JETRO
Japan External Trade Organization

FY2017 JETRO Survey on Business Conditions for Japanese Companies in the U.S. (36th Annual Survey)

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

Contents:

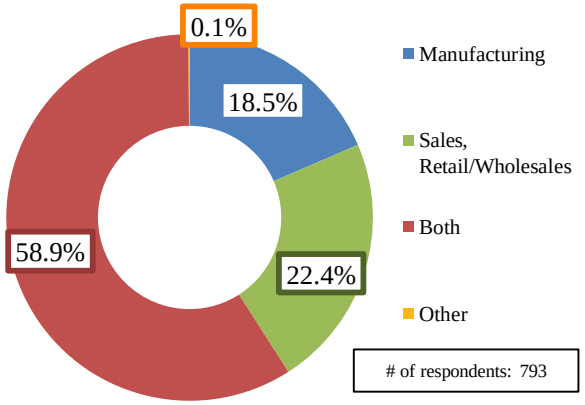
Overview:

- Survey period: October 3 – November 15, 2017
- Valid responses: 66.1% (793 of 1,200 companies)
- Survey coverage: Japanese manufacturers and sellers operating in the U.S. In this research, manufacturers include those with sales functions, whereas sellers are limited to those without manufacturing functions. At least 10% of their capital must be owned by a Japanese company, directly or indirectly.
- Note: This is the 36th annual survey, initiated since 1981 (not conducted in 2004).

Respondents by Regions and Industries

	Manufacturing	Sales, Retail/Wholesales	Both	Unknown	Total
Northeast	4 (0.5)	31 (3.9)	49 (6.2)	1 (0.1)	85 (10.7)
Midwest	58 (7.3)	57 (7.2)	147 (18.5)	0 (0.0)	262 (33.0)
South	66 (8.3)	42 (5.3)	172 (21.7)	0 (0.0)	280 (35.3)
West	19 (2.4)	48 (6.1)	99 (12.5)	0 (0.0)	166 (20.9)
Total	147 (18.5)	178 (22.4)	467 (58.9)	1 (0.1)	793 (100.0)

The Key of Business



(1) The totals in the surveys in this report may not be 100 because the numbers are rounded off to the first decimal point.
(2) The firms participated in this survey may not have answered all questions. The rates are calculated based on the numbers of answers collected.

1. 2017 Profit Forecast: 74.4% Said Profitable – Figure Surpasses 70% for Six Consecutive Years

74.4% of the respondents said they expected positive operating profits in 2017. Though the rate of profitable companies peaked in 2014 and has been slightly declining, it's still over 70%. Profitable companies in transport equipment parts (transportation equipment - motor vehicles/motorcycles) decreased from 2016 (82.5% to 70.4%). The rate in the South decreased to 61.5% and the whole rate in the South was 5.9 points down from 2016. The result for non-manufacturing sellers (75%) was 0.7 points higher than manufacturers (74.3%).

Fig.1: Operating profit forecast and real U.S. GDP growth

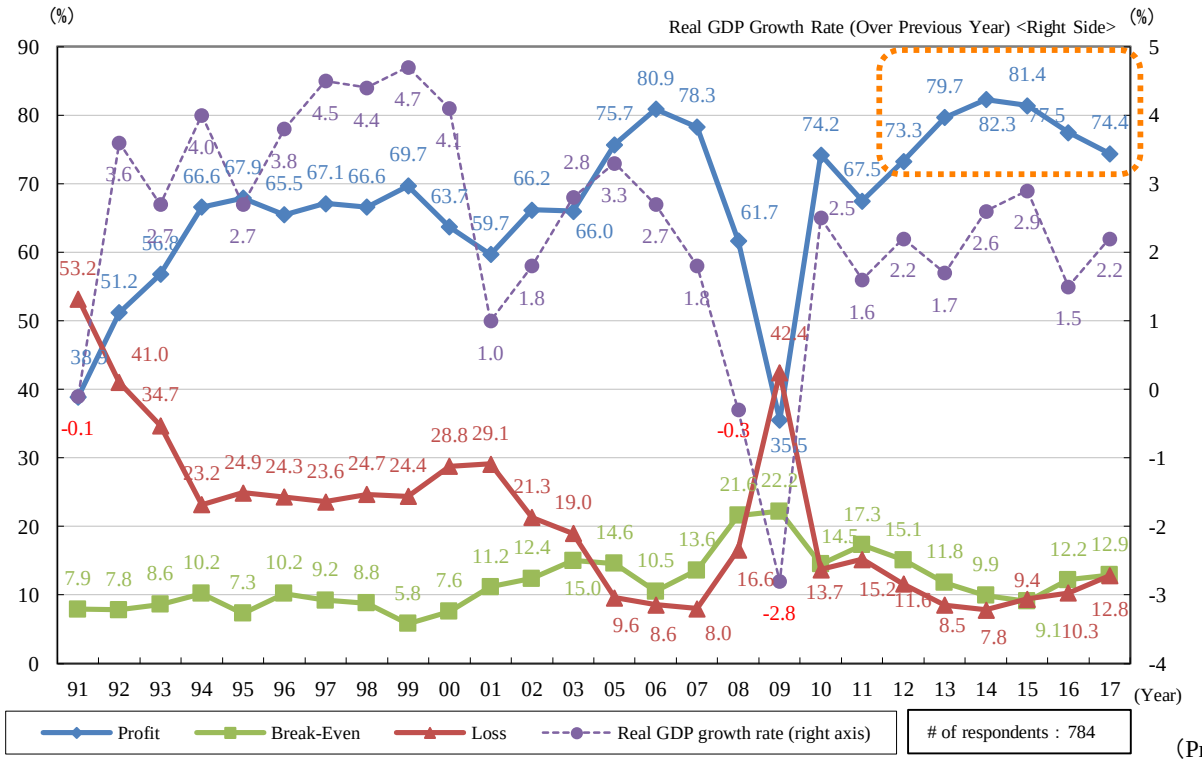
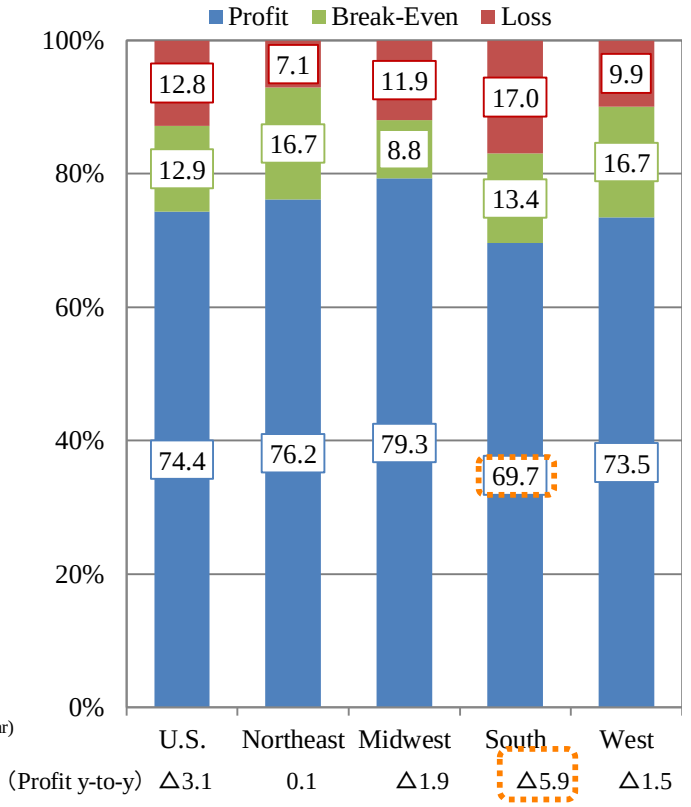


Fig.2 Operating profit forecast for 2017 (by regions)

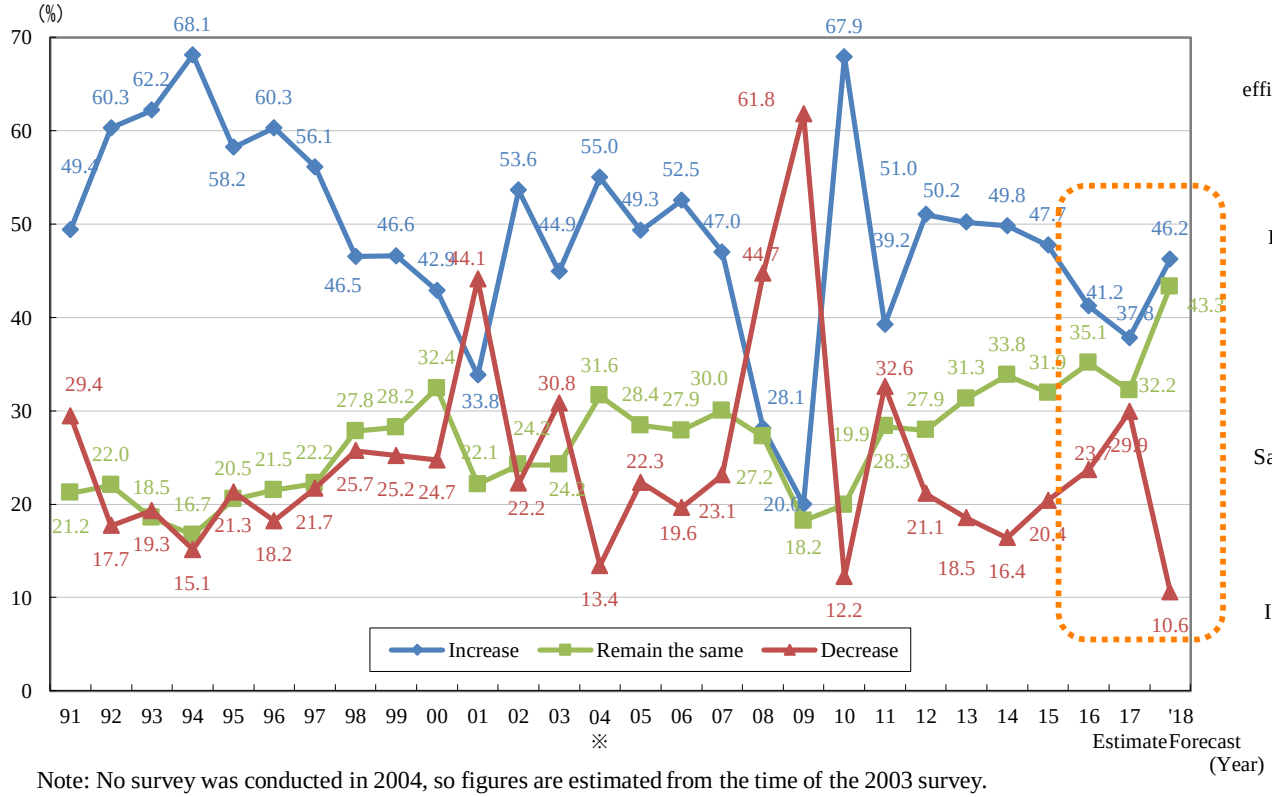


Note: The GDP growth rate for 2016 is the IMF estimate (announced Oct. 2016). No survey conducted in 2004.

1. Diffusion Index: Down 9.6 Points from 2016, Positive Outlook for 2018

The diffusion index (7.9) was down 9.6 points from 2016. Companies expecting improvement in operating profit in 2017 decreased by 3.4 points, while those expecting a decrease increased by 6.2 points. Companies expecting improvement in 2018 increased from the previous year, 53.0% in the west (highest) and 43.7% in the South.

Fig.3 Year-over-year operating forecast profit changes



Note: No survey was conducted in 2004, so figures are estimated from the time of the 2003 survey.

Fig.4 Reasons for increased operating profit forecast for 2017

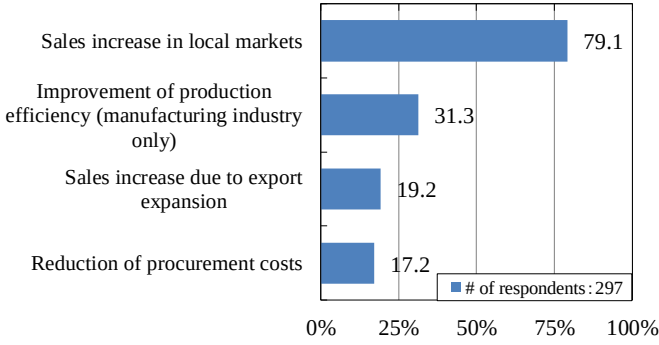
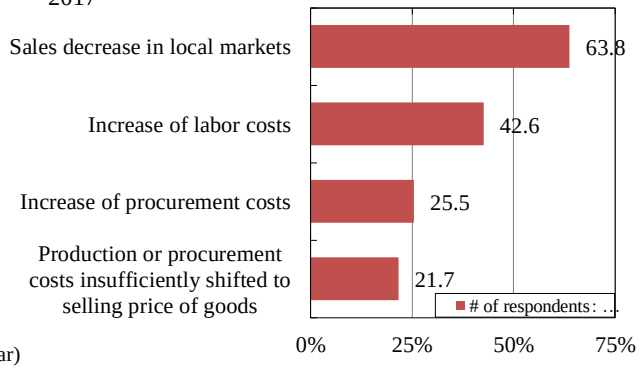


Fig.5 Reasons for decreased operating profit forecast for 2017

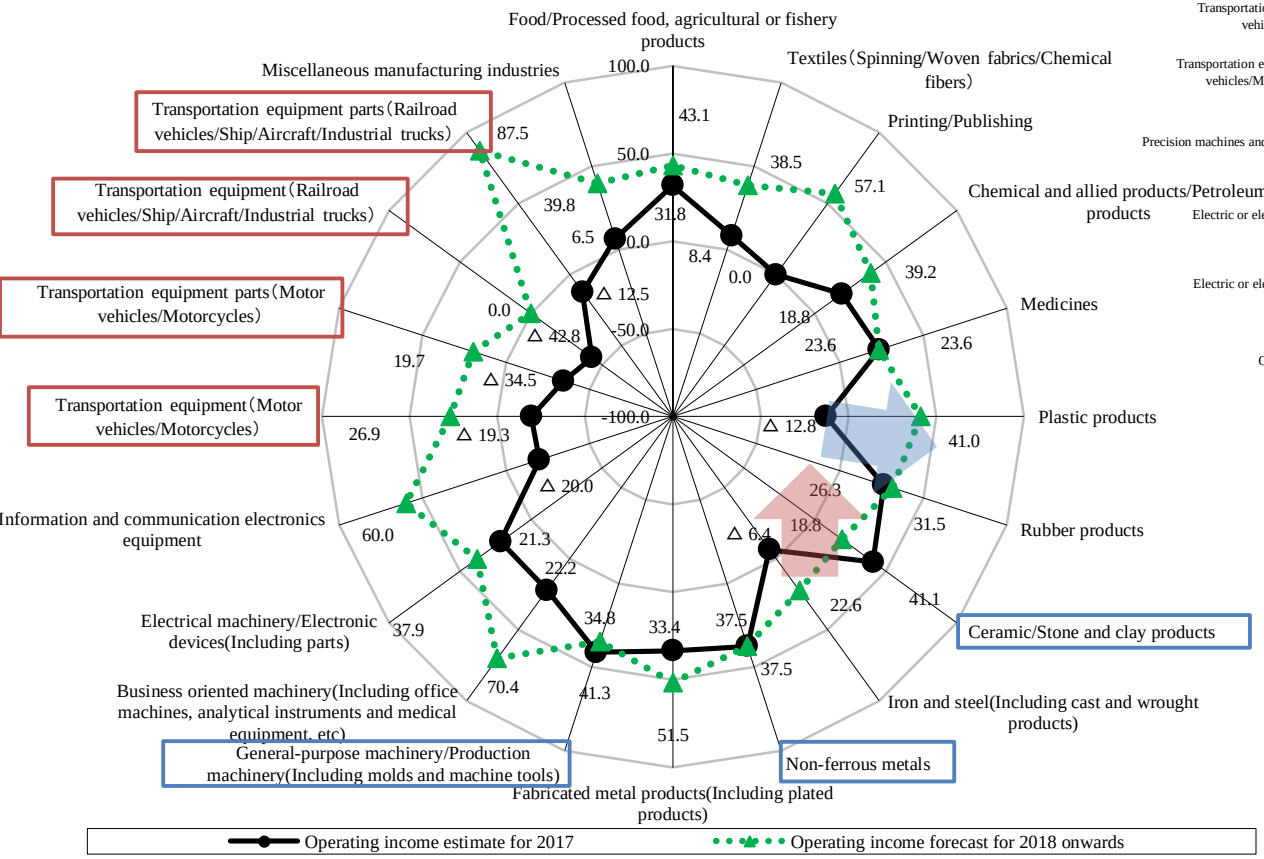


Note: multiple answers, Displaying only top 4 items.

