2015 JETRO Survey on Business Conditions of Japanese Companies in North America

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

November 26th, 2015

The United States

2015 JETRO Survey on Business Conditions of Japanese Companies in North America

- Survey period: September 11th - October 16th, 2015
- Valid responses: 56.2% (639 /1,137)
- Survey coverage: “Japanese-affiliated firm” is a company one in which the capital contribution ratio of the parent firm in Japan is at least 10%, including direct and indirect investment.

Companies maintained a high profitability level

In 2015, although its percentage was lower than that in 2014 (82.3%), 81.4% of respondents operating in the US showed that they expect their businesses to mark a profit. The profit rate decreased in the South, but the positive business environment of the Midwest underpinned the whole profit level.

Fig. : Changes in operating profit and real U.S. GDP growth rate

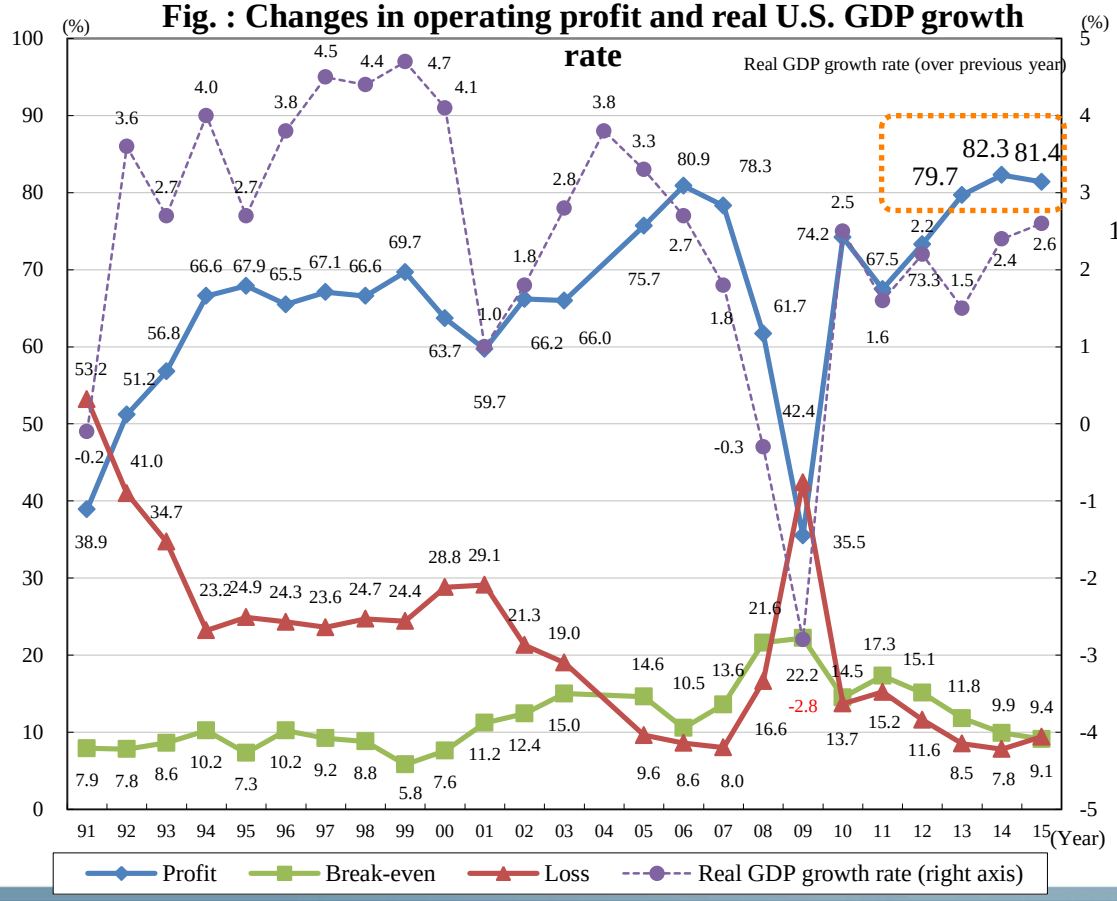
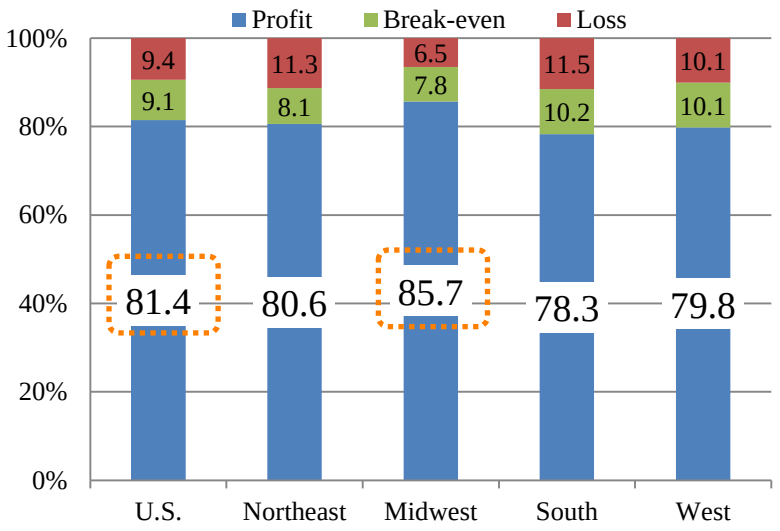


Fig. Operating profits forcast for 2015 (by regions)



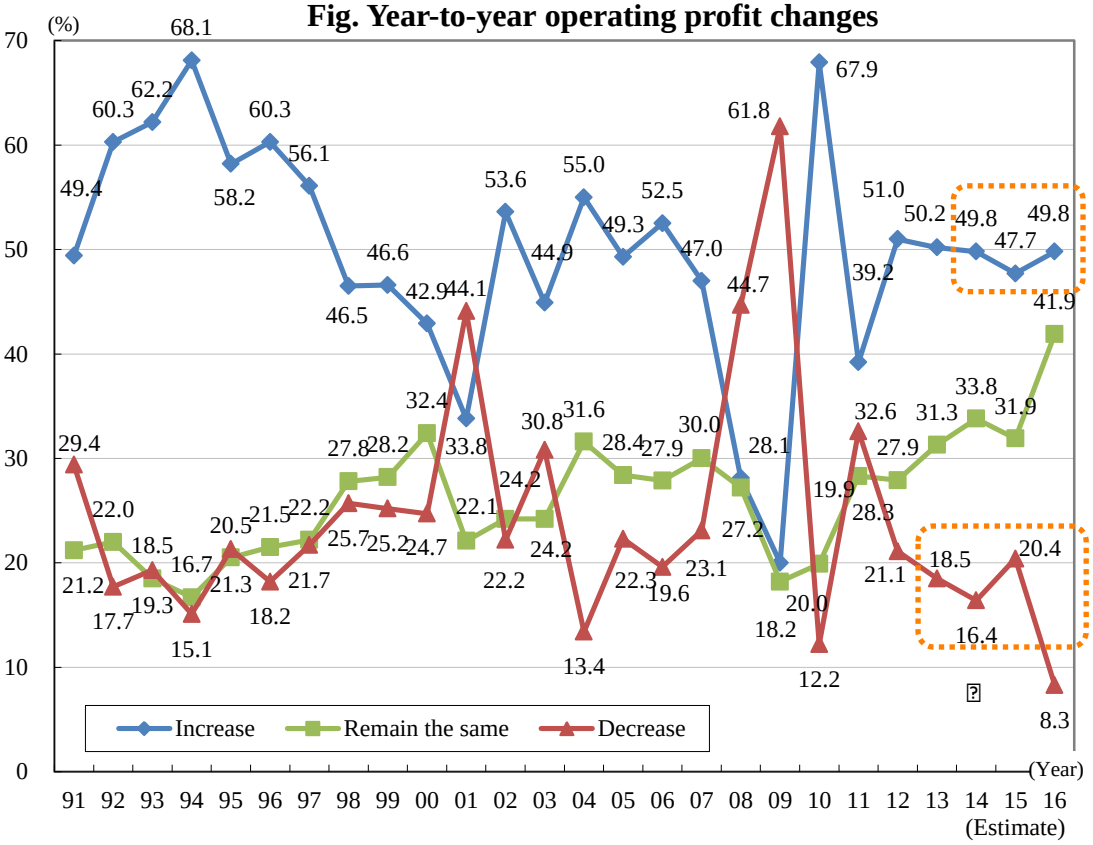
Note: The GDP growth rate for 2015 is the IMF estimate (announced Oct. 2015). No survey conducted in 2004.

# of respondents: 636

Business confidence stayed stable

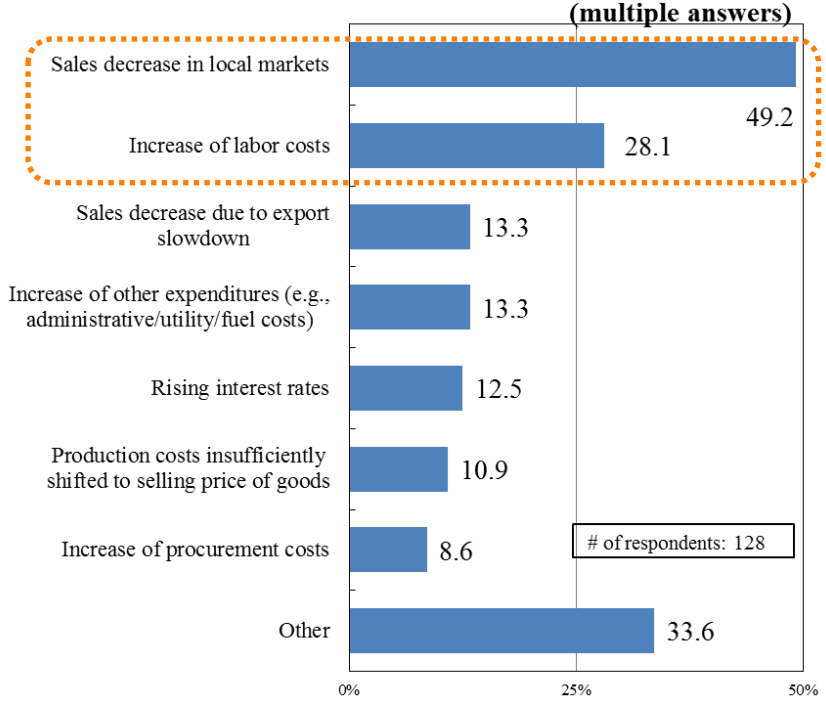
Business confidence subtly decreased than the previous year. The rate at which respondents reported that they predict worsening profits increased by 4.0 points. Major issues related to decrease are “sales decrease in local markets” and “increase of labor costs.”

