

FY2019 JETRO Survey on Business Conditions for Japanese Companies in Canada (30th Annual Survey)

Americas Division, Overseas Research Department
Japan External Trade Organization (JETRO)
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Contents

Overview of FY2019 Survey	p.3		
Key Points Regarding the Survey Results	p.4-7		
1. 2019 Profit Forecast	p.8	5. Trudeau Administration Policy Areas of	
1. Business Sentiment Diffusion Index	p.9	Management Significance	p.24
2. Changes in Number of Local Employees	p.10	5. Effects of CUSMA on Japanese Companies in	
2. Numbers of Employees/Expatriates from Japan	p.11	Canada and Countermeasures	p.25
2. Capital Investments	p.12-13	5. Effects of CUSMA in the Three Countries	p.26
2. Future Business Direction	p.14	5. Countermeasures Regarding CUSMA in the	
		Three Countries	p.27
3. Procurement Sources	p.15		
3. Sales Destinations	p.16	6. Effects of Changes in the Trade Environment	p.28
		6. Effects of the Changes by Policies	p.29
4. Factors for Increased Costs	p.17	6. Responses to the Changes in the Trade	
4. Countermeasures against Factors for		Environment	p.30
Increased Cost	p.18	6. Effects on Operating Profit Outlooks	p.31
4. Company Benefits	p.19	6. Effects of Changes in the Trade Environment	
4. Wages (Monthly Base Salaries)	p.20	(By Country and Region)	p.32
4. Wages (Annual Bonuses)	p.21	6. Effects of the Changes by Policies	
4. Wages (Annual Salaries)	p.22	(By Country and Region)	p.33
4. Countermeasures against External Risk Factors	p.23	6. Responses to the Changes in the Trade	
		Environment (By Country and Region)	p.34

Overview of FY2019 Survey

Survey Objectives

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

Survey Period

October 29 – November 29, 2019

Valid Responses

82.0%
(146 of 178 companies)

Scope of Survey

Japanese manufacturers and non-manufacturers operating in Canada that are at least 10% owned by a Japanese parent company, directly or indirectly.

Note

This is the 30th annual survey initiated since 1981 (not conducted in 2004).

Respondents by Industry and Region

(Unit: companies, %)

				Total	Composition Ratio
All Industries				146	100
By Industry					
Manufacturing	Total	Comp. Ratio	Non-Manufacturing	Total	Comp. Ratio
	69	47.3		77	52.7
Transportation equipment parts (motor vehicles, motorcycles)	14	9.6	Sales company	25	17.1
Food, processed food, agricultural or fishery products	7	4.8	Wholesale and retail trade	12	8.2
General-purpose and production machinery (including molds and machine tools)	6	4.1	Accommodations, travel, restaurant	9	6.2
Plastic products	5	3.4	Mining	9	6.2
Electrical machinery, electronic devices (including parts)	5	3.4	Information and communications (including software)	4	2.7
Transportation equipment (motor vehicles, motorcycles)	5	3.4	Transport activities, warehouse	3	2.1
Fabricated metal products (including plated products)	4	2.7	Professional and technical services	2	1.4
Non-ferrous metals	4	2.7	Finance and insurance	1	0.7
Business-oriented machinery	3	2.1	Construction, plant	1	0.7
Rubber products	2	1.4	Real estate	1	0.7
Textile apparel, textile products	2	1.4	Miscellaneous non-manufacturing industries	10	6.8
Lumber, wood products	2	1.4	By Region		
Chemical and allied products/petroleum products	1	0.7	Ontario	92	63.0
Iron and steel (including cast and wrought products)	1	0.7	British Columbia	32	21.9
Transportation equipment parts (railroad vehicles, ships, aircraft, industrial trucks)	1	0.7	Quebec	11	7.5
Ceramic, stone, clay products	1	0.7	Alberta	9	6.2
Miscellaneous manufacturing industries	6	4.1	Manitoba	1	0.7
			Saskatchewan	1	0.7

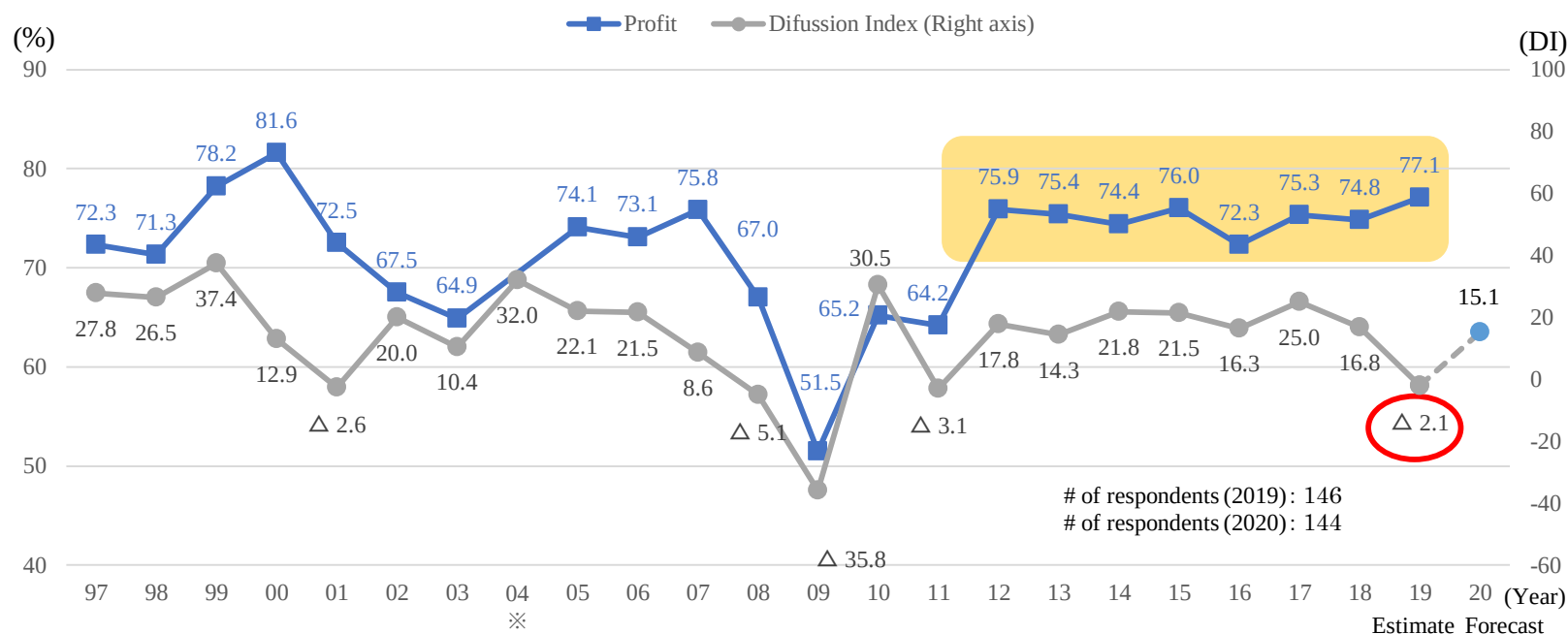
- (1) The totals in the surveys in this report may not be 100 because the numbers are rounded off to the first decimal point.
- (2) The firms participating in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected.
- (3) From the following 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 field did not meet a certain number, that industry/field was excluded from the chart.

Key Points Regarding the Survey Results: 1. Percentage of Profitable Japanese Companies Active in Canada and Their Business Sentiment DI

The percentage of profitable Japanese companies active in Canada came to 77.1%, the highest since 2000 and remaining above 70% for an eighth straight year since the FY2012 survey. Meanwhile, the DI indicating business sentiment was at -2.1 points, falling into the negative range for the first time in eight years since the FY2011 survey.

- For 2019, 77.1% of the respondents expect to generate a positive operating profit (p.8). With the robust Canadian economy, the percentage of companies that responded with expectations for a positive operating profit (profitability ratio) increased 2.3 percentage points from the previous year (74.8%). The profitability ratio remained above 70% for an eighth straight year since the fiscal 2012 survey, and marked the highest since 2000 (81.6%). By industry, food/agricultural products, plastic products (100%) and sales companies (88.0%) recorded high profitability ratios.
- Meanwhile, the DI indicating business sentiment for 2019 (obtained by subtracting the percentage of companies expecting a “decrease” in operating profits vs. last year from the percentage of those expecting an “increase”) came to -2.1, falling significantly from last year’s figure of 16.8 (p.9). The industries of electrical machinery, electronic devices and plastic products recorded DI of -80.0, sliding deep into negative territory.
- Among factors for forecasting a drop in the 2019 operating profit, top answers included “sales decrease in local market” (55.1%), as well as cost increases, such as “increase of labor costs”(36.7%) and “increase of procurement costs”(30.6%).

Trends in Percentage of Profitable Japanese Companies Active in Canada and Their Business Sentiment DI (1998 - 2020)



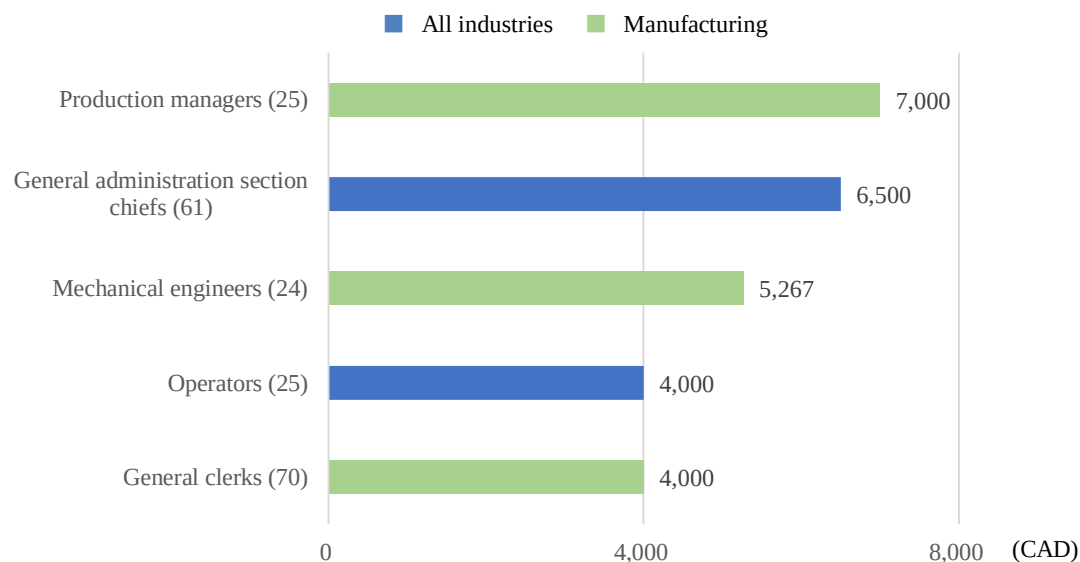
Note: No survey was conducted in 2004. DI for 2004 was the estimate from the 2003 survey.

Key Points Regarding the Survey Results: 2. Wages and Benefits

This is our first survey that looks at the kinds of benefits companies provide and their wages. The median values for base salaries (monthly base) ranged from CAN\$4,000 to CAN\$7,000. The average wage increase across all occupations was 2.5%.

- The median value for base salaries (monthly basis) by occupation in 2019 was as follows: at factories, the pay for production managers (section chiefs of production management departments) was CAN\$7,000; mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), CAN\$5,267; operators (job types engaged in machine operation in the manufacturing process), CAN\$4,000 (**p.20**). Among office positions, the pay for general administration section chiefs (section chiefs of general affairs departments) was CAN\$6,500, and general clerks (general office workers), CAN\$4,000.
- The median increase across the averages of all occupations for fiscal 2019 was 2.5%, with the fiscal 2020 rate forecast at 2.5% as well.
- Among the benefits offered, “accident and sickness benefits” (59.0%), “in-house training program” (56.7%) and “paid maternity & paternity/child-care leave” (47.8%) ranked high (**p.19**).

Wages (Monthly Base Salaries): Median Values



Note: Production managers, mechanical engineers, and operators are answered by manufacturing companies.

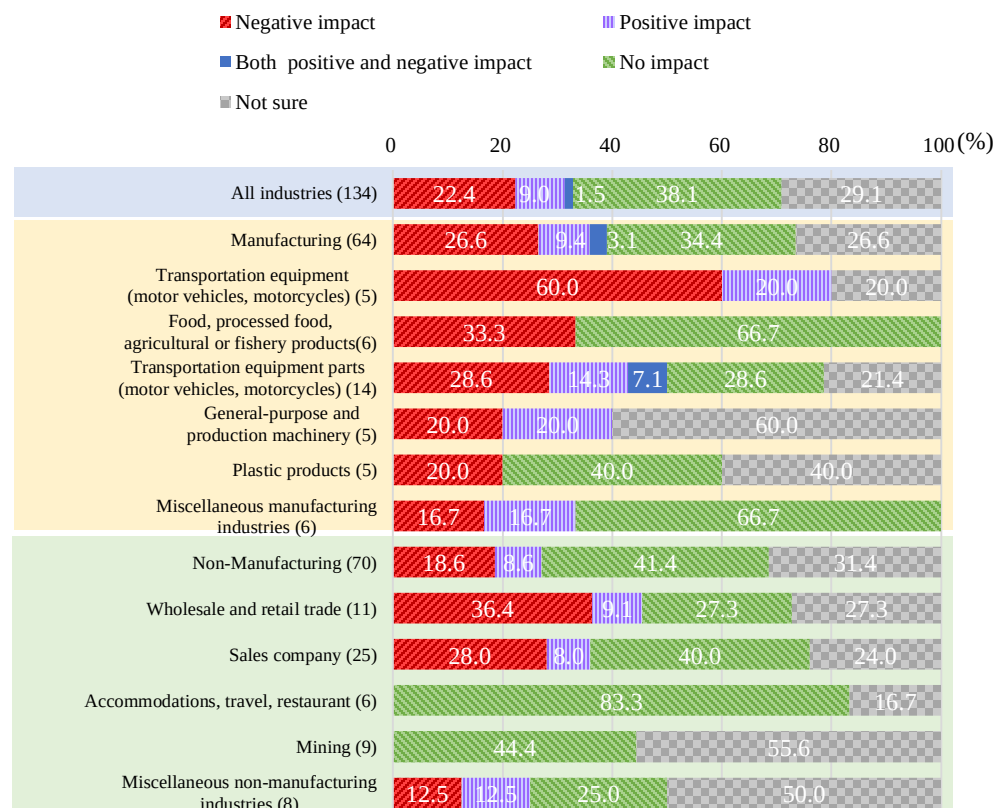
Key Points Regarding the Survey Results: 3. Effects of Changes in the Trade Environment

Some 20% of companies reported “negative effects,” with more than half answering that the main area where negative effects are being felt was “import/procurement cost.” The specific policies having an impact were said to be “additional tariffs of the U.S. imposed on steel and aluminum (Section 232 of the Trade Expansion Act in 1962)” and “Canada’s retaliatory tariffs against additional U.S. tariffs.” The responses showed that Japanese companies operating in Canada were affected more by the retaliatory additional tariffs between the U.S. and Canada than those between the U.S. and China.

- In terms of the impact felt at present from the changes in the trade environment, 38.1% reported experiencing “no impact,” followed by 29.1% that were “not sure,” while 22.4% reported experiencing “negative effects” (p.28). The main area where negative effects are being felt were said to be “import/procurement cost” (53.3%), “sales in Canadian market” (33.3%) and “production cost” (20.0%).
- Asked which specific policies were having an impact on their business, 57.7% of respondents cited “additional tariffs of the U.S. imposed on steel and aluminum (Section 232 of the Trade Expansion Act in 1962,” followed by 34.6% that answered “Canada’s retaliatory tariffs against additional U.S. tariffs,” indicating that the effects of additional tariffs between the U.S. and Canada were greater than the retaliatory tariffs between the U.S. and China (p.29).

(Note) The U.S. imposed additional tariffs on Canadian iron, steel and aluminum under Section 232 of the Trade Expansion Act between June 1, 2018 to May 19, 2019; Canada imposed retaliatory tariffs against the U.S. between July 1, 2018 to May 19, 2019.

Current Impact Due to Changes in the Trade Environment



Note: Graph lists only those industries in which valid responses were received from 5 or more companies.

Key Points Regarding the Survey Results: 4. Other Notable Trends

(1) Management challenges: Labor costs (including salaries and bonuses) of employees the top factor for increased costs

- In terms of management challenges (factors for increased costs), “labor costs (including salaries and bonuses)” emerged at the top at 60.9%, up 6.0 points from the previous year (54.9%), followed by “recruiting workers (regular workers and engineers)” at 53.6% **(p.17)**. The unemployment rate has remained low (in the 5% range since September 2018) in Canada, making recruiting difficult for Japanese companies as well.

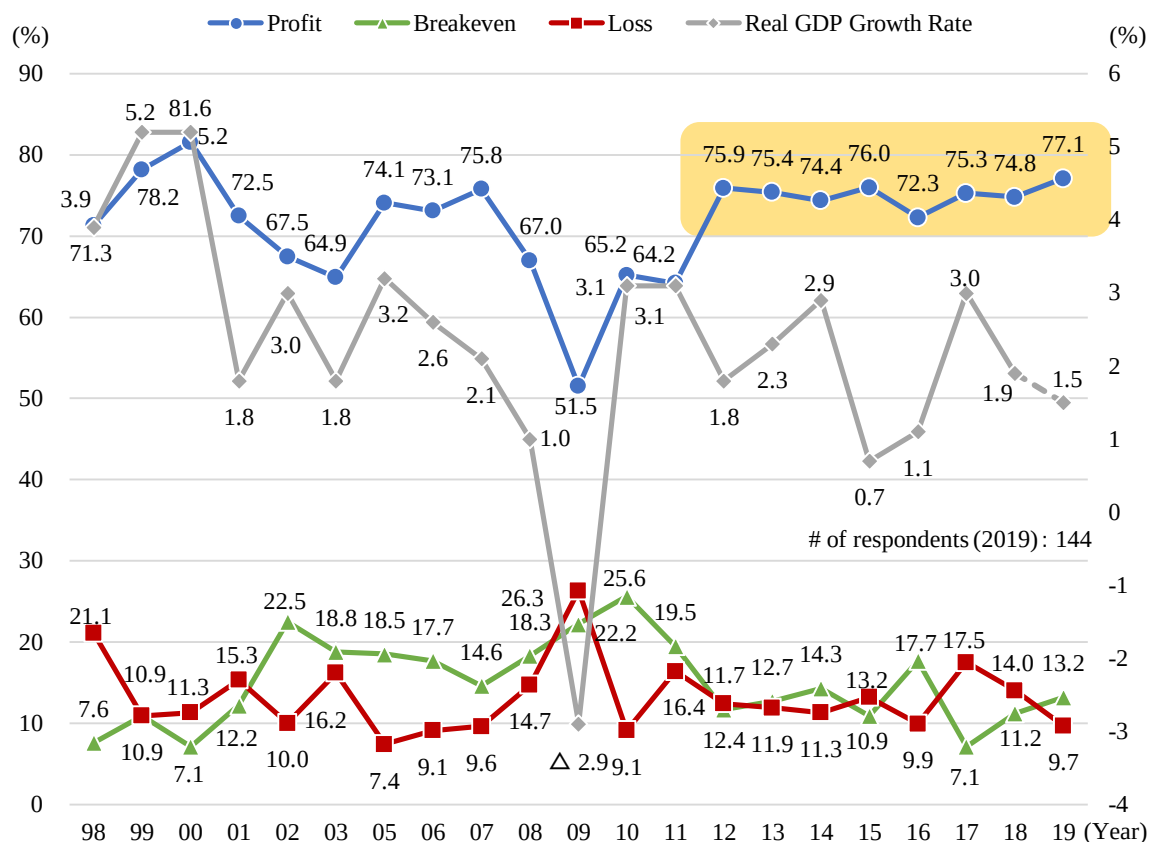
(2) Procurement from Asia grew, particularly from Japan

- In terms of procurement sources for raw materials and parts, procurement from within Canada (procurement rate 31.5%) and within the NAFTA region (U.S. and Mexico: total 24.6%) decreased from the previous year (36.1% and 66.1%), while procurement from Asia increased **(p.15)**. In particular, procurement from Japan grew to 22.6%, up 4.6 points from the previous year (18.0%). Procurement from China, ASEAN, and South Korea/Hong Kong/Taiwan came to 8.2%, 4.4%, and 4.3%, respectively, all increasing year-on-year.

