

**Results of JETRO's 2014 Survey on
Business Conditions of Japanese-Affiliated Firms
in the U.S.**

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Japan External Trade Organization (JETRO)

Overseas Research Department

North America Division

About the Survey

This survey has been conducted since 1981 by the JETRO offices in the U.S, with this being the 33rd implementation (there was no survey conducted in 2004).

1. Purpose

To survey and analyze the state of Japanese-affiliated companies in the United States (business confidence, performance, management challenges, etc) with the aim of facilitating business activities and management strategy planning for Japanese-affiliated companies.

2. Survey Coverage

The definition of a “Japanese-affiliated company” is one for which “the investment from the Japanese parent company is at least 10%,” including both direct and indirect investments. For example, consider a Company A, which is an American subsidiary with a Japanese parent company that holds a 20% share. If Company A itself holds a 50% share of a subsidiary, Company B, then the parent Japanese company for Company A owns a 10% share of Company B ($0.2 \times 0.5 \times 100$), so that Company B would also be regarded as a “Japanese-affiliated company.” (Company B is a sub-subsubsidiary of the parent Japanese company.) The same type of calculation applies to sub-subsubsidiaries as well.

3. Method

The target companies were contacted by one of the six offices in the U.S. (New York, San Francisco, Los Angeles, Chicago, Houston, and Atlanta) and informed of an Internet address (URL) where the questionnaire was posted. Respondents entered their answers directly onto the survey form on this website.

4. Period

September 3 to October 17, 2014

5. Response rates

The requests were made to 1,016 Japan-affiliated companies in the U.S., with responses received from 669, for a response rate of 65.8%

Note: The number of companies responding is an aggregate based on the cooperation of each company, using information sources regarded as reliable by the JETRO offices, but the absolute accuracy and completeness of the information cannot be guaranteed.

1. Business Conditions

- In 2014, Japanese manufacturers operating in the U.S. showed even higher business confidence than the previous year, indicated by a rise of the diffusion index (DI) from 31.7 points to 33.4 points. Business performance was strong especially in transportation equipment and components, steel, and general machinery. More than 80% of those responding expect to show a profit in 2014. Although there was some concern voiced about the future of the economy with the changes in U.S. monetary policy, most companies felt that the economy is recovering because of increased orders.
- Regarding the forecast of operating profits for 2014 in comparison to 2013, 49.8% of respondents expected improvement, 33.8% expected to remain the same, and 16.4% expected a decrease (Fig. 2). The expectation of improvement was particularly noticeable in the fields of transportation machines (cars and motorcycles) (64.7%), parts for transportation machines (58.1%), steel (53.8%), and general machinery (including molds and power tools) (53.3%). The recovery of the automotive market and revival of manufacturing has had a large impact. By region, improvement was expected by many of the Japanese-affiliated firms in the southern areas where shale oil/Shale gas is being aggressively developed. The diffusion index (DI) that indicates business confidence (proportion of businesses reporting increased operating profits minus those reporting decreased operating profits compared to the previous year) was 33.4 for 2014, an increase from 31.7 last year (Fig. 1).
- The most selected reasons given for improved operation profit compared to 2013, in order of frequency (multiple answers permitted), were “Sales increase in local markets” (81.5%), “Improvement of production efficiency” (30.6%), and “Reduction of procurement costs” (26.4%) (Fig 3). In comparison, the reasons cited for decreases were “Sales decrease in local markets” (45.0%), “Increases of labor costs” (34.9%), and “Increase of procurement costs” (24.8%).
- With regard to operating profits in 2014, 82.3% reported being profitable, 9.9% reported “break even,” and 7.8% expected a loss (Fig. 5). These are the best figures obtained since the survey was started in 1991.
- The answers about forecasts for operating profit in 2015 compared to 2014 indicate that 52.8% of companies expect an increase, 39.2% expect to remain the same, and 8.0% expect a decline (Fig. 2). The reasons for the improvement, in order of frequency (multiple answers permitted) were “Sales increase in local markets” (83.0%), “Improvement of production efficiency” (37.1%), and “Reduction of procurement costs” (21.3%) (Fig. 6). Reasons for an expected decrease were “Sales decrease in local markets” (58.5%), “Increase of labor costs” (30.2%), and

“Production costs insufficiently reflected in selling price of goods” (30.2%) (Fig. 7).

<Although there are still serious concerns about the future of the U.S. economy, the increase in orders conveys a sense of economic recovery>

*The comments indicated by arrowhead bullet points in the main text (type of industry indicated in parentheses) are quotes from interviews with the firms that responded to the questionnaire, and, in part, comments on the survey questionnaire.

- Orders from companies based in Silicon Valley have been steadily increasing, so we feel that the economy is improving. [Chemical/Petroleum products]
- Unit sales, including by competitors, have increased, creating delays in delivery of domestically procured raw materials. [Electric or electronic parts]
- Sales at retail outlets are improving. Wealthy Asians seem to be driving the consumption. [Processed food, agricultural or fishery products]
- We can sense the economic recovery from how smoothly business is going. On the other hand, there is concern about what will happen next year after the easy monetary policy measures end. [Metal goods (including plated products)]
- The growth of industries in which we sell our products is probably related to the state of the economy, but we have no particular feeling about it. [Steel (including cast and wrought products)]

2. Future Business Plans

- Approximately 60% of firms intend to expand their business in the next one or two years, a slight increase from the previous year. The reason for expansion given by about 90% of the companies was “increased sales.” By category, the rates of planned expansion were high in medical devices; processed food, agricultural or fishery products; chemical and petroleum products; and transportation equipment.
- The indicated trends for business development in the next one or two years were 60.3% planning to expand, 37.0% planning to remain the same, 2.1% plan reductions, and 0.6% plan to transfer to a third region or withdraw from the market (Fig. 8). Categories with notably high indications of expansion plans were medical devices (87.5%), processed food, agricultural or fishery products (75.0%), chemical and petroleum products (67.2%), and transportation equipment (cars and motorcycles) (61.1%).
- Reasons for the expected expansion, in order of frequency (multiple answers permitted) include “Sales increase” (87.5%), “High growth potential” (40.6%), and “High receptivity for high-value added products” (21.7%) (Fig. 9). Specific functions that respondents want to expand were “Sales functions” (53.8%), “Production

(high-value added products)” (52.5%), and “Production (ubiquitous products)” (33.8%) (Fig. 10). The most selected reasons given for planning reduction, transfer or withdrawal were “Sales decrease” (64.7%), and “Increase of costs (e.g., procurement/labor costs)” (29.4%).

<The population growth of 1% annually is greatly attractive>

- (Regarding growth and potential in U.S. markets) There are good opportunities in the rapidly-expanding eco-markets. [Steel (including cast and wrought products)]
- We cannot overlook the fact that population is growing by 1% annually. The large number of Asian immigrants who are likely to enjoy Japanese foods is also attractive. [Processed food, agricultural or fishery products]
- We hear that the U.S. economy is picking up, but Houston is exceptionally good with the strong energy and chemical industries. [Chemical/Petroleum products]

○ As for the number of local employees in the past one year and the future, approximately 50% of respondents reported increase, while reporting that the number of expatriate Japanese employees remains unchanged. Regarding issues (Headquarters/Japan side) related to the promotion of the localization of management, many cited “Poor language skills of the Japanese employees (both locally and in Japan)” and “Difficulty in reducing the number of Japanese expatriate staff.” For local issues, the difficulty in hiring local personnel for executive positions was often raised as a concern.

- Measures being implemented to encourage localization of management, in order of frequency (multiple answers permitted) include “To strengthen system to train/cultivate local human resources by focusing on localization of corporate management” (58.1%), “To assign local staff to a general manager/manager position” (57.6%), and “To encourage mid-level hiring activities to obtain competent local staff by focusing on localization of corporate management” (49.6%) (Fig. 11).
- On the question of issues faced in promoting management localization, the indicated issues with headquarters/Japan side were “Inadequate language skills of Japanese expatriate staff (English and local languages)” (32.6%), and “Difficulty in reducing the number of Japanese expatriate staff” (32.0%). There were many comments indicating that the lack of language skills at the head office interferes with smooth communication with the local offices, making it difficult to reduce the number of expatriate Japanese employees. Issues on the local side include “Difficulty in recruiting local candidates for executive positions” (43.8%) and “Insufficient performance/awareness among local staff” (41.5%) (Fig. 12).

<Improving employee skills through training>

- We are working hard on localization. We send local hires to the Japan head office to help them gain a better sense of the corporate culture, and improve understanding. [Chemical/Petroleum products]
- Our policy is to promote people hired locally and trained within the company to management positions. The managers used to all be Japanese expatriates, but moving forward, we want to reduce the number of expatriates, except for the young trainees. [Rubber goods]
- Like the head office, we aim to improve employee skills through training, and to promote the trained local employees to the positions that always used to go to Japanese expatriates. [Parts for transportation machines (cars and motorcycles)]

<Considering sales activities and communication with the head office, it is difficult to reduce the number of expatriate Japanese employees>

- There aren't enough people in top management in Japan who can communicate in English. [Parts for transportation machines (cars and motorcycles)]
- The language skills of people at the Japanese parent company have not reached the level of being able to communicate smoothly with the local staff. (Strong tendency for communication to be through the expatriate staff.) [Machines (including molds and power tools)]
- Although it has become harder to obtain visas, it is still hard to reduce the Japanese expatriate staff. Product and technology development are done in Japan by the Japanese employees. Since customers want to hear from the engineers handling the development, we have to bring in expatriate staff who has development experience. [Chemical/Petroleum products]
- Some of the issues with the management skills of the expatriate Japanese employees are that some of them try to impose the Japanese way of doing things over here, or we get people who have never managed subordinates in Japan suddenly put in charge of people here, so they cannot manage local staff properly due to the lack of experiences. [Chemical/Petroleum products]

<There are differences in the business cultures between the U.S. and Japan, which has an impact on the hiring of local people as executive level candidates>

- It is hard to find local talent with college-level understanding of food processing, and also have both the communication skills and leadership ability. [Processed food, agricultural or fishery products]
- The difficulty in hiring executive candidates is not about the ability or compensation, it is the difference between Japanese and U.S. cultures. Since this is

a Japanese-based company, the Japanese approach is expected, but it is hard to find local talent that can do that. Japanese people reach decisions through stages of discussions with others, but Americans are generally quite independent, so there are a lot of people who make their own decisions. Company loyalty is also different. [Paper and Pulp]

- In the U.S., people generally continue to do one kind of work, but as a company, we would like to develop some all-around players with experience from manufacturing to management, as in Japan. There are also some issues (language, culture, economic situation) with communication with the parent company. [Plastic products]
 - Group-wide there are policies being made to reduce the number of employees sent from Japan to minimum. Nevertheless, it is difficult to move forward with localization. For important posts, those locally hired are either Japanese, or people who can speak Japanese. [Chemical/Petroleum products]
- Over the past year, 47.6% of the respondents indicated that the number of local employees had increased. Categories with high rates for this response include transportation machines (cars and motorcycles) (70.6%), transportation machinery parts (cars and motorcycles) (55.7%), ceramic, earth or stone products (58.3%), and steel (including cast and wrought products) (53.8%). There were 42.6% of respondents indicating no change in this number, and 9.8% indicating a reduction. With regard to plans for the future for number of local employees, 47.7% said they planned to increase the number, 44.4% had no changes planned, and 7.9% expect to decrease (Fig. 13). Categories with notably high rates indicating plans to increase employees include medical devices, metal products, and general machinery.
 - For the Japanese expatriate staff, 67.7% of the companies indicated that there was no change since last year. For the future as well, 77.0% indicated that no changes were planned (Fig. 14).

3. Sales and Procurement

- Approximately 80% of products manufactured in the U.S. were for domestic sales. More than half of firms intend to continue increasing sales in the U.S. On the other hand, approximately 60% of respondents expect to expand their sales in Mexico, although the current sales rate is only 4.9%.
- The percentage of products sold within the U.S. was 79.1%. This was followed by 4.9% in Mexico, 4.8% in Canada, 4.1% in Japan, 1.9% to Central and South America

(excluding Mexico), and 5.3% to other regions (Fig. 15).

- For future sales policy, many respondents indicate expansion in the U.S. (53.6%) and Mexico (62.2%) (Fig. 16). Many of the firms indicating plans to expand sales in Mexico were in specific industries, such as rubber products (75%), steel (70.0%), transportation equipment (cars and motorcycles) (66.7%) and electric/electronic parts (65.2%). There were also nearly 100 companies (47.3%) planning to expand sales in Central/South America (excluding Mexico).

○ As the source of raw materials and components, the U.S. came in first with a procurement rate of 56.5% (Japanese-affiliated companies in the U.S.: 15.5%; U.S. companies: 38.8%; other foreign affiliated companies in the U.S.: 2.2%), followed by Japan at 28.2%. The greatest number of respondents, 170 firms, reported that they expect to further increase procurement from local U.S. industries. There were also a number of respondents, 42, who indicated an intention to expand procurement from Mexico.

- For the breakdown of procurement sources for raw materials and components, 56.5% is procured within the U.S. (15.5% from Japanese-affiliated local companies, 38.8% local companies, and 2.2% other foreign-affiliated companies). Other sources in order of percentage are Japan (28.2%), China (5.1%) and ASEAN (3.8%) (Fig. 17).
- For future procurement policy, the most selected answer was a plan to expand procurement from local U.S. companies (170 companies, 39.2%), indicating that there is a higher priority for local U.S. companies than for Japanese-affiliated or other foreign-affiliated companies in the U.S.. The current rate of procurement from Mexico is low (1.3%), but 42 companies indicated plans to expand in this area, particularly parts for transportation machinery (Fig. 18).

4. Management Challenges

○ Regarding general managerial issues, “Recruiting engineers,” “Retention of workers” and “Recruiting workers for management positions” continue to be the most selected answers. The main factors cited for increased costs were increases in employee-related expenses such as “Increasing labor costs including salaries and bonuses” and “Greater burden of medical insurance costs.” The main reasons given for slow sales were the same as the previous year, including “Intensified price competition” and “Excellent competing products.”

- General management issues indicated, in order of frequency (multiple answers permitted) were “Recruiting engineers” (60.2%), “Retention of workers” (39.0%),

and “Recruiting workers for management positions” (37.8%) (Fig.19). Especially, Japanese-affiliated companies in southern areas seem to have a difficult time hiring employees with the needed special skills.

- The factors contributing to rising costs in order of frequency (multiple answers permitted) were “Increase in labor costs (including salaries and bonuses)” (74.9%), “Increase in healthcare costs” (57.0%), and “Increase in raw material, natural resource and commodity prices” (52.5%) (Fig. 20). Particularly in the Midwest, where unions are strong, many Japanese-affiliated companies indicated that the rising burden of costs related to employees was an issue.
- Factors attributed to contributing to weaker sales, like the previous year were “Severity in price competition” (80.8%), “Popular products from competitors” (57.2%), and “Difficulties in distinguishing our products or ourselves from competitors” (37.2%) (Fig. 21).

<The inflation rate is rising, so pay raises cannot be avoided>

- There are no measures to deal with rising labor costs. It doesn't cause serious management problems. However, since there is no mandatory retirement age, having to continue to raise wages to match the inflation rate can be painful. [Plastic products]
- Since our social and health insurance package has always been very good, Obamacare (healthcare) has not increased the burden by much. However, as wages rise along with the continuing inflation, it will be a big burden if the social insurance fees continue to increase. [Paper and Pulp]
- With Obamacare, we plan to address the erosion of what used to be a very good benefits package by increasing the percentage of the employee burden for insurance. [Electric or electronic parts]
- (Measures to deal with Obamacare) We got estimates from several insurance companies, and made a contract based on a balance among insurance coverage rates, employee contributions, and company payment. [Processed food, agricultural or fishery products]
- It has become hard to find workers. For the hiring of full-time employees for a factory expansion we hired a professional recruiter. There has also been an increase in existing employees switching jobs to places with better working conditions. [Chemical/Petroleum products]

<Intensifying competition from Asia. Differentiation from competition through better performance and service is needed>

- The intensification of price rivalry is caused by competition with Asian products.