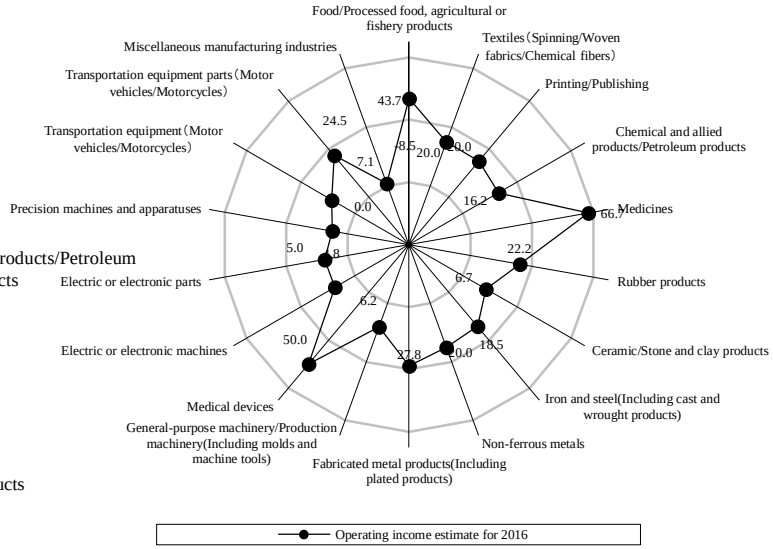
1. Diffusion Index by Industry: Transportation Equipment and Parts are All Negative

Average DI in 2017 for all industries was 19.3. General/production machinery (41.3) and ceramic, stone and clay (41.1) showed good results, but transportation equipment and parts were all negative. Average DI in 2018 for all industries is expected to go up to 37.4.

Fig.6 Operating income forecast by industry with DI



Ref. 2016 Operating income forecast by industry with DI



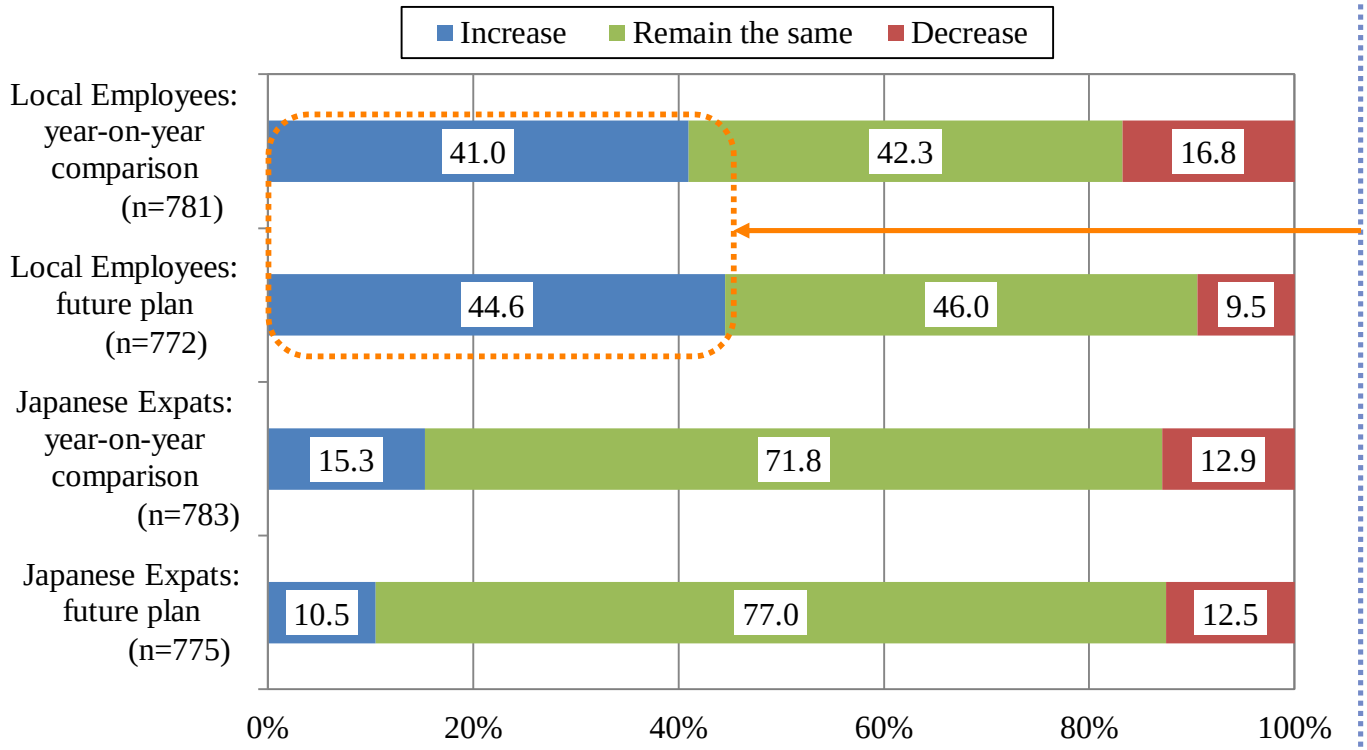
Average DI for all Industries*	
Operating income forecast in 2017	19.3
Operating income forecast in 2018	37.4

*For 24 industries, including textile/apparel, lumber/wood products, furniture/fixture, and paper/pulp.

2. Workforce: Local Employment Continues to Increase

41% of the respondents said they “increased” the number of local employees during the previous year (over 40% for 6 consecutive years). 44.6% plan to “increase” it in the future. 71.8% of the respondents said the number of Japanese expats would remain flat. 77% answered that it will remain flat in the future.

Fig.7 Local employees and Japanese expatriates



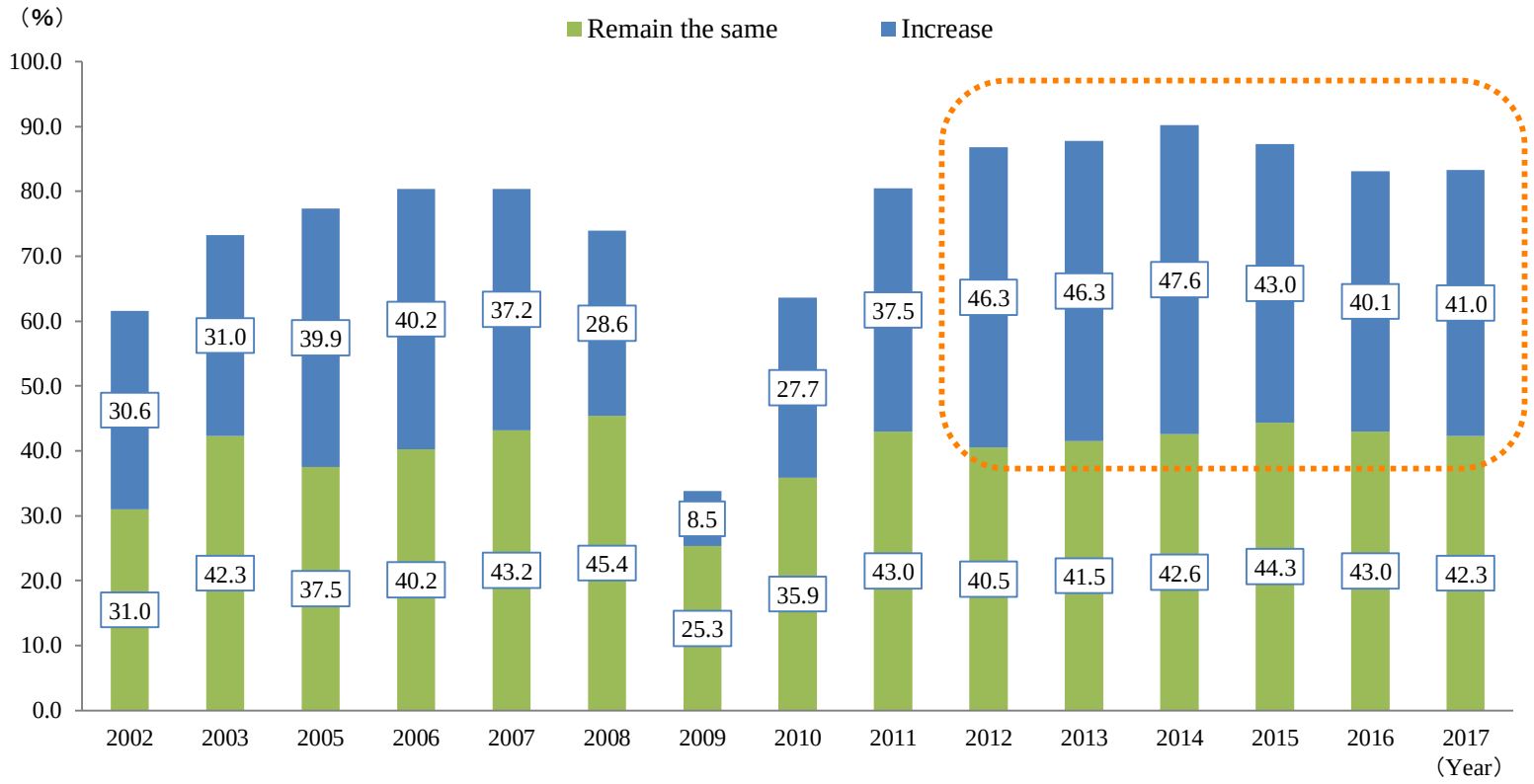
Local Employment

- We increased the number of manufacturing workers for the launch of the second plant, and sales, R&D and other non-manufacturing positions due to business-expansion. (Plastic products)
- To stabilize and improve the quality of the production, we replaced temp workers with full-time employees. (Plastic products)
- We hired more in all areas because our business is growing rapidly along with market growth. (Electrical machinery/electronic devices)
- We hired more engineers to accelerate manufacturing automation (General/production machinery)
- We expanded our salesforce due to increased sales, and factory workers for the launch of a local production site (Metal products)
- We hired local employees for new stores. Back office functions, such as logistics and accounting, were expanded due to increased sales. (Food/agricultural products)

<Ref.>Workforce: Over 40% Hired More, Sustaining the Rate for Six Consecutive Years

More than 40% of the respondents said they increased the number of local employees in the previous year. This rate has been remained for six consecutive years since 2012.

Fig.8 No. of local employees (2002-2017)



2. Recruitment: Over 80% Utilized Agencies

83.1% of the respondents utilized “recruitment agencies.” “rehiring part-time employees full-time” was also notable (45.8%). While 48.2% of the firms with 100 or more employees accepted interns, only 15.6% with less than 100 did. 55.4% said “utilizing recruitment agencies” were most effective, followed by “rehiring part-time employees to full-time” with 18.1%.

Fig.9 Measures for recruitment (multiple answers)

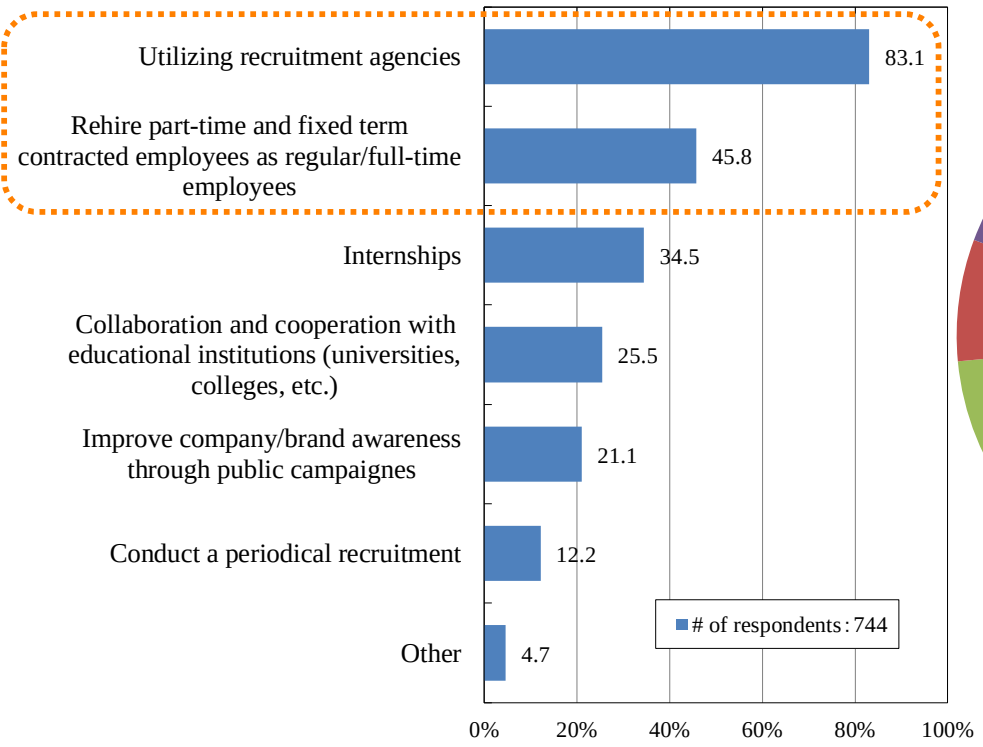
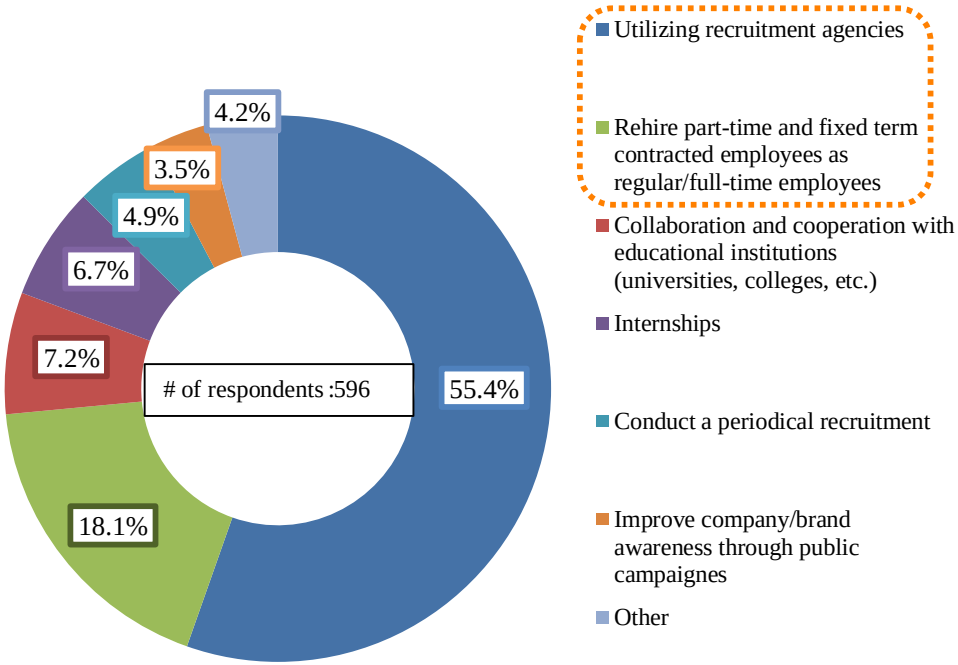


Fig.10 The most effective measure in recruitment



2. Human Resource Development: In-House Training is Effective

For human resource development, more than 50% of the respondents provided “in-house ability training programs” (55.2%) and “in-house trainer/trainee systems” (52.6%). 47.0% provided “external ability training programs.” While 64.1% of the respondents with 100 or more employees provided in-house ability training, only 42.4% with less than 100 did. 36.3% said “in-house trainer/trainee systems” were most effective, and 35% said “in-house ability training programs” were, showing strong supports for internal human resource development.