1. 2019 Profit Forecast: 77.1% Said Profitable, Marking Eighth Consecutive Year of 70% or Above

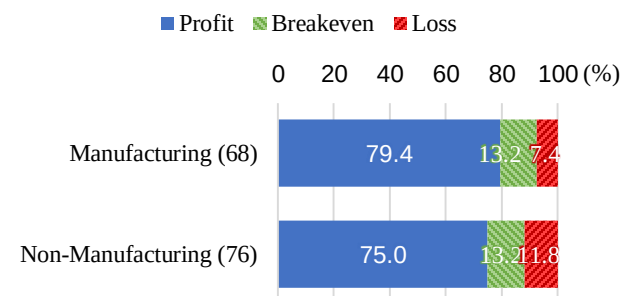
For 2019, 77.1% of the respondents said they expected a positive operating profit, up 2.3 points from the previous year (74.8%) and marking the eighth straight year of the percentage staying 70% or above. When viewed by sector, manufacturing recorded 79.4% while nonmanufacturing came to 75.0%. When viewed by industry, food/agricultural products and plastic products (100%) and sales companies (88.0%) recorded high profitability percentages. Real GDP growth is expected to slow down in 2019, but Japanese companies are expected to retain robust earnings.

Operating Profit Forecast and Real Canadian GDP Growth



Note: The GDP growth rate for 2019 is the advance estimate. No survey conducted in 2004

Operating Profit Forecast for 2019 (By Sector)



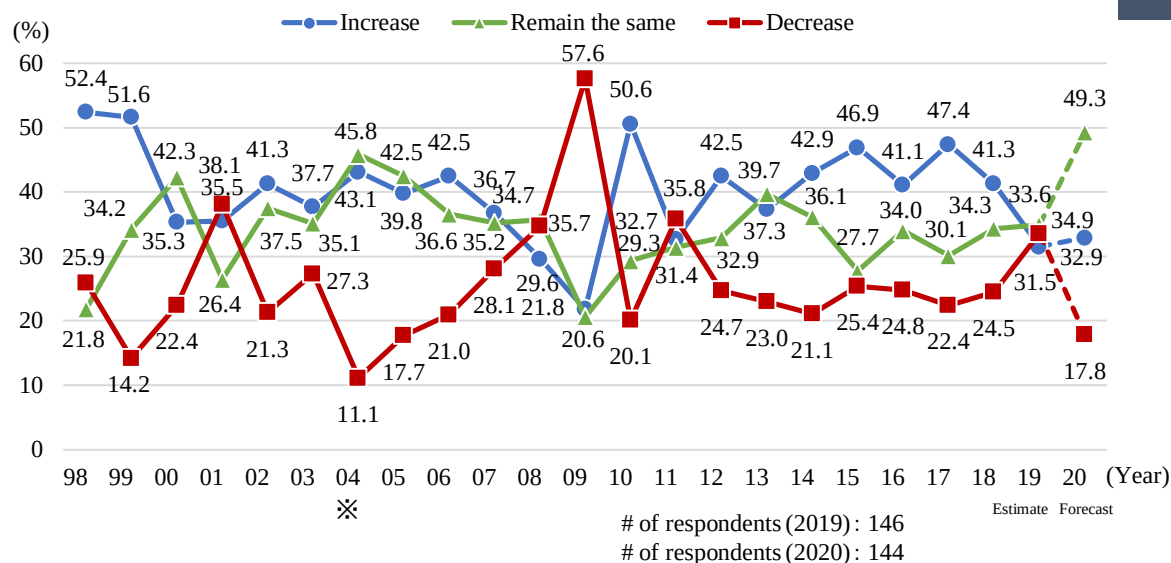
Factors for Profits

- Solid Canadian economy [Sales company]
- Stable economic growth, environment, support measures, efforts by well-experienced local staff [Sales company]
- Since the 2008 financial crisis, we have worked on enhancing efficiency to build resilience against production decline and foreign exchange risks; as a result, we were able to secure profit through cost cuts. [Plastic products]
- A major factor for turning a profit is improving business efficiency and other measures to curb expenses. Because our products are 100% imported, we are significantly affected by foreign exchange; but we offset negative effects by adjusting prices and curbing expenses. [Sales company]
- Sales strategy and extensive customer support [Sales company]
- Won a major order for high-specification Japanese products which cannot be made in Canada. [Wholesale and retail trade]
- Marketing services and content beyond existing advertising areas are growing. [Miscellaneous non-manufacturing industries]

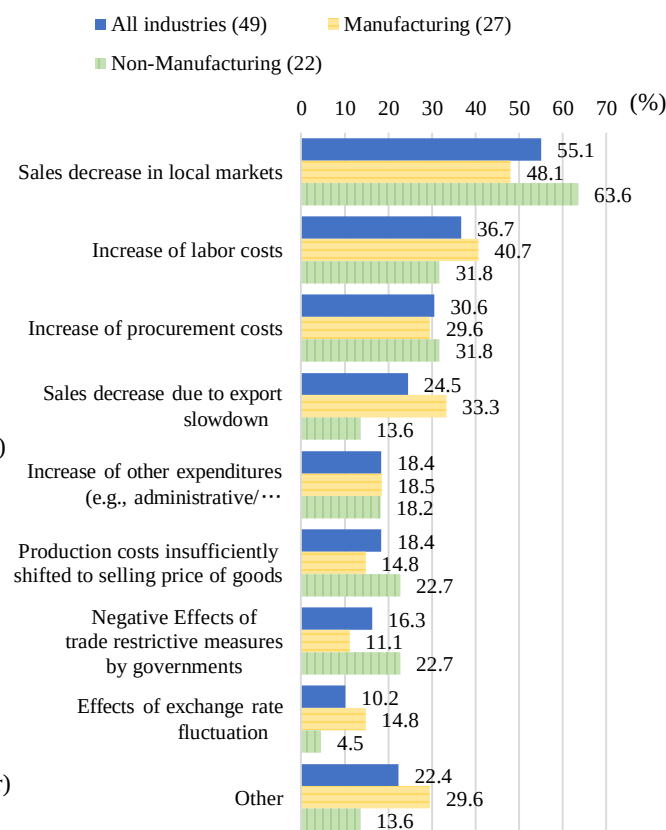
1. Business Sentiment DI: Major Deterioration from Previous Year, 2020 Forecast Suggests Rebound

The diffusion index (DI) for business sentiment (the difference between the rates of improvement and deterioration) in 2019 stood at -2.1, a deterioration of 18.9 points from the previous year. Respondents expecting a “decrease” in their operating profit for 2019 accounted for 33.6%, up 9.1 points from the previous year (24.5%), while those anticipating an “increase” accounted for 31.5%, down 10.2 points from the previous year (41.3%). The DI predicting business sentiment for 2020 was 15.1, and companies expecting a “decrease” in their operating profit came to 17.8%, marking a decrease.

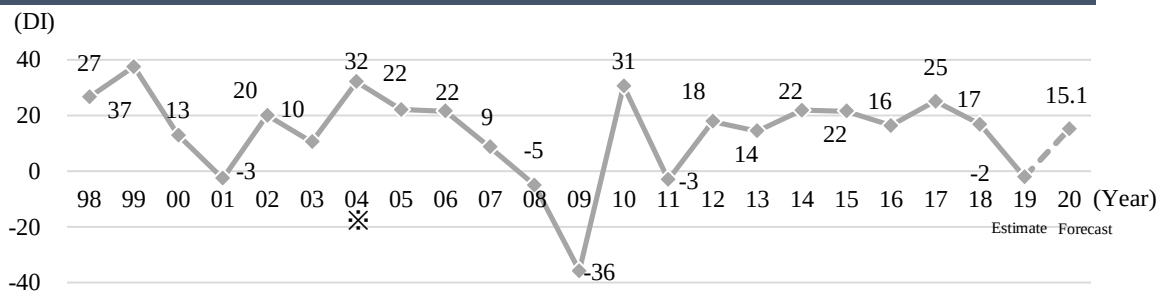
Year-over-year Operating Forecast Profit Changes



Reasons for Decreased Operating Profit Forecast for 2019 (Multiple Answers)



Business Sentiment DI Trends



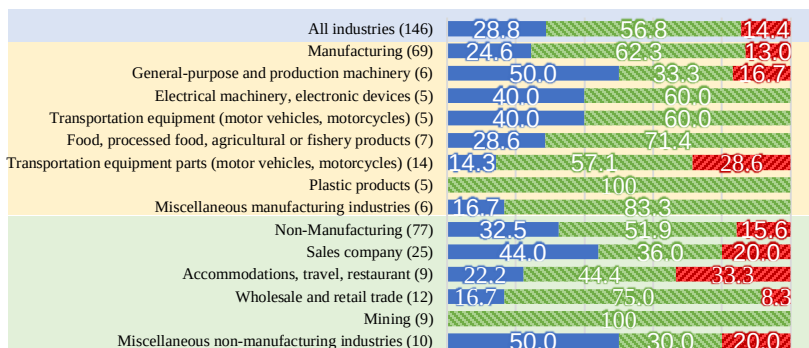
Note: No survey was conducted in 2004. DI for 2004 was the estimate from the 2003 survey.

2. Changes in Number of Local Employees: Only around 30% “Increased” the Number over the Past Year; Those with Plans to “Increase” also Declined to around 30%

Only 28.8% of the respondents had “increased” their number of local employees in the past one-year period, down 5.0 points from the previous year (33.8%) and falling below 30% for the first time in three years (since the fiscal 2016 survey (28.2%)). When viewed by sector, among non-manufacturers, more than 30% (32.5%) had “increased” local staff. Asked about their plans going forward, 31.5% said they planned an “increase,” down 9.4 points from the previous year (40.9%) and the lowest in three years (since the fiscal 2016 survey (28.4%)).

Changes in Number of Local Employees
(Change over Past Year, By Industry)

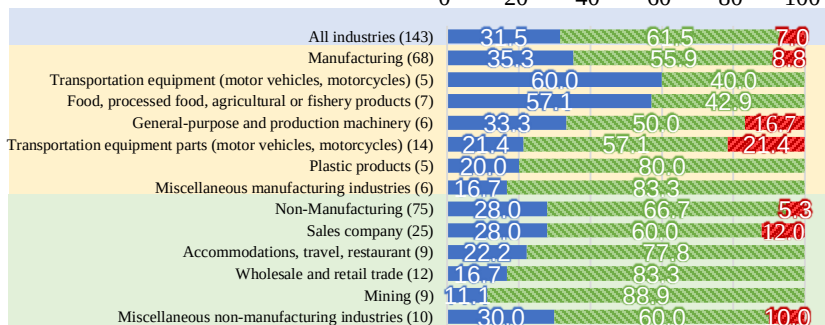
■ Increase ■ No change ■ Decrease
0 20 40 60 80 100 (%)



Note: Graph lists only those industries in which valid responses were received from five or more companies.

Changes in Number of Local Employees (Plans, By Industry)

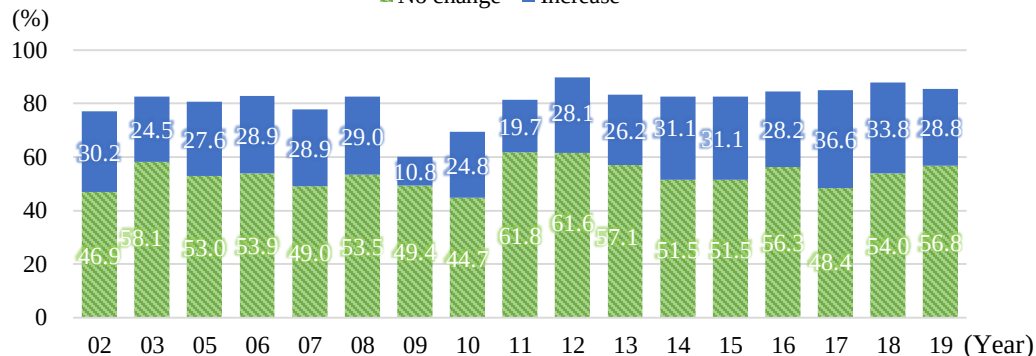
■ Increase ■ No change ■ Decrease
0 20 40 60 80 100 (%)



Note: Graph lists only those industries in which valid responses were received from five or more companies.

Trends in Change in Number of Local Employees
(Change over Past Year)

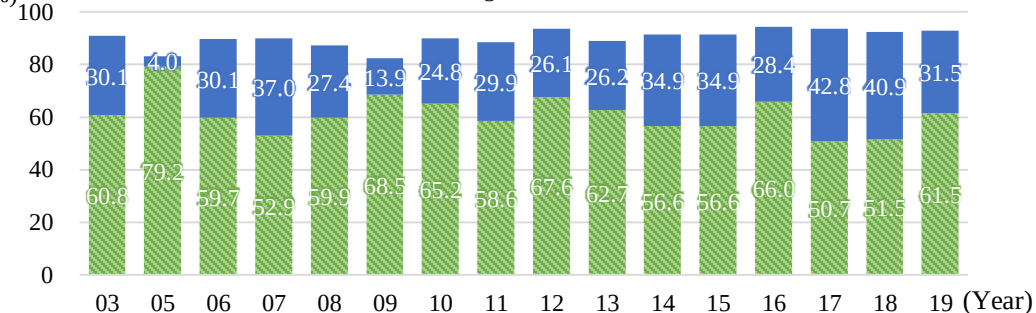
■ No change ■ Increase



Note: 2002 reflects changes over previous three years; no survey conducted in 2004

Trends in Change in Number of Local Employees (Plans)

■ No change ■ Increase



Note: 2002 reflects changes over previous three years; no survey conducted in 2004

2. Numbers of Employees and Expatriates from Japan: Median Values per Company Were 58 and Two, Respectively.

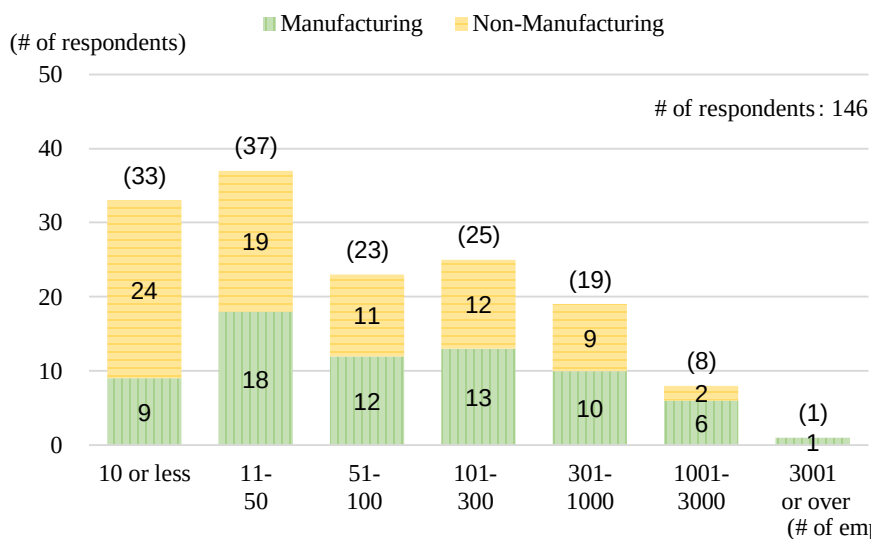
The 146 respondents had approximately 40,000 employees in total, with the per-company average coming to 269 and the median value, 58. Among manufacturers, 26.1% (18 companies) said they had “11-50 persons,” with the median value being 72. Among non-manufacturers, 31.2% (24 companies) had “10 persons or fewer,” with the median value coming to 41. The 143 respondents had 363 expatriates from Japan in total, with the average coming to three and the median value, two. When viewed by sector, among manufacturers, 26.5% (18 companies) had “one person,” with the median value being two. The most common answer among non-manufacturers was also “one person” at 28.0% (21 companies), with the median value of one.

Numbers of Employees: Average and Median Values

(Unit: Employees)

Sector	Total Number of Employees	Average	Median
All industries (146)	39,310	269	58
Manufacturing (69)	27,190	394	72
Non-Manufacturing (77)	12,120	157	41

Breakdown of Numbers of Employees by Sector



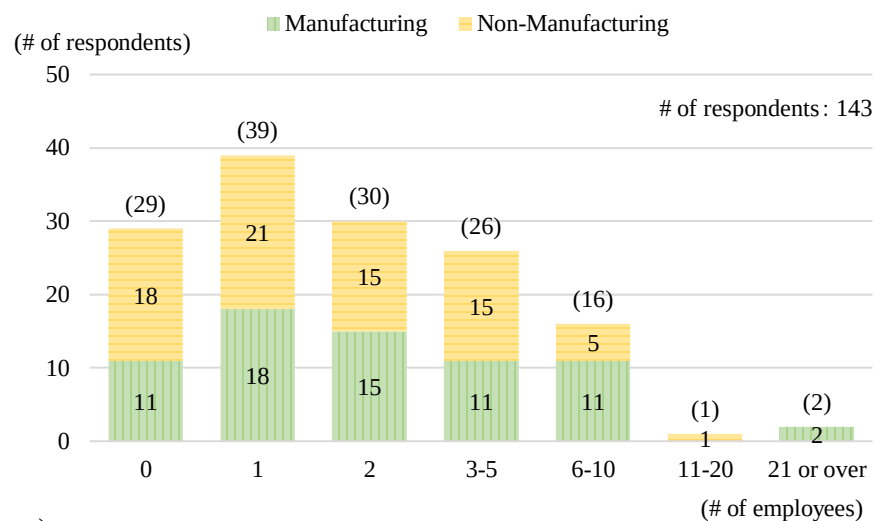
Note: The number in () indicates the total number of respondents in all industry types (manufacturers + non-manufacturers).

