JETRO

FY2023
JETRO Survey on Business Conditions for Japanese Companies Operating Overseas (North America)

- A deep-rooted sense of challenges in employment, such as rising wages and labor shortages -

Japan External Trade Organization (JETRO)
Research & Analysis Department
Feb. 9, 2024

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Survey Results Summary

- The percentage of Japanese-affiliated companies expecting to be profitable was in the mid-60% range, still below before the COVID-19 pandemic levels -

- The percentage of Japanese-affiliated companies expecting to be profitable in 2023 was in the mid-60% range in both the U.S. (64.8%) and Canada (65.4%). Both results were still below the 2019 levels (66.1% and 77.1%) before the COVID-19 pandemic. The diffusion index (DI) for business sentiment in both the U.S. and Canada was significantly lower than the previous year.
- On the other hand, the percentage of companies that will “expand” their business in the next 1-2 years was around 50% in both the U.S. and Canada. In the U.S., expansion is expected in California, Texas, and other states with large economies.

- Strong employment challenges, such as increasing wages and labor shortages -

- Management challenges included (1) increasing employee wages, (2) difficulty in recruiting and retaining employees due to shortage of human resources, and (3) increasing procurement costs due to continued high inflation.
- 70% of companies in the U.S. and 60% in Canada indicated that they were facing a shortage of human resources. By occupation, the shortage was particularly serious for factory workers and specialty occupations such as engineers.

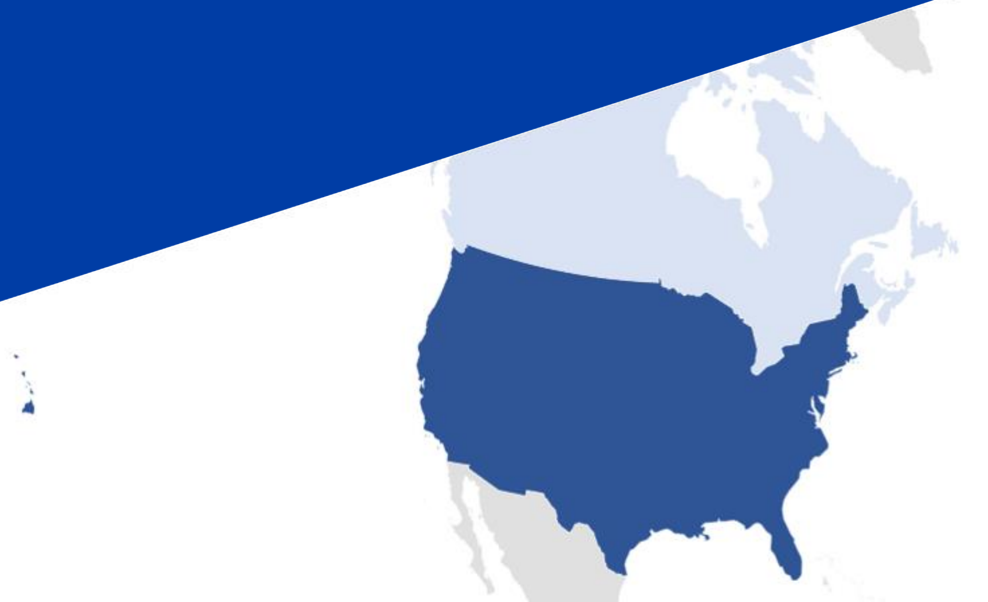
- Noticeable shift in procurement source to ASEAN -

- The trend towards supply chain restructuring continues. More than 40% of companies in the manufacturing sector in the U.S. were reviewing their procurement sources. The largest number of new procurement sources were within the U.S. (72 cases), followed by ASEAN (24 cases), with an increase from the previous year (14 cases). The shift from China to ASEAN (15 cases) was particularly notable.

- The percentage of companies that recognizing human rights and decarbonization as an important management challenge increased -

- Around 80% of companies in both the U.S. and Canada recognized human rights issues as an important management challenge, up more than 20 points from the previous year. On the other hand, less than 30% of the companies in the U.S. conducted human rights due diligence. In addition, differences between large companies and small or medium-sized companies were highlighted in terms of the percentage of companies conducting human rights due diligence and decarbonization.

United States (42nd Annual Survey)



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1 Summary of this year's survey

Survey Objectives

The purpose of this survey was to ascertain the management situations and changes in the local business environments of Japanese affiliated companies operating in the U.S., and to contribute to the formulation of the companies' overseas business strategies and of policies for related organizations.

Survey Period

September 6-26, 2023

Valid Responses

42.7%
(724 out of 1,694 companies)

Scope of Survey

Japanese-affiliated manufacturers and non-manufacturers operating in the U.S. that are at least 10% owned by a Japanese parent, directly or indirectly, and branches of Japanese firms in the U.S.

Note

This is the 42nd annual survey, conducted since 1981 (not conducted in 2004).

Breakdown of responding companies by industry and state

(Unit: Company、%)

				Total	Comp. Ratio
All industries				724	100
By Industry					
Manufacturing	Total	Comp. ratio	Non-manufacturing	Total	Comp. ratio
	402	55.5		322	44.5
Automotive etc. parts	59	8.1	Sales companies/ sales subsidiaries	96	13.3
General machinery	54	7.5	Trading/wholesale	63	8.7
Chemicals/medicines	53	7.3	Information and communications	30	4.1
Iron/non-ferrous metals/fabricated metal products	41	5.7	Transport	29	4.0
Food	35	4.8	Travel/amusement	18	2.5
Electrical machinery/ electronic devices	31	4.3	Professional and technical services	17	2.3
Electrical machinery parts/Electronic device parts	27	3.7	Construction	13	1.8
Plastic products	25	3.5	Finance/insurance	12	1.7
Precision machines/ medical equipment	15	2.1	Real estate and leasing	12	1.7
Rubber/ceramic/stone and clay products	14	1.9	Mining/energy	9	1.2
Automobiles etc.	8	1.1	Retail trade	7	1.0
Paper/Wood products/Printing	5	0.7	Education/Medical	2	0.3
Textiles/apparel	5	0.7	Restaurant	1	0.1
Railway/transport vehicles etc.	5	0.7	Other non-manufacturing	13	1.8
Railway/transport vehicles etc. parts	3	0.4			
Other manufacturing	22	3.0			

(1) The totals in the survey results in this report may not be 100 because the numbers are rounded off to the first decimal point.
(2) The firms that participated in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected for each question.
(3) From the following page onward, in cases where no particular details are written in the charts, the numerals in parentheses indicate the number of respondents.
(4) In cases where the denominator of the number of respondents for a given choice did not meet a certain number, that industry/choice was excluded from the survey.

2 The States Where Respondents Are Located

Breakdown of Locations of the Respondents and Their Main Plants

(Unit: Company)

	State where the company headquarters is located			State where the factory is located
# of respondents	724			458
	Manufacturing	Non-manufacturing	Total	Total
Northeast	39	76	115	34
CT Connecticut	2	3	5	3
ME Maine	0	0	0	0
MA Massachusetts	5	3	8	5
NH New Hampshire	2	0	2	2
NJ New Jersey	10	12	22	4
NY New York	10	55	65	6
PA Pennsylvania	8	3	11	12
RI Rhode Island	2	0	2	2
VT Vermont	0	0	0	0
Midwest	139	70	209	155
IL Illinois	45	44	89	27
IN Indiana	21	2	23	32
IA Iowa	1	0	1	2
KS Kansas	4	1	5	7
MI Michigan	21	20	41	25
MN Minnesota	5	0	5	3
MO Missouri	2	0	2	7
NE Nebraska	1	0	1	3
ND North Dakota	0	0	0	0
OH Ohio	35	3	38	42
SD South Dakota	0	0	0	1
WI Wisconsin	4	0	4	6

	State where the company headquarters is located			State where the factory is located
	Manufacturing	Non-manufacturing	Total	Total
South	140	56	196	196
AL Alabama	7	0	7	8
AR Arkansas	1	0	1	1
DE Delaware	0	1	1	0
FL Florida	3	1	4	5
GA Georgia	36	7	43	32
KY Kentucky	25	5	30	42
LA Louisiana	1	0	1	4
MD Maryland	1	2	3	1
MS Mississippi	4	0	4	8
NC North Carolina	4	5	9	15
OK Oklahoma	0	0	0	1
SC South Carolina	4	0	4	6
TN Tennessee	21	1	22	25
TX Texas	27	31	58	31
VA Virginia	3	2	5	11
WV West Virginia	3	0	3	6
DC Washington DC	0	1	1	0
West	84	120	204	73
AK Alaska	0	0	0	0
AZ Arizona	5	0	5	5
CA California	67	109	176	44
CO Colorado	1	2	3	2
HI Hawaii	2	3	5	3
ID Idaho	0	0	0	0
MT Montana	0	0	0	0
NV Nevada	2	1	3	2
NM New Mexico	0	0	0	1
OR Oregon	4	2	6	10
UT Utah	1	0	1	0
WA Washington	2	3	5	5
WY Wyoming	0	0	0	1
Total	402	322	724	458

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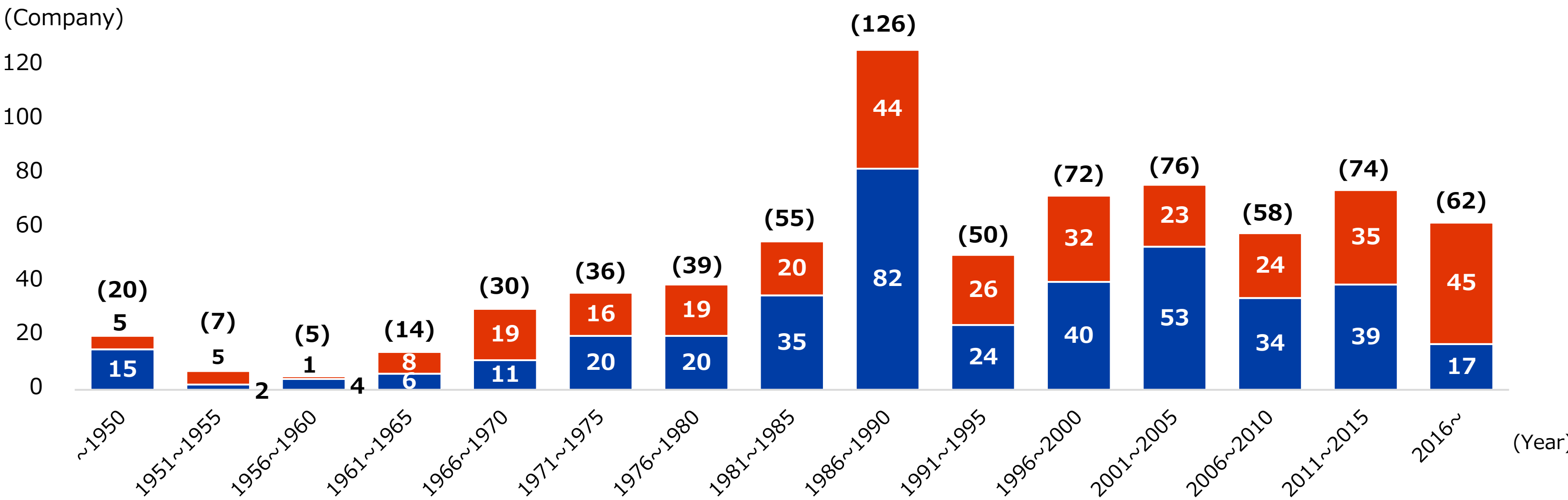
3 Respondents' Establishment Year, Location, Number of Plants

Respondents' Establishment Year



Breakdown of the Number of Respondent Sites

Number of respondents	633			
Number of sites	Number of Companies			Number of sites
	Manufacturing	Non-manufacturing	Total	Total
No sites	2	7	9	0
1～5	325	224	549	945
6～10	27	22	49	364
11～15	8	4	12	155
16～20	2	1	3	55
21～25	0	5	5	108
26～30	0	0	0	0
30 or more	2	4	6	613
Total	366	267	633	2,240

Breakdown of the Number of Respondent Plants

Number of respondents	521			
Number of plants	Number of companies			Number of plants
	Manufacturing	Non-manufacturing	Total	Total
No plants	70	173	243	0
1～5	251	10	261	374
6～10	14	0	14	94
11 or more	2	1	3	41
Total	337	184	521	509

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4 Numbers of Employees and Expatriates from Japan: The median number of employees per company is 45 and 3, respectively

- The total number of employees in the responding companies was 279,802, with an average of 386 employees per company and a median of 45. By industry, the median number of employees in the manufacturing sector was 92, while the median number of employees in the non-manufacturing sector was 16.
- The total number of expatriates from Japan in the responding companies was 5,767, with an average of 8 dispatched employees per company and a median of 3. By industry, the median number of such employees in the manufacturing sector was 4, while the median number of employees in the non-manufacturing sector was 3.

The median number of employees per company

(Unit: People)

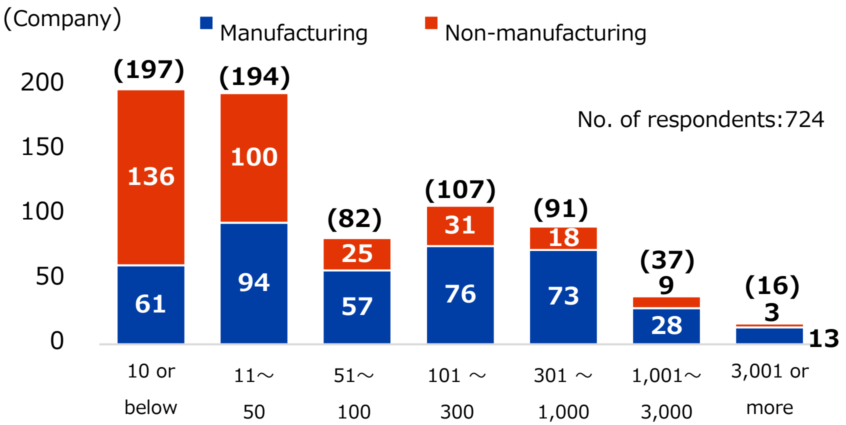
	Total number of employees	Average	Median
Total (851)	279,802	386	45
Manufacturing (488)	206,567	514	92
Non-manufacturing (363)	73,235	227	16

The median and average number of expatriates from Japan per company

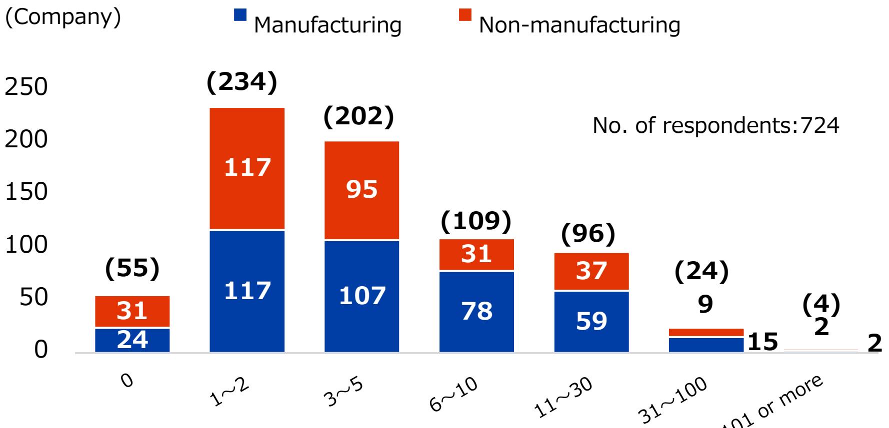
(Unit: People)

	Number of expatriates from Japan	Average	Median
Total (848)	5,767	7.97	3
Manufacturing (485)	3,660	9.10	4
Non-manufacturing (363)	2,107	6.54	3

Number of Employees by Industry



Number of Expatriates from Japan by Industry



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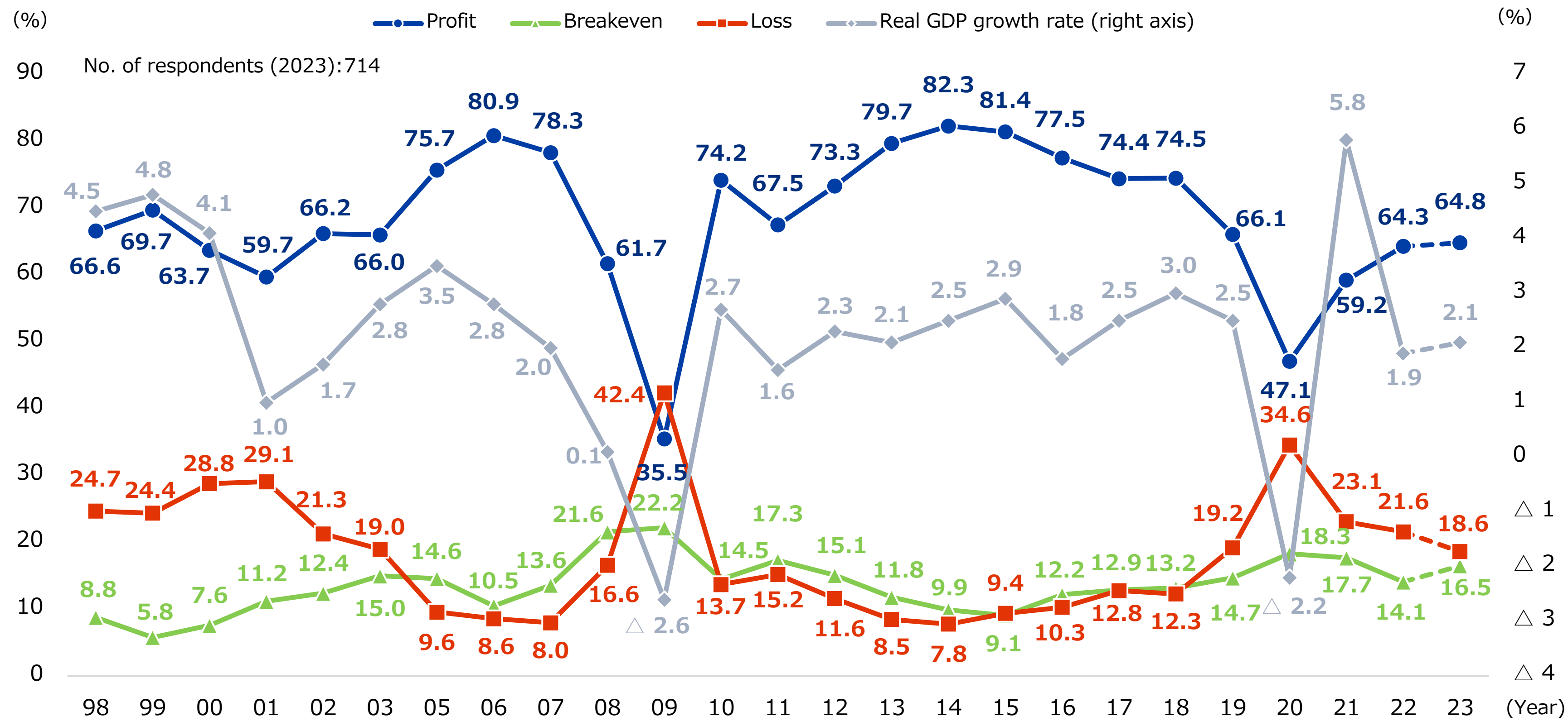
1 2023 Operating Profit Forecast: Profits expected to increase slightly to the mid-60% range, while failing to reach 2019 levels

- A total of 64.8% of companies expected to make a profit in 2023, which is a slight increase of 0.5 points from the previous year (64.3%), but not close to the level of 2019 (66.1%) before the novel coronavirus disaster. On the other hand, 18.6% of companies expected to be in the red, down 3.0 points from the previous year (21.6%) and slightly below the 2019 level (19.2%).

Operating Profit Forecasts and U.S.'s Real GDP Growth

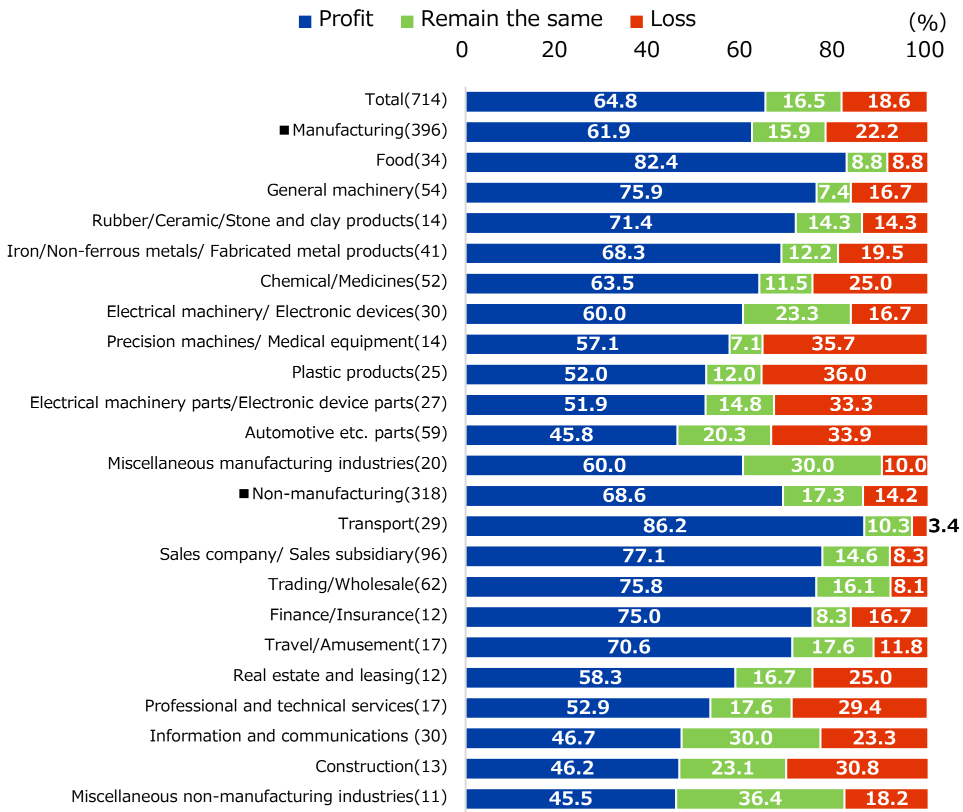


(Note) Real GDP growth rate statistics up to 2022 are from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce (October 2023).
The 2023 real GDP growth rate reflects the median forecast by the Federal Open Market Committee (FOMC) (September 2023).
No survey was conducted in 2004.

2 | 2023 Operating Profit Forecast (By Industry): The Automotive etc. parts sector improved significantly year-over-year, but still did not reach 50%

- The largest projected profit by industry sector is 86.2% for the transport industry, which is doing well with new and existing customers.
- The profit forecast for the automotive etc. parts sector was significantly higher than the previous year (17.1%), mainly due to the recovery in automobile production resulting from the resolution of the semiconductor shortage, but it failed to reach 50%. A large percentage (33.9%) expects to lose money due to increased personnel and other costs.
- The largest projected deficit, at 36.0%, is in plastic products, which has been affected by personnel shortages and other factors.

2023 Operating Profit Forecast (By Industry)



(Note) Only industries with 10 or more valid responses are listed.

Factors Affecting Operating Profit Forecasts

- Transport
  Acquisition of customers through new business, etc., and increase in demand for warehouse and equipment relocation
- Automotive etc. parts
  Recovery of automobile production due to the resolution of semiconductor shortage
- Food
  Increase in sales due to the effects of price hikes, stable raw material prices, lower distribution costs, recovery in demand for dining services, etc.
- Sales company/Sales subsidiary, Trading/Wholesale
  Auto industry prosperity, increased sales opportunities, yen depreciation, normalization of delivery and transportation costs

Factors Affecting Operating Loss Forecasts

- Plastic products
  On-site labor shortage, such as direct factory workers and operators, relocation of manufacturing facilities, and product changes
- Precision machines/medical equipment
  Chilling of customer investment due to rising interest rates and delayed recovery from the novel coronavirus disaster
- Automotive etc. parts
  Increase in material, personnel, and labor costs, shortage of human resources

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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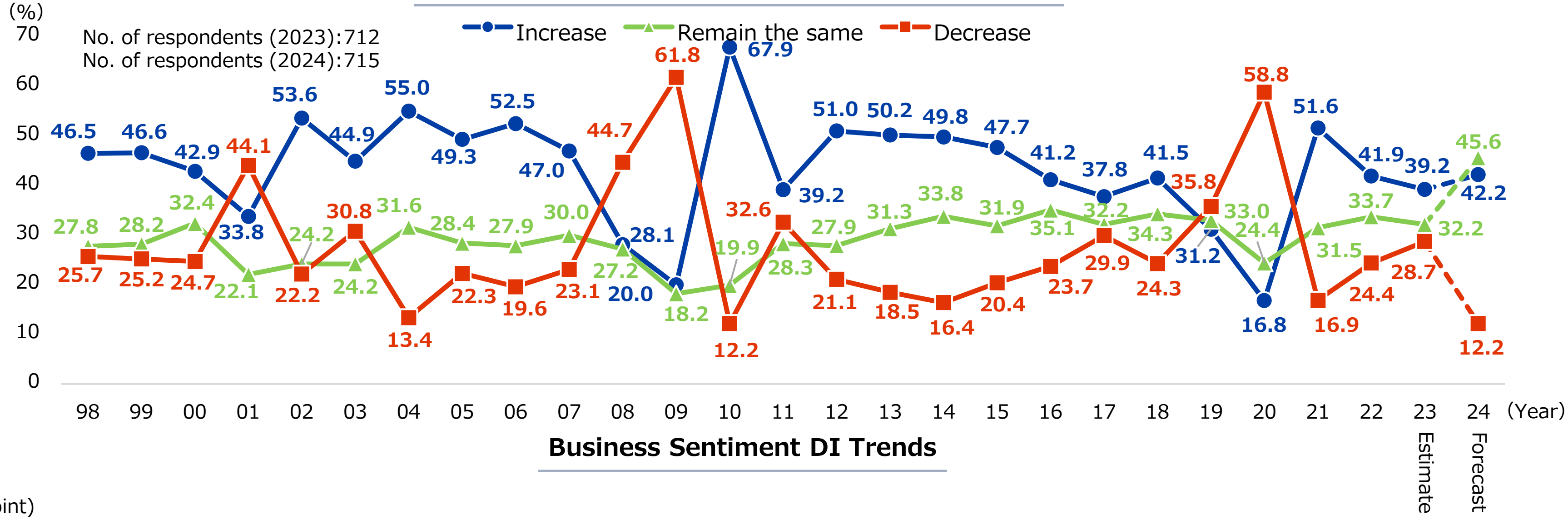
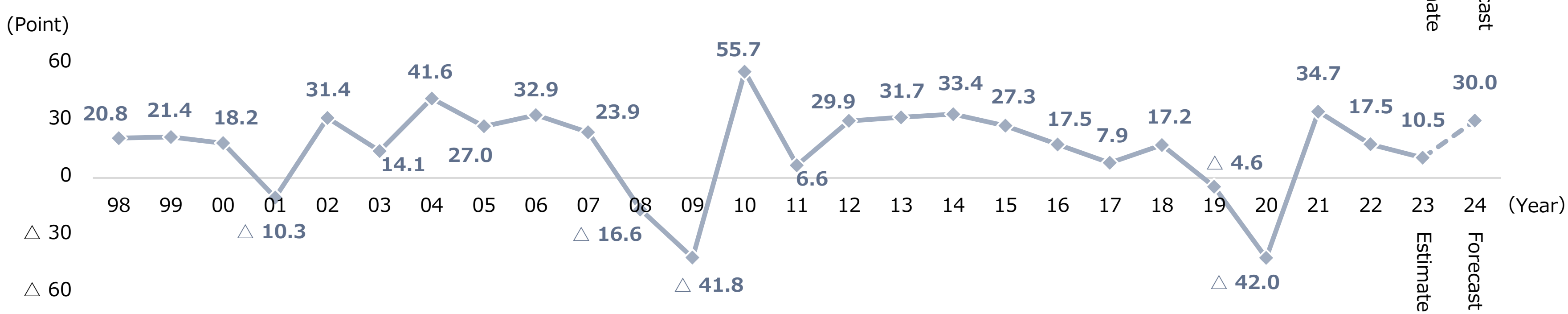
3 Business Sentiment DI: Business confidence falls to 10.5 in 2023, expected to improve in 2024

- Regarding the forecast for operating income in 2023, 39.2% of respondents expect it to improve from the previous year, 32.2% expect it to remain unchanged, and 28.7% expect it to worsen. A total of 42.2% of companies expect improvement in 2024.
- The DI (Deterioration Index), which indicates business confidence in 2023, was 10.5, remaining positive, but decreasing by 7.0 points from the previous year (17.5). The forecast for 2024 is for an improvement to 30.0.

Year-over-Year Operating Forecast Profit Changes



Business Sentiment DI Trends



(Note) Since no survey was conducted in 2004, the figures reflect the forecast as of the 2003 survey.

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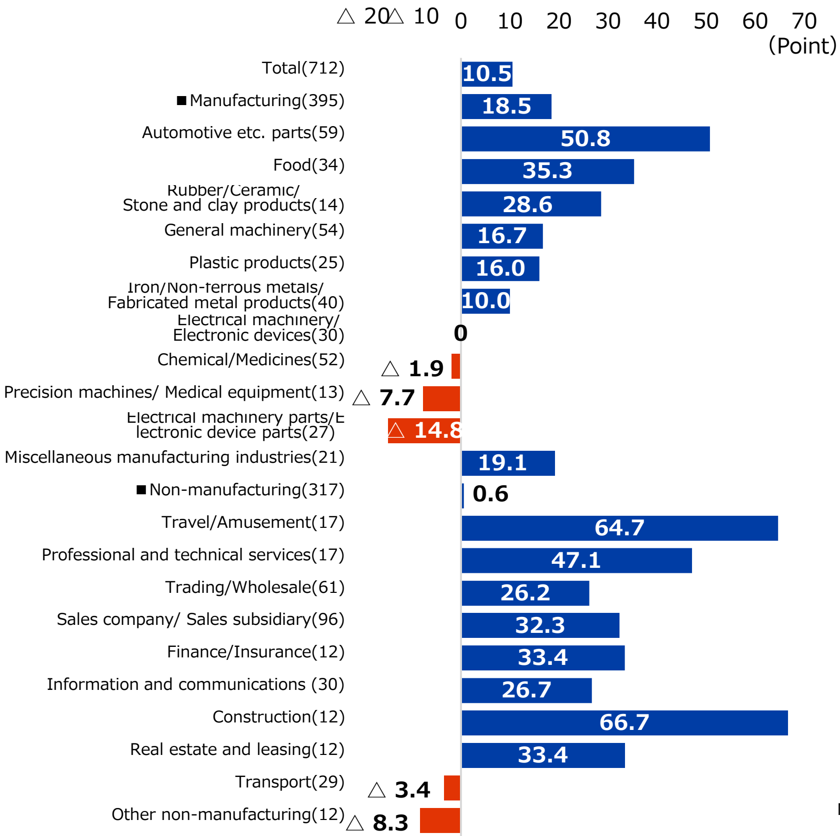
4 Business Sentiment DI (By Industry): Significant improvement in automotive etc. parts and food in 2023

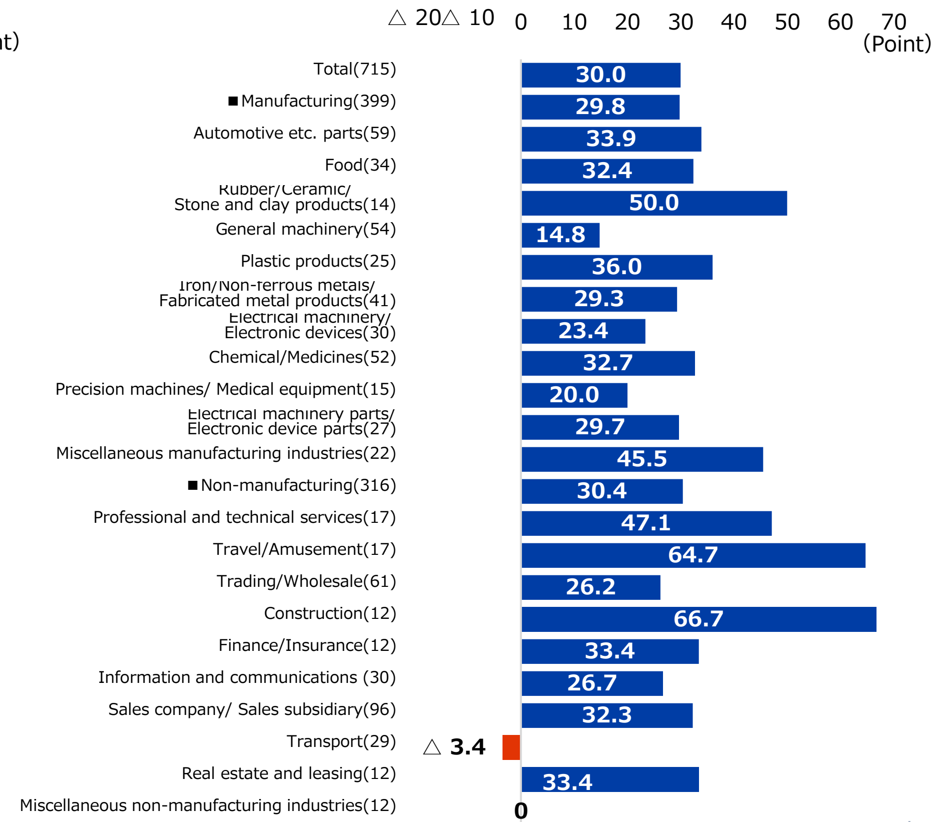
- The DI by industry for 2023 improved significantly for automotive etc. parts (up 76.9 points from the previous year) due to an increase in automobile sales, but worsened for transportation (down 46.9 points), which was affected by factors such as the stabilization of distribution costs, and for electrical machinery parts/electronic device parts (down 46.8 points), where demand fell due to inventory compression.
- In 2024, improvements are expected in electrical and electronics parts (up 44.5 points) and chemical/medicines (up 34.6 points).

Business Sentiment DI for 2023 (By Industry)



(Note) Only industries with 10 or more valid responses are listed.

Business Sentiment DI for 2024 (By Industry)



(Note) Only industries with 10 or more valid responses are listed.

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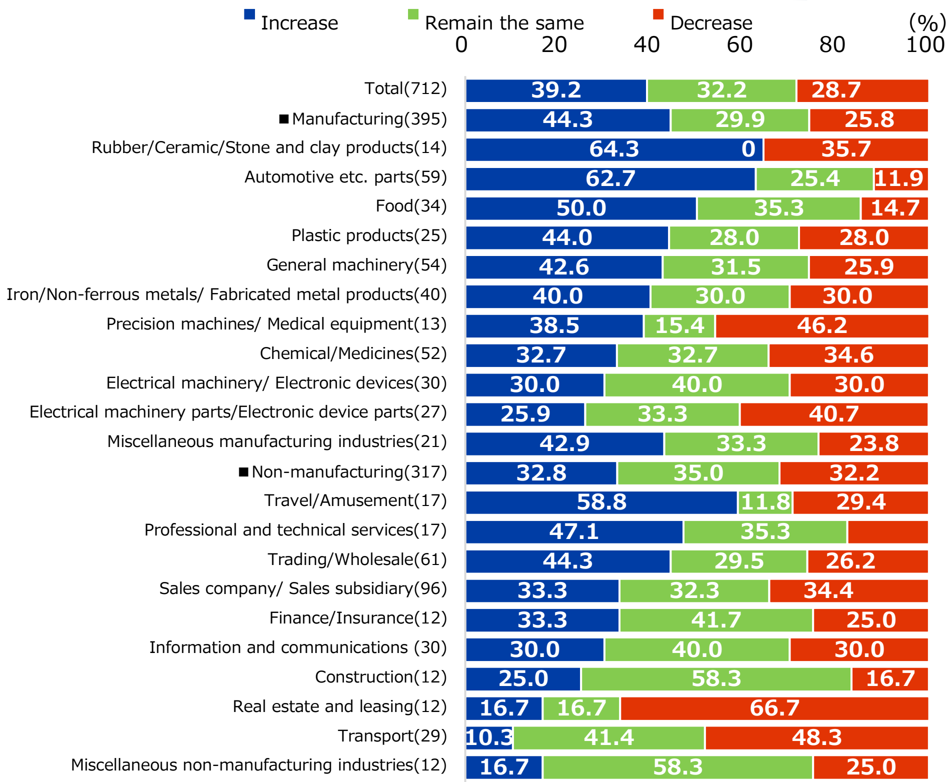
5 2023 Operating Profit Forecast (By Industry): Large improvement in the manufacturing sector, with factors such as a significant changes in demand in local markets

- The percentage of respondents who answered that their operating income forecast had improved from the previous year was high in the manufacturing sector, with the majority being in the industries of rubber/ceramic/stone and clay products (64.3%) and automotive etc. parts (62.7%) as well as in the travel/amusement (58.8%) industries in the non-manufacturing sector.
- The biggest reason for the improvement or decline in operating income was the increase or decrease in demand in local markets (Improvement: 46.2%, Decline: 44.6%).

