

Survey Report on Japan-based Companies Operating in the San Francisco Bay Area

—2016 Survey—

September 2016

**Japanese Chamber of Commerce of Northern
California
JETRO San Francisco**



JETRO San Francisco

Introduction

This report summarizes the results of the 13th edition of a biennial survey that has been conducted since 1992 on Japan-based companies operating in the San Francisco Bay Area. The survey was jointly conducted by the Japanese Chamber of Commerce of Northern California (JCCNC) and JETRO San Francisco between February and March 2016. The survey's objectives are to obtain the data required to accurately ascertain and improve the business conditions and environment of Japan-based companies operating in the Bay Area, as well as to provide information to Japanese companies that are considering doing business in the area.

The Bay Area has experienced steady economic expansion throughout the 2010s, and the results of the current survey confirm that, thanks to these favorable economic conditions, Japan-based companies have performed well. Along with Silicon Valley, which continues to be at the forefront of innovation, the Bay Area provides an appealing consumer market that encourages a wide diversity of Japanese companies to develop business in the area. However, the area's strong economy means that wages and living costs continue to rise at a far more rapid pace than in other parts of the United States. A large number of companies indicated as far back as the 2012 survey that personnel costs were too high, but the current survey is the first time that more than half of respondents have expressed concerns over future increases in personnel costs. It should be noted that the locational advantage of the Bay Area (i.e., high labor productivity that compensates for high costs) is diminishing despite its thriving venture economy.

We will submit a report to the California state government and other local authorities on our survey findings with regard to the economic contributions being made by Japan-based companies operating in the area and the business issues that they face. At the same time, we will incorporate these findings into initiatives developed by the JCCNC and JETRO San Francisco. We would like to express our heartfelt gratitude to all those who have supported and taken part in the survey. We hope that this survey report will prove useful to Japan-based companies operating in the Bay Area, and that it will help to not only improve business conditions in the area, but also promote ever greater mutual understanding between Japan and the United States.

Ken-ichi Sato, President
Japanese Chamber of Commerce of Northern California

Yoshiaki Tojo, Chief Executive Director
JETRO San Francisco

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◇ Survey Overview

This is the 13th edition of the biennial survey conducted jointly by the JCCNC and JETRO San Francisco.

1. Objectives

This survey is conducted to help facilitate the business operations—including the formulation of management strategies—of Japan-based companies operating in the Bay Area by studying and analyzing their activities there and presenting a report on the results of this analysis. The survey also aims to contribute to improving business conditions in the area by providing the California state government and other authorities with information on the contributions that these companies make to the local economy, as well as on the problems and challenges that they face in their business development.

2. Survey targets

(1) Locally incorporated companies that are more than 10% owned (including through indirect investments) by Japanese companies; (2) branch or local offices of companies headquartered in Japan; and (3) companies founded and managed by Japanese entrepreneurs. The following 10 Bay Area counties were targeted in the survey: San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Marin, Napa, Sonoma, Solano, and Sacramento.

3. Survey method

Since the 2006 survey, we have sent respondents a link to the questionnaire via e-mail so that they can complete the questionnaire online. However, we have also sent the questionnaire to some respondents by post.

4. Survey period

February 19 to March 25, 2016

5. Response rate

Of the 770 Japan-based companies that we identified as operating in the Bay Area, we sent a link to the questionnaire via e-mail to 752 that had e-mail addresses (or by post for some companies) and received valid responses from 342 (response rate: 45.5%; coverage of Japan-based companies operating in the area: 44.4%).

6. Points to note about the survey findings

Some of the companies that responded to this questionnaire survey did not answer all of the questions. The response percentages given in this report are based on the total number of companies that gave valid responses to the relevant questions. The sum of the response percentages for multiple-answer questions may exceed 100%. The percentages indicated in graphs have been rounded to one decimal place, so they may not always add up to 100%.

7. Content of the survey report

(1) Overview of Japan-based companies operating in the Bay Area

We provide an overview of Japan-based companies operating in the Bay Area, including their numbers, locations, business types, sales volumes, and the speed at which they are branching out or being incorporated.

(2) Financial status

We analyze the financial status of Japan-based companies operating in the Bay Area, including their sales, operating income and projected earnings.

(3) Contribution to the local economy

We estimate the number of employees and the amount of wage payments so that we can analyze the contribution that Japan-based companies are making to the economy of the Bay Area and California as a whole. The results of this analysis will be used to make proposals to the state government and other local authorities. We also analyze data on one of the key advantages provided by Japan-based companies: health insurance coverage.

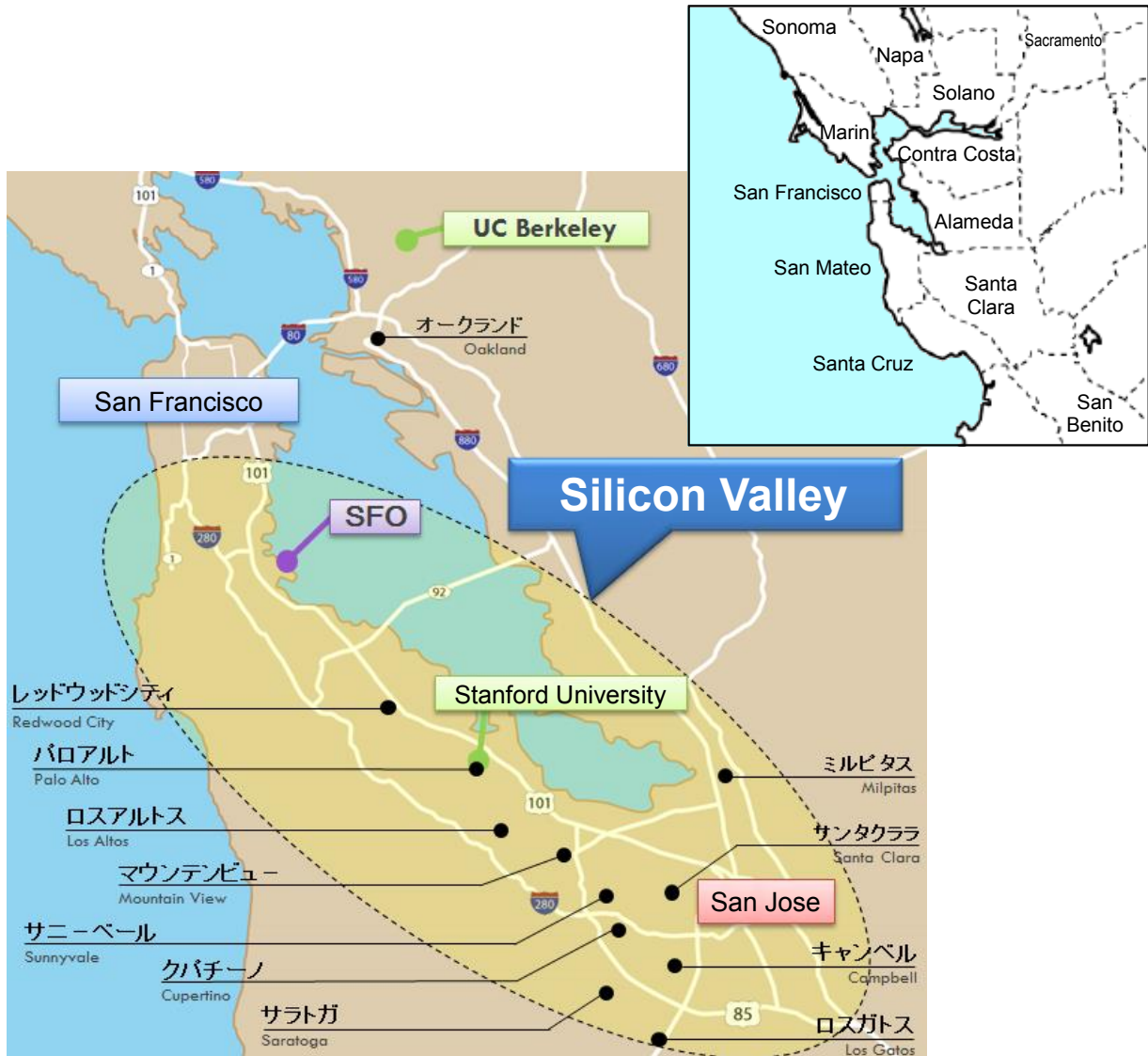
(4) Business environment

In order to submit proposals to the state government, we gather data on the benefits that companies doing business in the Bay Area enjoy, the concerns that they have and the improvements that they would like to see made by the state government and other local authorities. We also reflect such data in guidelines for business projects implemented by the JCCNC and JETRO San Francisco.