Numbers of Expatriates from Japan: Average and Median Values

(Unit: Expatriates)

Sector	Total number of Expatriates	Average	Median
All industries (143)	363	3	2
Manufacturing (68)	208	3	2
Non-Manufacturing (75)	155	2	1

Breakdown of Numbers of Expatriates by Sector



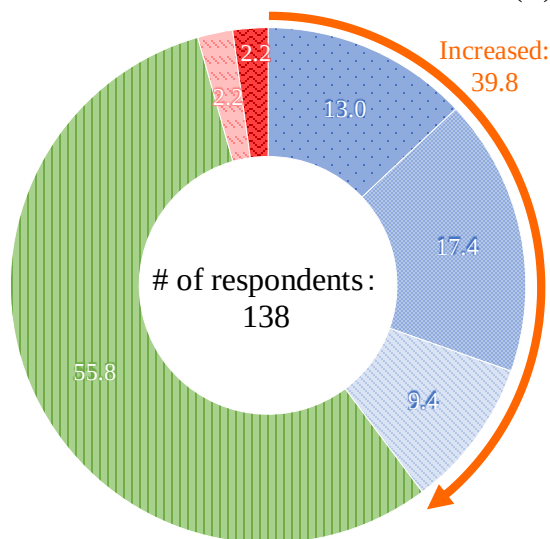
2. Capital Investments: Approx. 40% of Companies Increased Investments from the Previous Year

39.8% of respondents said their capital investments for 2019 surpassed those made the prior year, up 1.0 point from the previous survey (38.8%). Asked about the purpose of the capital investments, 51.7% said “maintenance and/or repair of existing equipment,” while 32.2% cited “application of ICT such as AI and IoT,” up 10.8 points from the previous survey (21.4%). Those answering “labor-saving or streamlining measures” accounted for 25.4%, up 5.6 points from the previous survey (19.8%). When viewed by sector, among manufacturers, 58.7% said “maintenance and/or repair of existing equipment,” while 49.1% of non-manufacturers cited “application of ICT such as AI and IoT.”

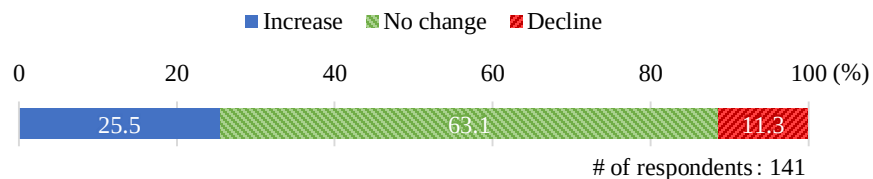
Changes in Capital Investments

(%)

- Increased by over 30% year-over-year (yoy)
- Increased by 10% to less than 30% yoy
- Increased by 1% to less than 10% yoy
- No change
- Declined by 1% to less than 10% yoy
- Declined by over 30% yoy

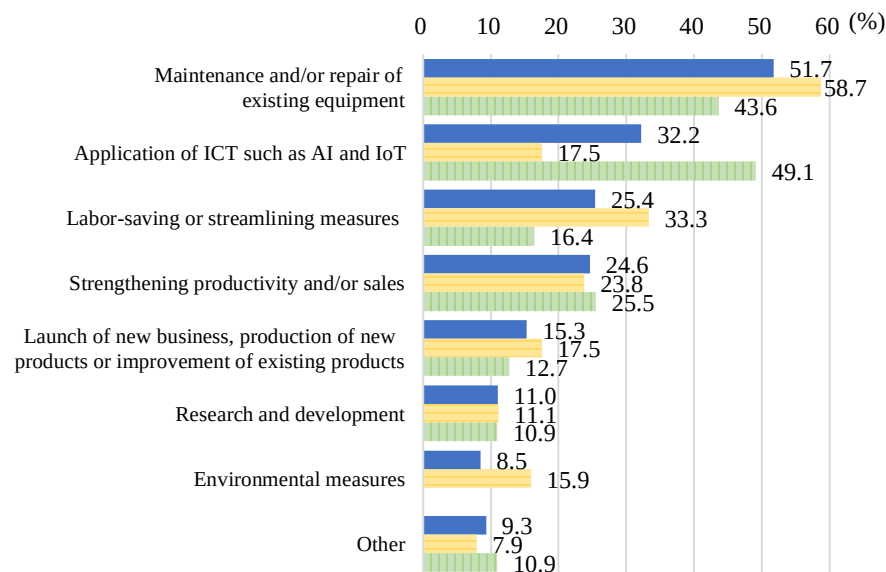


Capital Investments Plans for 2020 and Beyond



The Purpose of Capital Investments (Multiple Answers, By Sector)

■ All industries (118) ■ Manufacturing (63) ■ Non-Manufacturing (55)



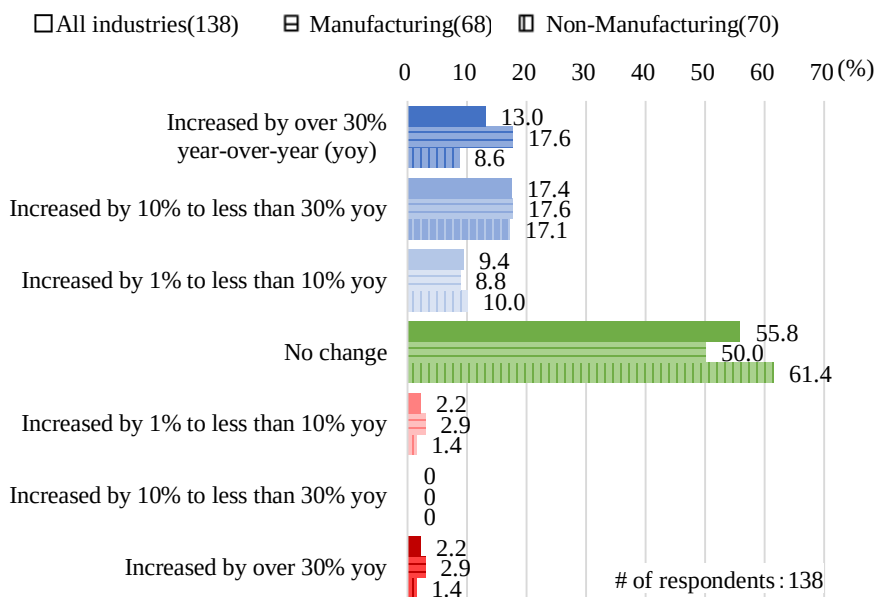
Responding to Computerization Trend

- Besides upgrading internal infrastructure, we began offering AI-based marketing services to customers. **[Miscellaneous non-manufacturing industries]**
- By deploying system applications, we enable customers to directly place orders online using systems and save labor. **[Sales company]**

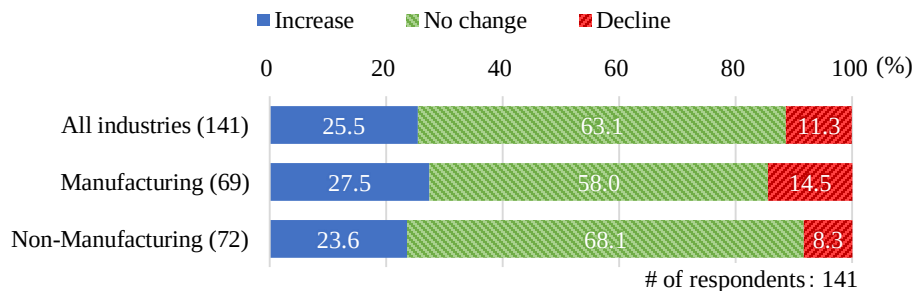
<Ref.> Trends in Capital Investments since 2000 Survey: The Highest Since 2005

The proportion of companies that “increased” capital investments has been staying above 30% since 2017, reaching 38.8% in 2018 and 39.8% in 2019 - the highest since 2005. However, just 25.5% plan to “increase” their capital investments in 2020, which suggests a decline in investment willingness.

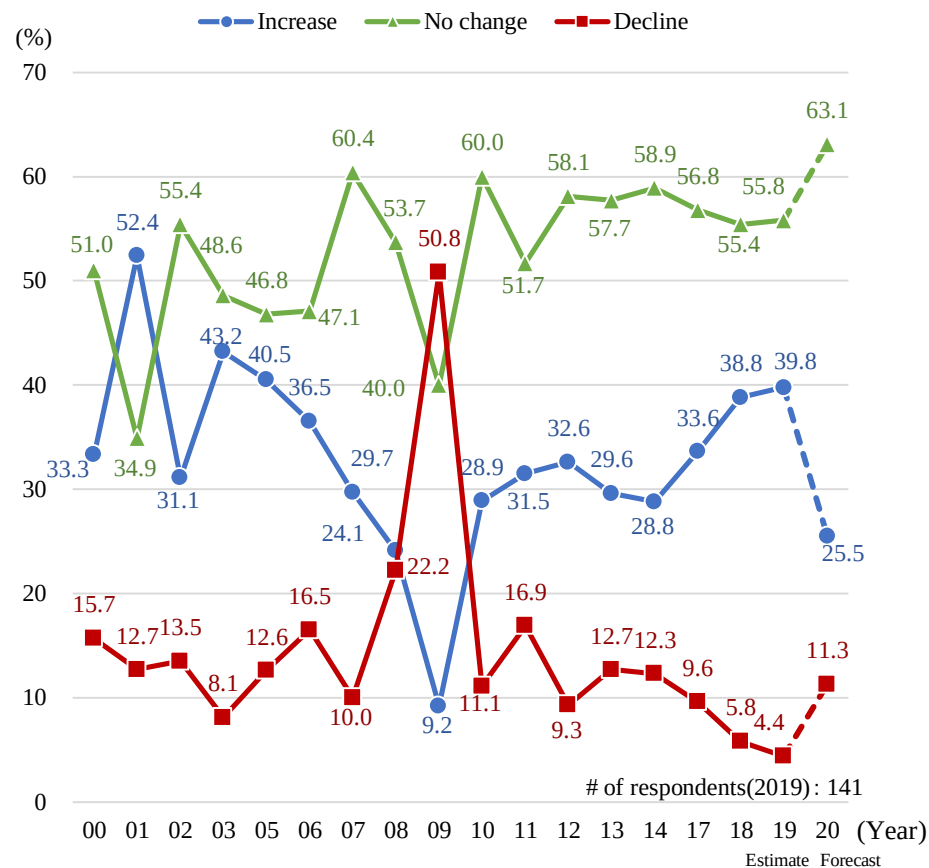
Changes in Capital Investments in 2019 (By Sector)



Capital Investments Plans for 2020 and Beyond (By Sector)



Capital Investments from 2000

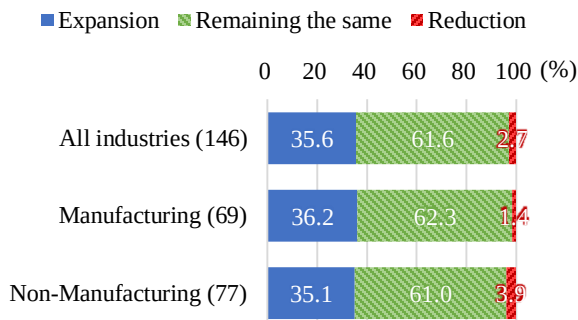


Note: No survey was conducted in 2004, 2015 and 2016 were not included in the questions.

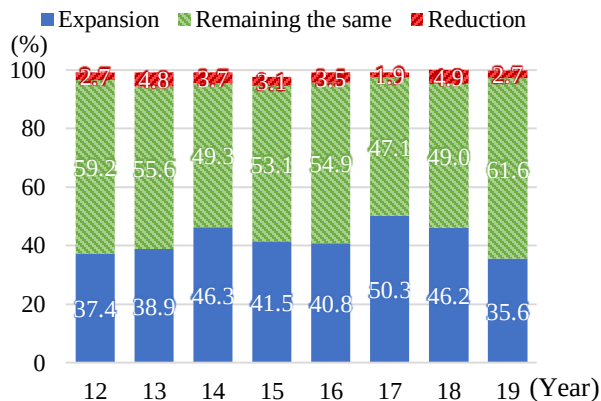
2. Future Business Direction: Fewer Companies (36%) Planning “Expansion”

35.6% of respondents said they had their sights on business expansion in the next year or two, down 10.6 points from the previous survey (46.2%). When viewed by sector, the figure was 36.2% for manufacturers, down 13.1 points from the previous survey (49.3%), and 35.1% for non-manufacturers, down 8.0 points from the previous survey (43.1%). Top reasons for expansion were “sales increase in local markets” (69.2%) and “high growth potential” (38.5%); specific functions they plan to expand that ranked high were the “sales function” (61.5%) and “production (high-value added products)” (26.9%).

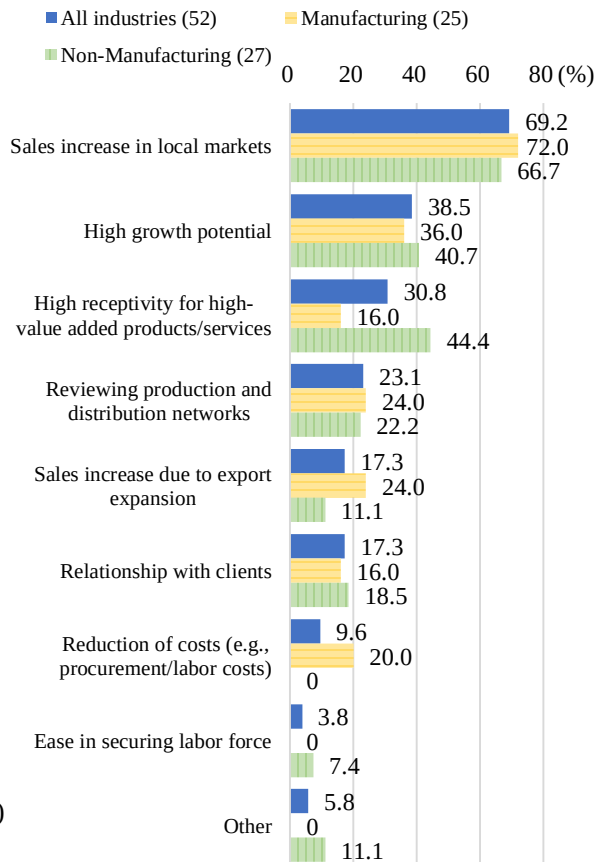
Business Direction
in the Next 1-2 Years (By Sector)



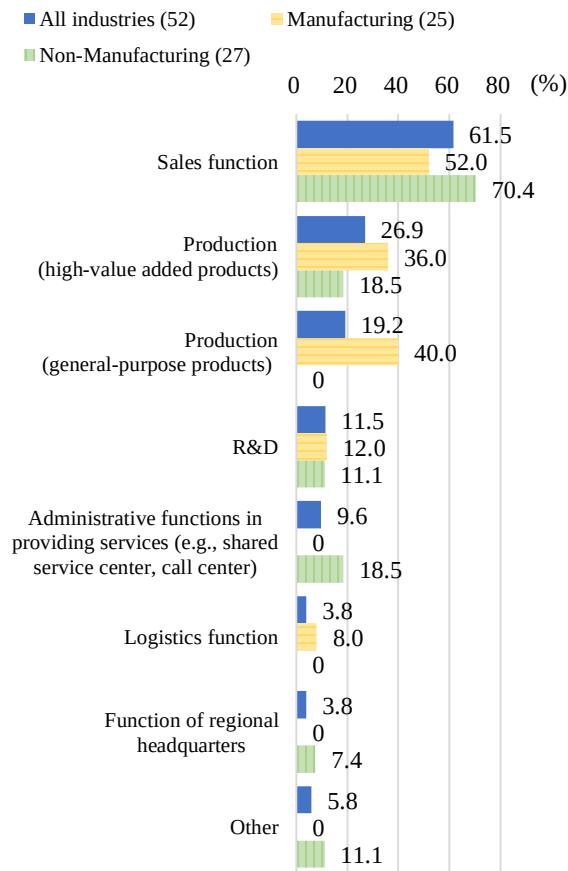
Changes in Business Direction
in the Next 1-2 Years



Reasons for Expansion
(Multiple Answers)



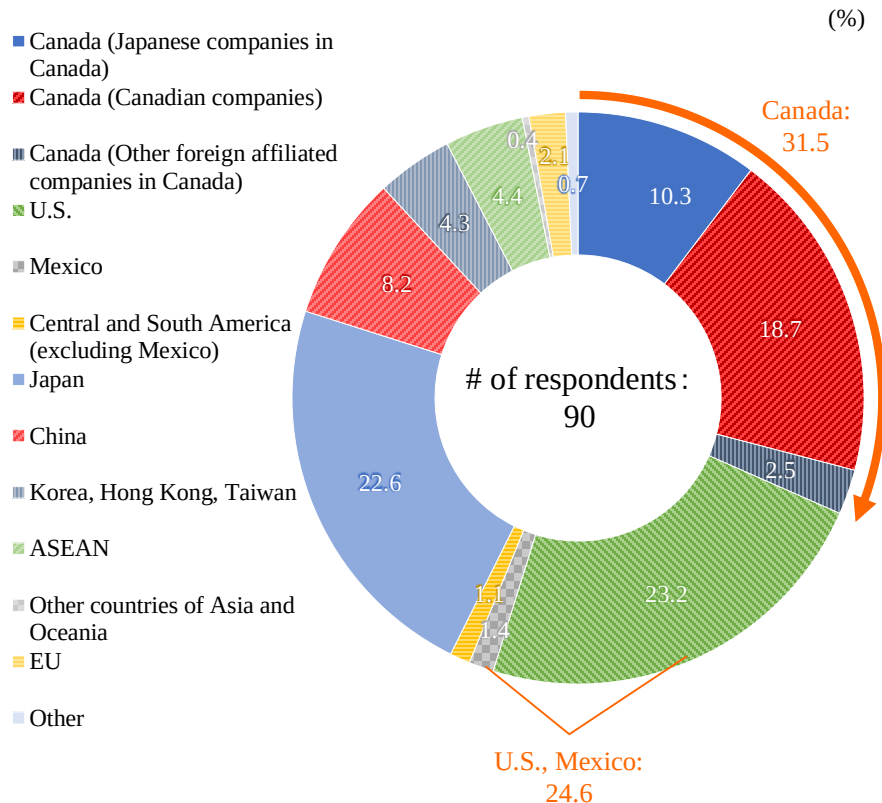
Specific Functions to Expand
(Multiple Answers, By Sector)



3. Procurement Sources: Procurement Rate Fell for NAFTA Region, Rose for Asia

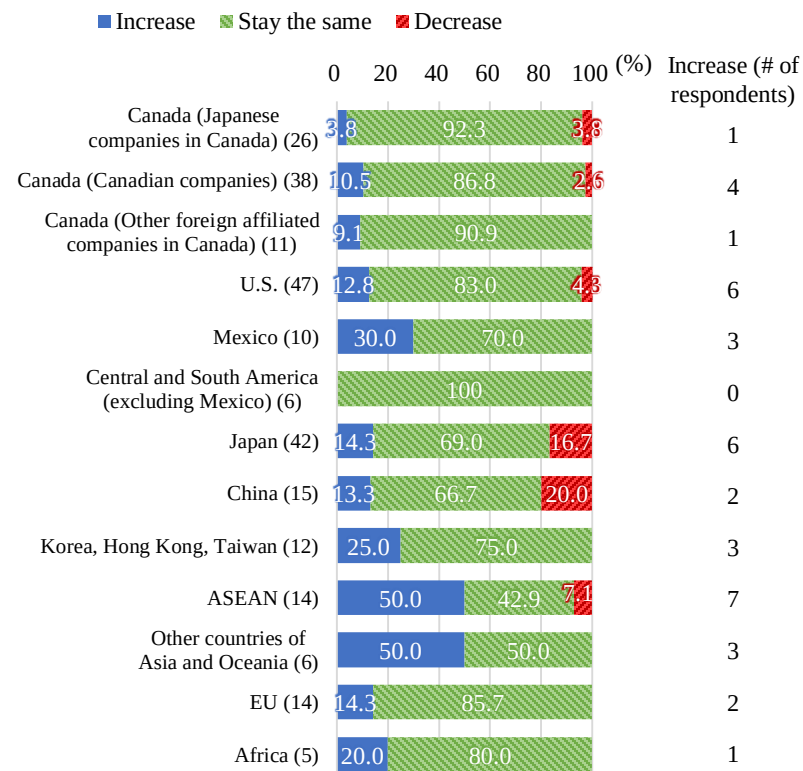
The rate of procurement from within Canada was 31.5%, down 4.6 points from the previous year (36.1%); the rate of procurement from within the NAFTA region, combined with those from the U.S. (23.2%) and Mexico (1.4%), came to 56.1%, down 10.0 points from the prior year (66.1%). Procurement from Japan was 22.6%, up 4.6 points from the prior year (18.0%); procurement from China was 8.2% (5.9% the prior year), ASEAN, 4.4% (3.6% the prior year), and South Korea, Hong Kong and Taiwan, 4.3% (2.2% the prior year), showing strong increases for procurement from Asia. As for procurement going forward, respondents generally planned to retain the current levels, but some indicated policies to expand procurement from ASEAN and Mexico. Meanwhile, others mentioned plans to reduce procurement from China and Japan. Among reasons for the change, fluctuations in procurement costs (34.8%) ranked high.