Fig. Year-to-year operating profit changes



Note: The GDP growth rate for 2015, 2016 are the IMF estimate (announced Oct. 2015). No survey conducted in 2004.

Fig. Reasons for decreased operating profits forecast for 2015 (multiple answers)



Business expansion continues

56.7% of respondents plan to expand their business in the next two years, mainly strengthening sales and production (high-value added products) functions.

Fig. Future business in the U.S.

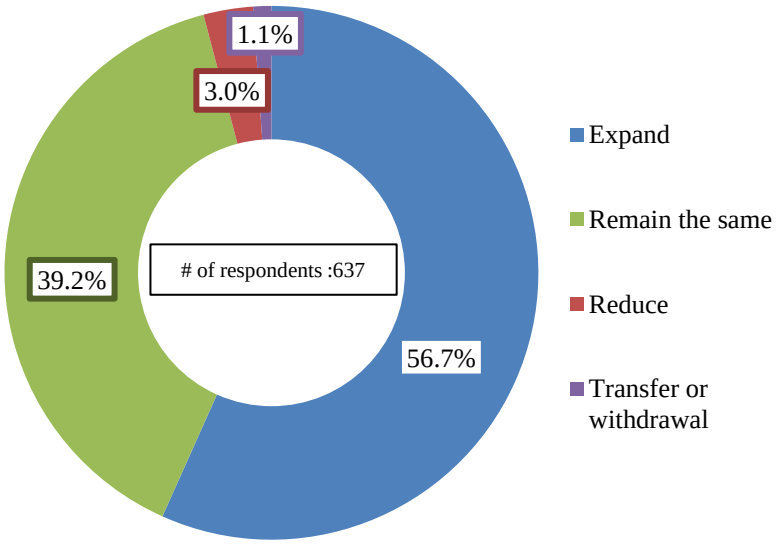
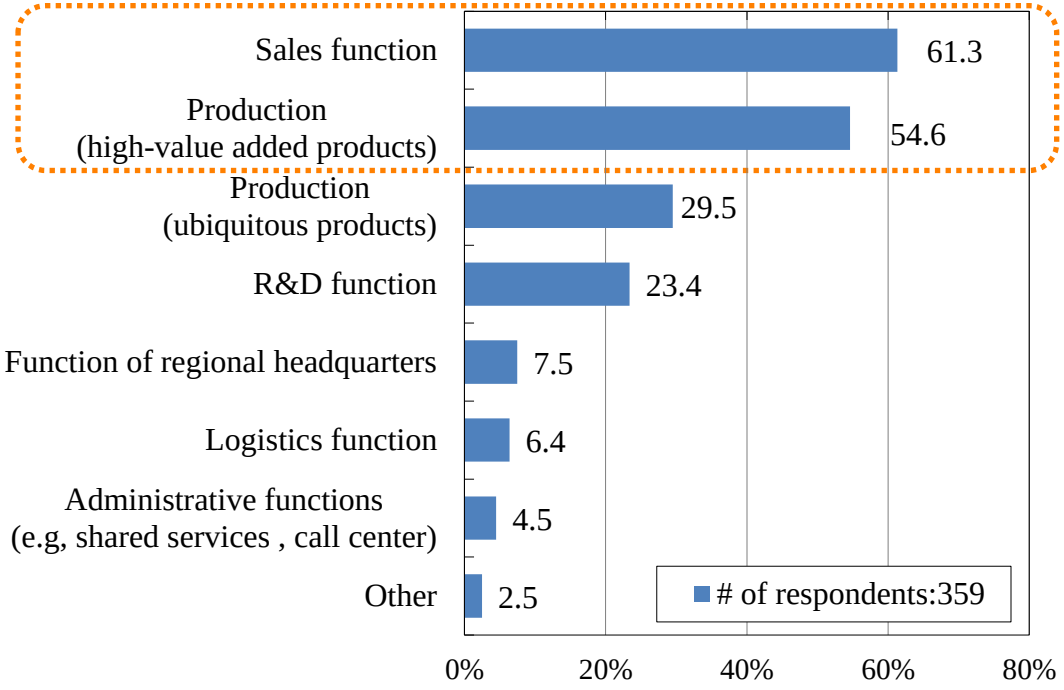
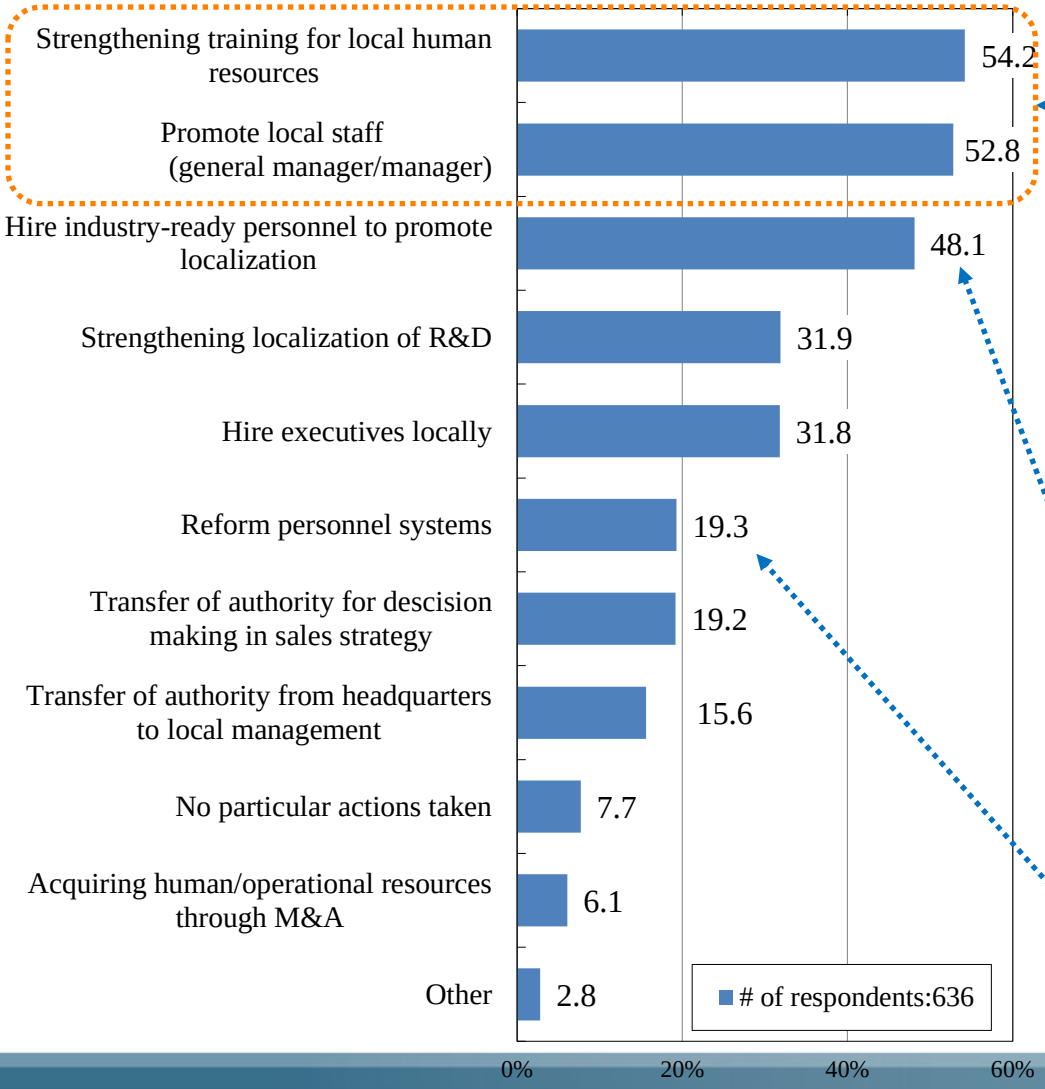


Fig. Specific functions to expand (multiple answer)



Challenge for localization of human resource

Fig. Measures taken to encourage localization of corporate management (multiple answer)



