cope with USMCA, most of the respondents said they either plan to make no changes (56.0%) or they are “not sure” (20.6%). Among those considering specific measures, “raising of prices” (17.7%) was the most common answer, followed by “change of procurement sources” (7.1%) and “adjustment of production volume, employment (working hours)” (3.5%). Among the transportation equipment and parts industry (motor vehicles/motorcycles), “not sure” was the top answer (39.1%), followed by “make no changes” (26.1%). As specific measures, 17.3% of respondents said they would be “raising of sales prices,” while 13.0% said they planned a “change of procurement sources” and another 8.7% answered “adjustment of production volume, employment (working hours).”

**Table 3: Countermeasures for Dealing With USMCA in Key Industries (Multiple Answers)**

(Unit: companies)

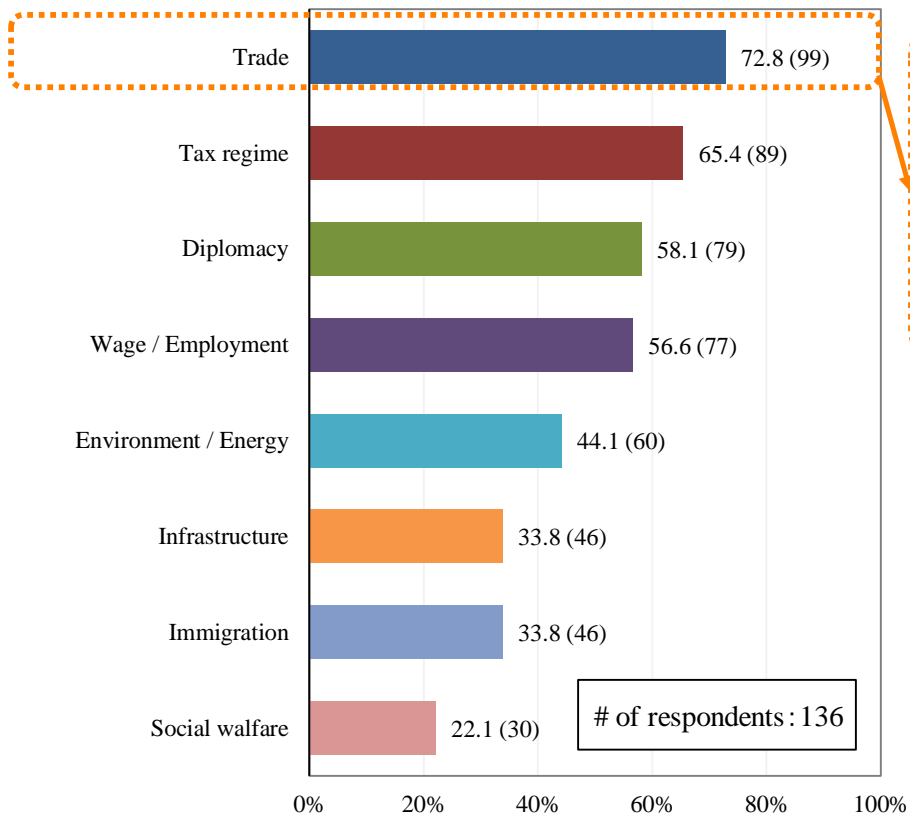
Industry		Total	Manufacturing	Transportation equipment parts (Motor vehicles/Motorcycles)	Non- manufacturing	Wholesale and retail trade	Sales company
# of respondents		141 (100)	71 (100)	23 (100)	70 (100)	14 (100)	21 (100)
Measures	None	79 (56.0)	32 (45.1)	6 (26.1)	47 (67.1)	7 (50.0)	14 (66.7)
	Raising of sales prices	25 (17.7)	14 (19.7)	4 (17.3)	11 (15.7)	2 (14.3)	6 (28.6)
	Change of procurement sources	10 (7.1)	7 (9.9)	3 (13.0)	3 (4.3)	2 (14.3)	1 (4.8)
	Adjustment of production volume, employment (working hours)	5 (3.5)	4 (5.6)	2 (8.7)	1 (1.4)	1 (7.1)	-
	Reduction of sales prices	2 (1.4)	-	-	2 (2.9)	1 (7.1)	1 (4.8)
	Change of production base	2 (1.4)	1 (1.4)	1 (4.3)	1 (1.4)	-	1 (4.8)
	Other	4 (2.8)	2 (2.8)	2 (8.7)	2 (2.9)	1 (7.1)	-
	Not sure	29 (20.6)	20 (28.2)	9 (39.1)	9 (12.9)	3 (21.4)	1 (4.8)