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



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

Future Policies for Procurement Sources of
Raw Materials/Parts



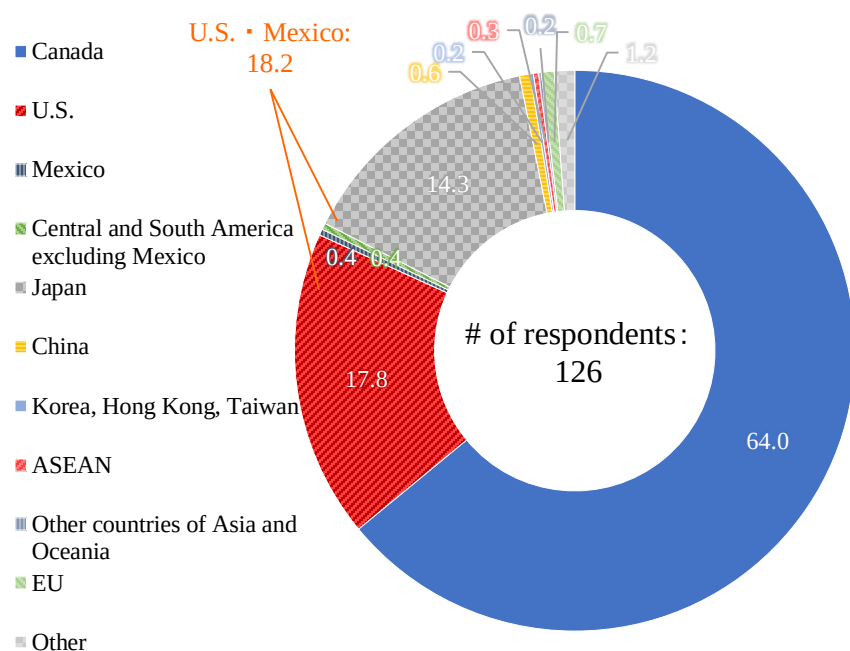
Note: Graph lists only those countries or regions in which valid responses were received from five or more companies.

3. Sales Destinations: NAFTA Market Made Up 82.2%; Japan 14.3%

The Canadian market accounted for 64.0% of sales (67.1% the prior year), and NAFTA (U.S. and Mexico together) made up 82.2% of sales (82.7% the prior year), while Japan accounted for 14.3% (12.9% the prior year). In terms of major industry types, Canada accounted for a high percentage of sales at sales companies (95.0%) and general-purpose and production machinery (83.0%), while sales to Japan were high among accommodations, travel, restaurant (43.0%) and wholesale and retail trade (32.7%). Many companies reported considering expanding sales channels in Canada and the U.S. under their policies going forward.

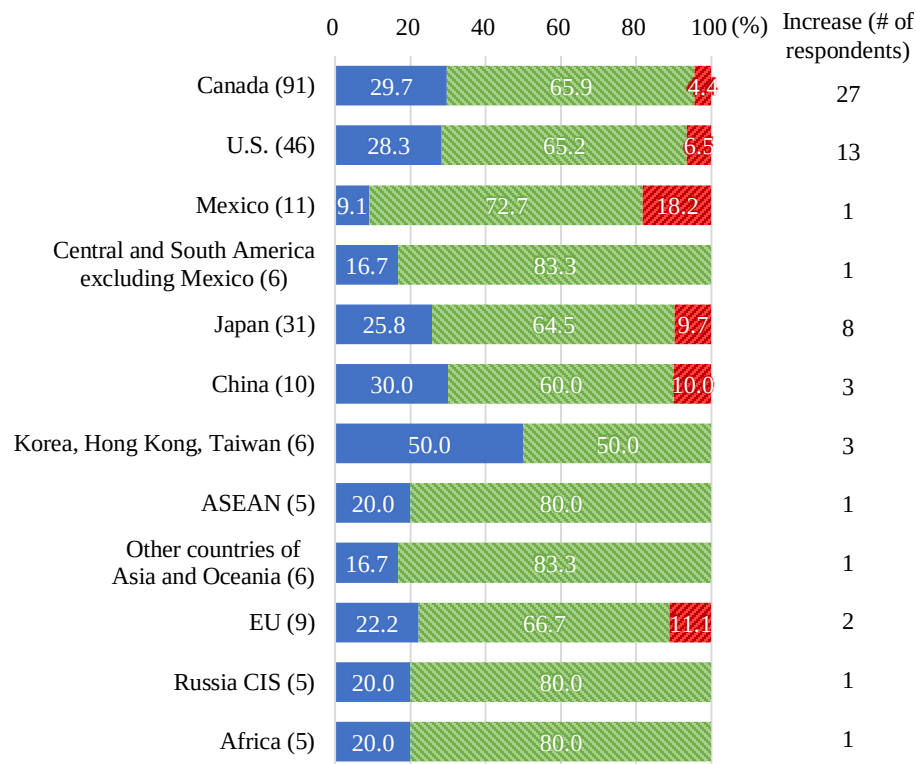
Product/Service Sales Destination (By Country/Region)

(%)



Future Plans for Product/Service Sales Destination

■ Increase ■ Stay the same ■ Decrease



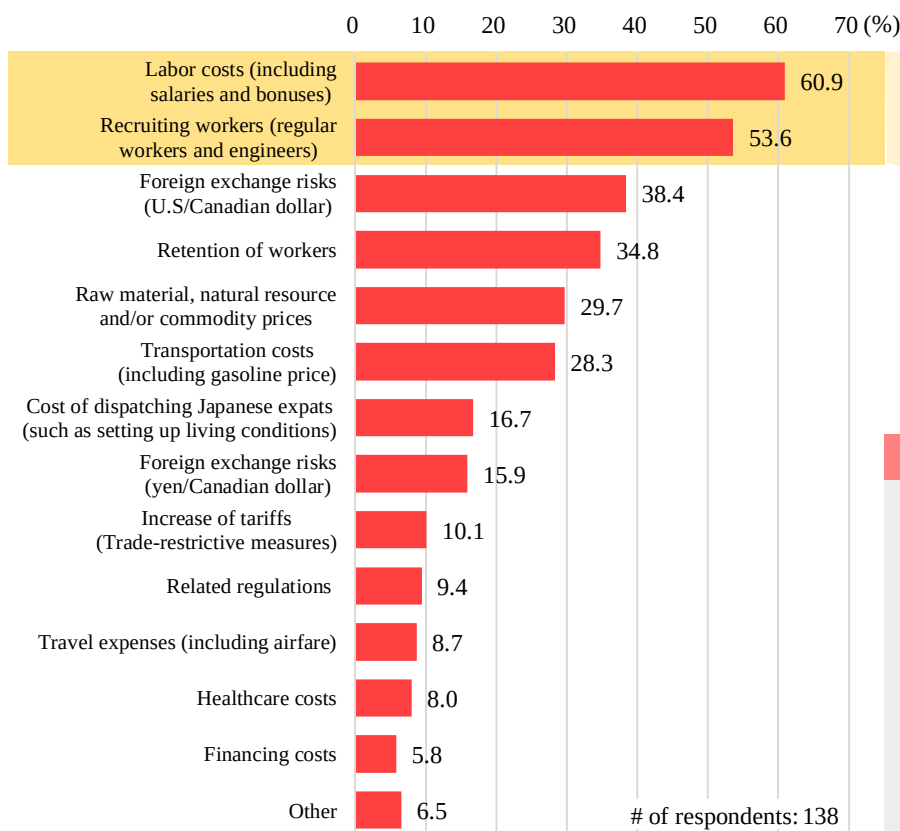
Note: Respondents calculated their ratios in these countries and regions based on monetary amounts. Total sales equals 100%. The chart indicates the average.

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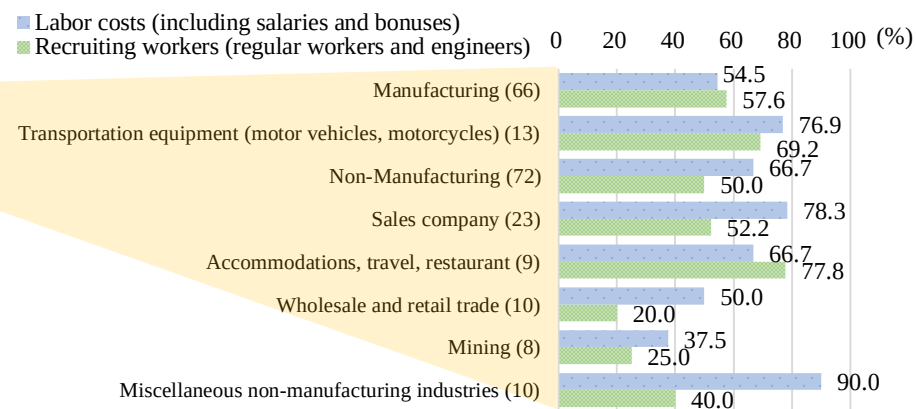
4. Factors for Increased Costs: “Labor Costs,” “Recruiting Workers” Presented Continued Challenges

In terms of management challenges (Factors for Increased Costs), “labor costs (including salaries and bonuses)” took the top place at 60.9%, up 6.0 points from the prior year (54.9%), followed by “recruiting workers” at 53.6% (the prior year 59.2%). When viewed by industry, “labor costs (regular workers and engineers)” was a common answer among sales companies (78.3%) and transportation equipment parts (motor vehicles, motorcycles, 76.9%), while “recruiting workers” was widely cited by accommodations, travel, restaurants (77.8%) and transportation equipment parts (motor vehicles, motorcycles, 69.2%).

Management Challenges: Factors for Increased Costs
(Multiple Answers)



Higher Wages, Recruiting of Workers
(By Sector/Industry)



Note: Graph lists only those industries in which valid responses were received from eight or more companies.

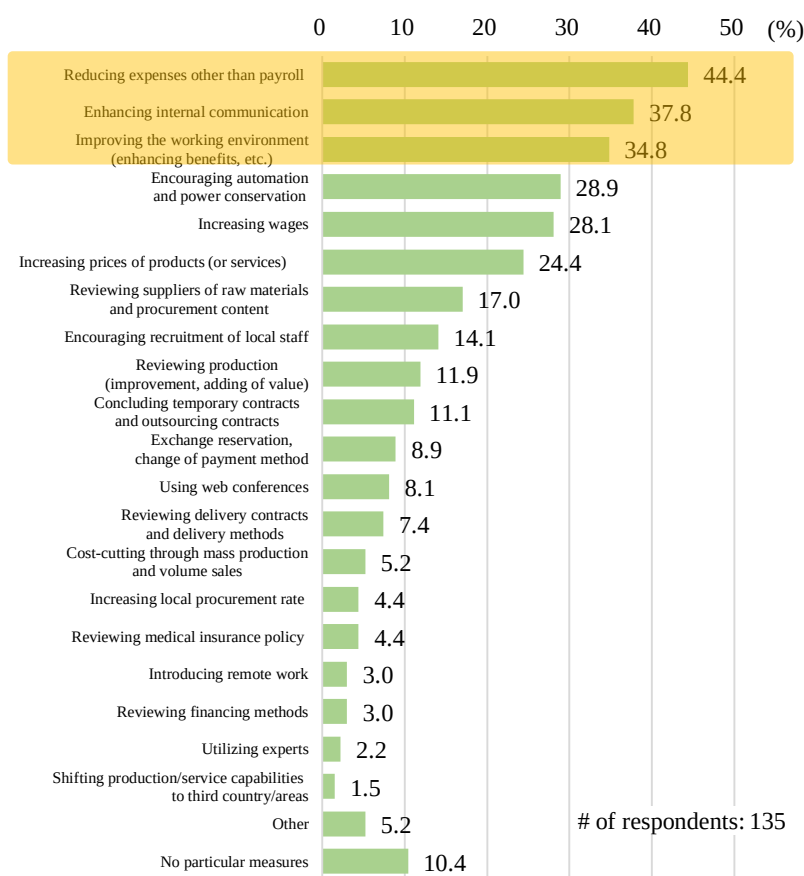
Occupations for Which Recruiting Is Challenging, Wage Increase Rates

- Wages are increasing due to seniority of workers. Even though the rate of increase is not that high, the pool is large, and this results in increased costs. Wages rose 2.5% from the previous year. **[Sales company]**
- Difficult to recruit IT engineers and those with experience in AI and other cutting-edge technology. Wages rose 4-5% from the previous year. **[Information and communications]**
- Recruiting is difficult across nearly all positions, particularly for salespeople and factory workers. Wages increased about 11% from the previous year. **[Food/agricultural products]**
- Recruiting is challenging for forklift operators, off-shift operators, and engineers. Wages increased about 2.3% from the previous year (for full-time staff) and about 20% (for contract employees). **[Plastic products]**
- Recruiting is a challenge for experienced air/conditioning sales staff/sales engineers. **[Sales company]**
- Recruiting is difficult for staff who are well versed in trading who can also talk about technical matters with engineers at customer sites. Wages rose about 5% from the previous year. **[Wholesale and retail trade]**
- Difficult to recruit Japanese-English bilingual phone staff with a valid visa. Wages increased about 10% from the previous year. **[Miscellaneous non-manufacturing industries]**

4. Countermeasures against Factors for Increased Costs: “Reducing Expenses Other than Payroll” the Top Response

In terms of countermeasures, “reducing expenses other than payroll” (44.4%), “enhancing internal communication” (37.8 %), “improving the working environment (enhancing benefits, etc.)” (34.8%) were the answers most often given. When viewed by industry, “reducing expenses other than payroll” was the most frequent response in the fields of sales companies (66.7%), while “enhancing internal communication” and “improving the working environment (enhancing benefits, etc.)” were the top answers in transportation equipment (motor vehicles, motorcycles) (76.9% each).

Countermeasures for Factors for Increased Costs
(Multiple Answers)



Specific Countermeasures

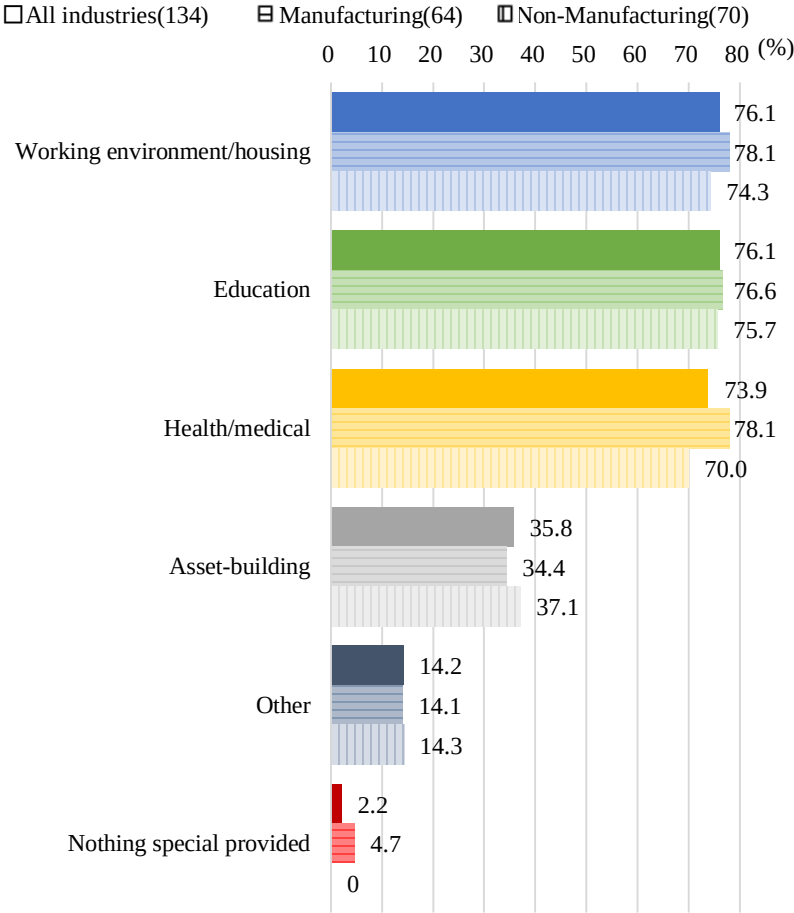
- Share materials and change suppliers, review logistics providers. **[Miscellaneous manufacturing industries]**
- Review warehouse storage and transport schemes. **[Sales company]**
- Increase handling of products not subject to import restrictions, diversify suppliers. **[Wholesale and retail trade]**
- Make a capital investment so that product packaging lines that have been performed manually use less human labor. **[Sales company]**
- Product branding and marketing in the sales market **[Food/agricultural products]**
- Annual review of sales prices **[Wholesale and retail trade]**
- Consider and deploy IoT/AI. **[Sales company]**
- Review product lineup and business model. **[Information and communications]**
- Promote use of IT for work that can use less human labor. **[Sales company]**
- Standardize production structure. **[General-purpose and production machinery]**
- We have primarily sold hardware, but are considering focusing on sales of technical support and other services going forward. **[Sales company]**
- Standardize changes in fees. **[Transport activities, warehouse]**
- Reduce business trips and other expenses, increase repair and maintenance margins, lower health insurance contribution ratio, contracts with distributors. **[Sales company]**
- Automation for reducing both labor costs and injuries **[Transportation equipment parts (motor vehicles, motorcycles)]**
- Effective use of sales and advertisement spending **[Sales company]**
- Reduce personnel through early retirement, curb the number of full-timers by using contract staff and interns, improve logistics efficiency. **[Sales company]**
- Promote hiring of local staff, increase outsourced operations. **[Accommodations, travel, restaurants]**
- Increase opportunities for information sharing. **[Mining]**
- Maintain wage competitiveness to improve retention **[Construction, plant]**
- Hold internal events to foster a sense of belonging among employees. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- Pay market-competitive salaries and flexible work structure. **[Wholesale and retail trade]**
- Expand benefits menu, including health insurance. **[Accommodations, travel, restaurants]**

Note: Top specific measures for “reducing expenses other than payroll” were “encouraging automation and power conservation” and “reviewing suppliers of raw materials and procurement content.”