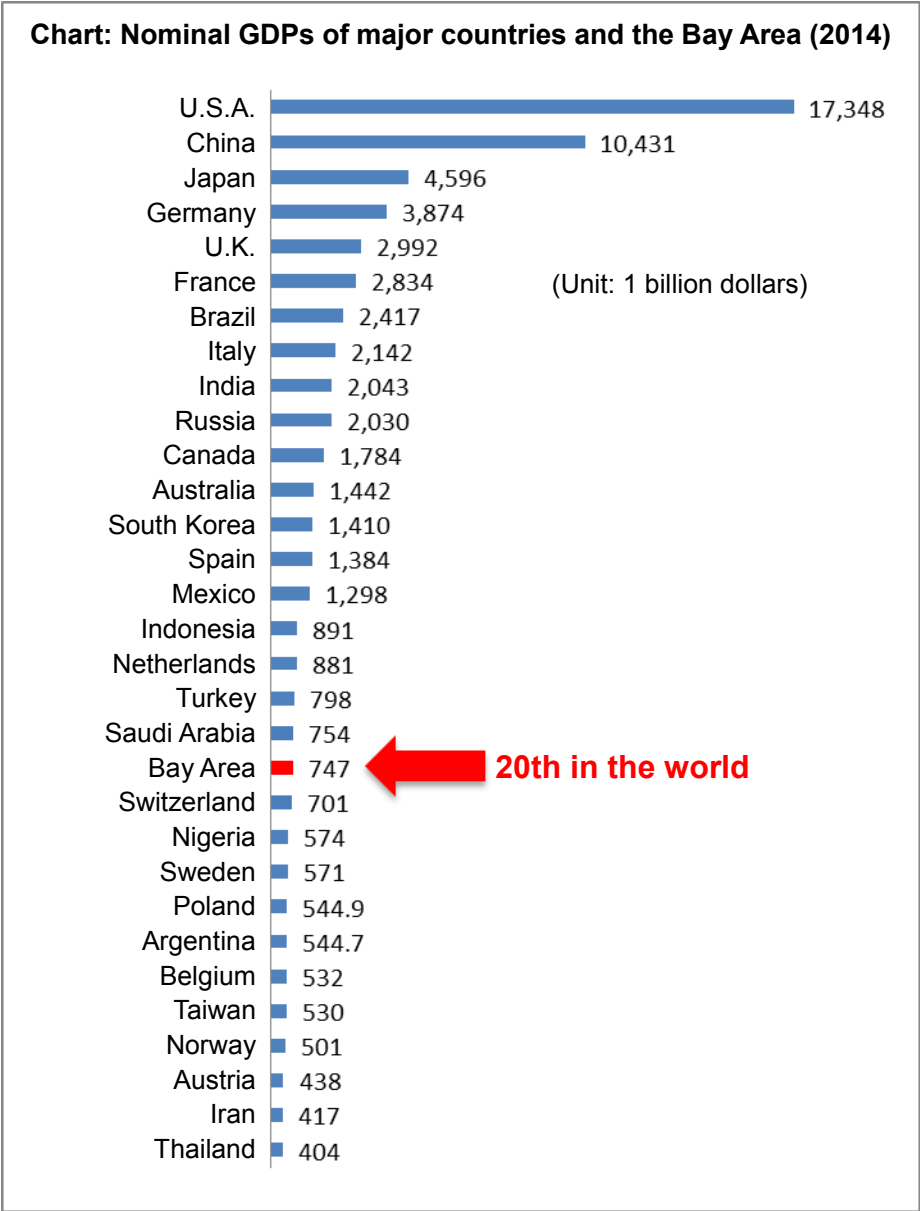
◇ Overview of the Bay Area

Located in the northern part of the state of California, the San Francisco Bay Area region (or the "Bay Area" for short) plays an important role in supporting the state's economy. This area—which includes San Francisco, the financial and insurance center of the West Coast, and Silicon Valley, a business cluster for the IT industry that stretches across the counties of San Mateo and Santa Clara to the south of San Francisco—is known to be a hub for cutting-edge industries that play leading roles throughout the world. Due to its liberal traditions, the Bay Area is also celebrated for encouraging the growth of a diverse range of cultures and arts.

Map of the Central Bay Area



According to data published by the World Bank and the United States Department of Labor, the nominal GDP of the Bay Area¹ is 747.3 billion dollars. Given this, the Bay Area would place 20th—between Saudi Arabia and Switzerland—in a list of countries placed according to their nominal GDPs (see below).



Source: Compiled by JETRO based on data published by the World Bank and the U.S. Department of Labor

¹ In this context, the term "Bay Area" refers to the area made up of the San Francisco–Oakland–Hayward metropolitan division, the San Jose–Sunnyvale–Santa Clara metropolitan division, the Sacramento–Roseville–Arden–Arcade metropolitan division, and the Napa metropolitan division.

◇ Summary

I. Overview of Japan-based companies operating in the Bay Area

- The number of Japan-based companies operating in the Bay Area totaled 770, the highest number ever recorded since this series of surveys was first conducted in 1992 and an increase of 7.1% compared to the previous highest of 719 that was recorded in the 2014 survey.
- In addition to the IT industry, Japanese companies are now branching out into a wide range of other industries. In recent years, a particularly large number of companies have entered the restaurant industry. This growth is most likely a result of the booming Bay Area economy leading to an expansion in the restaurant market.
- Broken down by area, the data shows that more than 90% of Japan-based companies operating in the Bay Area are concentrated in four counties, with 42.1% in Santa Clara (which includes the bulk of Silicon Valley), 21.3% in San Francisco, 20.5% in San Mateo, and 10.8% in Alameda.
- Broken down by industry, the data shows that 43.0% of these companies are in the service industry, 24.6% in manufacturing, and 9.6% in trading. The service industry has always accounted for the largest percentage in this series of surveys. A further breakdown of the service category indicates that 27.9% of the companies are in the restaurant business and 27.2% in the information system business, which means that these two lines of business account for more than 50% of the service industry. The most remarkable change from the previous survey is that the restaurant business is in first place, with the number of companies in this line of business having increased by 17.2% from the previous survey. This is most likely a result of the recent popularity of Japanese food having led to an increase in the number of restaurants.
- In terms of the speed at which Japan-based companies have branched out or been incorporated, the Bay Area has always outperformed Southern California since the 1990s. In particular, the number of Japan-based companies branching out into the Bay Area in 2014 was approximately 6.5 times that of companies branching out into Southern California, while in 2015 it was approximately 2.8 times.