Note : Numbers inside parentheses indicate percentages of the totals

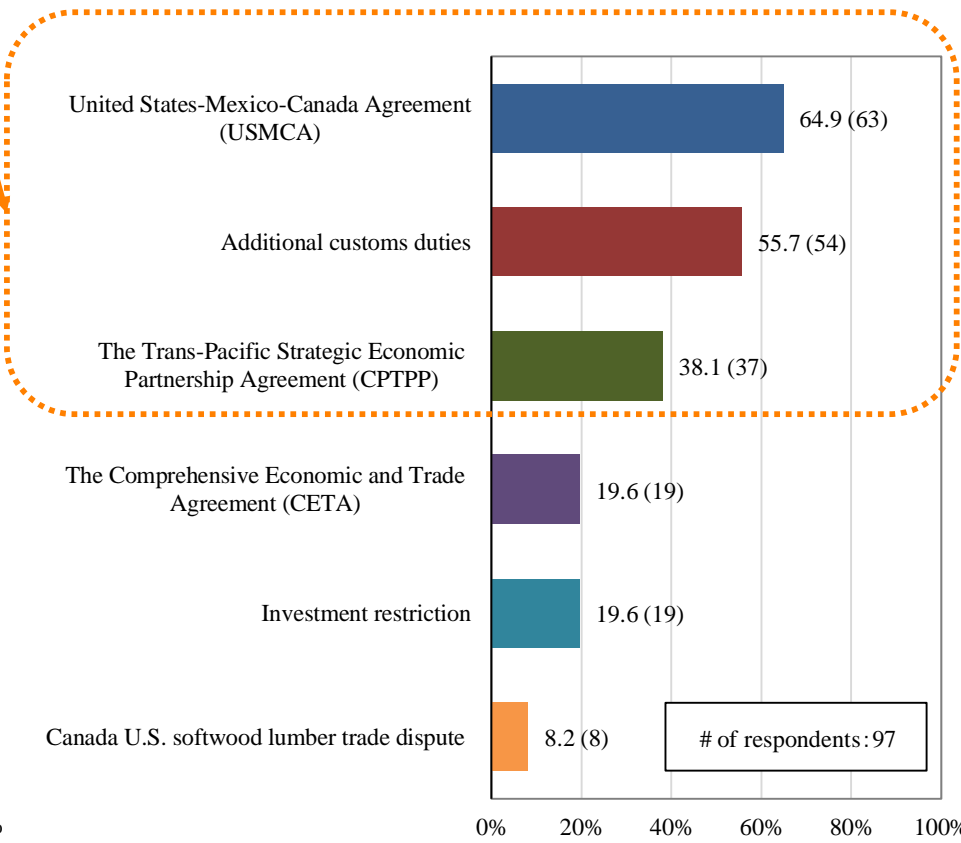
# 5. Interests in Trudeau Administration Policies

As in the previous survey, respondents said they were most interested in “trade” (72.8%), followed by “tax regime” (65.4%) and “diplomacy” (58.1%). Within the topic of trade, interest in the US-Mexico-Canada Agreement (USMCA) was the most significant at 64.9%, followed by additional custom duties (55.7%) and CPTPP (38.1%). Within diplomacy, interest in relations with the US and with Japan were at the top (87.3% and 60.8%, respectively).