Change in Operating Profit Forecasts from the Previous Year (By Industry)



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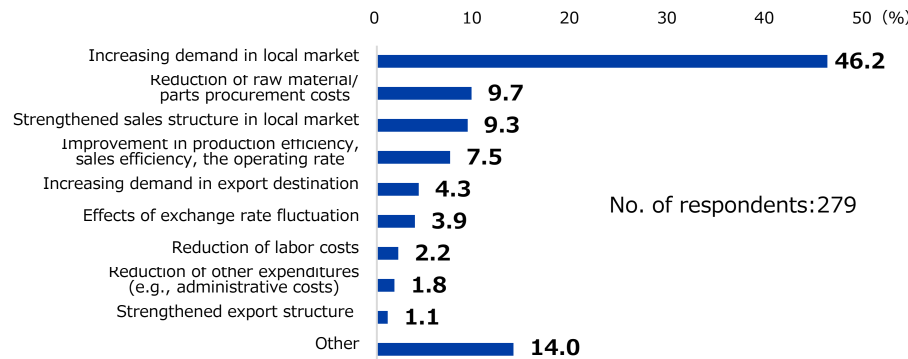
Reasons for Improved Operating Profit Forecasts (Main Reasons)



Reasons for Deteriorated Operating Profit Forecasts (Main Reasons)

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1 Business challenges: Employment challenges such as rising wages and labor shortages continue to be prominent

- Inflation and a tight labor market have led to higher wages and labor shortages (recruitment and retention difficulties and quality assurance), and other employment-related issues are high on the list. On the other hand, the percentage of respondents who selected wage increases declined slightly to 56.9% from the previous year (67.5%).
- Outside of employment, awareness of rising procurement costs (from 50.7% last year to 43.8%) and distribution costs (from 56.9% last year to 33.5%) remained high, but both decreased from the previous year.

Management Challenges (Multiple Answers)

Main management issues	Classification	Ratio (%)
Increase in wages of employees	Employment and labor	**56.9**
Difficulty in recruiting employees	Employment and labor	**51.4**
Slow development of new customers	Sales	**47.7**
Quality of employees	Employment and labor	**45.0**
Rising procurement costs	Procurement	**43.8**
Retention rate of employees	Employment and labor	37.4
Rising logistics costs	Procurement	33.5
Soaring living cost for expatriates	Employment and labor	31.5
Intensifying competition with competitors tax burden (corporate tax, transfer pricing taxation, etc.)	Sales	29.9
Decrease of demand from business partners/consumers	Sales	27.7
Difficulty in quality control	Production	20.2

Number of respondent companies: 698
(Note) Excerpt only for top items, 40% or more in bold

Specific Challenges

- **Wage increases**
  - Rising wage levels in line with inflation are putting pressure on profits [Plastic products, rubber/ceramic/stone and clay products, travel/amusement, etc.]
  - There is now competition for human resources with neighboring companies, and wages are rising sharply [Chemical/Medicines]
- **Employee recruitment**
  - Inability to hire the personnel sought at target cost due to rising wage levels [Food]
  - While it is not possible to hire without offering a certain level of salary, it is also difficult to balance it with the wage level of existing employees [Sales companies/sales subsidiaries]
- **Developing new clients**
  - Hybrid work arrangements make it difficult to obtain appointments in person [Electrical machinery parts/Electronic device parts]
  - Difficulty in receiving orders for new projects due to lack of local production while customers are moving to local procurement [Electrical machinery parts/Electronic device parts]
  - There is significant decline in consumer demand after the coronavirus disaster [Information and communications]
- **Quality of employees**
  - Employees are getting older [Trading/wholesale, sales companies/sales subsidiaries]
  - Employee work motivation and work accuracy are not at expected levels [Automotive etc. parts, general machinery]
  - Low retention rates prevent the succession of skills, which has a significant impact on quality [Electrical machinery/electronic devices, rubber/ceramic/stone and clay products, general machinery]

(Note) Based on individual responses. Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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2 Measures to address business challenges: "Raising wages" is also the leading response measure

- While wage increases are the top management issue, raising existing employee wages is also the top response measure (44.1%), due to factors such as recruitment and retention difficulties and quality assurance. Other top-level responses included enhancing education and training (39.0%), reinforcing personnel structure (32.5%), and improving hiring conditions (30.1%).
- Measures such as non-personnel cost reductions and adjustments to selling and procurement prices were also notable responses.

Measures to Address Management Challenges (Multiple Answers)

Countermeasures	Ratio (%)
Increasing wages of existing employees	**44.1**
Strengthening education/training	**39.0**
Raising selling prices	**36.4**
Reducing expenses other than labor costs	**36.1**
Strengthening personnel structure	**32.5**
Improving conditions of employment	**30.1**
Negotiating prices with suppliers	28.5
Maintaining remote work and web conferences	27.7
Encouraging automation and labor reduction	26.4
Review and strengthening of sales channels	26.2
Development of new products/services	26.2
Strengthening communication with headquarters	25.4
Promoting local staff members	20.6
Improving brand power	20.6

Number of respondent companies: 621
(Note) Excerpt only for top items, 30% or more in bold

Specific Countermeasures

Raising of wages and improvement of hiring conditions

- Remote work arrangements and approvals and wage increases have kept turnover under control [Chemical/Medicines, finance/insurance, etc.]
- Increase recruitment and retention rates by reexamining wages and benefits [Iron/non-ferrous metals/fabricated metal products, rubber/ceramic/stone and clay products, etc.]
- Offer wages at the same level as the industry at the time of hiring [Information and communications]

Enhancement of education and training

- Reexamination of newcomer training, including OJT and E-Learning [Automotive etc. parts, food, trading/wholesale, etc.]
- Establish training at the head office in Japan [Sales companies/sales subsidiaries]

Increase selling prices

- Passing on price and wage increases to selling prices [Plastic products]
- Implementing necessary price hikes in stages in response to cost increases without being bound by industry conventions [Rubber/ceramic/stone and clay products]

Reduction of non-personnel costs

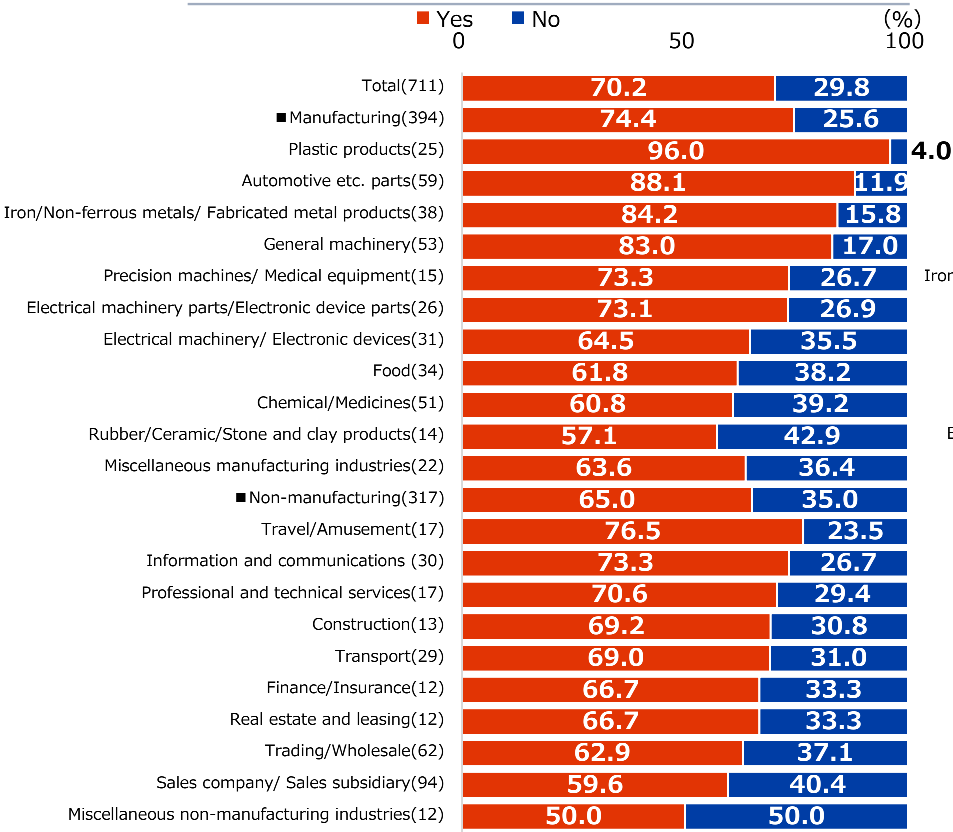
- Reexamination and refinement of procurement, reduction and build-up of inventory [General machinery, iron/non-ferrous metals/fabricated metal products, etc.]
- Improvement of operational efficiency through digitization and DX promotion [Construction, sales companies/sales subsidiaries, etc.]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

1 Facing a Human Resource Shortage: About 70% perceive it as a challenge, an improvement from the previous year

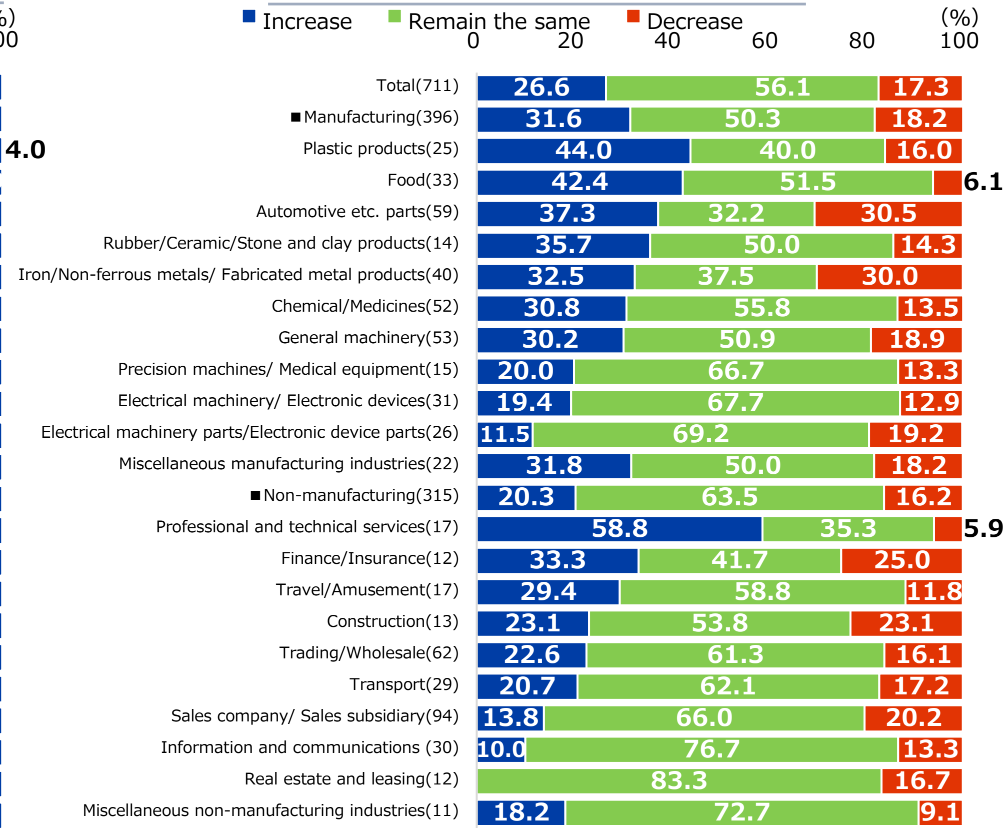
- Approximately 70% of responding companies face the challenge of human resource shortages, and more than 50% in most industries.
- The percentage of companies that reported an improvement from August to September of 2022 was 26.6%, higher than the percentage that reported a decline (17.3%). However, the decline was greater in electrical machinery parts/electronic device parts, sales companies/sales subsidiaries, information and communications, and real estate and leasing.

Human resource shortage issues or lack thereof (By industry)



(Note) Only industries with 10 or more valid responses are listed

Change from August-September 2022 (By industry)



(Note) Only industries with 10 or more valid responses are listed

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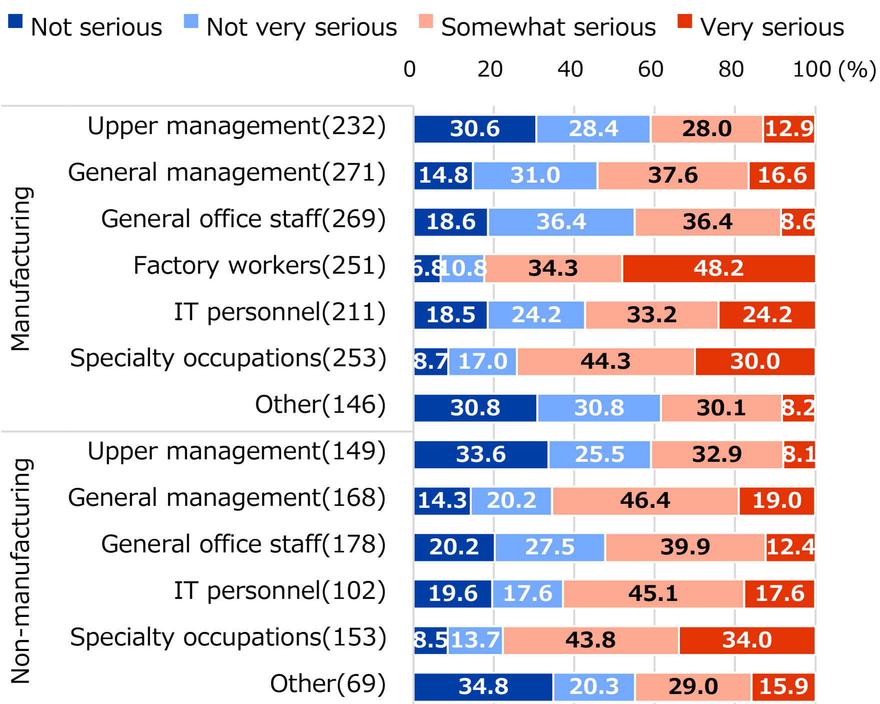
2 Severity of Human Resource Shortages and Specific Measures for Recruitment and Retention of Human Resources: Serious Human Resource Shortages in Factory Personnel and Specialized Occupations Revealed

- In terms of human resources, a serious shortage of factory workers was reported in the manufacturing sector (48.2%) and a serious shortage of legal, engineering, and other professional occupations (34.0%) was reported, both of which are high.
- Many of the specific measures for recruiting and retaining personnel are financial measures, such as salary increases and bonus payments. On the non-monetary side, some companies are working to enhance benefits and make work arrangements more flexible.

Severity of human resource shortages (by occupation/industry)



(Note 1) This is specific to companies that answered "Yes (Facing challenges)" to the question regarding whether or not they face human resource shortage challenges (See previous slide). Factory workers are only listed under the manufacturing sector.
(Note 2) Upper management: Directors, etc. General management: Managers, etc. IT personnel: Programmers, etc. Specialty occupations: Positions requiring specialized skills, such as legal, accounting, engineering, etc. Other: Including consignment /drivers, construction related, courier related, etc.

Specific measures for recruitment and retention of human resources

- **Salary raises**
  - Salary increase [Automotive etc. parts, chemical/medicines, professional and technical services, etc.]
- **Bonus payments**
  - Payment of special bonuses for meeting production targets [Automotive etc. parts]
  - Special bonus payments [Railway/transport vehicles etc.]
- **Incentive offerings**
  - To make it possible to receive incentives for working without a break for a certain period of time [Plastic products]
  - Incentives provided after 3 months of employment [Plastic products]
- **Enhancement of benefits package**
  - Introduction of paid leave [Sales companies/sales subsidiaries]
  - 401k introduction (consideration) [Sales companies/sales subsidiaries, general machinery, electrical machinery parts/electronic device parts, etc.]
- **Flexibility in work arrangements**
  - Introduction of flextime, remote working, etc. [Chemical/Medicines, electrical machinery parts/electronic device parts, sales companies/sales subsidiaries, etc.]
- **Provision of education**
- **Employment of specialized personnel in human resources (HR) departments**

(Note) Based on individual responses. Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised

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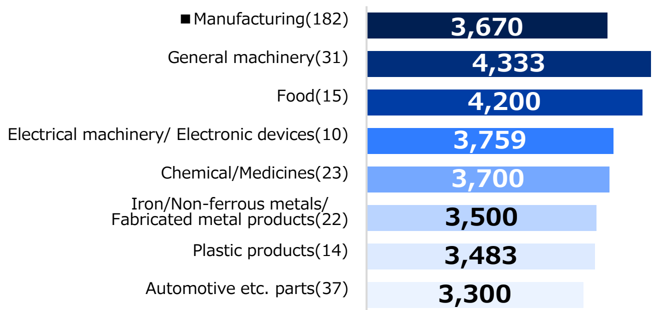
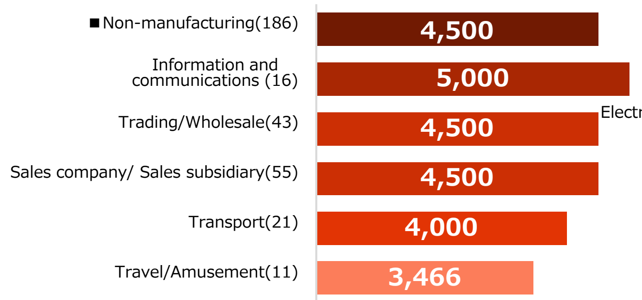
3 Wages (Monthly base salary, median): Median nominal base increase rate is 4.0%

- The median nominal base increase rate ("base up" rate) for the current period (FY2022 to FY2023) is 4.0% for both manufacturing and non-manufacturing sectors. Both are higher than the median (expected) nominal base increase rate (both 3.5%) as of the previous year's survey.
- The median nominal base increase rate (expected) for the next fiscal year (FY2023 to FY2024) is 3.0% for the manufacturing sector and 3.5% for the non-manufacturing sector.

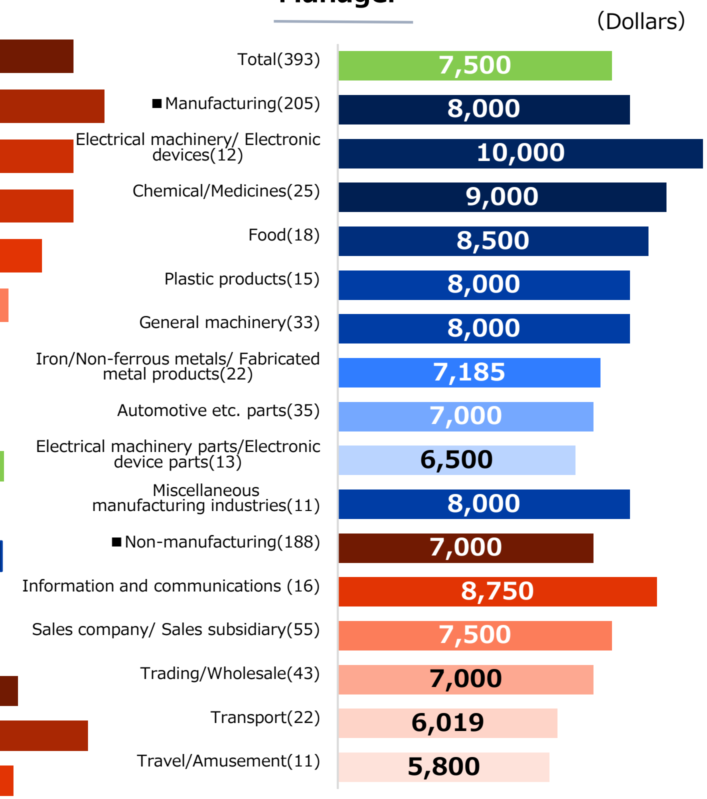
Factory Workers



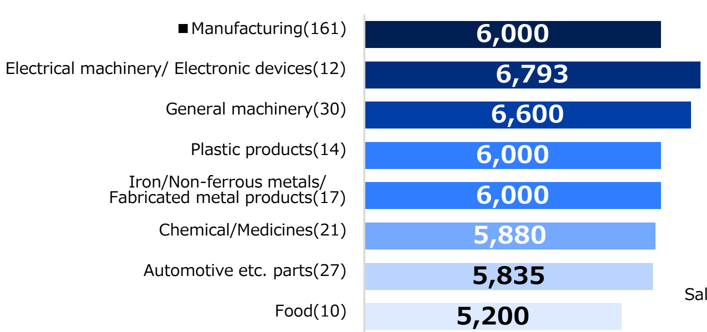
Staff



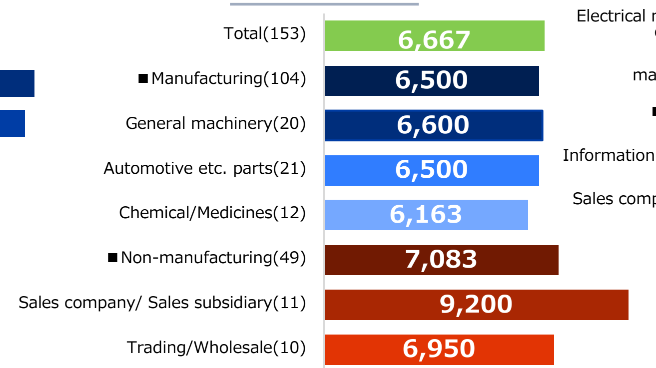
Manager



Engineer



IT Personnel



(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.

(Note 2) Only industries with 10 or more valid responses are listed

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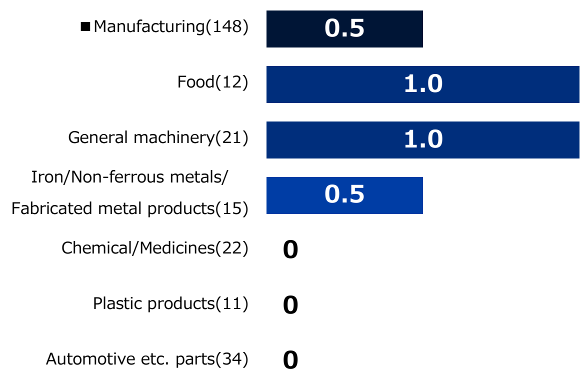
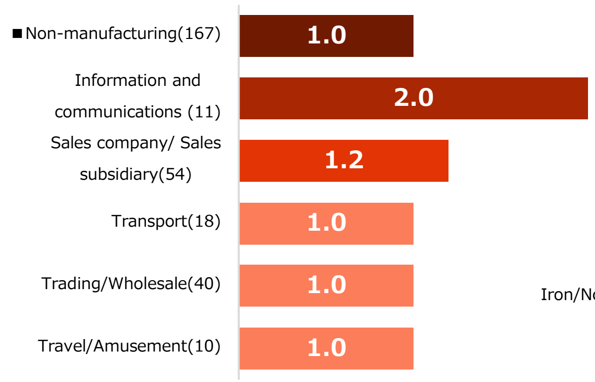
4 Wages (Annual bonus, median): Median by job category: 0.5-1.0 month(s)

(Months)

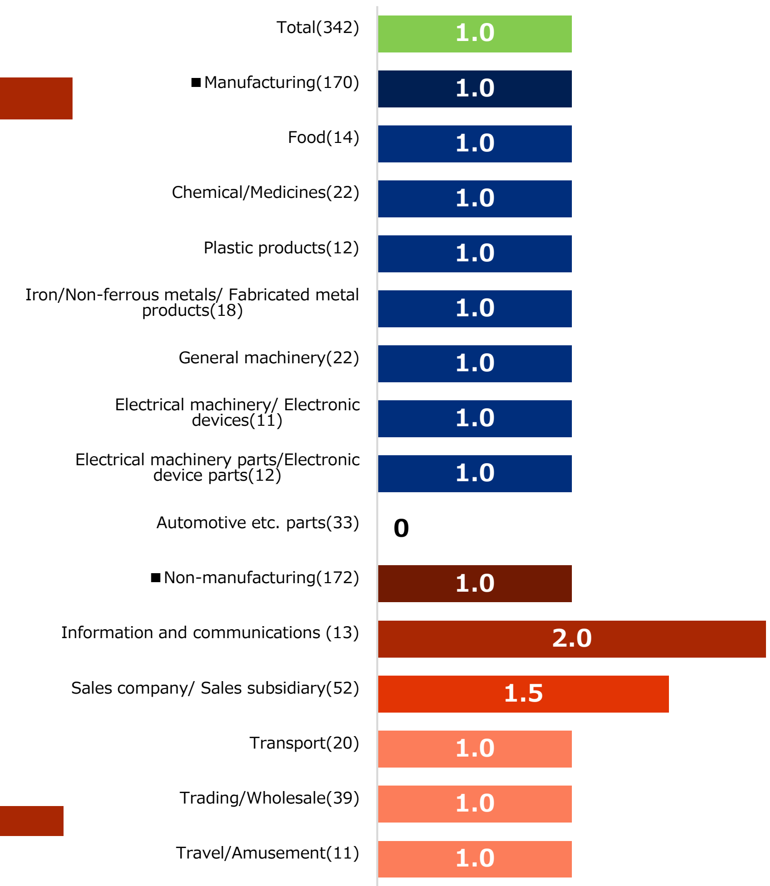
Factory Workers



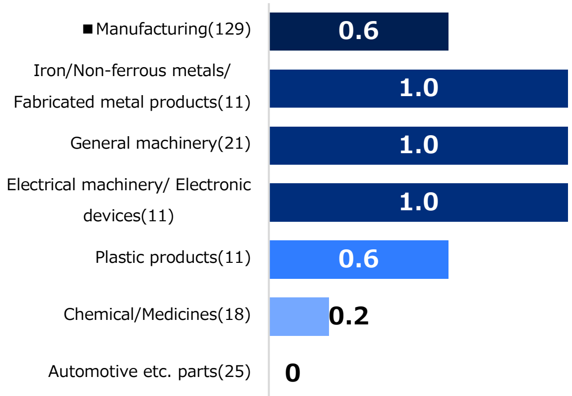
Staff



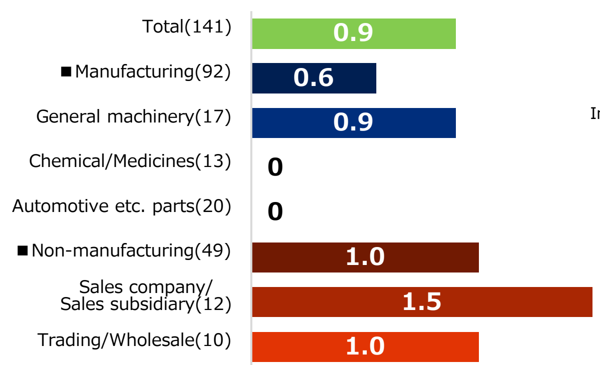
Manager



Engineer



IT Personnel



(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.

(Note 2) Only industries with 10 or more valid responses are listed

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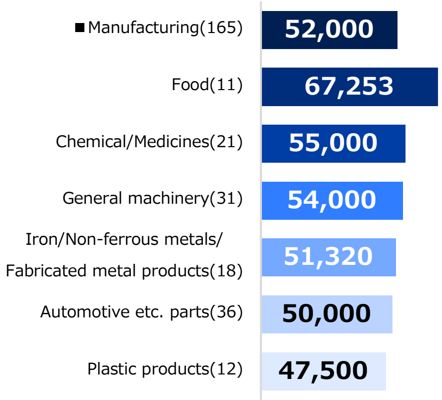
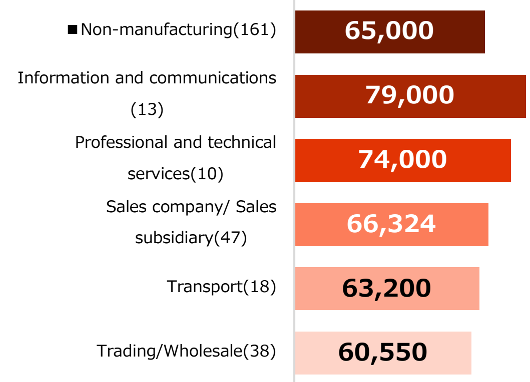
5 Wages (Actual annual cost, median): Median by occupation, $52,000-$105,020

(Dollars)

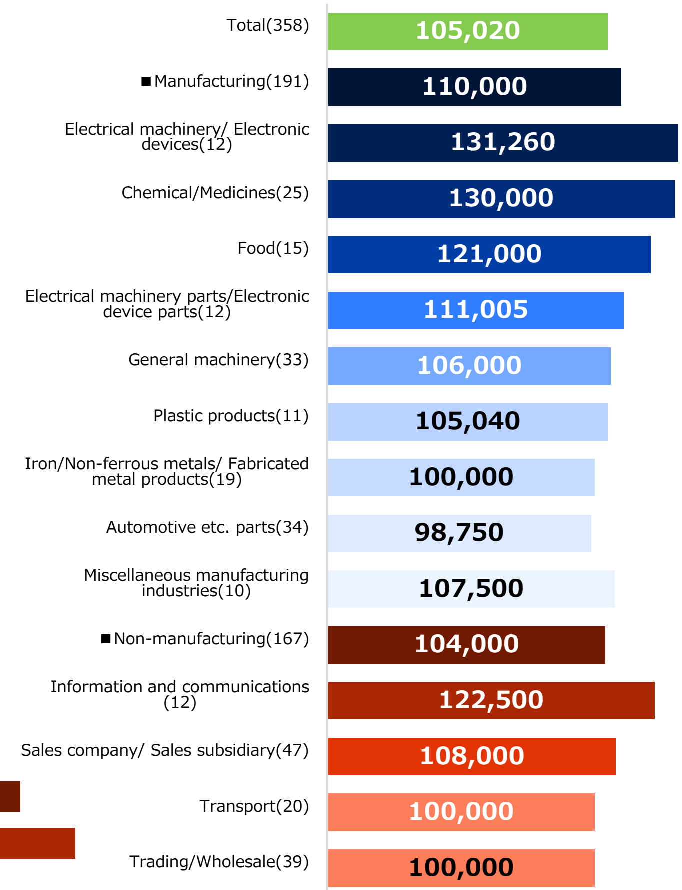
Factory Workers



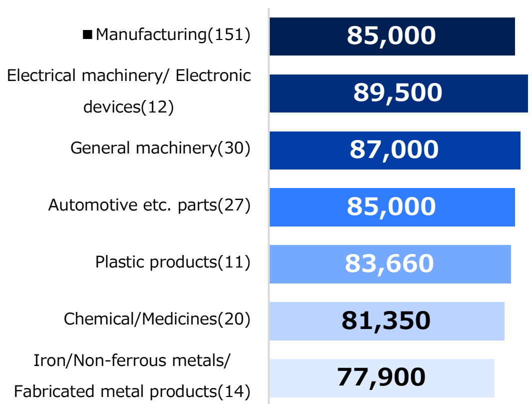
Staff



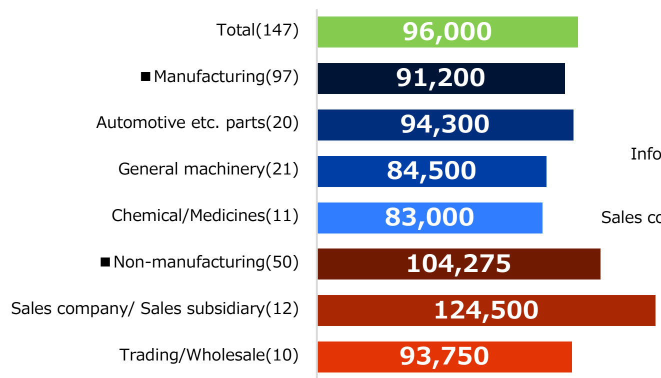
Manager



Engineer



IT Personnel



(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.
(Note 2) Only industries with 10 or more valid responses are listed

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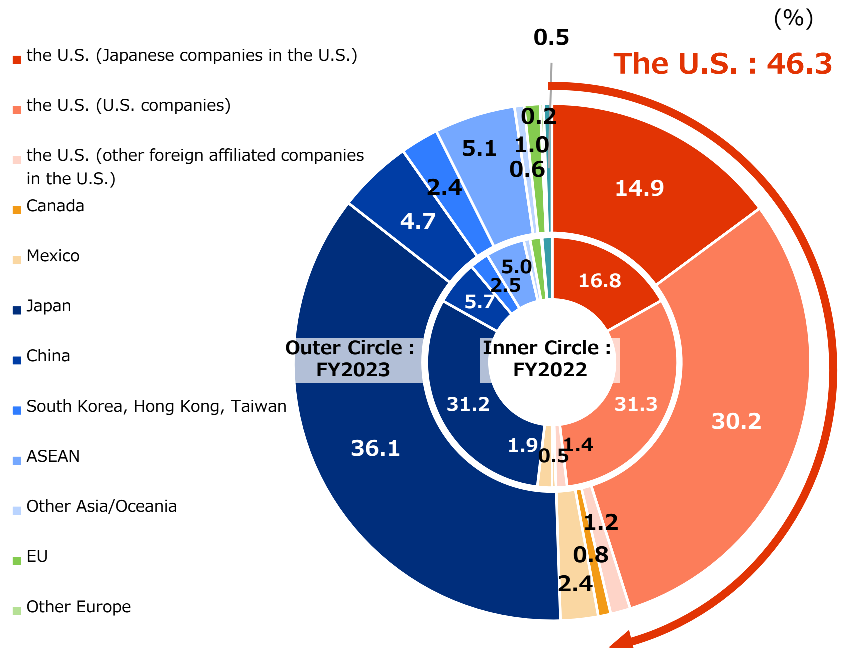
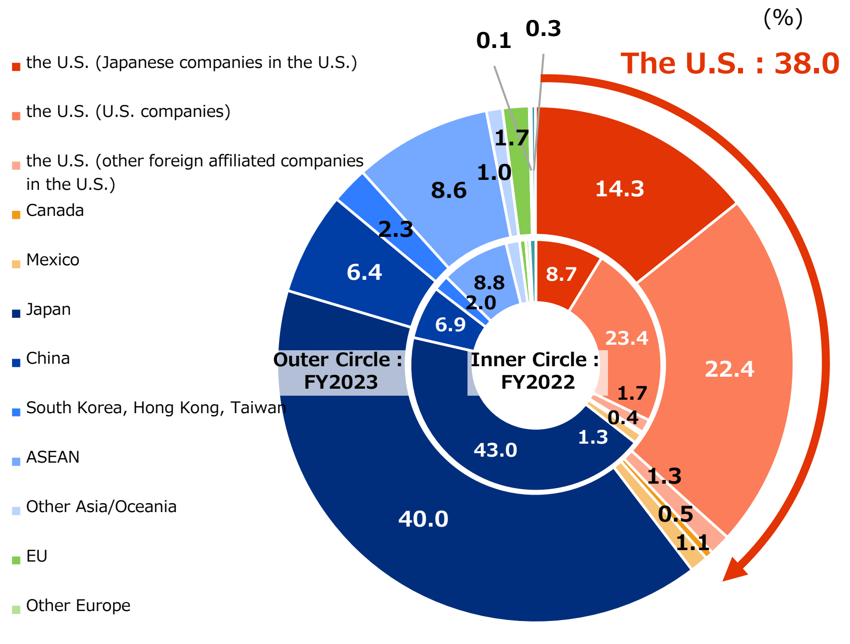
1 Procurement Source: Manufacturing is largest in the U.S., non-manufacturing is largest in Japan

- In the manufacturing sector, 46.3% of raw materials and parts were procured from within the U.S. (49.5% in the previous year), followed by 36.1% from Japan (31.2% in the previous year).
- On the other hand, in the non-manufacturing sector, the ratio of procurement from Japan was 40.0% (Previous year: 43.0%), followed by 38.0% in the U.S. (Previous year: 33.8%).

Procurement Sources for Raw Materials/Parts (By Country/Region)



Procurement Sources for Goods/Services (By Country/Region)



(Note) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.