II. Financial status

- Data on the financial status of Japan-based companies shows that they have maintained a healthy financial performance since the previous survey, which was conducted in the midst of a strong economy following the world's recovery from the 2008 financial crisis. A profit was reported by 57.4% of these companies and a loss was reported by 15.6%, which is nearly the same as the results for the previous survey.
- Past data on the financial status of these companies shows that the percentage reporting a profit always exceeds the percentage reporting a loss. The percentage of companies reporting a profit fluctuates within the range of roughly 50 to 60%, which is sufficient to provide a steady earnings structure. The percentage of companies reporting a profit changes almost in tandem with changes in the real GDP growth rate of the United States. There is a strong correlation between the economic trends of the United States and the operating income of Japan-based companies operating in the Bay Area.
- The percentage of companies that saw an increase in operating income was 45.0%, while that for companies that saw no change was 42.3% and that for companies that saw a decrease was 12.8%. The percentage of companies with increased profits rose by 5.8%, while that of companies with reduced profits declined by 1.6%. As was the case in the previous survey, the diffusion index (DI)—which is an indicator of business confidence—improved. This suggests an upturn in the economy. It is particularly worth noting that the DI, which until the previous survey had almost always fluctuated in tandem with changes in the real GDP growth rate of the United States, continued to increase in 2016 despite a slight decline in the real GDP growth rate. The thriving Bay Area economy is helping to support the improved financial performances of Japan-based companies operating in the area.
- With respect to projected earnings for the next one or two years, 49.7% of the companies felt that

their earnings would increase, while 37.5% felt that their earnings would remain at the same level. These figures add up to more than 80%. The percentage of companies that plan to expand or build facilities within the next one or two years is 44.9%, a further increase from the previous survey. These results indicate that Japan-based companies operating in the Bay Area are generally performing well and that many of them have positive prospects for the future.

III. Contribution to the local economy

- Japan-based companies have created employment for an estimated 44,000 people in the Bay Area.
- Data on employment shares by industry shows that the manufacturing industry accounts for 33.1% and the service industry accounts for 30.5%. Similar in size, these are the two major industries for Japan-based companies operating in the area. One difference with the previous survey is that the employment share for the financial industry decreased, while that for the wholesale and retail industry increased.
- Of the companies that responded, 90% indicated that their employment had either increased or remained at the same level since the previous survey. This result leads us to believe that employment by Japan-based companies has remained stable thanks to the thriving local economy.
- The total annual amount of wage payments made by Japan-based companies operating in the Bay Area is estimated to be approximately 3.71 billion dollars (13.62 billion dollars for California as a whole). A comparison with the data obtained in the previous survey reveals that there has been no rise in the annual wage payment per employee. This may be attributable to the high employee turnover that characterizes the local employment market, or because the wages provided by Japan-based companies have failed to keep up with the rise in the general wage level for the area.
- The percentage of these Japan-based companies that provide health insurance coverage is 93.4% (in contrast to 57.0% for companies in California and 57.0% for companies in the United States as a whole). The number of companies that do not provide health insurance coverage had increased each survey year since 2010, but the enforcement of the Affordable Care Act (commonly known as ObamaCare) resulted in the percentage for the current survey increasing by 10.1%, which is a record high for the last 10 years. The percentage of companies that cover more than 80% of insurance premiums is 77.1%. In Japan, where everyone is covered by the country's universal health insurance system, there is little opposition to increasing health insurance coverage. Such benefits continue to provide an advantage to Japan-based companies. However, since more than half of all companies in California now cover 75% of their employees' insurance premiums, Japan-based companies will need to find other ways to differentiate themselves from their competitors.

IV. Business environment

- Listed in descending order of importance, the following are the advantages of the Bay Area that attract Japan-based companies: the existence of a large market; its role as an industrial hub; its mild climate; and the presence of universities and research institutes. The existence of a large market was chosen as the area's key advantage by 62.0% of the companies. The percentage of companies choosing this as the key advantage has increased from one survey to the next. In contrast, the percentage of companies that chose the area's mild climate (third place) fell by 9.8% from the previous survey. This is most likely a result of the historic drought that has gripped the area since 2012.
- As was the case in previous surveys, almost none of the companies chose incentives offered by the state government and other local authorities as the key advantage.
- Economic trends were chosen as the main concern for the future by 79.2% of the companies, while rising employment costs were placed higher than in the previous survey since it was chosen by 53.3% of the companies this time. As in past surveys, the greatest concern of Japan-based companies

is the prospects of the U.S. economy. It is worth noting that this is the first time that the percentage of companies that chose rising employment costs as the main concern has overtaken the percentage of those that chose the impact of exchange rates, which had consistently placed second since the start of this series of surveys. This is another sign of how seriously rising employment costs in the Bay Area are viewed. Terrorism and war (20.5%) also rose from eighth place in the previous survey to fourth place in this survey. This may be a result of the series of terrorist attacks that have struck Europe.

- The majority of companies chose rising employment costs as the major issue that they face in doing business in the Bay Area, followed by taxation, transportation infrastructure, permission and authorization procedures, customs procedures, and mitigation of environmental regulations. In the previous survey, it was pointed out that the following factors were imposing a heavy burden on the management of Japan-based companies: the rising personnel costs resulting from the improved economic performance of local companies; the increasing costs of the benefits packages required to compete with other companies in the area; and the costs incurred as a result of complying with laws and customs for the protection of workers. The results of the current survey reveal that this burden has further increased over the past two years.

I. Overview of Japan-based Companies Operating in the Bay Area

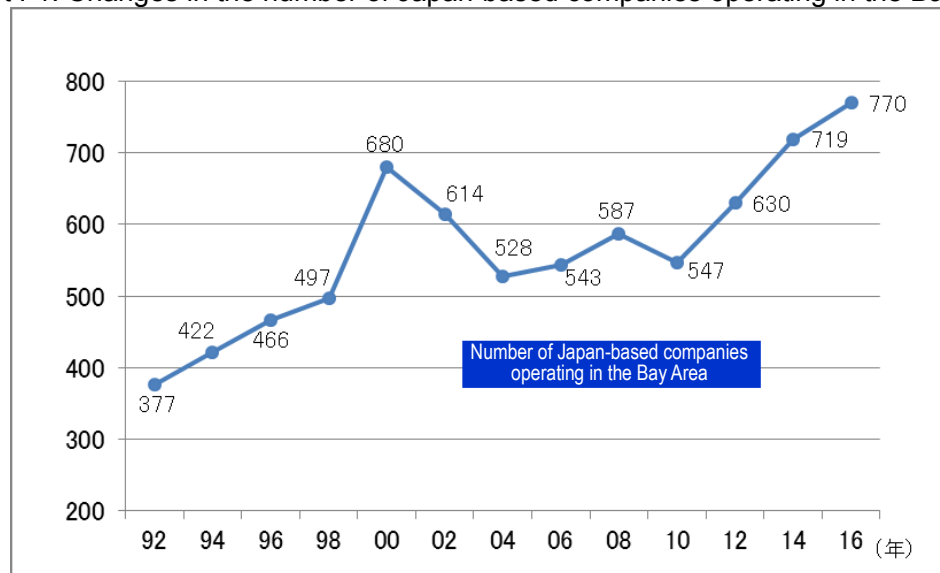
I-1. Number of Japan-based companies operating in the Bay Area

(1) Largest number of Japan-based companies ever recorded

As of March 2016, a total of 770 Japan-based companies were confirmed to be operating in the 10 Bay Area counties. This figure is the highest number ever recorded and an increase of 7.1% compared to the previous high of 719 that was recorded in the 2014 survey.