Fig.11 Measures for the development of human resources (multiple answers)

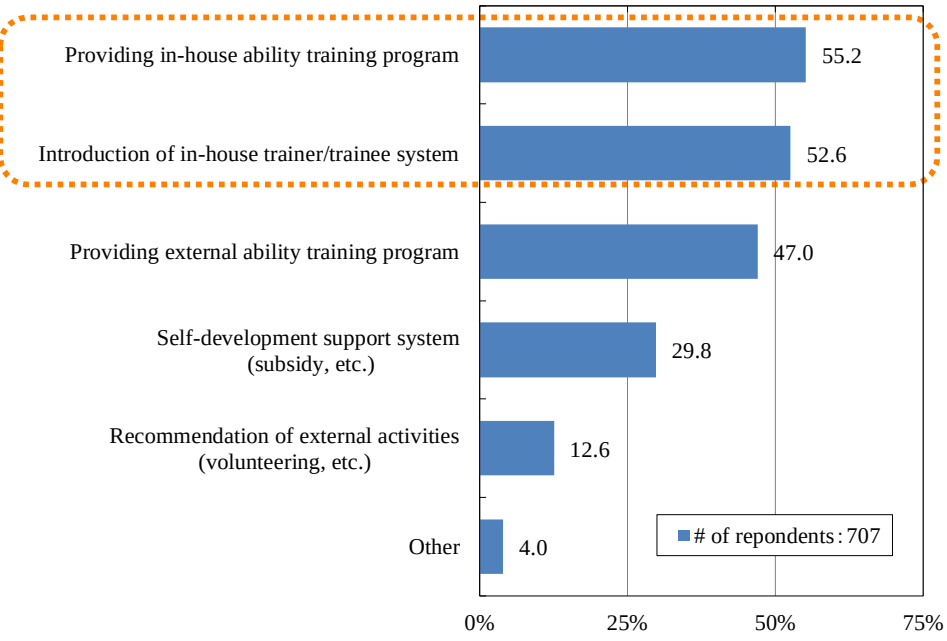
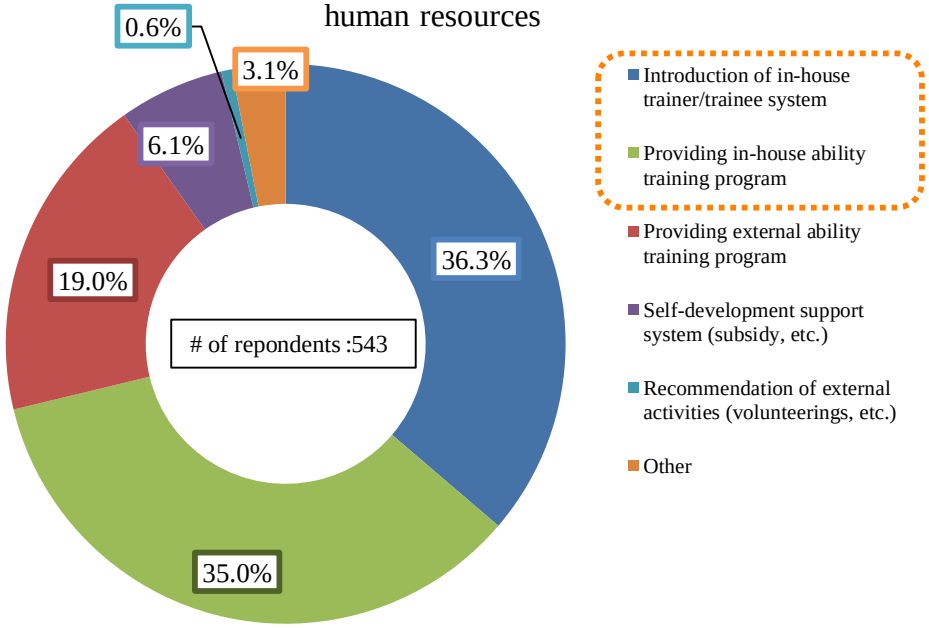


Fig.12 The most effective measures in the development of human resources



2. Capital Investment: For Streamlined Production and Expansion of Factories

40.6% of the respondents spent more on capital investment in 2017 than 2016, while 49.4% said the amounts remained the same. “Factory rationalization and/or optimization” and “expansion of factories” were the main purposes, followed by “technology and/or R&D” and “AI, IoT investment.”

Fig.13 The change in capital investment in 2017 (value basis)

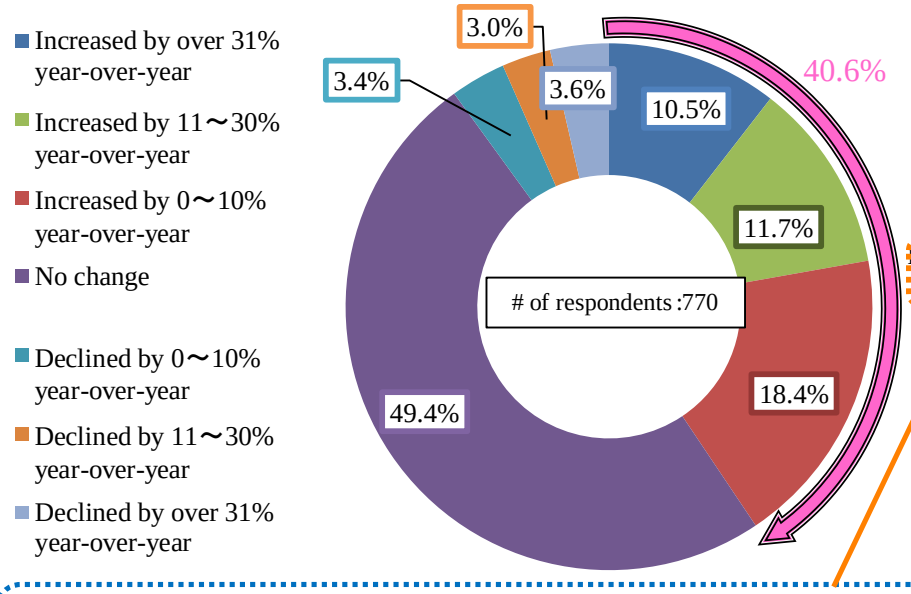
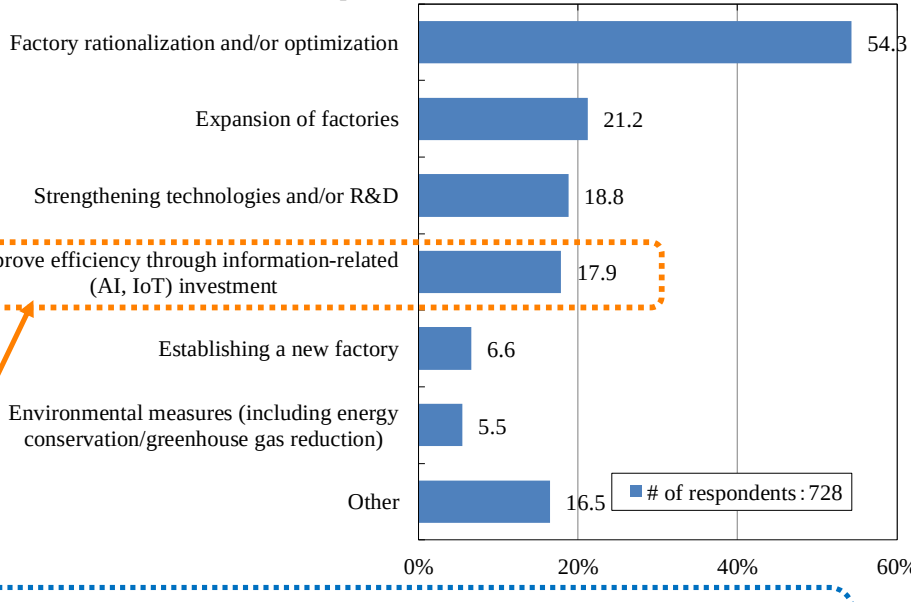


Fig.14 The purpose of capital investment in 2017 (multiple answers)



Investment for IT (AI, IoT)

- Installed sensors to processing facilities to gather data to improve technology and planning. (Textiles - spinning/woven/synthetic)
- Invested in software for operation and manufacturing in 2017 to improve our integrated business platform. IoT investment will continue in the future. (Plastic products)
- AI business application and others. (Miscellaneous manufacturing)
- Investment in AI and IoT is still low, but an increase is expected as a part of increased production-related investment. (Transportation equipment parts - motor vehicles/motorcycles)

<Ref.> Capital Investment: Comparison to Results Before 2015

The changes between 2016 and 2017 were comparable to the results from three years ago (2014). After 2011, approx. 40% increased capital investment from the previous year.

Fig.15 The change in capital investment in 2014 (from 2013, value basis)

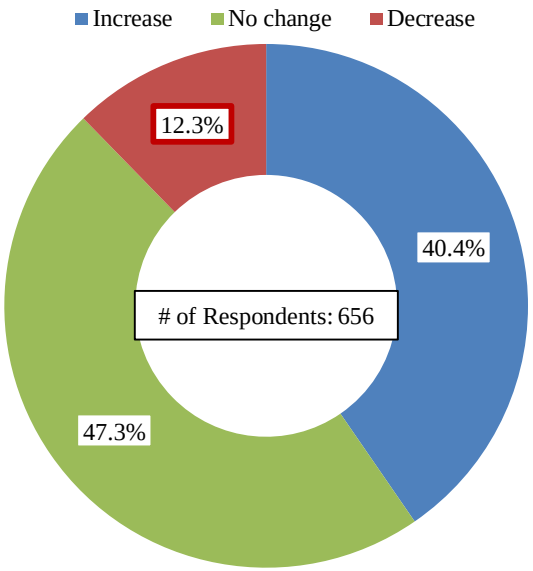
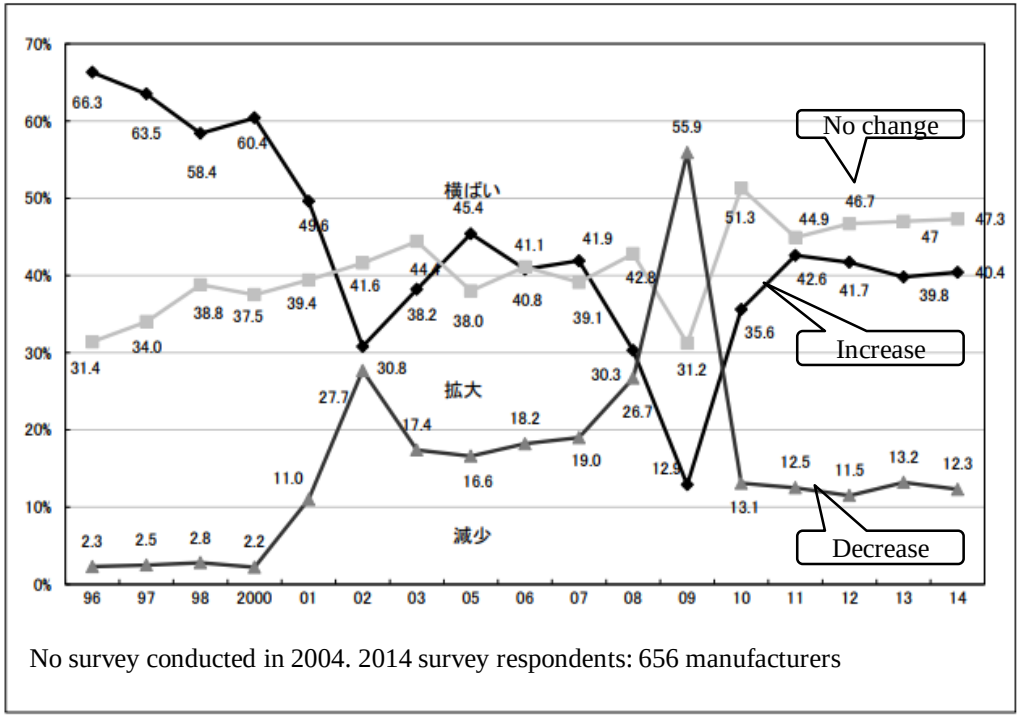


Fig.16 The change in capital investment from previous year



No survey conducted in 2004. 2014 survey respondents: 656 manufacturers

2. Future Business Direction: Focus on Sales and Manufacturing

57.1% said they had plans for expansion in the next two years, up 3.7 points from 2016. The main areas included sales and production (high-value-added products). Expansion plans were most significant among food/agricultural products (75.8%) and business oriented machinery (74.1%).