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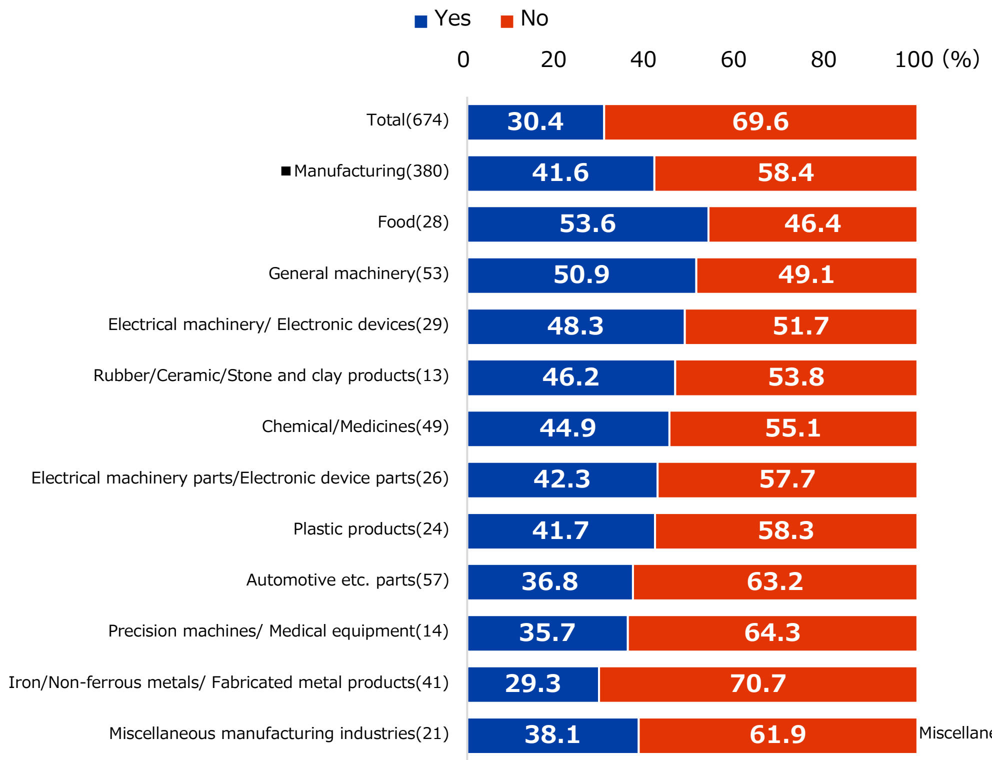
2 Plans to review procurement: The percentage of companies planning to review suppliers is over 40% in the manufacturing sector

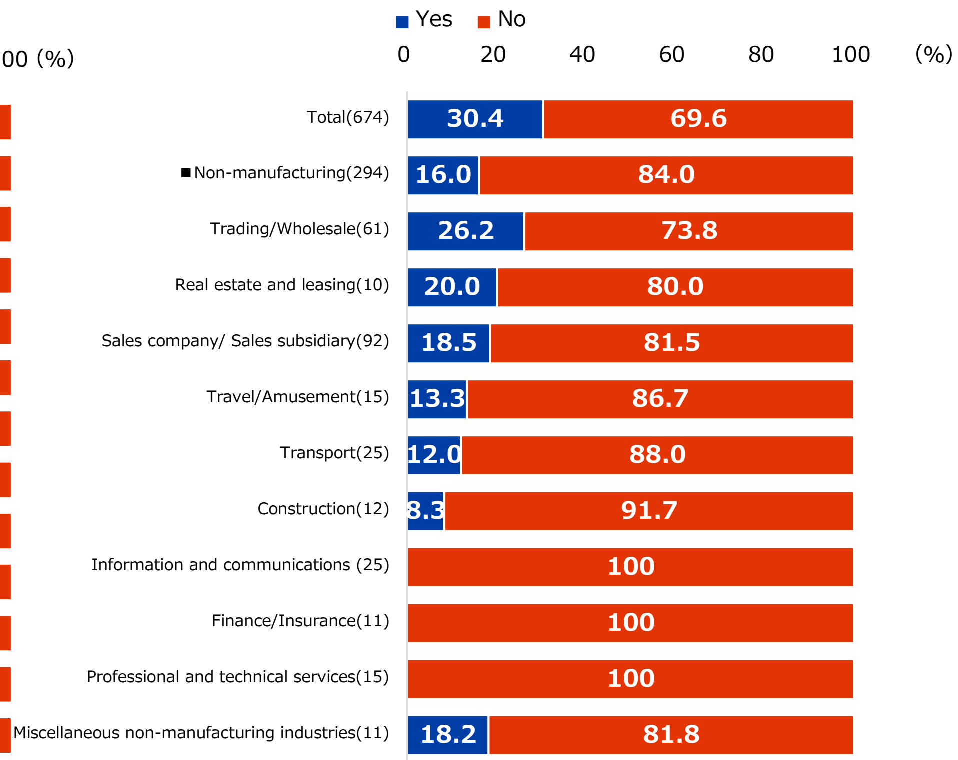
- The percentage of respondents planning to review procurement was 30.4%, down from 49.2% the previous year. However, in the manufacturing sector, the percentage was 41.6%, exceeding 40%. Some industries, such as food (53.6%) and general machinery (50.9%), exceeded 50%.
- In the non-manufacturing sector, the percentage remained low at 16.0%.

Whether or not there are plans to review supply chain (Manufacturing)



(Note) Only industries with 10 or more valid responses are listed.

Whether or not there are plans to review supply chain (Non-Manufacturing)



(Note) Only industries with 10 or more valid responses are listed.

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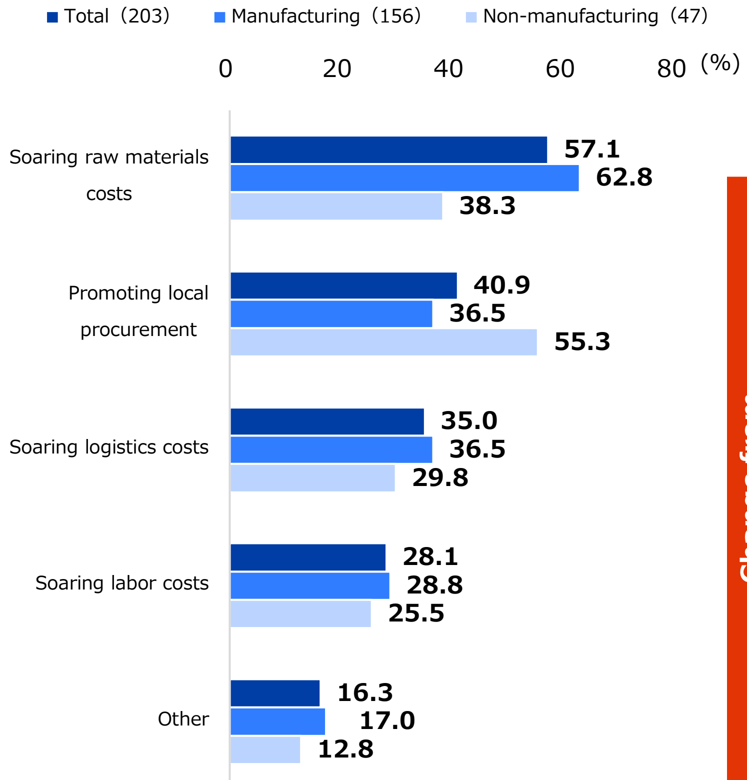
3 Reasons and details of future procurement review: Shift of suppliers to ASEAN has become more pronounced

- The most common reasons for reviewing procurement were "Rising raw material costs" (62.8%) in the manufacturing sector and "Promotion of local procurement" (55.3%) in the non-manufacturing sector.
- The source of the largest number of suppliers after the change was the U.S. (72) due to local procurement. This was followed by ASEAN (24), up from the previous year (14). A particularly notable shift was from China to ASEAN (15).

Reasons for reviewing future procurement (Multiple Answers, by industry)



(Note) Excerpt only for top items.

Changes to Sales Destinations (Multiple Answers)

(Cases)

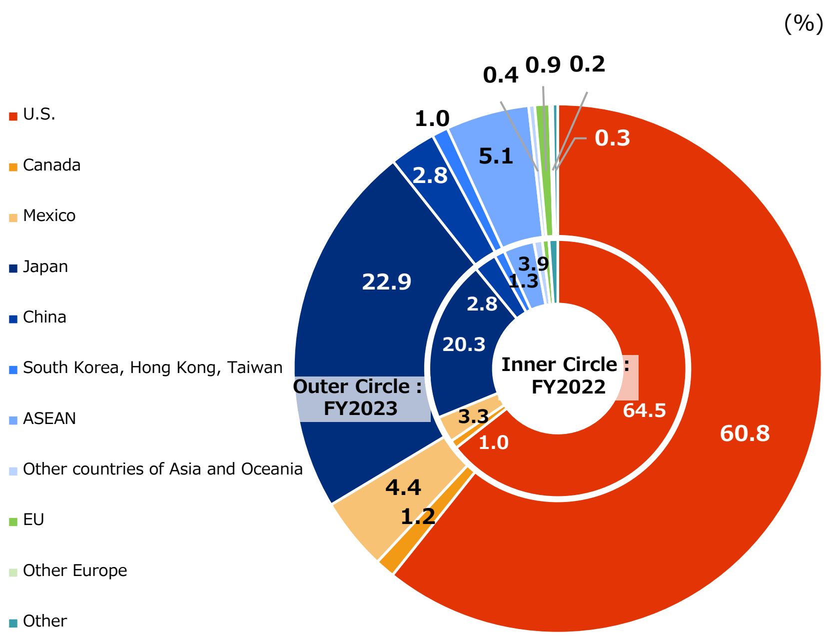
Change from \ Change to	U.S.	ASEAN	Mexico	Japan	Other countries of Asia and Oceania	China	South Korea	Europe	Taiwan	Other	Total
U.S.	**31**	4	**9**	**13**	2	2	2			2	**65**
China	**9**	**15**	2	**6**	**7**	1	2	1	2		**45**
Japan	**25**	4	**6**	1	2				1	1	**40**
ASEAN	2		1			1		1		2	**7**
Taiwan	1		1		1			1			4
Mexico		1	2								3
Europe	2									1	3
Other	1				2	1		1		1	**6**
No source before (Start of new procurement)	1										1
Total	**72**	**24**	**21**	**20**	**14**	**5**	4	4	3	**7**	**174**

(Note) Responses of 5 or more are in bold.

4 Production sites for the U.S. market and plans to review production sites: Approximately 60% is locally produced in the U.S., and more than 80% of companies have no plans to review

- The largest production location for products destined for the U.S. market was in the U.S. at 60.8% (previous year: 64.5%). Japan was next at 22.9%, a slight increase from the previous year (20.3%).
- Only 17.3% responded that they plan to review production, and more than 80% have no plans to do so. On the other hand, 30.8% of respondents in the rubber/ceramic/stone and clay products industries indicated that they plan to review their plans.

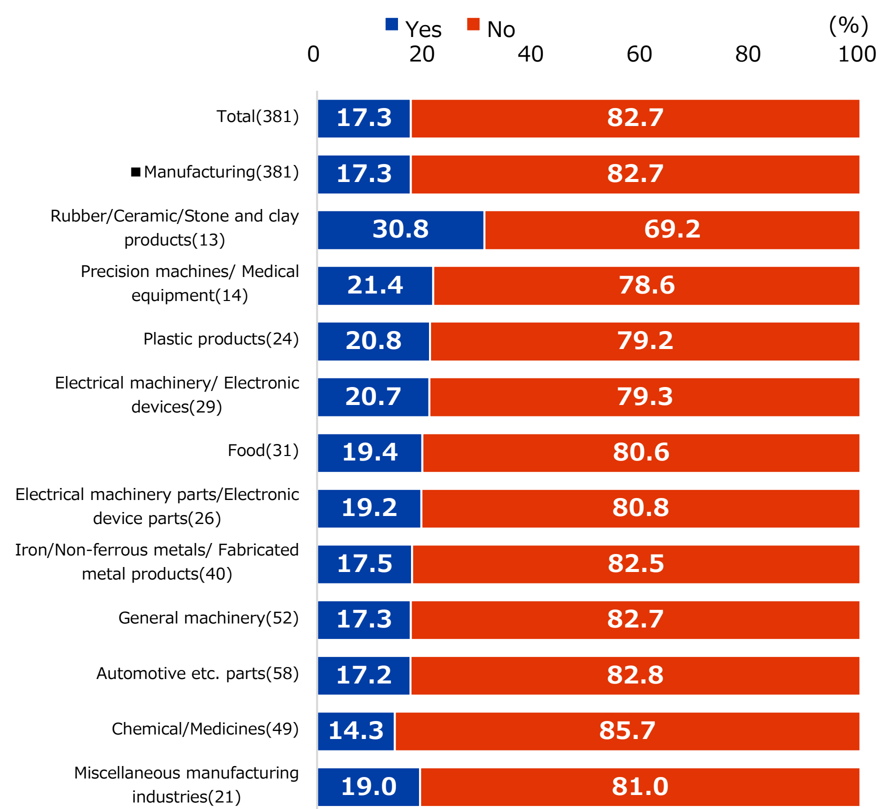
Production Sites of Products for the U.S. Market (By Country/Region)



#of respondents FY2022 : 340
#of respondents FY2023 : 320

(Note) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.

Planned procurement review: (Manufacturing)



(Note) Only industries with 10 or more valid responses are listed

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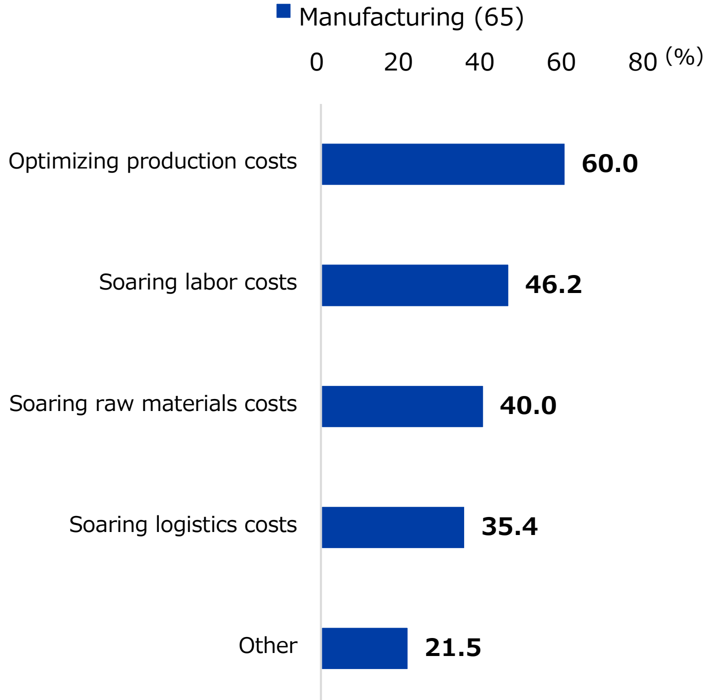
5 Reasons For Future Production Reviews: Factors include optimization of production costs, and an increase in the number of changes to Japan

- The most common reason for reviewing production was "optimization of production costs" (60.0%), followed by soaring labor costs (46.2%), soaring raw material costs (40.0%), and soaring distribution costs (35.4%).
- The most common changes in production location were from the U.S. to Japan (10), from the U.S. to ASEAN (7), and from the U.S. to Mexico (5). The number of companies that said they would change to Japan increased to 11 from the previous year (6).

Reasons for Future Production Reviews (Multiple Answers, By Industry)



(Note) Excerpt only for top items.

Changes in Production Sites (Multiple Answers)

(Cases)

Change from \ Change to	U.S.	Japan	Mexico	ASEAN	Other countries of Asia and Oceania	China	Taiwan	Central and South America (excluding Mexico)	Europe	Total
U.S.	3	**10**	**5**	**7**		2	1			**28**
Japan	**6**			1	1		1			**9**
China	1	1	2	1	2				1	**8**
Mexico			3							3
ASEAN	1				1			1		3
Canada	1									1
Total	**12**	**11**	**10**	**9**	4	2	2	1	1	**52**

(Note) 5 or more changes are shown in bold.

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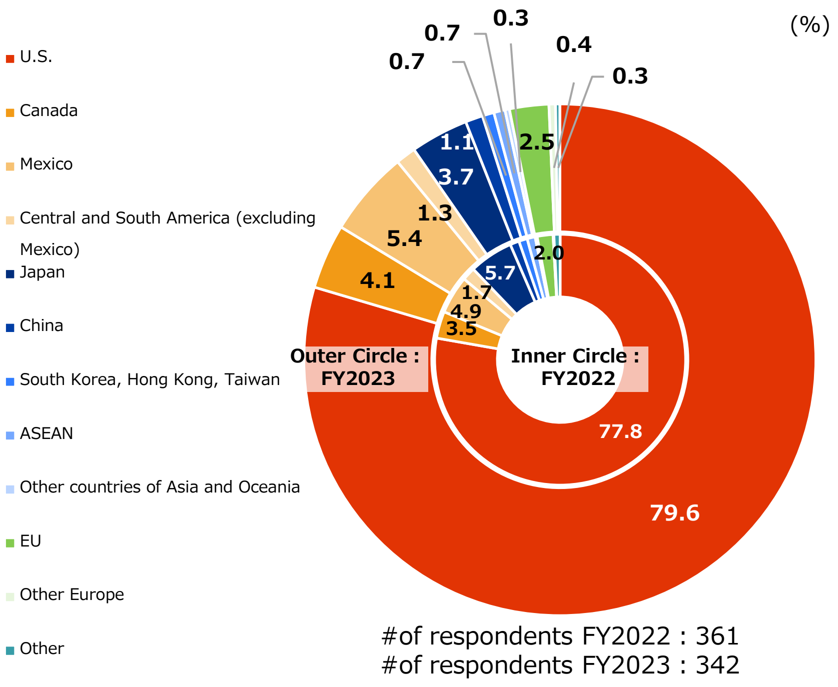
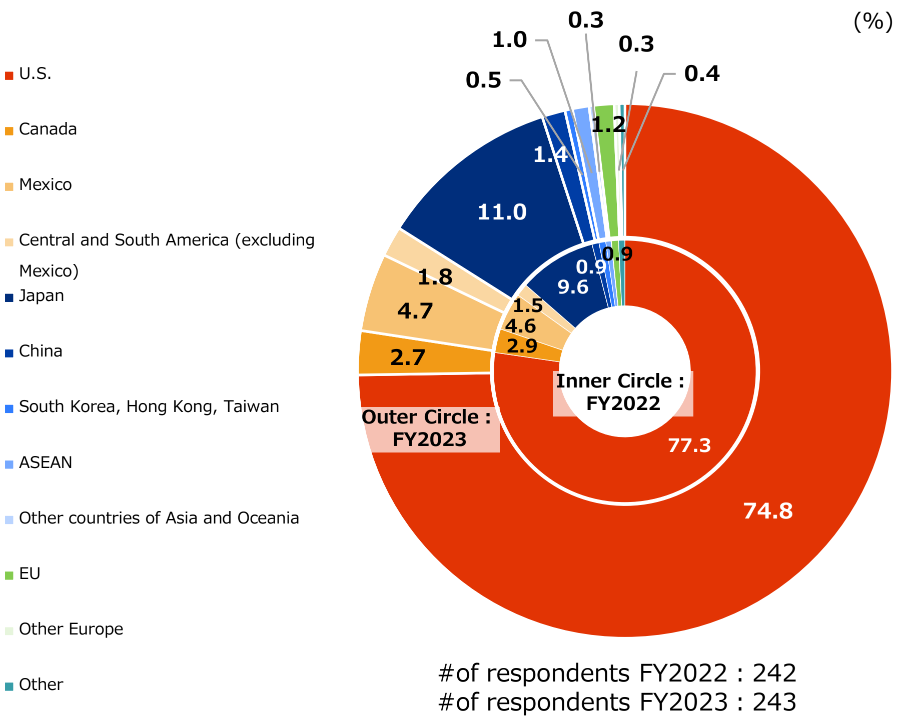
6 Sales Markets: More than 70% of both manufacturing and non-manufacturing sectors are destined for the U.S.

- The manufacturing sector sells 79.6% of its products in the U.S. and 89.1% to the USMCA market, which includes Mexico and Canada. The Japanese market shrank to 3.7% from 5.7% the previous year.
- Non-manufacturing sales to the U.S. market accounted for 74.8%, with 82.2% to the USMCA market, which includes Mexico and Canada.

Product Sales Markets (By Country/Region, Non-manufacturing)



Service Sales Markets (By Country/Region, Non-manufacturing)

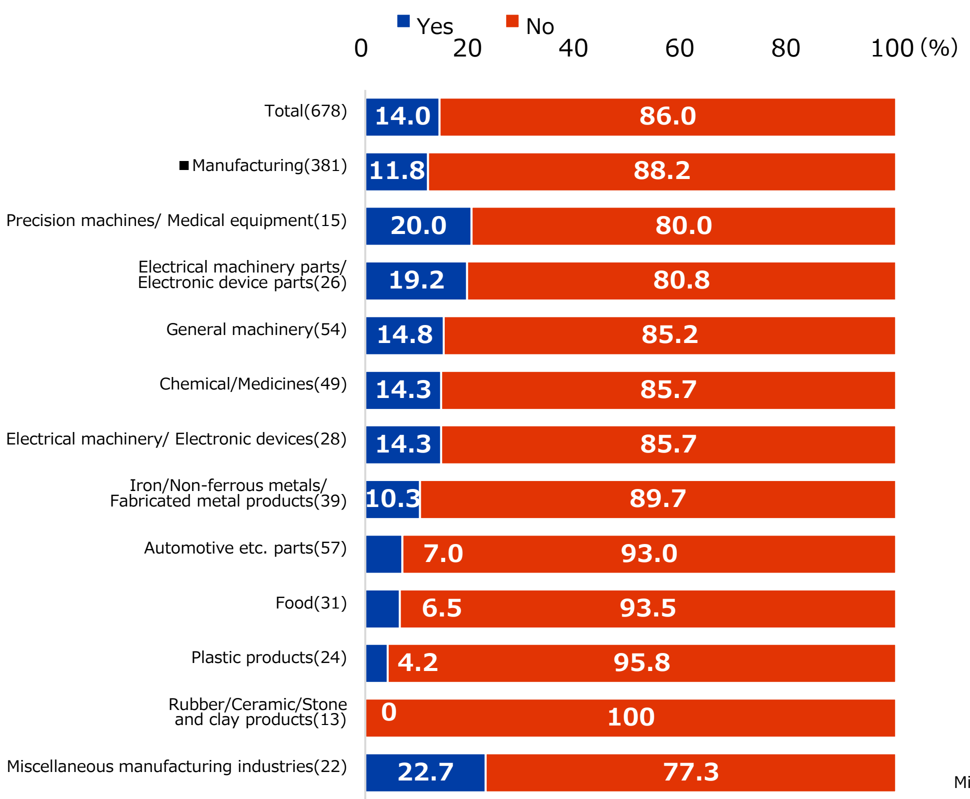


(Note) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.

7 Plans to review its sales partners: Nearly 90% have no plans for review

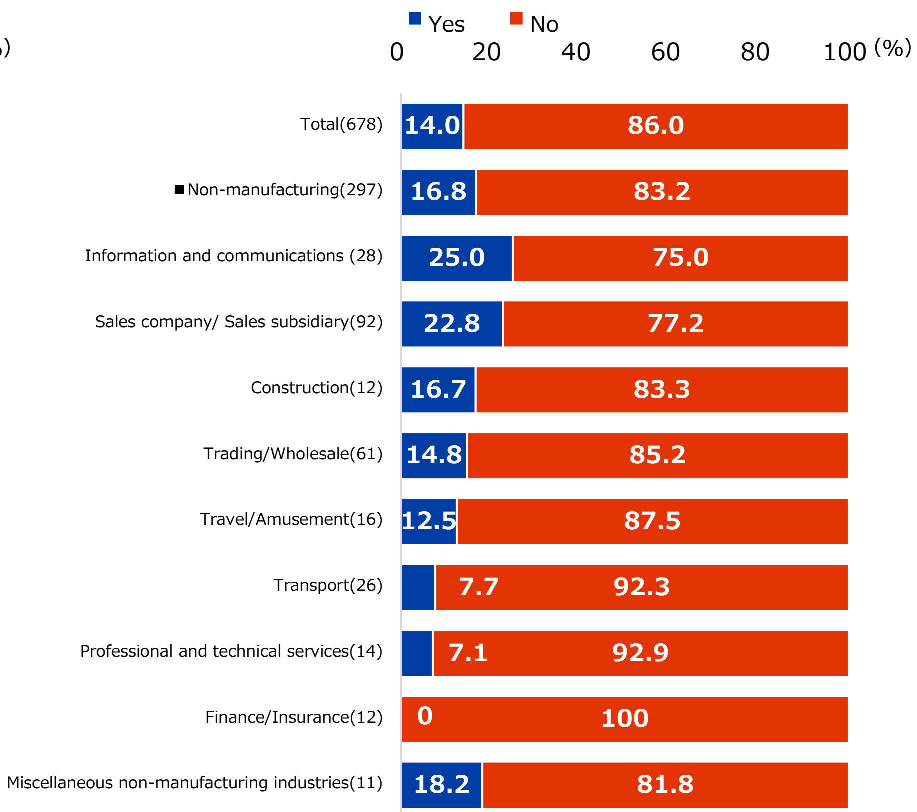
- Only 14.0% of respondents said they plan to review their sales partners, and nearly 90% said they have no plans to do so.
- On the other hand, 25.0% of information and communications and 22.8% of sales companies/sales subsidiaries indicated that they plan to review the situation.

Whether or not there are plans to review its sales partners (manufacturing sector)



(Note) Only industries with 10 or more valid responses are listed

Whether or not there are plans to review its sales partners (non-manufacturing sector)



(Note) Only industries with 10 or more valid responses are listed

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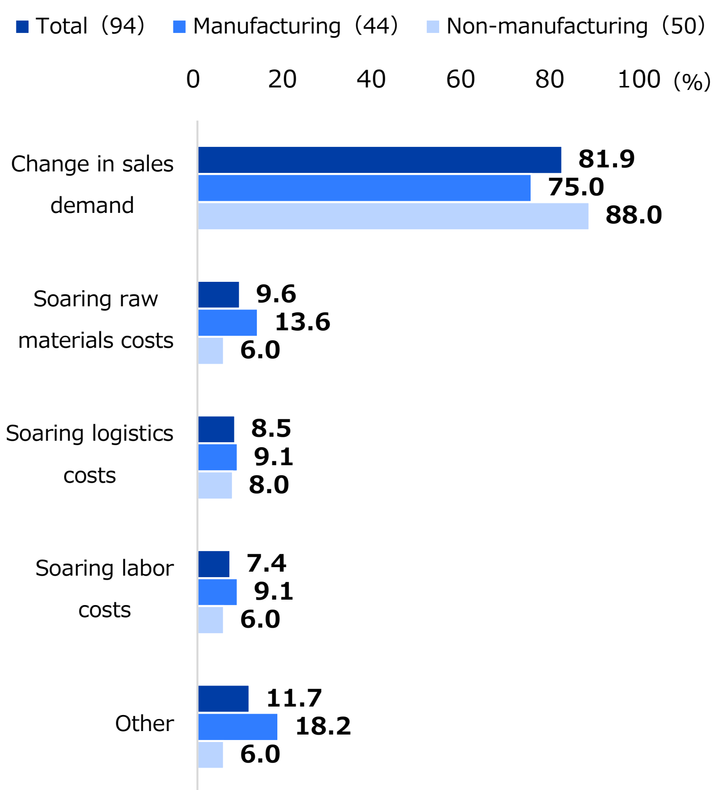
8 Reasons for Sales Reviews Going Forward: Slightly more than one-third of sales partner changes are in the U.S.

- The reason for reviewing sales was "Change in sales demand" in 81.9% of responses.
- The most frequent changes were made within the U.S. (15), and the most frequent sales partners after the change were Central and South America excluding Mexico (7), followed by Mexico (5).

Reasons for Future Production Reviews (Multiple Answers, By Industry)



(Note) Excerpt only for top items.

Changes in Sales Destinations (Multiple Answers)

(Cases)

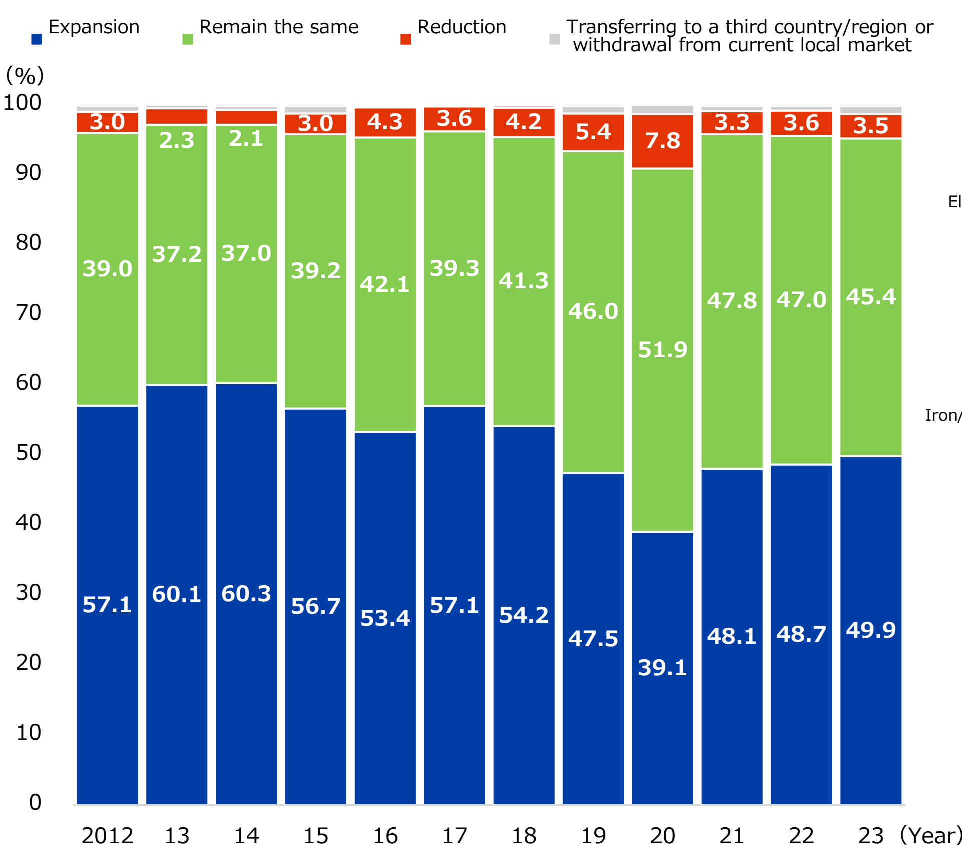
Change from \ Change to	U.S.	Central and South America (excluding Mexico)	Mexico	Europe	Canada	Japan	China	Africa	Other	No destination after (End of sales)
U.S.	**15**	3	4	2						**24**
Mexico		1	1						1	3
Central and South America (excluding Mexico)		3								3
China	1			1			1			3
Japan	1					1				2
Europe	1								1	2
Canada					1					1
Russia CIS								2	1	3
Middle East				1						2
Other	**18**	**7**	**5**	4	1	1	1	2	4	**43**

(Note) 5 or more changes are shown in bold.

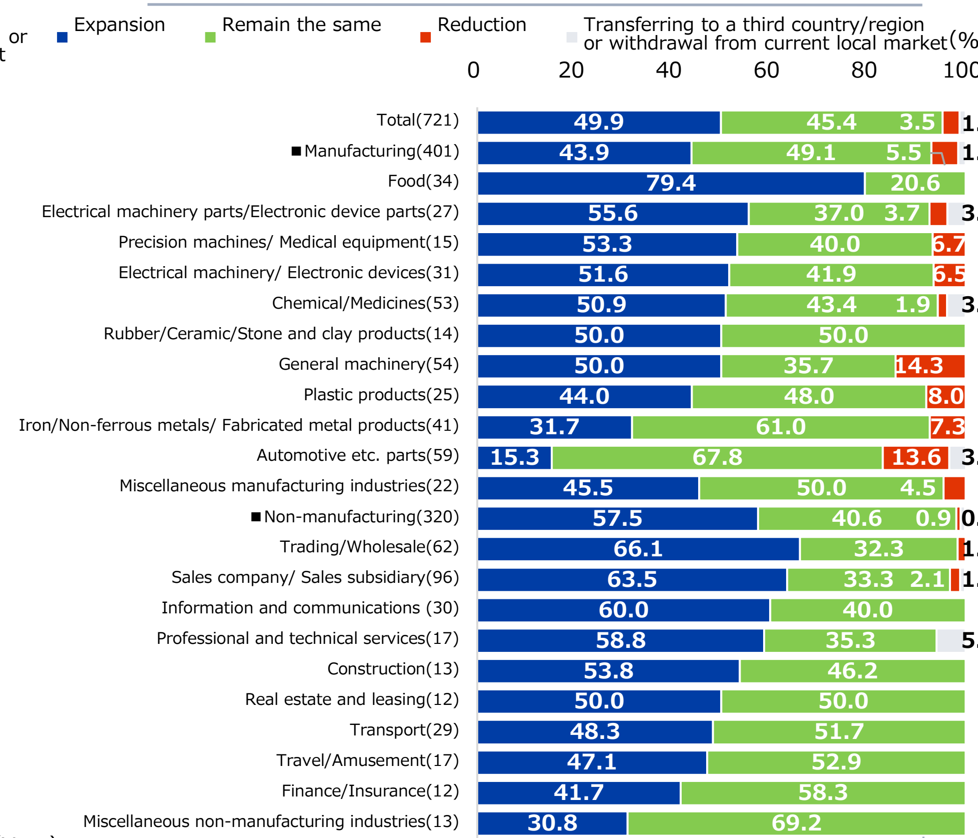
1 Business Direction: Slightly less than half to continue to expand business in the U.S.

- Slightly less than half (49.9%) of the companies intend to expand their business in the U.S. in the next 1-2 years, up from the previous year (48.7%).
- To differentiate by industry, for the manufacturing sector, the percentage that chose "Expansion" was high for food (79.4%) and electrical machinery parts/electronic device parts (55.6%), and in the non-manufacturing sector, for trading/wholesale (66.1%) and sales companies/sales subsidiaries (63.5%). On the other hand, nearly 70% of the respondents in automotive etc. parts maintained the status quo.

Trends in Business Expansion for Next 1-2 Years



Business Direction in the Next 1-2 Years (By Industry)

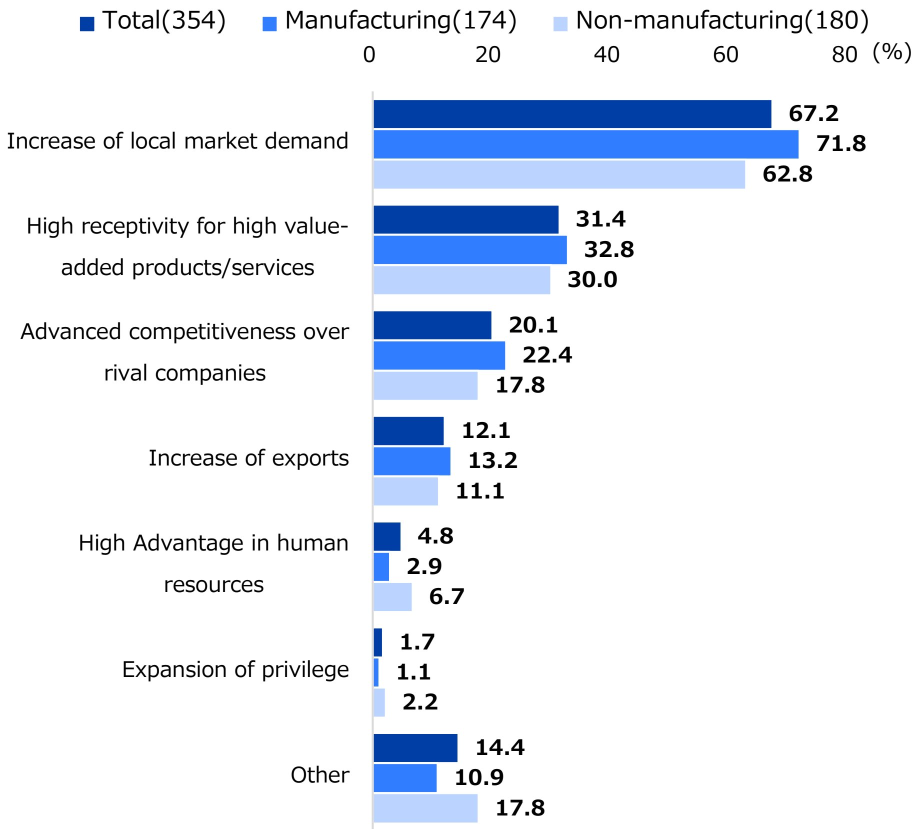


(Note) Only industries with 10 or more valid responses are listed

2 Future Business Direction: Expansion of local market needs is nearly 70%

- "Expanding local market needs" is the leading reason for business expansion over the next 1-2 years (67.2%). Many say that needs have expanded in semiconductors, clean energy, and electric vehicles (EVs), etc.
- This was followed by "Highly receptive to high value-added products and services" (31.4%) and "Superiority compared to competitors" (20.1%).