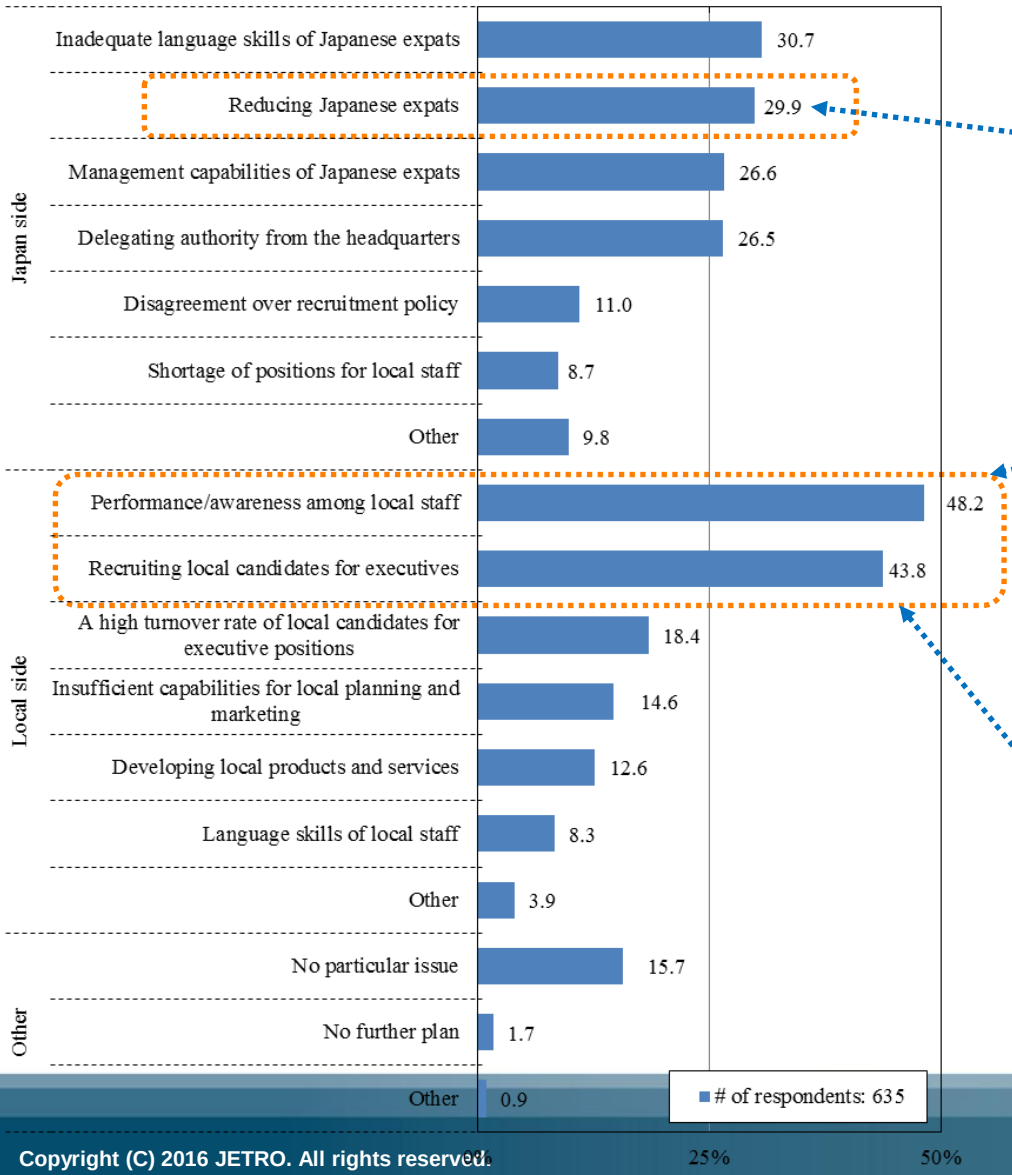
<Strengthening training for local human resources>
- We continue to hire and train local staffs to decrease Japanese expats as our policy. (Chemical and oil products)
- Production lines are thoroughly managed by local employees. Line managers are trained in Japan to learn storage management and visualization process in a factory. (Machines)
- Local executives participate in a training program held at Japanese headquarters once a year. (Machines)
- We are considering the introduction of the lecture by a third party and the same training system with our Japan office. (Chemical and oil products)

<Hiring local industry-ready personnel>
- We started to look for new graduates besides mid-career employment. (Other)

<Reform personnel systems to promote localization>
- Personnel evaluation is provided based on average of both Japanese expats and local staffs. We also provide individual support for learning further workflows. (Process food, agricultural or fishery products)

Securing local employees is critical

Fig. Major issues companies face in promoting management localization
(multiple answers)



<Difficulties in reducing the number of Japanese expats>
- Japanese expats are indispensable to maintain production management and quality control. Several years ago, we experienced some reversal in quality after Japanese expats returned to Japan. (Ceramic, earth or stone products)
- We found some difficulties in presiding factories by local employees. Japanese expats are indispensable for acquiring and maintaining new businesses. It is inevitable to increase Japanese expats in terms of internal control. (Rubber goods)

<Performance/awareness among local staff>
- Perception gap of reward and incentive levels between Japan and the U.S., particularly for executives. (Process food, agricultural or fishery products)

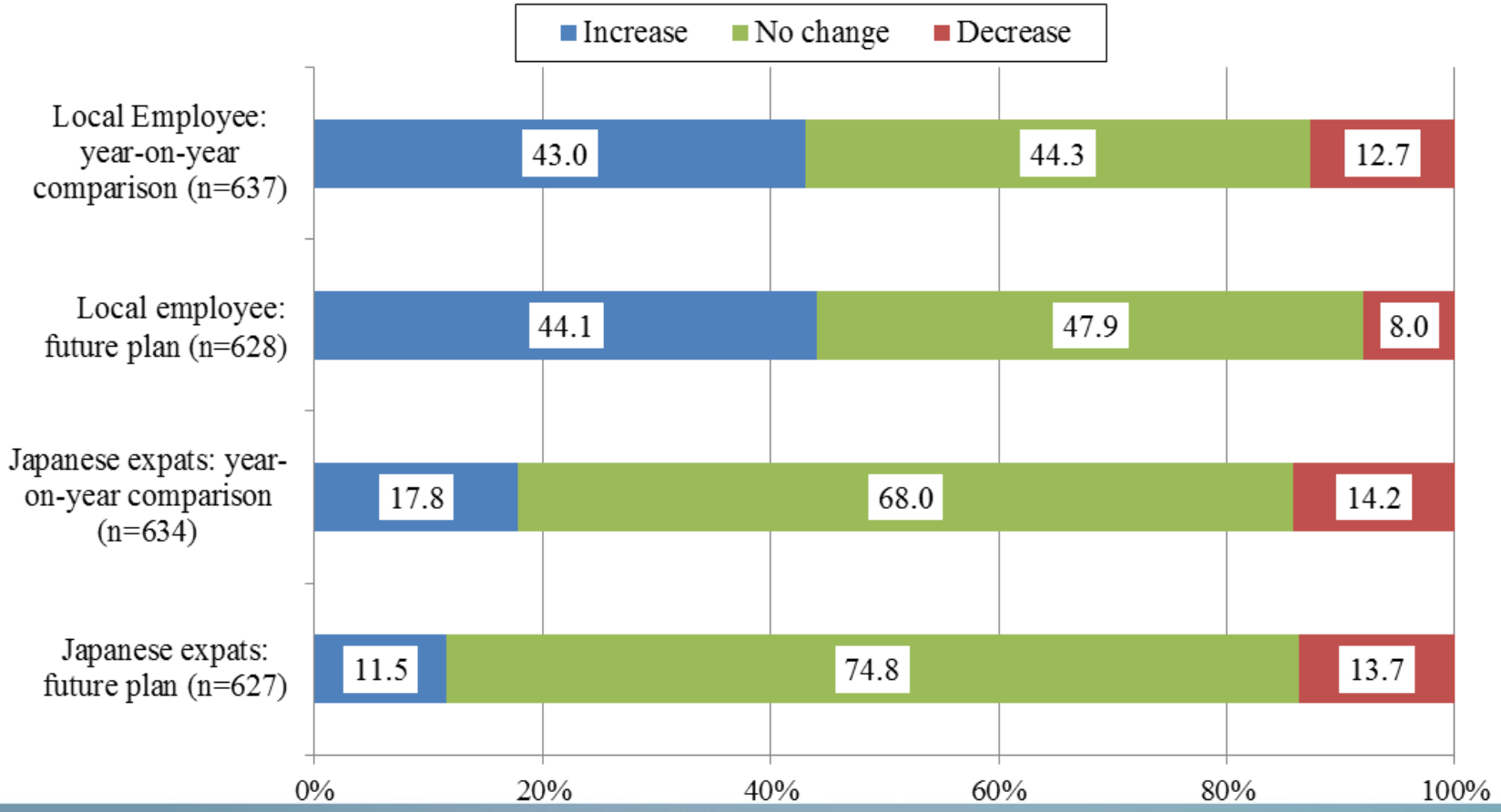
<Difficulties in recruiting local candidates for executive positions>
- Hiring new local executives is getting hard because of the U.S. economic recovery. (Chemical and oil products)
- We gradually find it difficult to hire high-skilled engineers. (Parts for transportation machines)

<A high turnover rate of local candidates for executives>
- There are high possibilities of younger candidates to leave their jobs despite of the investment we have made. (Rubber goods)
- We are suffering from the high turnover rate and the security of temporary workers. Competition to secure human resources is getting more severe. (Machines)

Local employees increased

Over 40% of respondents plan to increase local employments. Number of Japanese expats remain relatively stable.

Fig. Local employees and Japanese expatriates



Local procurement prevails

The average rate at which Japanese companies procure raw materials and parts for their products within the U.S. reached 58.3%, the increase by 1.8 points from 2014 while it showed 2.3 points decrease from Japan. Many foresee expansion in procurements from U.S. companies and Mexico.