Fig.17 Future business in the US

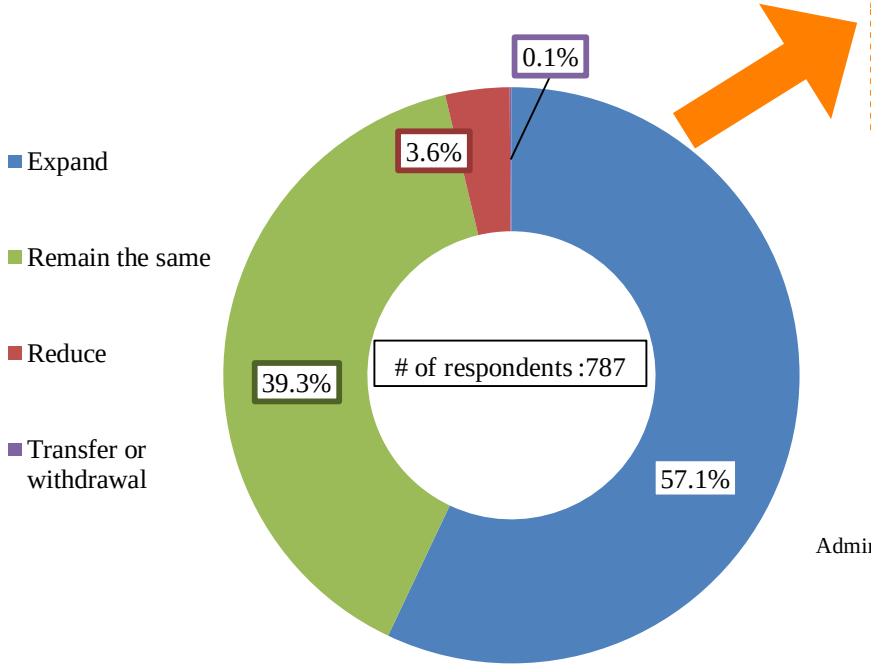
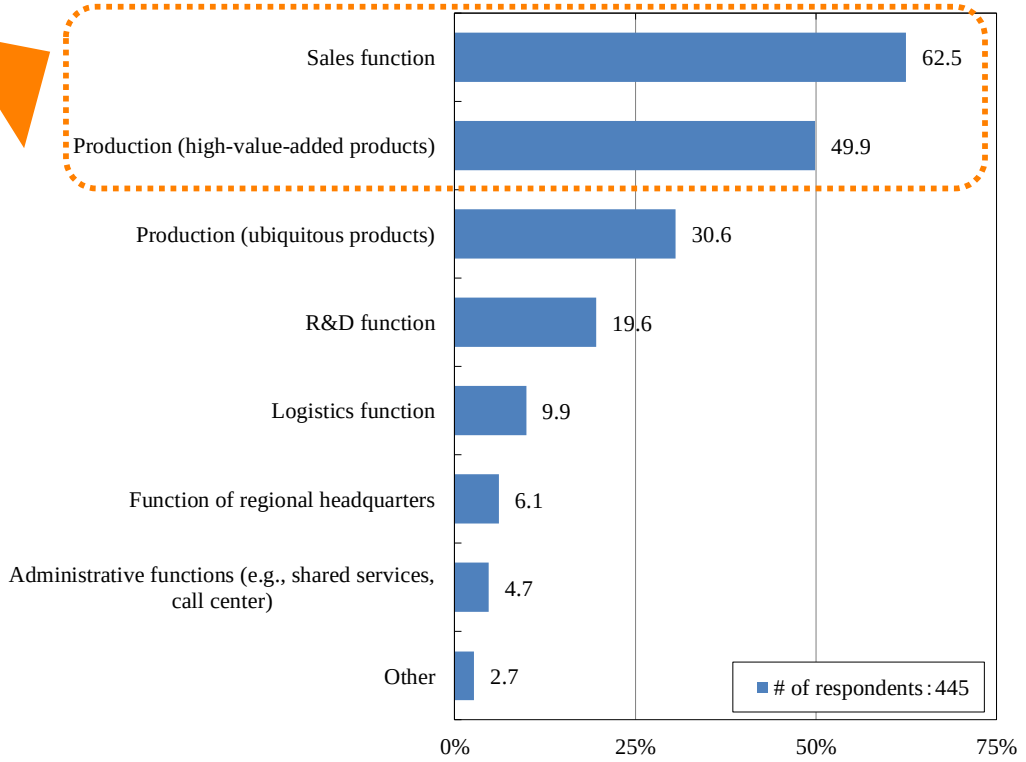


Fig.18 Specific functions to expand (multiple answers)



2. Relocation and Expansion to Other States: Focus on Customers, Labor Cost, and Logistics

"Proximity to customers," "labor cost," and "logistics and transportation" were listed as key factors when consider relocation and expansion to other states (regions). "Proximity to customers" was chosen by 72.4% of the respondents in the Midwest. "Labor cost" was chosen by 71.1% in the Midwest and 69.1% in the South.

Fig.19 Factors when relocating or newly establishing a business base in a new state (region) within U.S. (multiple answers)

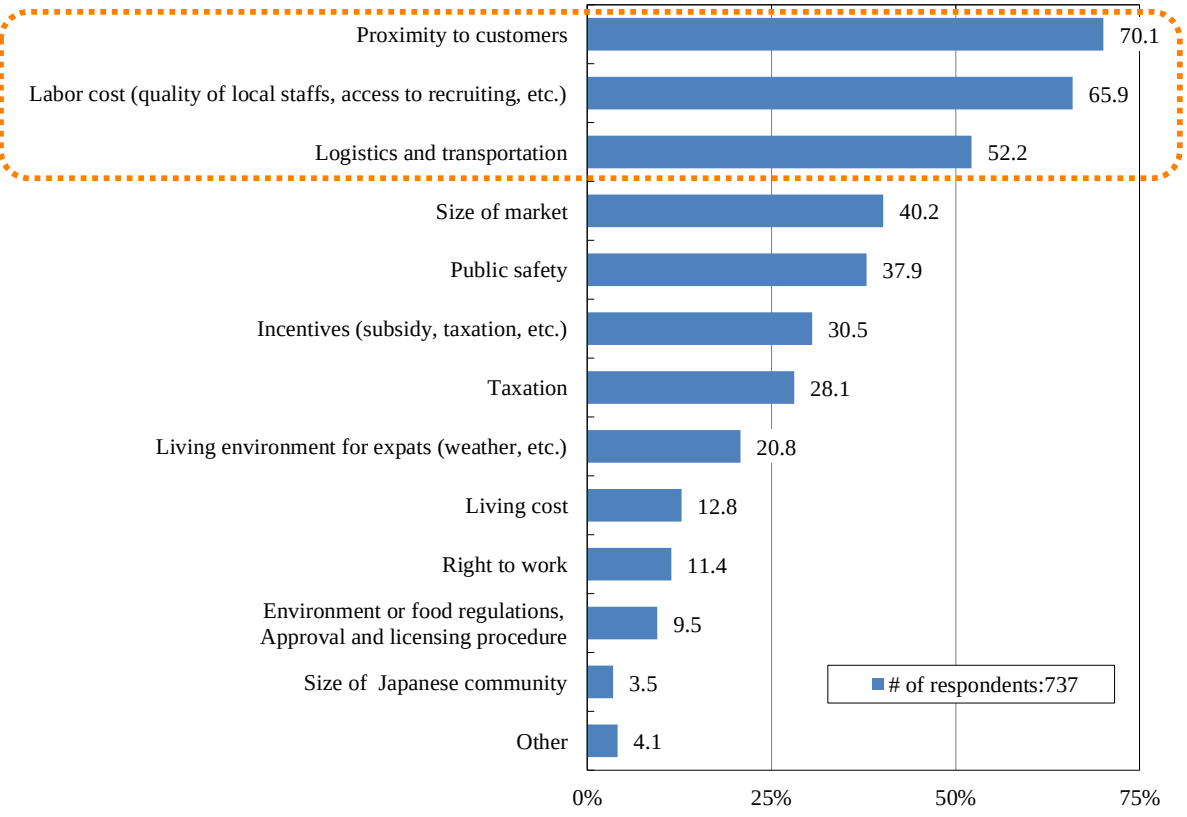
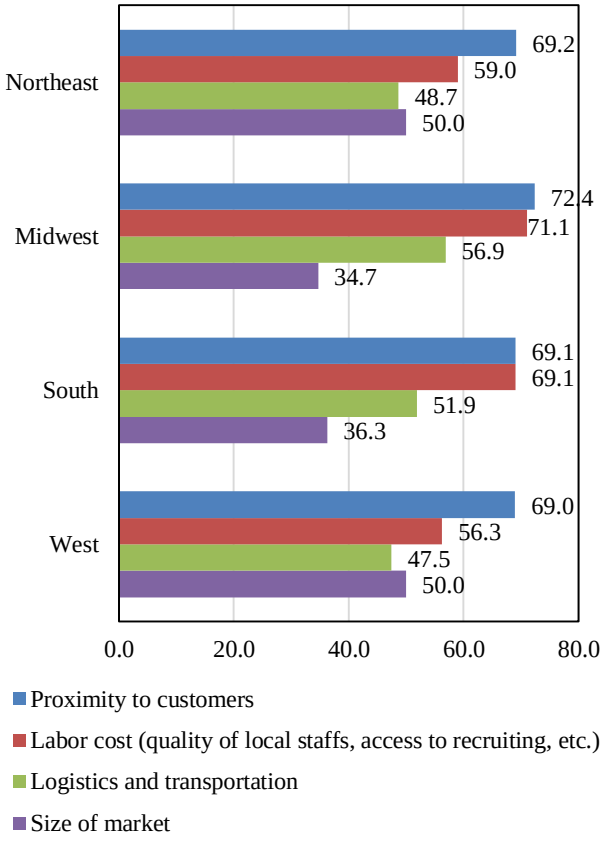


Fig.20 The important factors when relocating or newly establishing a business base in a new state (region) within U.S. (multiple answers, regions)



3. Procurement (Manufacturing): Approx. 60% Within the U.S.

Among the respondents with manufacturing functions in the U.S., the average ratio of procurement of materials and parts within the U.S. was 59.3%, up 2.1 points from 2016, while the average ratio of procurement from Japan was down 2.0 points. The increase in the ratios of domestic procurements was most significant in food/agricultural products (80.4%) and plastic products (73.7%). Plans to buy more from local U.S. companies (131 respondents) and Japanese companies (67 respondents) will continue.

Fig.21 Average Procurement proportion by countries/regions

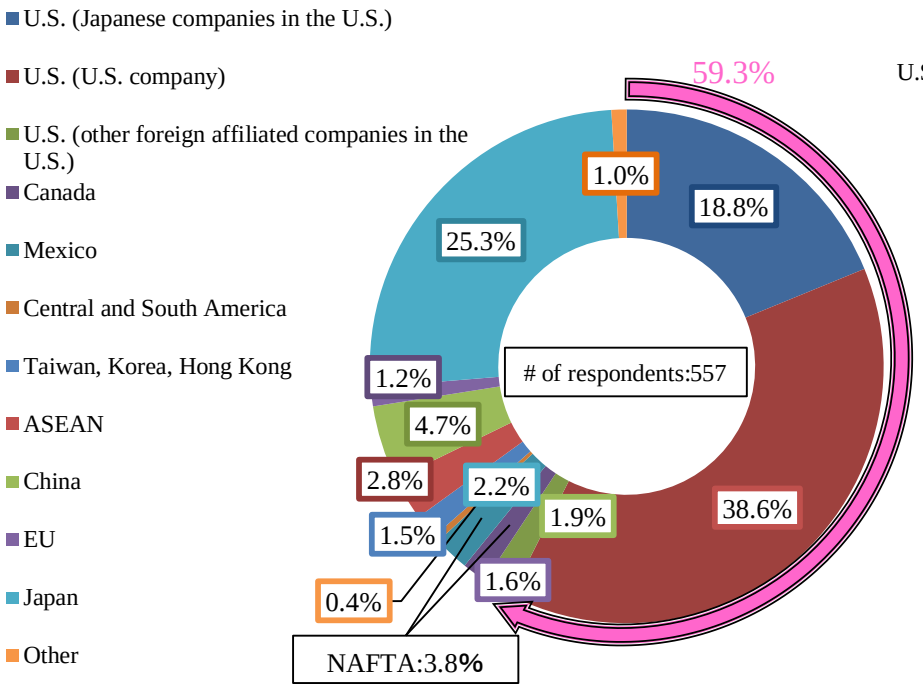
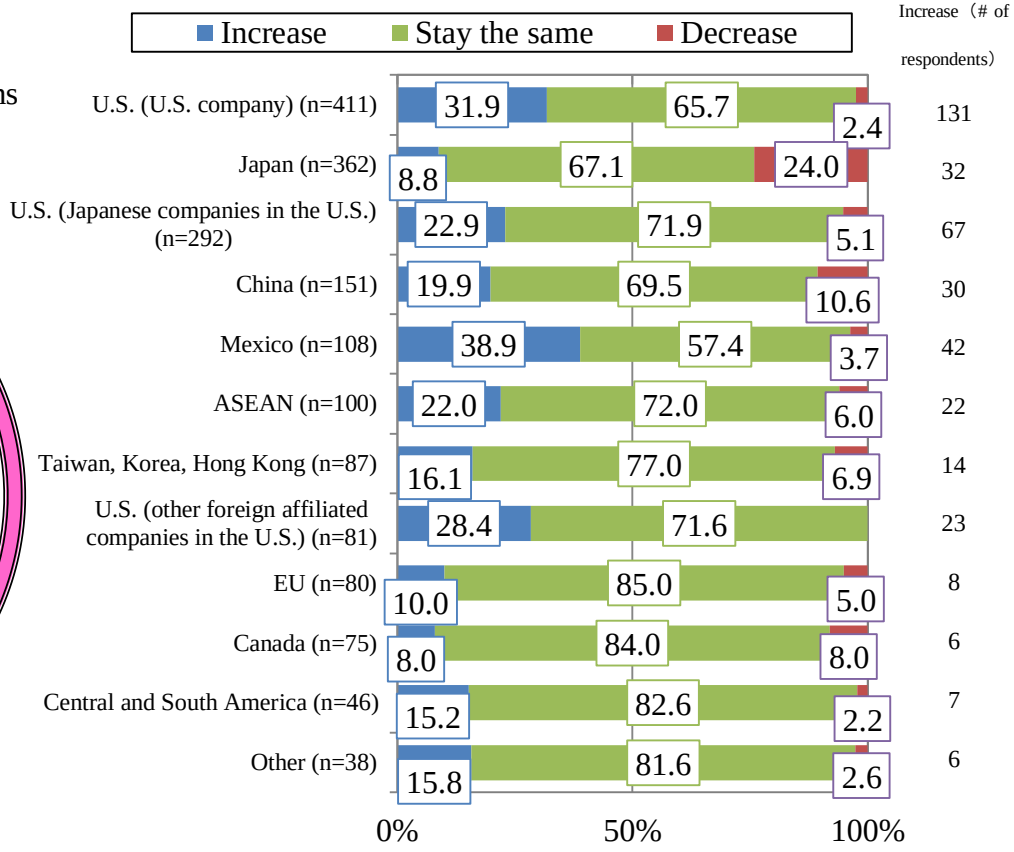


Fig.22 Future plans for procurement sources for raw materials/parts



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

3. Procurement (Sales only): Over 50% from Japan

Among the respondents with only sales functions in the US, the average procurement ratios from the U.S. and Japan were 21.2% and 53.2%, respectively. The average ratio of the U.S. domestic procurement was significant in food/agricultural products (64.9%), while the average procurement ratios from Japan were high in business oriented machinery(69.5%) and general/production machinery (64.1%). Plans to buy more from Japanese vendors (27 respondents) and U.S. domestic vendors (19 respondents) were notable.