Of the 151 companies that were newly identified in the current survey, 47 were founded between 2014 and 2015².

Chart I-1: Changes in the number of Japan-based companies operating in the Bay Area



(2) Large-scale increase in the number of companies branching out into the restaurant industry

Originally, the majority of Japan-based companies operating in the Bay Area tended to be IT companies founded in order to form alliances with other IT companies in Silicon Valley. Recently, however, Japanese companies have been branching out into a wide variety of other industries as well.

In recent years, a particularly large number of companies have branched out into the restaurant industry. This is most likely a result of the thriving Bay Area economy causing an increase in the number of medium and high-income families. It should also be noted that the strong preference for organic and health foods in the Bay Area has caused the restaurant market to expand, thereby attracting the attention of Japanese restaurant companies. For example, Plenus, a Japanese company that operates Hotto Motto (a take-out lunch chain) and Yayoiken (a fixed-menu restaurant chain), opened its first U.S. restaurant in Palo Alto, while Kura Corporation, a company that runs Kura Zushi (a conveyor-belt sushi restaurant

² The number of newly identified companies includes companies whose presence was confirmed for the first time as well as companies that were newly confirmed to be Japan-based. Not all of them were newly founded companies.

chain) opened its first Bay Area restaurant in Cupertino.

According to a survey conducted in Southern California during the same period as the current survey, 700 Japan-based companies were identified in the 10 counties of Southern California (Los Angeles, Orange, Ventura, Santa Barbara, Kern, San Luis Obispo, San Bernardino, Riverside, San Diego, and Imperial). Taken together with the number of companies operating in the Bay Area, this gives us a total of 1,470 Japan-based companies that were identified³.

³ Survey on Japan-based Companies Operating in Southern California (August 2016, Japan Business Association of Southern California (JBA) and JETRO Los Angeles).

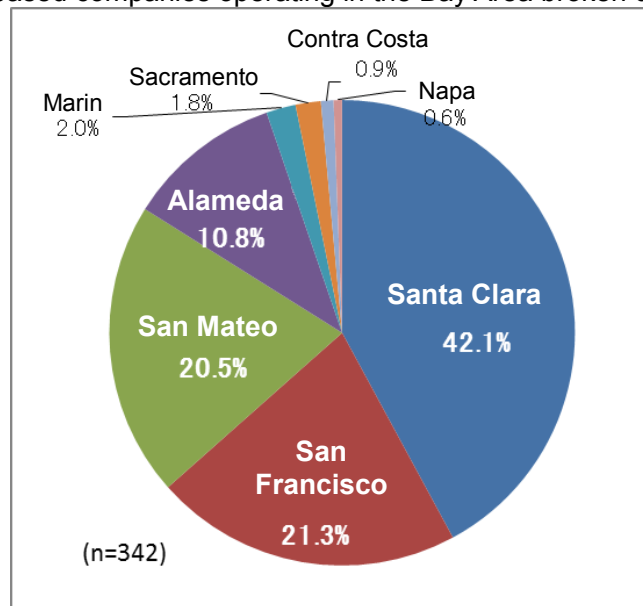
I-2. Location

(1) Top four counties (including Santa Clara) account for 90% of Japan-based companies

Data on the 342 companies with known addresses shows that the county with the highest percentage of Japan-based companies is Santa Clara County, which includes most of the major cities in Silicon Valley, at 42.1% (previous survey: 42.1% as well). This is followed by San Francisco County at 21.3% (previous survey: 20.3%), where a particularly large number of Japanese companies have branched out in recent years.

San Mateo, a county located between Santa Clara County and San Francisco County, accounts for 20.5% (previous survey: 18.7%), which is nearly the same percentage as that for San Francisco County. These three counties were followed by Alameda County, which is located on the eastern coast of the bay across the Bay Bridge from San Francisco, with 10.8% (previous survey: 10.0%). With these four counties accounting for more than 90% of the companies, only a limited number of Japan-based companies are located in any other counties.

Chart I-2: Japan-based companies operating in the Bay Area broken down by county



Compared to the previous survey, the percentages of companies in the top four counties have remained the same, with Santa Clara accounting for approximately 40%, San Francisco and San Mateo for approximately 20% each, and Alameda for approximately 10%. In many of the surveys conducted over the past several years, these four counties have accounted for 90% of the total.

(2) San Jose accounts for 40% of Japan-based companies in Santa Clara County

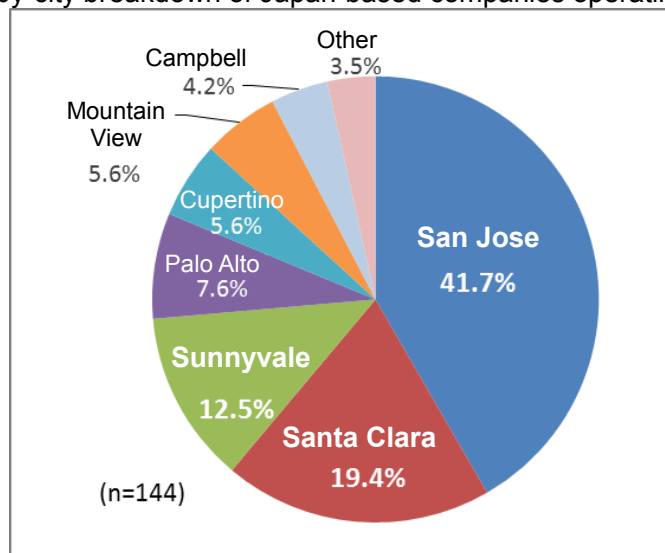
More than 40% of Japan-based companies operating in the Bay Area are located in Santa Clara County, and a city-by-city breakdown of these companies shows that the largest percentage (41.7%) is located in San Jose, which plays a pivotal role in Silicon Valley and is the third largest city in California. The city with the next largest percentage is Santa Clara, where Intel and other world-famous

semiconductor manufacturers are headquartered, but the percentage for the city is only 19.4%, about half that of San Jose.

Chart I-3: Bay Area counties where Japan-based companies are located and major cities in these counties

County	Major cities in the county
Santa Clara	San Jose, Santa Clara, Sunnyvale, Palo Alto, Cupertino, Mountain View, Campbell, etc.
San Francisco	The county and city of San Francisco are one and the same and they share the same administration.
San Mateo	Redwood City, San Mateo, South San Francisco, Burlingame, Daly City, Foster City, San Carlos, etc.
Alameda	Berkeley, Emeryville, Fremont, Hayward, Oakland, Union City, etc.