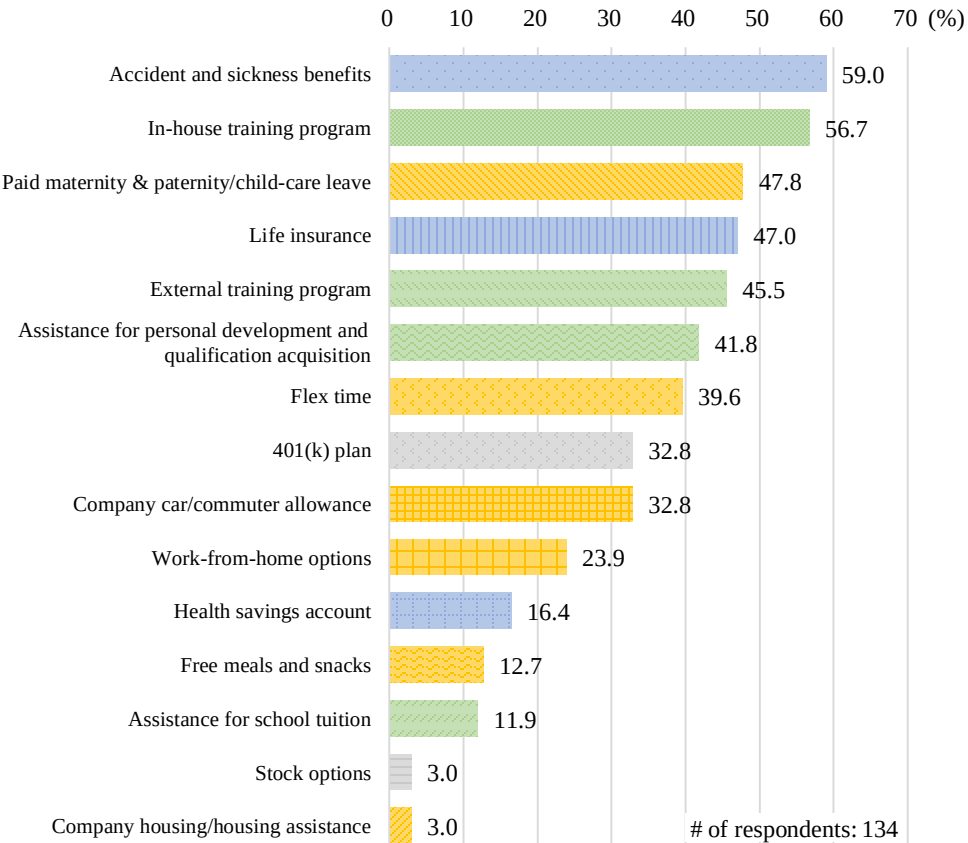
4. Company Benefits: “Working Environment/Housing,” “Education,” “Health/Medical” Most Cited

Asked about the benefits they offered, respondents commonly answered “working environment/housing” (76.1%), “education” (76.1%) and “health/medical” (73.9%). In terms of specific items, more than half cited “accident and sickness benefits” (59.0%) and “in-house training program” (56.7%). The survey found that companies offer a wide range of benefits from various allowances to on-site/off-site training.

Benefits Given to Local Employees (Multiple Answers, By Sector)

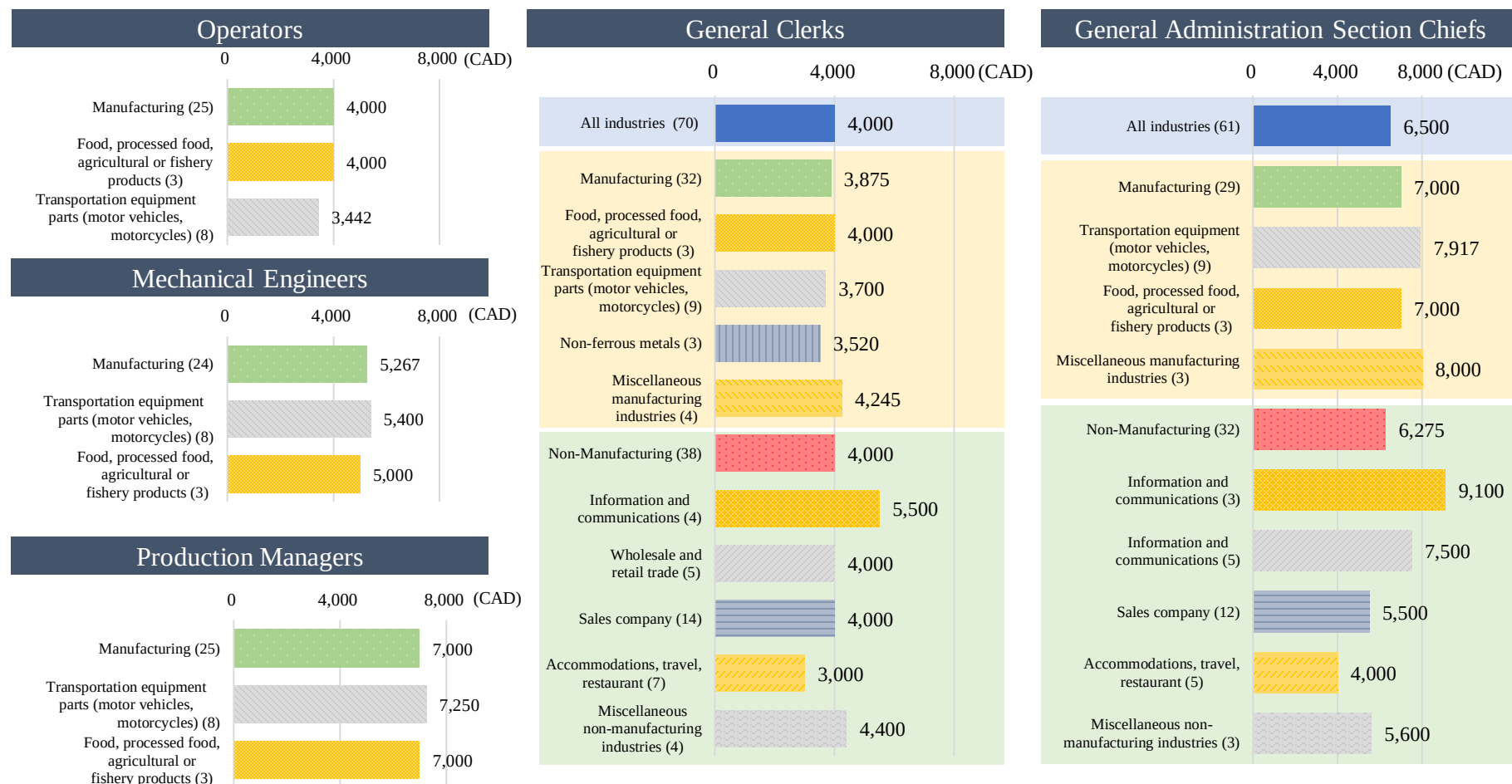


Benefits Given to Local Employees/Specific Items (Multiple Answers)



4. Wages (Monthly Base Salaries): Median Values Were CAN\$4,000 - CAN\$7,000

The median value for monthly base salaries at factories etc. by occupation was CAN\$4,000 for operators, CAN\$5,267 for mechanical engineers, and CAN\$7,000 for production managers. The median value for monthly base salaries for office work etc. according to occupation was CAN\$4,000 for general clerks and CAN\$6,500 for general administration section chiefs.

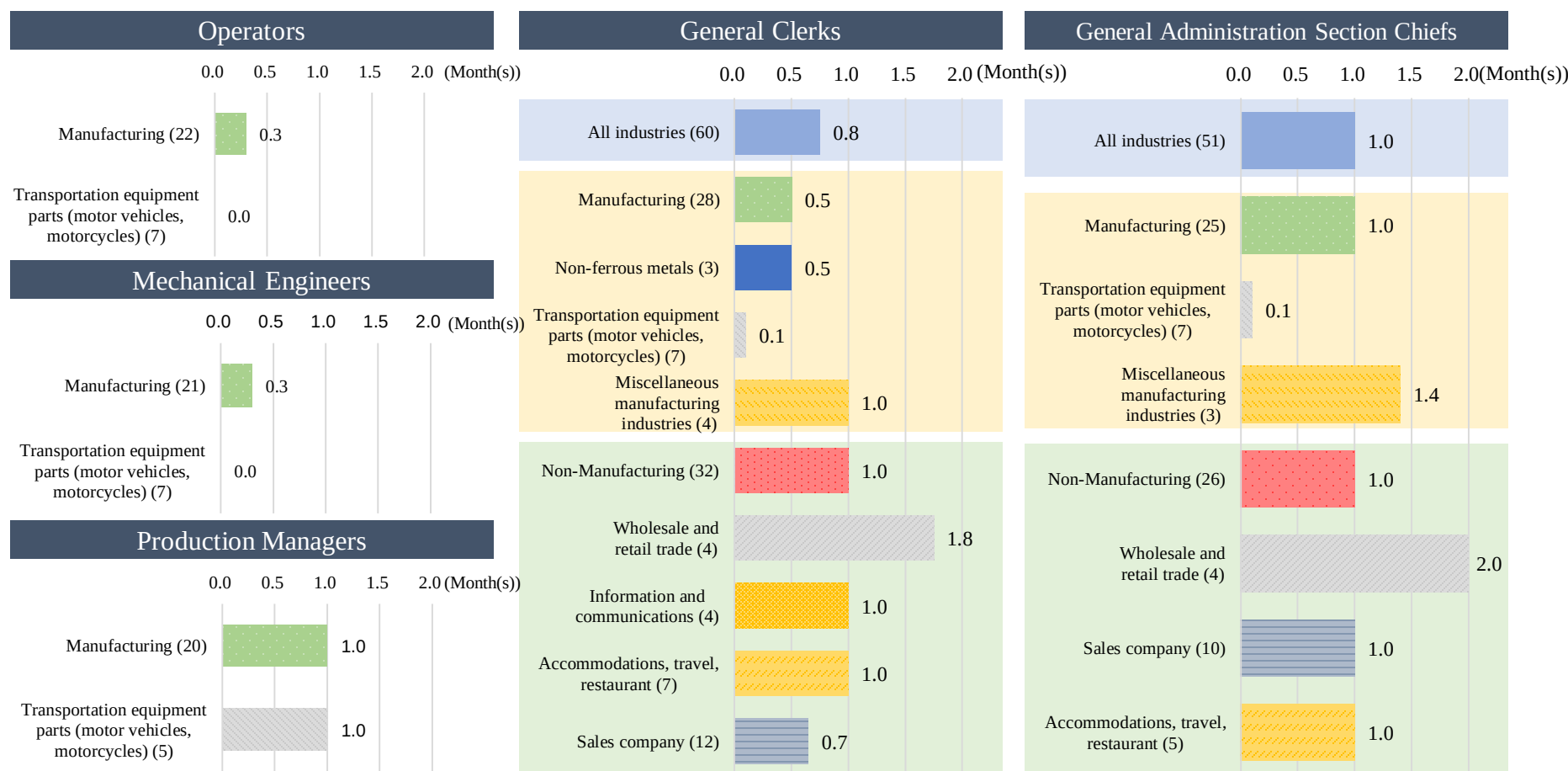


1. The occupation answer options for manufacturers were operators (job types engaged in machine operation in the manufacturing process), mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), production managers (section chiefs of production management departments), general clerks (general office workers) and general administration section chiefs (section chiefs of general affairs departments). The options for non-manufacturers were general clerks and general administration section chiefs.

2. This chart lists only the industry types for which valid responses were received from at least three companies.

4. Wages (Annual Bonuses): Median Values Were 0.3 - 1.0 Month's Pay

The median value of annual bonuses at factories, etc. by occupation was 0.3 month's pay for operators, 0.3 month's pay for mechanical engineers, and one month's pay for production managers. Meanwhile, the median value of annual bonuses for office work etc. according to occupation was 0.8 month's pay for general clerks and one month's pay for general administration section chiefs.

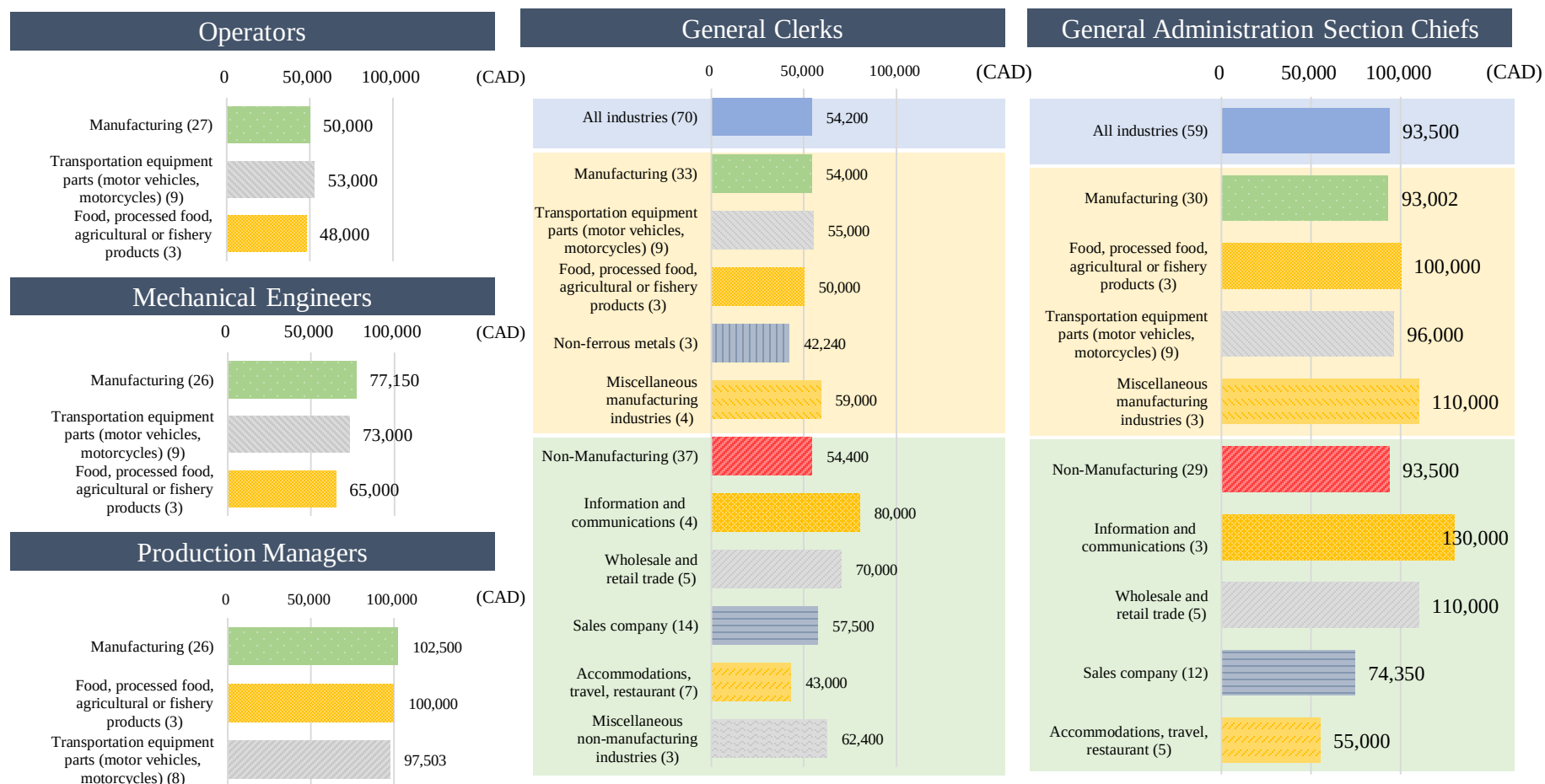


1. The occupation answer options for manufacturers were operators (job types engaged in machine operation in the manufacturing process), mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), production managers (section chiefs of production management departments), general clerks (general office workers) and general administration section chiefs (section chiefs of general affairs departments). The options for non-manufacturers were general clerks and general administration section chiefs.

2. This chart lists only the industry types for which valid responses were received from at least three companies.

4. Wages (Annual Salaries): Median Values Were CAN\$50,000 - CAN\$102,500

The median value of the annual salaries at factories, etc. according to occupation was CAN\$50,000 for operators, CAN\$77,150 for mechanical engineers, and CAN\$102,500 for production managers. The corresponding median value for office work, etc. according to occupation was CAN\$54,200 for general clerks and CAN\$93,500 for general administration section chiefs.