Chinese and Southeast Asian companies are expanding. Many of these competitors don't have large-scale facilities in the U.S., and sell directly to customers over the phone or on-line. Even with the cost of shipping from Asia, since they have no overhead costs, they can be very competitive on price. [Electric or electronic parts]

- Price competition from Korean products has become particularly intense. We are working to differentiate ourselves with technology that is superior to that found in the cheap competitor products, and by offering service that considers customer needs. [Petroleum/chemical products]
- The import system is expected to change next year for a portion of the competing products from China. So we fear there will be an inflow of lower price products. [Ceramic, earth or stone products]
- There are some competing products from Asia, and there are Asian companies that have taken some of our market share, but our sales haven't declined. It's clear that the market is segmented by price and performance. [Machines (including molds and power tools)]
- Since the design is done in Japan, the point for achieving differentiation is how to improve production efficiency in the U.S. Reasons it is hard to raise production efficiency to the same levels as in Japan are 1) Difficulty hiring engineering talent for geographical reasons, 2) Facilities are outdated. [Parts for transportation machines (cars and motorcycles)]

5. Capital Investment

- Increases in capital investment were most notable among medical device and transportation equipment makers.
- For the comparison of capital investment between 2013 and 2014, about half (47.3%) responded that it remained the same, while 40.4% reported an increase, significantly exceeding the number reporting a decrease (12.3%) (Fig. 22). The reports of increases over the previous year were particularly high among companies involved in medical equipment (62.5%) and transportation machines (cars and motorcycles) (58.8%). The main uses of the capital investments in order of frequency (multiple answers permitted) were "Modernization and efficiency improvement of plants (include expanding or renewing of machines and facilities)" (70.8%), "Expansion of current production facilities" (28.4%), and "Enhancement of technology and R&D" (20.1%) (Fig. 23).

6. Changing Business Environment

- Looking at the production rate of goods for the U.S. market by country, U.S. production was the highest, at about 70%. For future production, many firms indicated even further expansion of production in the U.S. (187 firms, 36.7%). The percentage of those planning expansion in Mexico was also high (64.1%). In comparison, among companies currently using Japan as a production site, about 30% (76 companies) indicated that production would be decreased. The reasons given for the decisions to change the production system, in descending order of number of responses, include “Expansion of the U.S. market (supply from new bases),” “Requests from clients” and “Improvement towards the stable supply of products (Dispersion of risks).”
- Utilization rates of FTAs for import/export have risen, compared to those of the previous year. The FTA utilization rates are particularly high with NAFTA members like Canada and Mexico. The use of FTA for imports from Korea has also increased significantly from the previous year.
- Regarding the influence of the shale revolution, 20.2% of respondents reported that it was positive, significantly exceeding the 2.6% who stated that it was negative. Responses that constituted the majority were “We have felt no influence” (32.7%) and “We do not know” (44.5%). Concrete effects listed in descending order of number of responses: “Increase of product demands,” “Decrease of fuel costs” and “Decrease in raw material prices.”
- The industrial fields for which market expansion is most expected in the next few years were “Medical,” “Environment,” “Shale gas and Shale oil,” “Health,” and “Cloud and mobile.” Many respondents listed two states at the top as promising areas: Texas, where the population growth has been significant, and California, where Asian and Hispanic residents form nearly half of the entire population.

- Optimization of production system for sales in the U.S.
 - Regarding production rate for sales in the U.S. by country, U.S. ranked first at 72.6% (Japan: 14.7%; Mexico: 3.5%; Asia (excluding Japan, China): 3.5%; China: 2.9% and Canada: 1.0% (Fig. 24).
 - Future production system
 - The most selected response was that production in the U.S. would be further expanded (36.7%, 187 companies). Of this group, 123 companies indicated only expansion in the U.S. (Did not select “decrease” for any other country.) There were only 30 companies responding that production in the U.S. would be

reduced.

- Among firms with production bases in Mexico (including those planning such bases) most indicated that they planned to expand in the future (64.1%, 75 companies).
 - In contrast, among firms with production bases in Japan (including those planning such bases), more than 30% (76 companies) responded that reductions were planned (Fig. 25).
 - Among firms with production bases in China and Asia (other than Japan and China) (including those planning such bases), there were 12.8% planning reductions in China, and 10.5% planning reductions elsewhere in Asia.
- Combinations of regions with production base expansion (up) and offsetting reduction (down).

<Regions of “reduction” for the 187 companies indicating “expansion” in the U.S.>

- [U.S. (up)/Japan (down)]: 57 companies (Parts for transportation machines: 15, Chemical/Petroleum products: 7, General machinery: 5, Electric or electronic parts: 5, Transportation machines: 3, Rubber goods: 3, etc.)
- [U.S. (up)/Asia (down)]: 5 companies

<Region of “expansion” for the 30 companies indicating “reduction” for the U.S.>

- [Mexico (up)/U.S. (down)]: 13 companies (Parts for transportation machines: 8, Transportation machines: 2, etc.)
- [Asia (up)/U.S. (down)]: 5 companies (Parts for transportation machines: 2, etc.)

<Other country pair combinations>

- [Mexico (up)/Japan (down)]: 16 companies (Parts for transportation machines: 6, Transportation machines: 2, Electric or electronic parts: 2, etc.)
- [Asia (up)/Japan (down)]: 15 companies (Parts for transportation machines: 3, Electric or electronic parts: 2, General machinery: 2, etc.)
- [China (up)/Japan (down)]: 8 companies (Electric or electronic parts: 3, Chemical/Petroleum products: 2, etc.)
- [Mexico (up)/China (down)]: 5 companies (Parts for transportation machines: 3, Electric or electronic parts: 2)

- Reasons for changes to the policy in the future, in order of frequency include, “Expansion of the U.S. market (with supply of products from new bases)” (61.9%), “Requests from clients” (39.1%), and “Improvement towards the stable supply of products (Dispersion of risks)” (29.9%) (Fig. 26).

<One advantage of production in Mexico is the low wages>

- The advantage of Mexico is that the wages for employees below the management level are low. Wages are expected to continue to increase as European and U.S.

companies enter the market. Since there still isn't mass production (in Mexico), we don't have a complete understanding of logistics costs, and we are conscious that costly distribution may be an issue. [Parts for transportation machines (cars and motorcycles)]

- Some of the U.S. companies that we have as customers have a strong consciousness to "Buy American" (Not a legal requirement, just an attitude.) For that reason, there is some advantage to production in the U.S. [Rubber goods]
- From the cost perspective, we'd like to move production from the U.S. to another region, but there are many issues, including how to deal with the current employees. [Chemical/Petroleum products]

○ Utilization of bilateral or multilateral FTAs

- Since both Canada and Mexico are NAFTA member states, high rates of FTA usage were reported. For Canada, usage is 46.6% for exports and 48.1% for imports. With Mexico, the utilization rates are 49.3% for exports and 61.9% for imports. For the imports from Korea there has been a significant increase in the use of FTAs compared to the previous year (22.2% in 2013 and 51.0% in 2014) (Fig. 27).

○ Effects of the shale revolution in the U.S.

- With regard to the effects of the shale revolution, 20.2% indicated that the effects were positive, far exceeding the number indicating a negative effect (2.6%) (Fig. 28). However, more than half of those responding indicated that there was no effect or "effect unknown." Specific effects cited, in order of frequency, included "Increase of product demands" (49.3%), "Decrease in fuel costs" (39.0%), and "Decrease in raw material prices" (29.5%) (Fig. 29).

<Increase in demand for products related to shale development. Many voiced the opinion that they felt no direct benefit in terms of fuel costs>

- Since our products are used in products that use petroleum, demand expands as the petroleum industry grows. [Electric or electronic equipment]
- We have heard that benefit from the drop in price of raw materials has been big. Since most of the ethylene we use as a raw material is derived from natural gas, an increase in shale gas production is linked to dropping prices.
[Chemical/Petroleum products]
- Since transportation costs are not only affected by fuel prices, and a large portion is due to insurance and labor costs, we haven't really felt much of a benefit. We are

also not very happy about the fact that gasoline prices have remained higher here than in surrounding states. [Processed food, agricultural or fishery products]

- The demand for our products is increasing. Out pipe is used for pipeline transport. We can also expect to see a steady maintenance demand. [Machines (including molds and power tools)]
- The benefit of the shale revolution is a drop in gasoline prices. When gas prices drop, there is a problem with a decline in the sales of hybrid cars, but overall, the big vehicles like the SUVs are selling, so that may be a factor. [Parts for transportation machines (cars and motorcycles)]
- Since there are large supplies of raw materials in Texas, you would think you could get them cheaply, but the prices haven't been decreasing. I think the electricity prices are competitive compared to neighboring states. One disadvantage is the high insurance premiums because of the hurricane risk, and labor costs have been increasing recently. [Chemical/Petroleum products]

○ Areas in which the markets are expected to grow in the next two or three years

<Industry field>

- The U.S. markets expected to experience growth in the next few years selected by the respondents (up to a maximum of three fields), in order of frequency, were Medical (48.9%), Environment (46.9%), Shale gas and Shale oil (40.4%), Health (27.8%), and Cloud and mobile (storage, Big Data, mobile devices, SNS, etc.) (27.8%) (Fig. 30).

< Growing populations and increasing awareness of health has a positive effect on industries such as medicine, health, and food >

- Interest in the environment is spreading to government-related areas. Shale gas will not just be for domestic consumption, I think the exports to places like Japan and Europe will also increase. Recently, the leak of credit card information from large retail chains has become a big problem, so the need for data security is growing. [Electric or electronic parts]
- The population continues to grow, which supports all industries. I think there will be wide expansion in fields related to foods and security. [Chemical/Petroleum products]
- With increasing health-awareness, there are large changes in consumer demands. There are opportunities for products with high functionality and products that use natural ingredients. [Processed food, agricultural or fishery products]

<Region>

- The regions selected as most likely to grow in the next two to three years were distributed, with the South (73.8%), West (47.3%), Midwest (41.4%) and Northeast (32.0%) (Fig. 31). The main types of industry selecting the South were general machinery and plastic products. The main industries selecting the West include medical devices, electric or electronic parts, and processed food, agricultural or fishery products.
- Looking at the selection by state, the respondents indicated Texas (58.5%), California (36.7%), Ohio (22.7%), New York (19.4%), and Georgia (15.5%) (Fig. 32). The top two were Texas, where population growth is notable, and California, where the Asian and Hispanic residents account for nearly half of the total population.

<The most promising states are Texas and California>

- Our customers, the high-tech companies (biotech, semiconductors, etc.) are concentrated in California. The proportion of this kind of company being established here is higher than on the East Coast. The head office functions cannot be easily moved, but engineers, etc. are being concentrated on the West Coast. [Electric or electronic parts]
- The semiconductor market is showing signs of growth both in Texas and California. I frequently make business trips to Texas and can feel the energy of the economy. Phoenix, Arizona has the same kind of vitality. [Chemical/Petroleum products]
- Regions where market growth is expected are 1) The tri-state area including New York, New Jersey, Connecticut (population growth), 2) California (environment-related business customers), and 3.) North Dakota (energy-related customers). [Electric or electronic parts]
- With the transfer of major auto makers, we are studying a transfer of our sales functions, but not production, to Texas. [Parts for transportation machines (cars and motorcycles)]
- From a wage management perspective, in Texas you only have to pay federal taxes; there is no state or local taxes. It's also easy to operate factories because the labor regulations aren't so restrictive. [Chemical/Petroleum products]

Fig. 1: Changes in year-to-year operating profit as indicated by DI and real U.S. GDP growth rate