Chart I-4: City-by-city breakdown of Japan-based companies operating in Santa Clara



I-3. Breakdown by industry

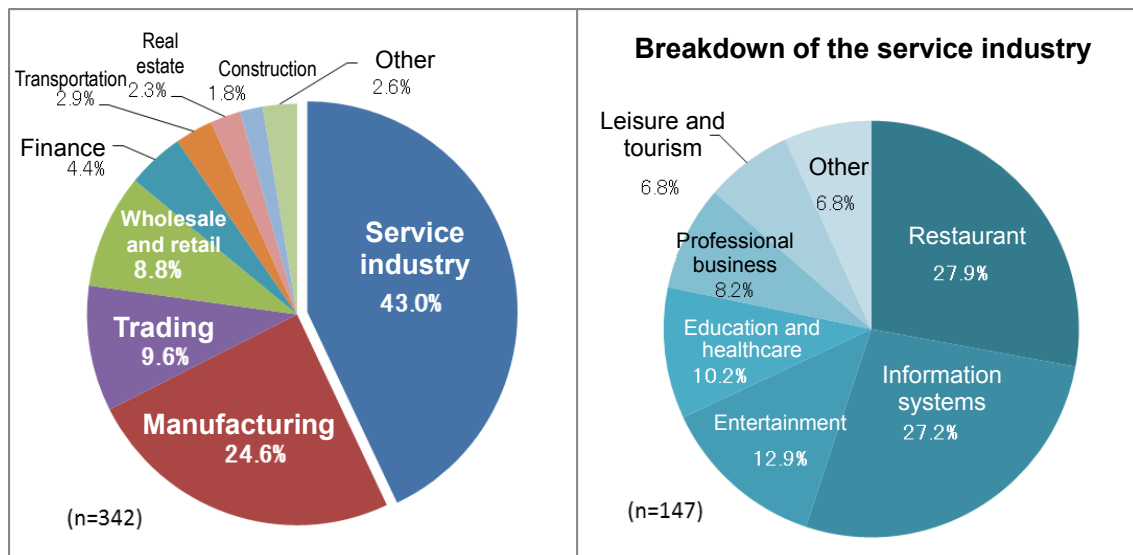
(1) Service industry ranks first

An industry-by-industry breakdown of the 342 companies that gave valid responses to the questionnaire reveals that the service industry accounts for the largest percentage (43.0%) of Japan-based companies operating in the Bay Area, followed by manufacturing (24.6%), trading (9.6%), and wholesale and retail (8.8%). The percentages for these top four industries have not changed substantially since the previous survey, with the service industry increasing by 0.2%, manufacturing increasing by 1.3%, trading decreasing by 0.4%, and wholesale and retail decreasing by 1.5%.

A further breakdown of the service industry indicates that most of the Japan-based companies operating in the Bay Area are concentrated in the restaurant business industry (27.9%) and the information systems business (27.2%), with these two top industries accounting for more than 50% of the total. These industries are followed by entertainment (12.9%), education and healthcare (10.2%), professional businesses (8.2%), and leisure and tourism (6.8%).

The most significant change from the previous survey was observed in the restaurant business industry (27.9%), which was the largest category. The percentage of companies in this line of business rose by 17.7% from the 10.2% recorded in the previous survey. This is most likely a result of an increase in the number of restaurants being supported by the recent growth in popularity of Japanese food, such as ramen noodles, grilled meat, barbecued chicken, and izakaya-style food. The percentage of companies engaged in professional businesses (8.2%) has fallen by 20.5% since the previous survey (28.7%). However, these results are likely to have been affected by the fact that we received fewer responses from companies in this line of business than we did for the previous survey.

Chart I-5: Japan-based companies operating in the Bay Area broken down by industry

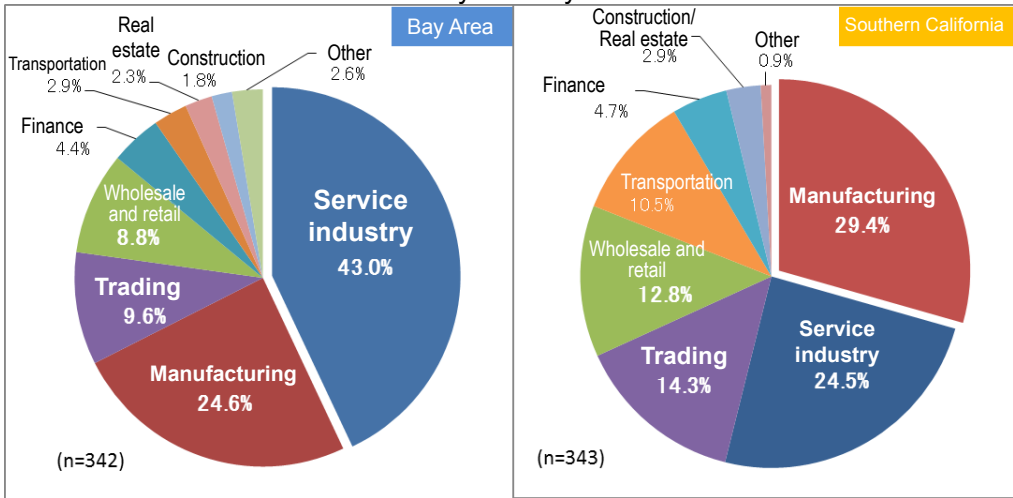


(2) Manufacturing accounts for the largest percentage of Japan-based companies in Southern California

In the Bay Area, the service industry accounts for the largest percentage of Japan-based companies, far ahead of the second largest industry, manufacturing. In Southern California, however, the reverse is true, with manufacturing accounting for 29.4% and the service industry accounting for 24.5%. Also, 10.5% of

Japan-based companies in Southern California are involved in transportation, which accounts for only 2.9% of the companies operating in the Bay Area. The results of the surveys that we have conducted over the past several years clearly reflect these differences in terms of the industry composition of Northern and Southern California.

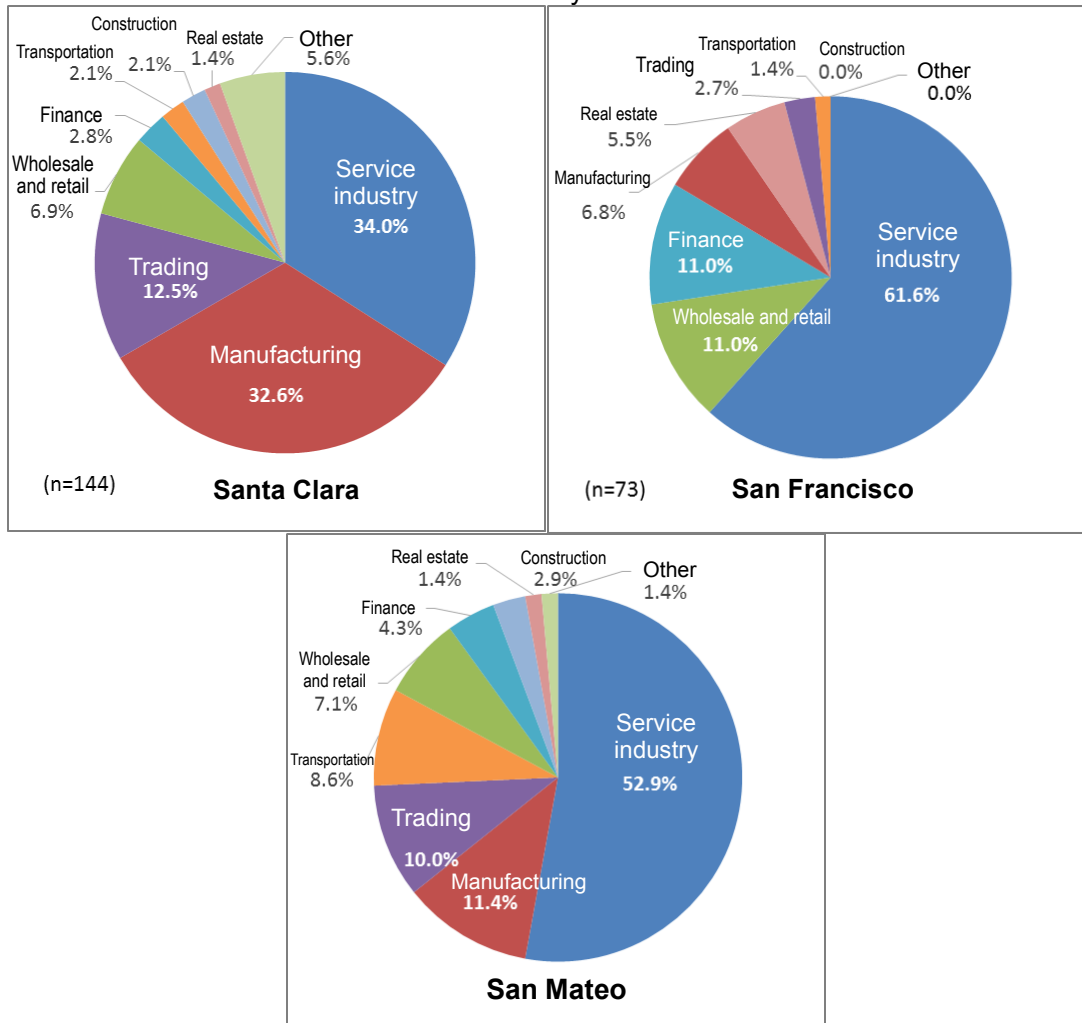
Chart I-6: Japan-based companies operating in Northern and Southern California broken down by industry