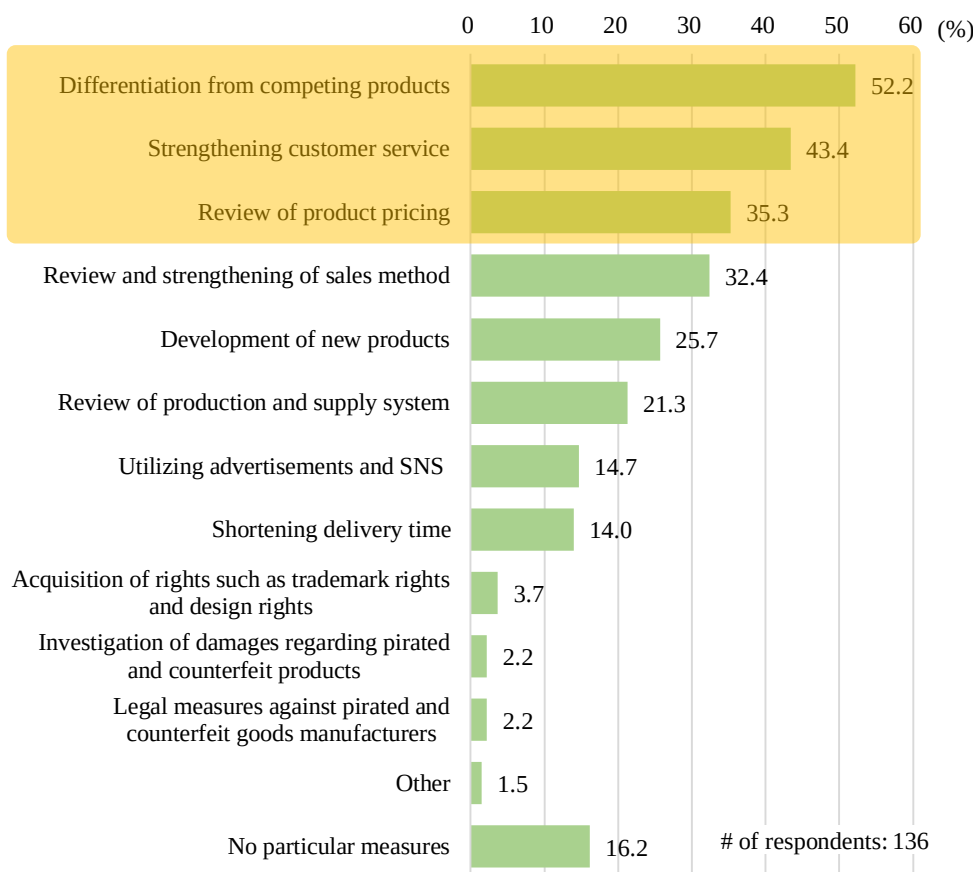


1. The occupation answer options for manufacturers were operators (job types engaged in machine operation in the manufacturing process), mechanical engineers (technical positions for designing, manufacturing and managing machines and equipment), production managers (section chiefs of production management departments), general clerks (general office workers) and general administration section chiefs (section chiefs of general affairs departments). The options for non-manufacturers were general clerks and general administration section chiefs.
2. This chart lists only the occupation categories for which valid responses were received from at least three companies.

4. Countermeasures against External Risk Factors: Majority Cited “Differentiation from Competing Products”

In terms of countermeasures against external risk factors such as competing products and price wars with competitors, the top responses were “differentiation from competing products” (52.2%), “strengthening customer service” (43.4%) and “review of product planning” (35.3%). When viewed by industry, “differentiation from competing products” ranked high among food/agricultural products and general-purpose and production machinery (83.3%), while “strengthening customer service” and “review of product planning” were common answers among sales companies (66.7% and 58.3%, respectively).

Countermeasures against External Risk Factors (Multiple Answers)



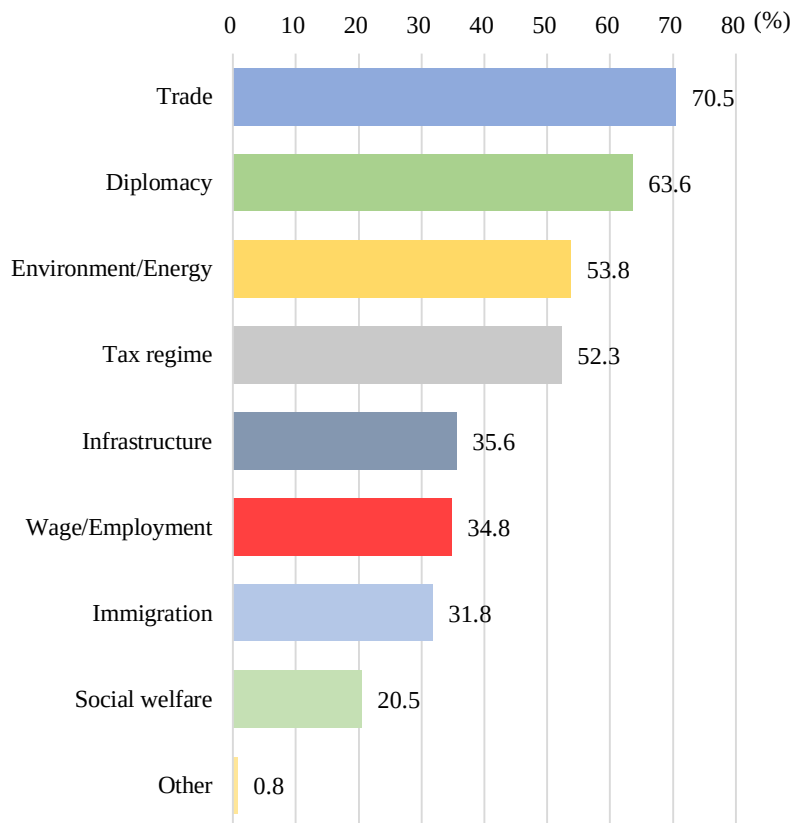
Specific Countermeasures

- Shift to products with relatively high added value and set competitive prices. Emphasize high quality. [**Transportation equipment parts (motor vehicles, motorcycles)**]
- Sales strategy of specializing in products with little competition. Bolster marketing of high-quality materials in areas that did not use such products in the past [**Wholesale and retail trade**]
- Differentiate from other companies through enhanced quality and stable supply; improve cost competitiveness through automation. [**Transportation equipment parts (motor vehicles, motorcycles)**]
- Improve convenience through deployment of B2B portal-based ordering system, and differentiation through same-day delivery straight from warehouse. [**Sales company**]
- Rather than product differentiation, we focus on building communities and contributing to communities. [**Accommodations, travel, restaurants**]
- Emphasize customer service. [**Transport activities, warehouse**]
- Price adjustment during intense competitions [**Miscellaneous manufacturing industries**]
- Increase accuracy of manufacturing cost table for reasonable pricing. [**Plastic products**]
- Change to optimal sales channels in response to changes in the market. [**Sales company**]
- Marketing and branding in the sales market using media, advertisement and pilot stores, etc. [**Food/agricultural products**]
- Review warehouse and customer service work, quicker delivery through simplification and increased efficiency, strengthen sales structure through stepped-up training of salesforce, and bolster marketing using social media. [**Sales company**]
- Deploying ordering systems. [**General-purpose and production machinery**]
- Consider e-commerce not only for BtoB but also for BtoC. [**Sales company**]
- Increase service outsourcing, improve sales activities. [**Miscellaneous non-manufacturing industries**]
- Use partnership with the parent company to optimize procurement and sales activity workload. [**Fabricated metal products**]

5. Trudeau Administration Policy Areas of Management Significance: “Trade” Cited by 70%, Interest Particularly High in CUSMA

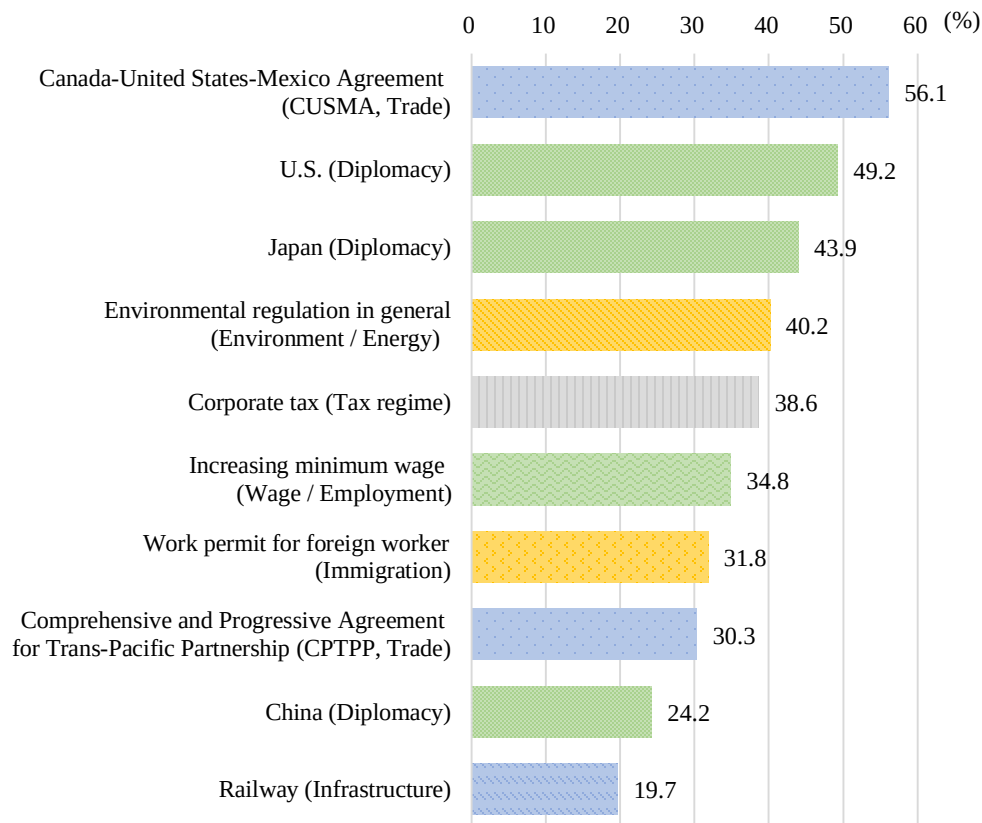
With respect to Trudeau administration policy areas of management significance, “trade” (70.5%), “diplomacy” (63.6%) and “environment/energy” (53.8%) ranked high. While the percentage for “trade” fell 2.3 points from the previous survey (72.8%), that for “diplomacy” rose 5.5 points from the previous survey (58.1%) and that for “environment/energy” rose 9.7 points (44.1%). In terms of specific policy items, “Canada-United States-Mexico Agreement (CUSMA, trade)” was the top response at 56.1%, while over 40% of respondents cited “US (diplomacy)” (49.2%), “Japan (diplomacy)” (43.9%) and “environmental regulation in general (environment/energy)” (40.2%).

Trudeau Administration Policy Areas of Management Significance
(Multiple Answers)



of respondents: 132

Trudeau Administration Policy of Management Significance
(Specific Items, Multiple Answers)

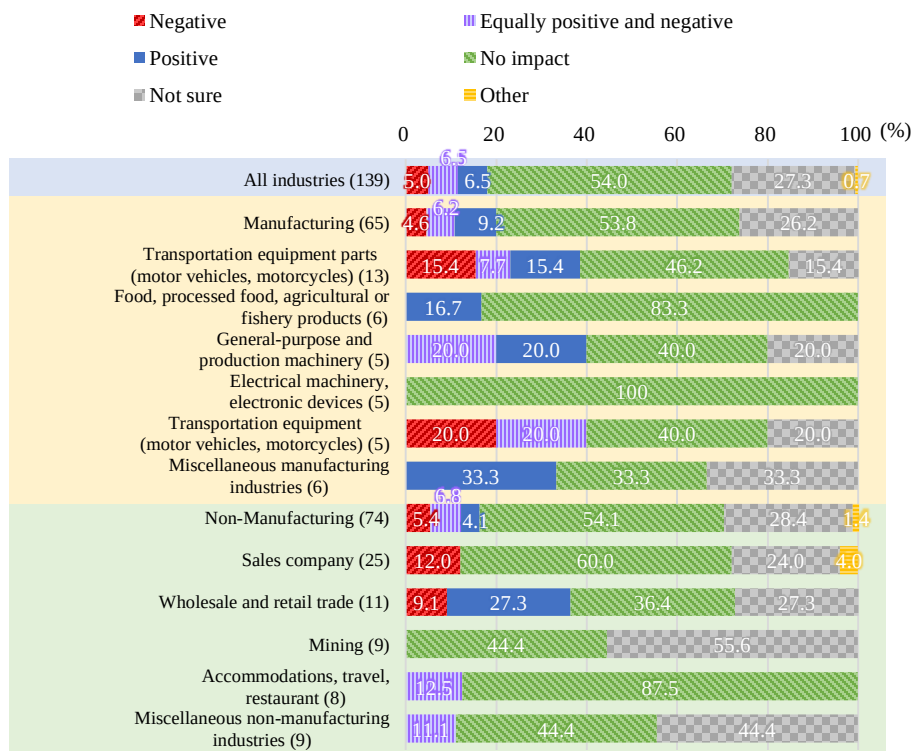


of respondents: 132

5. Effects of CUSMA on Japanese Companies in Canada and Countermeasures: 54.0% Reported “No Impact”

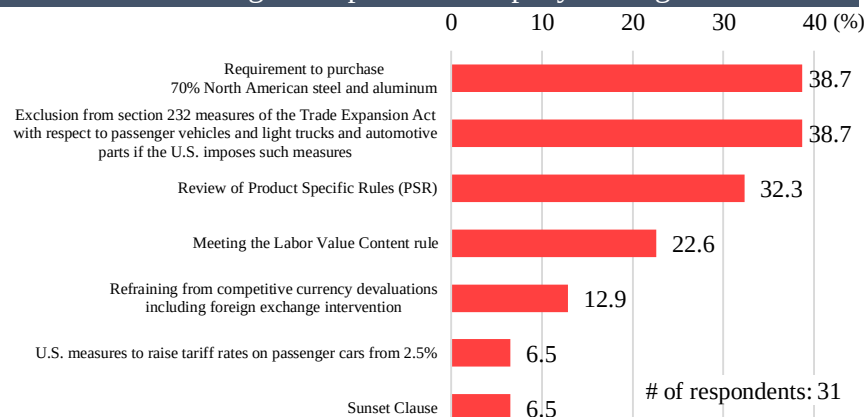
Regarding the impact of the Canada-United States-Mexico Agreement (CUSMA) on Japanese companies in Canada, 54.0% said it has had “no impact,” up 5.1 points from the previous survey (48.9%), while 27.3% said they were “not sure,” down 5.5 points, and 6.5% said the impact was “equally positive and negative.” Respondents that reported a “negative impact” accounted for 5.0% (4.4% in the previous survey). However, this answer was more common in the field of motor vehicles, motorcycles (transportation equipment: 20.0%, parts: 15.4%) and sales companies (12.0%). As for countermeasures for CUSMA, 44.7% reported “no change,” down 11.3 points from the previous survey (56.0%), and 42.6% said they were “not sure,” (20.6% in the previous survey), with these two groups accounting for a majority. Among specific countermeasures, “change some or all procurement sources” was the top response at 10.6%.

Degree of Impact from the Enactment of CUSMA

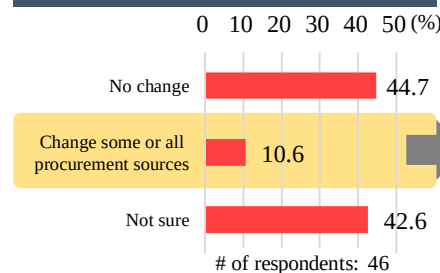


Note: Graph lists only those industries in which valid responses were received from eight or more companies.

Items Having an Impact on Company Management



Countermeasures (Top Three, Multiple Answers)



Examples of Changes in Procurement Sources Due to CUSMA

Industry	Before Change		After Change
Wholesale and retail trade	North America	→	Europe
	China	→	Mexico
Sales company	U.S.	→	Japan

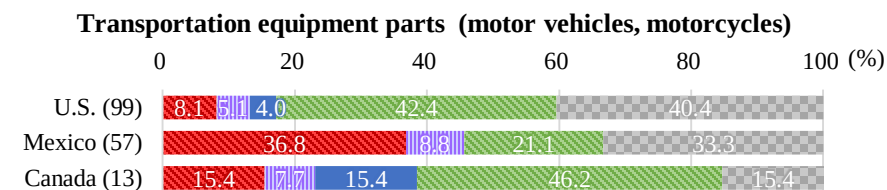
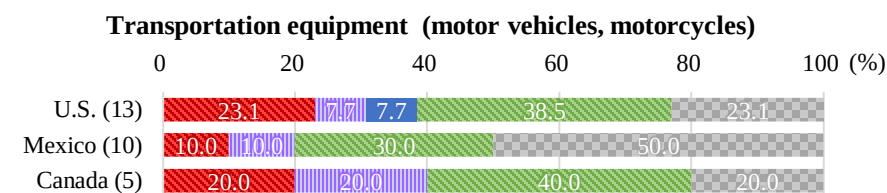
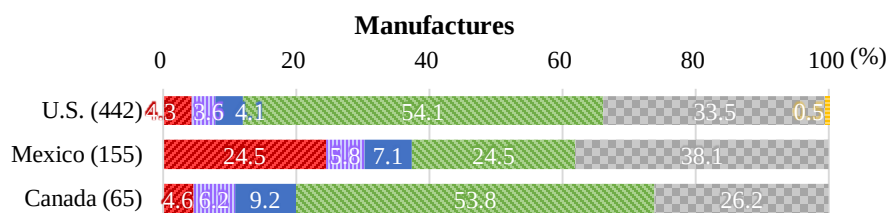
Note: Countermeasures besides the three items above were production site changes, sales destination changes and price adjustments.

5. Effects of CUSMA in the Three Countries: “Negative Impact” Most Reported in Mexico by 25% of Respondents

With regard to the effects of CUSMA, a comparison of the survey results with those for separately conducted surveys of the U.S. and Mexico revealed that respondents engaged in manufacturing in Mexico cited a “negative impact” at the highest rate proportionally (24.5%), whereas the only 4.6% of respondents in Canada and 4.3% of respondents in the U.S. reported the same. In the field of transportation equipment (motor vehicles, motorcycles), more respondents in the U.S. and Canada cited negative impacts (23.1%, 20.0%), while in transportation equipment parts (motor vehicles, motorcycles), more respondents in Mexico said they had experienced a negative impact (36.8%). In terms of items having an impact on company management in the manufacturing industry, “exclusion from Section 232 measures of the Trade Expansion Act with respect to passenger vehicles and light trucks and automotive parts if the U.S. imposes such measures” was the top response in the U.S. (49.5%) and in Canada (44.4%), whereas in Mexico it was “meeting the labor value content rule” (37.9%).