**Fig.22 Interests in policy areas under the Trudeau administration (Multiple answers, # of respondents)**



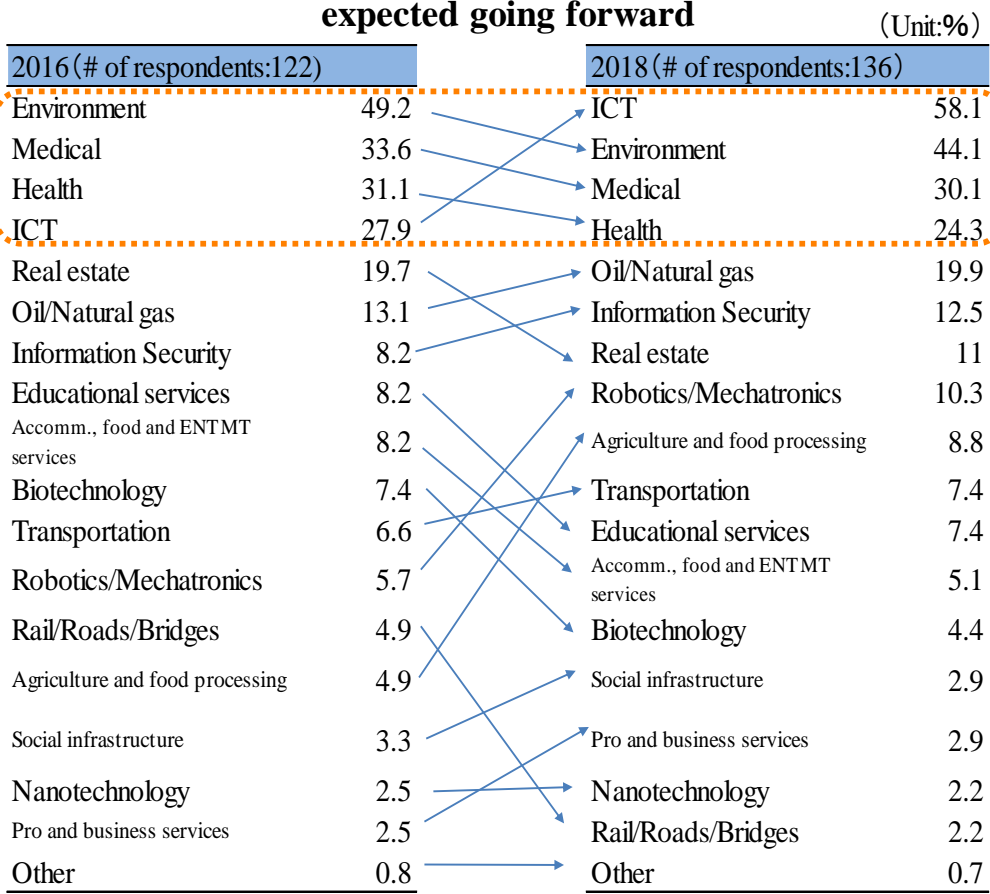
**Fig.23 Interests in Trade (Multiple answers, # of respondents)**



## 5. Industrial Fields Where Market Growth is Expected Going Forward: Most Companies Said “Information Communication Technology (ICT)”

Asked about “areas with growth potential for the next 2 to 3 years,” information and communication technology (ICT) was the most popular answer, followed by the environment and healthcare. Compared to the 2016 survey, ICT saw a dramatic 30-point increase, while robotics/mechatronics was up 4.6 points and food/agricultural products rose 4.2 points. Meanwhile, the environment, healthcare, and health all fell in ranking (5.1 points, 3.5 points, and 6.8 points, respectively).

**Fig.24 Industrial fields where market growth is expected going forward**



### Comments from companies that chose ICT

- We’re incorporating AI into our cloud services and using big data to automate our manufacturing processes. **[IT]**
- With things like demand projections and robotic process automation (RPA), we’re streamlining office operations. **[Wholesale/Retail (including Trading)]**
- We’ve switched to automated operation by incorporating AI into our automobiles, commercial vehicles, work vehicles, etc. **[Sales]**
- We will be using this technology in things like our facial recognition systems on a company-wide scale. **[Sales]**
- We’re looking into things like data analysis in order to raise our delivery efficiency. **[Transportation equipment (motor vehicles/motorcycles)]**