Fig.23 Average Procurement proportion by countries/regions

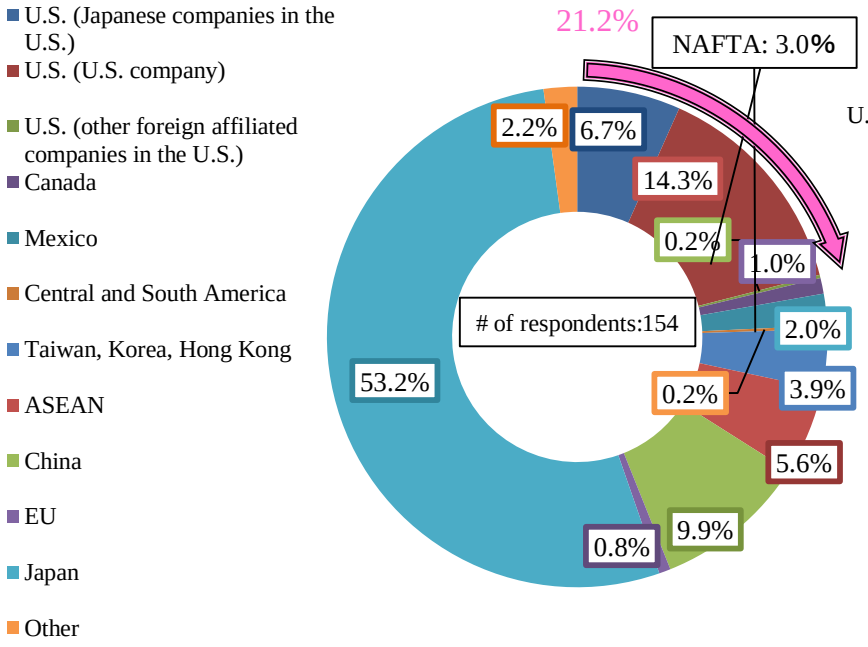
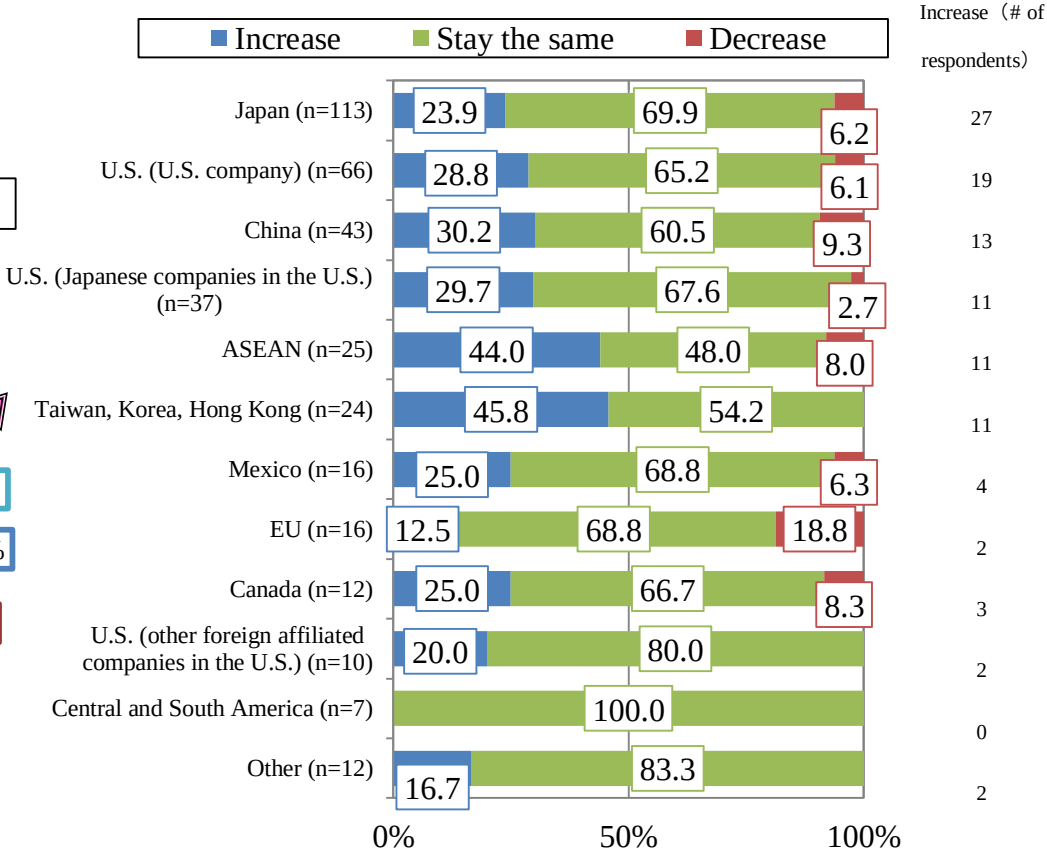


Fig.24 Future plans for procurement sources for raw materials/parts



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

3. Production: Strengthen U.S.-Centered Manufacturing System

The average ratio of U.S. domestic production for the local market reached 76.3%, up 6.3 points from 2016, while production in Japan was down 5.0 points. The increase in the ratio of U.S domestic production was significant in iron and steel (89.3%) and food/agricultural products (87.5%). An increase in production for the U.S. domestic market is expected most significantly within the US (156 respondents/33.1%). Only 29 respondents (25%) chose Mexico, which was less than half from 2016 (68 respondents/57.1%).

Fig.25 Average production proportion for the U.S. by countries/regions

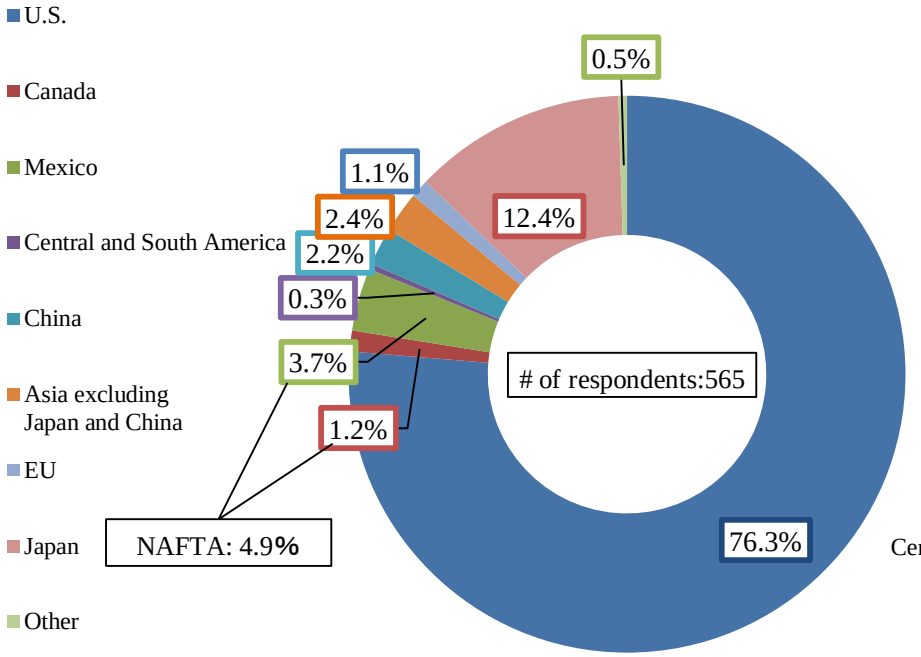
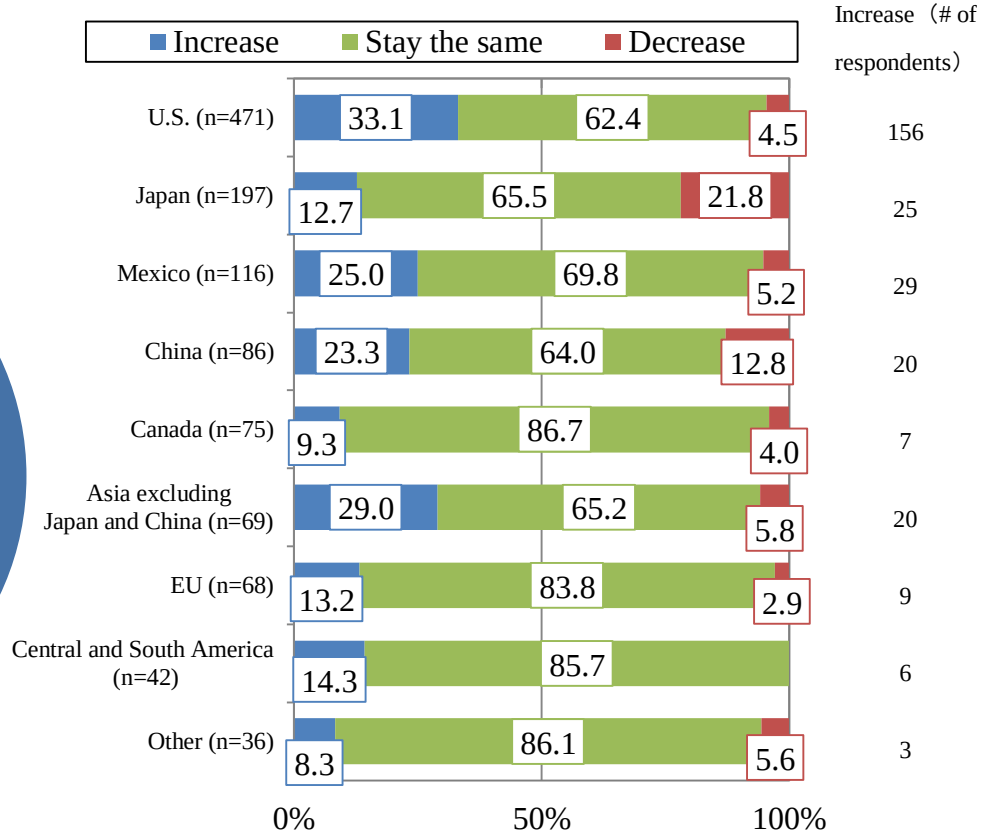


Fig.26 Future production plans in each country and region for the U.S. market



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

3. Sales (Manufacturing): Approx. 90% for NAFTA Markets

Among the respondents with manufacturing functions in the U.S., an average of 80.9% of the products were sold in the U.S., 89.4% in the NAFTA region (incl. US), and 4% in Japan. Plans to increase sales were focused on the U.S. (154 respondents/34.5%) and Mexico (80 respondents/38.3%) More respondents than in 2016 plan to maintain the same level, but a significant number of companies in food/agricultural products (53.3%) and chemical/petroleum products (40.5%) had plans to increase domestic sales channels.

Fig.27 Sales destination by countries/regions of the U.S. product

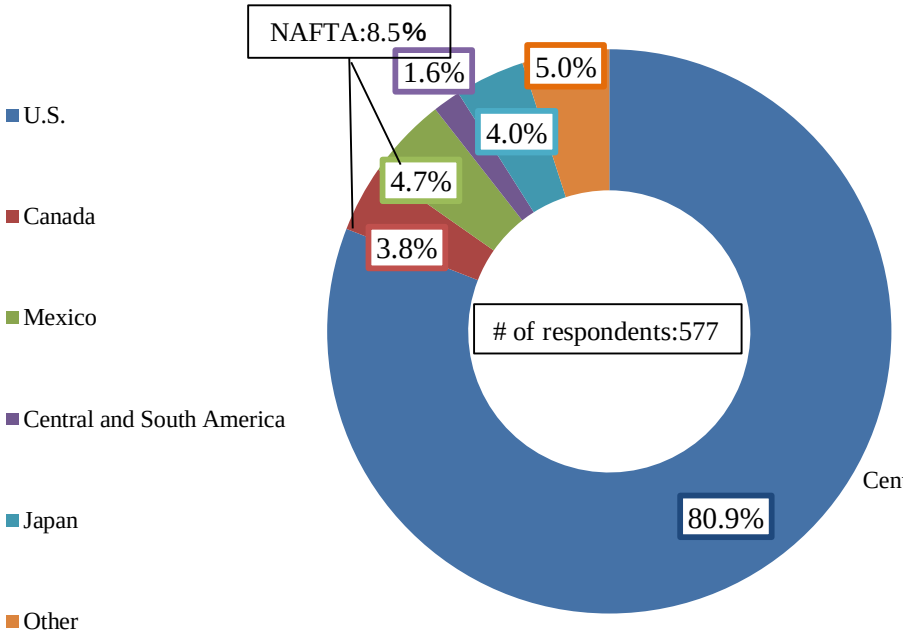
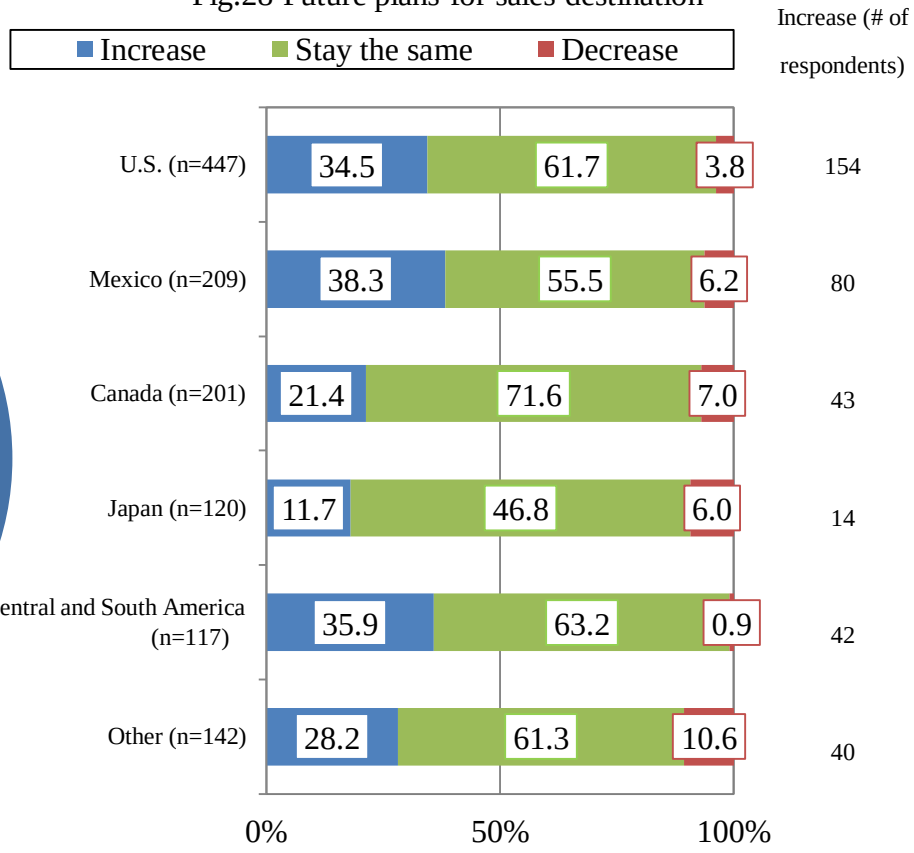


Fig.28 Future plans for sales destination



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

3. Sales (Sales Only): 90% for NAFTA Markets

Among the respondents with only sales functions in the U.S., an average of 77.6% of the products were sold in the U.S., 88.2% in NAFTA markets (incl. U.S.), and 4.9% in Japan. Markets outside the U.S. included Mexico (an average of 11.2% in electrical machinery/electronic devices were sold in Mexico). 65 companies (50.4%) and 36 companies (50.7%) had plans to expand sales in the U.S. and Mexico, respectively.