Reasons for Business Expansion (Multiple Answers)



(Note) Excerpt only for top items.

Specific reasons for business expansion

- **Expansion of local market needs**
  - Booming U.S. semiconductor-related market due to the CHIPS Plus Act and other factors [Precision machines/medical equipment, plastic products, Chemical/Medicines, etc.]
  - Market expansion in the clean energy sector in the U.S. [General machinery, electrical machinery/electronic devices, etc.]
  - Increased demand for parts and equipment due to the development of EVs [Iron/non-ferrous metals/fabricated metal products, general machinery, trading/wholesale, etc.]
  - Growing popularity of Japanese food, anime, etc. in the U.S. [Food, professional and technical services, trading/wholesale, etc.]
  - Increased demand for investment in systems and labor-saving/automation equipment due to rising labor costs [Sales companies/sales subsidiaries, information and communications, etc.]
  - Optimization of market inventory due to the completion of inventory adjustment by each company [Electrical machinery parts/electronic device parts, general machinery, trading/wholesale]

- **Superiority over competitors**
  - Highly rated for delivery time, quality, and service [Iron/non-ferrous metals/fabricated metal products, general machinery, etc.]
  - Differentiation through own brand, proprietary products, or products that other companies do not carry [Rubber/ceramic/stone and clay products, trading/wholesale, sales companies/sales subsidiaries, etc.]

- **Increase in exports**
  - To expand sales channels to Canada, Mexico, and Central and South America [Precision machines/medical equipment, general machinery, sales companies/sales subsidiaries, etc.]

(Note 1) The option "Highly receptive to high value-added products and services" does not have individual response field for the specific reasons for it.
(Note 2) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised

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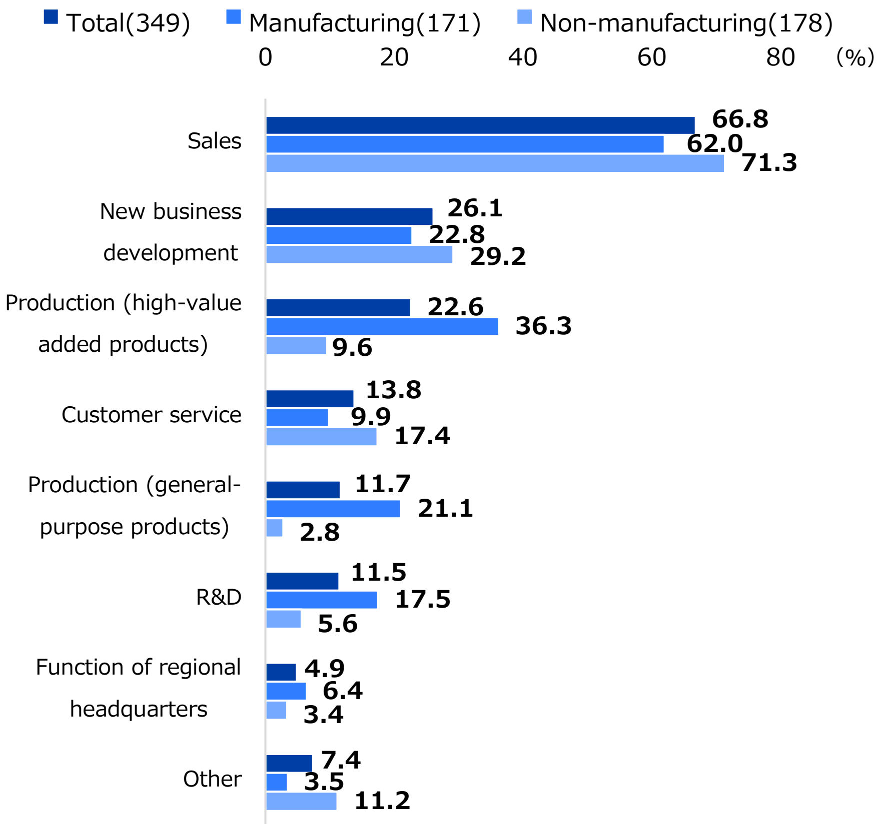
3 Future Business Direction: California and Texas are the leading expansion destinations

- The most common function to expand in business over the next 1-2 years was "Sales" at 66.8%, followed by "New business development" (26.1%) and "Production (high value-added products)" (22.6%).
- States that will expand the above functions include California, Texas, and New York, which have large economies, as well as the Midwest (Illinois, Ohio, and Michigan) and the Southeast (Georgia and Florida).

Specific Functions to Be Expanded (Multiple Answers)



(Note) Excerpt only for top items.

Major U.S. expansion points

Sales

Manufacturing		Non-manufacturing	
State	# of respondents	State	# of respondents
California	12	California	15
Texas	8	Texas	11
New York	6	Illinois	6
Florida	5	Michigan	5
Michigan	4	New York	4

New Business Development

Manufacturing		Non-manufacturing	
State	# of respondents	State	# of respondents
California	4	California	10
		New York	3
Indiana Michigan Pennsylvania	2	Texas	2

Production (high-value added products)

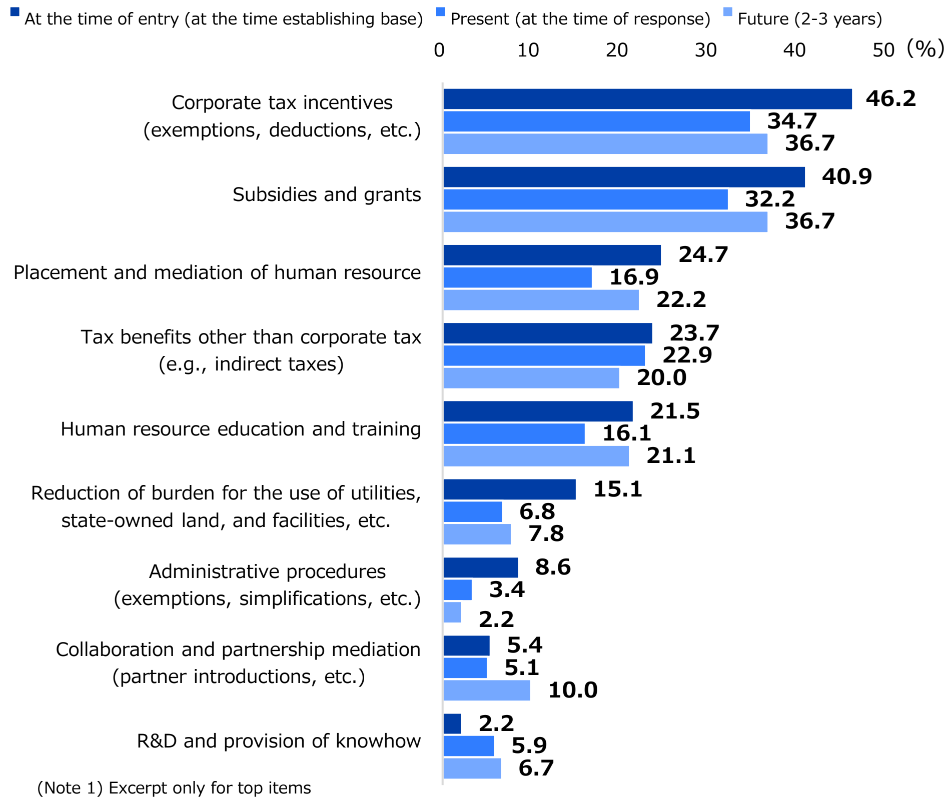
Manufacturing		Non-manufacturing	
State	# of respondents	State	# of respondents
California	8	California Texas	3
Georgia Ohio	4		

(Note) Only the top states are listed in terms of the functions that received the most "Expansion" responses.

4 Incentives received from government, municipalities, etc.: Utilization of tax benefits, subsidies, grants, and human resource support

- Incentives received from the government, municipalities, etc. included tax benefits, subsidies, and grants, as well as human resource placement and mediation services and also human resource training and development.
- The most common states where companies received or will receive corporate tax benefits were Georgia (11 companies), Texas (9 companies), and California, Indiana, and Ohio (7 companies each).

Incentives received from the government, municipalities, etc. (Multiple Answers)



(Note 1) Excerpt only for top items
(Note 2) Figures in parentheses in the explanatory notes indicate the number of companies that have received or will receive some sort of specific incentive at each point in time.

Examples of specific incentives/supports

- **Corporate tax benefits**
  - Tax benefits from state governments and state agencies [General machinery]
- **Subsidies and grants**
  - Payment of employment subsidies and capital investment subsidies [Railway/transport vehicles etc. , etc.]
  - Investment subsidies for the construction of manufacturing facilities [Food]
  - Payment of federal and state government subsidies for semiconductor promotion measures [Electrical and electronic parts]
- **Human resource recruitment and placement, education and training**
  - Reduction of educational expenses [Automotive etc. parts]
  - State grants for worker education [Electrical machinery/electronic devices]
  - Introduction of local job fairs and other venues [Plastic products]
  - Free enrollment in educational programs offered by community colleges [Sales companies/sales subsidiaries]
  - Utilization of municipality human resource development programs [electrical machinery parts/electronic device parts]
- **Non-corporate tax benefits**
  - Exemption of fixed assets for new factory construction [rubber/ceramic/stone and clay products]
  - Partial exemption from property and other taxes based on the number of employees employed [Automotive etc. parts, plastic products]
  - Payroll Protection Program (PPP) loan forgiveness [Automotive etc. parts, Chemical/Medicines]
  - Tax benefits for the construction of solar power generation facilities [Mining and energy]
  - Indirect tax exemptions on research and personnel expenses [Electrical machinery/electronic devices]
- **Other**
  - Land development, road construction, and infrastructure development such as electricity and gas [rubber/ceramic/stone and clay products]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised

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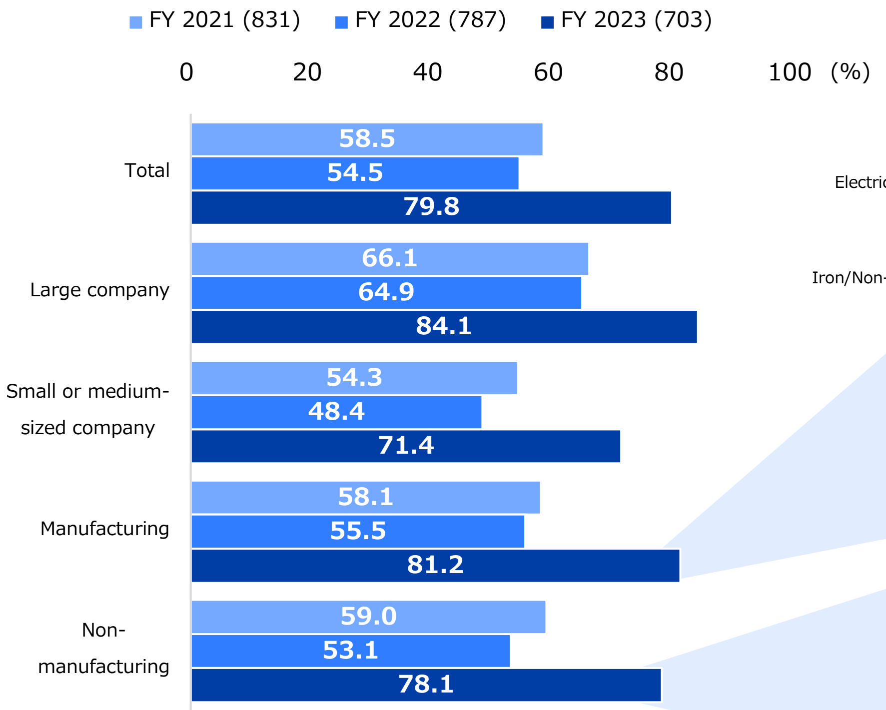
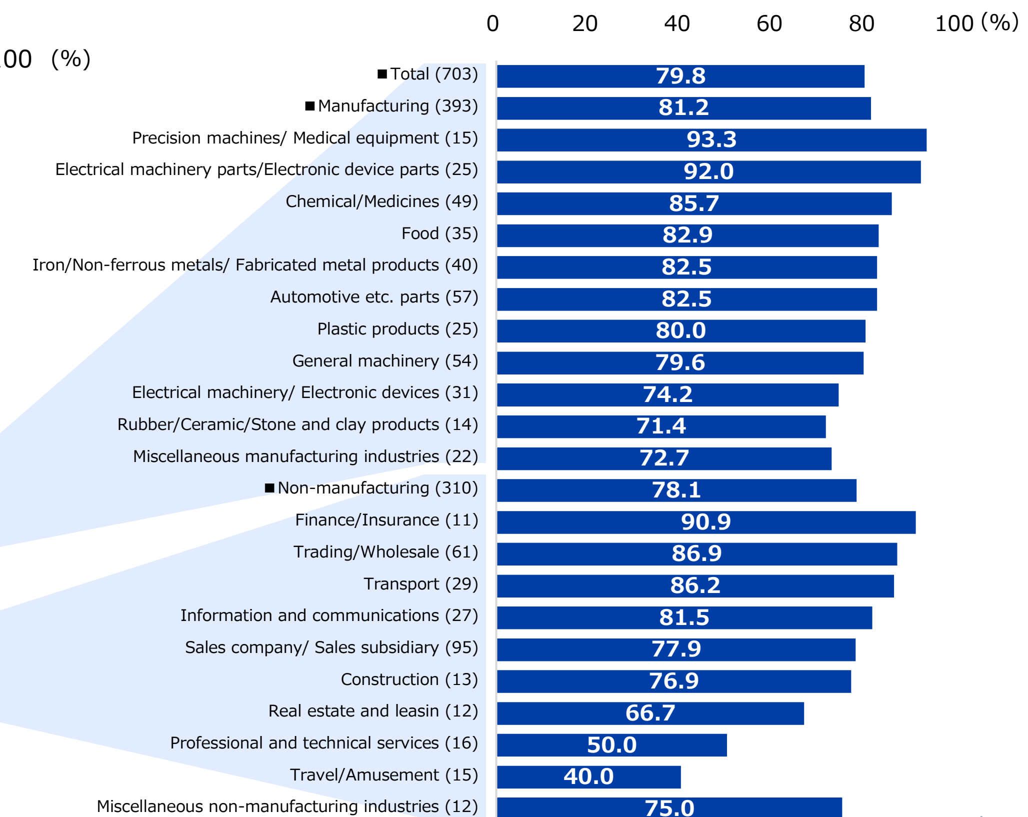
1 Business and Human Rights: Nearly 80% recognize it as an important management issue

- Several years have passed since the issue of business and human rights became a major focus of attention, and the percentage of companies that recognize it as an important management issue jumped to 79.8% from the previous year (54.5%).
- By company size, large companies were 12.7 percentage points higher than small and medium-sized companies, and by industry, the percentage was above 70% in almost all industries.

Percentage of companies that recognize human rights issues as an important management issue (overall, by company size and industry)





(Note) In 2021 and 2022, "Small and medium-sized companies" among respondents are those with fewer than 100 total employees in the U.S., and "Large companies" are those with 100 or more total employees. Respondent company classification in 2023: "Small and medium-sized companies" are those whose headquarters in Japan fall within the scope of small and medium-sized companies as defined by Japan's Basic Act on Small and Medium-sized Enterprises, and "Large companies" are those whose headquarters exceed the same scope.

(Note) Only industries with 10 or more valid responses are listed

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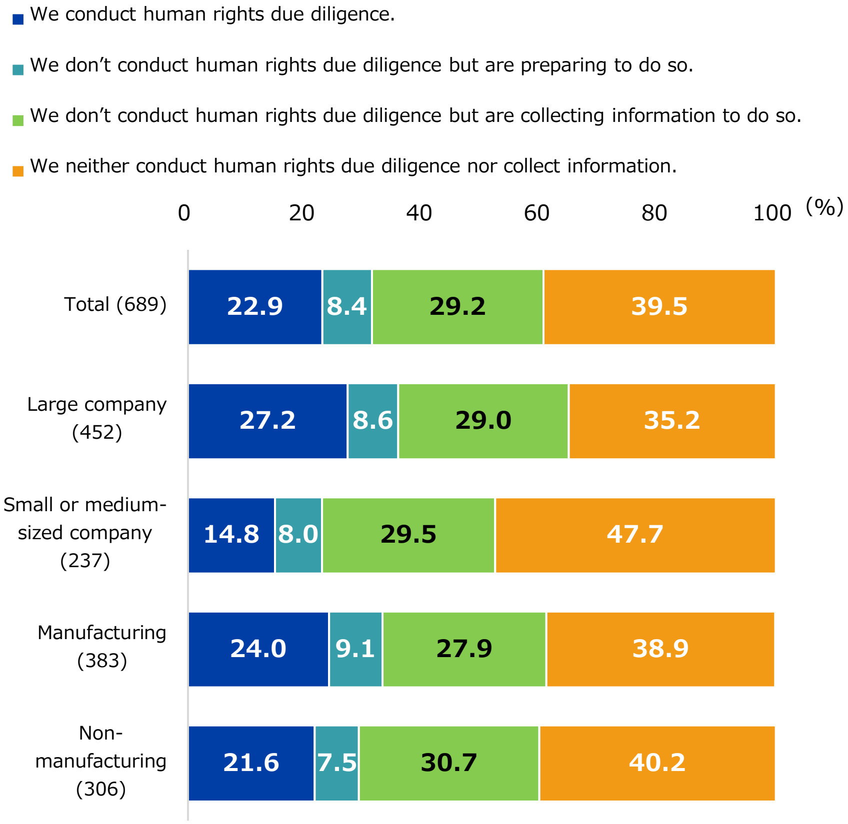
2 Business and Human Rights: Human rights due diligence (DD) implementation is not yet fully complete

- While awareness of the issue is increasing, the number of companies implementing human rights DD decreased to 22.9% from the previous year (25.1%). Small and medium-sized enterprises accounted for 14.8%, compared to 27.2% for large enterprises, a difference of more than 10 points depending on the size of the enterprise.
- Lack of resources, including manpower, time, and cost, are challenges to implementation.

Is human rights DD being implemented? (By company size and industry)



(Note) Figures in parentheses alongside company size and industry are the number of valid responses.

Reasons for implementing/not implementing human rights DD

Main reasons for implementation

- Due to increased demand from suppliers and anticipated increased need in the future [Electrical machinery parts/electronic device parts, Automotive etc. parts, sales companies/sales subsidiaries, etc.]
- Compliance with laws and regulations, including the U.S. Uyghur Forced Labor Prevention Act (UFLPA) [General machinery, electrical machinery parts/electronic device parts, trading/wholesale, etc.]
- Implemented in accordance with the policies and instructions of the head office and group companies [Precision machines/medical equipment, sales companies/sales subsidiaries, trading/wholesale, etc.]
- To promote social responsibility, enhance corporate value, and avoid reputational risk [General machinery, electrical machinery parts/electronic device parts, other manufacturing]

Main reasons for not implementing

- There are insufficient resources in terms of manpower, time, and cost to implement [Chemical/Medicines, sales companies/sales subsidiaries, other manufacturing companies, etc.]
- Because we think that it is not necessary due to the size of the company or the nature of the business [Iron/non-ferrous metals/fabricated metal products, sales companies/sales subsidiaries, etc.]
- No awareness of human rights issues in the company or industry, no requests from customers or head office [Trading/wholesale, other non-manufacturing, etc.]
- Don't know where to start or what specific methods to use [Plastic products, general machinery, etc.]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised

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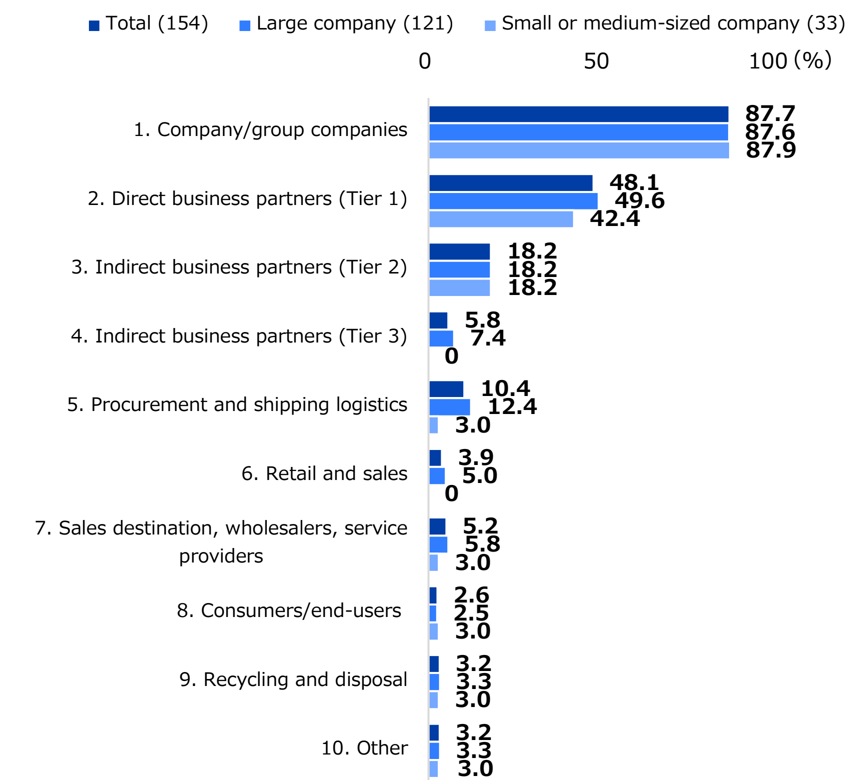
3 Business and Human Rights: Challenges for companies implementing human rights DD are retroactive to indirect business partners

- The scope of human rights DD implementation was 87.7% for "In-house and group companies" and 48.1% for direct business partners (Tier 1). Only a limited number of companies conduct human rights DD to their indirect business partners (Tier 2) and beyond.
- There are some examples of ways to implement human rights DD, such as questionnaires, on-site visits, and contractual reporting requirements.

To what extent have you been able to implement human rights DD in the supply chain, etc.? (Multiple choice)



(Note) Only companies that responded that they have implemented human rights DD were included.

Challenges in human rights DD efforts

- It is difficult without a common understanding of industry-wide human rights risks due to relationships with other companies, and it cannot be handled by a single company [Sales companies/sales subsidiaries, etc.]
- Some confirmations may not be responded to favorably [Electrical machinery/electronic devices]
- Not to mention that subcontractors have limits to their information when it comes to sub-subcontractors [Automotive etc. parts]

Specific measures to obtain information from suppliers

- Conduct questionnaires for suppliers [Electrical machinery parts/electronic device parts, Chemical/Medicines, etc.]
- Conduct interviews and meetings [Electrical machinery parts/electronic device parts, Automotive etc. parts]
- Regularly visit and check up on the sites [Chemical/Medicines]
- Design a reporting system [Automotive etc. parts, Electrical machinery/electronic devices]
- Establish a process to register clients [Chemical/Medicines]
- Specify human rights requirements in contracts and demonstrate compliance on the part of suppliers through signatures [Electrical machinery parts/electronic device parts]
- Include reporting on raw material suppliers in contracts [Construction, chemical/medicines]
- Communicate appropriately with suppliers as well as customers [Automotive etc. parts]
- Risk assessment based on the "Customs-Trade Partnership for the Prevention of Terrorism (CTPAT, see note)" program [Other manufacturing]

(Note 1) CTPAT is a joint public-private program established in response to the 2001 terrorist attacks. Its purpose is strengthening of supply chain security and trade facilitation for cargo destined for the U.S.
(Note 2) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised

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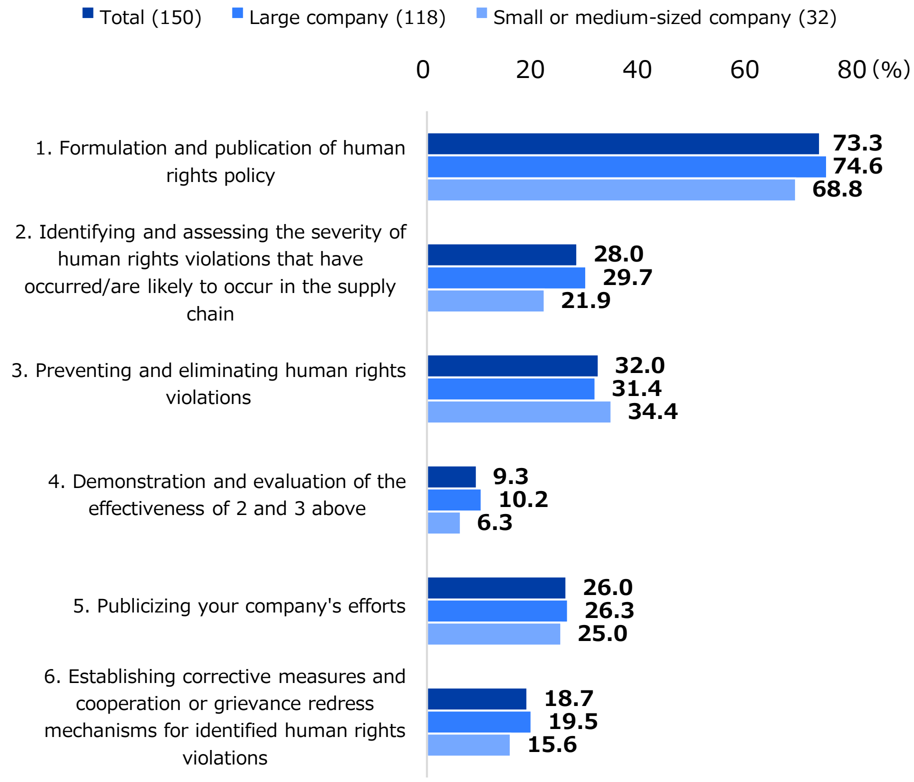
4 Business and Human Rights: Less than 10% of companies continually implement human rights DD based on the PDCA cycle

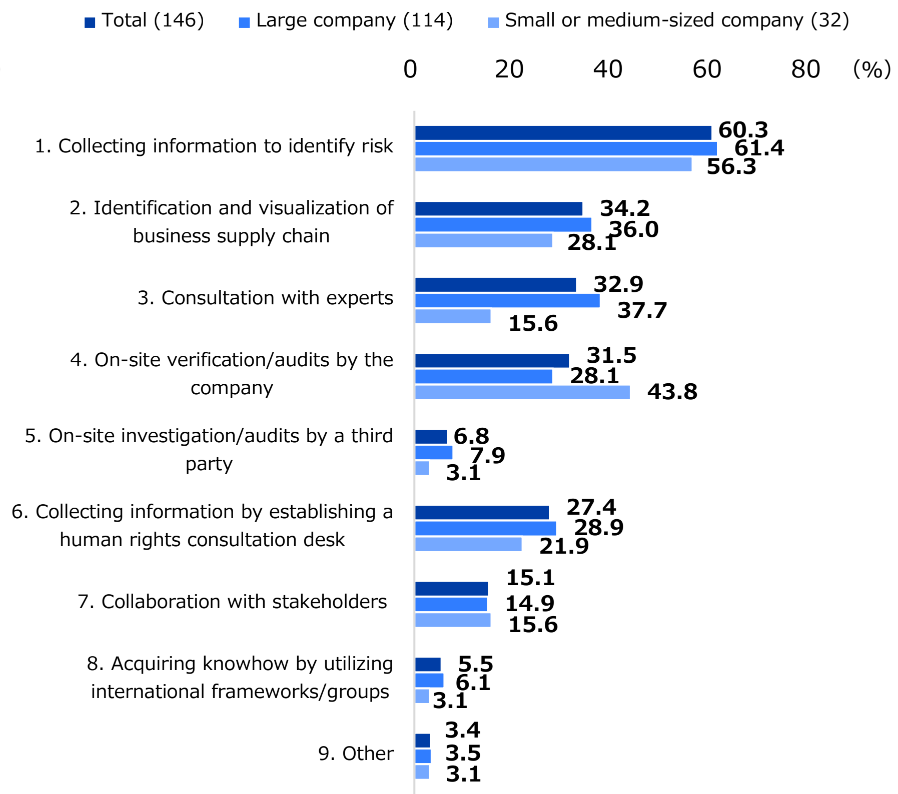
- The percentage of companies that "Formulate and publish human rights policies" is 73.3%, but the percentage of companies that continuously implement the PDCA cycle based on their policies (Identification, evaluation, prevention, demonstration of resolution, evaluation) is less than 10%.
- Efforts to identify and assess human rights risks were most frequently "Information gathering" (60.3%).

Contents of human rights DD efforts (Multiple choice)



(Note) Only companies that responded that they have implemented human rights DD were included.

Contents of efforts to identify and evaluate human rights risks (Multiple choice)



(Note) Only companies that have implemented human rights DD to any extent, such as in the supply chain, are included.

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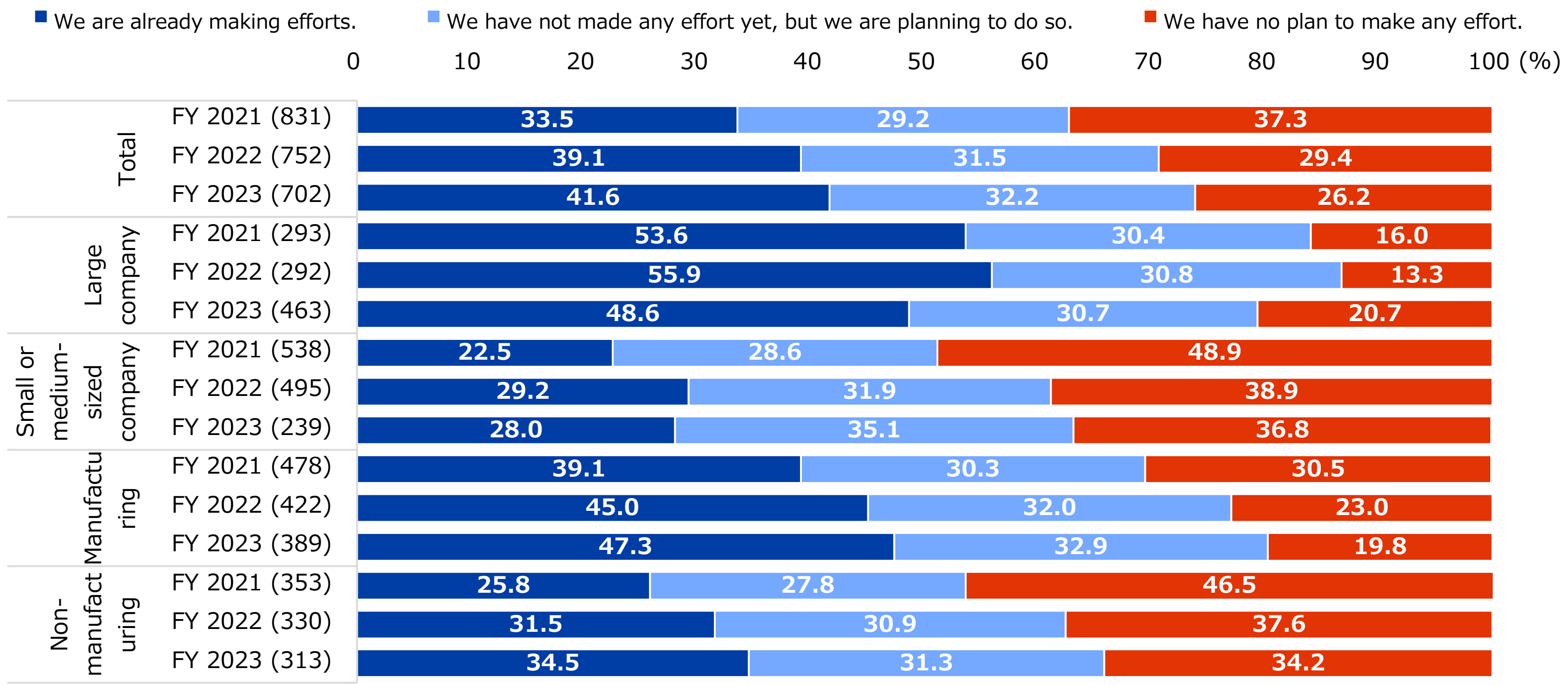
5 Promoting Decarbonization: More than 70% of companies are working to reduce greenhouse gas emissions

- 73.8% of companies are "Taking action" or "Planning to take action" to decarbonize, up 3.2 points from the previous year (70.6%).
- This was 79.3% for large companies and 63.1% for small and medium-sized companies, a difference of 16.2 points by company size.

Status of efforts to decarbonize (Reduction of greenhouse gas emissions)



(Note 1) The totals in the survey results in this report may not be 100 because the numbers are rounded off to the first decimal point.
(Note 2) In 2021 and 2022, "Small and medium-sized companies" among respondents are those with fewer than 100 total employees in the U.S., and "Large companies" are those with 100 or more total employees. Respondent company classification in 2023: "Small and medium-sized companies" are those whose headquarters in Japan fall within the scope of small and medium-sized companies as defined by Japan's Basic Act on Small and Medium-sized Enterprises, and "Large companies" are those whose headquarters exceed the same scope.

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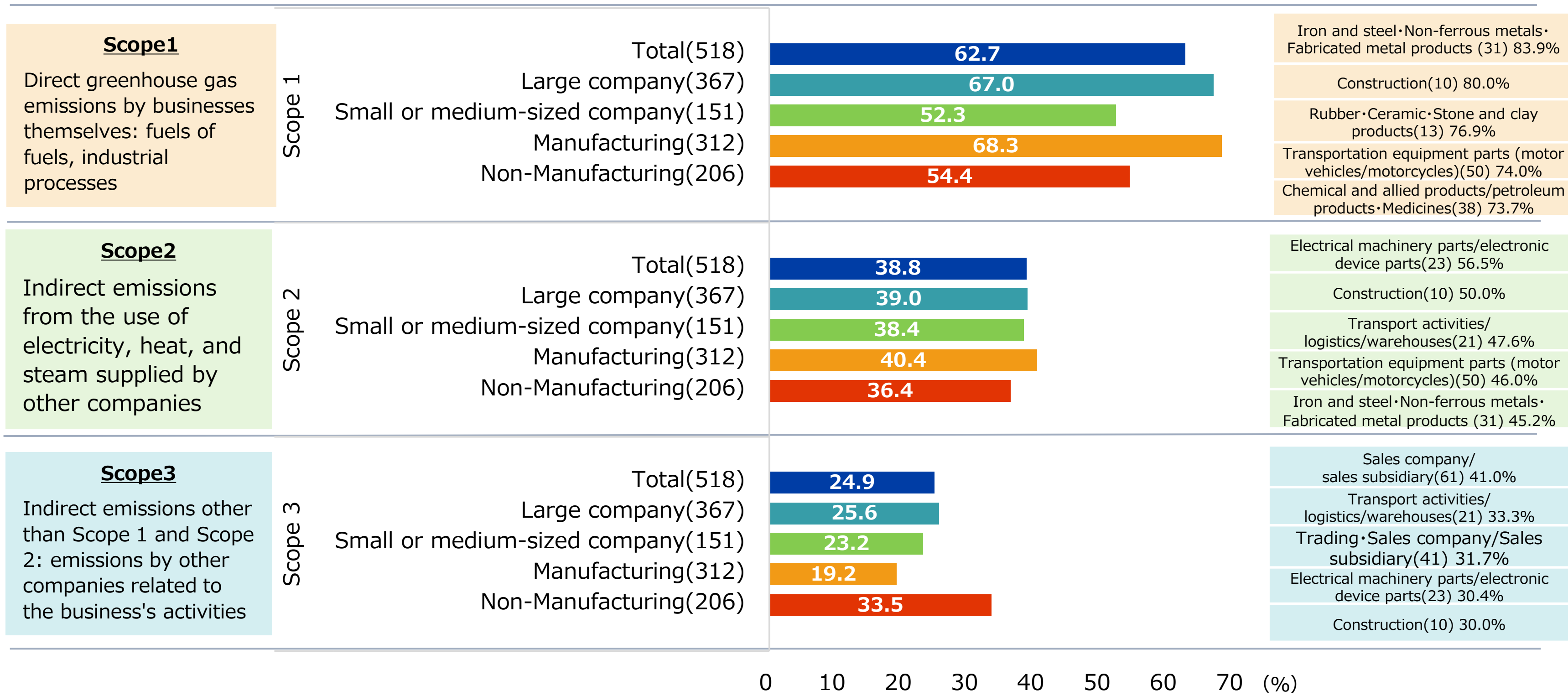
6 Promoting Decarbonization: Efforts focus on reducing direct emissions for over 60% of respondents

- Looking at company efforts by scope for all companies that responded "Taking action" or "Planning to take action", Scope 1 was the most common among all industries, at 62.7% of all respondents. The largest number of respondents by industry were from iron/non-ferrous metals/fabricated metal products in the manufacturing sector, at 68.3%, and construction in the non-manufacturing sector, at 54.4%. For Scope 3, non-manufacturers (33.5%) with no or few in-house emissions exceeded manufacturers (19.2%) by 14.3 points.