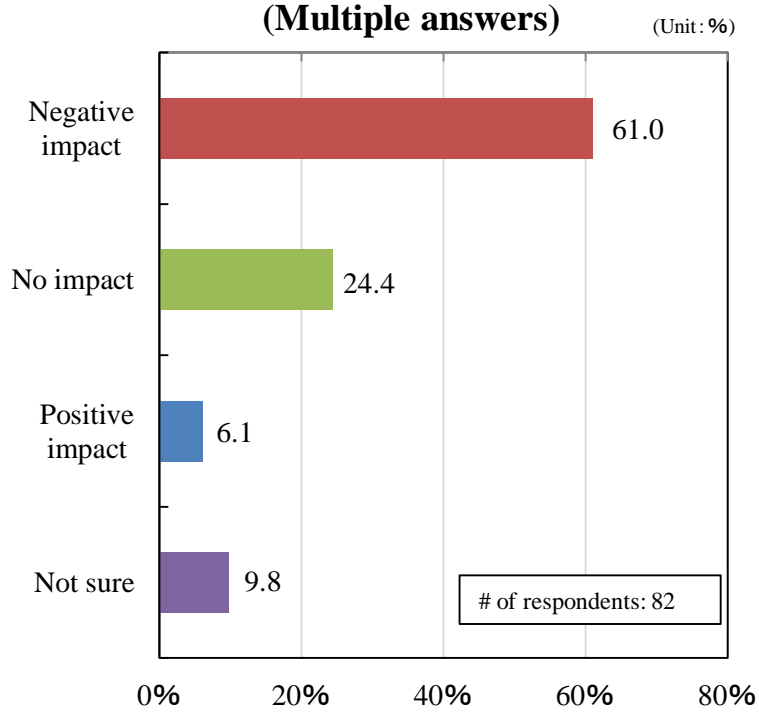
**<Reference>**

**Effects of Trade Restrictive Measures**

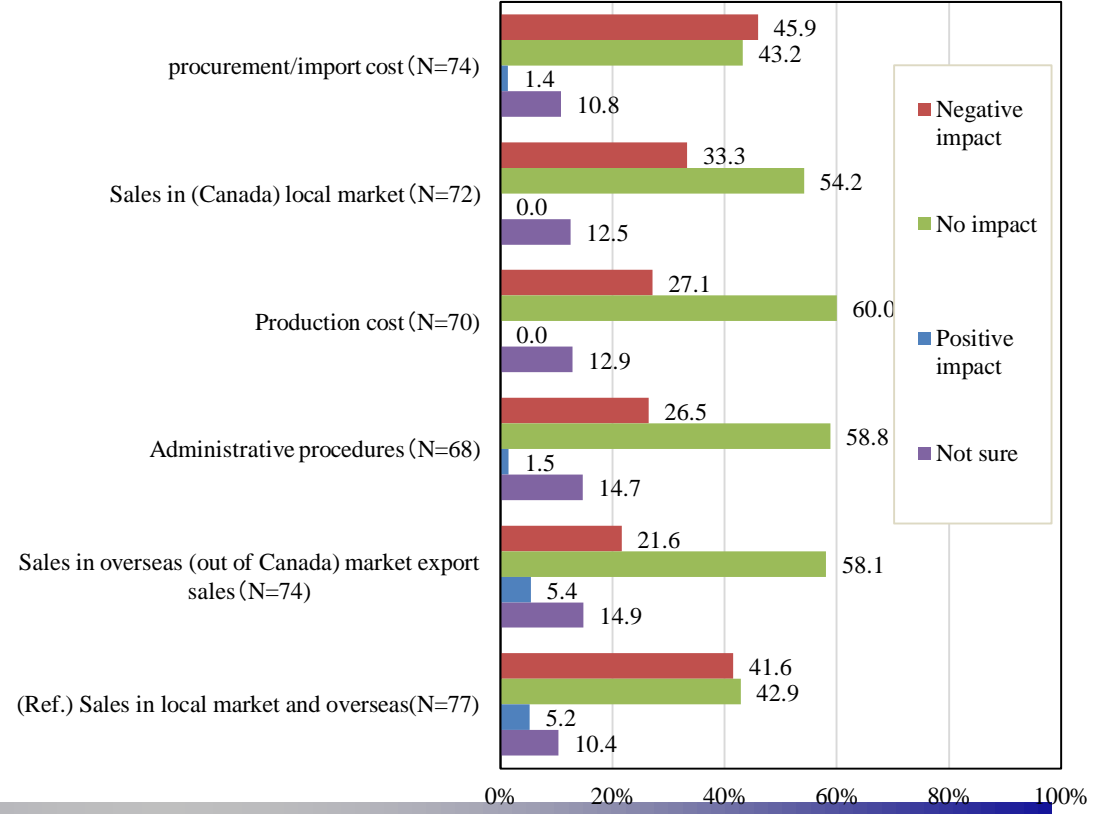
# Effects of Trade Restrictive Measures: 61.0% of the Respondents Described Them as “Negative Impacts”