(3) Service industry ranks first in the top three Bay Area counties

A breakdown of Japan-based companies in the top three Bay Area counties (Santa Clara, San Francisco, and San Mateo) by industry shows that the service industry accounts for the largest percentage in all three counties. In fact, the service industry accounts for 61.6% of Japan-based companies in San Francisco, nearly twice the percentage for Santa Clara (34.0%), which is the county where the largest number of Japan-based companies is located.

Chart I-7: Japan-based companies in the top three Bay Area counties broken down by industry



In Santa Clara and San Mateo, manufacturing accounts for the second largest percentage after the service industry. In Santa Clara, 32.6% of Japan-based companies are involved in manufacturing, but the percentages of manufacturing companies in other counties are much smaller, with only 11.4% in San Mateo and 6.8% in San Francisco. These results indicate that most of the Japan-based manufacturing companies operating in the Bay Area are concentrated in Santa Clara. It should also be noted that only a very small minority of companies in Santa Clara and San Francisco (2.1% in Santa Clara and 1.4% in San Francisco) are involved in transportation. In contrast, transportation accounts for 8.6% of Japan-based companies in San Mateo.

In other words, Santa Clara is characterized by a large percentage of manufacturers, while San Francisco is characterized by the presence of service companies and San Mateo by the presence of transportation companies.

Chart I-8: Japan-based companies operating in the Bay Area broken down by county and industry (unit: no. of companies)

	Construction	Manufacturing	Trading	Transportation	Wholesale and retail	Finance	Real estate	Service industry	Other	Total	Percentage by county
San Francisco	0	5	2	1	8	8	4	45	0	73	21.3%
San Mateo	2	8	7	6	5	3	1	37	1	70	20.5%
Santa Clara	3	47	18	3	10	4	2	49	8	144	42.1%
Alameda	1	18	5	0	5	0	0	8	0	37	10.8%
Sacramento	0	2	1	0	0	0	0	3	0	6	1.8%
Contra Costa	0	3	0	0	0	0	0	0	0	3	0.9%
Marin	0	0	0	0	2	0	1	4	0	7	2.0%
Napa	0	1	0	0	0	0	0	1	0	2	0.6%
Total	6	84	33	10	30	15	8	147	9	342	100%
Percentage by industry	1.8%	24.6%	9.6%	2.9%	8.8%	4.4%	2.3%	43.0%	2.6%	100%	

(4) Santa Clara and Alameda account for 80% of Japan-based manufacturing companies

According to detailed data on Japan-based service companies located in the three Bay Area counties (Santa Clara, San Francisco, and San Mateo) where such companies are concentrated, the largest percentage (44.5%) of Japan-based companies in Santa Clara are involved in the information systems industry. In contrast, the restaurant business accounts for the largest percentage (24.4%) in San Francisco, while professional businesses account for the largest percentage (29.7%) in San Mateo.

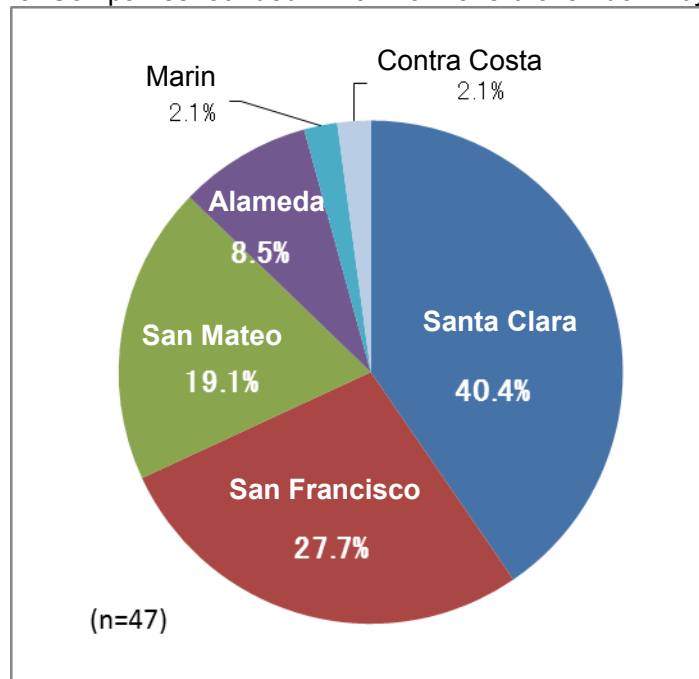
In addition, 80% of Japan-based manufacturing companies are concentrated in Santa Clara and Alameda. A breakdown of manufacturers in these two counties shows that many of these companies manufacture electrical equipment (63.8% in Santa Clara and 44.4% in Alameda). Furthermore, although the percentage of food companies is low (2.1%) in Santa Clara, it accounts for 22.2% in Alameda, second only to electrical equipment.

I-4. Newly founded companies

(1) Newly founded companies account for 40% of Japan-based companies in Santa Clara

As mentioned earlier, 47 of the 151 Japan-based companies that were newly identified in the current survey were founded between 2014 and 2015. A breakdown of these newly founded companies by county indicates that the largest percentage (40.4%) is located in Santa Clara, followed by San Francisco (27.7%). As was the case in the previous survey, the percentages of newly founded companies in these counties far exceeded the percentage for San Mateo (19.1%), which placed third.