Companies that are or will be addressing decarbonization

Top industries for each initiative (Ratio)



(Note 1) Only those companies that responded that they are "Taking action" or "Planning to take action" to reduce Scope 1-3 and the top industries (in terms of percentage) for each initiative are listed for those industries with at least 10 valid responses
(Note 2) "Small and medium-sized enterprises" are enterprises whose headquarters in Japan fall within the scope of small and medium-sized enterprises as defined by Japan's Small and Medium Enterprise Basic Act, and "Large enterprises" are enterprises that exceed the same scope

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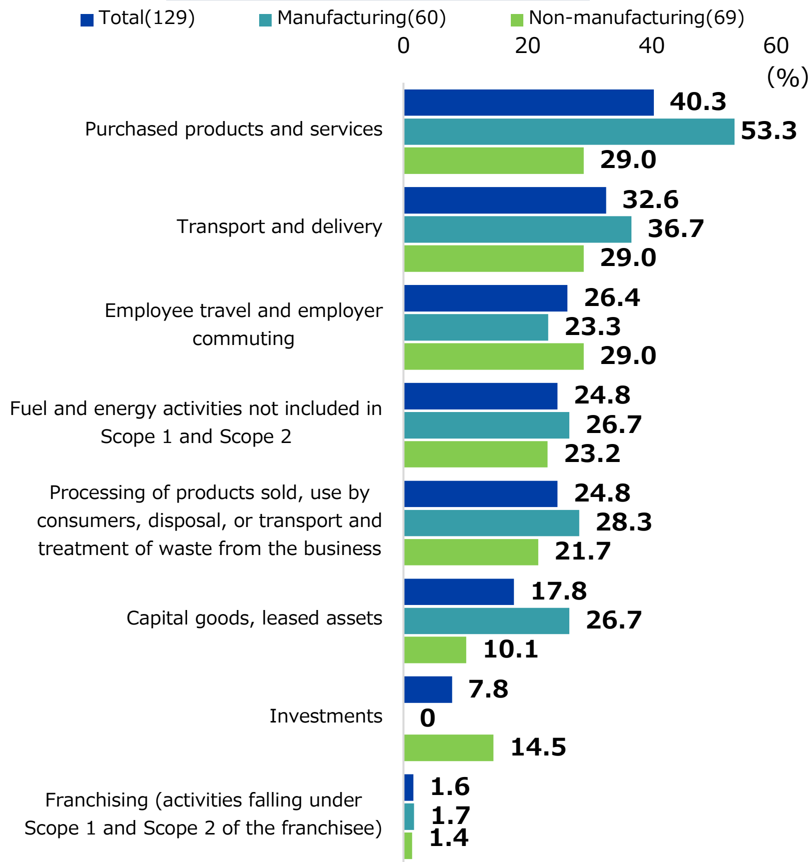
7 Promoting Decarbonization: Other than initiatives related to their own emissions, about 40% of the respondents are involved in initiatives through the purchase of products

- Scope 3 efforts are most frequently focused on "Purchased products and services" at 40.3%, with a 53.3% majority in the manufacturing sector in particular taking steps such as reviewing raw materials. Even non-manufacturing industries that have no or low emissions in their own industries are also found to be involved in efforts related to "Transportation and delivery" and "Employee travel and employer commuting".

Target of Scope 3 Initiatives



(Note) Companies that responded that they are "Taking action" or "Planning to take action" to reduce Scope 3.

Details of Scope 3 initiatives

Products and services purchased

- Review of raw materials to be procured [Iron/non-ferrous metals/fabricated metal products, rubber/ceramic/stone and clay products, etc.]

Transportation and delivery

- Simplification of packaging [Food, rubber/ceramic/stone and clay products]
- Measuring, benchmarking, and improving freight transportation efficiency (Participation in the Environmental Protection Agency's SmartWay program) [Electrical machinery/electronic devices]

Employee travel and employer commuting

- Limitations on the number of business trips [Automotive etc. parts]
- Utilization of telework and online interviews [Sales companies/sales subsidiaries, trading/wholesale, etc.]

Use by consumers, transport and disposal of waste

- Recycling and remanufacturing [Sales companies/sales subsidiaries and other manufacturing]
- Development and promotion of products and services that enable customers to decarbonize [Electrical machinery/electronic devices]

Capital goods and leased assets

- Conversion of leased vehicles to EVs and hybrid vehicles [General machinery, rubber, ceramics, clay, and stone]
- Installation of carports with solar power generation in office parking lots [General machinery]

(Note 1) There were no specific individual responses in "Fuel and energy activities not included in Scope 1 and Scope 2," "Investment," or "Franchise."
(Note 2) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

8 Promoting Decarbonization: Gap in awareness between companies and the market regarding cost increases is an issue

- Many expressed concern that, despite the government's request to decarbonize at a cost, awareness of decarbonization has not taken hold in the local markets to the extent that price shifting would be acceptable.
- Other issues raised by the respondents included the uneven awareness within the company and between the Japanese and U.S. sites, delays in government initiatives such as the establishment of standards for calculating emissions and subsidies, and confusion over how to respond to California's policy for promoting the conversion to ZEVs.

Challenges to decarbonization efforts

Increased cost and cost-effectiveness

- Cost of installing equipment to support decarbonization [Automotive etc. parts, etc.]
- Renewable energy and other fuel costs [Automotive etc. parts, etc.]
- Costs of raw materials and parts that contribute to decarbonization [Chemical/Medicines, etc.]
- Practical costs such as emissions calculations and subsidy applications [Iron/non-ferrous metals/fabricated metal products, etc.]
- Quantification of efforts, ensuring of cost-effectiveness and profitability [Construction etc.]

Little awareness of local decarbonization

- Low awareness of decarbonization among local suppliers and users [General machinery etc.]
- Difficulty in passing on the price of corporate efforts [Chemical/Medicines and sales companies/sales subsidiaries etc.]
- There is infrequent use of recycled materials, etc. [Plastic products]

Disparity in awareness of the company's in-house decarbonization and lack of structure

- Difference in perception with local employees [Plastic products, transportation, etc.]
- There is difficulty in spreading awareness to local employees [Transportation]
- Misalignment of activities with Japanese parent company [Trading/wholesale]
- It is difficult to obtain permission from the parent company in Japan [Electrical machinery/electronic devices]
- Lack of people knowledgeable in the field of decarbonization [Electrical machinery parts/electronic device parts, etc.]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

Lack of policies and systems in place, lack of subsidies and other support

- There are no international standards for calculating emissions [Electrical machinery/electronic devices, mining and energy]
- Climate change-related information disclosure requirements have not been established [General machinery etc.]
- Delayed response by state government(s), lack of subsidies and support [Food etc.]

California Zero Emission Vehicle (ZEV)-related regulations

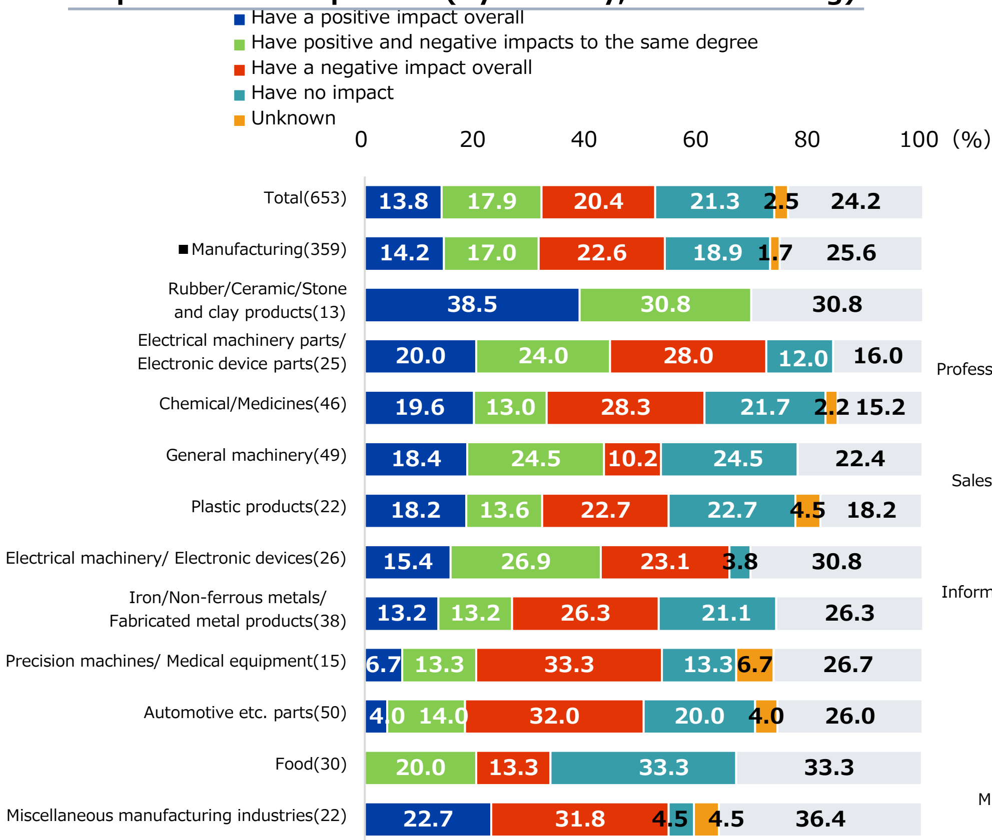
- Trucks have an obligation to convert to ZEVs, requiring significant capital investment [rubber/ceramic/stone and clay products]
- The WAIRE system has been introduced in Southern California, but refrigerated and frozen ZEV trucks do not exist at this time, so action cannot be taken [Trading/wholesale]

(Note 1) The State of California has set a goal of using ZEVs for all medium- and heavy-duty vehicles by 2045, including commercial vehicles, trucks, and buses. Drayage vehicles, last-mile delivery vehicles, and municipal and federal agency vehicles must be ZEVs by 2035; refuse collection vehicles and buses by 2039; and all other commercial vehicles subject to the regulation must be ZEVs by 2042.
(Note 2) The WAIRE program is a point system introduced to reduce nitrogen oxide and diesel emissions coming from warehouses in the South Coast Air Pollution Control District. Warehouse operators must earn specific points each year. Points are calculated based on the number of trucks (ZEVs get extra points) that travel to and from the warehouse each year and can also be earned by paying impact mitigation fees.

1 Federal Government Policies: Over 40% of the construction industry considers there to be a positive impact

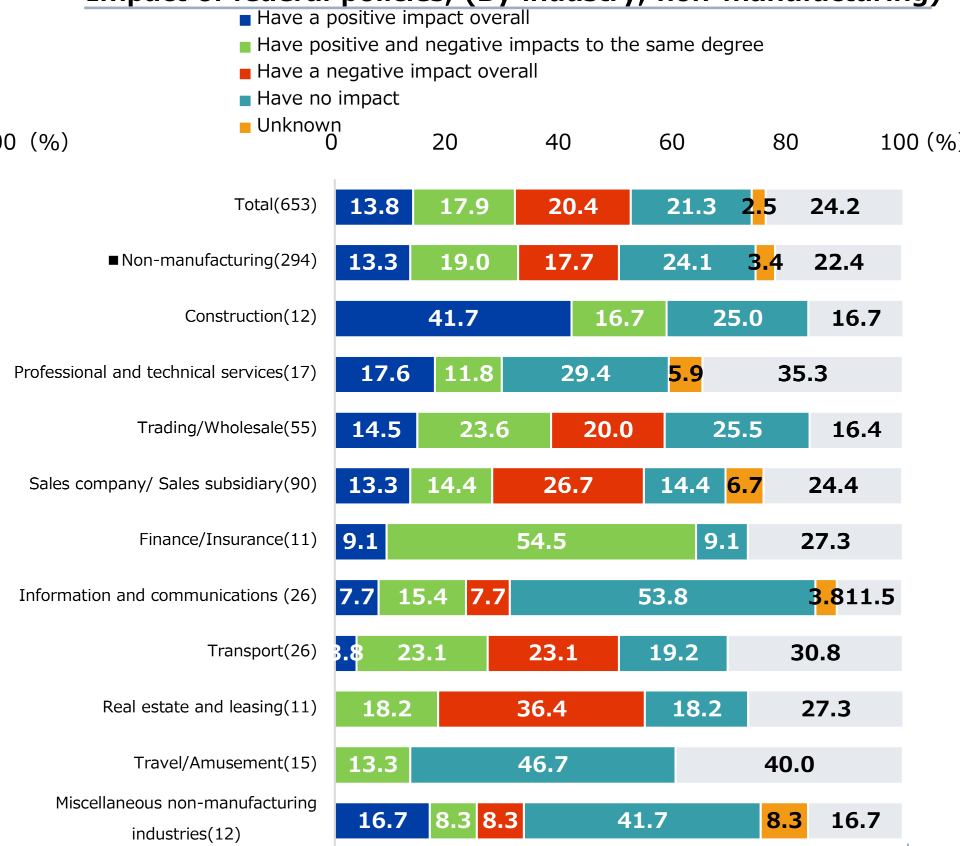
- Responses of positive impact were high in the construction (41.7%) and rubber, ceramic, clay, and stone (38.5%) industries. Increased demand for construction and construction materials due to the Infrastructure Investment and Jobs Act (IIJA) is a factor.
- Responses of negative impact were high in the real estate/rental industry (36.4%), which was affected by higher interest rates. The manufacturing sector, at 22.6%, continued to be affected by higher procurement costs due to tariffs against China.

Impact of federal policies (By industry, manufacturing)



(Note) Only industries with 10 or more valid responses are listed.

Impact of federal policies, (By industry, non-manufacturing)



(Note) Only industries with 10 or more valid responses are listed.

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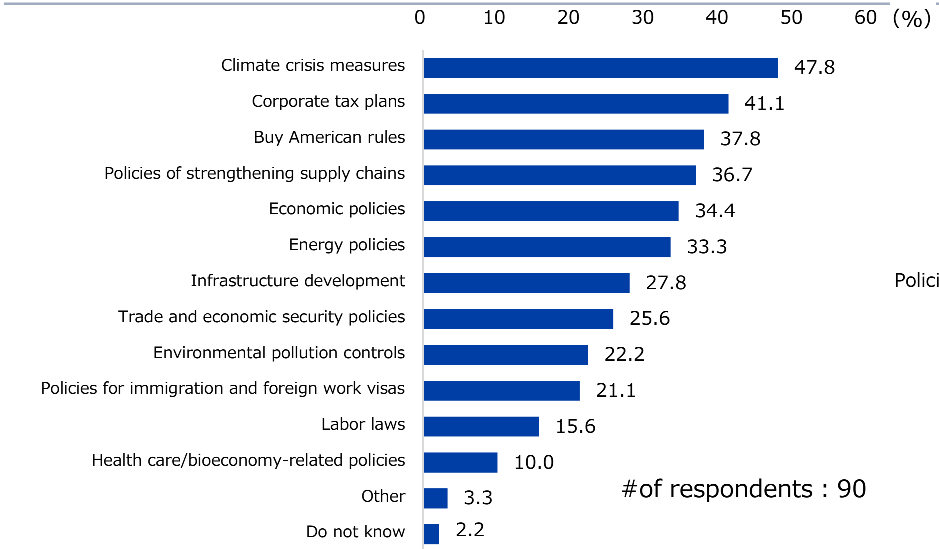
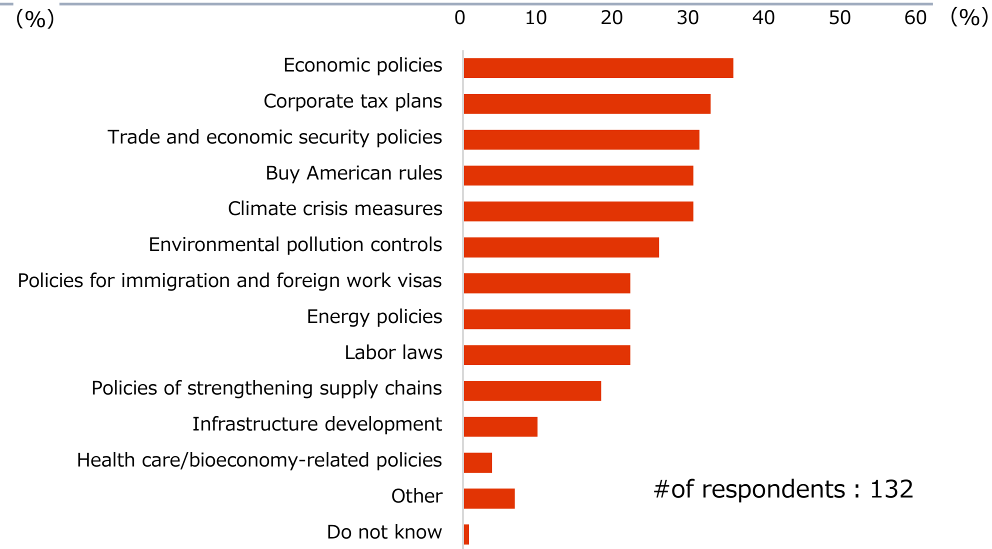
2 Federal Government Policies: Climate change measures as a positive impact factor

- At the top of the list of positive factors was climate change measures (47.8%), which impacted the expansion of clean energy and EV-related markets. Measures to strengthen supply chains (36.7%) to return to domestic production of semiconductors and other products were also at the upper level of the list.
- The top negative factor was economic policy (35.6%) due to a sense of challenges such as high inflation. Trade and economic security policies related to antagonism between the U.S. and China, such as additional tariffs on China and tighter restrictions on semiconductor exports (31.1%), also topped the list.

Federal policies that have a positive impact (Multiple choice)



Federal policies that have a negative impact (Multiple choice)



Positive impact

- Increased demand due to financial assistance from the Inflation Reduction Act (IRA) and CHIPS Plus Act, and return to U.S. domestic production of semiconductors and pharmaceuticals, etc. [Plastic products, Chemical/Medicines, etc.]
- Increased demand for construction materials due to the Infrastructure Investment and Jobs Act (IIJA) [Rubber, ceramics, clay, and stone, etc.]
- Market expansion through investment in green energy and EVs [General machinery, sales companies/sales subsidiaries, etc.]
- Increased demand due to higher costs of Chinese products, including additional tariffs on China [Sales companies/sales subsidiaries, Automotive etc. parts, etc.]

Negative impact

- Increase in procurement costs due to additional tariffs against China (tariffs under Article 301), iron and aluminum tariffs (tariffs under Article 232), etc. [Automotive etc. parts, Chemical/Medicines, precision and medical equipment, etc.]
- Decrease in demand for existing products due to promotion of EVs [Iron/non-ferrous metals/fabricated metal products, Automotive etc. parts, etc.]
- Increased costs to comply with stronger environmental regulations [Automotive, etc., iron/non-ferrous metals/fabricated metal products, etc.]
- Heavier restrictions on semiconductor exports to China [Sales companies/sales subsidiaries, Electrical machinery/electronic devices, etc.]

(Note) Based on individual responses. Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

Canada
(34th Annual Survey)

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1 Summary of this year's survey

Survey Objectives

The purpose of this survey was to ascertain the management situations and changes in the local business environments of Japanese affiliated companies operating in Canada, and to contribute to the formulation of the companies' overseas business strategies and of policies for related organizations.

Survey Period

September 6-26, 2023

Valid Responses

58.3%
(105 out of 180 companies)

Scope of Survey

Japanese-affiliated manufacturers and non-manufacturers operating in Canada that are at least 10% owned by a Japanese parent, directly or indirectly, and branches of Japanese firms in Canada

Note

This is the 34th annual survey, conducted since 1989 (not conducted in 2004).

Breakdown of responding companies by industry and state

(Unit: Company、%)

				Total	Comp. Ratio
Total				105	100
By industry					
Manufacturing	Total	Comp. Ratio	Non-manufacturing	Total	Comp. Ratio
	48	45.7		57	54.3
Automotive etc. parts	10	9.5	Trading/wholesale	13	12.4
Iron/non-ferrous metals/fabricated metal products	7	6.7	Sales companies/sales subsidiaries/sales subsidiaries	13	12.4
Food	5	4.8	Travel/amusement	6	5.7
Plastic products	5	4.8	Transport	5	4.8
General machinery	3	2.9	Information and communications	5	4.8
Electrical machinery/electronic devices	3	2.9	Mining/energy	3	2.9
Automobiles etc.	3	2.9	Retail trade	3	2.9
Railway/transport vehicles etc.	3	2.9	Finance/insurance	3	2.9
Railway/transport vehicles etc. parts	2	1.9	Professional and technical services	2	1.9
Chemicals/medicines	1	1.0	Education/Medical	2	1.9
Rubber/ceramic/stone and clay products	1	1.0	Real estate and leasing	1	1.0
Precision machines/medical equipment	1	1.0	Other non-manufacturing	1	1.0
Other manufacturing	4	3.8			
By Region (Manufacturing)			By Region (Non-manufacturing)		
Ontario	39	37.1	Ontario	34	32.4
British Columbia	4	3.8	British Columbia	18	17.1
Quebec	3	2.9	Quebec	2	1.9
Alberta	1	1.0	Alberta	3	2.9
Manitoba	1	1.0			

(1) The totals in the survey results in this report may not be 100 because the numbers are rounded off to the first decimal point.
(2) The firms that participated in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected for each question.
(3) From the following page onward, in cases where no particular details are written in the charts, the numerals in parentheses indicate the number of respondents.
(4) In cases where the denominator of the number of respondents for a given choice did not meet a certain number, that industry/choice was excluded from the survey.

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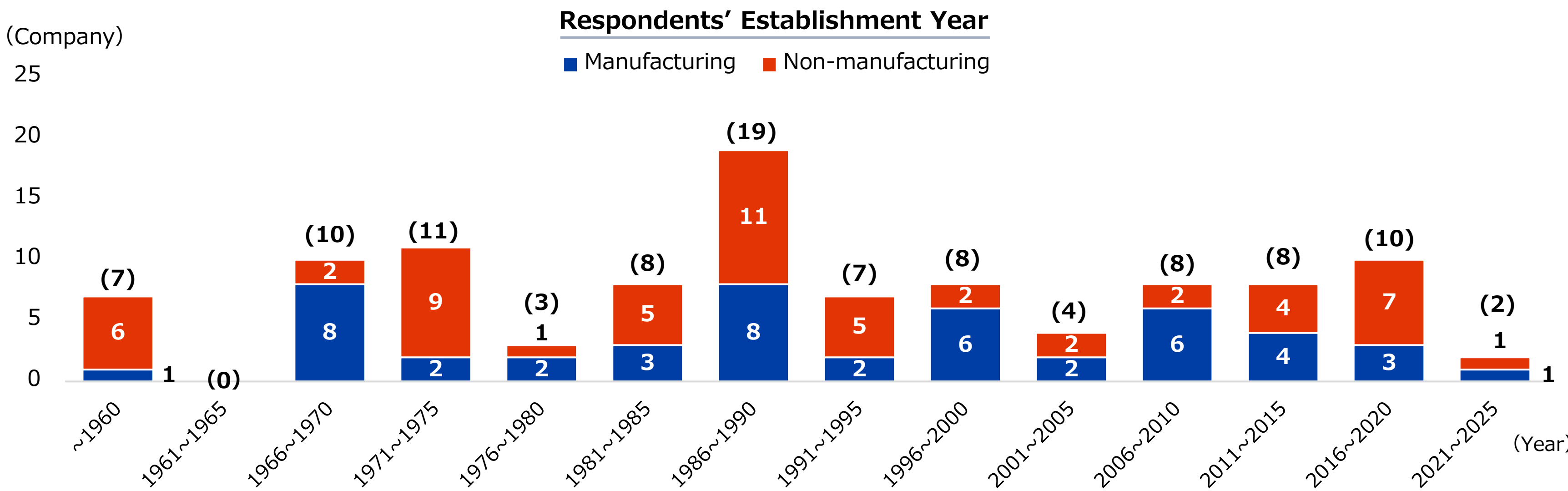
2 Respondents' Establishment Year, Location, Number of Plants



Breakdown of the Number of Respondent Sites

Number of respondents	76			
Number of sites	Number of Companies			Number of sites
	Manufacturing	Non-manufacturing	Total	Total
No sites	0	3	3	0
1	25	18	43	43
2	9	7	16	32
3	1	4	5	15
4	2	1	3	12
5	1	0	1	5
6～10	1	2	3	23
11 or more	0	2	2	57
Total	39	37	76	187

Breakdown of the Number of Respondent Plants

Number of respondents	58			
Number of plants	Number of companies			Number of plants
	Manufacturing	Non-manufacturing	Total	Total
No sites	6	21	27	0
1	27	1	28	28
2	1	0	1	2
3 or more	1	1	2	9
Total	35	23	58	39

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3 Numbers of Employees and Expatriates from Japan: Median numbers of employees per company are 70 and 2, respectively

- The total number of employees in the responding companies was 28,910, with an average of 275 employees per companies and a median of 70. By industry, the median number of employees in the manufacturing sector was 120, while the median number of employees in the non-manufacturing sector was 30.
- The total number of expatriates from Japan for the responding companies was 283, with an average of 3 dispatched employees per company and a median of 2. By industry, the median number of such employees in the manufacturing sector was 2, while the median number of employees in the non-manufacturing sector was 1.

The median number of employees per company

(Unit: People)

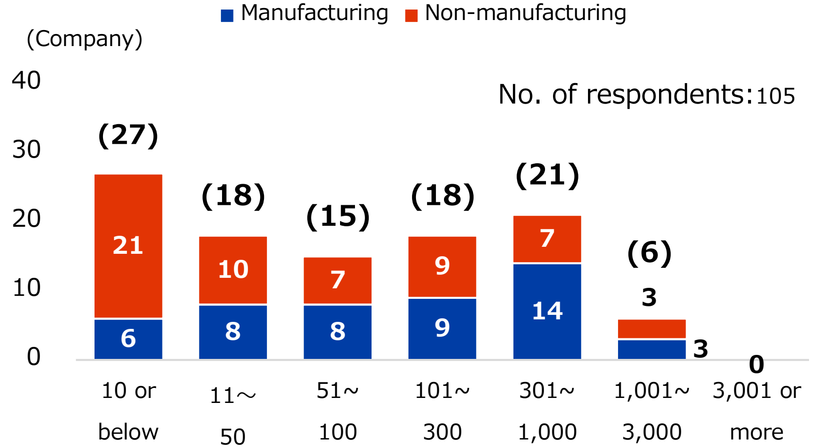
	Total number of employees	Average	Median
Total (105)	28,910	275	70
Manufacturing (48)	15,390	321	120
Non-manufacturing (57)	13,520	237	30

The median and average number of expatriates from Japan per company

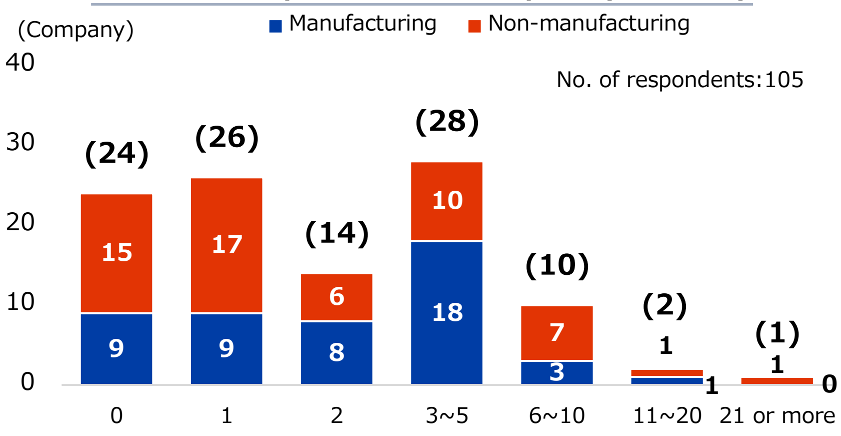
(Unit: People)

	Number of expatriates from Japan	Average	Median
Total (105)	283	3	2
Manufacturing (48)	131	3	2
Non-manufacturing (57)	152	3	1

Number of Employees by Industry



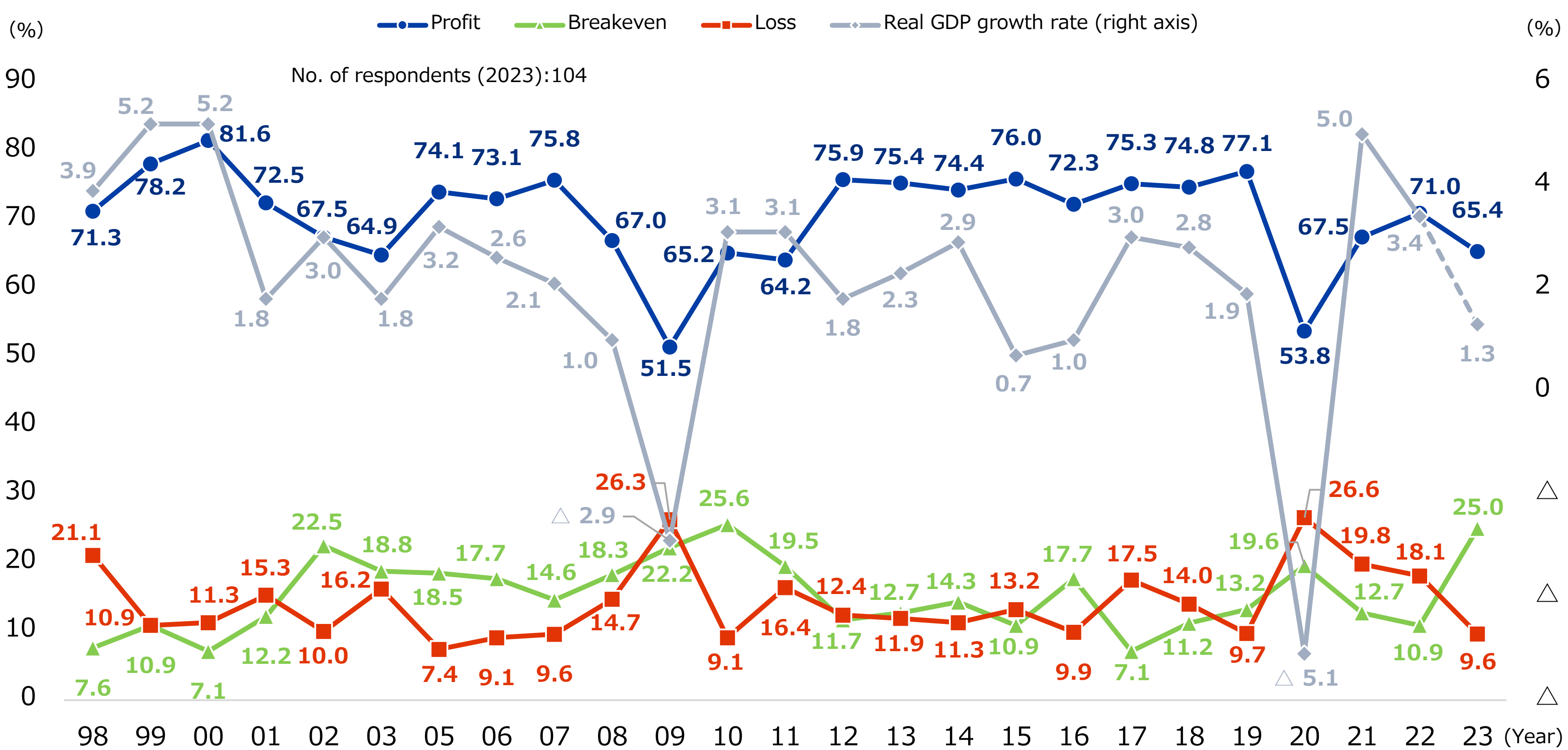
Number of Expatriates from Japan by Industry



1 2023 Operating Profit Forecast: Profits down to mid-60%, but deficit still below 2019 level

- The percentage of companies expecting to make a profit in 2023 is 65.4%, down 5.6 points from the previous year (71.0%) and still short of the 2019 level (77.1%) before the novel coronavirus disaster. On the other hand, 9.6% of companies expect to be in the red, down 8.5 percentage points from the previous year (18.1%) and slightly below the 2019 level (9.7%).

Operating Profit Forecasts and Canada's Real GDP Growth



(Note) Real GDP growth in 2023 is the IMF forecast (November 2023).

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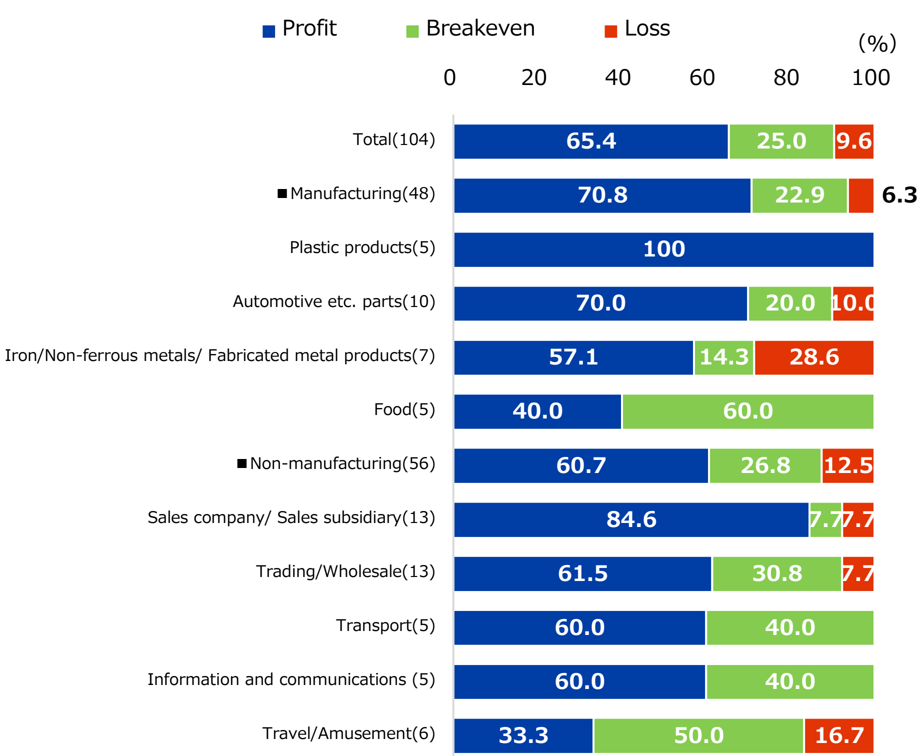
2 2023 Operating Profit Forecast (By Industry): Automotive-related industries account for more than 70% of profits, and losses are shrinking in all industries

- The highest projected profit by industry was 100.0% for plastic products, where production was stable. Sales company/Sales subsidiary (84.6%) and automotive etc. parts (70.0%) followed, reflecting the booming automotive etc. industries.
- Projected losses decreased from the previous year in each industry sector, although iron/non-ferrous metals/fabricated metal products, for which raw material and fuel prices soared, had the highest at 28.6%. All industries also decreased 8.5 points from the previous year (18.1%) to 9.6%.

2023 Operating Profit Forecast (By Industry)



(Note) Only industries with at least 5 companies with valid responses are listed.