Figure. Procurement proportion by country/region

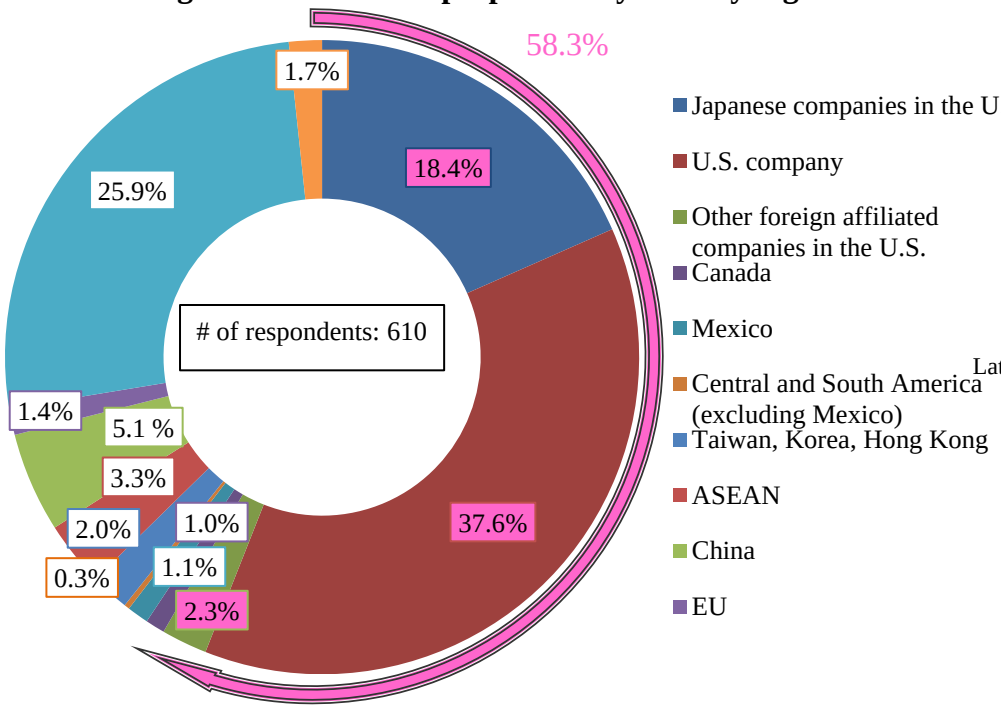
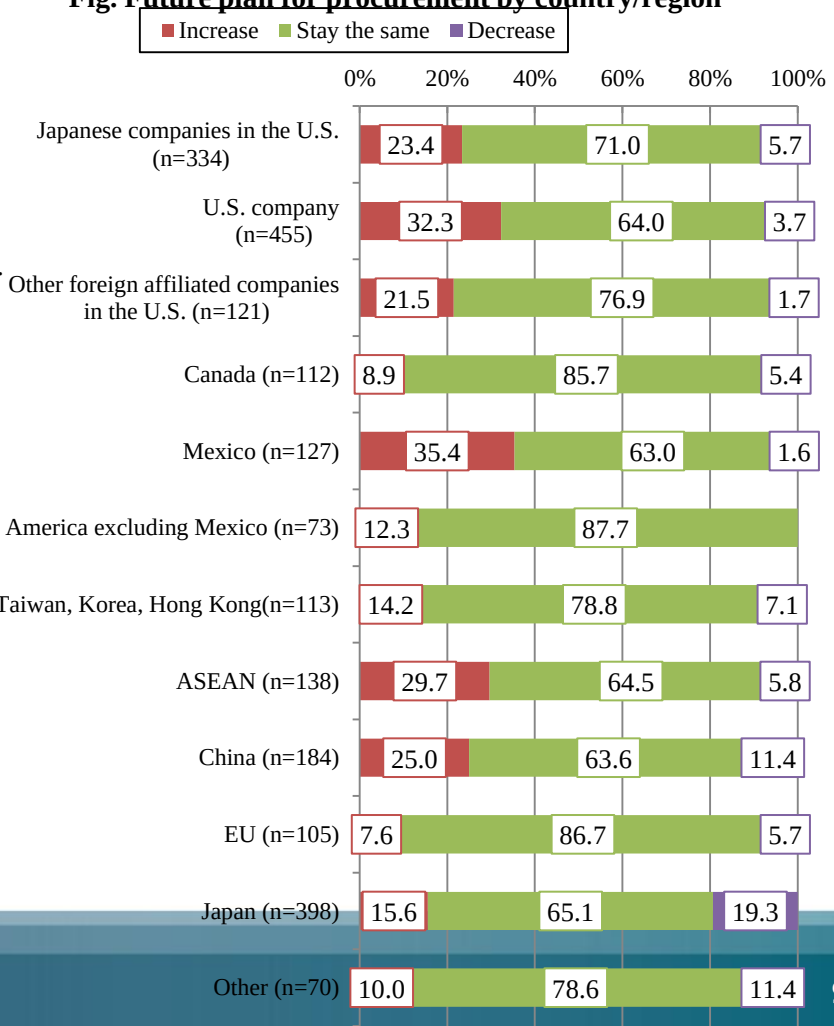


Fig. Future plan for procurement by country/region



Made in U.S.A.; predominant production site

72.5% of respondents construct production system within the U.S., showing the same level from the previous year. More than half plan to expand their production in Mexico. 16.2% of respondents plan to increase production in Japan for sales in the U.S., which shows the increase by 5.8 points from 2014.

Figure. Production site for the U.S. market by country/region

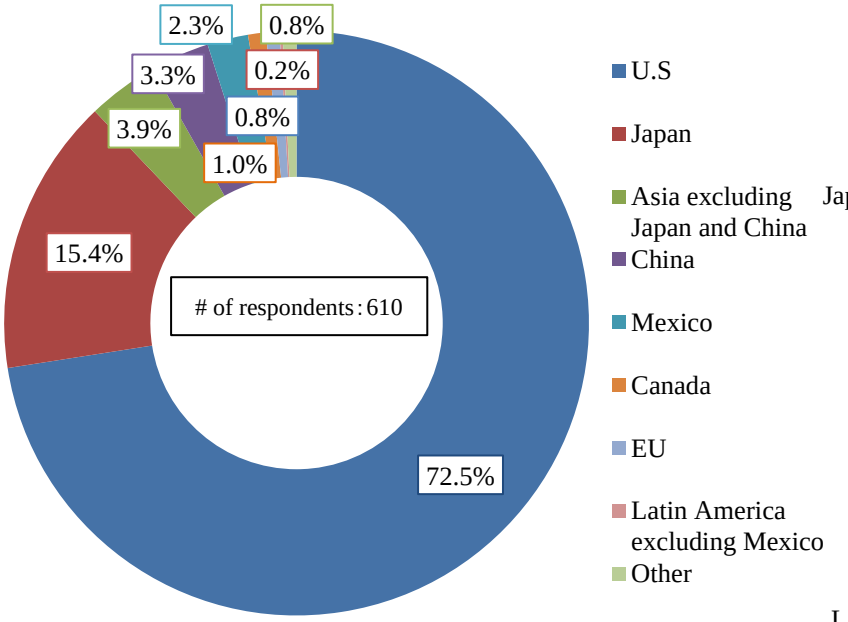
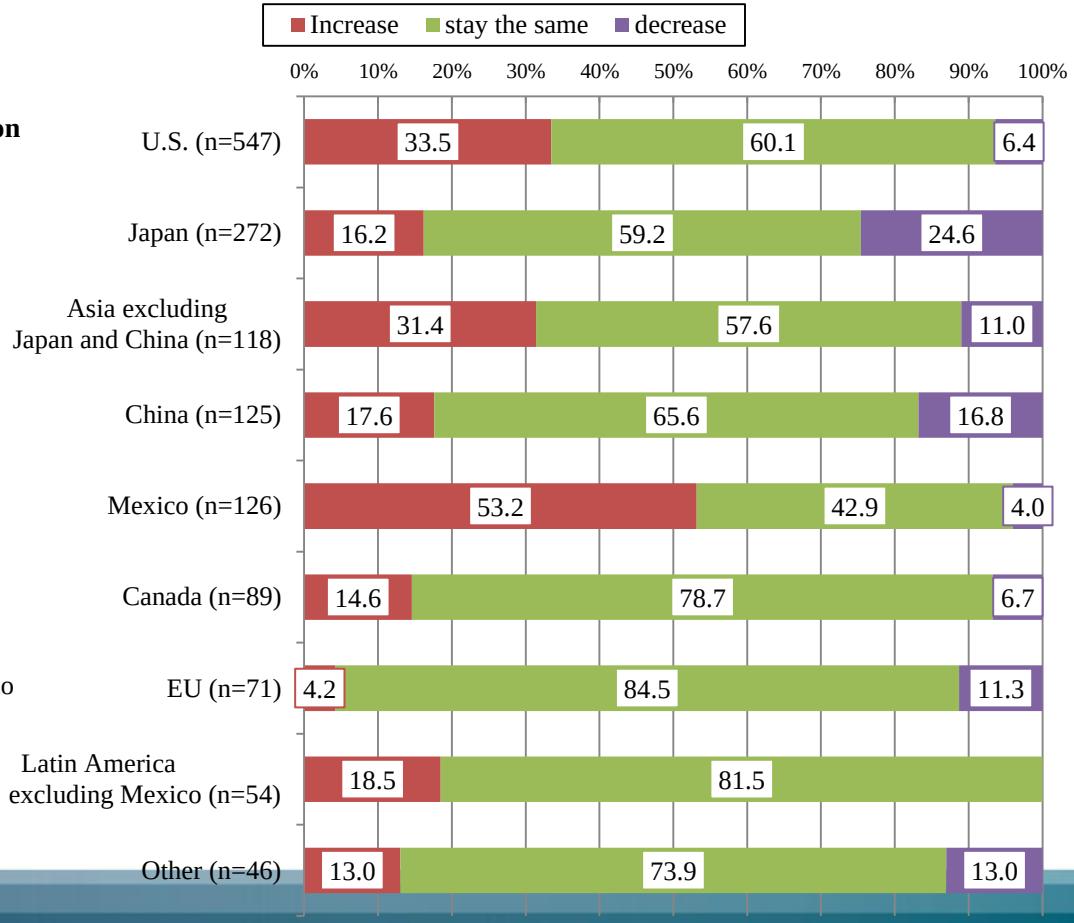
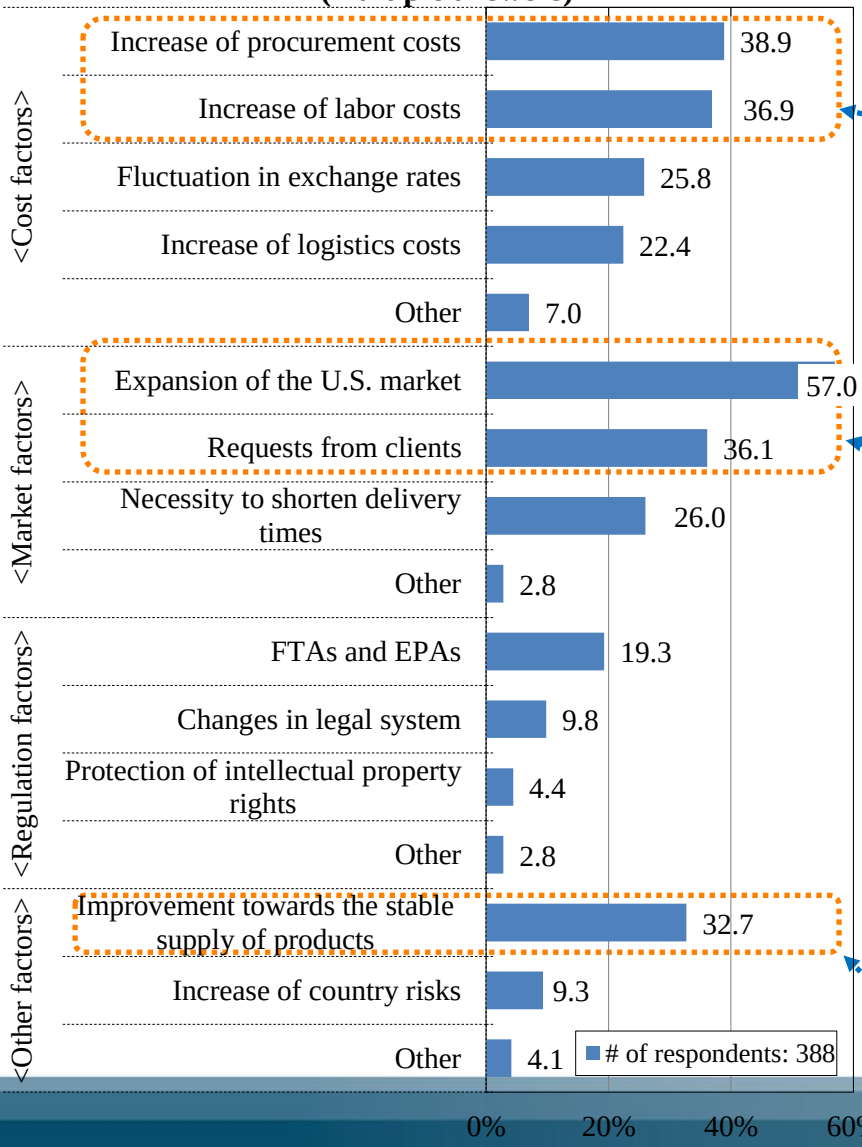