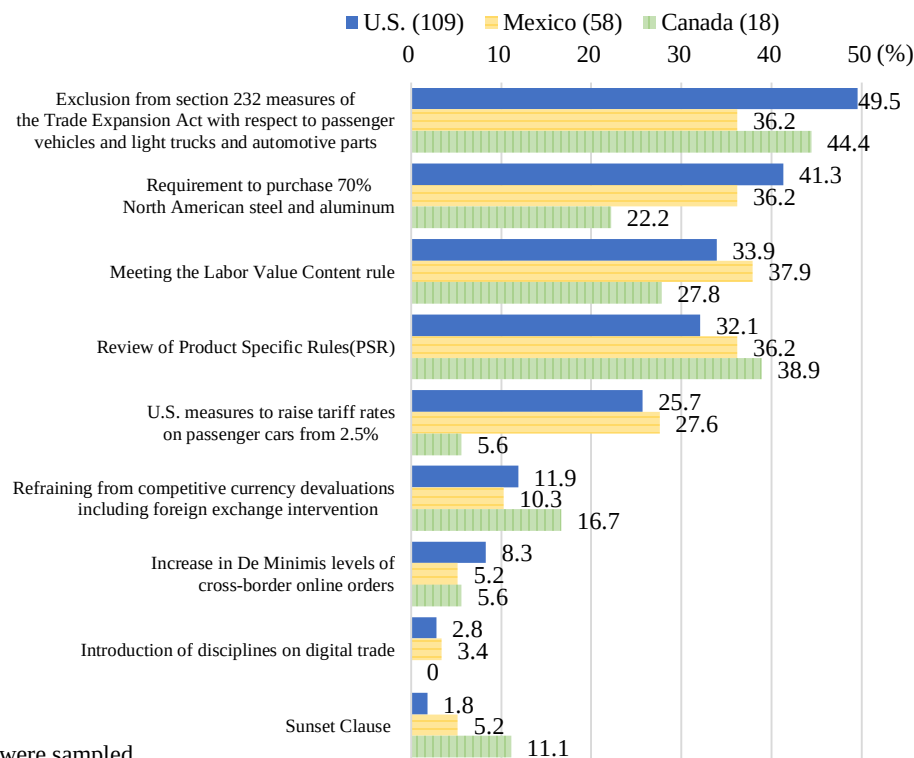
Degree of Impact from the Enactment of CUSMA
(U.S., Mexico, Canada)

■ Negative ■ Positive ■ Equally positive and negative ■ No impact ■ Not sure ■ Other



Note: From the manufacturing industry in the U.S., companies engaged in “Manufacturing” were sampled.

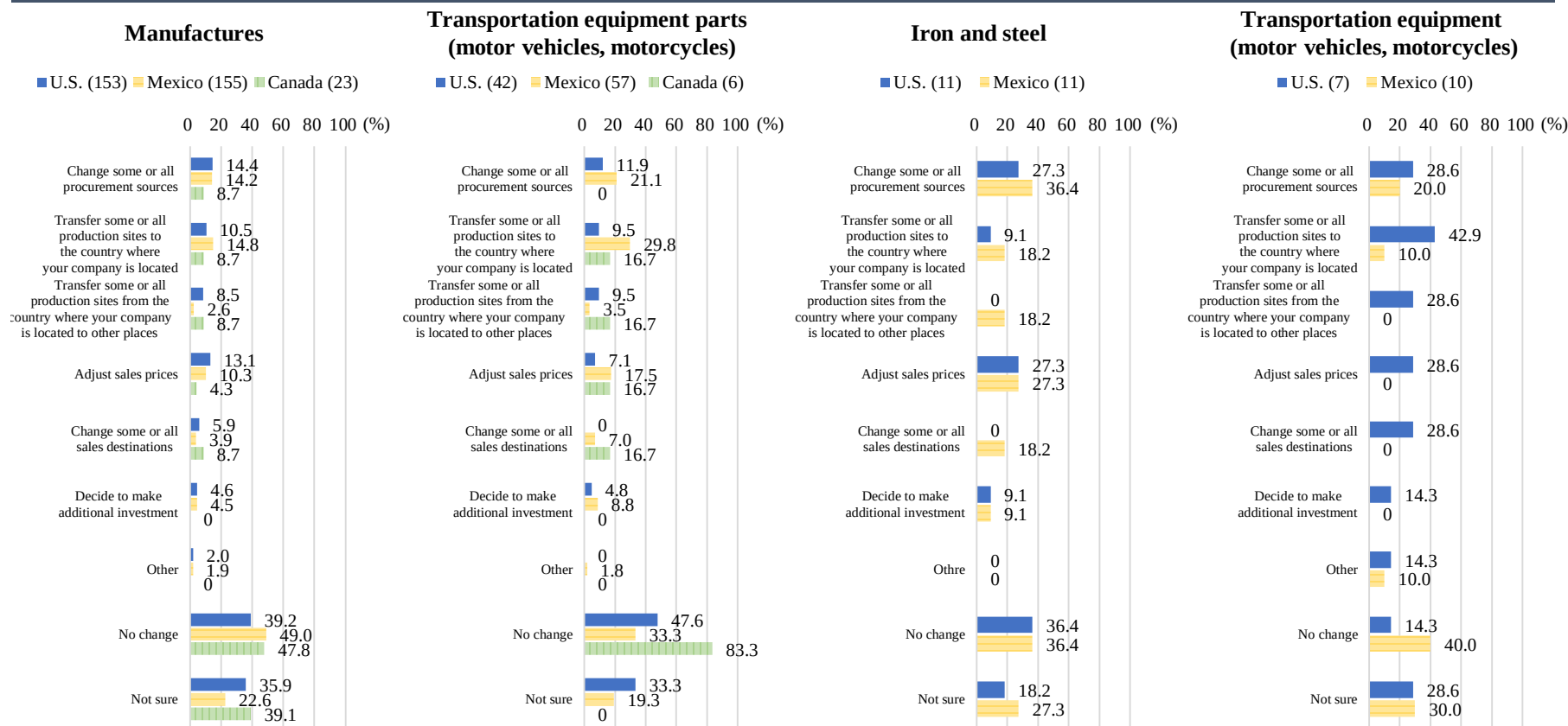
Items Having an Impact on Company Management
(U.S., Mexico, Canada; Multiple Answers)



5. Countermeasures Regarding CUSMA in the Three Countries: Changes in Procurement Sources the Highest in the U.S. and Mexico

Regarding countermeasures following CUSMA, in a comparison with the survey results for the U.S. and Mexico, “no change” accounted for approximately 40-50% of the respondents’ answers (Mexico 49.0%, Canada 47.8%, U.S. 39.2%). However, “change some or all procurement sources” was a more common response in the U.S. (14.4%) and in Mexico (14.2%), and “transfer some or all production sites here from other locations” was a more common response in Mexico (14.8%) than elsewhere. When viewed by industry, the results showed that changing procurement sources was proportionally high in Mexico in the field of iron and steel at 36.4%, while transferring production sites to the local country from other locations was a more common response in the U.S. in transportation equipment (motor vehicles, motorcycles) at 42.9%, whereas 29.8% of respondents in Mexico engaged in transportation equipment parts (motor vehicles, motorcycles) cited this change.

Countermeasures Regarding CUSMA (U.S., Mexico, Canada; Multiple Answers)



Note: From manufacturing and various industries in the U.S., companies engaged in “Manufacturing” were sampled.

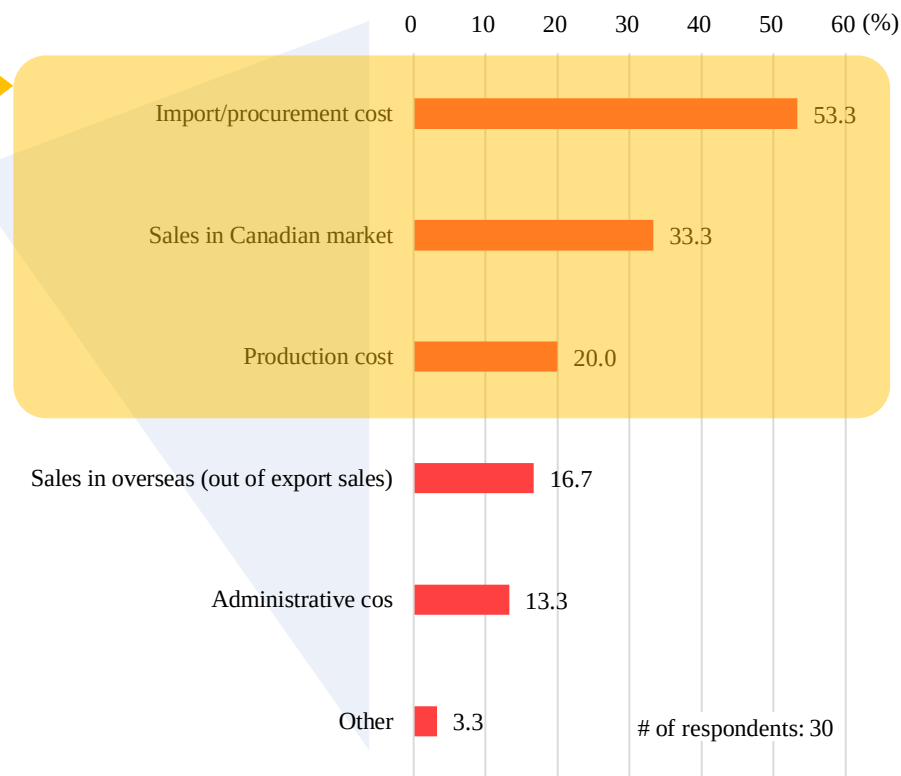
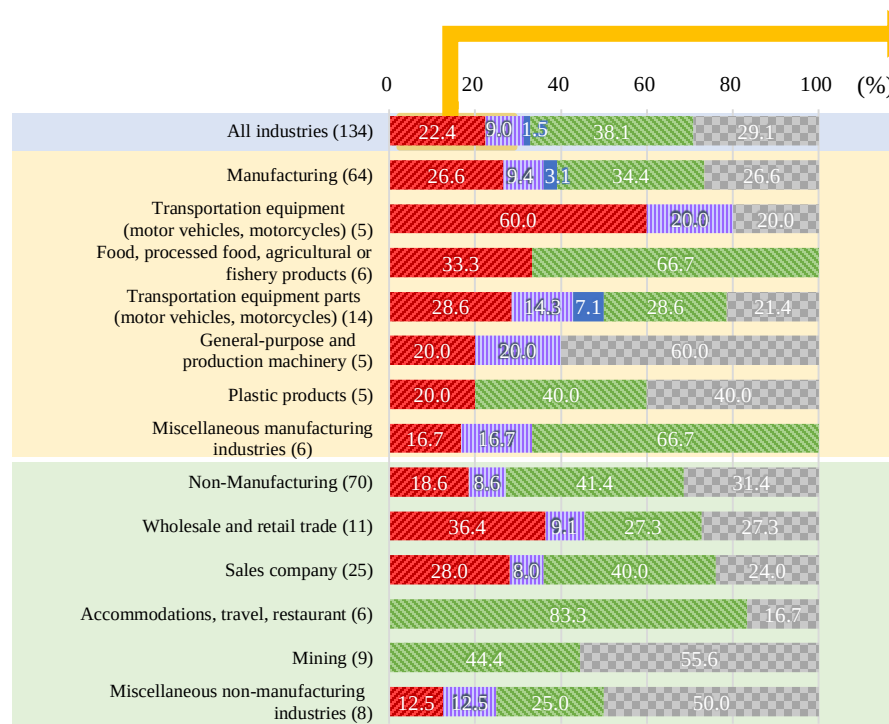
6. Effects of Changes in the Trade Environment: 20% of Respondents Reported Negative Impact

Concerning the impact at present from changes in the trade environment, such as additional tariffs, “no impact” was the most common response at 38.1% (51 companies), followed by “not sure” at 29.1% (39 companies) and “negative impact” at 22.4% (30 companies). By major industry type, “negative impact” was a leading answer in the fields of transportation equipment parts (motor vehicles, motorcycles, 60.0%), wholesale and retail trade (36.4%) and food/agricultural products (33.3%). The main areas where this negative impact is being felt included “import/procurement cost” at 53.3% (16 companies), “domestic sales (sales in the Canadian market)” at 33.3% (10 companies) and “production cost” at 20.0% (6 companies). “Import/procurement cost” was cited by 70.6% of manufacturers, with the proportion reaching 100% among those in the field of transportation equipment parts (motor vehicles, motorcycles).

Current Impact Due to Changes in Trade Environment

Areas to be Negatively Affected by Changes in the Trade Environment (Multiple Answers)

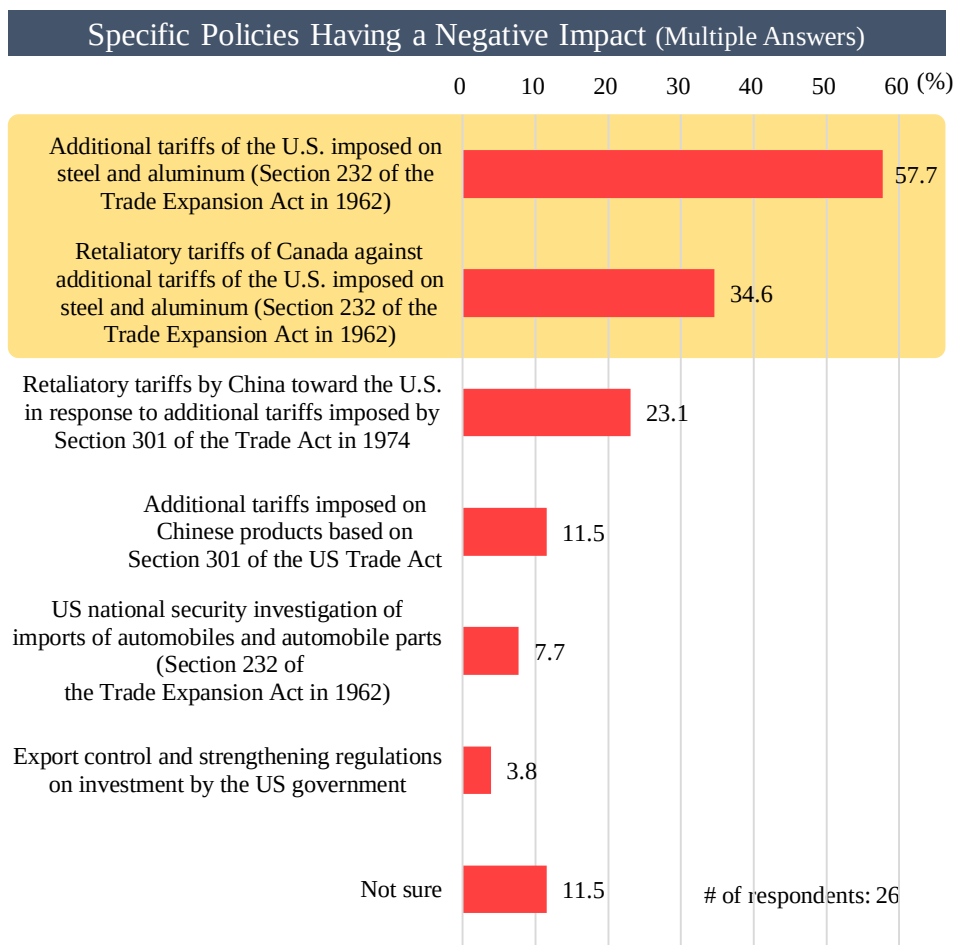
■ Negative ■ Equally positive and negative ■ Positive ■ No impact ■ Not sure



Note: Only industries for which at least five companies gave valid responses are listed.

6. Effects of the Changes by Policies: “Additional U.S. Tariffs on Steel and Aluminum” the Top Response

Of the companies that reported experiencing a “negative impact,” 57.7% (15 companies) said that the specific policy having such impact on them was “additional U.S. tariffs on steel and aluminum,” while 34.6% (nine companies) said it was “retaliatory tariffs of Canada in response to additional U.S. tariffs on steel and aluminum.” In terms of major industry type, these policies were each cited by 66.7% (4 companies) of sales companies.



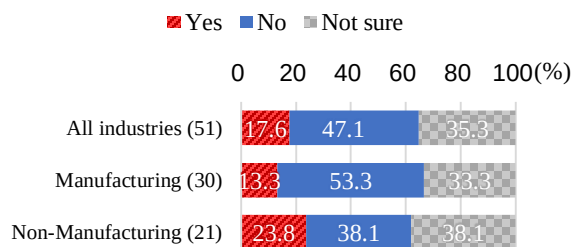
Specific Effects of Changes in the Trade Environment

- As iron and steel products made in China (both the world’s biggest market and biggest manufacturer for such products) face diminished demand and flood other regions, this could result in a global downturn. **[Fabricated metal products]**
- Experienced high management burden relating to steel and aluminum tariffs, but the problem was resolved recently. **[Transportation equipment (motor vehicles, motorcycles)]**
- With respect to the additional tariffs on iron, steel and aluminum, procurement costs were negatively affected in our transactions of parts with a U.S. group company. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- 2018 was a tough year due to the additional tariffs on iron, steel and aluminum, etc. Canada’s retaliatory tariffs against the U.S. roughly doubled import duties on U.S. products beyond our absorbable extent; this forced us to pass higher prices on to customers. **[General-purpose and production machinery]**
- In terms of business related to the U.S., after the retaliatory tariffs on imports from the U.S. took effect in 2018, costs of importing U.S. products rose, and we had no choice but to pass that portion on to customers. **[Sales company]**
- Part of our products processed in Canada that use Chinese raw materials are not recognized as Canadian products by U.S. customs and are subject to U.S. additional tariffs on Chinese goods. So the processing site will be moved to another group location, meaning that the Canada office will lose part of its operations. **[Food/agricultural products]**
- China’s retaliatory tariffs on U.S. goods have effects on seafood products. We handle U.S. products as well, but China does not buy U.S. goods, so we have switched to Canadian goods and taken other measures. **[Wholesale and retail trade]**

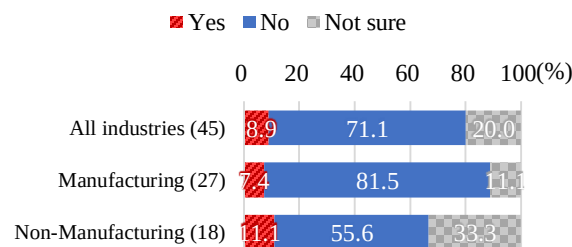
6. Responses to the Changes in the Trade Environment: Less than 20% Have Changed Procurement Sources

Just 17.6% of respondents said they will change (or have changed) procurement sources in order to handle additional tariffs and other changes in the trade environment. Those who answered transfer of production sites and change (changed) in sales destination accounted for less than 10% of the total (8.9% and 6.3%, respectively). In terms of changes in procurement sources, five of the seven respondents that answered had the U.S. as the main procurement source prior to the change, but after the change, only one company had the U.S. as such a source, while those that said Canada (domestic) was the main source increased to three companies.