Factors Affecting Operating Profit Forecasts

- Plastic products
  - Stabilization of production, including at customer sites
- Sales company/Sales subsidiary
  - Price increases and booming automotive, construction, and mining industries
- Automotive etc. parts
  - Recovery of automobile production, foreign exchange, price reduction in material costs
- Trading/Wholesale
  - Booming domestic sales in Canada
- Transport
  - Recovery of automotive-related transportation

Factors Affecting Operating Loss Forecasts

- Iron/Non-ferrous metals/Fabricated metal products
  - Soaring raw material prices
- Travel/Amusement
  - Yen depreciation, high fuel prices
- Automotive etc. parts
  - Prior investment

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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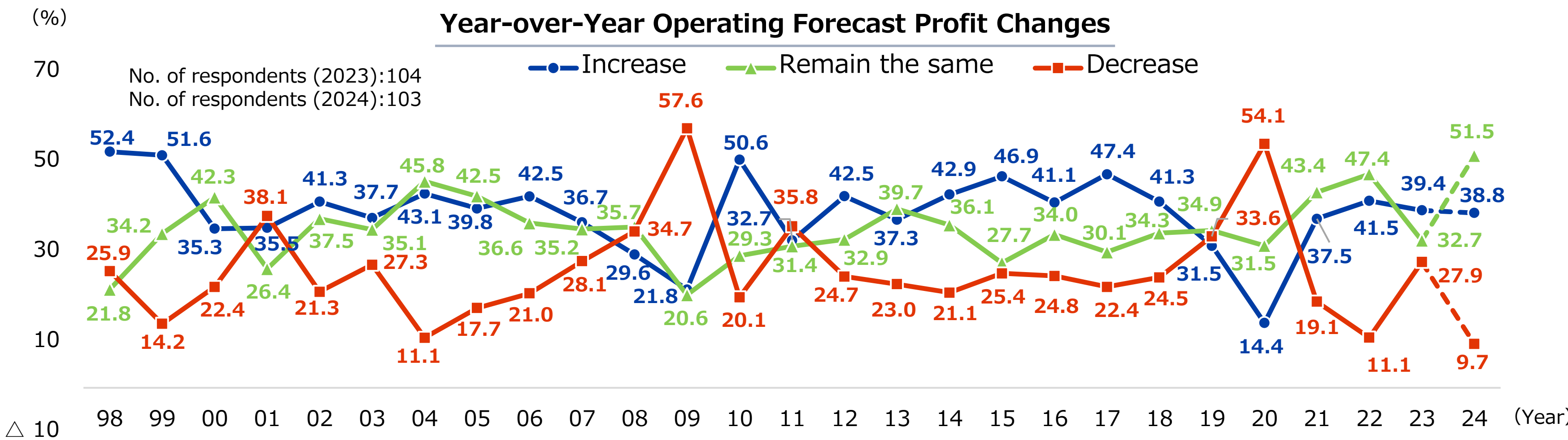
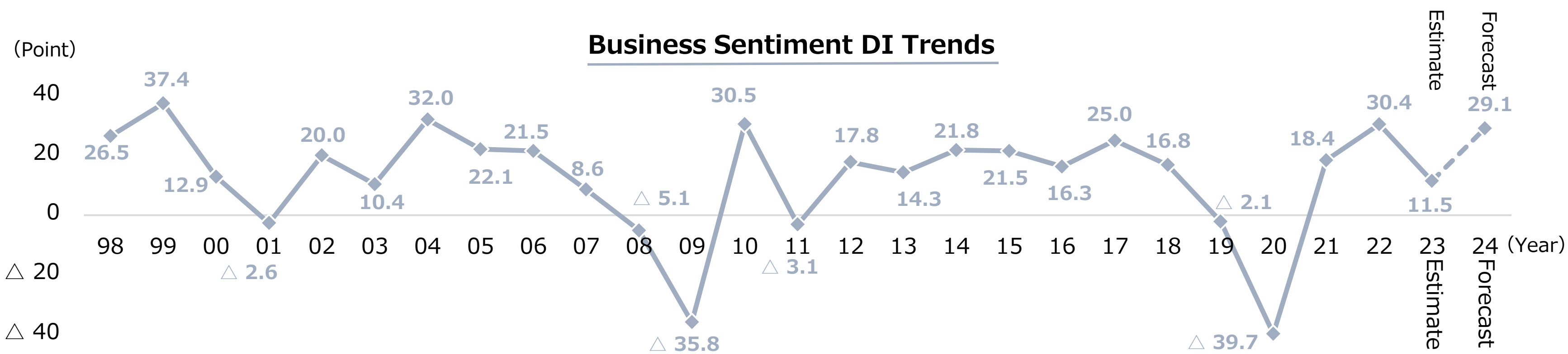
3 Business Sentiment DI: Business confidence declined to 11.5 in 2023, but forecast to rise in 2024

- Regarding the forecast for operating income in 2023, 39.4% expect it to improve from the previous year, 32.7% expect no change, and 27.9% expect it to worsen. The percentage of companies expecting "Improvement" in 2024 is 38.8%.
- The DI (Deterioration Index), which indicates business confidence in 2023, remained positive at 11.5, but it decreased 18.9 points from the previous year (30.4). An improvement to 29.1 is forecast for 2024.





(Note) Since no survey was conducted in 2004, the figures reflect the forecast as of the 2003 survey.

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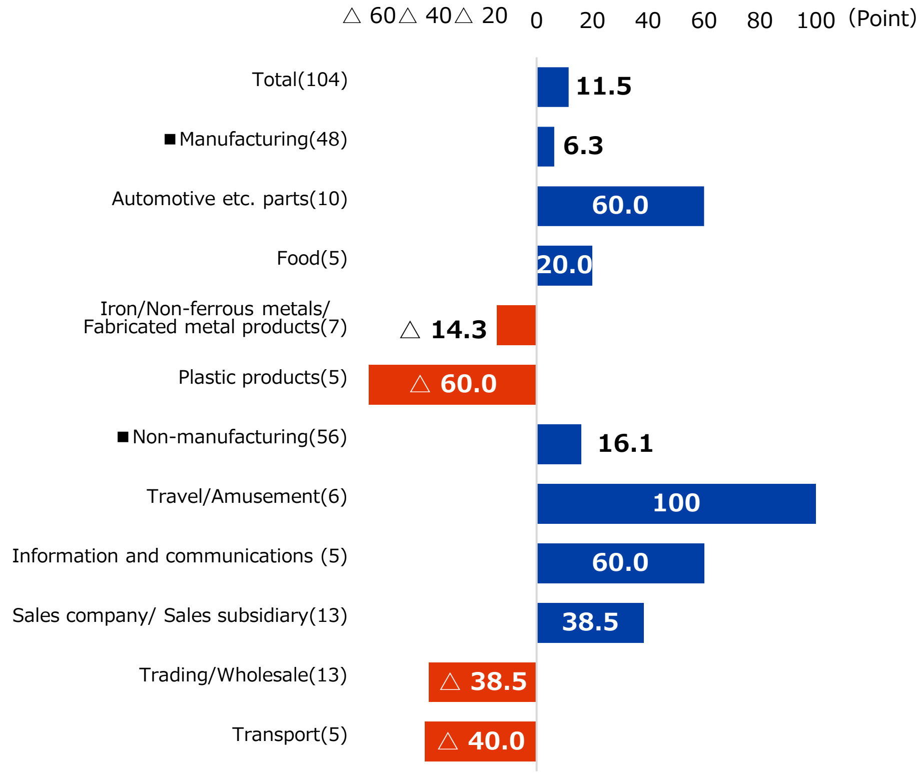
4 Business Sentiment DI: Significant improvement in the travel/amusement and automotive etc. parts, etc. in 2023

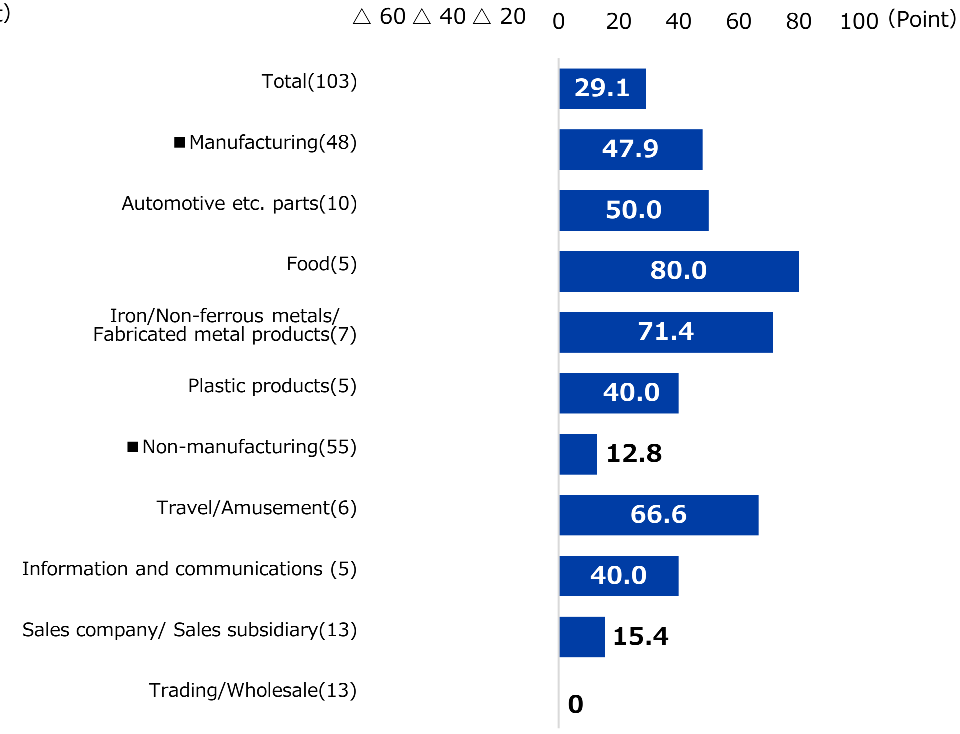
- The DI by industry for 2023 improved in automotive etc. parts (up 36.9 points from the previous year) but declined significantly in plastic products (down 120.0 points) and transportation (down 65.0 points).
- In 2024, the manufacturing sector, including plastic products (up 100.0 points), is expected to improve, while the non-manufacturing sector, including travel/amusement (down 33.4 points), is expected to decline somewhat.

Business Sentiment DI for 2023 (By Industry)



(Note) Only industries with 10 or more valid responses are listed.

Business Sentiment DI for 2024 (By Industry)



(Note) Only industries with 10 or more valid responses are listed.

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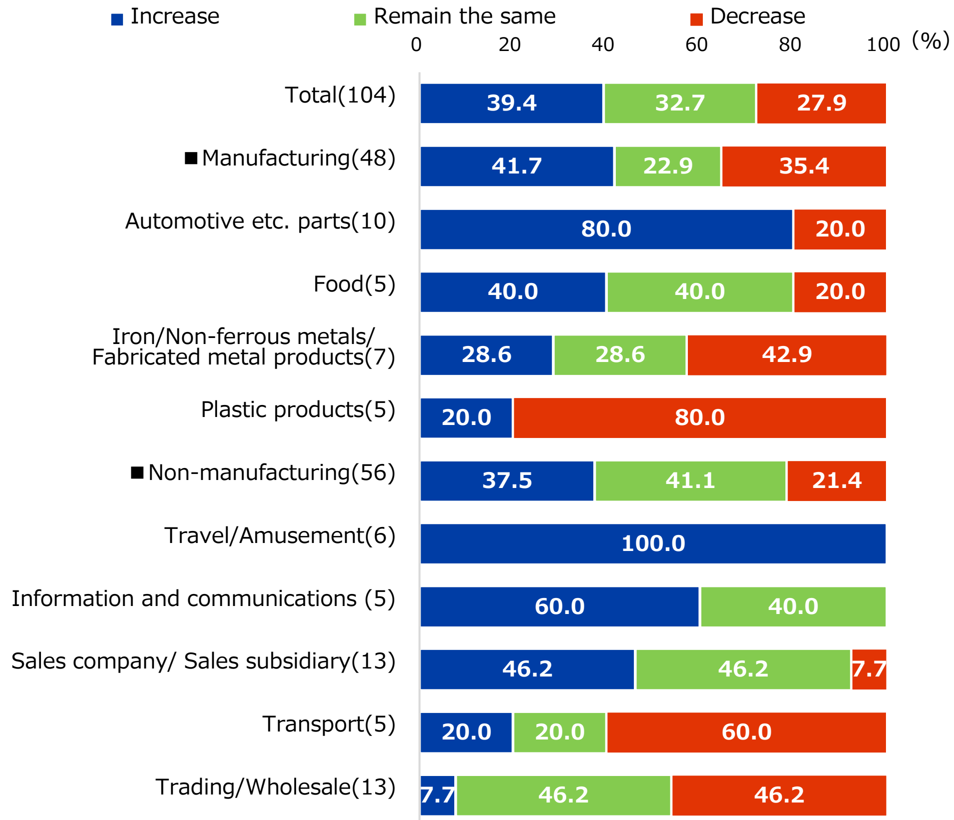
5 2023 Operating Profit Forecast (By Industry): Variation across industries, increases and decreases in demand in local and export markets are factors

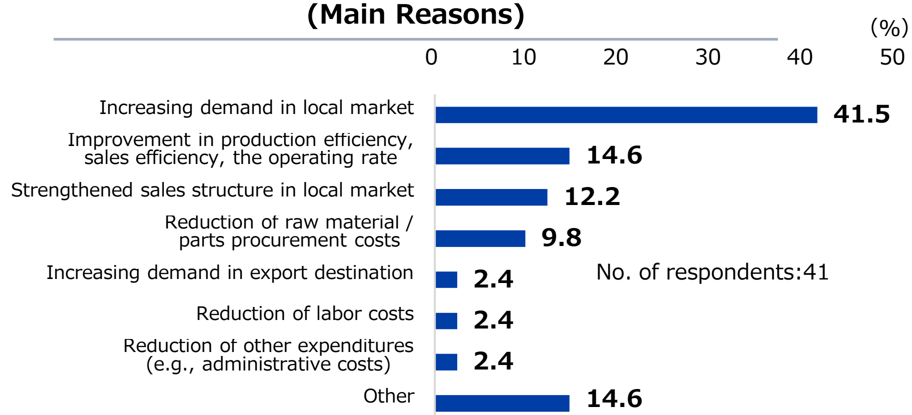
- Majorities in the industries of travel/amusement (100%), automotive etc. parts (80.0%), and information and communications (60.0%) selected "Improvement." On the other hand, the rate of selection of "Worsening" exceeded that of "Improvement" in the industries of plastic products (80.0%) and transportation (60.0%).
- Improvement was mainly due to higher demand in local markets (41.5%), while decline was mainly due to lower demand in local and export markets (27.6% each).

Change in Operating Profit Forecasts from the Previous Year (By Industry)

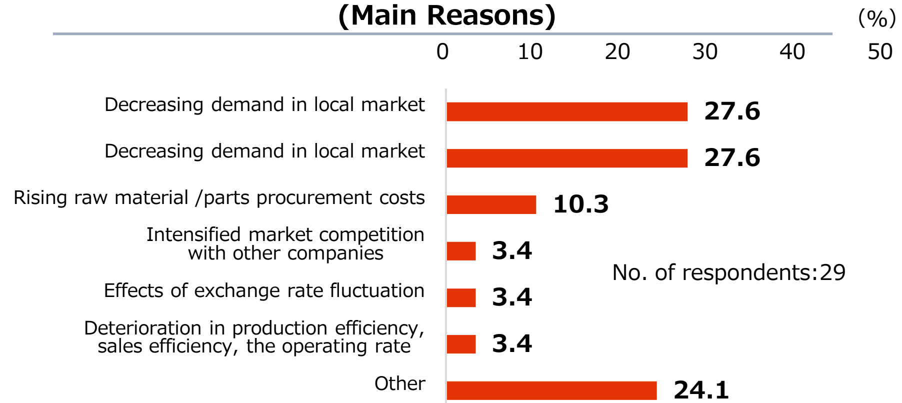


(Note) Only industries with 10 or more valid responses are listed

Reasons for Improved Operating Profit Forecasts (Main Reasons)



Reasons for Deteriorated Operating Profit Forecasts (Main Reasons)



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1 Management Challenges: Employment and procurement challenges are prominent

- Employment issues such as wage hikes and labor shortages (Recruitment and retention difficulties, quality assurance) ranked high. Although awareness of the issues of rising procurement costs (from 45.8% to 43.0%) and rising distribution costs (from 46.6% to 37.0%) remained high, both declined from the previous year.
- Concerns have been voiced that consumer demand may decline due to the end of the special demand generated by the novel coronavirus disaster and the economic recession.

Management Challenges (Multiple Answers)

Main management issues	Classification	Ratio (%)
Increase in wages of employees	Employment and labor	**49.0**
Rising procurement costs	Procurement	**43.0**
Difficulty in recruiting employees	Employment and labor	**40.0**
Rising logistics costs	Procurement	37.0
Quality of employees	Employment and labor	36.0
Slow development of new customers	Sales	33.0
Retention rate of employees	Employment and labor	28.0
Fluctuations in the exchange rates	Finance	26.0
Logistics delays	Procurement	25.0
Intensifying competition with competitors tax burden (corporate tax, transfer pricing taxation, etc.)	Sales	24.0
Soaring living cost for expatriates	Employment and labor	23.0
Decrease of demand from business partners/consumers	Sales	23.0

Number of respondent companies: 100
(Note) Excerpt only for top items, 40% or more in bold

Specific Challenges

- **Wage increases, employment aspects**
  - Employee wage increases and hiring of employees [Rubber, ceramic, clay, and stone, and retail trade, etc.]
  - Human resource development in line with business expansion is a challenge [Retail trade]
- **Inflation**
  - Rising procurement and distribution costs due to inflation [Railway/transport vehicles etc. parts, trading/wholesale, etc.]
- **Improvement in production capacity and quality**
  - Securing facilities and personnel to cope with increased production, and ensuring quality [Automotive etc. parts, iron/non-ferrous metals/fabricated metal products]
  - Lack of capacity relative to required production capacity [Plastic products]
- **Decline in consumer demand**
  - Decline in consumer confidence due to the end of the special demand generated by the novel coronavirus disaster and economic slowdown [Automotive, etc.]
  - It is difficult to predicting how demand, temporarily boosted by the novel coronavirus disaster, will return in the future and how competitors will react [Sales companies/sales subsidiaries]
  - Decrease in demand from suppliers and consumers [Trading/wholesale]
  - Decrease in consumer demand due to yen depreciation and high fuel prices [travel/amusement]
- **Other**
  - End of special demand generated by the novel coronavirus disaster - Due to lower ocean freight rates, competition with parallel imports has intensified [Sales companies/sales subsidiaries]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

2 Measures to address business challenges: "Raising wages" is also at the top of the list as a response measure

- While wage increases are the leading management issue, raising existing employee wages is also a top response measure (42.5%), due to factors such as recruitment and retention difficulties and quality assurance. Other top responses included enhancing education and training (41.4%), strengthening personnel structure (34.5%), maintaining remote work (33.3%), and improving hiring conditions (32.2%).
- Measures to raise selling prices (41.4%) also stood out.

Measures to Address Management Challenges (Multiple Choice)

Countermeasures	Ratio (%)
Increasing wages of existing employees	**42.5**
Strengthening education/training	**41.4**
Raising selling prices	**41.4**
Strengthening personnel structure	**34.5**
Maintaining remote work and web conferences	**33.3**
Improving conditions of employment	**32.2**
Encouraging automation and labor reduction	29.9
Negotiating prices with suppliers	27.6
Reducing expenses other than labor costs	26.4
Promoting local staff members	26.4
Improving brand power	26.4
Review and strengthening of sales channels	24.1
Capital investment	21.8
Strengthening customer service	20.7
Utilizing experts/supporting organizations	20.7

Number of respondent companies: 87
(Note) Excerpt only for top items, 30% or more in bold

Specific Countermeasures

- **Employment aspects**
  - Strengthening of recruitment and promotion of local human resources [Information and communications, sales companies/sales subsidiaries, retail trade]
  - Review of number of local employees [Retail trade]
- **Capital investment, etc.**
  - Securing of workforce by promoting automation and improving benefits packages [Automotive etc. parts]
  - Productivity improvements to address production capacity shortfalls in terms of equipment [Plastic products]
  - Capital investment for productivity improvement [Precision machines/medical equipment]
  - Replacement of core system to save labor [Other manufacturing]
  - Automation, increased efficiency, DX promotion [Sales companies/sales subsidiaries]
  - Quality improvement by strengthening technical support from Japan to local factories [Iron/non-ferrous metals/fabricated metal products]
- **Change in procurement and sales channels**
  - Start of sourcing from other countries or locally, instead of importing from Japan [Other manufacturing]
  - Sales activities to acquire new customers from existing sales channels [Sales companies/sales subsidiaries]
  - Strengthening brand power through digital marketing [Sales companies/sales subsidiaries]
  - Shift to EC channel [Other manufacturing]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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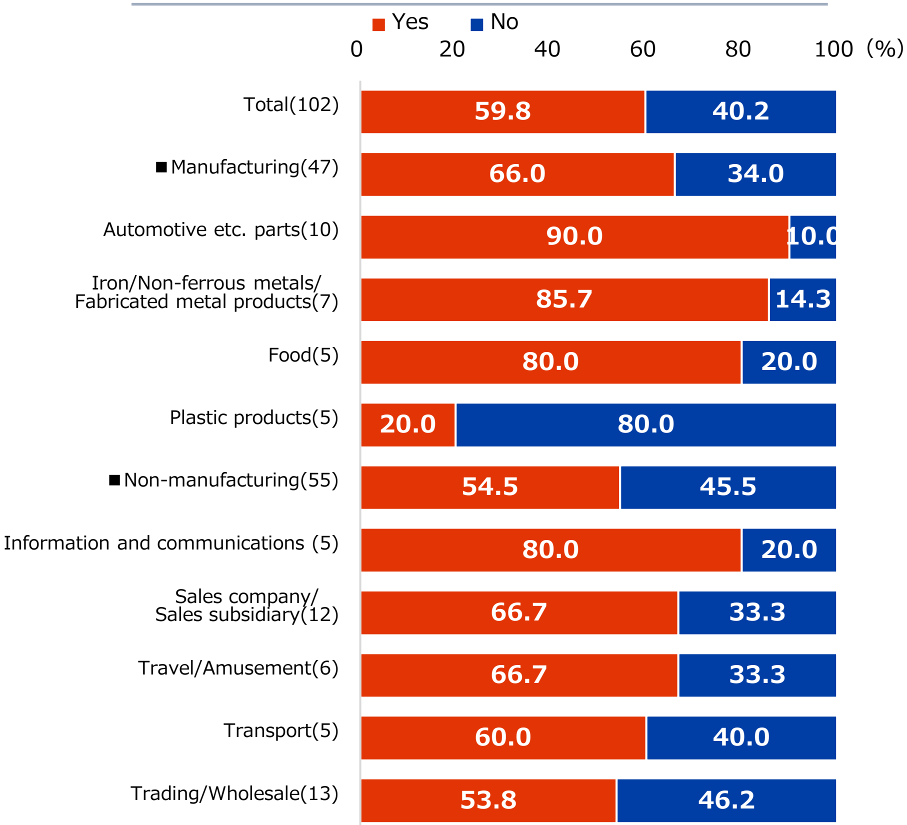
1 Facing a Human Resource Shortage: Recognized as an issue by slightly less than 60%, but improved from the previous year

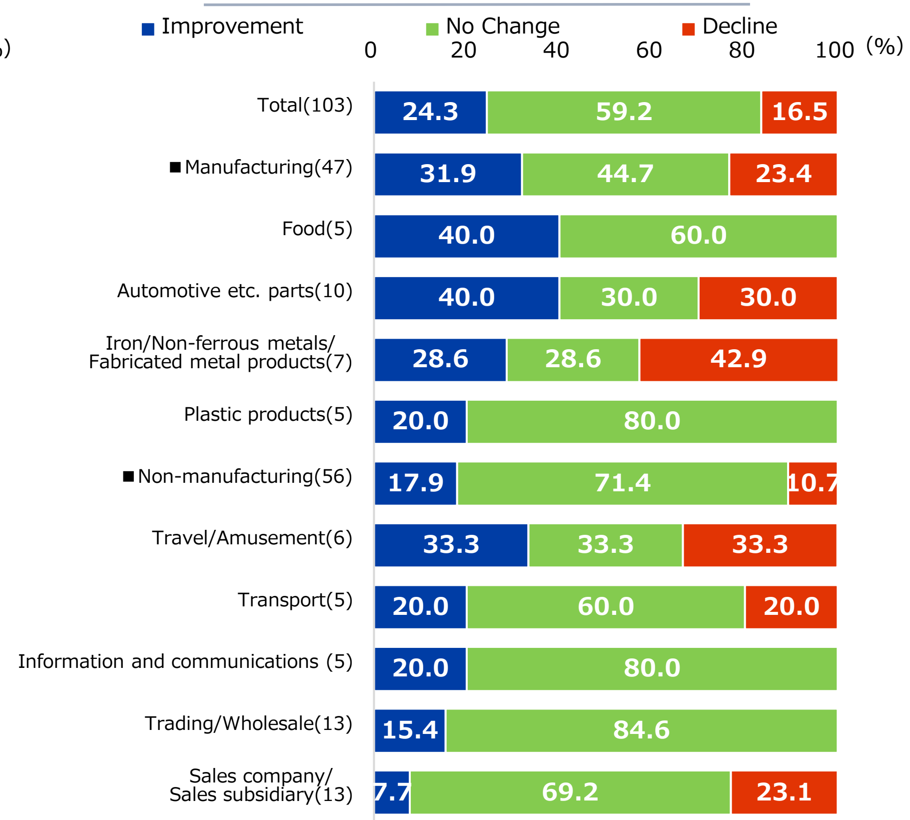
- Nearly 60% of the responding companies face the challenge of human resource shortages, exceeding the majority in many industries.
- The percentage of companies that responded "Improved" from August to September 2022 was 24.3%, higher than the percentage of companies that responded "Worsened" (16.5%). On the other hand, "Worsened" was higher among iron/non-ferrous metals/fabricated metal products and sales companies/sales subsidiaries. However, the majority of industries responded "No change".

Human resource shortage issues or lack thereof (By industry)



(Note) Only industries with 5 or more valid responses are listed

Change from August-September 2022 (By industry)



(Note) Only industries with 5 or more valid responses are listed

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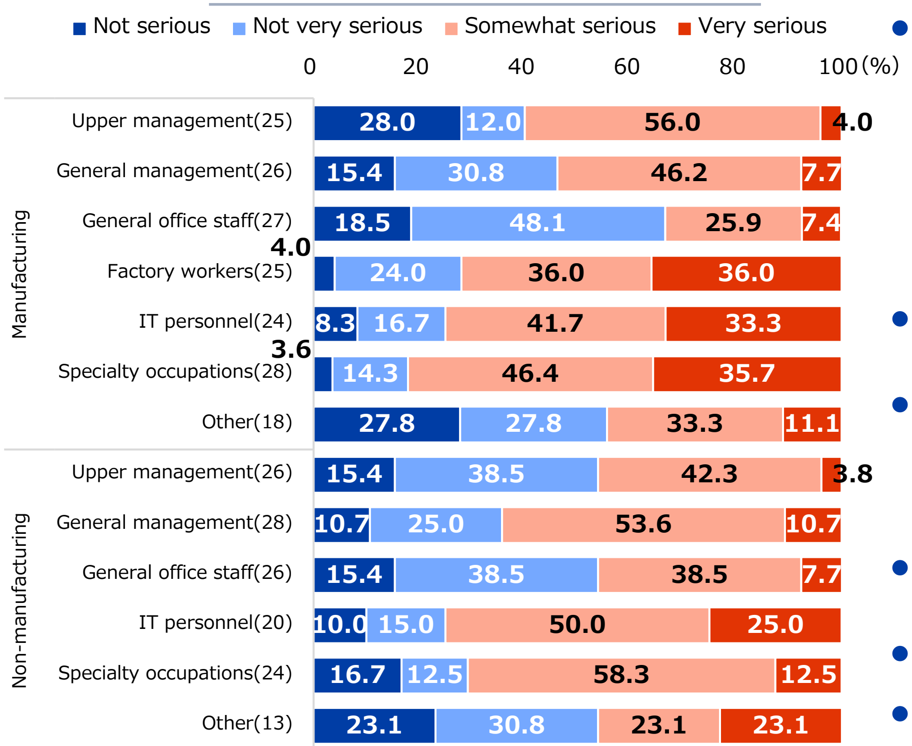
2 Severity of Human Resource Shortages and Specific Measures for Recruitment and Retention of Human Resources: There is a serious shortage of human resources, such as factory workers, IT personnel, etc.

- In the manufacturing sector, the percentage of respondents reporting a serious shortage of human resources was high for factory workers (36.0%), legal, engineering and other specialized occupations (35.7%), and programmers and other IT personnel (33.3%).
- Many of the specific measures for recruiting and retaining personnel are financial measures, such as salary increases and bonus payments. On the non-monetary side, some companies are working to enhance benefit packages, such as more flexible work schedules and skill development assistance.

Severity of human resource shortages (by occupation/industry)



(Note 1) This is specific to companies that answered "Yes (Facing challenges)" to the question regarding whether or not they face human resource shortage challenges (See previous slide). Factory workers are only listed under the manufacturing sector.
(Note 2) Upper management: Directors, etc. General management: Managers, etc. IT personnel: Programmers, etc. Specialty occupations: Positions requiring specialized skills, such as legal, accounting, engineering, etc. Other: Including consignment /drivers, construction related, courier related, etc.

Specific measures for recruitment and retention of human resources

- **Salary raises**
  - Salary increases [Automotive, etc.]
  - Increased starting salary and shortened time to salary increase [Automotive etc. parts]
  - Implementation of base increases [Automotive etc. parts]
  - Setting a salary level that is competitive with other companies [Mining and energy]
  - Correction of salary disparities with peripheral companies [Iron/non-ferrous metals/fabricated metal products]
  - Considering whether or not to review the salary system [Other non-manufacturing]
- **Bonus payments**
  - Enhancement of insurance, raises, bonuses, etc. [Sales companies/sales subsidiaries]
- **More flexibility in the work system**
  - Continuation of remote work without mandatory in-office work days [Automotive, etc.]
  - Permission for office workers to work at home [Parts for railway/transport vehicles etc.]
  - Diversification of work styles including telecommuting [Trading/wholesale]
- **Assistance with skill development**
  - Company covering the costs for training and examination fees for certifications [Iron/non-ferrous metals/fabricated metal products]
- **Promotion of temporary staff to permanent positions**
  - Promotion of temporary staff to permanent positions [Plastic products]
- **Increased opportunities for communication such as in-house events**
  - Increase in in-house events such as company-paid lunches [Other manufacturing]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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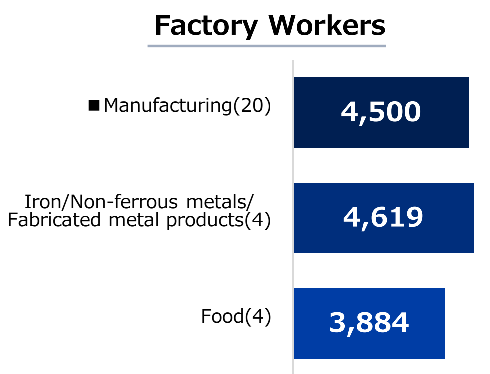
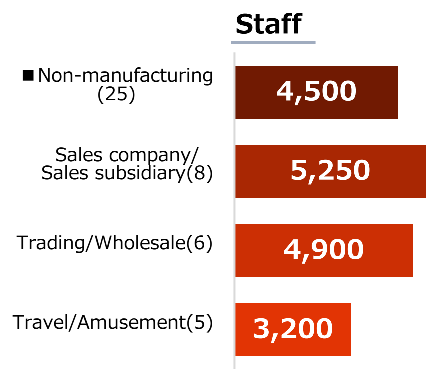
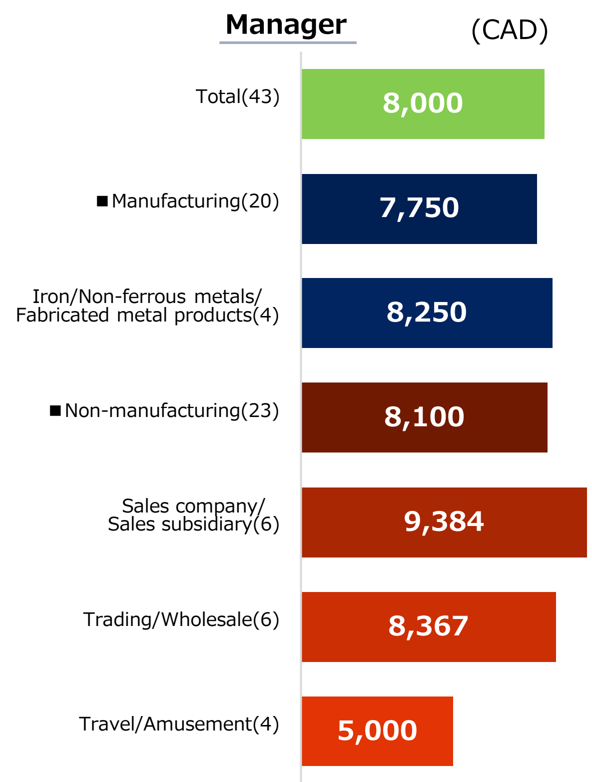
3 Wages (Monthly base salary, median): Median nominal base increase rate is in the 3.7% range

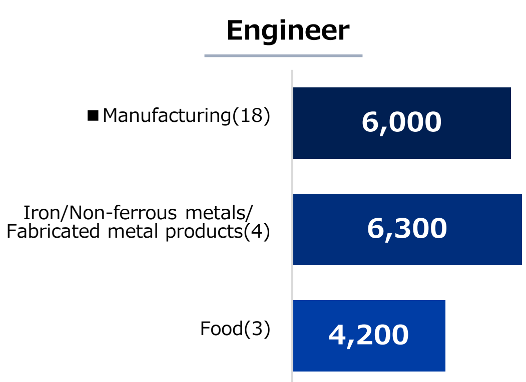
- The median nominal base increase rate ("base up" rate) for the current period (FY2022 to FY2023) is 3.7% for the manufacturing sector and 3.75% for the non-manufacturing sector. Both of these rates are higher than the median (3.5% for manufacturing and 3.0% for non-manufacturing) nominal base increase rates (expected) as of last year's survey.
- The median nominal base increase rate (expected) for the next period (FY2023→FY2024) is 3.0% for both the manufacturing and non-manufacturing sectors.