Figure. Future plan for production site for the U.S. market



Optimizing production plan for changing business environment in the U.S.

Fig. Reasons for change in production plan (multiple answers)



<Increase of procurement cost>
- Since we are an apparatus industry, regions with cheaper labor costs are less attractive for production. (Chemical and oil products)
- We deal with unique products and technologies that we cannot easily find appropriate clients to satisfy our demands. (Machine)
- We plan to expand procurement from Asia, considering the balance between labor costs, quality and entire costs as well as fluctuations in exchange rates. (Machine)

<Expansion of the U.S. market>
- We promote localization of both production and sales. (Precision machines and apparatuses)
- We will expand production capacity in Mexico and Asia in order to prepare for increasing share in the U.S. (Parts for transportation machines)
- Expanding local production to increase sales in the U.S. (Non-ferrous metals)
- We will decrease our production in Japan due to the changes in the goods we supply for the U.S. market. (Electric or electronic parts)
- We will decrease production in the U.S. and shift it to Latin America to respond to sales in the region. (Chemical and oil products)

<Requests from clients>
- Our client transferred their manufacturing factory. (Parts for transportation machines)

<Improvement toward the stable supply of products>
- Various risks regarding transportation (Parts for transportation machines)

Sales expansion planned in U.S. and Mexico

The U.S. market accounts for approximately 80% of sales destination of Japanese firms. Many respondents plan to increase their sales in Mexico as well as the U.S.. Auto parts sector and chemical and oil products industry show their interest in expanding supply of parts and equipment to Mexico.

Fig. Sales destination by country/region

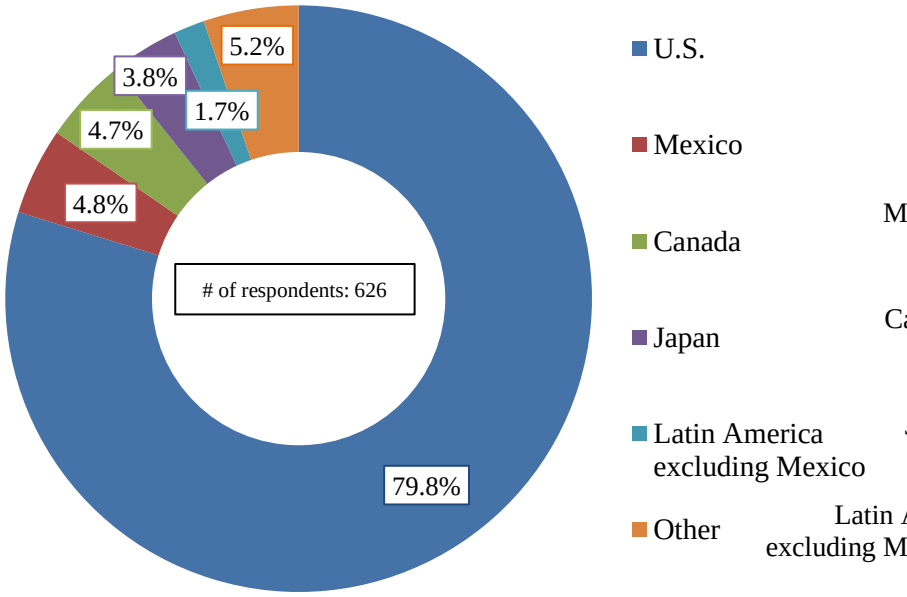
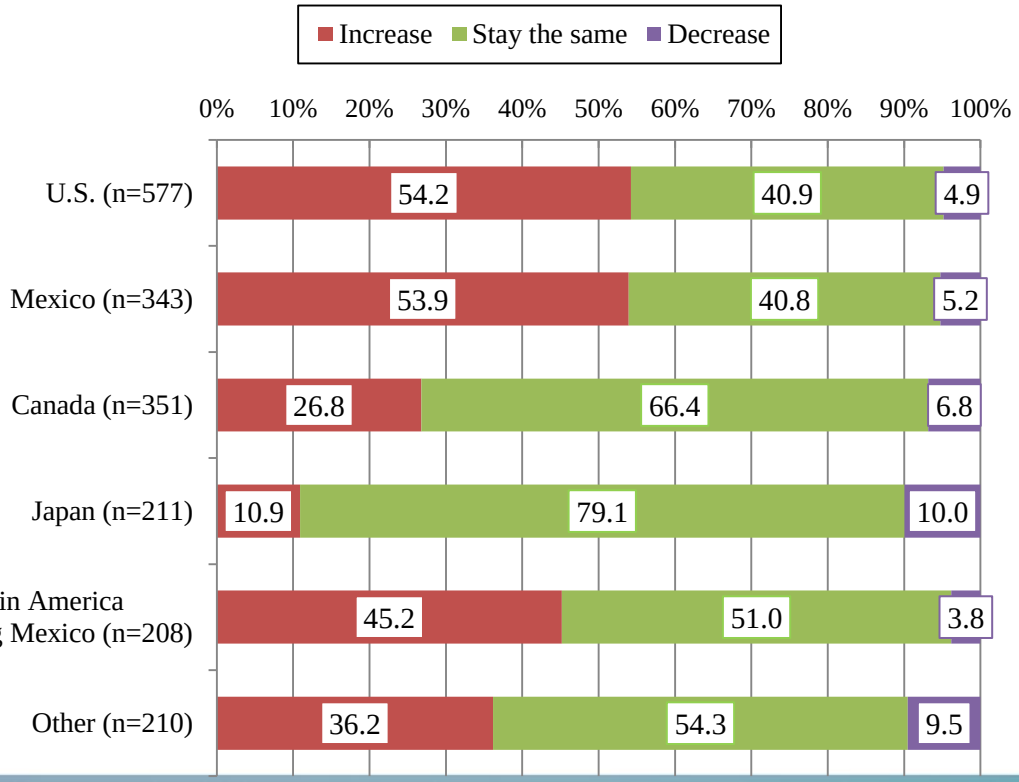


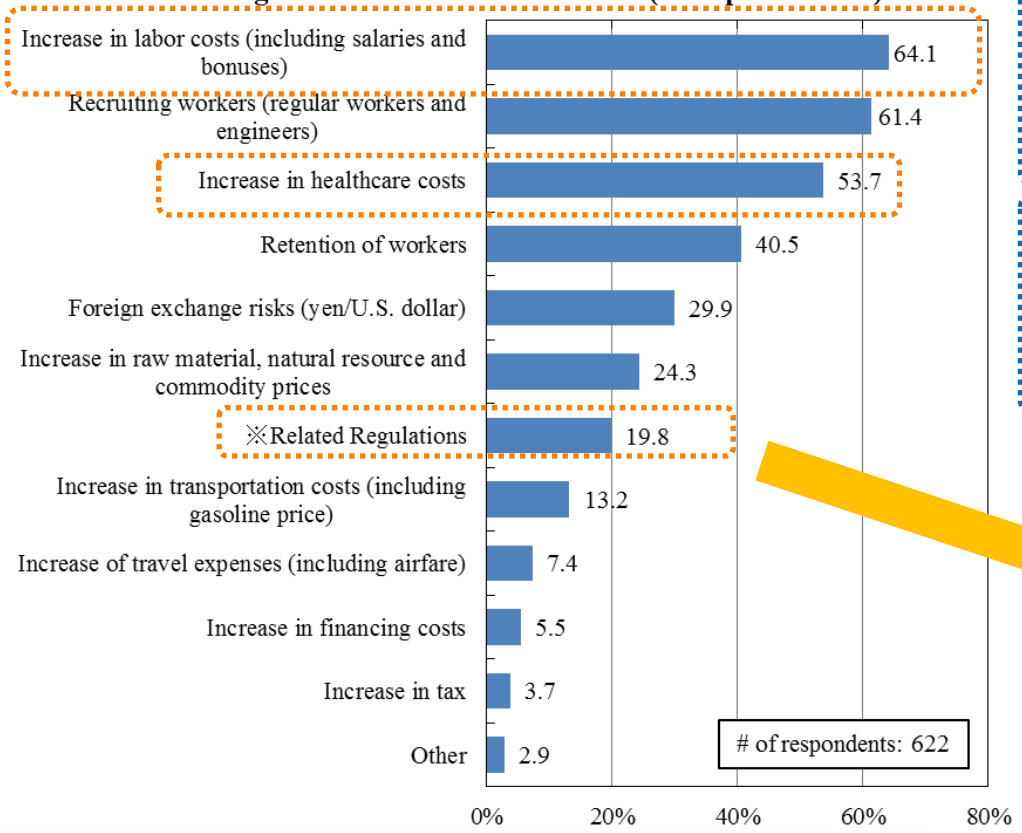
Fig. Future plan for sales destination



Increase in employee-related expenses continue to matter

The top three general administrative issues related to increased costs in descending order of number of responses were an “increase in labor costs,” “recruiting workers” and “increase in medical insurance.” Among “related regulations” as factors related to an increase in costs, “environmental regulations” is the most dominant with 31.3% of responses.

