

On November 9, the Japan External Trade Organization (JETRO) released the results of its latest survey on the business operations of Japanese firms (both manufacturers and non-manufacturers) in seven countries in Latin America: Mexico, Venezuela, Colombia, Peru, Chile, Argentina and Brazil.

The survey, conducted between August and September 2011, received valid replies from 263 firms (a 37.3% response rate) out of 706 to whom we sent questionnaires. The question items covered areas including operating profits, procurement of raw materials and parts, exports, competition and impact of the Great East Japan Earthquake. The summary points are as follows.

Summary points:

(1) Business confidence for 2011 in Latin America exceeds that in India and China. The diffusion index (DI) – the proportion of businesses reporting increased operating profits minus those reporting decreased operating profits compared to the previous year – is used to measure business confidence, and for 2011 it came to 24.2 points, a 16.6 point drop from a year earlier.

This is considered to be a normalization from the unusually high business sentiment of 2010, and respondent firms forecast a drastic improvement in the DI for 2012 up to 49.8 points. Surveys conducted in India and China show that the DI for Brazil and Mexico this year exceeded these two countries.

(2) Brazil and Mexico possess different reasons for improved profits and management problems

1. Domestic demand on the rise in Brazil, both domestic and external demand on the rise in Mexico

As a reason for the improved outlook of operating profits in 2011, a high number of respondents in both Brazil and Mexico cited an “increase of sales in the local market”. However, the number of respondents in Mexico who stated an “increase of sales in overseas markets” greatly exceeded that in Brazil. This reflects structural differences between the two countries, in which Japanese firms in Brazil depend on domestic demand, while those in Mexico benefit from demand both within and abroad.

2. Increase in labor costs main concern for firms in Brazil

Japanese firms stating an “increase in labor costs” as one of their management problems reached 86.6% of the total in Brazil. This rate was the highest among the subject countries in Latin America as well as almost the same level of that in India and China. On the other hand, respondent companies in Mexico have less concern over their labor costs, but consider “exchange rate fluctuation” and an “increase in material cost” as management problems.

(3) Japanese companies face competition from South Korea in the fields of electric machinery and electric / electronic parts and components

Over all categories of manufacturing business, respondents cited other companies from Japan as their main competition, followed by those from the US and Europe. In total, South Korean companies were cited as the most intense competition by only 8.8% of respondents. However, by category they came out on top with 27.3% in the fields of electric machinery and electric / electronic parts and components, clearly indicating them as serious competitors.

(4) Ripples from the Great East Japan Earthquake have reached some 60% of firms, though in most cases operations recovered within six months

12.2% of respondents stated their businesses were seriously affected (or are being affected) by the March disaster. With an additional 50.0% of firms indicating a slight impact, the total number of firms affected in some way or another came to over 60%.

Among issues resulting from the quake, the most cited was “a decrease in purchases or procurements from Japan”. Some stated that they suffered “a delay in delivery”. However, half of firms replied the effects on their business lasted from only one to less than three months after the disaster, and for 90% it was less than six months.

Regarding business strategies or plans after the disaster, 76.0% of the respondents stated that they are “not considering (or have not considered) any changes”, followed by 20.9% of firms which replied they “considered (or are considering) some changes.” Only 3.1% replied they considered (or are considering) significant changes in response to the disaster.

<http://www.jetro.go.jp/en/news/releases/20111114297-news>