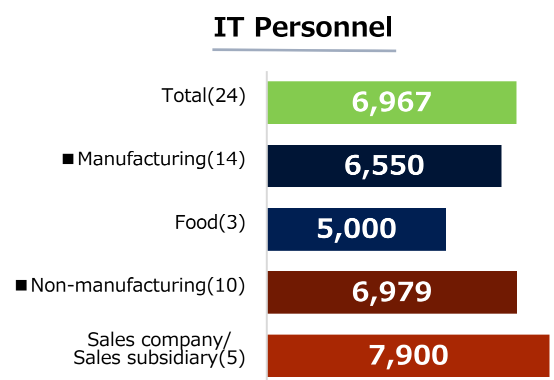
(CAD)











(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.
(Note 2) Only industries with 3 or more valid responses are listed

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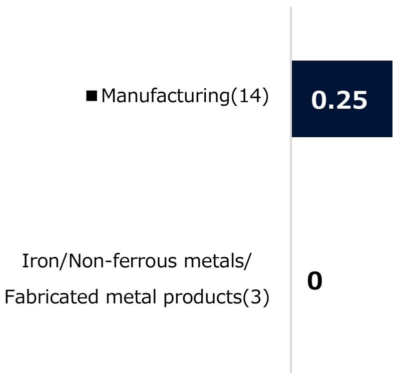
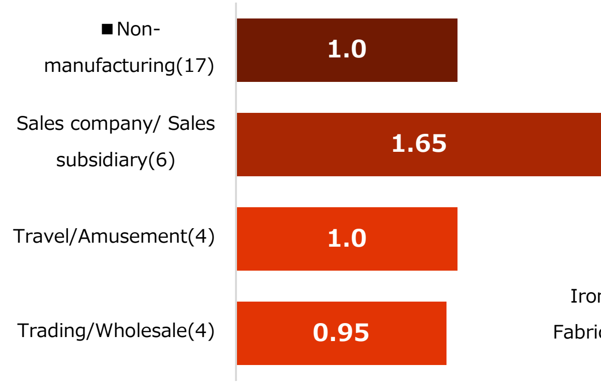
4 Wages (Annual bonus, median): Median for each occupation: 0.25-1.2 months

(Months)

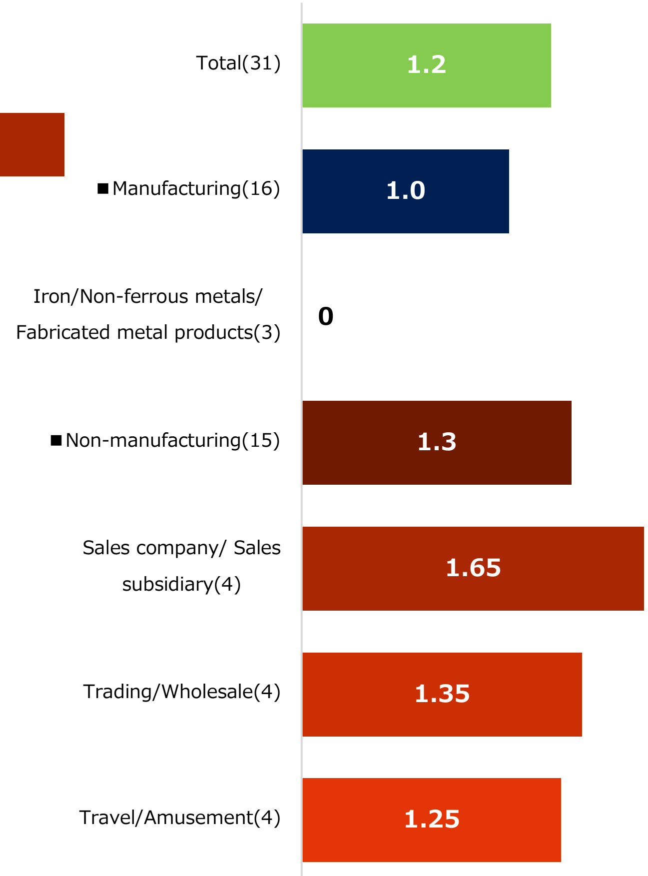
Factory Workers



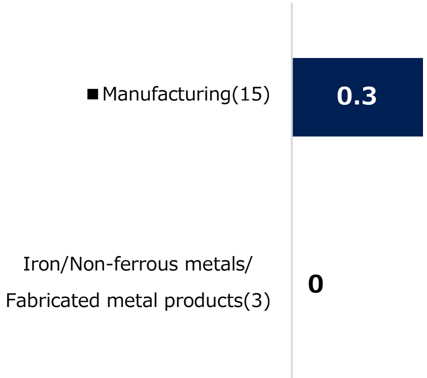
Staff



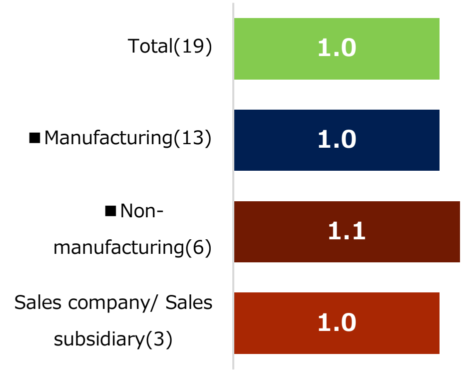
Manager



Engineer

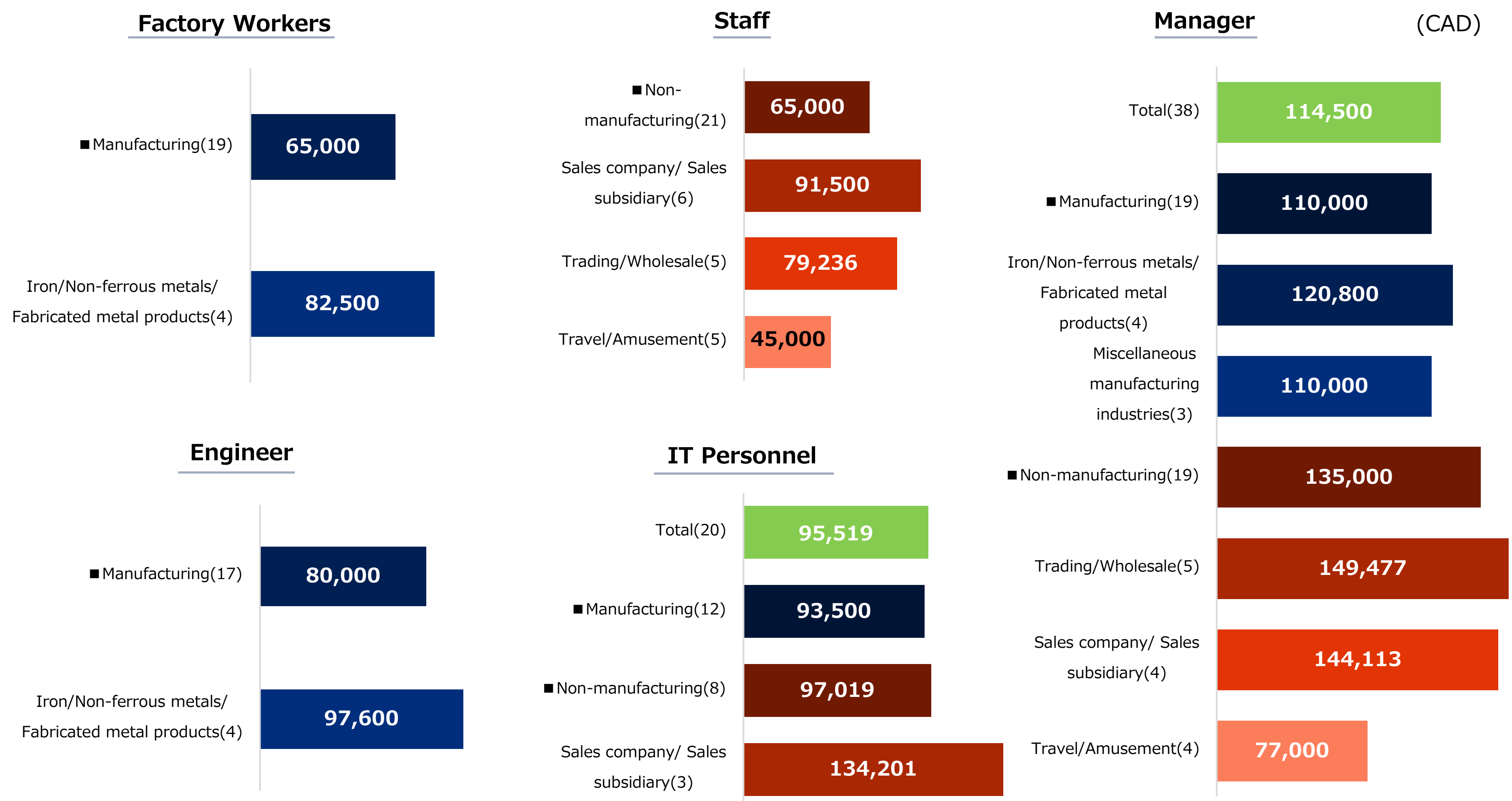


IT Personnel



(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.
(Note 2) Only industries with 3 or more valid responses are listed

5 Wages (Actual annual cost, median): Median by occupation, $65,000 to $114,500 CAD



(Note 1) For manufacturing companies, the following categories are considered in responses: workers (regularly employed general laborers with about 3 years of work experience, excluding contract workers and probationary workers), engineers (regularly employed mid-level engineers with a technical school or college degree or higher and about 5 years of work experience), managers (regularly employed sales managers with a college degree or higher and about 10 years of work experience), and IT personnel (regularly employed system engineers with a technical school or college degree or higher and about 5 years of work experience). For non-manufacturing companies, the following categories were considered: staff (regular employees in general employment with about 3 years of work experience, excluding temporary and probationary employees), managers, and IT personnel.
(Note 2) Only industries with 3 or more valid responses are listed

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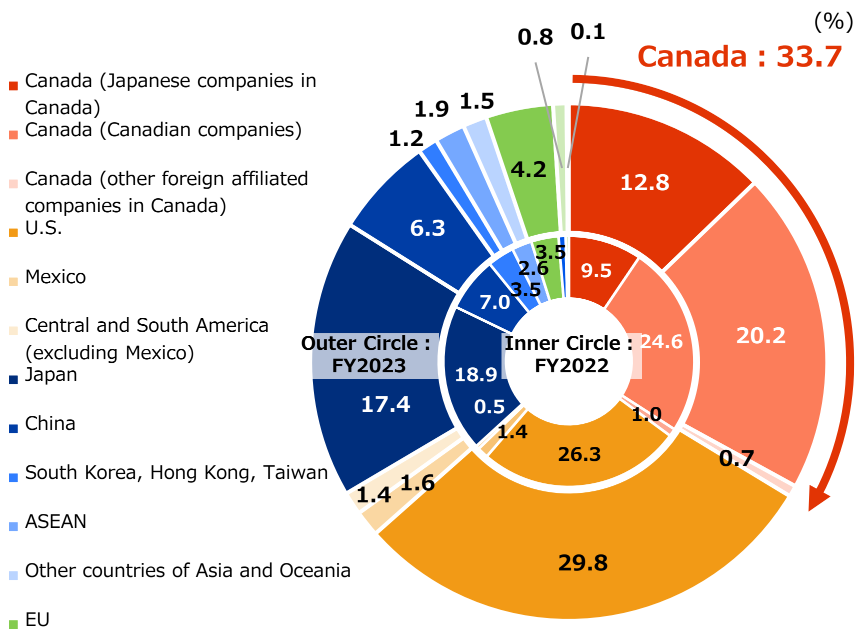
1 Procurement Source: Canada is largest in manufacturing, Japan is largest in non-manufacturing

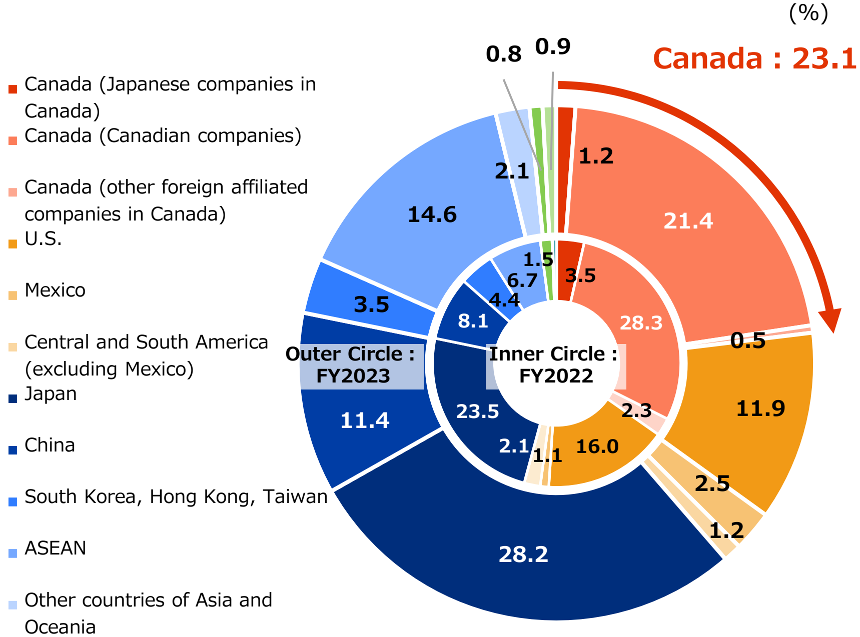
- In terms of raw materials and parts suppliers, 33.7% of the manufacturing sector procures from within Canada, followed by the U.S. at 29.8%.
- In the non-manufacturing sector, 28.2% of total procurement came from Japan, followed by 23.1% from within Canada and 11.9% from the United States.

Procurement Sources for Raw Materials/Parts (By Country/Region)



#of respondents FY2022 : 44
#of respondents FY2023 : 40

Procurement Sources for Goods/Services (By Country/Region)



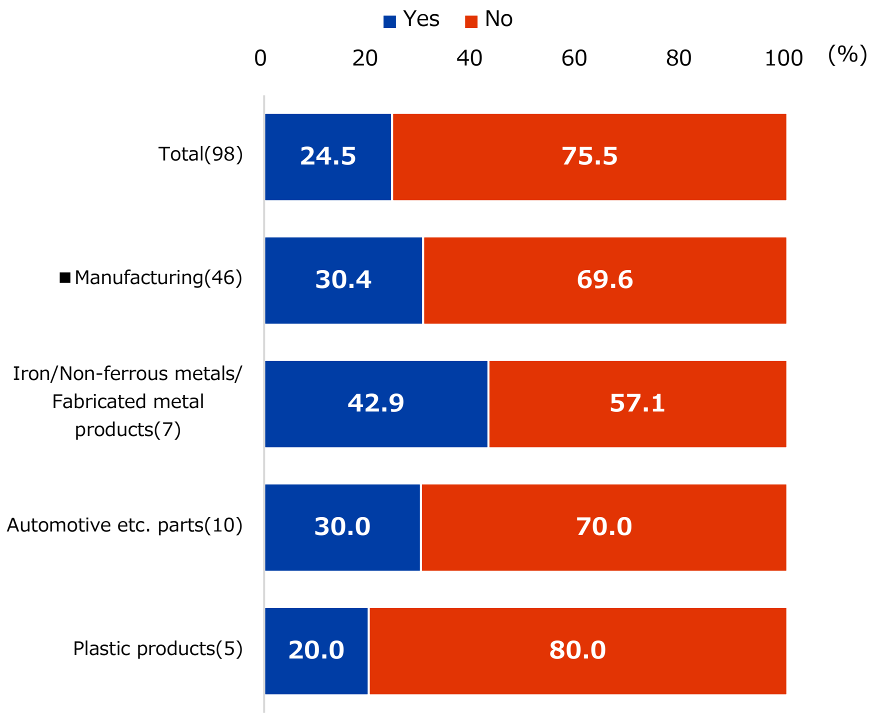
#of respondents FY2022 : 40
#of respondents FY2023 : 26

(Note) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.

2 Plans to review procurement: Lull in planned procurement review compared to previous year

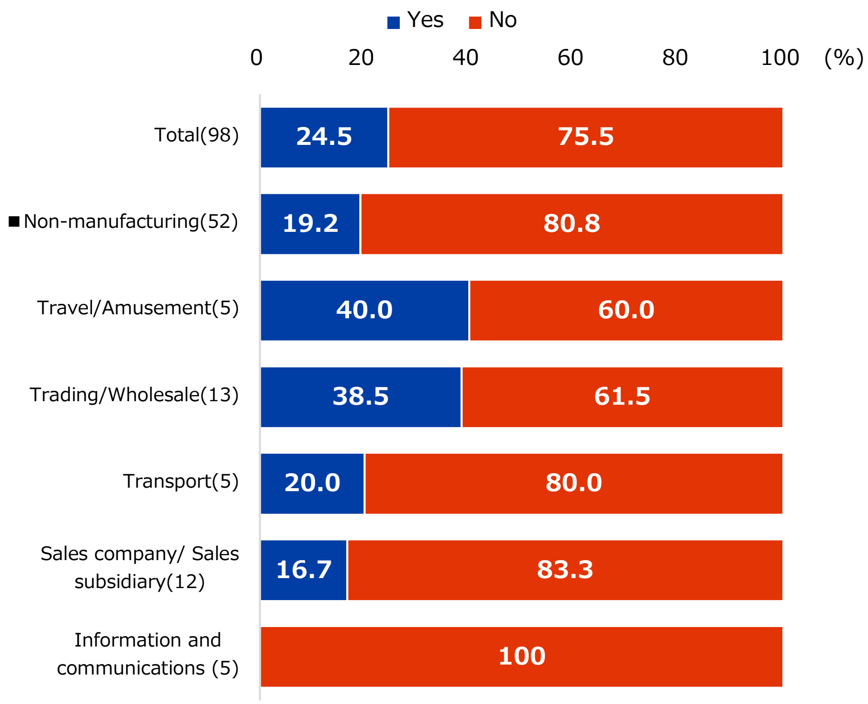
- The percentage of respondents planning to review procurement was 24.5%, down from 48.1% the previous year.
- The overall rate for the manufacturing sector was 30.4%, with a high rate for iron/non-ferrous metals/fabricated metal products (42.9%). While the non-manufacturing sector as a whole accounted for only 19.2% of the total, it was higher in the industries of travel/amusement (40.0%) and trading/wholesale (38.5%).

Whether or not there are plans to review supply chain (Manufacturing)



(Note) Only industries with 5 or more valid responses are listed.

Whether or not there are plans to review supply chain (Non-Manufacturing)



(Note) Only industries with 5 or more valid responses are listed.

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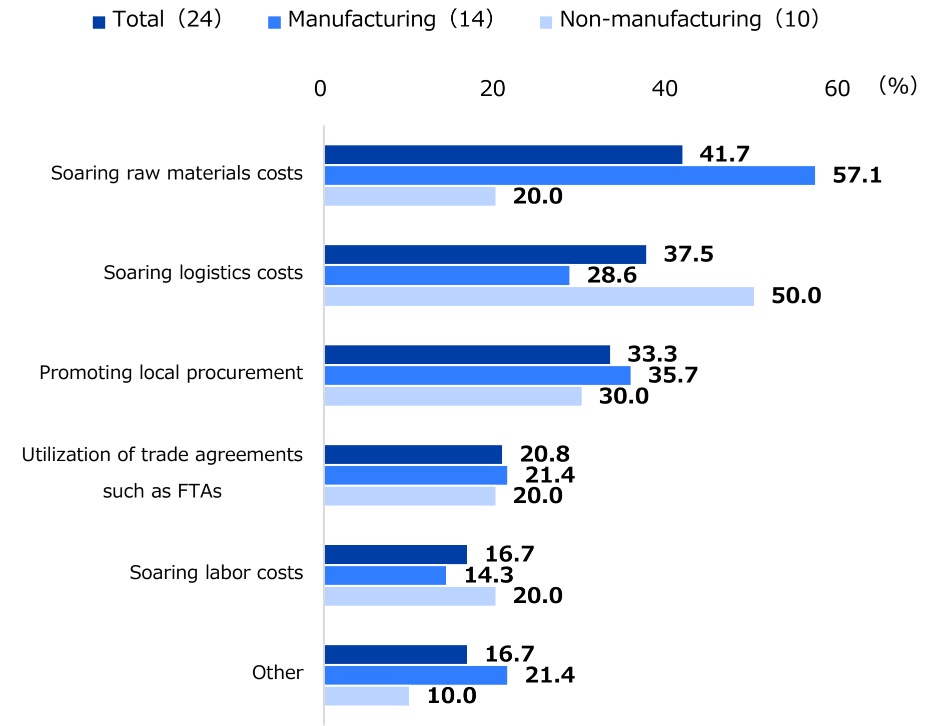
3 Reasons and details of future procurement review: The leading reason is addressing of the rising raw material and distribution costs

- The most frequently raised reasons for reviewing procurement were "Soaring raw material costs" (57.1%) in the manufacturing sector and "Soaring distribution costs" (50.0%) in the non-manufacturing sector.
- Japan (5) was the second most common source of procurement after the change, following Canada.

Reasons for reviewing future procurement (Multiple Answers, by industry)



(Note) Excerpt only for top items.

Changes to Sales Destinations (Multiple Answers)

(Cases)

		Change to					
		Canada	Japan	U.S.	Central and South America (excluding Mexico)	Europe	Total
Change from	Canada	**3**	1				**4**
	U.S.	2	1	1			**4**
	Japan	1	1	1			**3**
	China		2		1		**3**
	ASEAN					1	1
	Total	**6**	**5**	2	1	1	15

(Note) Responses of 3 or more are in bold.

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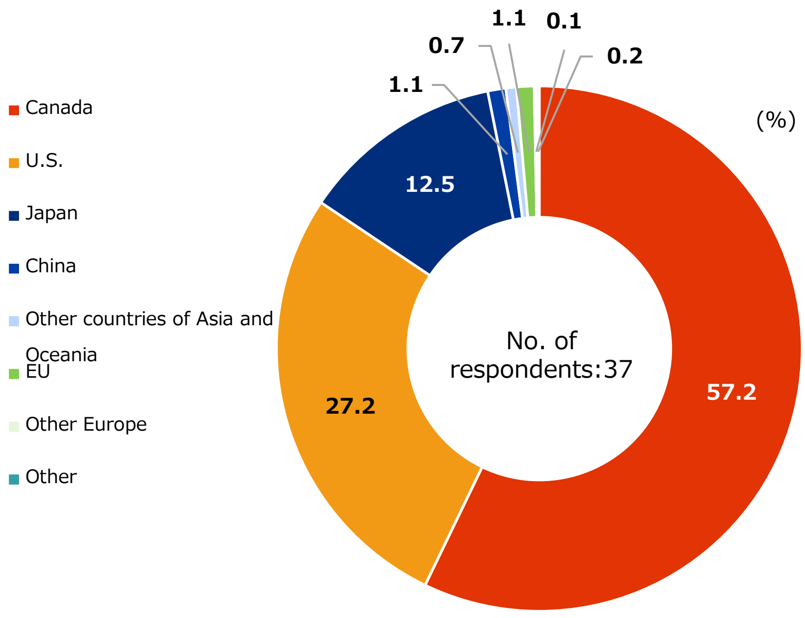
4 Production sites for Canadian market and plans to review production sites: Nearly 60% in Canada, mid-80% have no plans to review

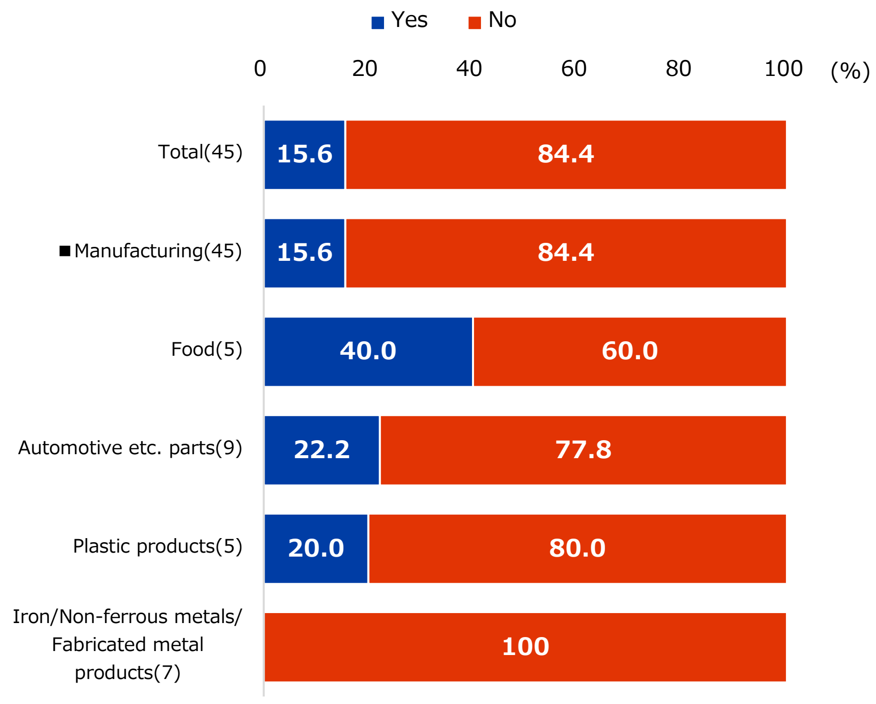
- Production locations of products for the Canadian market are as follows: 57.2% in Canada, 27.2% in the U.S., and 12.5% in Japan.
- Only 15.6% of respondents answered that they planned to review production, while the mid-80% answered that they had no plans to do so.

Production Sites of Products for Canadian Market (By Country/Region)



(Note 1) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.
(Note 2) In 2022, no question had been prepared regarding production location (By country/region) of products for the Canadian market.

Planned procurement review: (Manufacturing)



(Note) Only industries with 5 or more valid responses are listed

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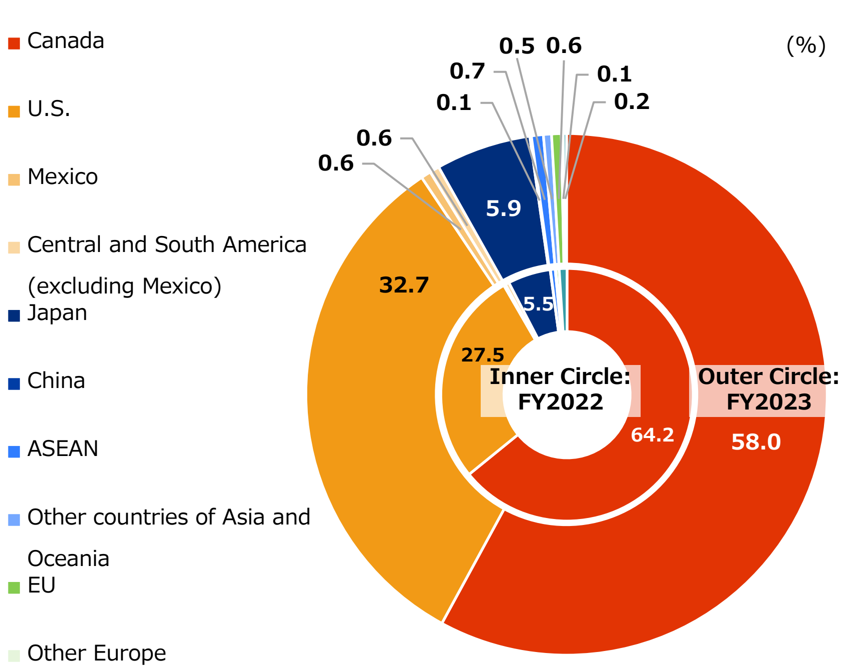
5 Sales Markets: Canada is the largest market for both manufacturing and non-manufacturing

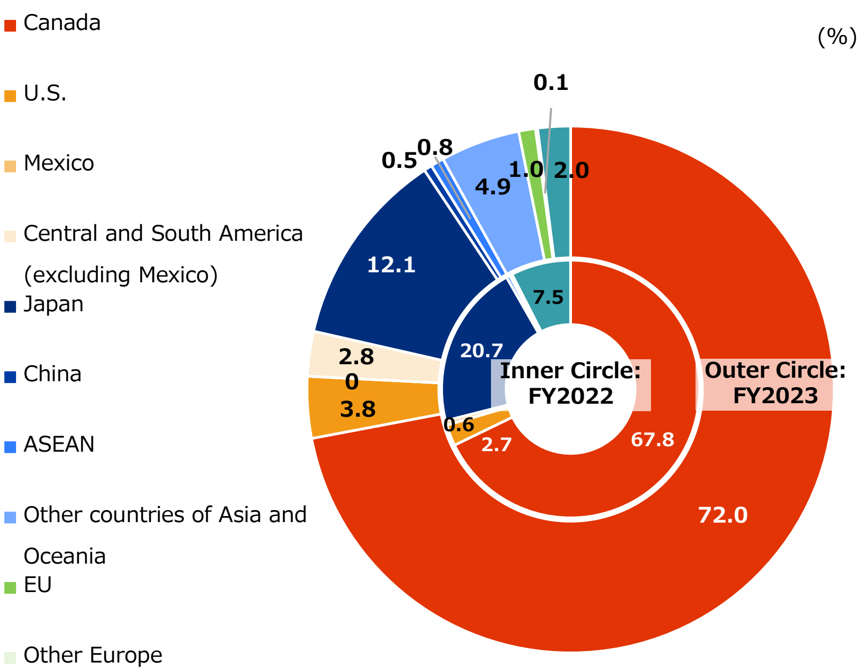
- The manufacturing sector sells 58.0% of its products within Canada and 91.3% to the CUSMA market, which includes Mexico and the United States.
- The non-manufacturing sector sells 72.0% within Canada and 75.8% to the CUSMA market, which includes the United States.

Product Sales Markets (By Country/Region, Non-manufacturing)



#of respondents FY2022 : 50
#of respondents FY2023 : 36

Service Sales Markets (By Country/Region, Non-manufacturing)



#of respondents FY2022 : 45
#of respondents FY2023 : 29

(Note) Percentages are calculated for each country/region when each company's total is 100 in value terms, and the figures have been averaged.

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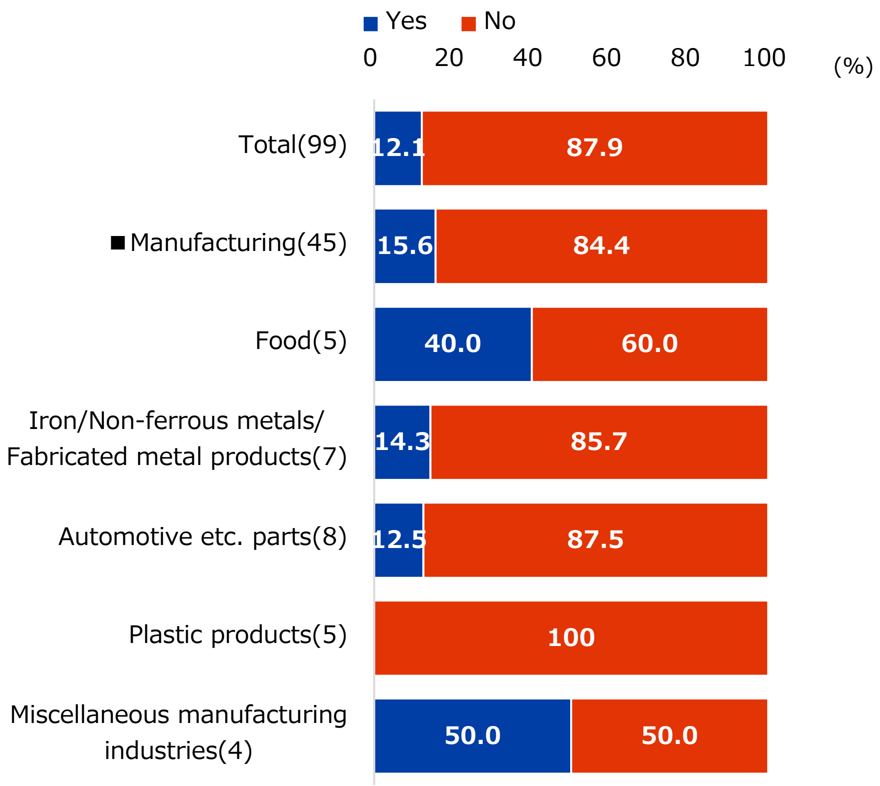
6 Plans to review sales: Nearly 90% have no plans to review

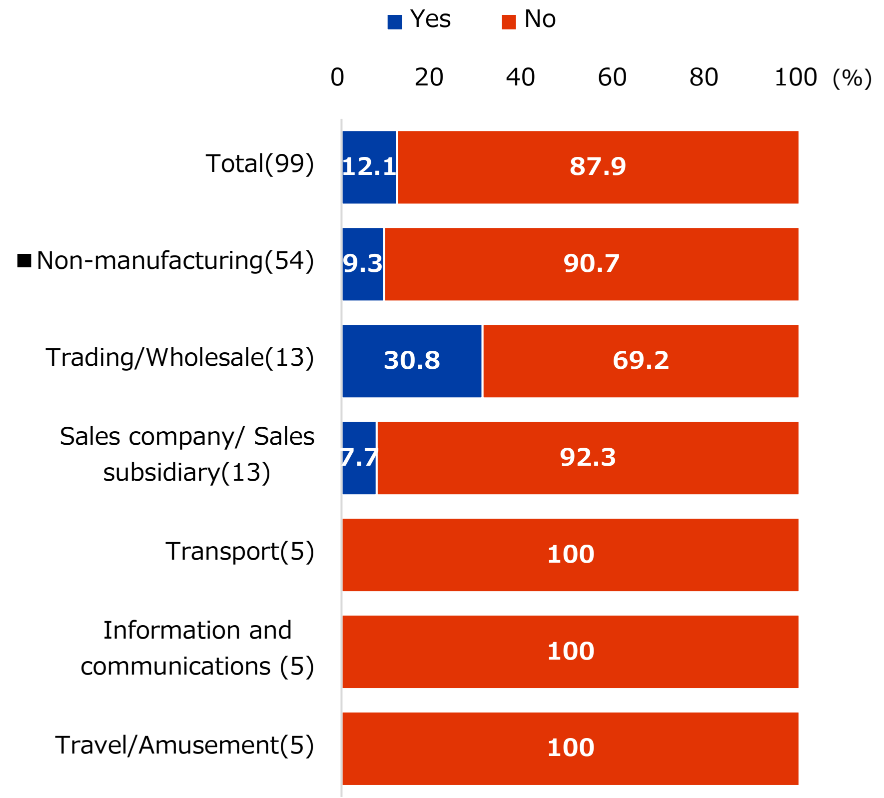
- Only 12.1% of respondents said they plan to review sales, and nearly 90% said they have no plans to do so.
- The most common reason for reviewing sales was "Change in sales demand".

Whether or not there are plans to review its sales partners (manufacturing sector)



(Note) Only industries with at least 5 companies with valid responses are listed (excluding other manufacturing industries).

Whether or not there are plans to review its sales partners (non-manufacturing sector)



(Note) Only industries with at least 5 companies with valid responses are listed

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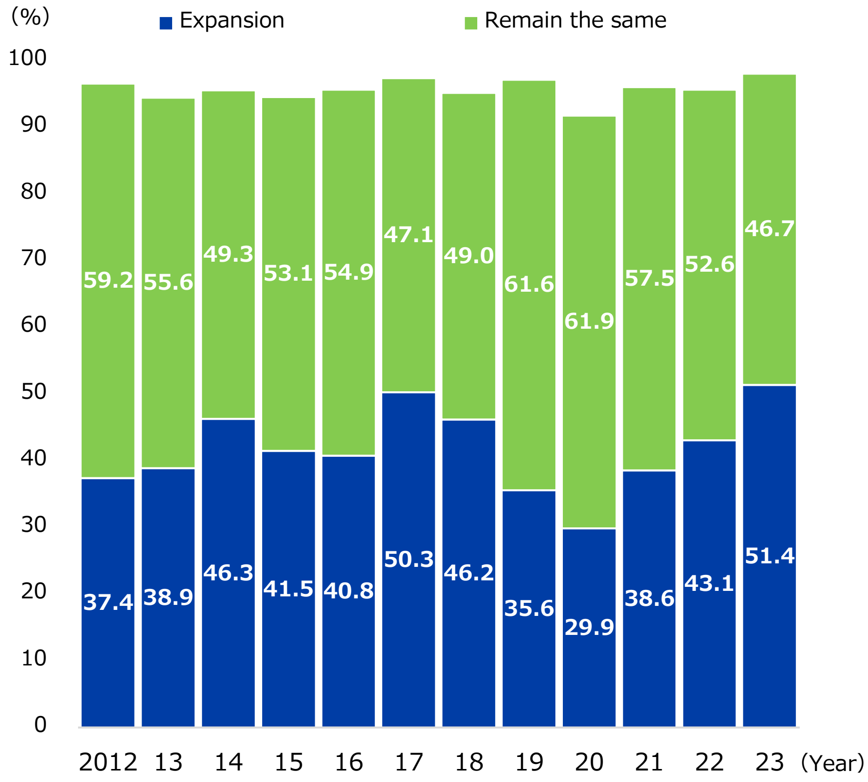
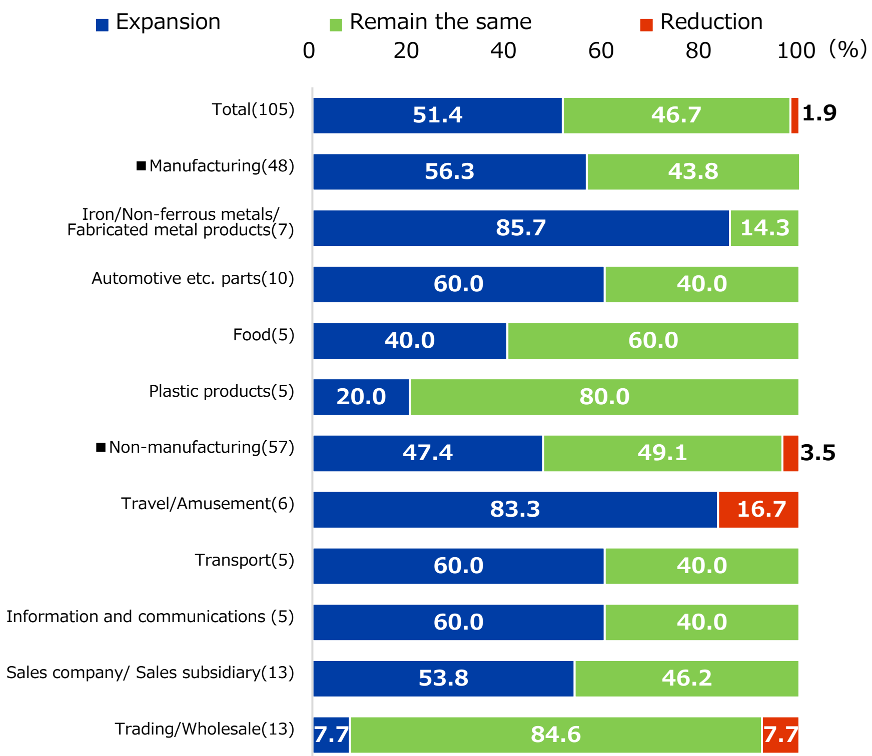
1 Business Direction:
Slightly more than half will expand business in Canada

- More than half (51.4%) of the companies plan to expand their business in the next 1-2 years, a significant increase from the previous year (43.1%).
- In the manufacturing sector, a high percentage of respondents in the industries of iron/non-ferrous metals/fabricated metal products (85.7%) and automotive etc. parts (60.0%) chose "Expansion" as their response, and in the non-manufacturing sector, a high percentage of respondents in the industries of travel/amusement (83.3%), transportation (60.0%), and information and communications chose "Expansion" as their response.