Fig.29 Sales destination by countries/regions of the U.S. product

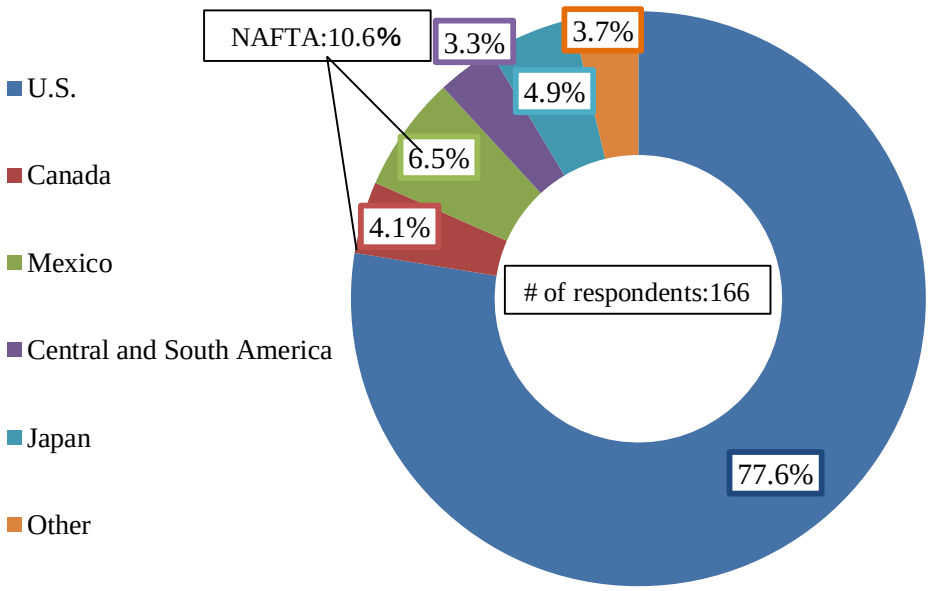
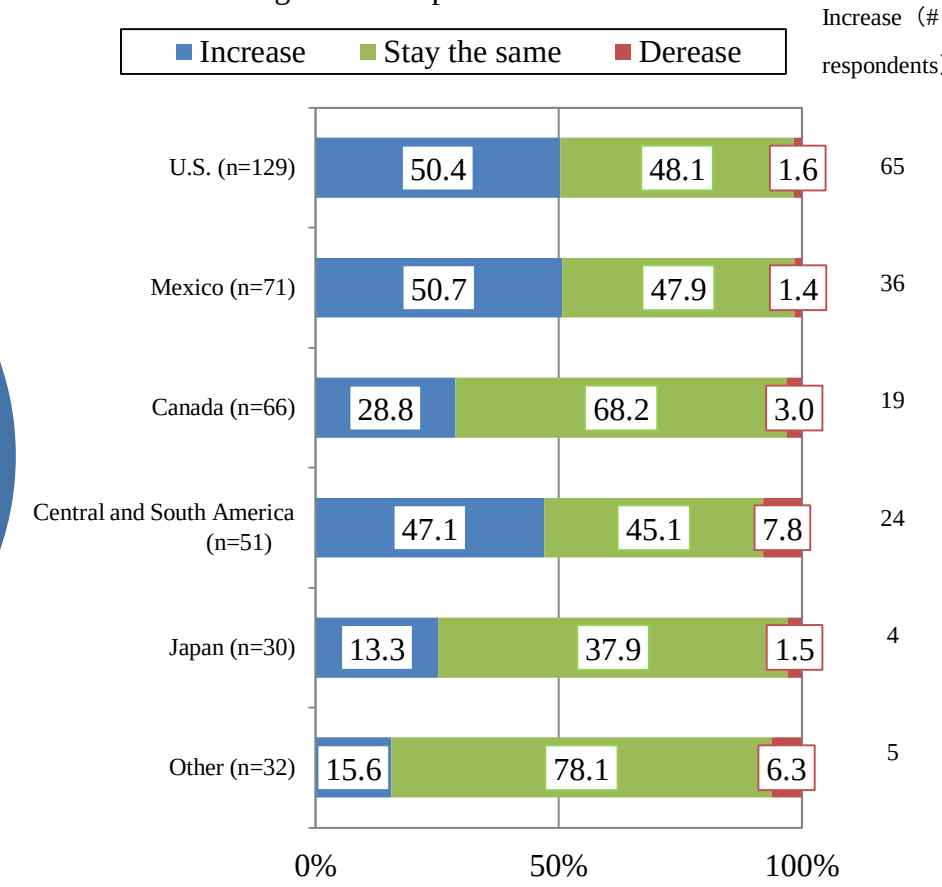


Fig.30 Future plans for sales destination



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

3. FTA Utilization: Over 30% of Japanese Affiliates in the US Utilized NAFTA

Among all companies surveyed (incl. non-importers, non-exporters and non-responders), 32.9% (261 companies) utilized NAFTA, mostly for exports (23.6%/187 companies for Mexico, and 21.1%/167 companies for Canada). For imports, 11.6% (92 companies) utilized the FTA for Mexico, as did 6.2% (49 companies) for Canada.

Table 1: Utilization of bilateral/multilateral FTAs (# of respondents: 793)

(Unit: companies, %)

	Is exporting	Is not exporting /no response	Utilizing FTA in exports			Is importing	Is not importing /no response	Utilizing FTA in imports		
			Utilizing	Considering utilization	Not utilizing (no plans)			Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA										
Canada	347 (43.8%)	446 (56.2%)	167 (21.1%)	34 (4.3%)	146 (18.4%)	77 (9.7%)	716 (90.3%)	49 (6.2%)	5 (0.6%)	23 (2.9%)
Mexico	347 (43.8%)	446 (56.2%)	187 (23.6%)	37 (4.7%)	123 (15.5%)	134 (16.9%)	659 (83.1%)	92 (11.6%)	10 (1.3%)	32 (4.0%)
Other 6 Latin American countries	121 (15.3%)	672 (84.7%)	33 (4.2%)	21 (2.6%)	67 (8.4%)	17 (2.1%)	776 (97.9%)	7 (0.9%)	- -	10 (1.3%)
Singapore	36 (4.5%)	757 (95.5%)	4 (0.5%)	7 (0.9%)	25 (3.2%)	20 (2.5%)	773 (97.5%)	8 (1.0%)	2 (0.3%)	10 (1.3%)
Australia	47 (5.9%)	746 (94.1%)	13 (1.6%)	9 (1.1%)	25 (3.2%)	4 (0.5%)	789 (99.5%)	0 (0.0%)	- -	4 (0.5%)
Korea	46 (5.8%)	747 (94.2%)	18 (2.3%)	7 (0.9%)	21 (2.6%)	40 (5.0%)	753 (95.0%)	24 (3.0%)	2 (0.3%)	14 (1.8%)
Chile	50 (6.3%)	743 (93.7%)	14 (1.8%)	9 (1.1%)	27 (3.4%)	4 (0.5%)	789 (99.5%)	1 (0.1%)	- -	3 (0.4%)
Peru	44 (5.5%)	749 (94.5%)	14 (1.8%)	8 (1.0%)	22 (2.8%)	5 (0.6%)	788 (99.4%)	1 (0.1%)	1 (0.1%)	3 (0.4%)
Panama	32 (4.0%)	761 (96.0%)	10 (1.3%)	3 (0.4%)	19 (2.4%)	4 (0.5%)	789 (99.5%)	1 (0.1%)	- -	3 (0.4%)
Colombia	58 (7.3%)	735 (92.7%)	16 (2.0%)	7 (0.9%)	35 (4.4%)	6 (0.8%)	787 (99.2%)	3 (0.4%)	- -	3 (0.4%)
Middle East and North Africa	23 (2.9%)	770 (97.1%)	6 (0.8%)	3 (0.4%)	14 (1.8%)	4 (0.5%)	789 (99.5%)	2 (0.3%)	- -	2 (0.3%)
FTA/EPA Signed/under negotiation										
TTIP EU28 countries	127 (16.0%)	666 (84.0%)	— —	44 (5.5%)	83 (10.5%)	45 (5.7%)	748 (94.3%)	— —	13 (1.6%)	32 (4.0%)

※Other Latin American countries = El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica
Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

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

54.5% of companies involved in imports and exports utilized NAFTA. (Exports: 53.9% for Mexico, 48.1% for Canada. Imports: 68.7% for Mexico, 63.6% for Canada). 60.0% of the companies utilized the FTA for Korea.

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

(Unit: companies, %)

	Is exporting	Is not exporting /no response	Utilizing FTA in exports			Is importing	Is not importing /no response	Utilizing FTA in imports		
			Utilizing	Considering utilization	Not utilizing (no plans)			Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA										
Canada	347 (43.8%)	446 (56.2%)	167 (48.1%)	34 (9.8%)	146 (42.1%)	77 (9.7%)	716 (90.3%)	49 (63.6%)	5 (6.5%)	23 (29.9%)
Mexico	347 (43.8%)	446 (56.2%)	187 (53.9%)	37 (10.7%)	123 (35.4%)	134 (16.9%)	659 (83.1%)	92 (68.7%)	10 (7.5%)	32 (23.9%)
Other 6 Latin American countries	121 (15.3%)	672 (84.7%)	33 (27.3%)	21 (17.4%)	67 (55.4%)	17 (2.1%)	776 (97.9%)	7 (41.2%)	- (-)	10 (58.8%)
Singapore	36 (4.5%)	757 (95.5%)	4 (11.1%)	7 (19.4%)	25 (69.4%)	20 (2.5%)	773 (97.5%)	8 (40.0%)	2 (10.0%)	10 (50.0%)
Australia	47 (5.9%)	746 (94.1%)	13 (27.7%)	9 (19.1%)	25 (53.2%)	4 (0.5%)	789 (99.5%)	0 (-)	- (-)	4 100.0
Korea	46 (5.8%)	747 (94.2%)	18 (39.1%)	7 (15.2%)	21 (45.7%)	40 (5.0%)	753 (95.0%)	24 (60.0%)	2 (5.0%)	14 (35.0%)
Chile	50 (6.3%)	743 (93.7%)	14 (28.0%)	9 (18.0%)	27 (54.0%)	4 (0.5%)	789 (99.5%)	1 (25.0%)	- (-)	3 (75.0%)
Peru	44 (5.5%)	749 (94.5%)	14 (31.8%)	8 (18.2%)	22 (50.0%)	5 (0.6%)	788 (99.4%)	1 (20.0%)	1 (20.0%)	3 (60.0%)
Panama	32 (4.0%)	761 (96.0%)	10 (31.3%)	3 (9.4%)	19 (59.4%)	4 (0.5%)	789 (99.5%)	1 (25.0%)	- (-)	3 (75.0%)
Colombia	58 (7.3%)	735 (92.7%)	16 (27.6%)	7 (12.1%)	35 (60.3%)	6 (0.8%)	787 (99.2%)	3 (50.0%)	- (-)	3 (50.0%)
Middle East and North Africa	23 (2.9%)	770 (97.1%)	6 (26.1%)	3 (13.0%)	14 (60.9%)	4 (0.5%)	789 (99.5%)	2 (50.0%)	- (-)	2 (50.0%)
FTA/EPA Signed/under negotiation										
TTIP EU28 countries	127 (16.0%)	666 (84.0%)	－ －	44 (34.6%)	83 (65.4%)	45 (5.7%)	748 (94.3%)	－ －	13 (28.9%)	32 (71.1%)

※ Other Latin American countries = El Salvador, Honduras, Nicaragua, Guatemala, Dominican Republic, Costa Rica
Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

<Ref.> FTA Utilization: Utilization Rate of NAFTA Among Japanese Affiliates in the US (by regions)

Among all companies surveyed (incl. non-importers, non-exporters and non-responders), the utilization rate of NAFTA in the Midwest and the South was above average in both imports and exports.

Table 3: Utilization of bilateral/multilateral FTAs (# of respondents:793, by regions)

(Unit: companies, %)

				Utilizing FTA in exports					Utilizing FTA in imports		
		Is exporting	Is not exporting /no response	Utilizing	Considering utilization	Not utilizing (no plans)	Is importing	Is not importing /no response	Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA											
Overall	Canada	347 (43.8%)	446 (56.2%)	167 (21.1%)	34 (4.3%)	146 (18.4%)	77 (9.7%)	716 (90.3%)	49 (6.2%)	5 (0.6%)	23 (2.9%)
	Mexico	347 (43.8%)	446 (56.2%)	187 (23.6%)	37 (4.7%)	123 (15.5%)	134 (16.9%)	659 (83.1%)	92 (11.6%)	10 (1.3%)	32 (4.0%)
North East	Canada	35 (41.2%)	50 (58.8%)	14 (16.5%)	8 (9.4%)	13 (15.3%)	3 (3.5%)	82 (96.5%)	2 (2.4%)	1 (1.2%)	0 -
	Mexico	30 (35.3%)	55 (64.7%)	13 (15.3%)	7 (8.2%)	10 (11.8%)	7 (8.2%)	78 (91.8%)	5 (5.9%)	1 (1.2%)	1 (1.2%)
Mid West	Canada	145 (55.3%)	117 (44.7%)	69 (26.3%)	8 (3.1%)	68 (26.0%)	37 (14.1%)	225 (85.9%)	26 (9.9%)	2 (0.8%)	9 (3.4%)
	Mexico	138 (52.7%)	124 (47.3%)	73 (27.9%)	15 (5.7%)	50 (19.1%)	43 (16.4%)	219 (83.6%)	27 (10.3%)	3 (1.1%)	13 (5.0%)
South	Canada	117 (41.8%)	163 (58.2%)	61 (21.8%)	12 (4.3%)	44 (15.7%)	22 (7.9%)	258 (92.1%)	14 (5.0%)	2 (0.7%)	6 (2.1%)
	Mexico	129 (46.1%)	151 (53.9%)	76 (27.1%)	11 (3.9%)	42 (15.0%)	61 (21.8%)	219 (78.2%)	44 (15.7%)	6 (2.1%)	11 (3.9%)
West	Canada	50 (30.1%)	116 (69.9%)	23 (13.9%)	6 (3.6%)	21 (12.7%)	15 (9.0%)	265 (159.6%)	7 (4.2%)	0 -	8 (4.8%)
	Mexico	50 (30.1%)	116 (69.9%)	25 (15.1%)	4 (2.4%)	21 (12.7%)	23 (13.9%)	143 (86.1%)	16 (9.6%)	0 -	7 (4.2%)

<Ref.> FTA Utilization: Utilization Rate of NAFTA Among Importers and Exporters (by regions)

Among the companies involved in imports and exports, utilization of NAFTA by the exporters in the South for Canada and Mexico was above average. Also, utilization of NAFTA by the importers in the Midwest (for Canada) and the South (for Mexico) was above average.

Table 4: Utilization of bilateral/multilateral FTAs (Is exporting/ Is importing, by regions)

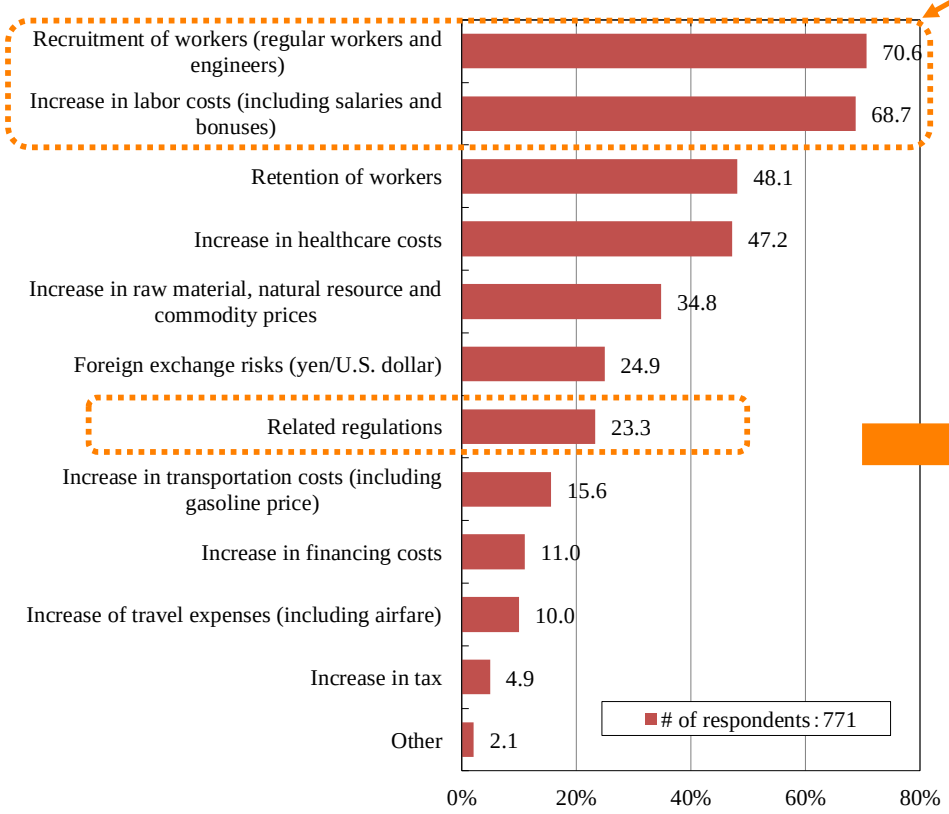
(Unit: companies, %)