Figure: Factors for Cost Increase (multiple answers)



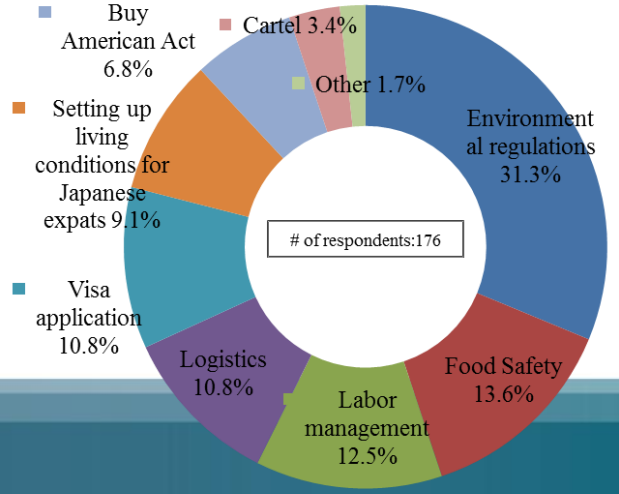
<Increase in Labor Costs>

- We couldn’t avoid raising wages for factory workers to secure necessary resources. (Rubber goods)
- Since our business needs a labor-intensive factory, increase in minimum wages and insurance costs have a serious impact on our revenue. (Process food, agricultural or fishery products)

<Increase in Healthcare Costs>

- Obamacare has caused a heavy damage on our management. (Steel)
- We have reviewed our insurance broker/company/contract to reduce our expenses. (Electric or electronic parts)

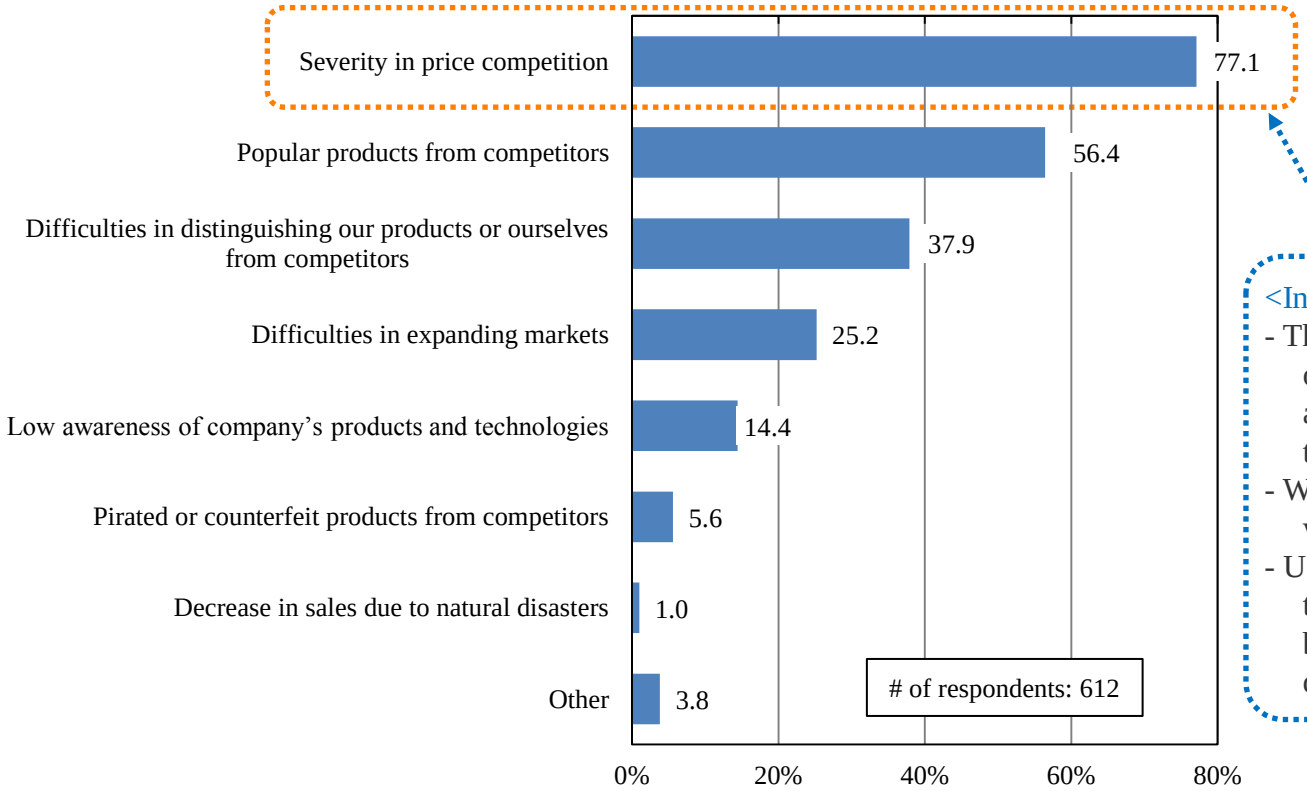
Breakdown of Related Regulations (multiple answers)



Severe price competition brings weakening in sales

As for primary reasons for sales decline, many respondents cited the same reasons as the previous year, such as intensified price competition, competitive products and difficulties in distinguishing themselves.

Fig. Factors related to weakening sales (multiple answers)



<Intensified price competition>
- The U.S. is more price-competitive than the other regions. Although its market size is attractive, we have to lower price in order to ensure quantities of sales. (Textiles)
- Worsened profit due to price competition with competitors. (Other)
- U.S. companies do not hesitate to change their client relations, considering their business merits. They are also strict on the delivery date. (Chemical and oil products)

Japanese firms utilize FTAs and consider the utilization of TPP

Existing FTAs such as NAFTA or KORUS showed higher utilization rates among Japanese firms. Over 40% of respondents answered that they are under consideration of utilizing the Trans-Pacific Partnership (TPP) in future bilateral trade with Japan.

Table Utilization of bilateral or multilateral FTAs/ EPAs by country/region (Unit: firms, %)

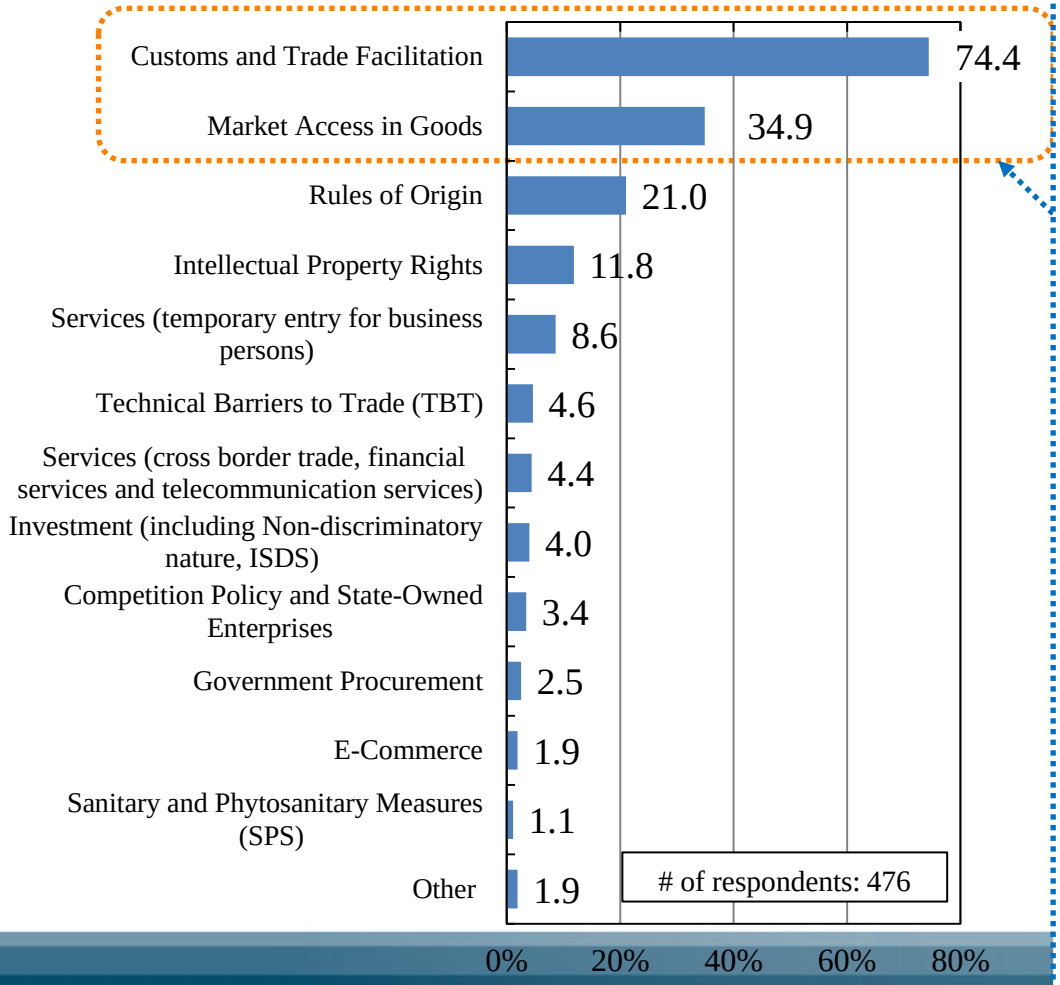
		Export				Import			
		# of Respondents	Utilizing	Considering utilization	Not utilizing (no plan to utilize)	# of Respondents	Utilizing	Considering utilization	Not utilizing (no plan to utilize)
Existing FTA/EPA									
	Canada	260	47.3	7.7	45.0	57	64.9	8.8	26.3
	Mexico	258	51.6	8.5	39.9	81	67.9	11.1	21.0
	Singapore	40	15.0	15.0	70.0	14	35.7	14.3	50.0
	Australia	48	22.9	14.6	62.5	3	-	33.3	66.7
	South Korea	55	34.5	12.7	52.7	34	52.9	14.7	32.4
	Chile	49	32.7	18.4	49.0	7	42.9	-	57.1
	Peru	39	25.6	23.1	51.3	3	-	-	100.0
	Other Central and South American countries*	113	26.5	15.0	58.4	15	40.0	20.0	40.0
	Middle East and North Africa*	29	13.8	17.2	69.0	5	-	40.0	60.0
FTA/EPA under negotiation									
TPP*	Japan	147	-	42.9	57.1	236	-	45.3	54.7
	Malaysia	23	-	30.4	69.6	9	-	55.6	44.4
	Vietnam	21	-	33.3	66.7	21	-	52.4	47.6
	New Zealand	20	-	40.0	60.0	2	-	-	100.0
	Other	1	-	100.0	-	2	-	-	100.0
TTIP	EU	86	-	32.6	67.4	42	-	35.7	64.3