Trends in Business Expansion for Next 1-2 Years



Business Direction in the Next 1-2 Years (By Industry)



(Note) Only industries with 5 or more valid responses are listed

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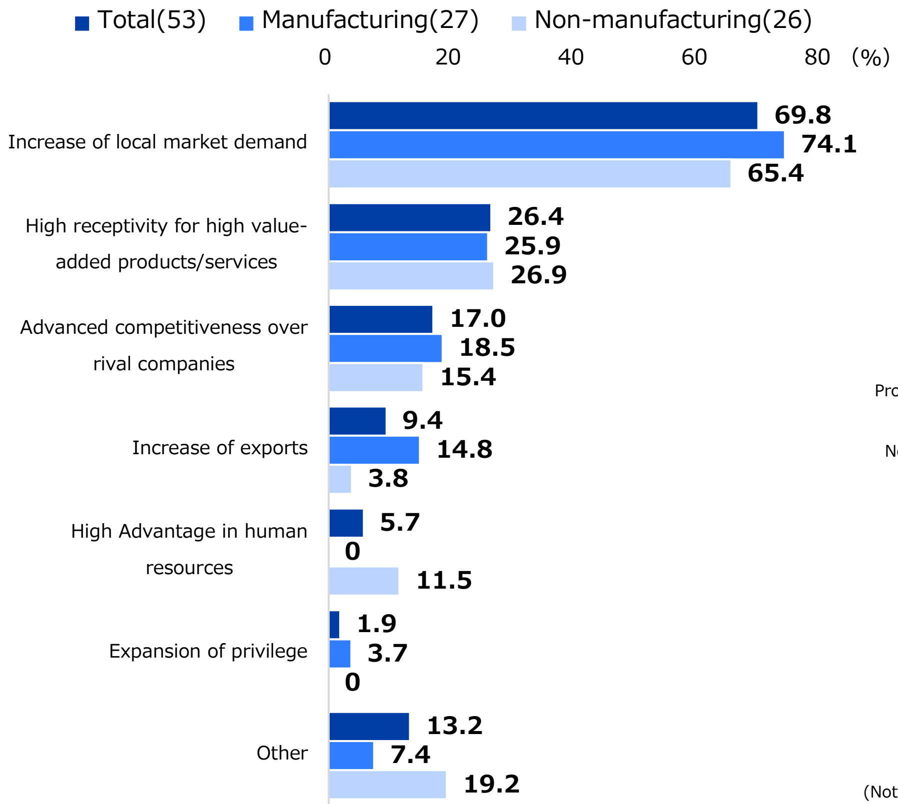
2 Future Business Direction: Expansion of local market needs accounts for nearly 70% of the total, and sales accounts for the largest number of expansion functions

- The largest reason for business expansion over the next 1-2 years was "Expansion of local market needs" at 69.8%. Some cited rebound demand from the novel coronavirus disaster and market expansion related to climate change measures.
- Specific expansion functions were highest for sales (59.3%), followed by production (general-purpose products) and new business development, both at 27.8% each.

Reasons for Business Expansion (Multiple Answers)

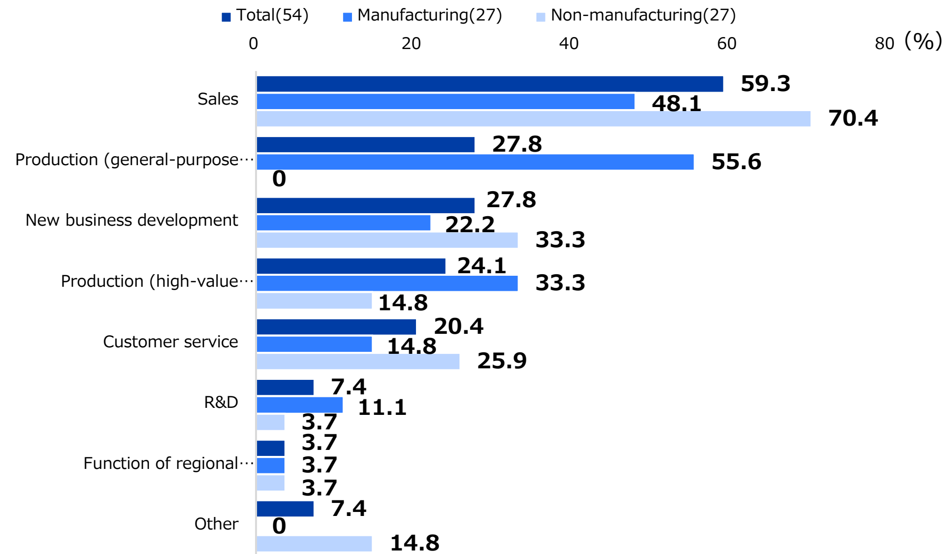


(Note) Excerpt only for top items

Specific reasons for business expansion

- Increased demand for travel after the novel coronavirus disaster [travel/amusement]
- Expanding markets for CO2 capture technologies and high-efficiency products [Iron/non-ferrous metals/fabricated metal products, general machinery, etc.]
- Expansion of Canada's institutional design for CCUS [General machinery]
- Market expansion due to increase in Asian population [Sales companies/sales subsidiaries]

Specific expansion functions (Multiple answers)



(Note1) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.
(Note2) Excerpt only for top items

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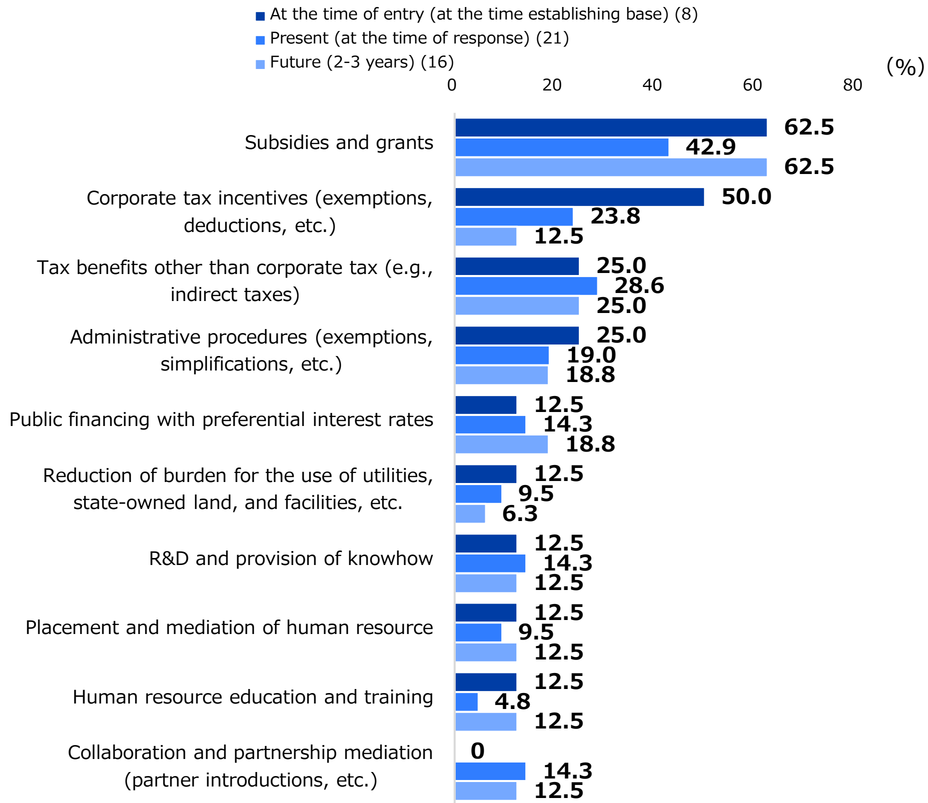
3 Incentives received from government, municipalities, etc.: Utilize subsidies and grants, tax benefits, and assistance with administrative procedures

- Incentives received from the government, municipalities, and other entities were often subsidies and grants, tax benefits, and administrative procedures (exemptions, simplifications, etc.).
- Of the companies that have received or will receive corporate tax benefits (16 companies), 12 are located in Ontario. The others are located in British Columbia and Quebec (2 companies each).

Incentives received from the government, municipalities, etc. (Multiple Answers)



(Note 1) Excerpt only for top items
(Note 2) Figures in parentheses in the explanatory notes indicate the number of companies that have received or will receive some sort of specific incentive at each point in time.

Examples of specific incentives/supports

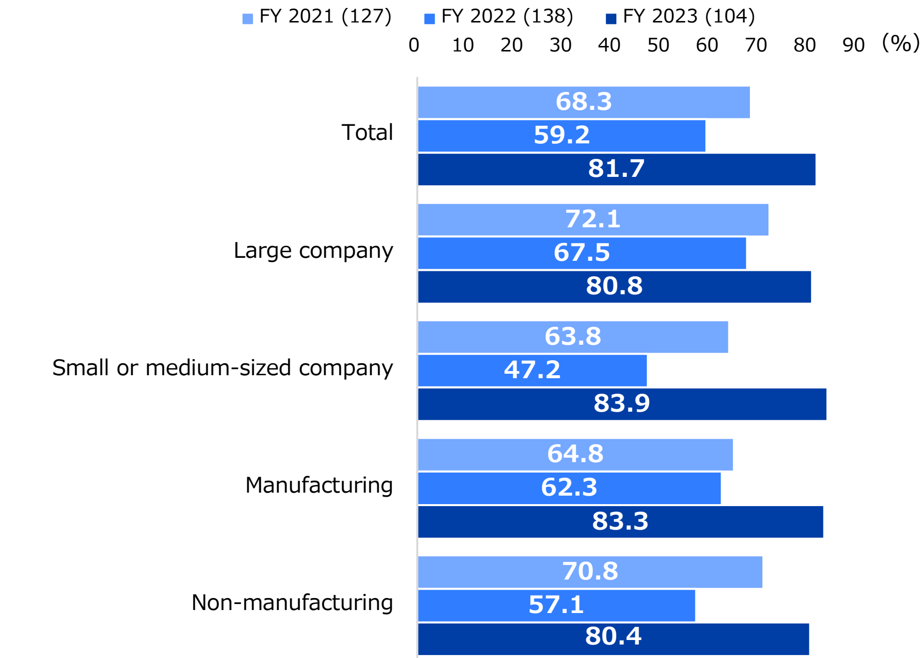
- **Subsidies and grants**
  - Provincial grants for capital investment [Manufacturing]
  - Incentives for new investment [Non-manufacturing]
- **Tax benefits**
  - Use of the Scientific Research and Experimental Development Tax Credit Program (SR&ED) [Manufacturing]
  - Tax credits from provincial governments for hiring interns [Manufacturing]
- **Other**
  - Assistance with wages and real estate rent paid by businesses associated with the novel coronavirus disaster [Manufacturing and non-manufacturing]
  - Preferential interest rate loan assistance at local government agencies for new capital investment [Manufacturing]
  - Interest-free loans for capital investment [Manufacturing]

(Note 1) Based on individual responses. Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.
(Note 2) Due to the small number of responding companies, industry categories are listed as either manufacturing or non-manufacturing

1 Business and Human Rights: More than 80% recognize human rights as an important management issue, and more than 40% have implemented human rights DD

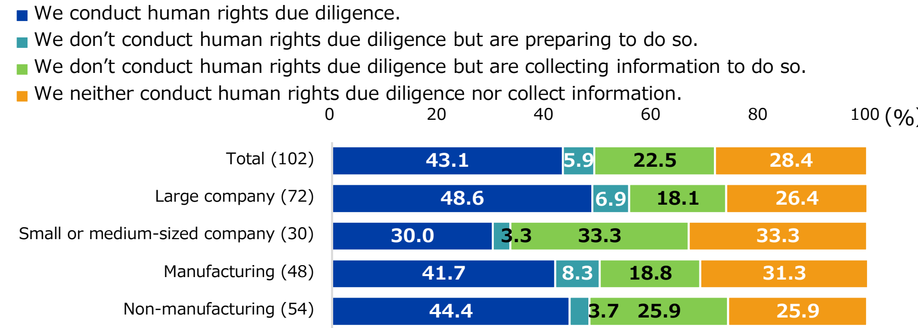
- A total of 81.7% of companies recognize human rights issues as important management issues. This is a sharp increase from the previous year (59.2%).
- The percentage of companies that conducted human rights due diligence (DD) was 43.1%. This is up 2.8 points from the previous year (40.3%). On the other hand, the percentage of implementation varied depending on the size of the company, with implementation in 48.6% of large companies and 30.0% of small and medium-sized companies.

Percentage of companies that recognize human rights issues as an important management issue (overall, by company size and industry)



(Note 1) the numerals in parentheses indicate the number of respondents.
(Note 2) In 2021 and 2022, "Small and medium-sized companies" among respondents are those with fewer than 100 total employees in Canada., and "Large companies" are those with 100 or more total employees. Respondent company classification in 2023: "Small and medium-sized companies" are those whose headquarters in Japan fall within the scope of small and medium-sized companies as defined by Japan's Basic Act on Small and Medium-sized Enterprises, and "Large companies" are those whose headquarters exceed the same scope.

Is human rights DD being implemented? (By company size and industry)



(Note) Figures in parentheses alongside company size and industry are the number of valid responses.

Reasons for implementing/not implementing human rights DD

Main reasons for implementation

- Implementation under the policy and guidance of the head office and group companies [Automotive etc. parts, etc.]
- Requests from society and business partners [Transportation]

Main reasons for not implementing

- Due to lack of human resources and time to implement [Other manufacturing]
- Implemented by head office, not necessary due to the nature of the business [Trading/wholesale, Information and communications, etc.]

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

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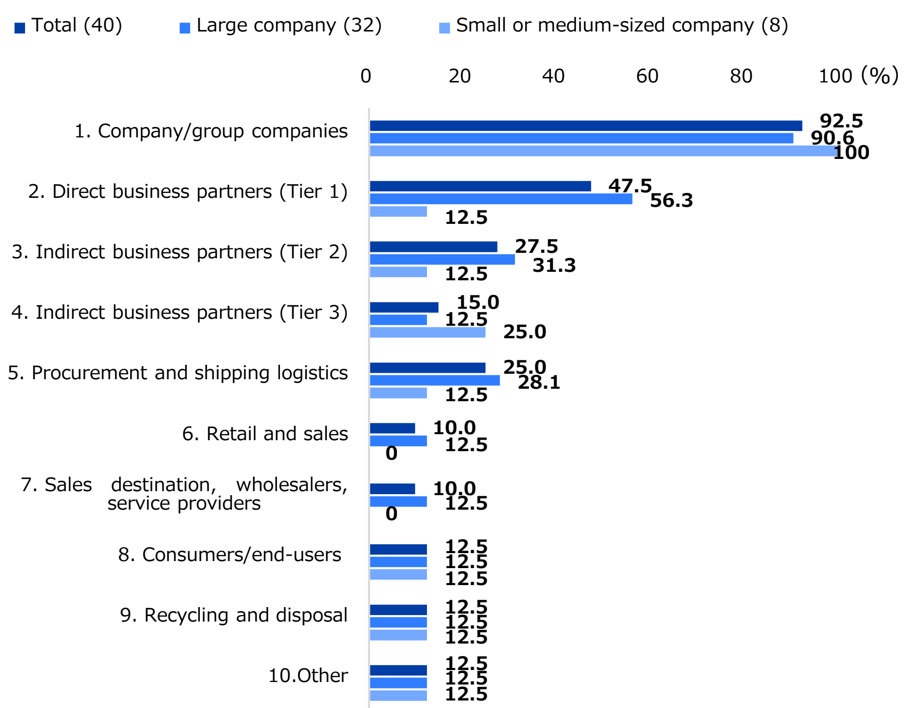
2 Business and Human Rights: Challenges for companies implementing human rights DD are retroactive to indirect business partners

- In terms of the scope of human rights DD, 92.5% of the respondents answered "In-house/group companies" and 47.5% answered "Direct business partners (Tier 1)". Only a limited number of companies conduct human rights DD for their indirect business partners (Tier 2) and beyond.
- Some companies are considering how to respond to new Canadian legislation that imposes human rights DD mandatory reporting.

To what extent have you been able to implement human rights DD in the supply chain, etc.? (Multiple choice)



(Note) Only companies that responded that they have implemented human rights DD were included.

Obtaining specific information from suppliers

- Submission of reports from suppliers [Automotive, etc.]
- Conducting questionnaires based on the instructions of the head office [Trading/wholesale]
- Obtaining information by e-mail or application form [travel/amusement]

Challenges of addressing human rights DD

- Even with local assurances that there are no human rights risks regarding raw materials from China and African countries, the actual issue cannot be fully ascertained [Manufacturing and iron/non-ferrous metals/fabricated metal products]
- Considering a course of action in response to Canada's "Bill to enact legislation on combating forced labor and child labor in the supply chain and to amend tariff rates" [Other non-manufacturing]
- With supply chains expanding to multiple countries, there is a possibility of leakage [Automotive, etc.]
- Some products contain parts made by subcontractors and sub-subcontractors, and it is difficult to investigate whether each and every one of these parts was manufactured in accordance with the basic rules of human rights DD [Sales companies/sales subsidiaries]

(Note 1) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.
(Note 2) For items with a total of 3 or fewer validly responding companies, industry classification is indicated as manufacturing or non-manufacturing

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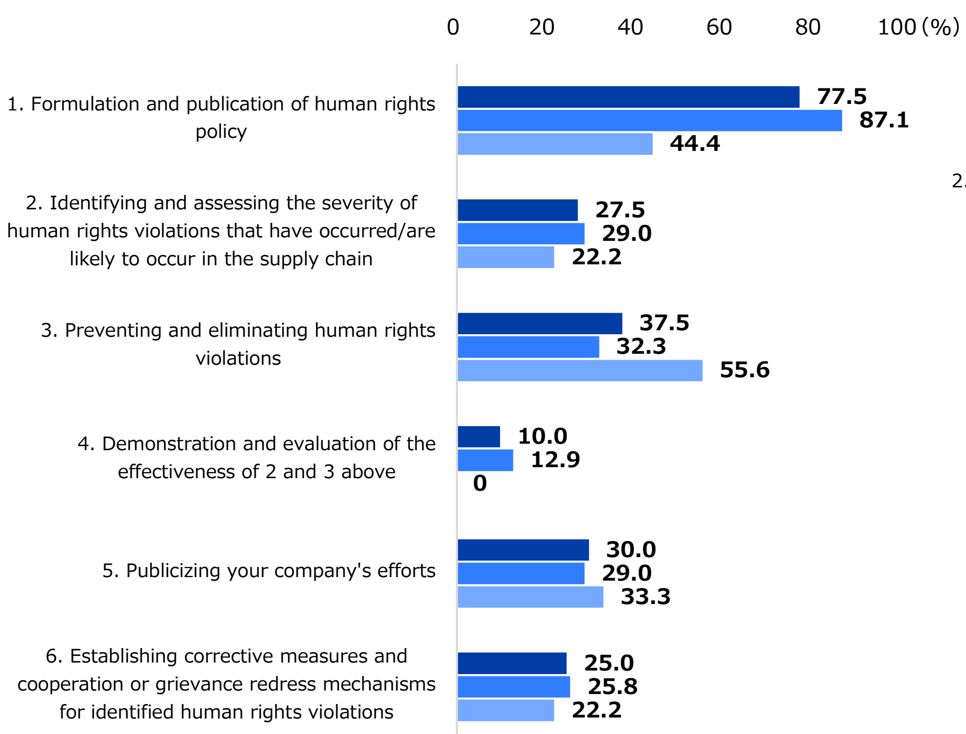
3 Business and Human Rights: Only 10% of companies continually implement human rights DD based on PDCA

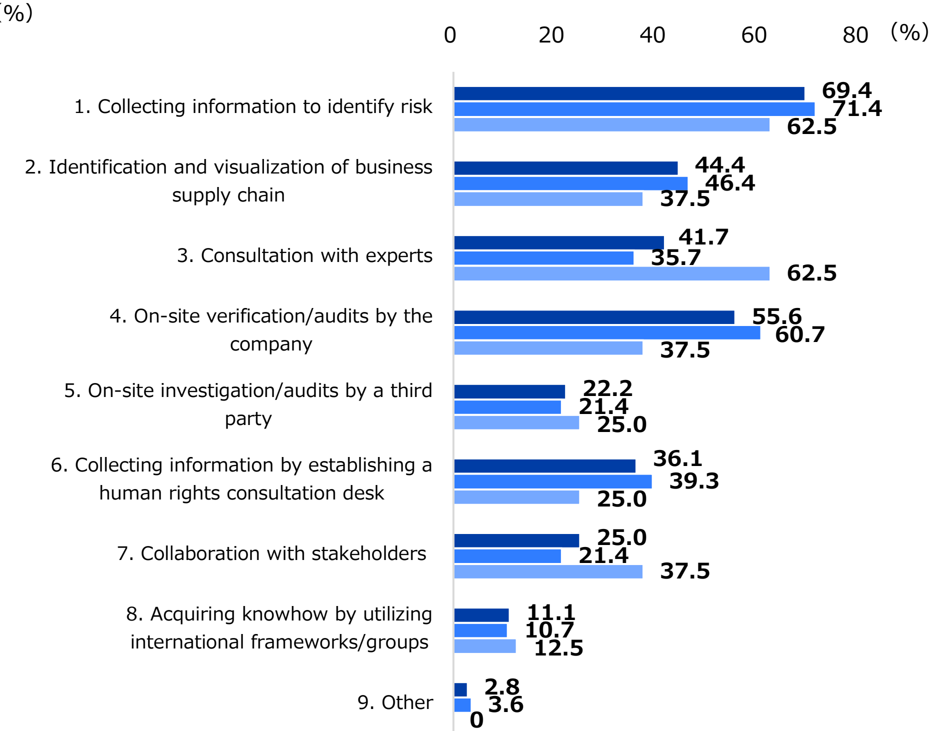
- Although 77.5% of the companies "Formulate and publish human rights policies", only 10% of the companies are in the continuous implementation phase of the PDCA cycle based on the policies (identification, evaluation, prevention, demonstration of resolution and evaluation).
- In terms of efforts to identify and assess human rights risks, the most common response was "Gathering information to identify risks" (69.4%).

Contents of human rights DD efforts (Multiple choice)



(Note) Only companies that responded that they have implemented human rights DD were included.

Contents of efforts to identify and evaluate human rights risks (Multiple choice)



(Note) Only companies that have implemented human rights DD to any extent, such as in the supply chain, are included.

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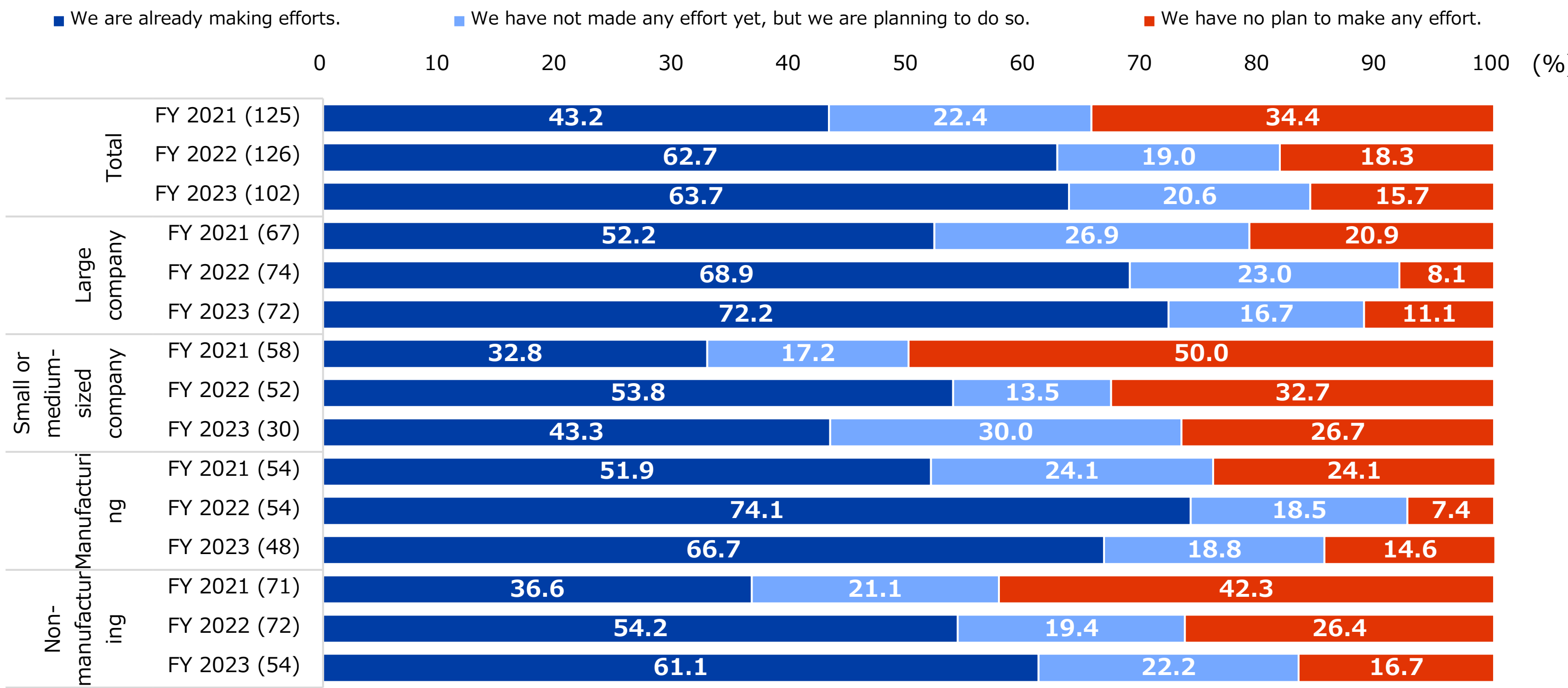
4 Business and Human Rights: Over 80% of companies working to reduce greenhouse gas emissions

- The percentage of companies that are "Taking action" or are "Planning to take action" to decarbonize was 84.3%, up 2.6 points from the previous year (81.7%).
- By industry, the manufacturing sector took a sharp downturn, falling 7.1 points. The non-manufacturing sector supported growth with an increase of 9.7 points.
- Comparing by company size, there was a difference of 15.6 points, with 88.9% of large companies compared to 73.3% of small and medium-sized companies.

Status of efforts to decarbonize (Reduction of greenhouse gas emissions)



(Note 1) The totals in the survey results in this report may not be 100 because the numbers are rounded off to the first decimal point.
(Note 2) In 2021 and 2022, "Small and medium-sized companies" among respondents are those with fewer than 100 total employees in Canada, and "Large companies" are those with 100 or more total employees. Respondent company classification in 2023: "Small and medium-sized companies" are those whose headquarters in Japan fall within the scope of small and medium-sized companies as defined by Japan's Basic Act on Small and Medium-sized Enterprises, and "Large companies" are those whose headquarters exceed the same scope.

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5 Promoting Decarbonization: Efforts focus on reducing direct emissions, with nearly 60% of respondents responding

- Looking at the details of companies who are "Taking action" or are "Planning to take action" by scope, Scope 1 was the most common among all industries, at 58.1% of all respondents. The largest number of respondents were from iron/non-ferrous metals/fabricated metal products in the manufacturing sector, at 63.4%, and trading/wholesale in the non-manufacturing sector, at 53.3%. For Scope 3, non-manufacturers (35.6%) with no or little in-house emissions exceeded manufacturers (26.8%) by 8.8 points.

Companies that are or will be addressing decarbonization

Scope1

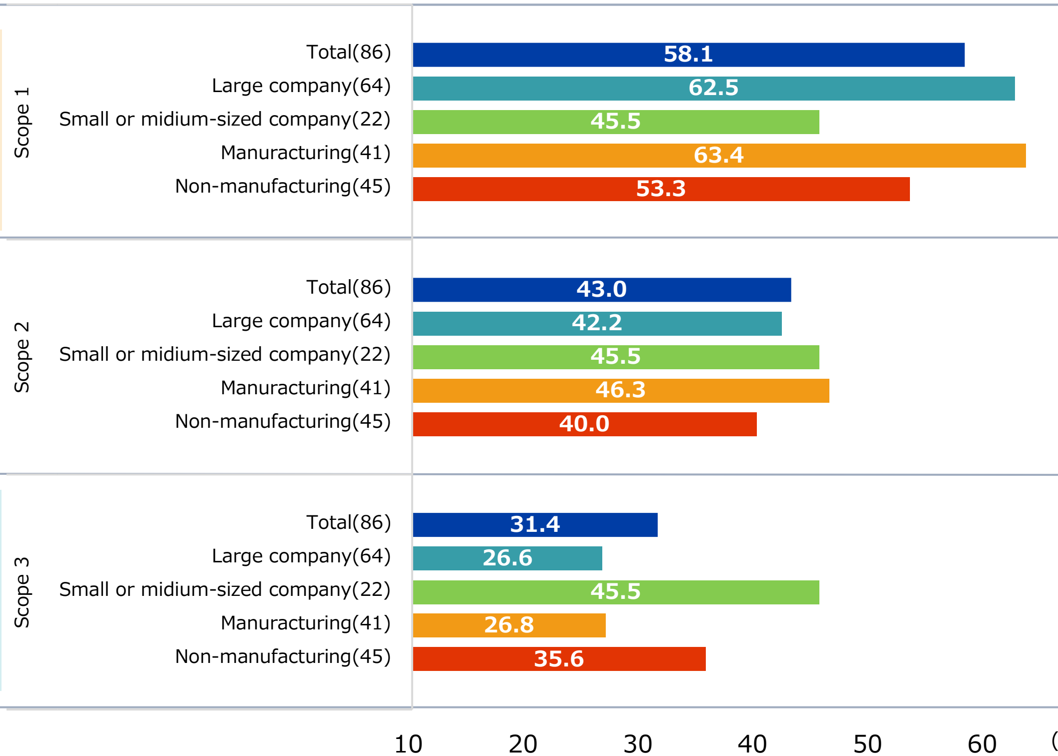
Direct greenhouse gas emissions by businesses themselves: fuels of fuels, industrial processes

Scope2

Indirect emissions from the use of electricity, heat, and steam supplied by other companies

Scope3

Indirect emissions other than Scope 1 and Scope 2: emissions by other companies related to the business's activities



Top industries for each initiative (Ratio)

Scope1	Iron and steel・Non-ferrous metals・Fabricated metal products (6) 83.3%
	Trading/wholesale (11) 72.7%
	Automotive etc. parts (9) 55.6%
	Sales companies/sales subsidiaries/sales subsidiaries(13) 46.2%
	Food(5) 40.0%
Scope2	Automotive etc. parts (9) 66.7%
	Food (5) 60.0%
	Transportation (5) 60.0%
	Trading/Wholesale (11) 36.4%
	Sales companies/sales subsidiaries/sales subsidiaries (13) 23.1%
Scope3	Travel/amusement (5) 60.0%
	Food (5) 40.0%
	Transportation (5) 40.0%
	Sales companies/sales subsidiaries/sales subsidiaries (13) 38.5%
	Automotive etc. parts (9) 22.2%

(Note 1) Only those companies that responded that they are "Taking action" or "Planning to take action" to reduce Scope 1-3 and the top industries (in terms of percentage) for each initiative are listed for those industries with at least 10 valid responses

(Note 2) "Small and medium-sized enterprises" are enterprises whose headquarters in Japan fall within the scope of small and medium-sized enterprises as defined by Japan's Small and Medium Enterprise Basic Act, and "Large enterprises" are enterprises that exceed the same scope

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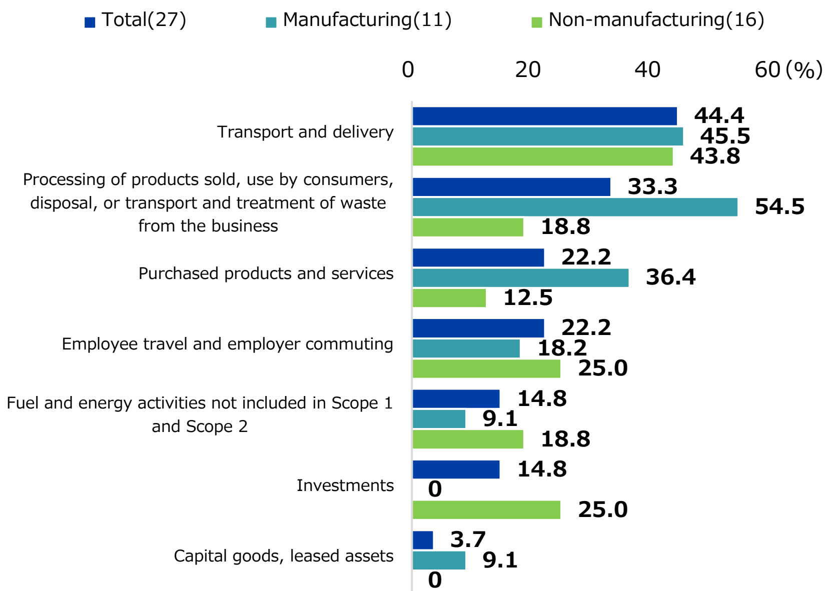
6 Promoting Decarbonization: Mid-40% of efforts to reduce emissions outside the company through transportation and delivery

- The largest number of Scope 3 initiatives are targeted at "Transportation and delivery". Other effort items in the manufacturing sector were "Transportation and disposal of waste" (54.5%) and "Purchased products and services" (36.4%), while for the non-manufacturing sector, many efforts focused on "Employee business trips" (25.0%).
- Issues for Scope 1-3 efforts that were raised included increased investment and practical costs and the need to address the shift to ZEVs in automobiles.

Target of Scope 3 Initiatives



(Note 1) Excerpt only for top items
(Note 2) Companies that responded that they are "Taking action" or "Planning to take action" to reduce Scope 3.

Details of Scope 3 initiatives

Transportation and delivery

- Study of distribution that achieves decarbonization [Sales companies/sales subsidiaries]

Use by consumers, transport and disposal of waste

- Waste reduction through reduction of defects in the production process [Plastic products]
- Development and promotion of products and services that enable consumers and customers to decarbonize their businesses, such as carbon offset functions and the sale of travel products that use sustainable aviation fuel "SAF" [travel/amusement, sales companies/sales subsidiaries, Information and communications, Automotive etc. parts]

Employee travel and employer commuting

- Limitation on the number of business trips, use of telework and online meetings [Professional and technical services]

Capital goods and leased assets

- Conversion of leased vehicles to EVs and hybrids [Automotive etc. parts, travel/amusement]

(Note 1) There were no specific individual responses for "Purchased products and services," "Fuel and energy activities not included in Scope 1 and Scope 2," or "Investments."
(Note 2) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

Challenges to decarbonization efforts

(Note) Based on individual responses.
Responses have been revised to clarify the intent of the response, to the extent that the intent of the original text is not compromised.

Costs and cost effectiveness

- Capital investment costs
- Cost of emissions calculation
- Cost effectiveness [Automotive etc. parts, etc.]

Regulations and systems

- Conversion of automobiles to ZEVs (especially Quebec)
- C&T-based emissions trading system [Automotive, etc. and iron/non-ferrous metals/fabricated metal products]

Lack of local awareness

- Still continuing to use natural gas [Sales companies/sales subsidiaries]

Lack of policy and institutional development

- Decarbonization targets differ between federal and provincial governments
- Lack of subsidies [Sales companies/sales subsidiaries, trading/wholesale]

Other

- Ontario has no leeway for reduction because the majority of its electrical power is clean energy [Automotive etc. parts]

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