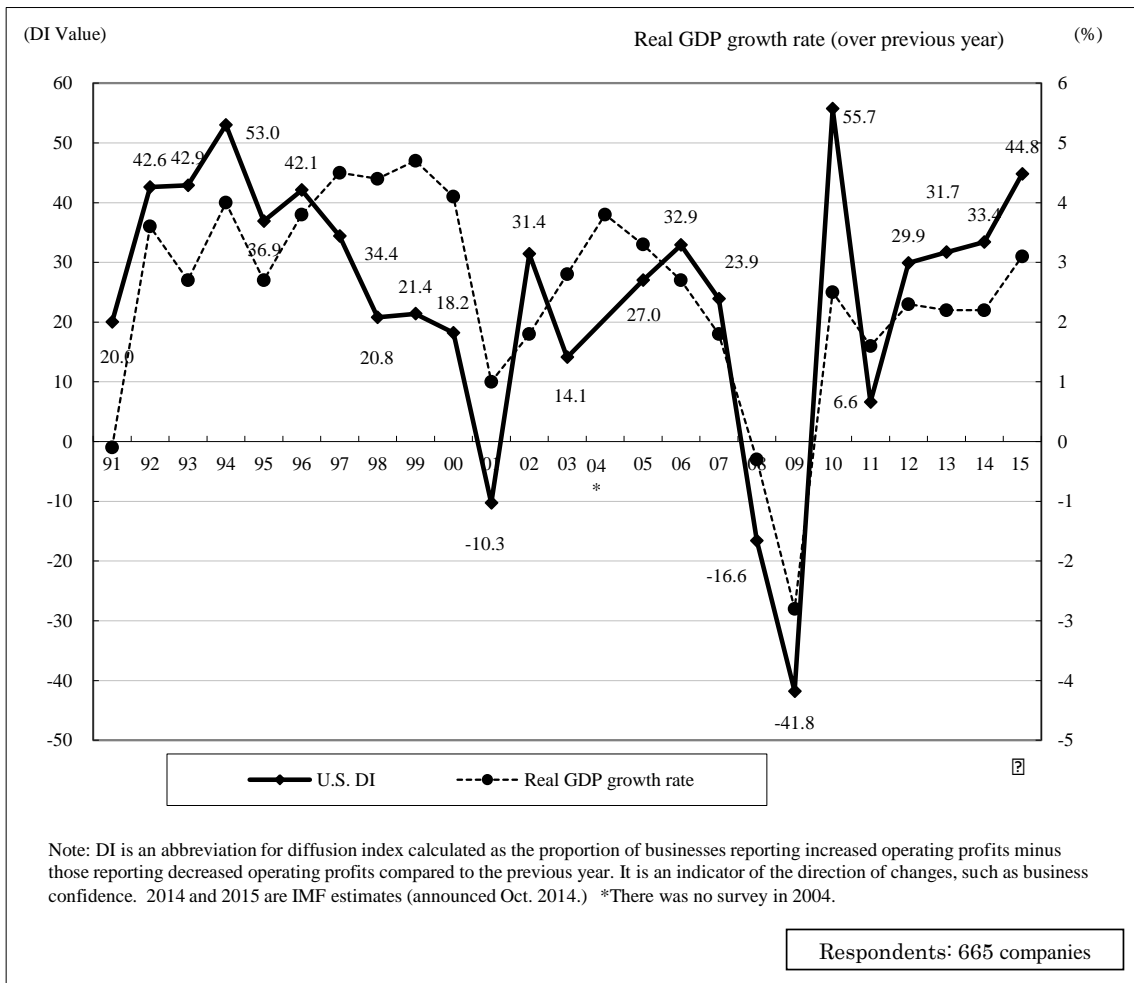


Fig. 2: Year-to-year operating profit changes

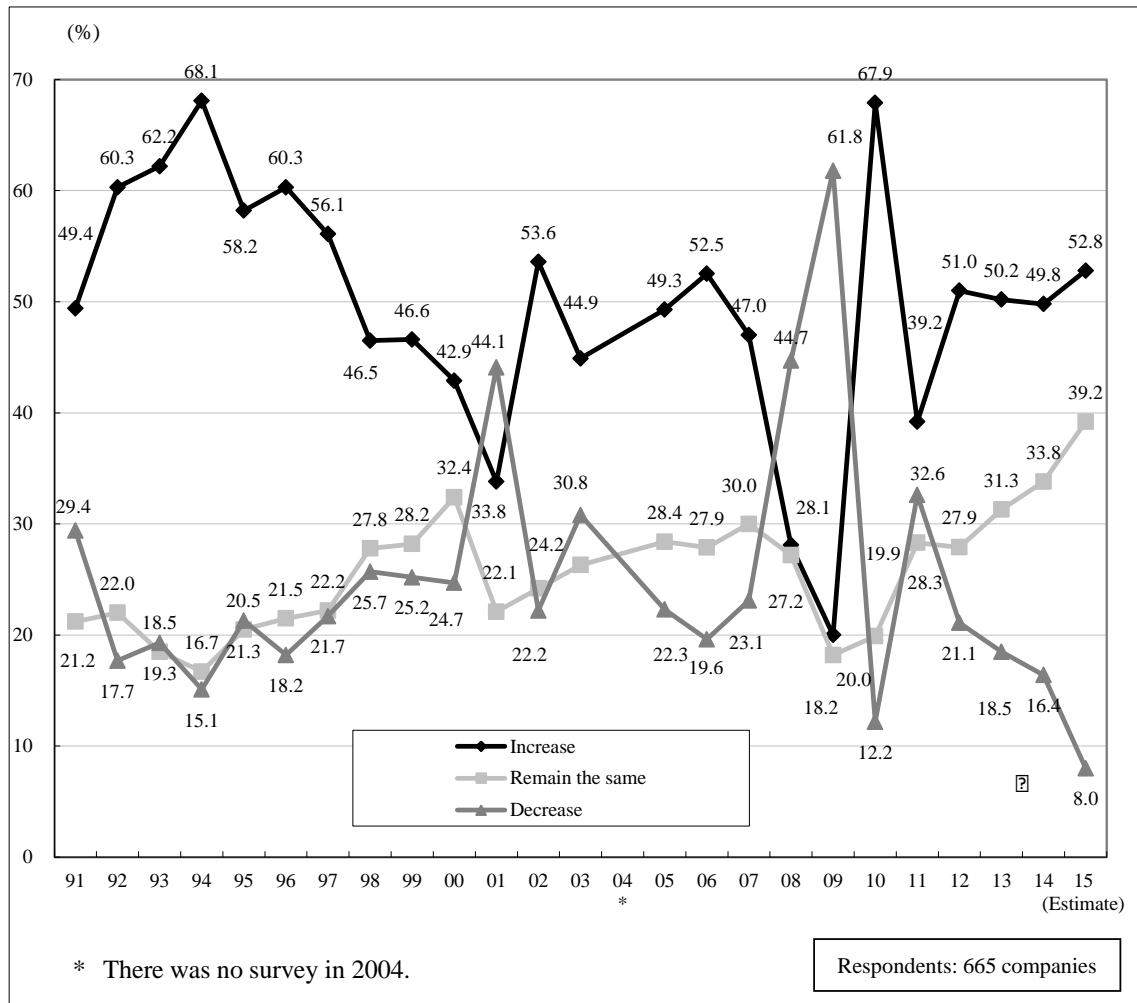


Fig. 3: Reasons for increased operating profits forecast for 2014 (Multiple answers)

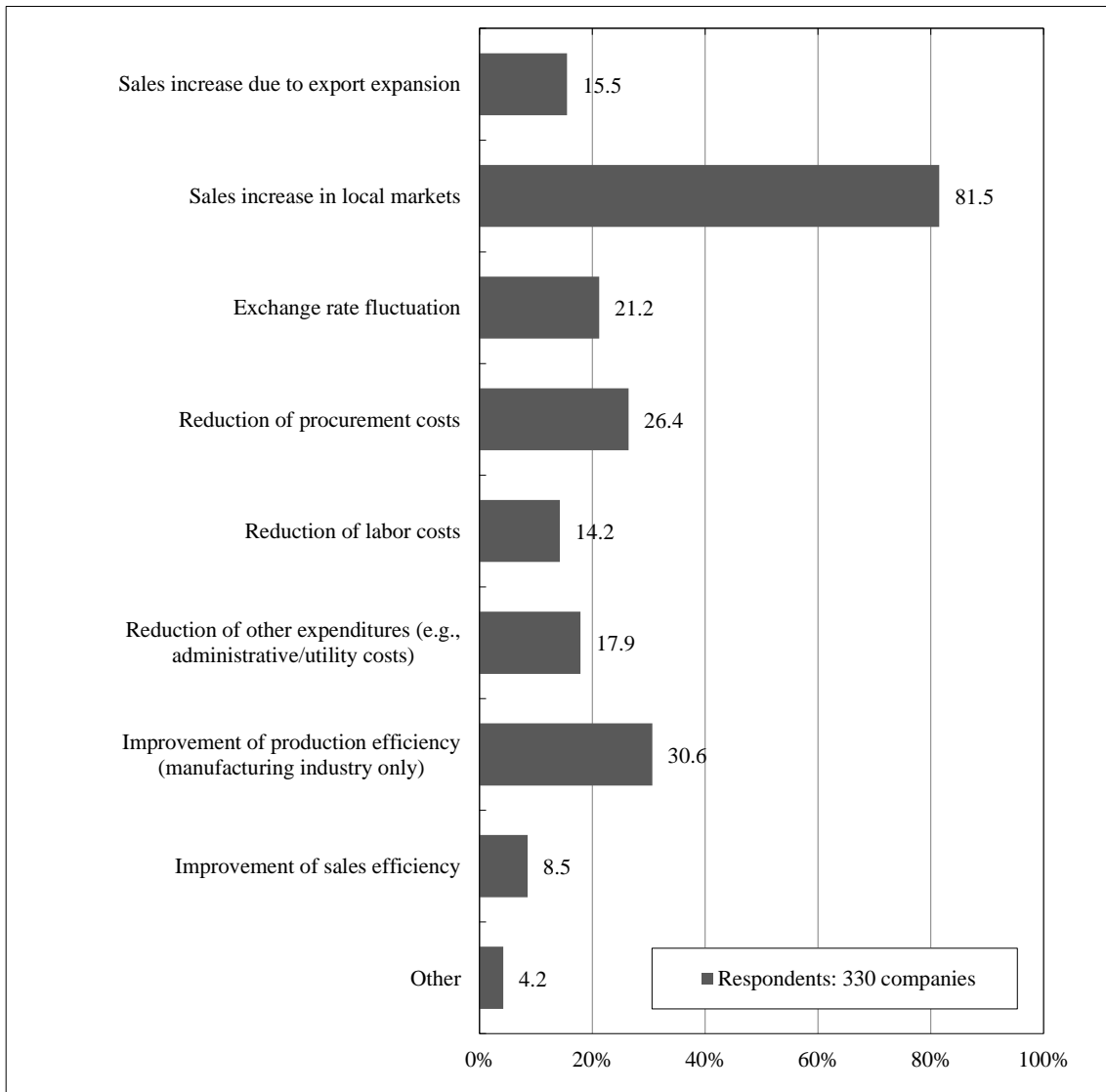


Fig. 4: Reasons for decreased operating profits forecast for 2014 (Multiple answers)

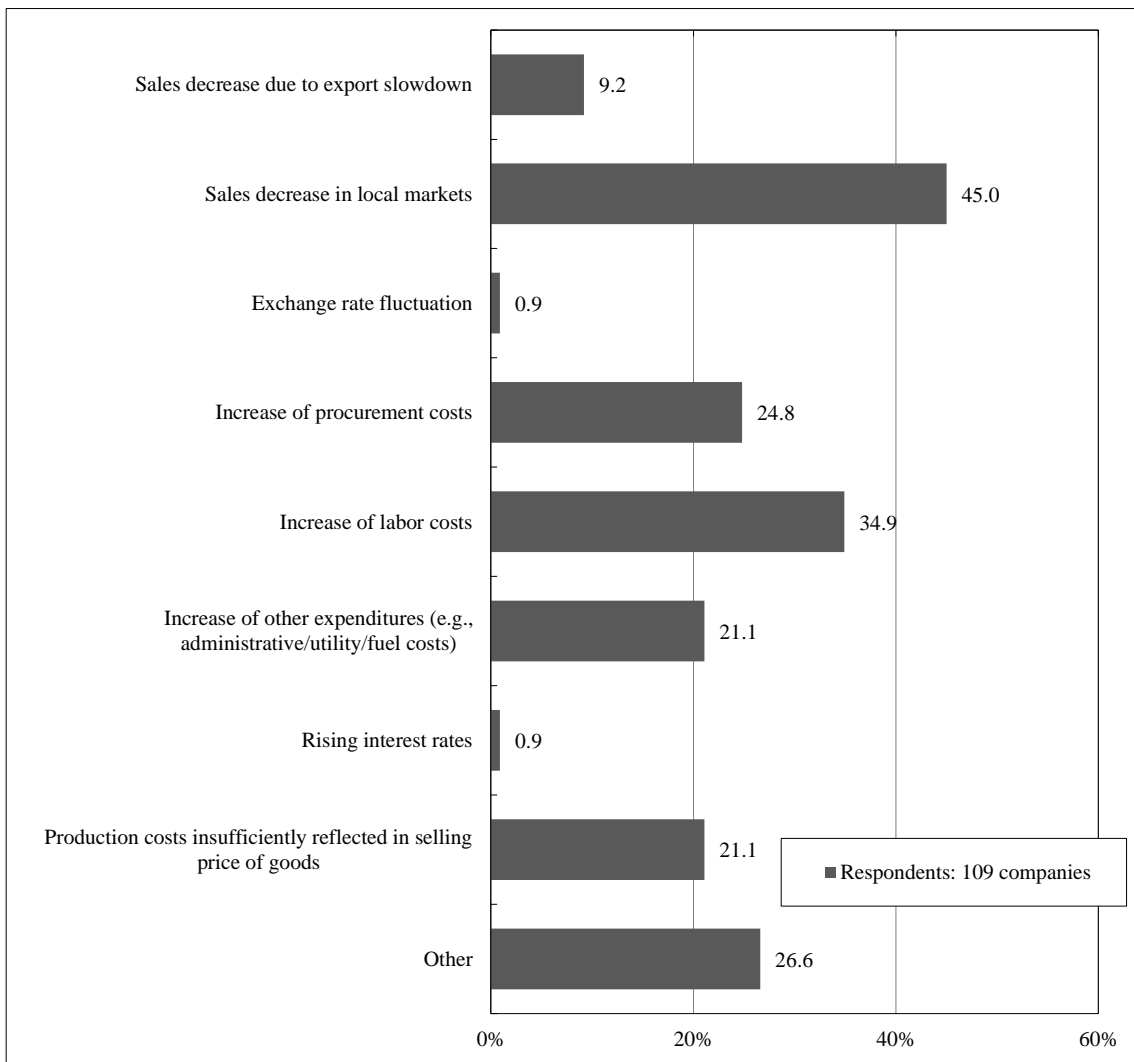


Fig. 5: Changes in operating profit and real U.S. GDP growth rate

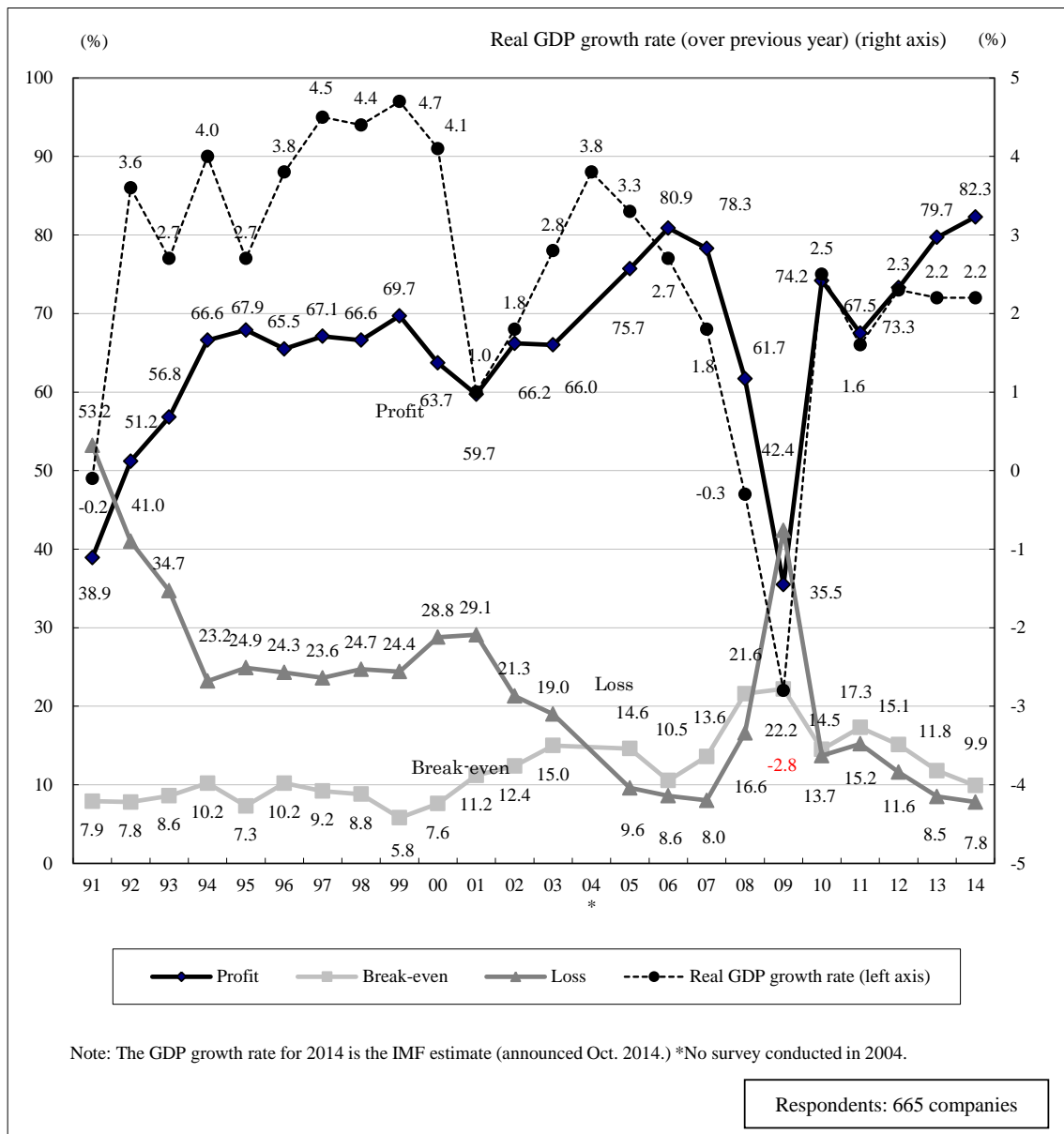


Fig. 6: Reasons for increased operating profits forecast for 2015 (Multiple answers)