Asked about the nature of effects on business due to protectionist measures by the US and other countries, including higher tariffs, 61.0% of the respondents (50 companies) described them as “negative impacts,” while 24.4% said “no impact” and 6.1% said “positive effects.” Asked about what areas would be negatively affected by trade restrictive measures in general, 45.9% (34 companies) said “procurement/import costs,” while 33.3% cited “domestic sales in Canada” and 27.1% said “production costs.”

**Fig.25 Effects of trade restrictive measures**



**Fig.26 Areas to be effected by trade restrictive measures**

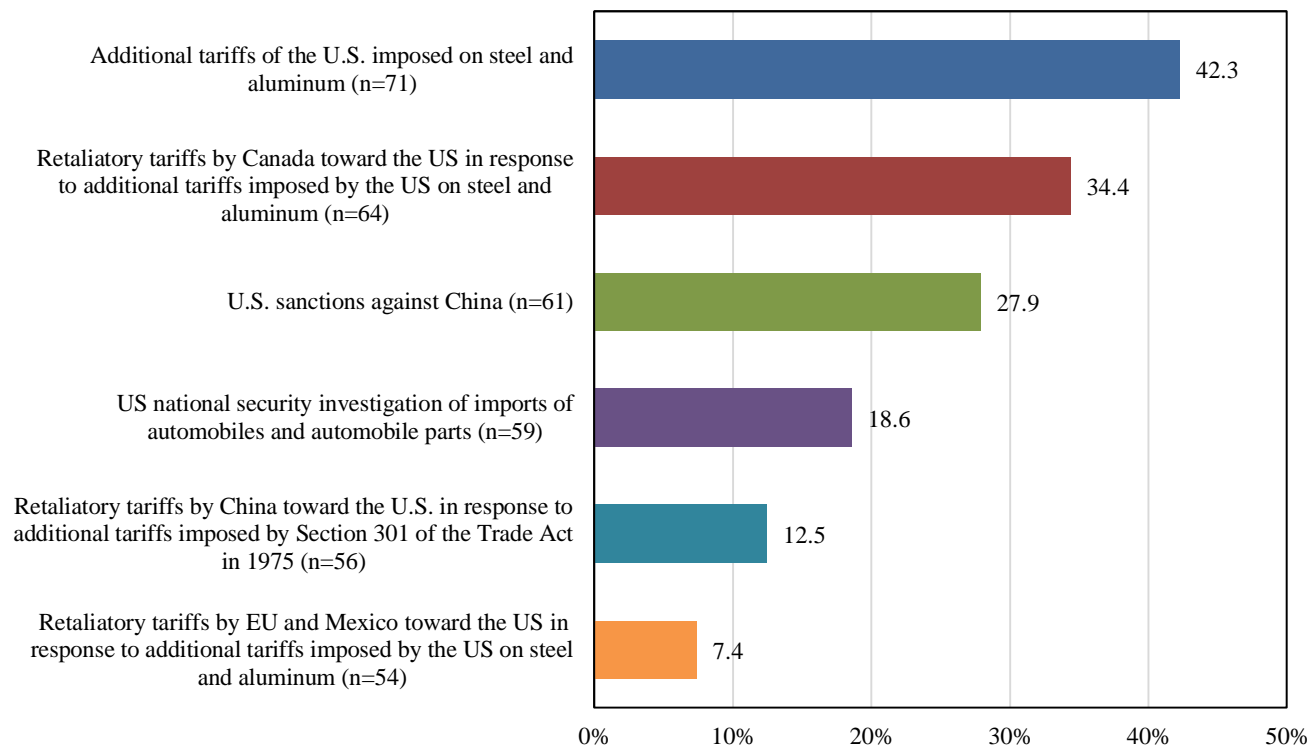


## Effects by Measure: More Than 40% Say “Additional Tariffs of the US imposed on Steel and Aluminum” Will Have Negative Impacts

Asked about the effects of trade restrictive measures by type and country/region, 42.3% (30 companies) expected “negative impacts” from “additional tariffs of the US imposed on steel and aluminum;” the proportion was 52.4% among manufacturers and 27.6% among non-manufacturers. This was followed by “retaliatory tariffs by Canada toward the US,” cited by 34.4%, and “US sanctions against China,” cited by 27.9%.

**Fig.27 Effects of trade restrictive measures by type and country/region (Multiple answers)**

(Unit: %)