* Chile, El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Peru and Colombia
** Israel, Jordan, Morocco, Bahrain and Oman
**** TPP participants: U.S., Canada, Chile, Australia, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Brunei and Vietnam

TPP is expected to facilitate trade and market access

With respect to the expectation toward the TPP, many respondents hope that it will contribute to “customs and trade facilitation” and “market access in goods.”

Fig. The expectation on the TPP (multiple answers)



<Customs and Trade Facilitation>

- Chemical products are often disrupted by custom authorities, resulting in the loss of time. TPP will be beneficial for our business in terms of facilitating the customs procedures. (Chemical products, oil products)
- We expect the TPP to speed up the customs clearance. (Process food, agricultural or fishery products)

＜Market Access in Goods＞

- Tariff reduction or elimination in goods imported from Japan. (Process food, agricultural or fishery product / Chemical products, oil products)

＜Other expectation＞

- Tariff cuts will give more options to choose production sites. (Parts for transportation machines)
- More efficient intra-company trade and more procurement options. (Electric or electronic parts)
- The port slowdown matters. We hope to enjoy some trade merits of TPP in imports from Japan. (Machines)
- We expect to gain benefits from the TPP in imports of raw materials, parts and products from Japan. (Rubber goods)
- Cost reduction due to tariff elimination in trade by the TPP. (Non-ferrous metals)
- Although the agreement needs further examination, we expect benefits from tariff elimination of industrial products and easier customs inspection. (Transportation machines)

Firms enjoy positive effect of cheaper oil prices

48.4% of respondents were positively affected by the decline in crude oil prices since mid 2014. Decrease of raw material prices, fuel costs and transportation costs were the major benefits.

Fig. The effect of declining crude oil price

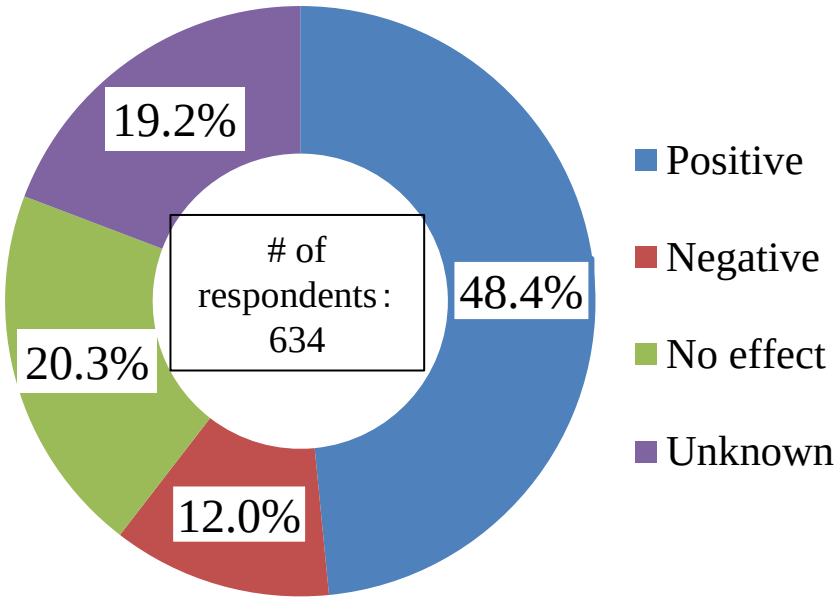
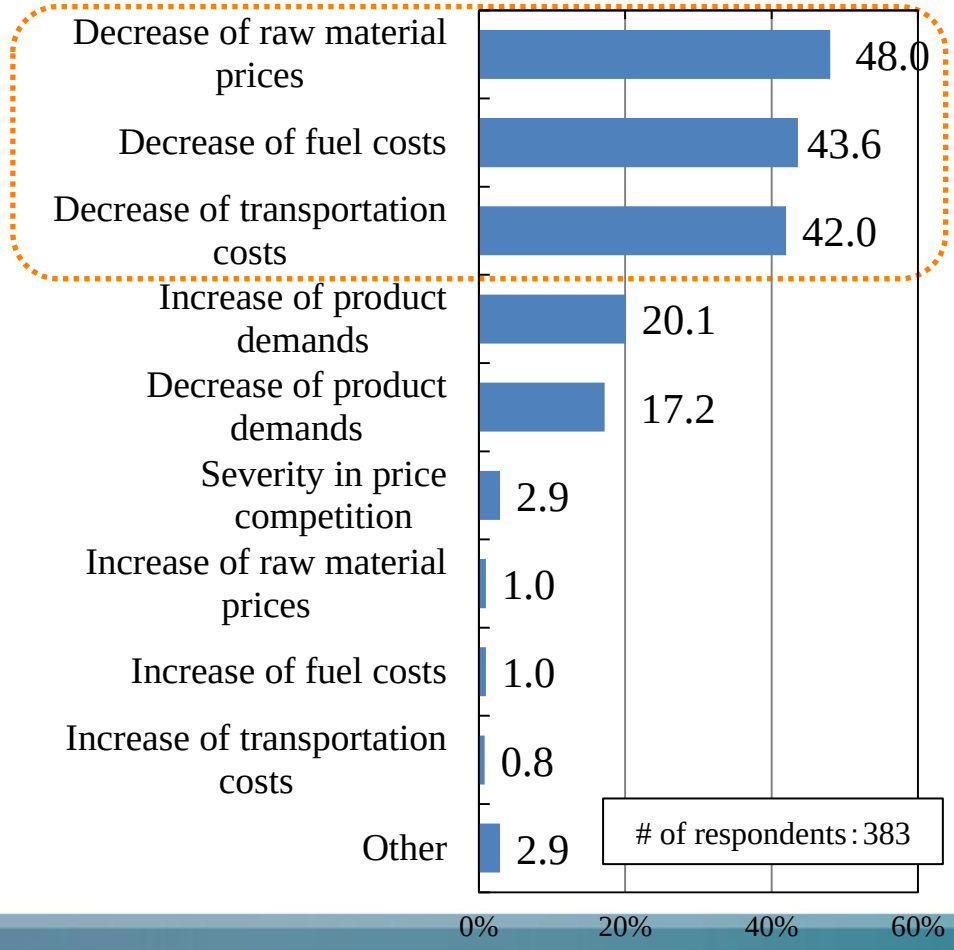


Fig. Specific effects on business



Ports slowdown in the West hit the operation

The ports slowdown in the West Coast due to the labor dispute in 2014 affected 73.1% of respondents. Japanese firms dealt with the slowdown by using air transportation, early shipment and shifting to other ports, primarily to the East Coast. However, many respondents do not consider continuing shifting to other ports.

Fig. Measures taken for the port slowdown

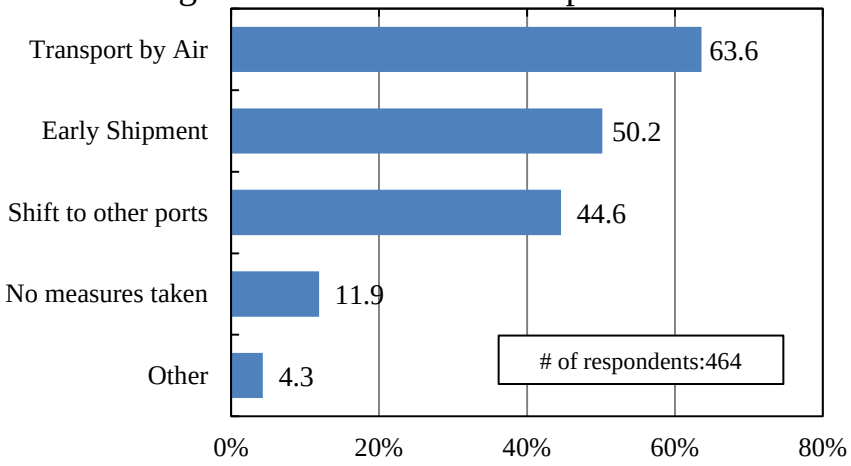


Fig. The mid-term plan on port usage

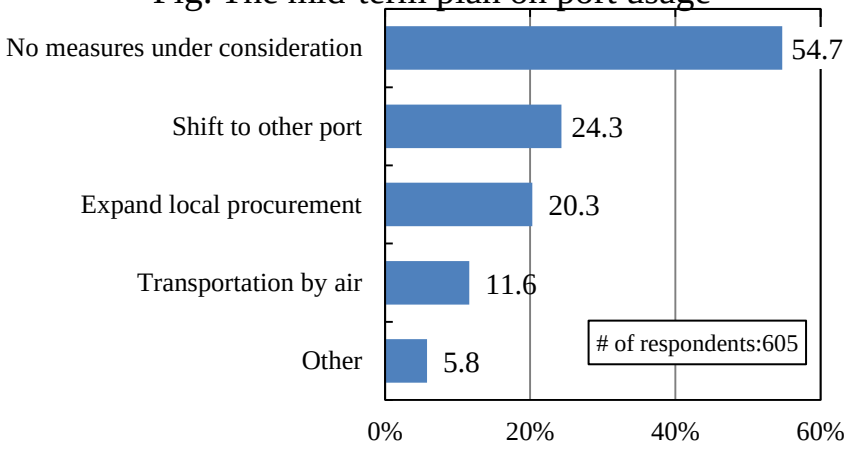


Fig. Major ports to be shifted

Fig. Major ports under consideration on port usage

Strong interest in business with Latin America

80.5% respondents, including those who already have business relationship there, indicate that they are interested in developing business with companies in Latin America. Mexico and Brazil attracted the most.