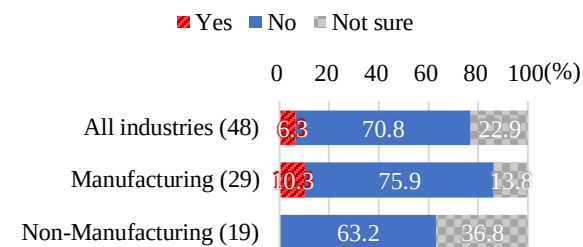
Change of Procurement Sources (By Sector)



Transfer of Production Sites (By Sector)

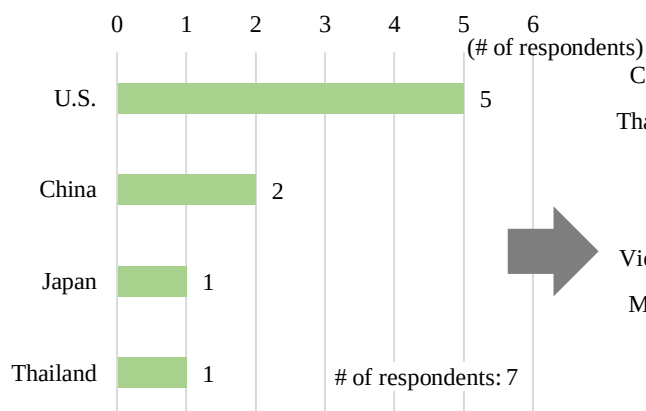


Change of Sales Destinations (By Sector)

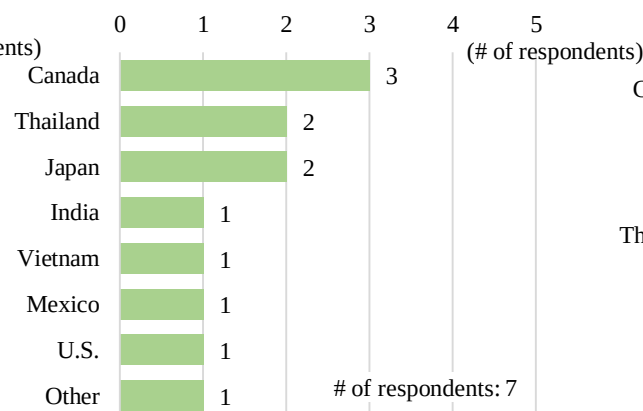


Major Changes in Procurement Sources

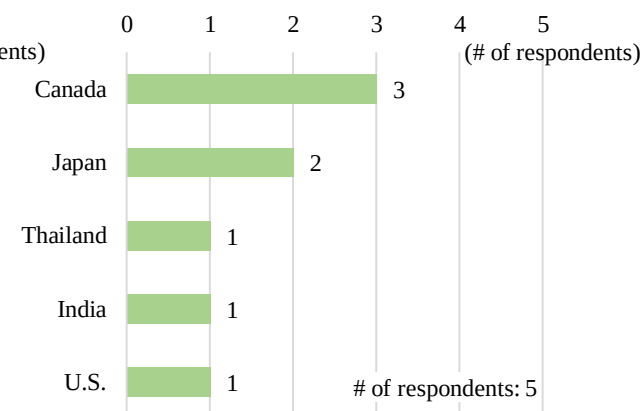
Main Sources before Change (Multiple Answers)



Main Sources after Change (Multiple Answers)



Main Sources after Change for Companies Whose Main Source before Change had been the U.S. (Multiple Answers)

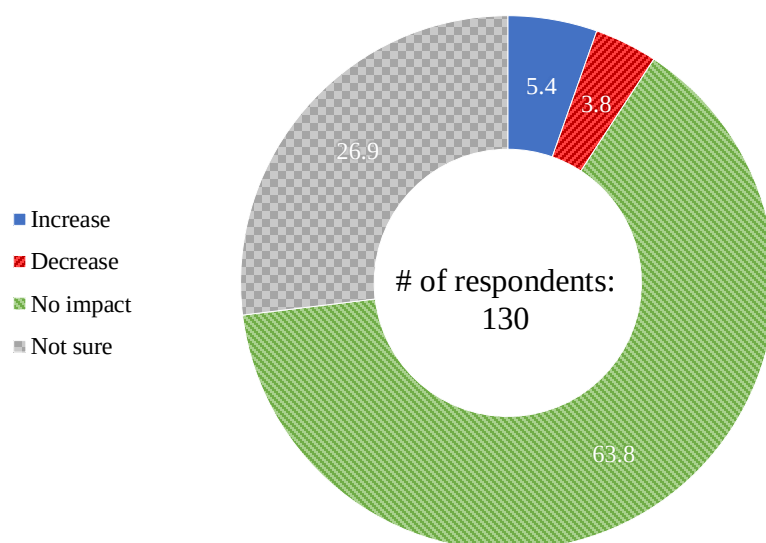


6. Changes in the Trade Environment and Their Effects on Operating Profit: Impact Expected to Be Limited

Regarding the changes in the trade environment and their effects on prospective operating profit, 63.8% said they saw “no change” for 2019 and 56.8% responded the same for 2020. Companies that expected a “decrease” were less than 5% for both 2019 and 2020. Meanwhile, less than 30% said they were “not sure” for 2019, but about 40% answered the same for 2020, indicating uncertainty going forward.

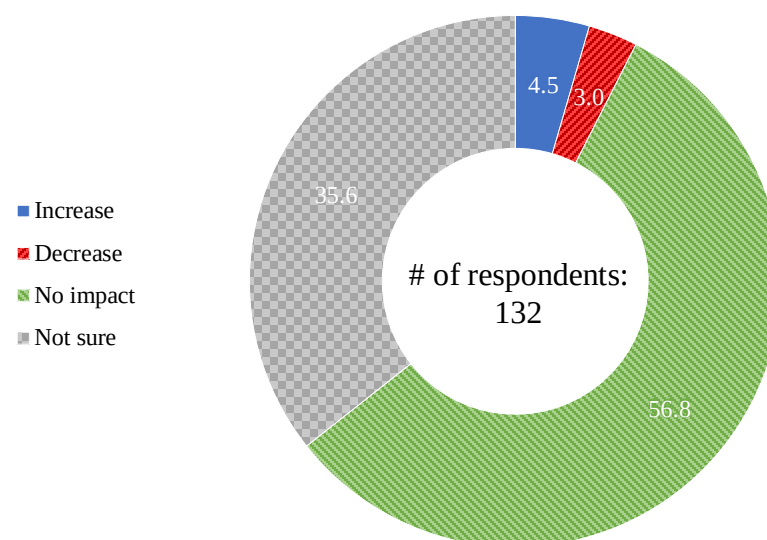
Changes in Trade Environment and Their Effects on Prospective Operating Profit (2019)

(%)



Changes in Trade Environment and Their Effects on Prospective Operating Profit (2020)

(%)



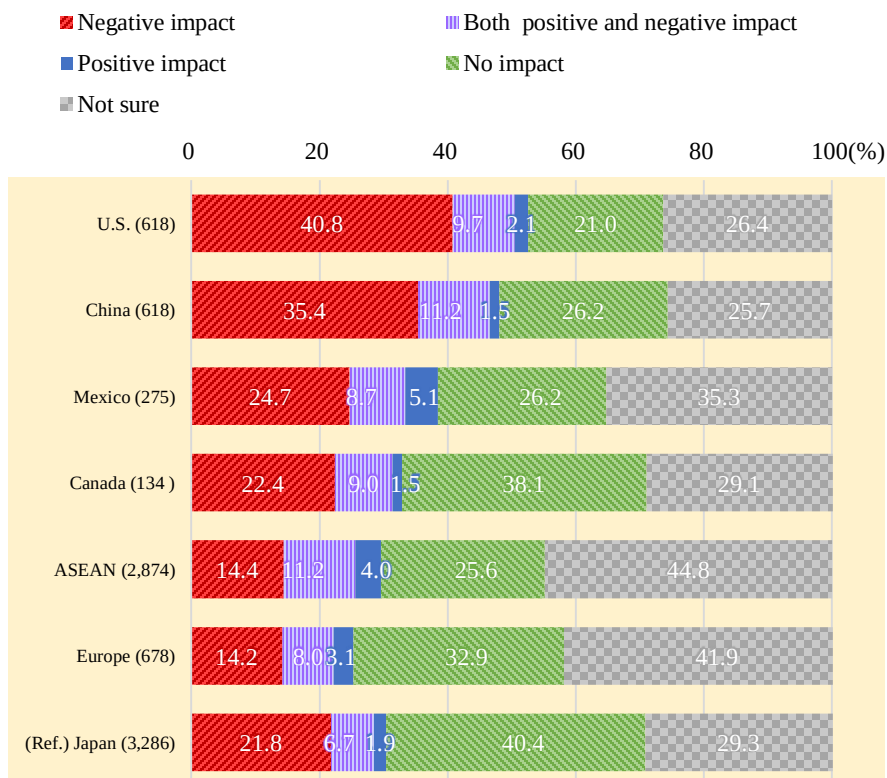
Specific Effects of Changes in Trade Environment

- The U.S.-China trade conflict has not had much impact, directly or indirectly. **[Transportation equipment parts (motor vehicles, motorcycles)]**
- The U.S.-China trade conflict has had almost no direct impact, but China’s import restrictions on Canadian agricultural products, triggered by the arrest of a Huawei executive, are having effects on the market. **[Sales company]**
- Canada’s retaliatory tariffs on U.S. iron, steel and aluminum increased tariffs on imports from the U.S. This forced us to pass higher costs on to customers, but because our customers are affluent, it did not affect sales significantly. **[General-purpose and production machinery]**
- The effects of President Trump’s tariff policy are not necessarily entirely negative, and may enable a third party to profit, but the concern is that predicting is impossible with these tariffs. If we know tariffs will remain high, we would move ahead and review the supply chain, but no one knows how things will turn out. **[Wholesale and retail trade]**

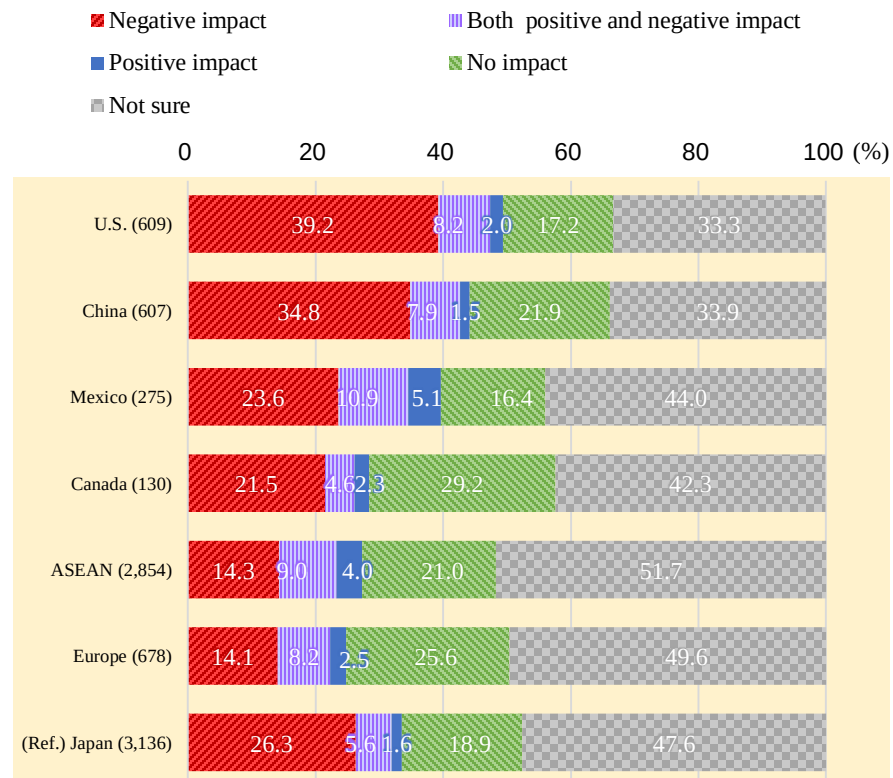
6. Effects of Changes in the Trade Environment (By Country and Region)

The effects at present of changes in the trade environment differ depending on the country and region. Whereas a “negative impact” was most often cited in the case of the U.S. and China, “no impact” was the most frequent response for Canada and Japan, while “not sure” was most cited for Mexico, ASEAN, and Europe. As for what effects the changes in the trade environment may have going forward, there were fewer responses of “no impact” versus the effects at present, regardless of region, and the proportion of those who were “not sure” increased. There was a slight decrease in the response rate overseas for those citing a “negative impact,” while as a point of reference, the percentage of respondents in Japan who gave this answer was up 4.5 points (110 companies) at 26.3%.

Current Impact Due to Changes in Trade Environment



Future Impact Due to Changes in Trade Environment



Effects of the Changes by Policies (By Country and Region)

The effects of the specific policies having an impact on companies are multi-faceted (imports/exports, domestic transactions, etc.), multi-layered (multiple taxation on the same goods), and multi-tiered (every level of the supply chain), and they vary significantly across different countries and regions. For the U.S., the greatest number of companies cited “additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (First to fourth tranche)” as having an impact on their procurement costs (51.1%), followed by “additional tariffs of the U.S. imposed on steel and aluminum” (42.7%) and “retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act (24.6%).” The number of companies in the U.S. exporting to China was just 74 companies (12.8%), compared to 169 companies (31.0%) procuring goods from China.

Specific Policies Having an Impact in Each Country and Region (Multiple Answers)			
Country or Region	1st most common	2nd most common	3rd most common
U.S.	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (First to fourth tranche) (51.1%)	Additional tariffs of the U.S. imposed on steel and aluminum (42.7%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (24.6%)
Canada	Additional tariffs of the U.S. imposed on steel and aluminum (47.5%)	Retaliatory tariffs against additional tariffs of the U.S. imposed on steel and aluminum (22.5%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (17.5%)
Mexico	Additional tariffs of the U.S. imposed on steel and aluminum (36.8%)	US national security investigation of imports of automobiles and automobile parts (33.0%)	Export control and strengthening regulations on investment by the US government (22.6%)
China	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (First to third tranche) (40.4%)	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (Fourth tranche) (27.8%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (24.2%)
ASEAN	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (26.5%)	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (First to third tranche) (25.5%)	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (Fourth tranche) (17.3%)
Europe	Retaliatory tariffs against additional tariffs of the U.S. imposed on steel and aluminum (27.3%)	Additional tariffs of the U.S. imposed on steel and aluminum (20.1%)	Retaliatory tariffs by EU against US national security investigation of imports of automobiles and automobile parts (20.1%)
(Ref.) Japan	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (First to third tranche) (40.4%)	Additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (Fourth tranche) (36.4%)	Retaliatory tariffs by China against additional tariffs imposed on Chinese products based on Section 301 of the US Trade Act (25.1%)

Note: Questions regarding the effects of additional tariffs imposed on Chinese products based on Section 301 of the U.S. Trade Act are divided into two - the first to third tranches, and the fourth tranche. However, tranches are not divided in the U.S. and Canada questionnaire.

The E.U.'s retaliatory tariffs against the U.S. national security investigation of imports of automobiles and automobile parts have not been implemented.

Responses to the Changes in the Trade Environment (By Country and Region)

Regarding responses to the changes in the trade environment, the proportion of companies that said they would be changing their procurement sources was highest in the U.S. (38.6%), followed by Canada (17.6%) and then Mexico (15.3%). The percentages of companies who were transferring their production sites were the highest in the U.S. (14.7%), China (9.2%), and Canada (8.9%) in that order. The percentage of those who said they would be changing their sales destinations was the highest in Mexico (12.9%), then China (11.2%), and then ASEAN (8.6%). In the U.S., this ratio was only 4.0%, but the main reason for this is the fact that, traditionally, the intra-regional sales ratio has been at least 80%, or 90% if Canada and Mexico are included.

Change of Procurement Sources

■ Yes ■ No ■ Not sure

0 20 40 60 80 100 (%)

Transfer of Production Sites

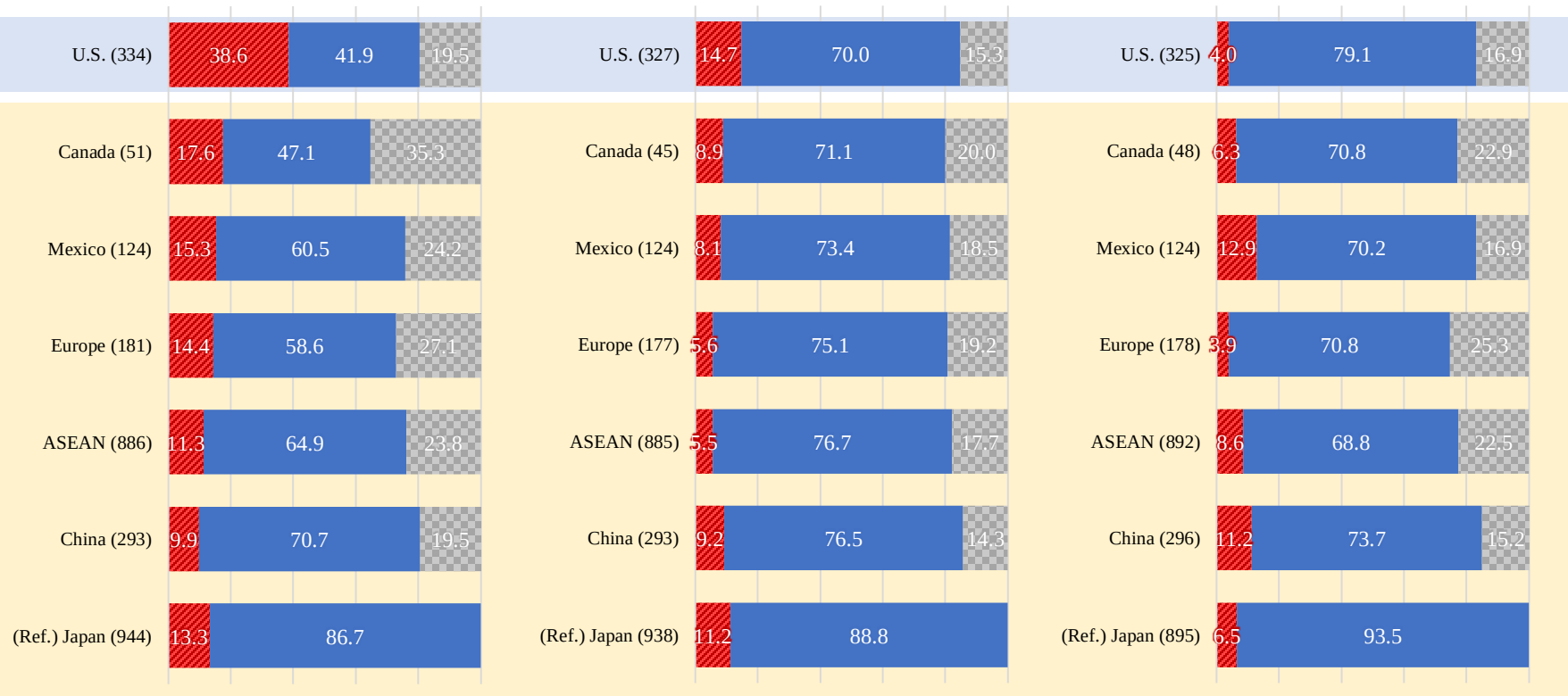
■ Yes ■ No ■ Not sure

0 20 40 60 80 100 (%)

Change of Sales Destinations

■ Yes ■ No ■ Not sure

0 20 40 60 80 100 (%)



Note: Answer options for "Japan" are "Yes" or "No" only.



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