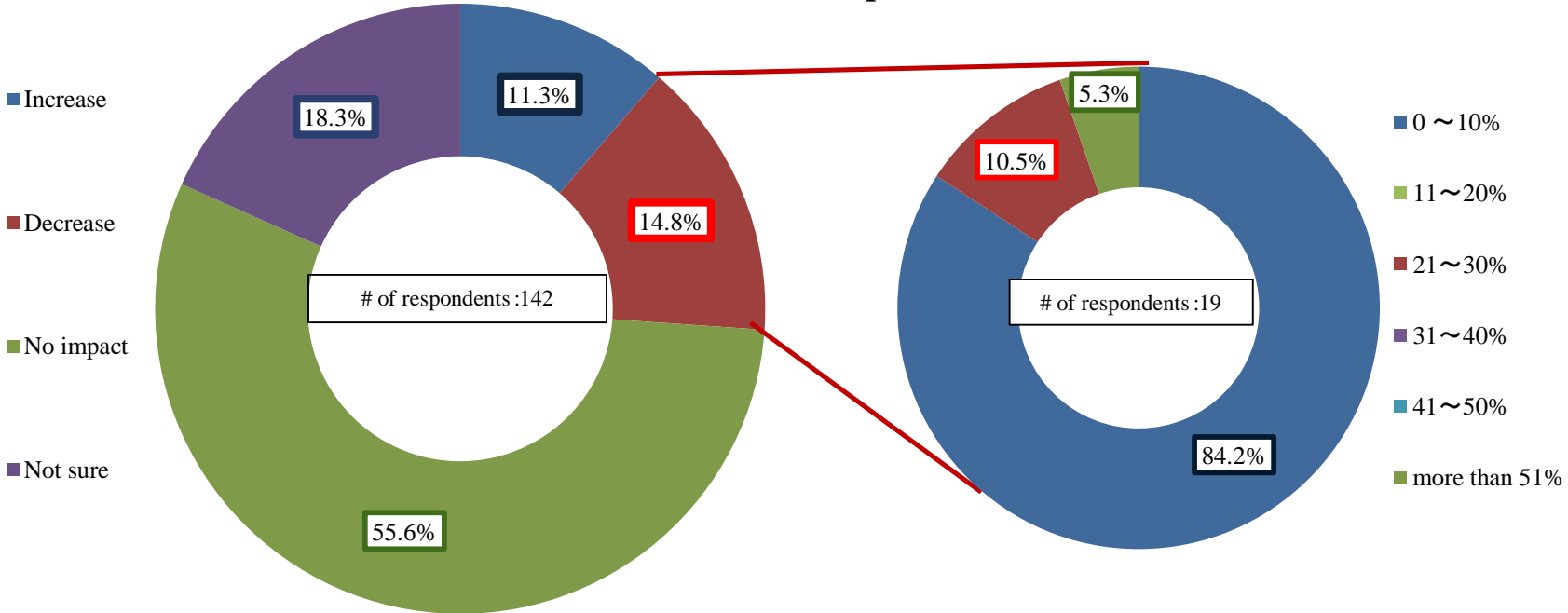


# Effects on Operating Profit Outlooks : 79 Companies See “No Impact”

Asked about any effects trade restrictive measures by the US or other countries will have on their operating profit forecasts for 2018, over half of the respondents (79 companies, 55.6%) said “no impact,” while 21 companies (14.8%) said they predicted a “decrease.” Of respondents, 16 companies (84.2%) expect an operating profit decrease of 10% or less.

**Fig. 28 Effects on 2018 operating profit projections**

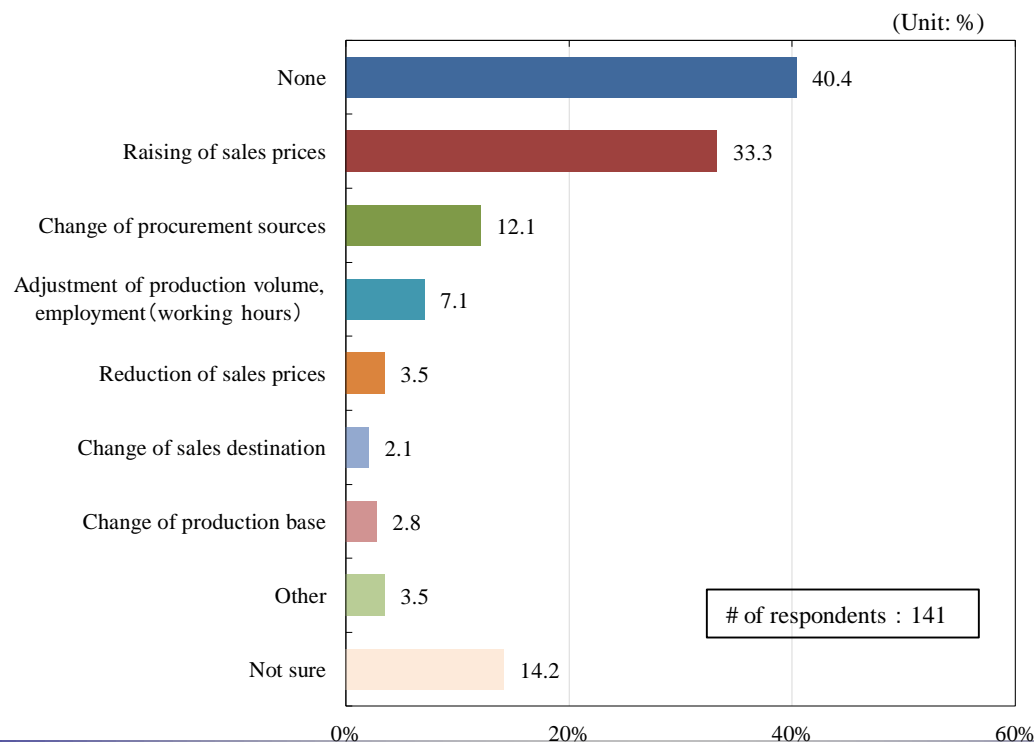
**Fig.29 Projected decrease in 2018 operating profit**



## Countermeasures: 40.4% of the Respondents Said They Will Make No Changes

Asked about measures to address the effects of tariff increases and the like, 40.4% (57 companies) said they will make no changes, while 33.3% said they will raise sales prices and 12.1% said they will change procurement sources. By industry, “raising of sales prices” was a major choice among sales companies (12 companies, 57.1%), wholesale and retail trade (six companies, 42.9%) and transportation equipment parts (motor vehicles/motorcycles) (five companies, 33.3%). “Change of procurement sources” was an option under consideration at 10 manufacturers, including those of transportation equipment parts (motor vehicles/motorcycles) and food/agricultural products, and seven non-manufacturers, including sales companies and wholesale and retail trade companies.

**Fig.30 Measures to cope with the changing business environment, including tariff increases (Multiple answers)**







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