				Utilizing FTA in exports					Utilizing FTA in imports		
		Is exporting	Is not exporting /no response	Utilizing	Considering utilization	Not utilizing (no plans)	Is importing	Is not importing /no response	Utilizing	Considering utilization	Not utilizing (no plans)
Existing FTA/EPA											
Overall	Canada	347 (43.8%)	446 (56.2%)	167 (48.1%)	34 (9.8%)	146 (42.1%)	77 (9.7%)	716 (90.3%)	49 (63.6%)	5 (6.5%)	23 (29.9%)
	Mexico	347 (43.8%)	446 (56.2%)	187 (53.9%)	37 (10.7%)	123 (35.4%)	134 (16.9%)	659 (83.1%)	92 (68.7%)	10 (7.5%)	32 (23.9%)
North east	Canada	35 (41.2%)	50 (58.8%)	14 (40.0%)	8 (22.9%)	13 (37.1%)	3 (3.5%)	82 (96.5%)	2 (66.7%)	1 (33.3%)	0 -+
	Mexico	30 (35.3%)	55 (64.7%)	13 (43.3%)	7 (23.3%)	10 (33.3%)	7 (8.2%)	78 (91.8%)	5 (71.4%)	1 (14.3%)	1 (14.3%)
Mid west	Canada	145 (55.3%)	117 (44.7%)	69 (47.6%)	8 (5.5%)	68 (46.9%)	37 (14.1%)	225 (85.9%)	26 (70.3%)	2 (5.4%)	9 (24.3%)
	Mexico	138 (52.7%)	124 (47.3%)	73 (52.9%)	15 (10.9%)	50 (36.2%)	43 (16.4%)	219 (83.6%)	27 (62.8%)	3 (7.0%)	13 (30.2%)
South	Canada	117 (41.8%)	163 (58.2%)	61 (52.1%)	12 (10.3%)	44 (37.6%)	22 (7.9%)	258 (92.1%)	14 (63.6%)	2 (9.1%)	6 (27.3%)
	Mexico	129 (46.1%)	151 (53.9%)	76 (58.9%)	11 (8.5%)	42 (32.6%)	61 (21.8%)	219 (78.2%)	44 (72.1%)	6 (9.8%)	11 (18.0%)
West	Canada	50 (30.1%)	116 (69.9%)	23 (46.0%)	6 (12.0%)	21 (53.3%)	15 (9.0%)	151 (91.0%)	7 (46.7%)	0 -	8 (42.0%)
	Mexico	50 (30.1%)	116 (69.9%)	25 (50.0%)	4 (8.0%)	21 (30.4%)	23 (13.9%)	143 (86.1%)	16 (69.6%)	0 -	7 (0.0%)

4. Factors for Increased Cost: Recruitment, Labor Costs, Visa Issuance

"Recruitment" was the top factor of increased cost, up 7.1 points (70.6%) from 2016, followed by "labor costs" (68.7%). 33.1% were worried about visas for Japanese expats, doubled from 15.4% in 2016. By the deregulation movement of under the Trump administration, concerns over environmental regulations dropped from 43.6% in 2016 to 38.2%.

Fig.31 Management issues (1) Factors for increases cost (multiple answers)



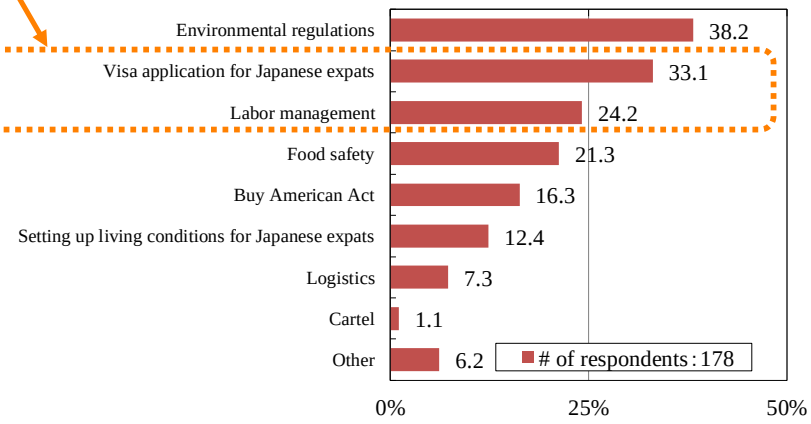
Economic recovery resulted in increased labor costs

- Hiring engineers is hard. Salaries increased by an average of 3-4%. (Chemicals)
- Good engineers are frequently headhunted. (Electrical machinery/electronic devices)
- Weekend work is necessary to keep up with order volume, pushing labor cost upwards. (Iron and steel)

Concern over visas for Japanese expats

- Visas for young expats are becoming harder to get. Additional documents are often required. (Chemicals)

Fig.32 Breakdown of related regulations (multiple answers)



<Ref.> Factors for Increased Cost (by region)

Among the factors for increased cost, “recruitment” was highest in the South (73.3%), while “labor costs” was most significant in the west (78.1%). Regulations related to the “environment” were of significant concern in the South (46%), while companies in the Midwest were worried most about “visas for Japanese expats” (41.3%). In the west, “food safety”(38.2%) was one of the most significant concerns, along with “environmental regulations.”

Fig.33 Management issues (1) Cost increase factors (multiple answers, by regions)

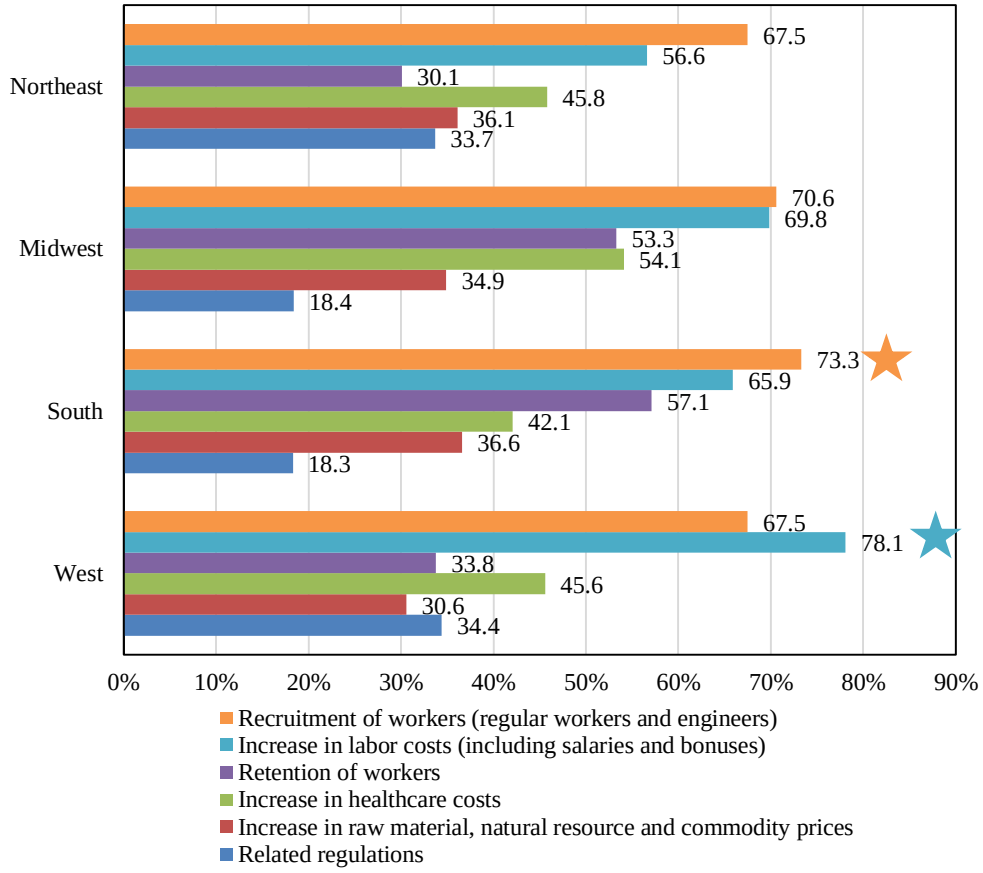
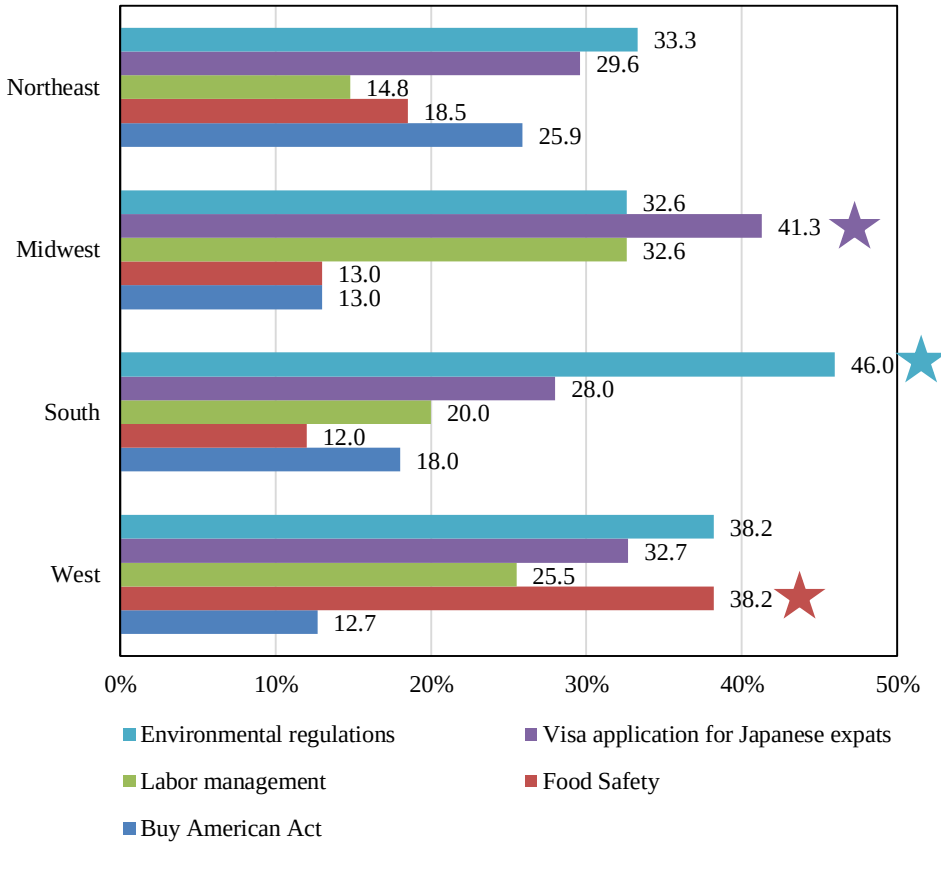


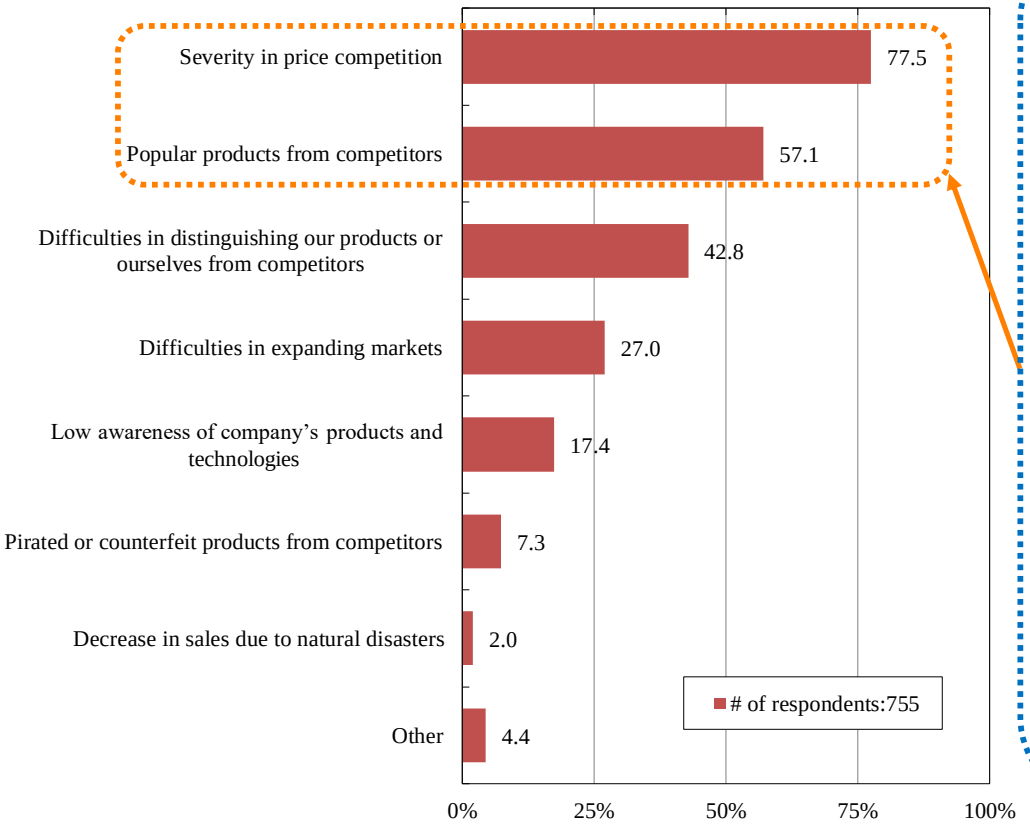
Fig.34 Breakdown of related regulations (multiple answers, by regions)



4. Factors Hindering the Increase of Sales: Price Competition Continues, Differentiation Sought in Other Areas

"Severity in price competition" and "popular products from competitors" continued to be major factors. In addition to cost adjustments, companies tried to increase demand through development of new grades and products and marketing activities for brand enhancement.

Fig.35 Factors suppressing sales (multiple answers)



Severe price competition and differentiation efforts

- Developing and launching new grades and products. (Plastic products)
- Enhancing post-purchase care and services related to our products (Transportation equipment)
- We have multiple competitors that have US manufacturing plants, and Asian companies from China, India, and Taiwan are increasing exports. In addition to price and quality, prompt delivery is also important. Customers demand faster delivery every year. We are trying to increase productivity and flexibility to respond. (Plastic products)
- Enhancing marketing activities to improve our brand image (Food/agricultural product)
- While improving existing products, we are reevaluating our design and development and procurement sources. (Transportation equipment)
- We minimize manageable costs to stay competitive and take legitimate actions against competitors that deviate from international trade rules. (Chemical and petroleum products)

5. Interests in Trump Administration Policies: Tax, Trade, and Diplomacy

Over 80% of respondents showed interest in tax reform. Interest in “corporate tax” (62.5%) was especially high, indicating expectations for increased profit from tax cuts. However, additional investment plans after tax cuts tend to be conservative. Interests in “trade” (76.5%) and “diplomacy” (72%) were also notable. In trade, 55.2% showed interest in NAFTA; and in diplomacy, 57.5% showed interest in relations with Japan.