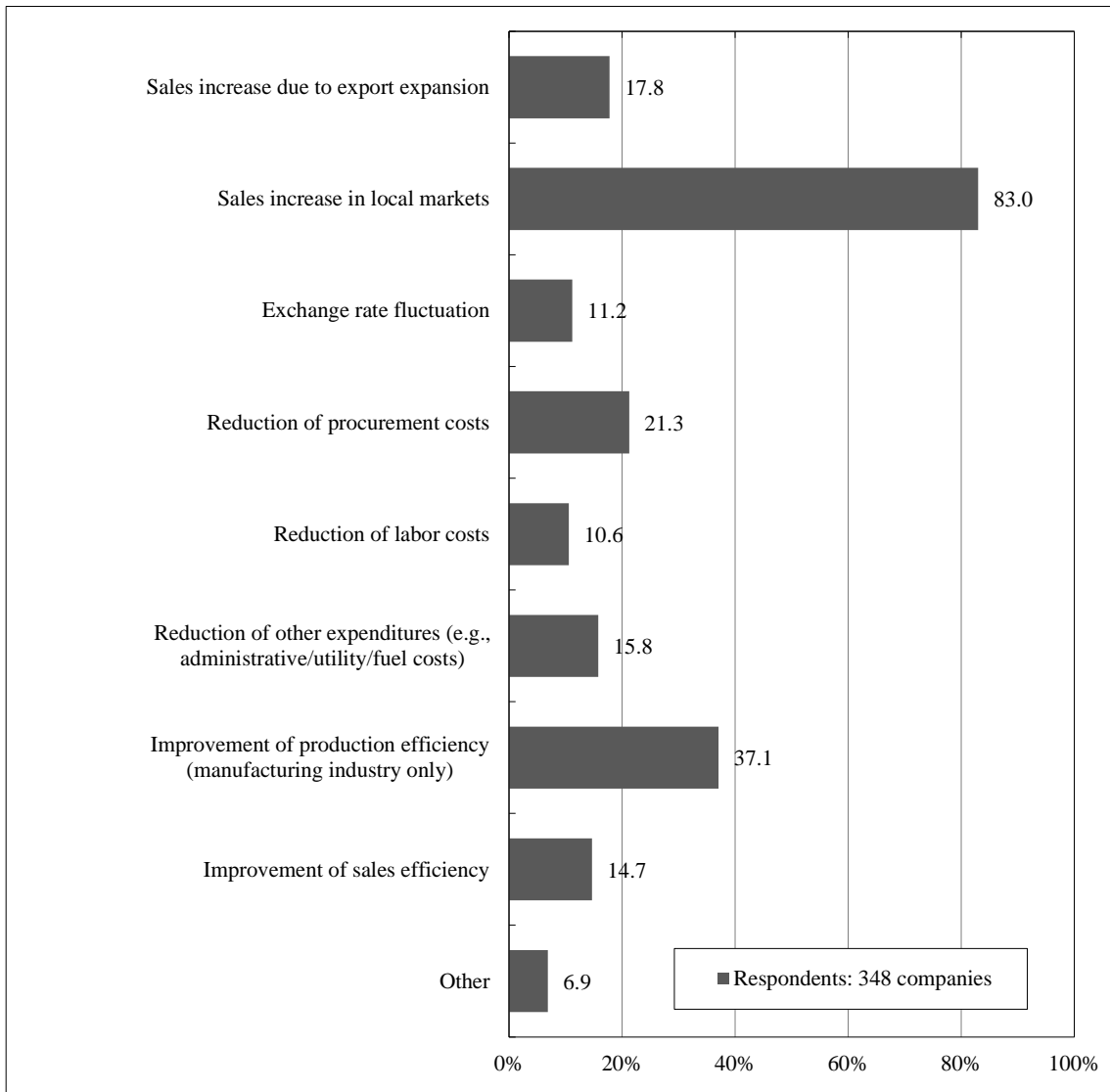


Fig. 7: Reasons for decreased operating profits forecast for 2015 (Multiple answers)

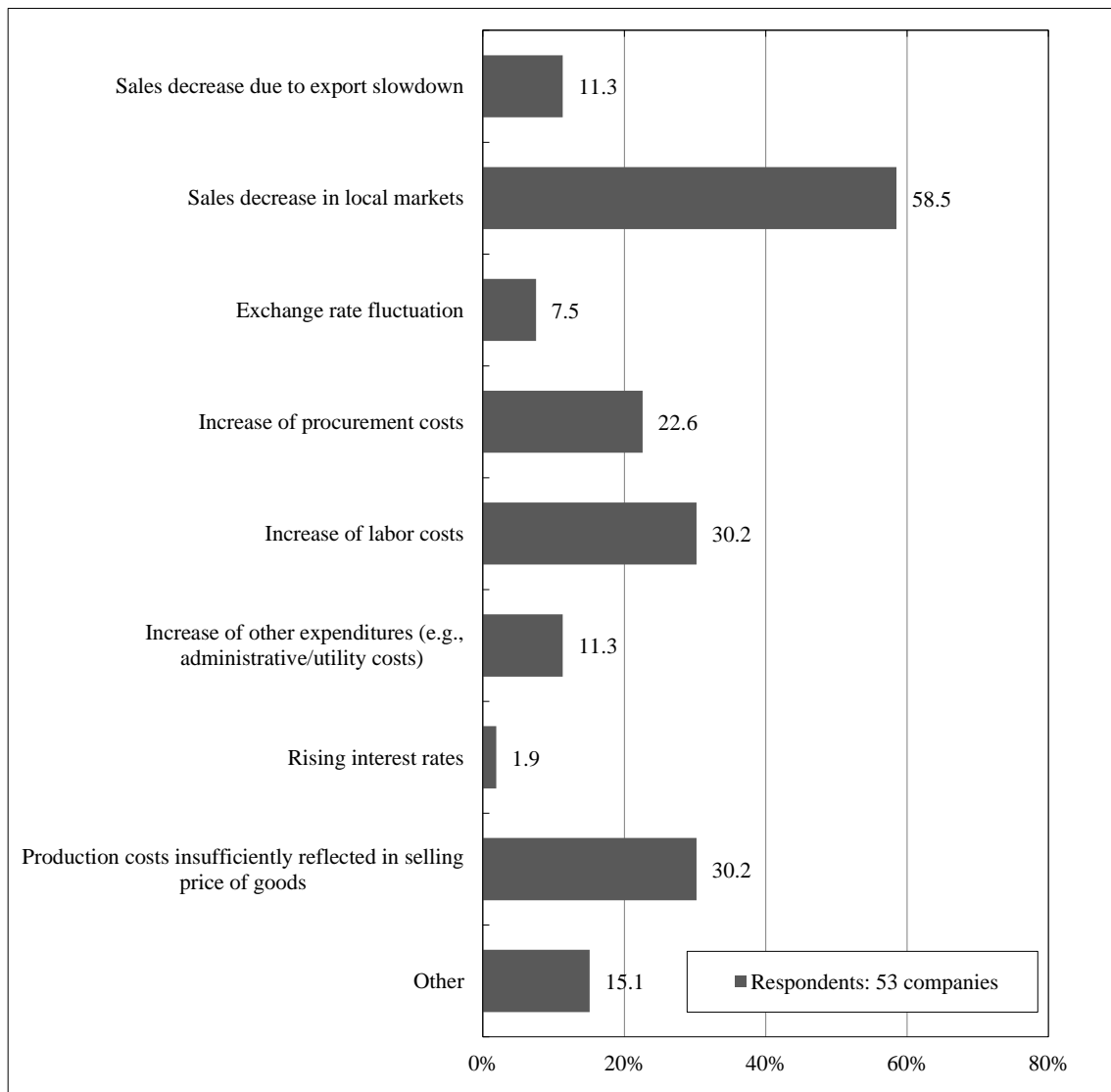


Fig. 8: Business development in the next one or two years

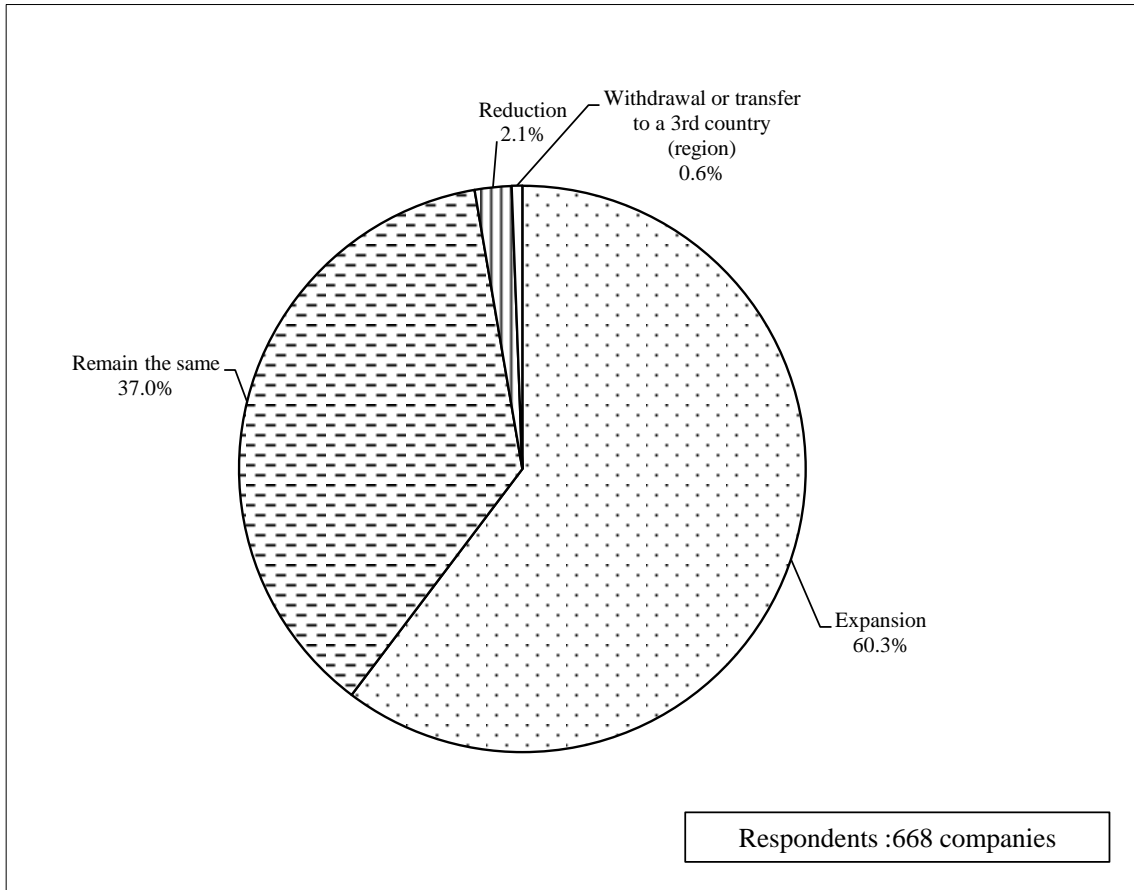
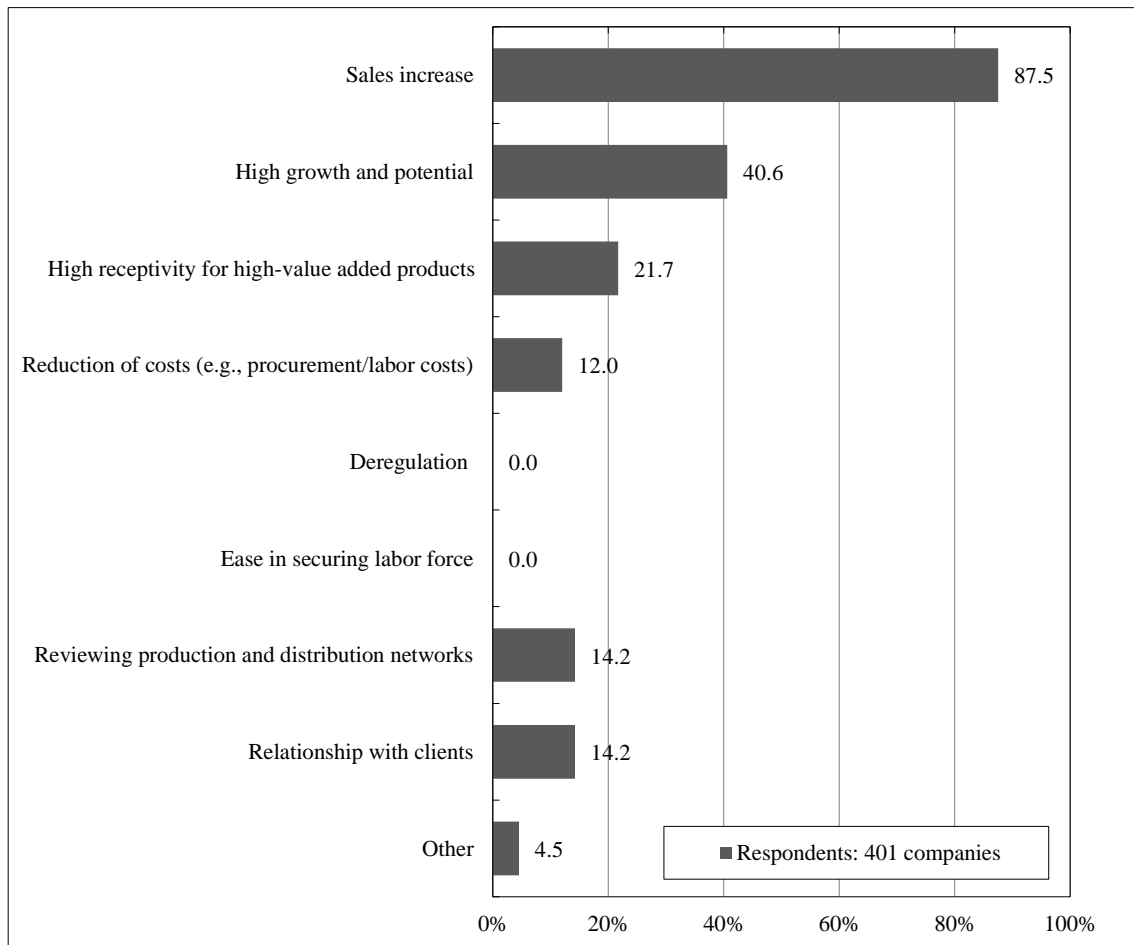


Fig. 9: Reasons for the future business expansion in the next one or two years (Multiple answers)



**Fig. 10: Expanding functions in case of business expansion in the next one or two years
(Multiple answers)**

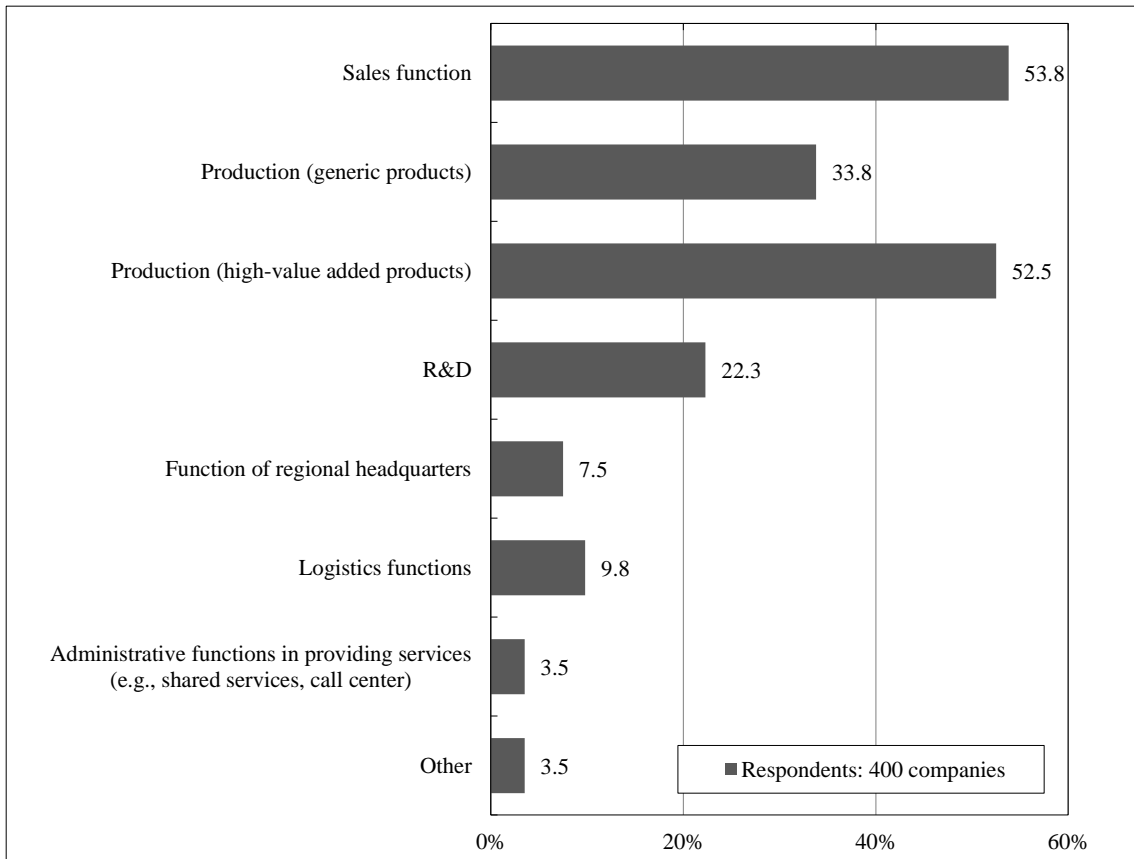


Fig. 11: Measures to encourage localization of corporate management (Multiple answers)