Chart I-9: Companies founded in 2014 or 2015 broken down by county

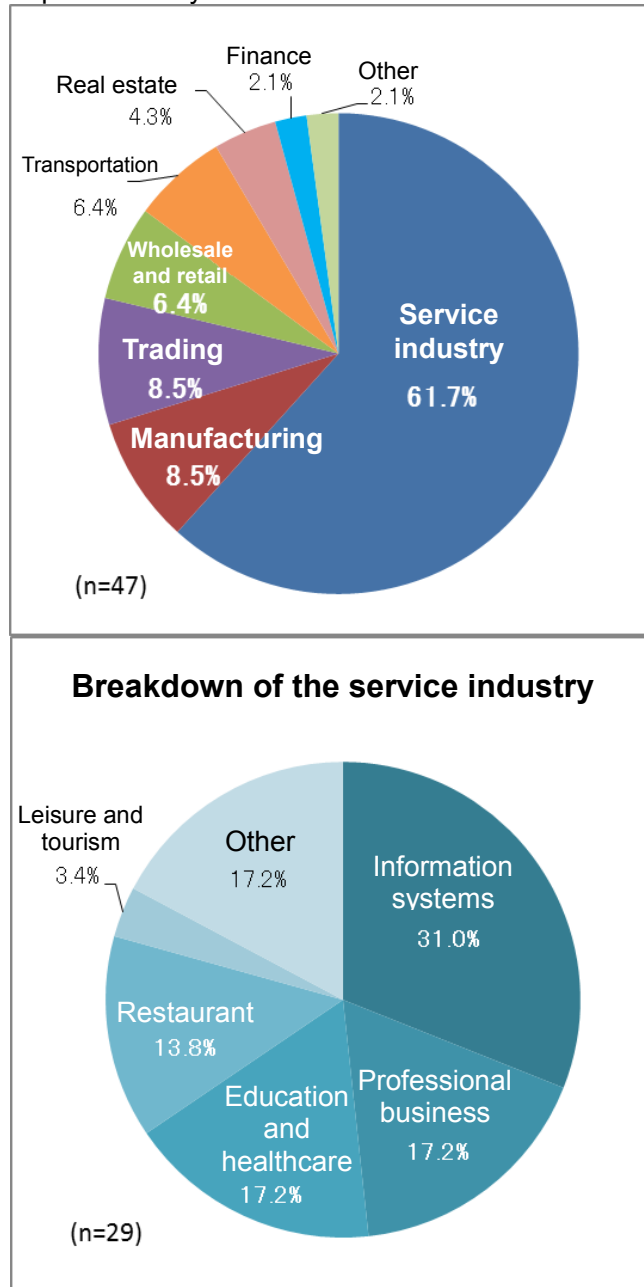


(2) Number of newly founded manufacturing companies falls

The largest percentage of newly founded companies was in the service industry (61.7%), followed by manufacturing and trading (both 8.5%), wholesale and retail (6.4%), and transportation (6.4%). Compared to the previous survey, the percentage of companies in the service industry, which placed first, increased by 6.1% from 55.6%. In contrast, the percentage of companies in manufacturing decreased by 9.3% from 17.8%, resulting in it being placed joint second with trading.

A breakdown of newly founded Japan-based companies in the service industry indicates that the largest percentage of companies (31.0%) was involved in the information system business. Professional businesses, and education and healthcare were tied in second place, accounting for 17.2% of the total.

Chart I-10: Companies newly founded in 2014 or 2015 broken down by industry

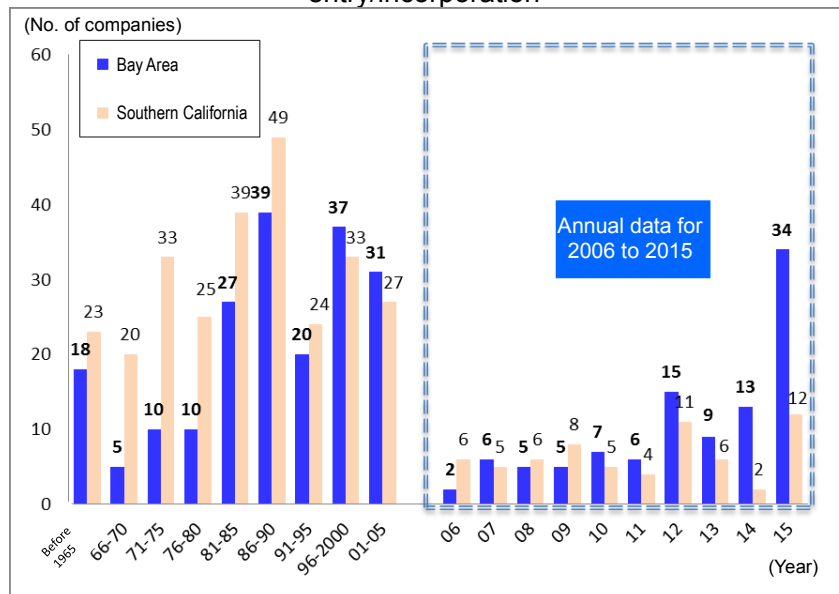


I-5. Year of market entry or incorporation

(1) Interest in the Bay Area grows

Chart I-11 shows the numbers of Japan-based companies operating in the Bay Area and Southern California according to the year in which they entered the market or were incorporated. The chart indicates that the number of companies that chose to branch out into the Bay Area rather than South California has increased in recent years. Until the mid-1990s, more companies chose to establish themselves in Southern California than was the case in the Bay Area. After that, other than in 2006, the number of companies that branched out into the Bay Area was nearly the same as that for Southern California. Since 2010, however, the number of companies branching out into the Bay Area has exceeded that for Southern California, with approximately 6.5 times as many companies being founded in the Bay Area than in Southern California in 2014 and 2.8 times as many in 2015.

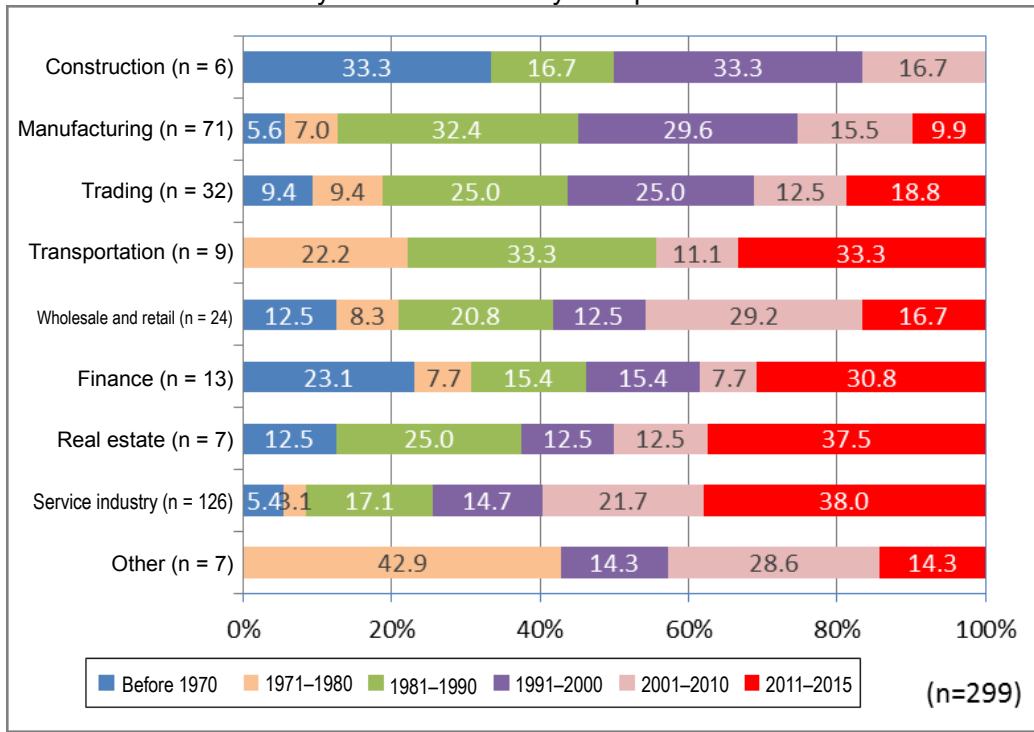
Chart I-11: Number of Japan-based companies broken down by year of market entry/incorporation



(2) Number of service companies founded in 2011 and after accounts for 40% of the total

A breakdown of Japan-based companies by industry and the year in which they entered the market or were incorporated reveals that a large number of companies in the manufacturing and trading industries branched out into the Bay Area before the 1990s. However, during the 2000s and after, the number of companies in the service, wholesale and retail industries began to increase. In recent years, the service industry has seen a particularly rapid increase in the number of Japan-based companies operating in the Bay Area, with more than 40% of them having entered the market between 2011 and 2015.