Fig. Business relationship with Latin America

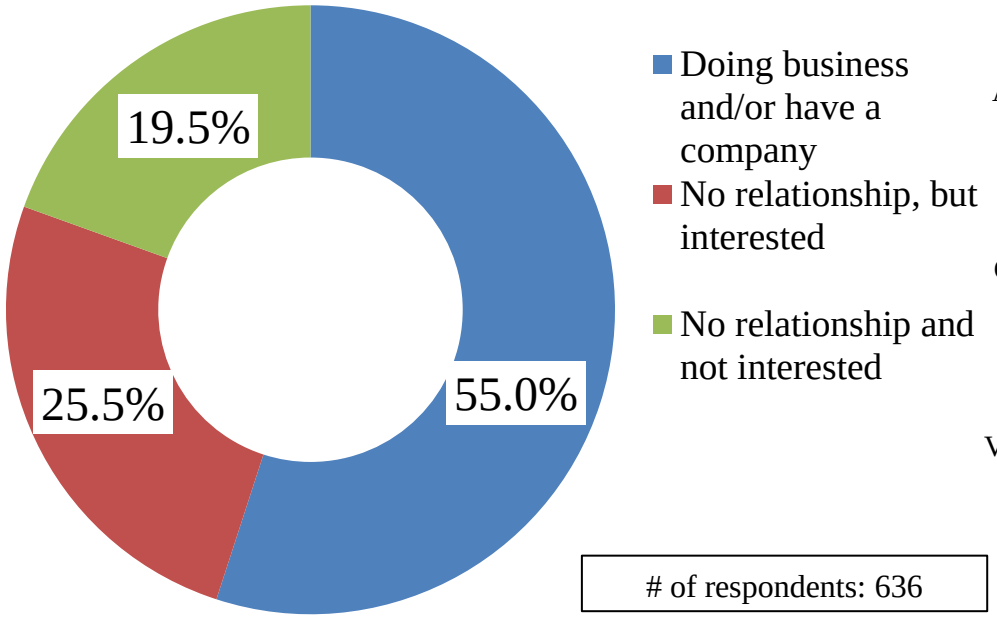
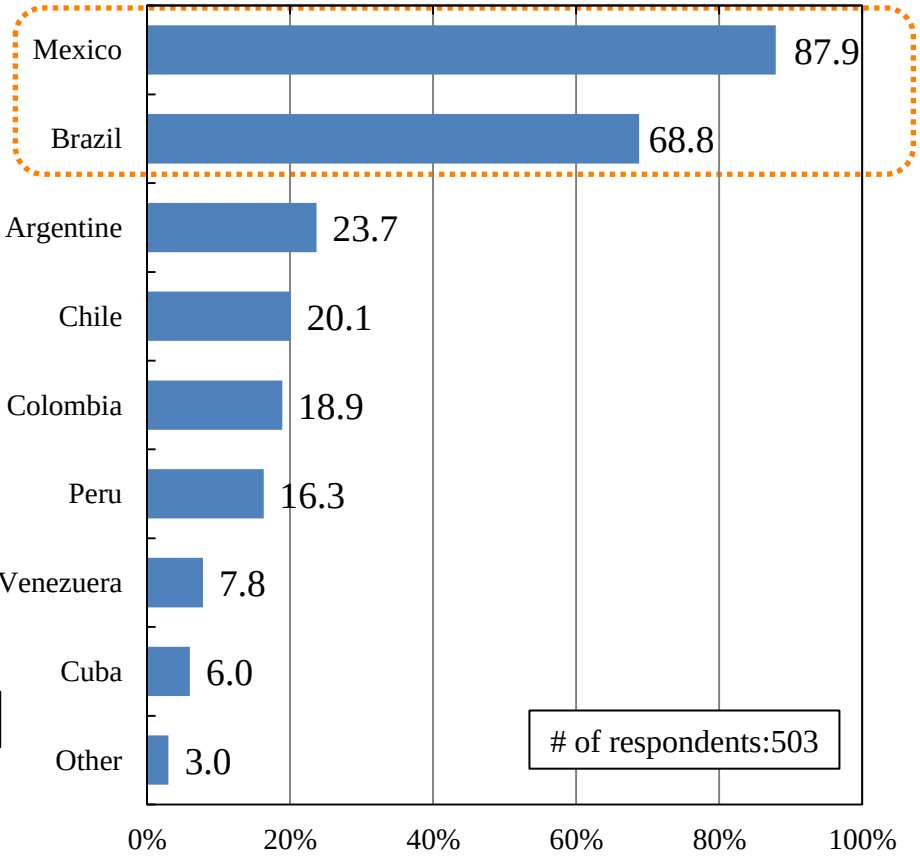


Fig. Specific countries of interest



Markets most likely to grow next

Medical and environmental markets continually gained attention. Japanese companies increasingly consider IT, cloud, and mobile markets as potential growing markets. On the contrary, oil and natural gas dropped its rank to fifth.

Table The market most likely to grow in the next few years unit: %

2014		2015	
Medical	18.9	Medical	19.2
Environment	18.1	Environment	17.4
Shele gas and oil	15.6	IT/Cloud/Mobile	16.4
Health	10.7	Health	11.8
IT/Cloud/Mobile	10.7	Oil/Natural gas	6.7
Biotech	4.7	Information security	5.3
Information security	4.1	Robotics/mechatronics	5.0
Transportation	3.7	Biotech	4.2
Robotics/mechatronics	3.3	Transportation	3.5
Nanotech	2.3	Rail/Roads/Bridges	2.5
Real estate	1.8	Agriculture/Processing food	1.9
Rail/Roads/Bridges	1.4	Nanotech	1.6
Agriculture/Processing food	1.4	Real estate	1.4
Professional and business services	0.9	Electricity/construction	1.0
Electricity/construction	0.9	Professional and business services	0.8
Educational services	0.5	Accommodation/Food/Entertainm	0.7
Accommodation/Food/Entertainm	0.1	Educational services	0.3
Other	0.9	Other	0.3

(multiple answers, # of respondents: 589)

<Medical>
- The increase in adult diseases. (Medicines)
- Progress in the aging society (precision machines and apparatuses)

<Environment>
- Progress in efforts of energy conservation in every industry. (Machines)
- Although the importance of the environmental conservation is less recognized in the U.S., the government has to take the leading role. Presidential election in 2016 will be a key factor for future of the industry . (Plastic products)

<Health>
- Growing recognition of health consciousness . (Process food, agricultural or fishery products)

<IT/Cloud/Mobile>
- In various industries including the medical sector, information systems need to be more efficient and more integrated. (Medical devices)
- Enhancement of information management will be more important in every industry. (Machines)
- Utilizing system of remote monitoring and big data will be greater in manufacturing sector. (Machines)

<Oil/Natural gas>
- Progress in automation in manufacturing sector may lead to revitalization of the sector in the U.S. We have witnessed that in the Southeast area. In the near future, the progress of the energy revolution may enable raw materials suppliers to expand into Texas and surrounding areas which will improve their competitiveness against foreign countries. (Plastic products)

<Information security>
- Further advancement of information society and increasing risks. (Process food, agricultural or fishery products)

<Rail/Roads/Bridges>
- Aging transportation infrastructures. (Chemical/Oil Products)

States most likely to grow in next few years

Many respondents listed two states at the top as promising areas for expansion: Texas and California. The second tier mostly consists of the same states as in the previous year, although there is some change in the ranking, such as the spike of Georgia and South Carolina.

Figure: States where Market is Most Likely to Grow in the Next Few Years

(Multiple answers, # of respondents: 499)

Rank	State	Sector	# of respondents
1	Texas		**239**
		Transportation machines (motor vehicles and two-wheeled vehicles)	54
		Chemical products, oil products	30
		Process food, agricultural or fishery products	20
		Electric or electronic machines	20
2	California		**162**
		Transportation machines (motor vehicles and two-wheeled vehicles)	21
		Process food, agricultural or fishery products	19
		Chemical products, oil products	19
3	Georgia		**69**
		Transportation machines (motor vehicles and two-wheeled vehicles)	17
		Chemical products, oil products	9
		Plastic products	7
		Machines (including molds and power tools)	7
4	New York		**65**
		Process food, agricultural or fishery products	13
		Chemical products, oil products	8
		Plastic products	5
		Electric or electronic parts	5
		Other	5
5	Ohio		**65**
		Transportation machines (motor vehicles and two-wheeled vehicles)	20
		Other	7
		Machines (including molds and power tools)	6
6	Tennessee		**54**
		Transportation machines (motor vehicles and two-wheeled vehicles)	16
		Machines (including molds and power tools)	8
		Rubber goods	4
		Steel (including cast and wrought products)	4
		Metal goods (including plated products)	4
7	Michigan		**53**
		Transportation machines (motor vehicles and two-wheeled vehicles)	21
		Chemical products, oil products	5
		Plastic products	4
		Steel (including cast and wrought products)	4
		Machines (including molds and power tools)	4
8	Indiana		**51**
		Transportation machines (motor vehicles and two-wheeled vehicles)	16
		Machines (including molds and power tools)	6
		Plastic products	5
		Steel (including cast and wrought products)	5
		Metal goods (including plated products)	5
9	Alabama		**47**
		Transportation machines (motor vehicles and two-wheeled vehicles)	15
		Machines (including molds and power tools)	7
		Chemical products, oil products	5
10	South Carolina		**42**
		Transportation machines (motor vehicles and two-wheeled vehicles)	7
		Steel (including cast and wrought products)	5
		Machines (including molds and power tools)	5