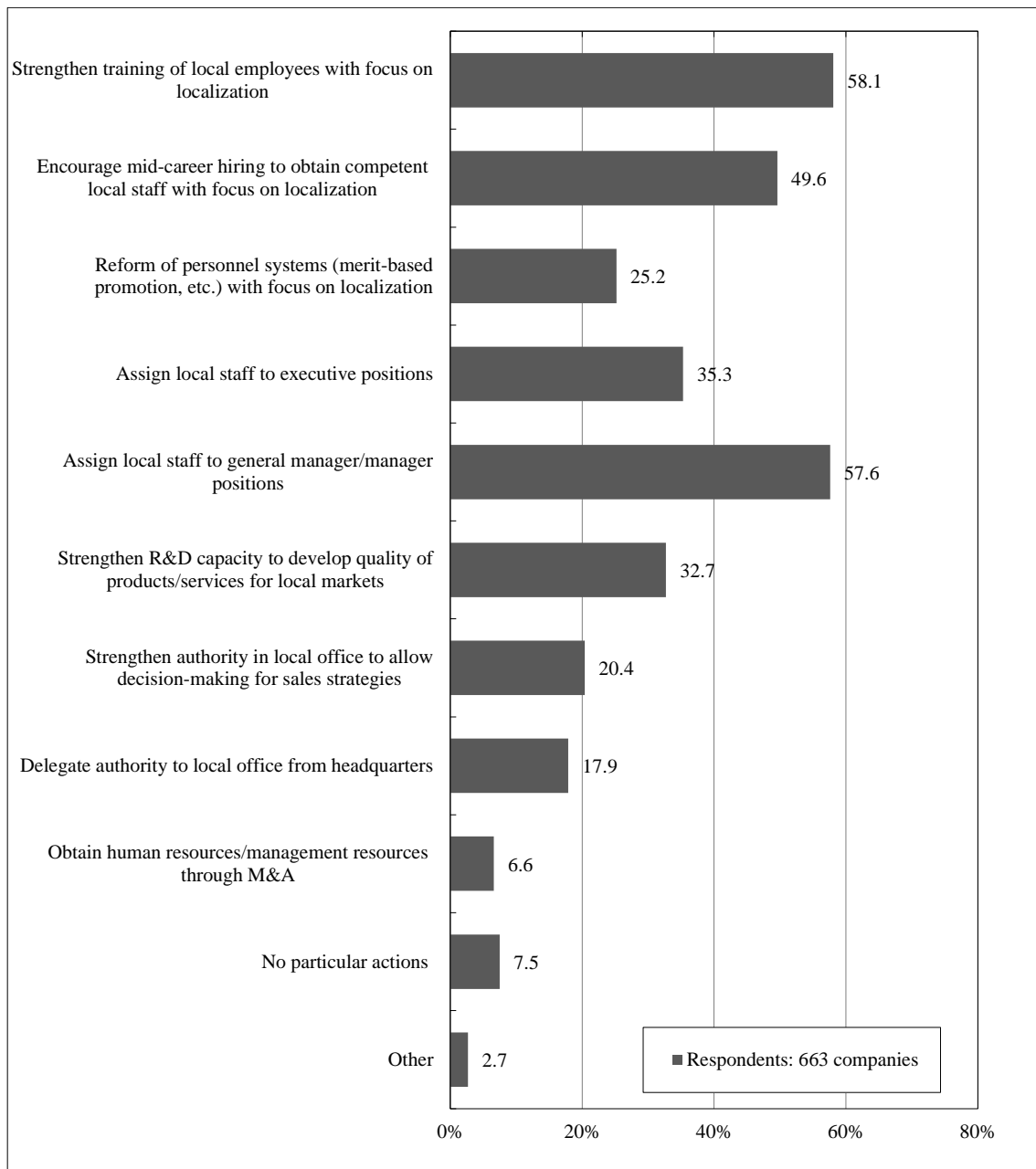


Fig 12: Issues faced in promoting management localization (Multiple answers)

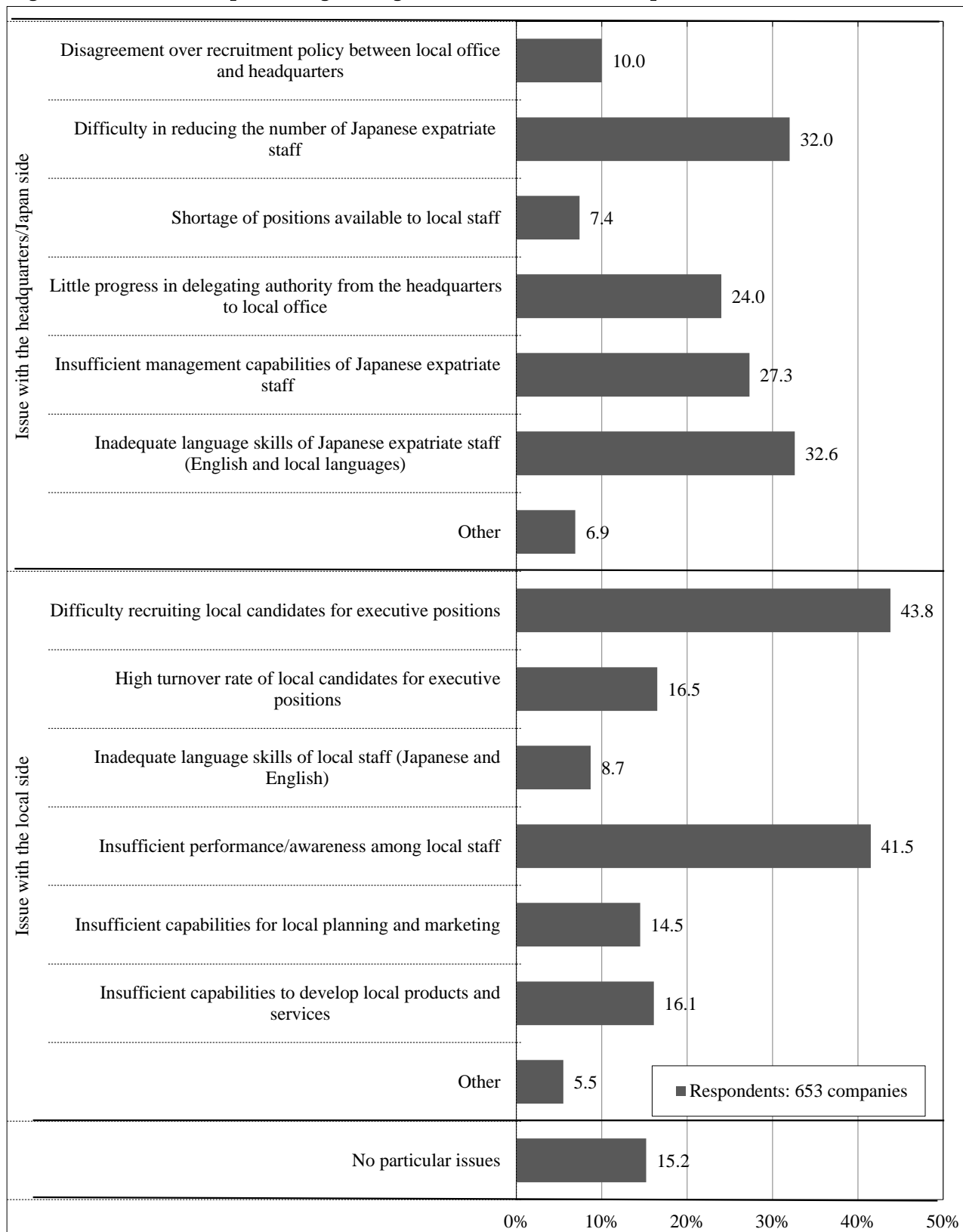


Fig. 13: Changes in the past 1 year and future plans for number of local employees

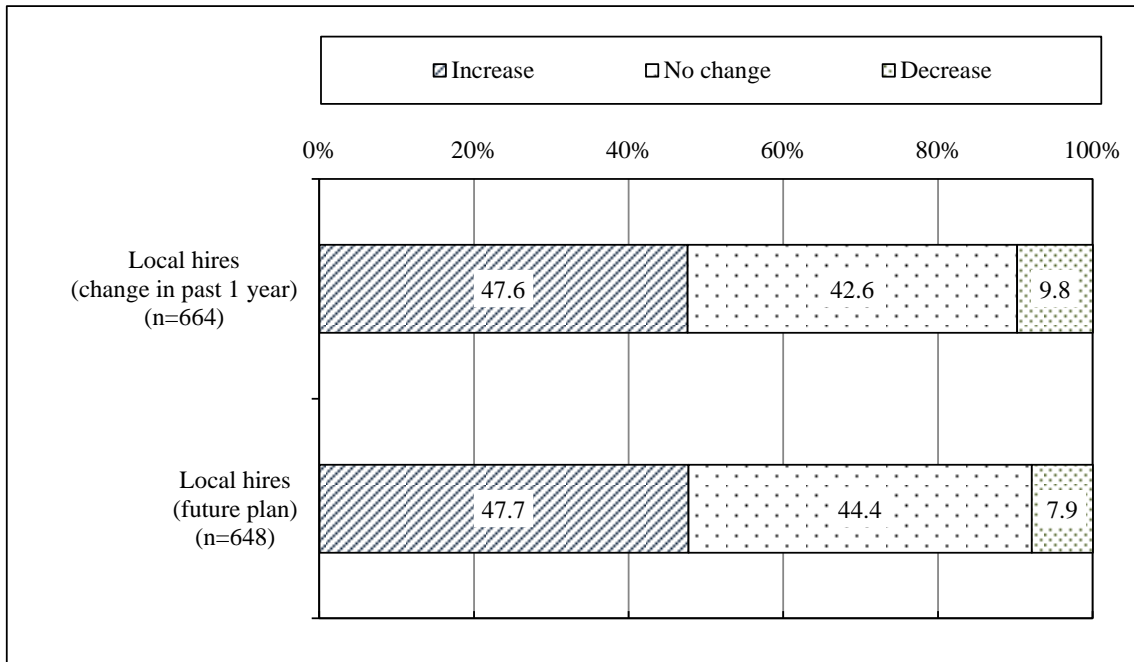


Fig. 14: Changes in the past 1 year and future plans for number of Japanese expatriate staff

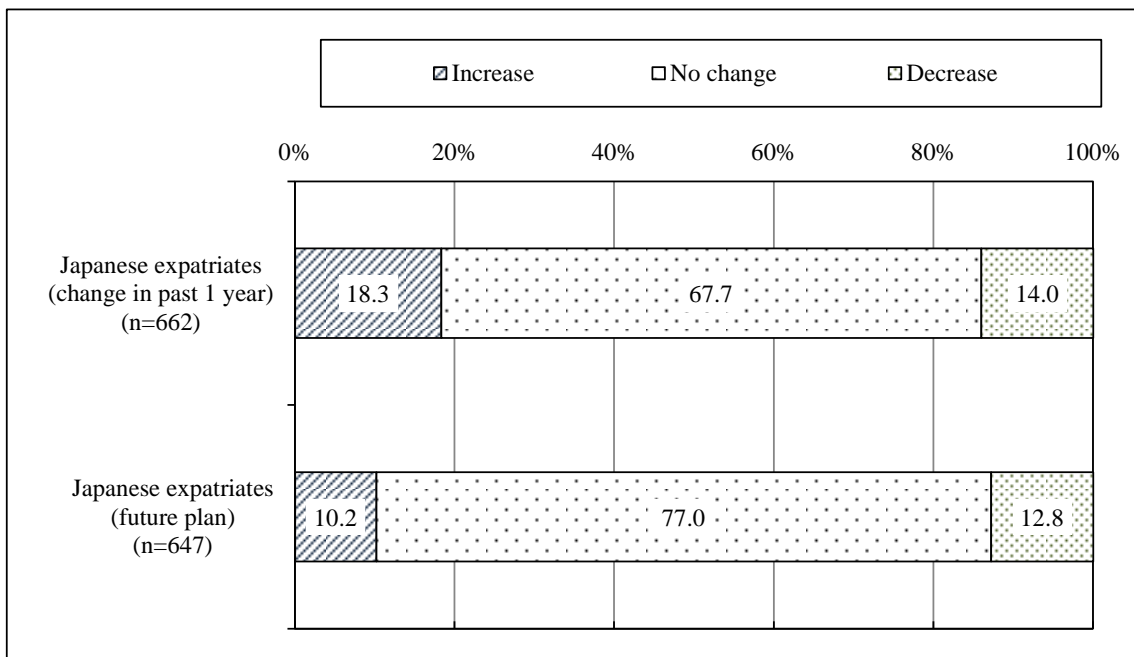


Fig. 15: Breakdown of product sale destinations (By country/region and industry)

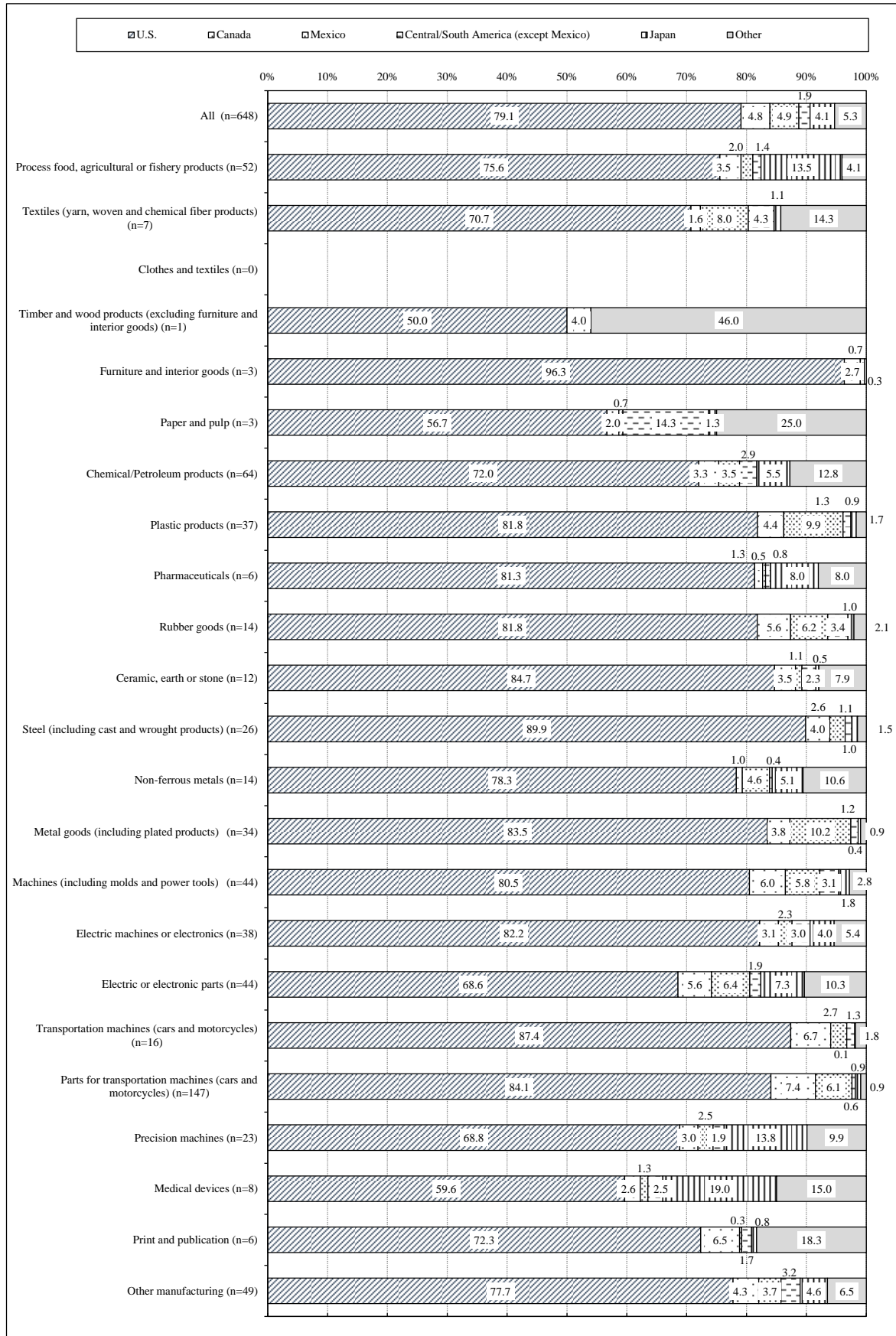


Fig. 16: Future plans for changes in product procurement destinations (by country/region)