Fig.36 Interests in policy areas under the Trump administration

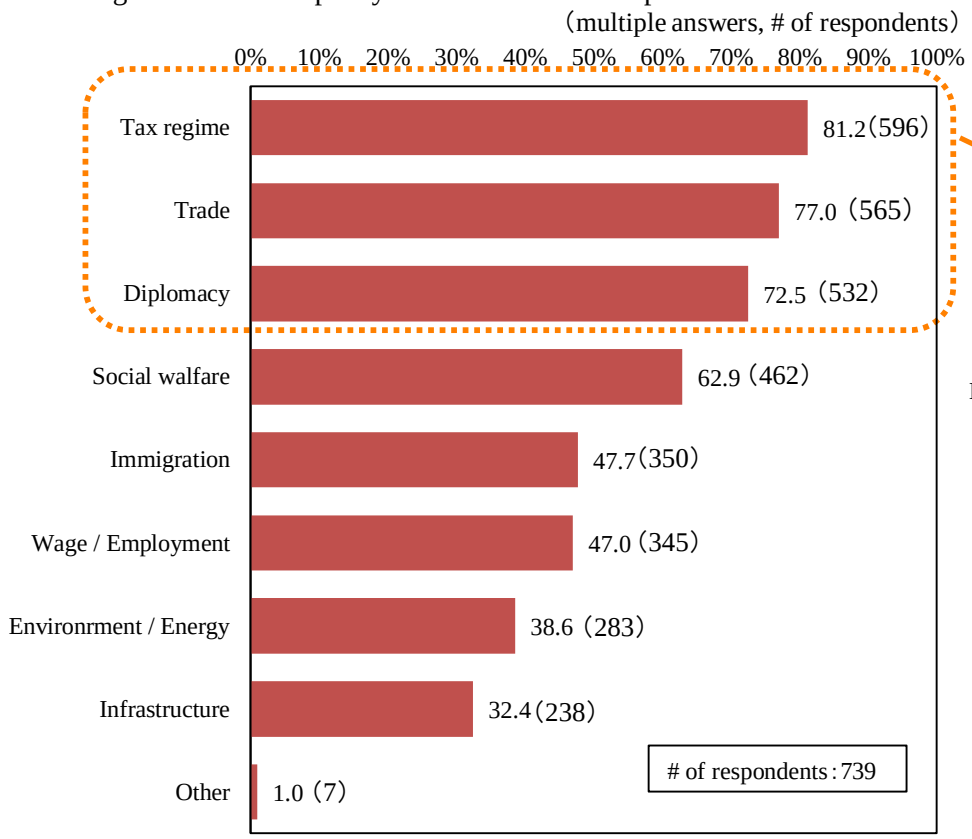
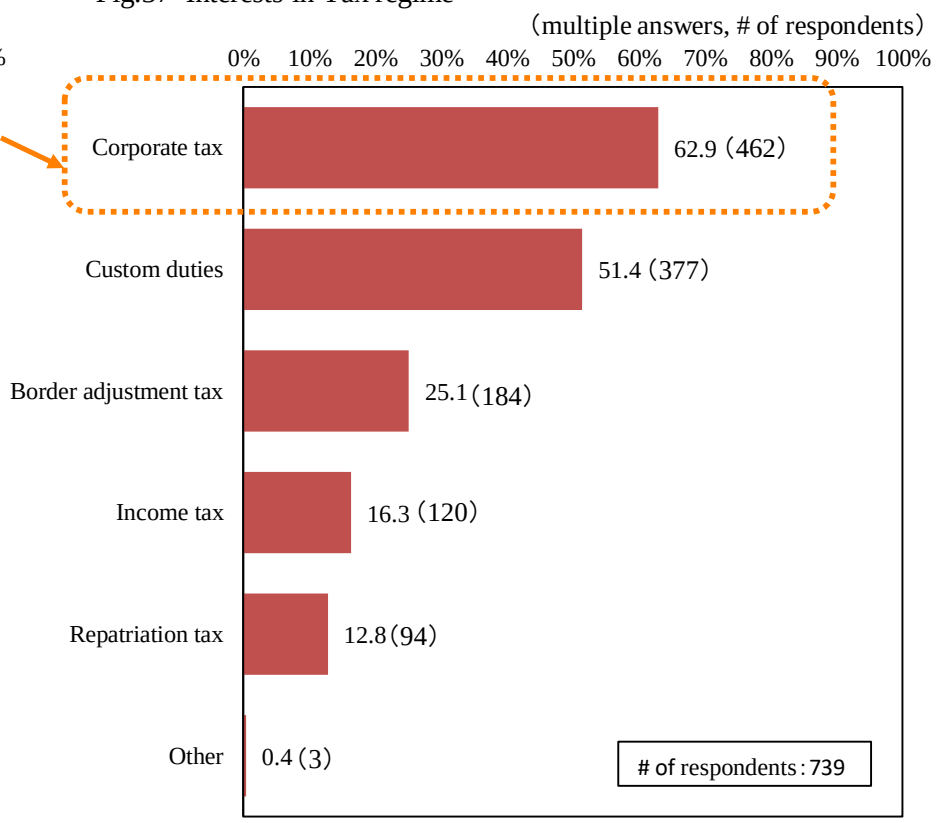


Fig.37 Interests in Tax regime



<Ref.> Interests in Trump Administration Policies (by regions)

Interest in the "tax regime" was the highest in the Midwest (84.2%). Taxation was also the most important in the Northeast (80.8%) and the west (79.2%). Among the subcategories, "corporate tax" caught the highest rate of attention in all regions. Interest in custom duties was high in the South (67.2%) and the Midwest (65.4%). "Trade" was the most important in the South (80.4%). Interests in "trade" and "diplomacy" were lower in the west.

Fig.38 Interests in policy areas under the Trump administration (multiple answers, by regions)

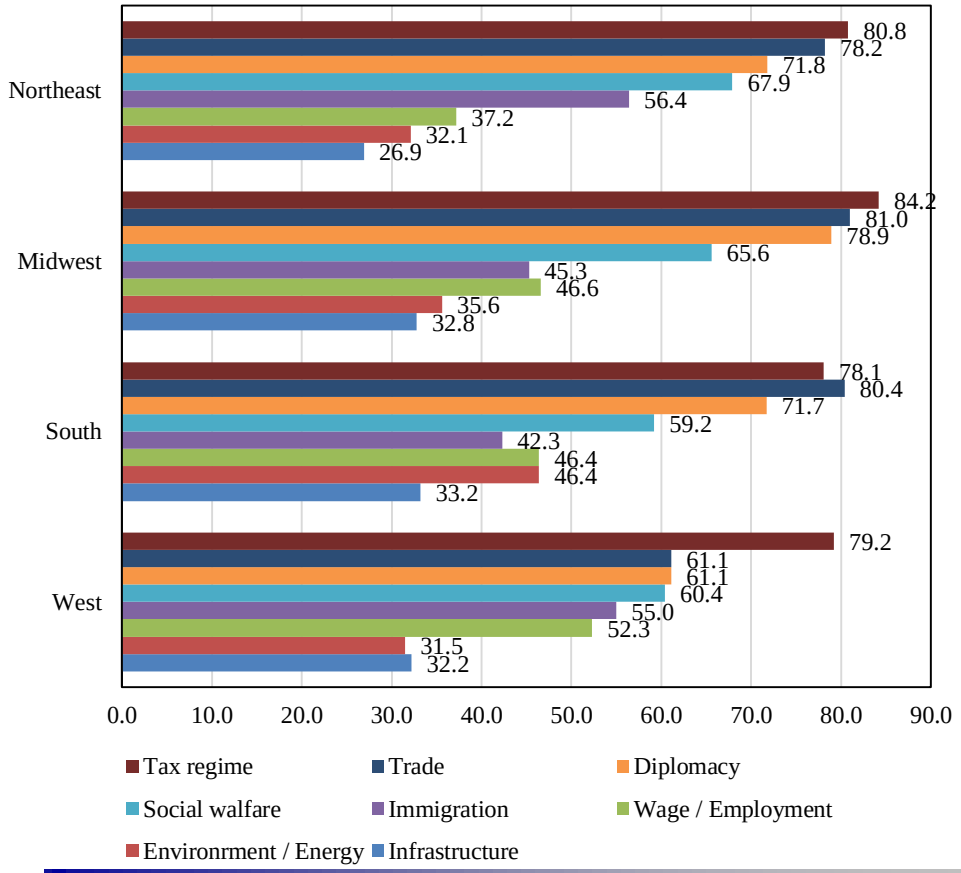
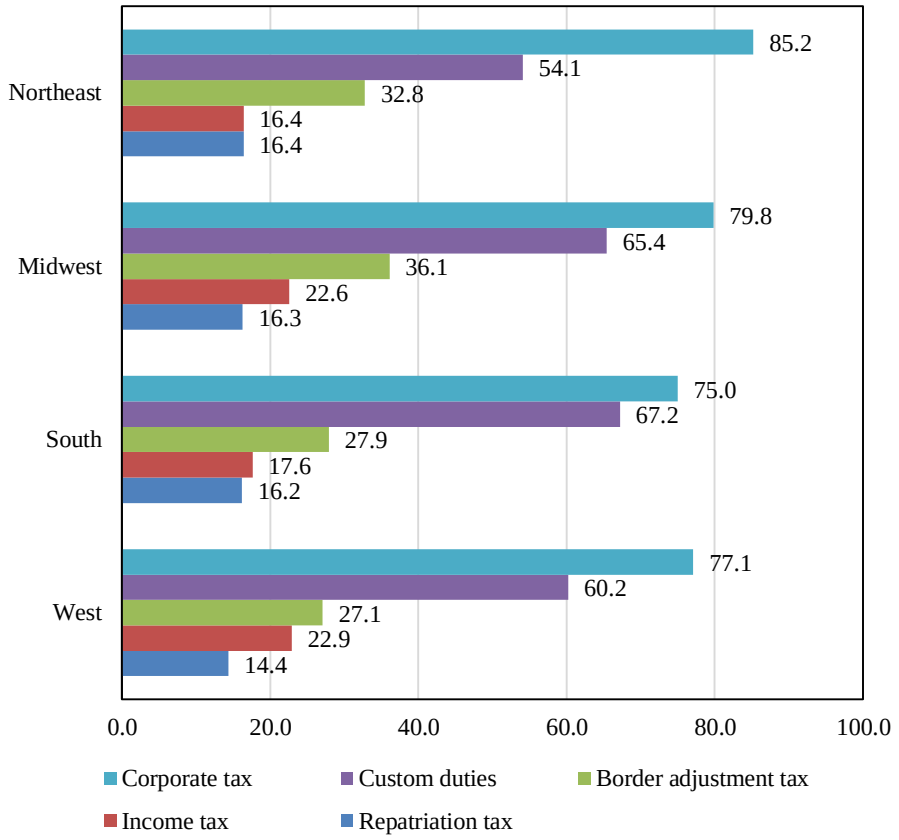


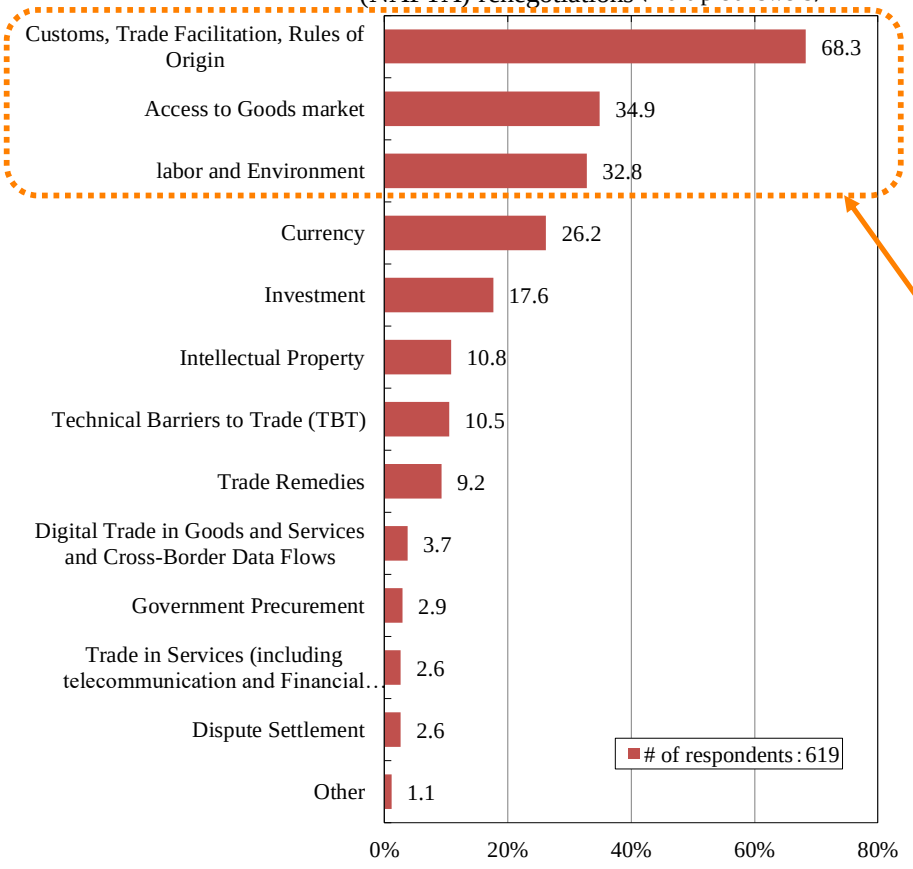
Fig.39 Interests in Tax regime (multiple answers, by regions)



5. Renegotiation of NAFTA: Attention to Rules of Origin

Respondents listed "customs, trade facilitation, rules of origin," "access to goods market," and "labor and environment" as main areas of interest. Companies in transportation equipment and parts (railway vehicles/vessels/airline/transportation vehicles) showed the highest interest in "customs, trade facilitation, rules of origin" (100%). In "access to goods market," rubber products (57.1%) and textiles (53.8%) companies showed the highest levels of interest. Textile companies also had high interests in "labor and environment" (61.5%).

Fig.40 Effects of the North American Free Trade Agreement (NAFTA) renegotiations (multiple answers)



The vast majority is interested in the revision of rules of origin. However, some companies won't be significantly affected. Many are paying close attention to the negotiations.

- Cost fluctuation according to the changes of the rules of origin. (Transportation equipment - motor vehicles/motorcycles and many others)
- Changes in the rules of origin for auto parts, treatment of steel products (Iron and steel)
- Increase in procurement cost due to import tax (Transportation equipment - motor vehicles/motorcycles and many others)
- Most materials are already procured locally. There will be no significant affect from the renegotiation. (Chemical/petroleum products)
- We don't export to Mexico because we have a local manufacturing site there. If NAFTA renegotiation results in fewer Mexican auto exports to the US, we'll make more in the US. (Metal)
- If the rules of origin is revised, it will work for our advantage in the NAFTA region as a whole. If the negotiation is unsuccessful, we would probably stop investing in Mexico and expand US manufacturing sites. (Plastic products)
- We'll see what happens. No specific plans at this point. (Transportation equipment - motor vehicles/motorcycles and many others)
- No significant effect is expected. (Chemical/petroleum products)

5. Contributions to Local Economy and Community (selected)

Contributions to Local Economy

- Ambassador for South Carolina Economic Development (Textiles)
- Georgia Manufacturer of the Year (Transportation equipment - motor vehicles/motorcycles, transportation equipment parts – railway vehicles/vessels/airline/transportation vehicles, motor vehicles/motorcycles)
- Awards from local Chambers of Commerce (Printing/publishing, plastic products, general/production machinery, and many others)

Contributions to Employment

- Announcement of factory expansion and additional recruitment soon after the financial crisis was recognized by the local government (Transportation equipment parts - motor vehicles/motorcycles)

Contributions to Local Community

- U.S. Cement Association Outreach Award (Ceramic/stone and clay)
- Donations to local communities and schools (Chemical/petroleum products, food/agricultural products, rubber products, and many others)

Contributions to Environment

- Green Power Leadership Award from the EPA (Ceramic/stone and cray, electrical machinery/electronic devices)
- Illinois Sustainability Award (Transportation equipment parts - motor vehicles/motorcycles)
- Governor of Indiana Environmental Award (Transportation equipment - motor vehicles/motorcycles)
- Tennessee Green Star Directory Award (Transportation equipment parts - motor vehicles/motorcycles)

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