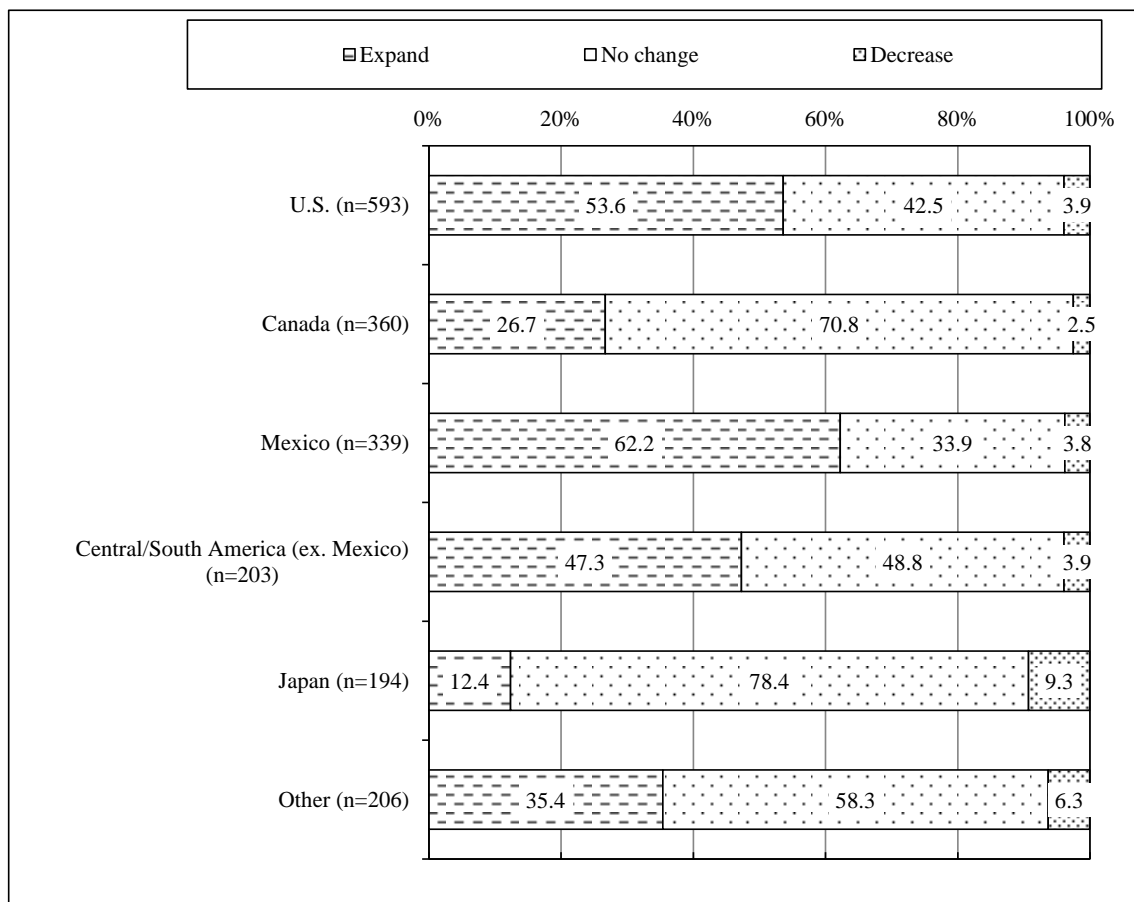


Fig. 17: Breakdown of material/parts procurement sources (By country/region and industry)

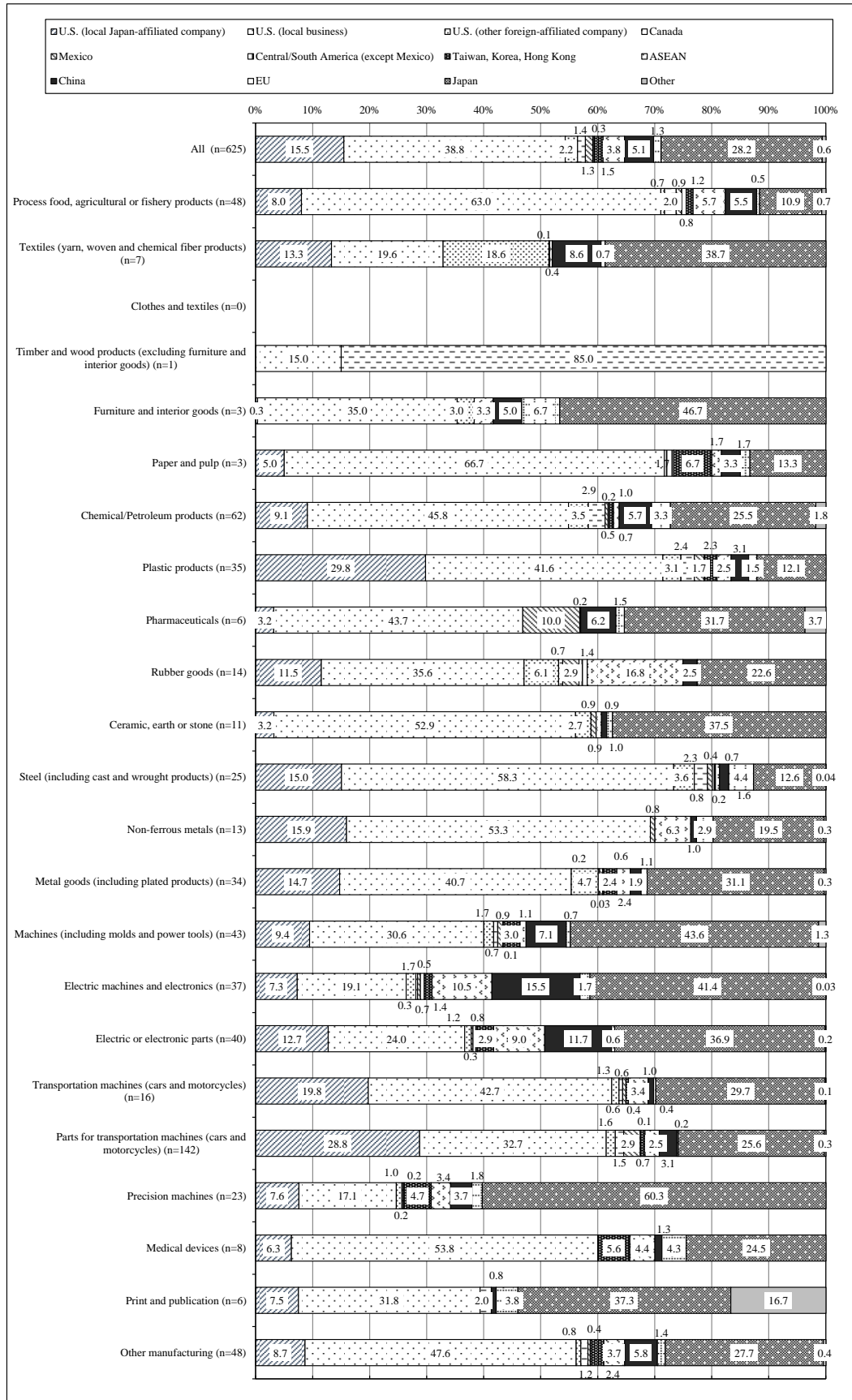


Fig. 18: Future plans for material/parts procurement sources (by country/region)

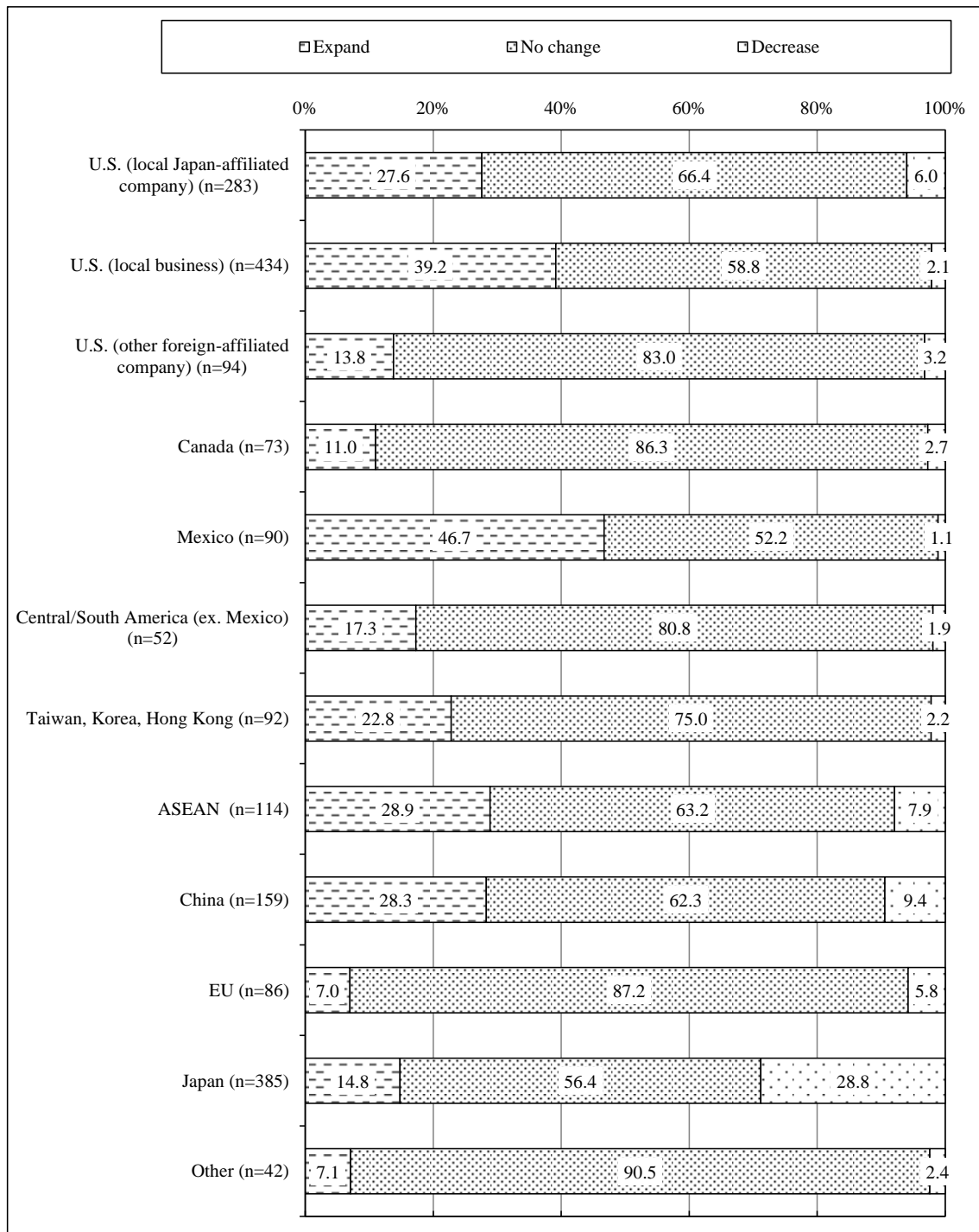


Fig. 19: Management Challenges: Management problems in general (Multiple answers)

Rank	Item	Respondents (625)	Rate (%)
1	Recruiting engineers	376	60.2
2	Retention of workers	244	39.0
3	Recruiting workers for management positions	236	37.8
4	Recruiting regular workers	219	35.0
5	Safety measures (for automobiles, food, medicines, etc.)	46	7.4
6	Assisting Japanese expats (e.g. acquiring driver's licenses, social security number, etc.)	35	5.6
7	Acquiring work visas for Japanese expats	32	5.1
8	Employment Procedures	23	3.7
9	Labor union related disputes including strikes	17	2.7
10	Antitrust measures	15	2.4
	Other	63	10.1

Fig. 20: Management Challenges: Factors of cost increases (Multiple answers)

Rank	Item	Respondents (653)	Rate (%)
1	Increase in labor costs (including salaries and bonuses)	489	74.9
2	Increase in health insurance (healthcare) costs	372	57.0
3	Increase in raw material, natural resource and commodity prices	343	52.5
4	Increase in transportation costs (including gasoline)	172	26.3
5	Yen/ dollar exchange risk	149	22.8
6	Increase in fuding costs	61	9.3
7	Increase in costs due to tightened regulations on distribution/logistics	56	8.6
8	Legal costs (compliance-related matters)	49	7.5
9	Increase in tax	32	4.9
10	Labor management costs (labor disputes/lawsuits)	24	3.7
11	Visa application costs	4	0.6
	Other	17	2.6

Fig. 21: Management Challenges: Factors of weak sales (Multiple answers)

Rank	Item	Respondents (647)	Rate (%)
1	Severe price competition	523	80.8
2	Popular products from competitors	370	57.2
3	Difficulty in differentiation from competitors	241	37.2
4	Difficulty expanding sales channels	153	23.6
5	Low awareness of company's products and technologies	84	13.0
6	Pirated or counterfeit products	39	6.0
7	Strict regulations for government permits and licenses regarding sales	35	5.4
8	"Buy American" rules (priority for U.S.-made products for government procurement)	20	3.1
9	Decrease in sales and disruption of distribution channels due to natural disasters	10	1.5
	Other	15	2.3

Fig. 22: Changes in capital investment in 2014, compared to 2013

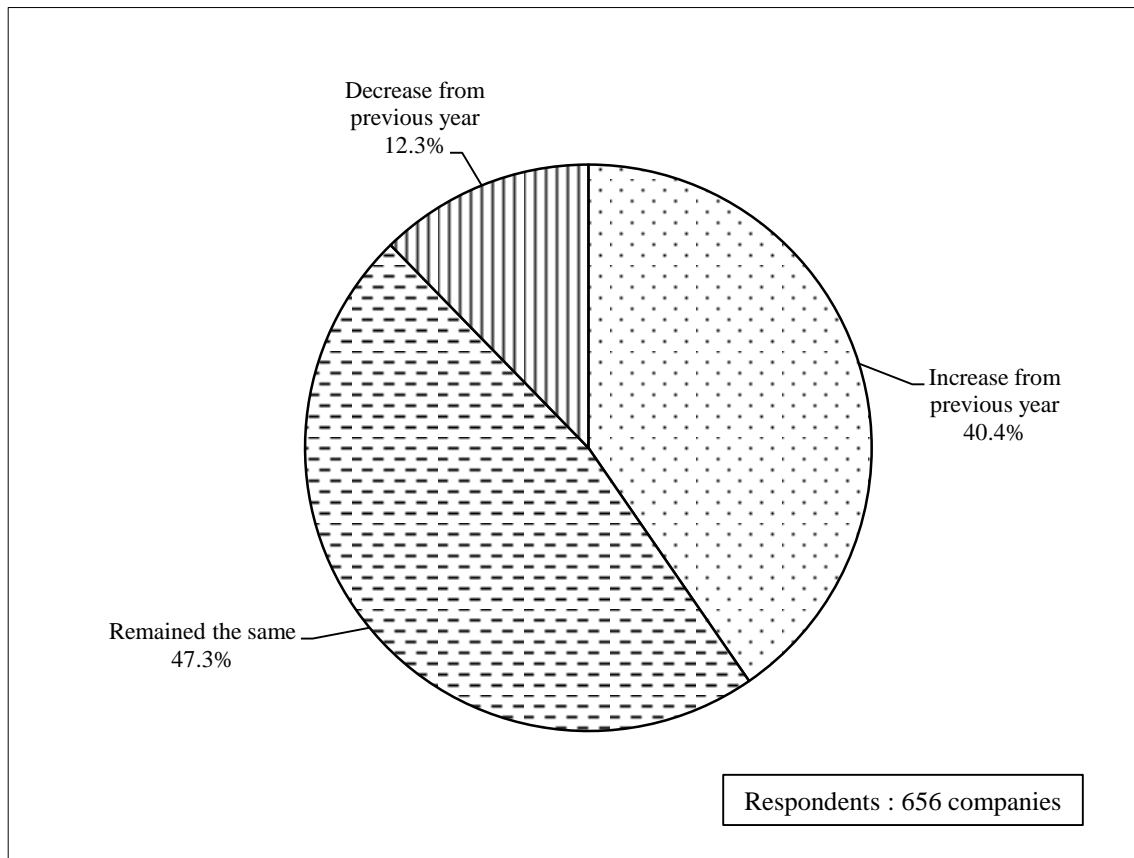


Fig. 23: Usage of capital investment in 2014 (Multiple answers)

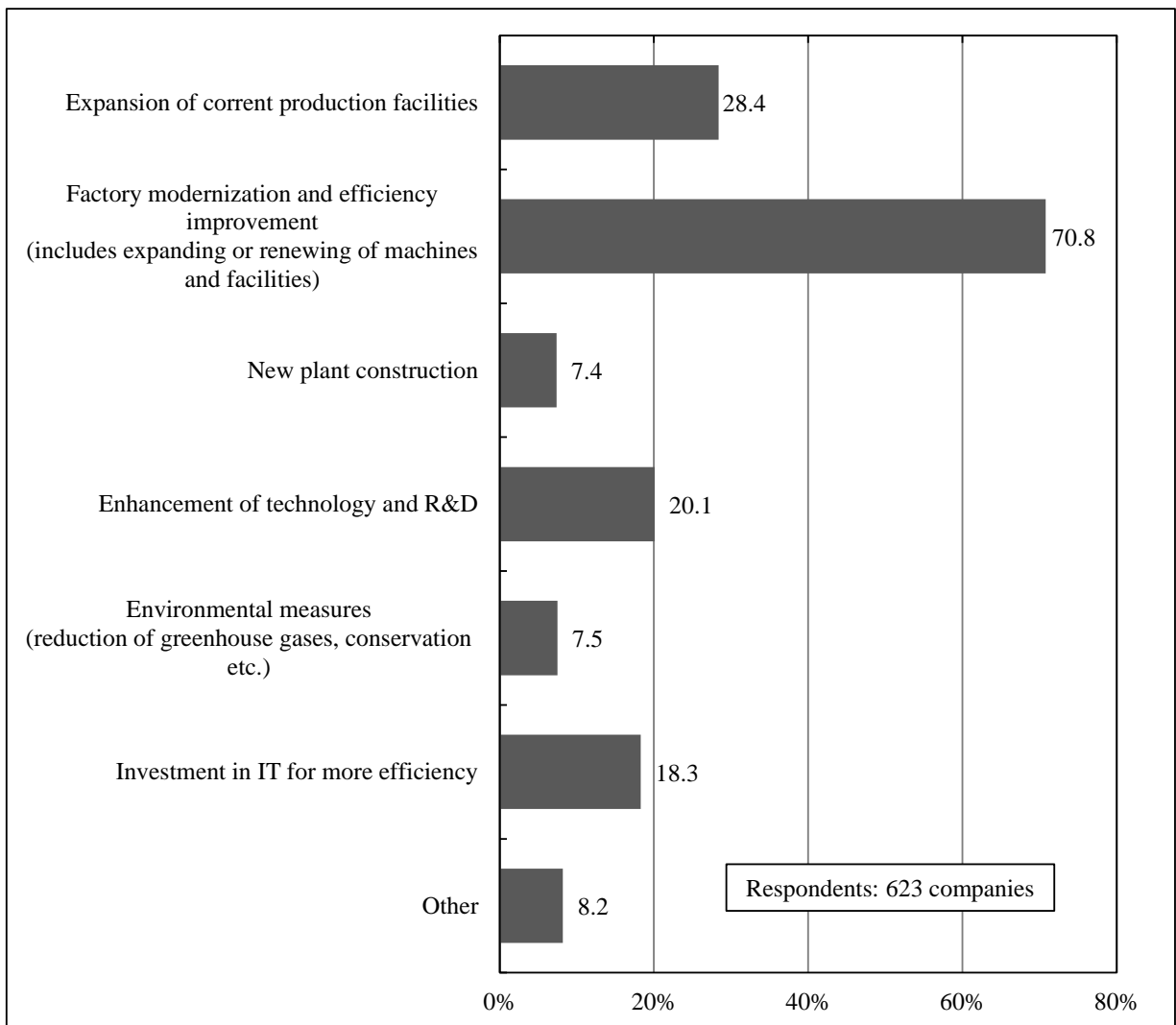


Fig. 24: Production distribution for sales in the U.S. market (By country/region and industry)

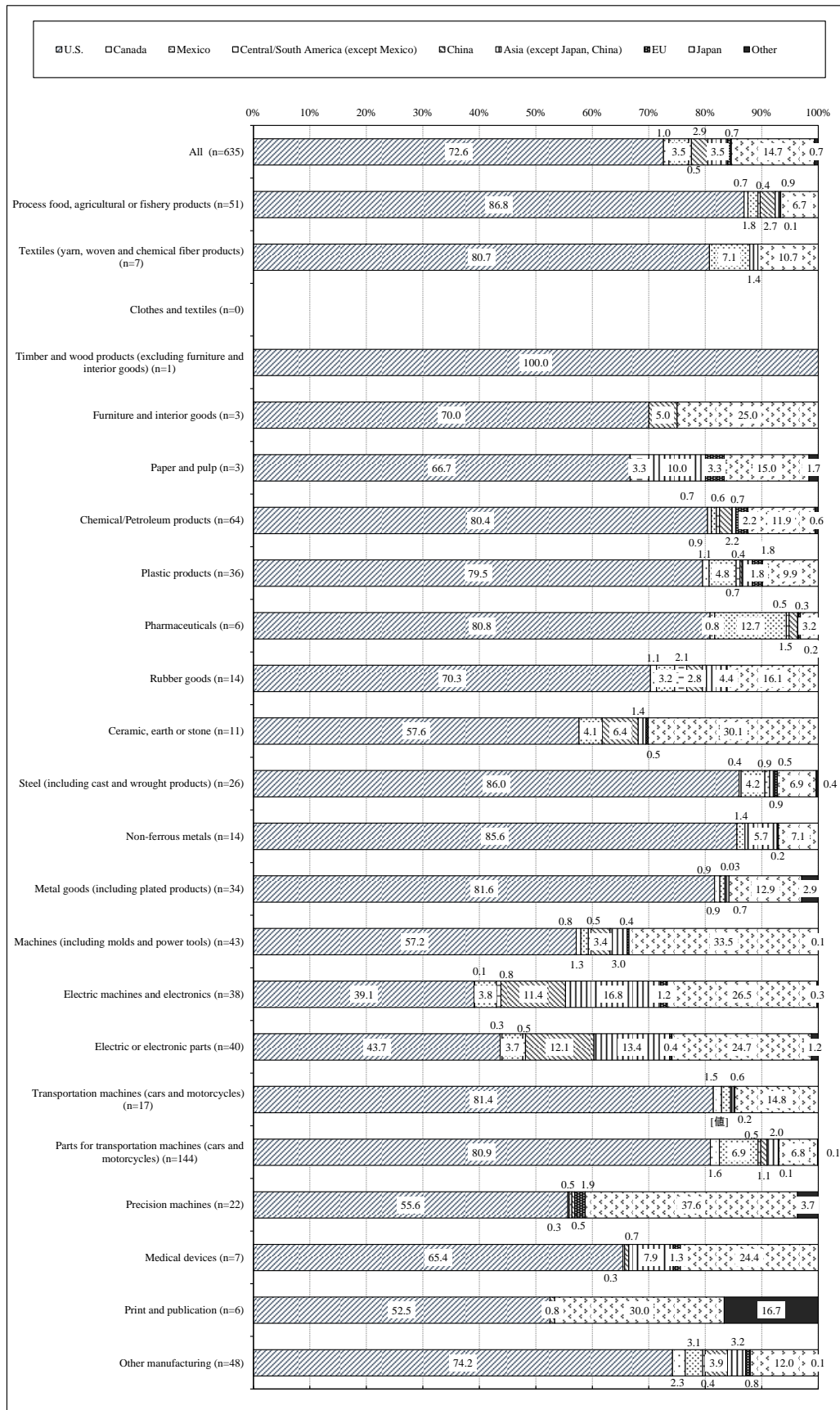


Fig. 25: Future plans for production for sales in the U.S. market (by country/region)

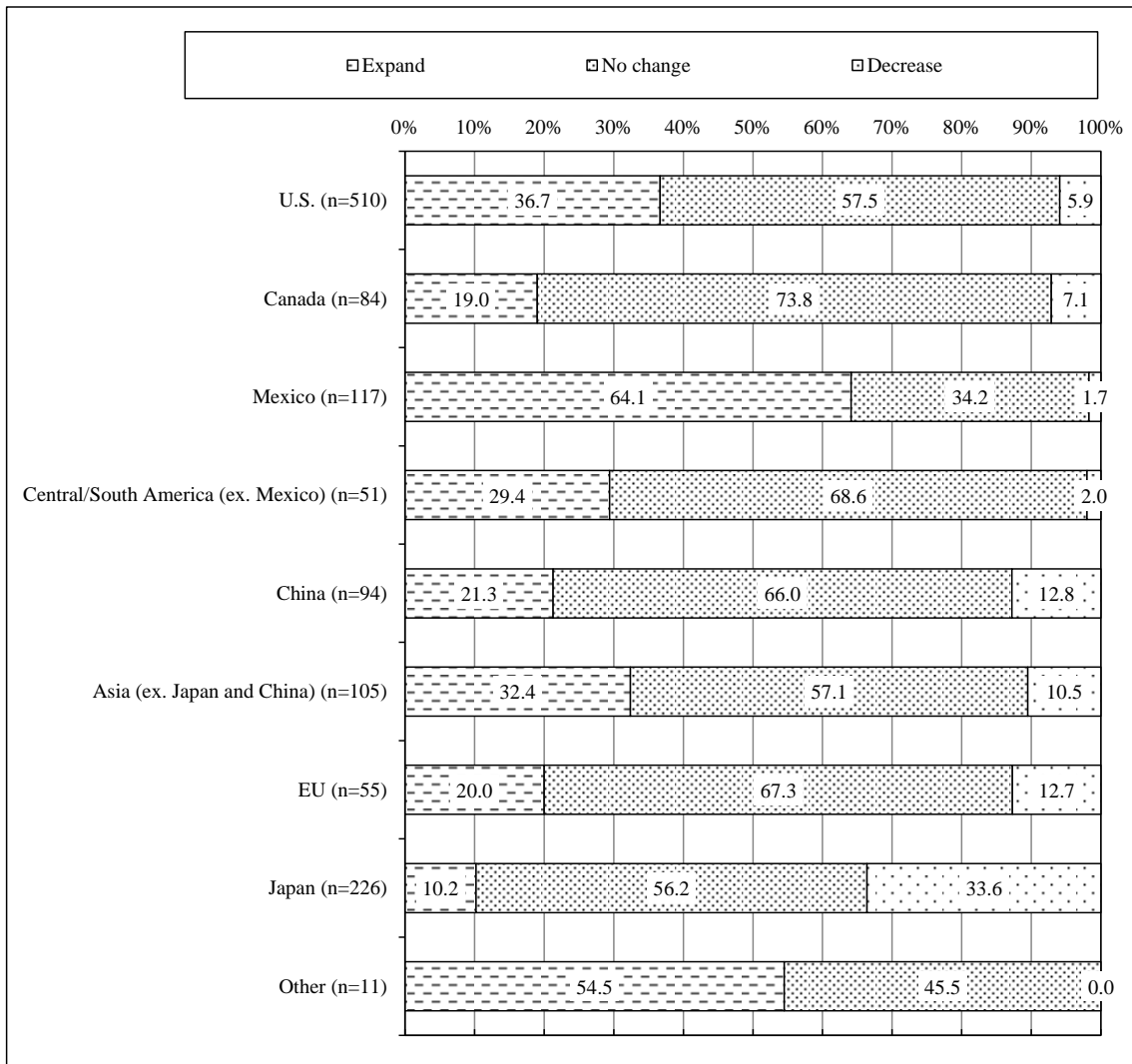


Fig. 26: Optimization of production: Reasons for changes in future plans (Multiple answers)

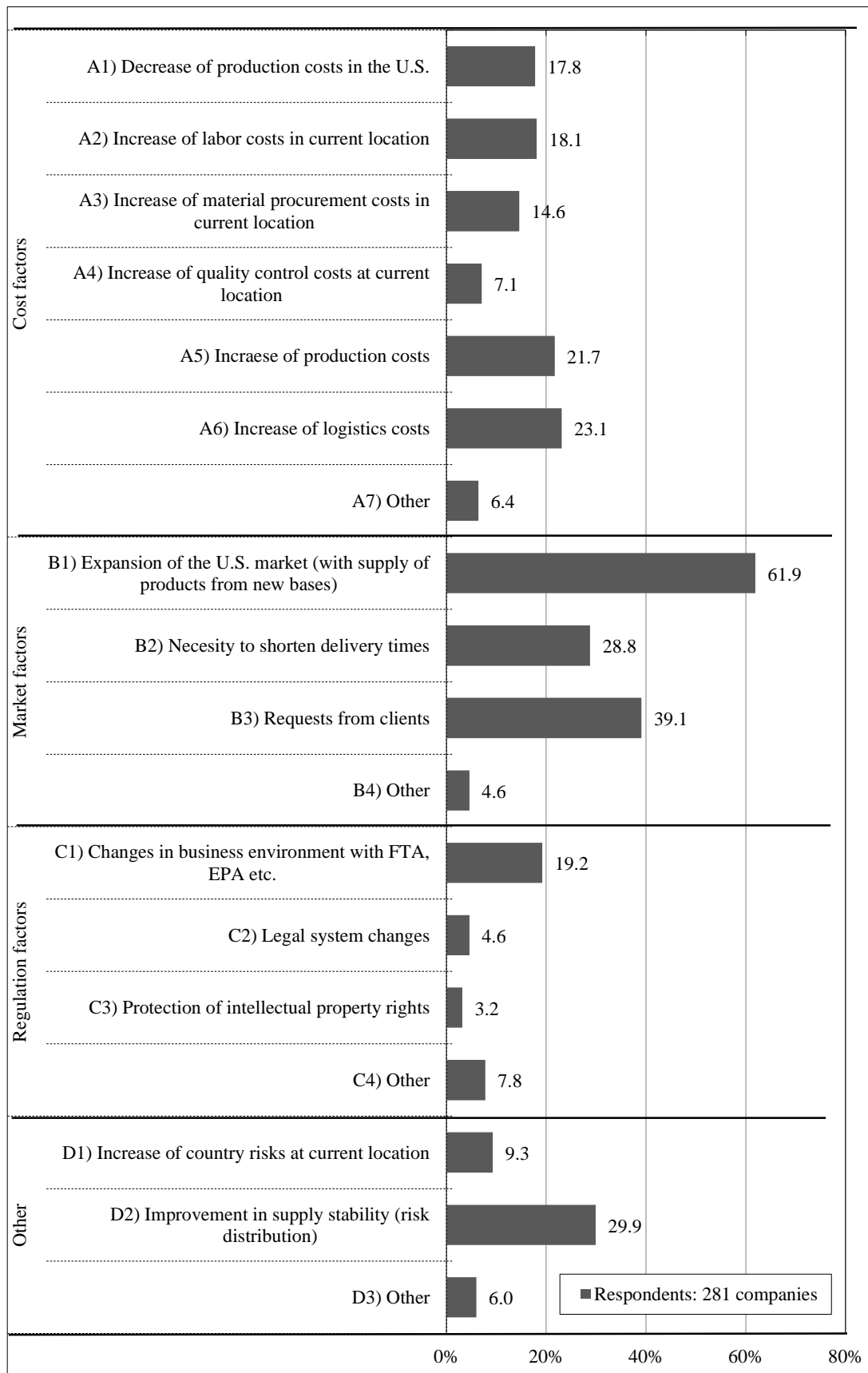


Fig. 27: Bilateral/Multilateral FTA utilization

	For Exports , do you make use of /are you investigating the use of FTA preferential tariffs?				For Imports , do you make use of /are you investigating the use of FTA preferential tariffs?			
	No. of valid responses	Using	Studying use	Not using (not planned)	No. of valid responses	Using	Studying use	Not using (not planned)
Canada	313	146 46.6%	41 13.1%	126 40.3%	79	38 48.1%	10 12.7%	31 39.2%
Mexico	290	143 49.3%	48 16.6%	99 34.1%	97	60 61.9%	13 13.4%	24 24.7%
Singapore	41	7 17.1%	8 19.5%	26 63.4%	26	9 34.6%	4 15.4%	13 50.0%
Australia	48	5 10.4%	9 18.8%	34 70.8%	10	1 10.0%	3 30.0%	6 60.0%
Korea	51	13 25.5%	9 17.6%	29 56.9%	49	25 51.0%	8 16.3%	16 32.7%
Central/South America	143	34 23.8%	33 23.1%	76 53.1%	28	7 25.0%	6 21.4%	15 53.6%
Middle East and North Africa	34	4 11.8%	5 14.7%	25 73.5%	7	1 14.3%	3 42.9%	3 42.9%

*Central/South America = Chile, El Salvador, Nicaragua, Guatemala, Dominican Republic, Costa Rica, Panama, Peru, Colombia

*Middle East and North Africa = Israel, Jordan, Morocco, Bahrain, Oman

Fig. 28: Effect of the U.S. shale revolution on business

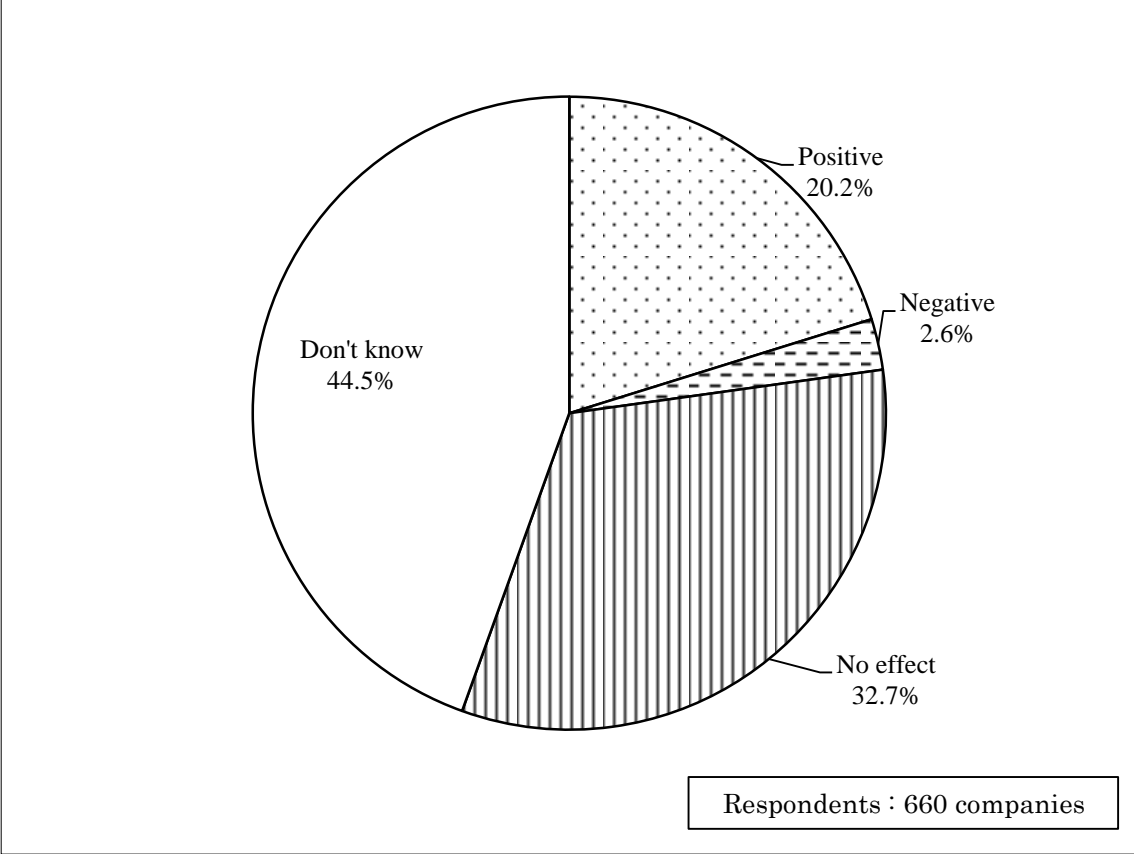
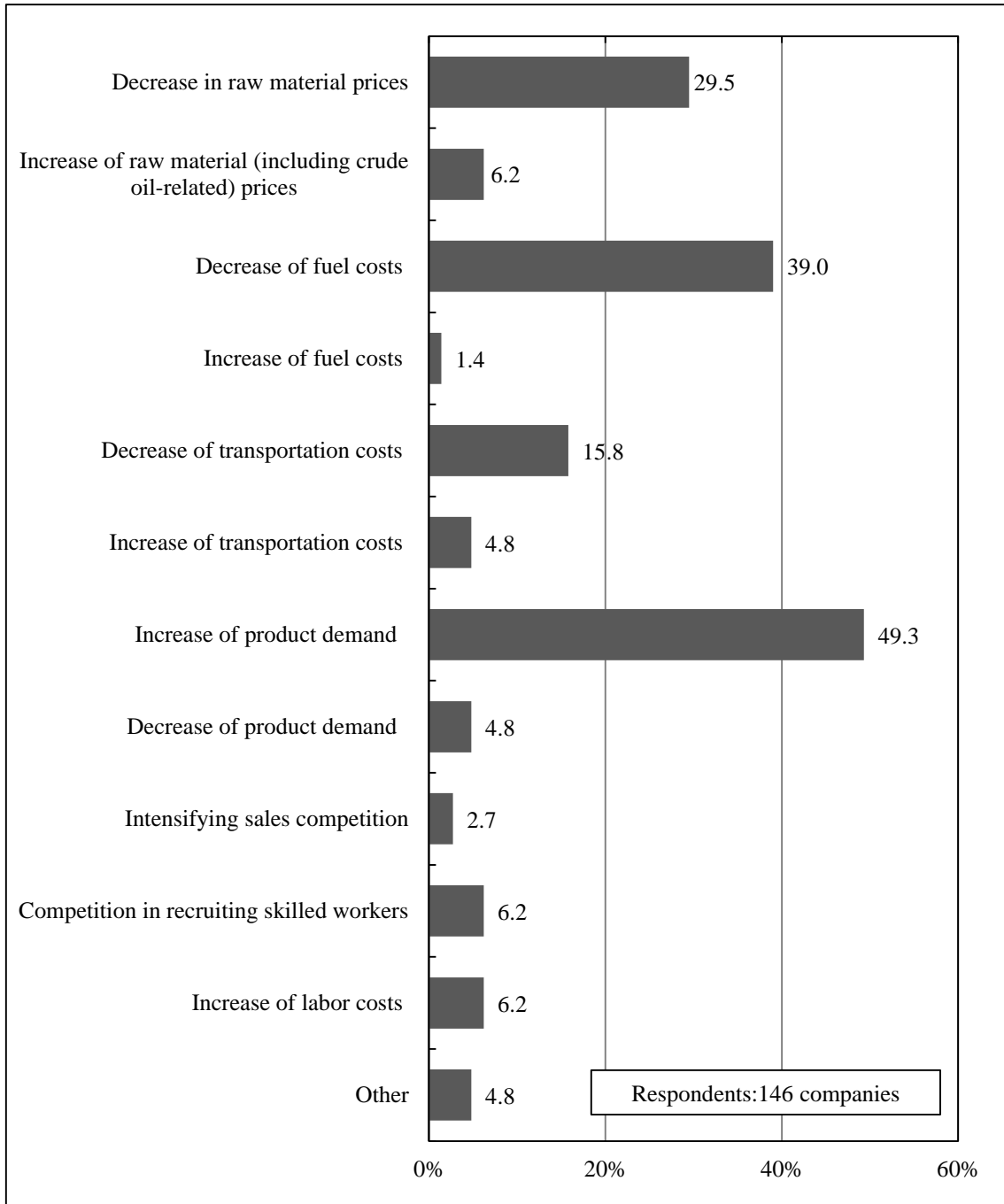


Fig. 29: Specific effect of the U.S. shale revolution on business (Multiple answers)



**Fig. 30: Industries for which the market is most likely to grow in the next few years
(Max. 3 answers)**

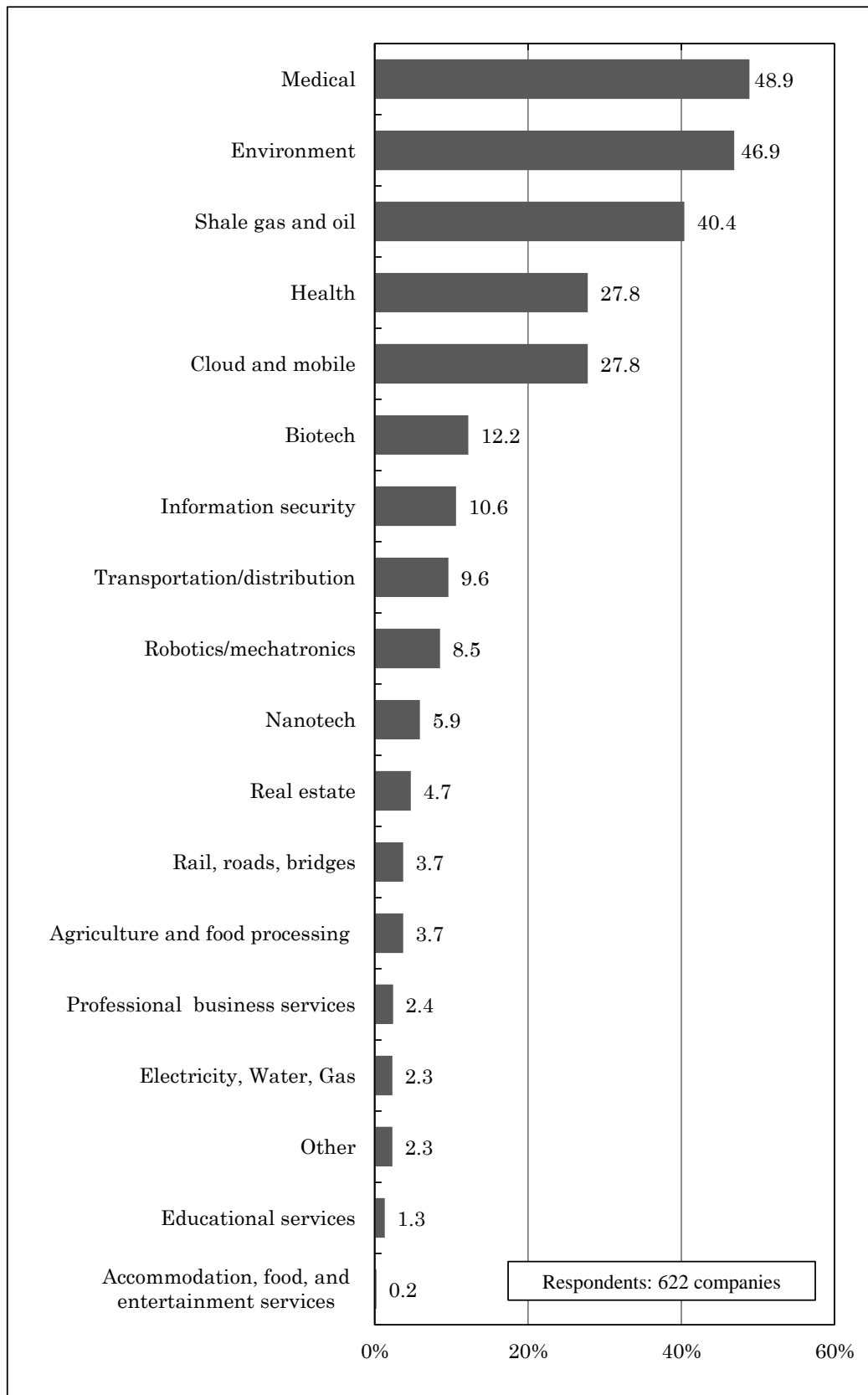


Fig. 31: Regions where the market is most likely to grow in the next few years (Multiple answers)

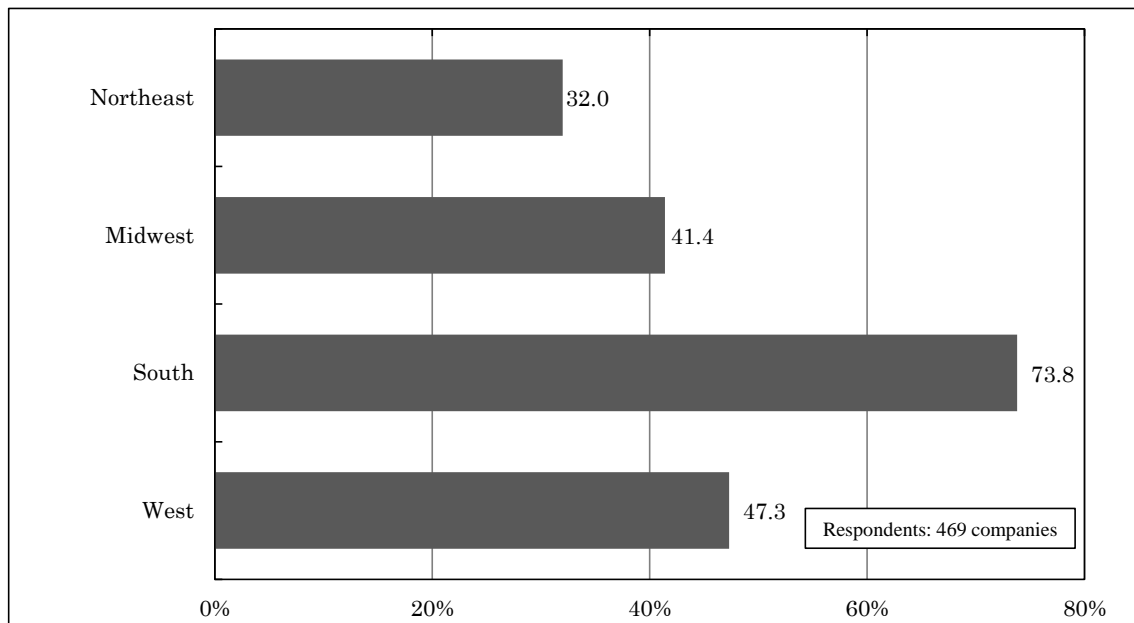


Fig. 32: Regions where the market is most likely to grow in the next few years (Multiple answers)

Rank	State	State	Responses
1	Texas		196
		Parts for transportation machines (cars and motorcycles)	44
		Electric machines and electronics	20
		Process food, agricultural or fishery products	18
		Chemical/Petroleum products	18
2	California		123
		Electric or electronic parts	21
		Parts for transportation machines (cars and motorcycles)	16
		Chemical/Petroleum products	13
3	Ohio		76
		Parts for transportation machines (cars and motorcycles)	22
		Chemical/Petroleum products	10
		Machines (including molds and power tools)	10
4	New York		65
		Parts for transportation machines (cars and motorcycles)	10
		Process food, agricultural or fishery products	9
		Electric or electronic parts	7
		Other manufacturing	7
5	Georgia		52
		Parts for transportation machines (cars and motorcycles)	13
		Plastic products	7
		Machines (including molds and power tools)	6
6	Tennessee		51
		Parts for transportation machines (cars and motorcycles)	16
		Steel (including cast and wrought products)	5
		Metal goods (including plated products)	5
7	Michigan		50
		Parts for transportation machines (cars and motorcycles)	12
		Machines (including molds and power tools)	8
		Chemical/Petroleum products	7
		Metal goods (including plated products)	7
8	Massachusetts		45
		Electric or electronic parts	10
		Chemical/Petroleum products	6
		Precision machines	5
		Other manufacturing	5
9	Indiana		39
		Parts for transportation machines (cars and motorcycles)	10
		Machines (including molds and power tools)	8
		Chemical/Petroleum products	4
		Metal goods (including plated products)	4
9	North Carolina		39
		Parts for transportation machines (cars and motorcycles)	6
		Process food, agricultural or fishery products	4
		Machines (including molds and power tools)	4
		Electric or electronic parts	4

Note: Top 10 states and Top 3 industries shown