Chart I-12: Japan-based companies operating in the Bay Area broken down by industry and year of market entry/incorporation

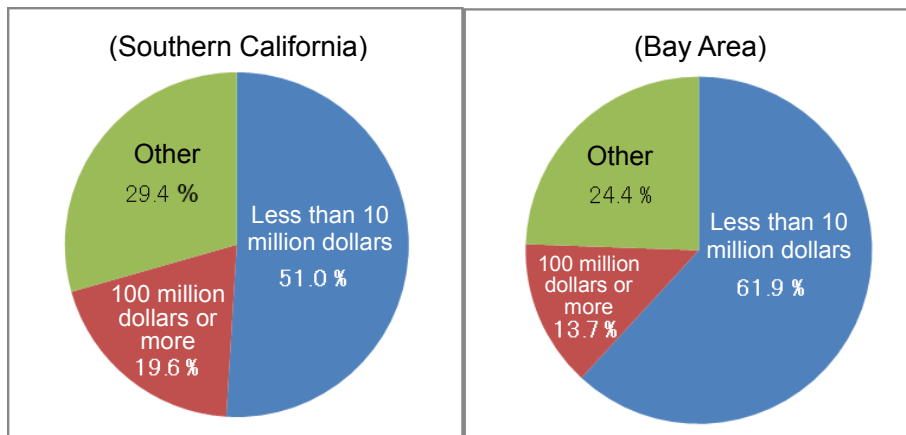
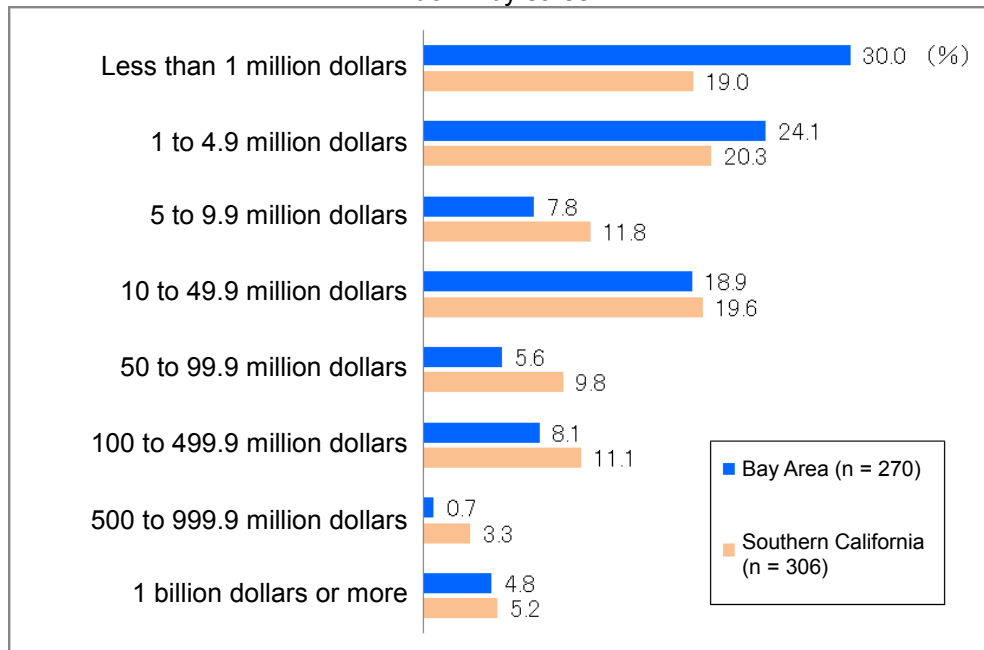


I-6. Sales

A comparison between the Bay Area and Southern California indicates that the percentage of companies with sales of less than 10 million dollars was 61.9% in the Bay Area and 51.0% in Southern California. This suggests that Japan-based companies with lower sales are concentrated in the Bay Area. The percentage of companies with low sales in the Bay Area decreased 8.1% from the 70.0% recorded in the previous survey, while the percentage in Southern California decreased 8.4% from 59.4%. In the current survey, the percentage of companies with low sales decreased in both areas.

As shown in the bar graph below, the breakdown of sales for Japan-based companies operating in the Bay Area is as follows: less than 1 million dollars accounts for 30.0%; 1 to 4.9 million dollars for 24.1%; and 10 to 49.9 million dollars for 18.9%.

Chart I-13: Japan-based companies operating in the Bay Area and Southern California broken down by sales



I-7. Forms of corporate management and methods of market entry or incorporation

(1) Percentage of companies founded by Japanese entrepreneurs gradually increases to more than 25%

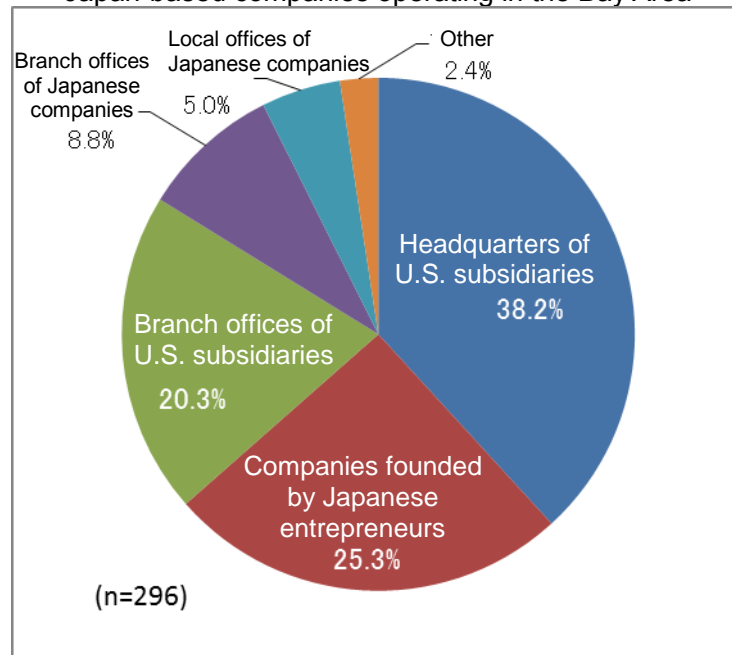
Data on the forms of corporate management and methods of market entry or incorporation indicates that while the overall trend remains similar to that identified in the previous survey, the percentage of companies founded by Japanese entrepreneurs has continued to rise by several percentage points each survey year since the survey before last. The percentage in the current survey was 25.3%, up 2.2% from the 23.1% recorded in the previous survey, and up 4.7% from the 20.6% recorded in the survey before last.

The overall trend shows that slightly more than 70% of Japan-based companies operating in the Bay Area are subsidiaries or affiliates of Japanese companies and slightly more than 20% are companies founded by Japanese entrepreneurs living in the United States.

The percentage of Japanese companies with U.S. subsidiaries that are headquartered in the Bay Area is 18.5% lower than that for Southern California. This is most likely because many Japanese companies that branch out into the West Coast locate the headquarters of their U.S. subsidiaries in the Los Angeles area, which has effective logistics centers as well as a large market.

Meanwhile, the percentage of companies founded by Japanese entrepreneurs in the Bay Area is 10.2% higher than that in Southern California, which indicates that a particularly high percentage of companies started by Japanese entrepreneurs are located in the Bay Area.

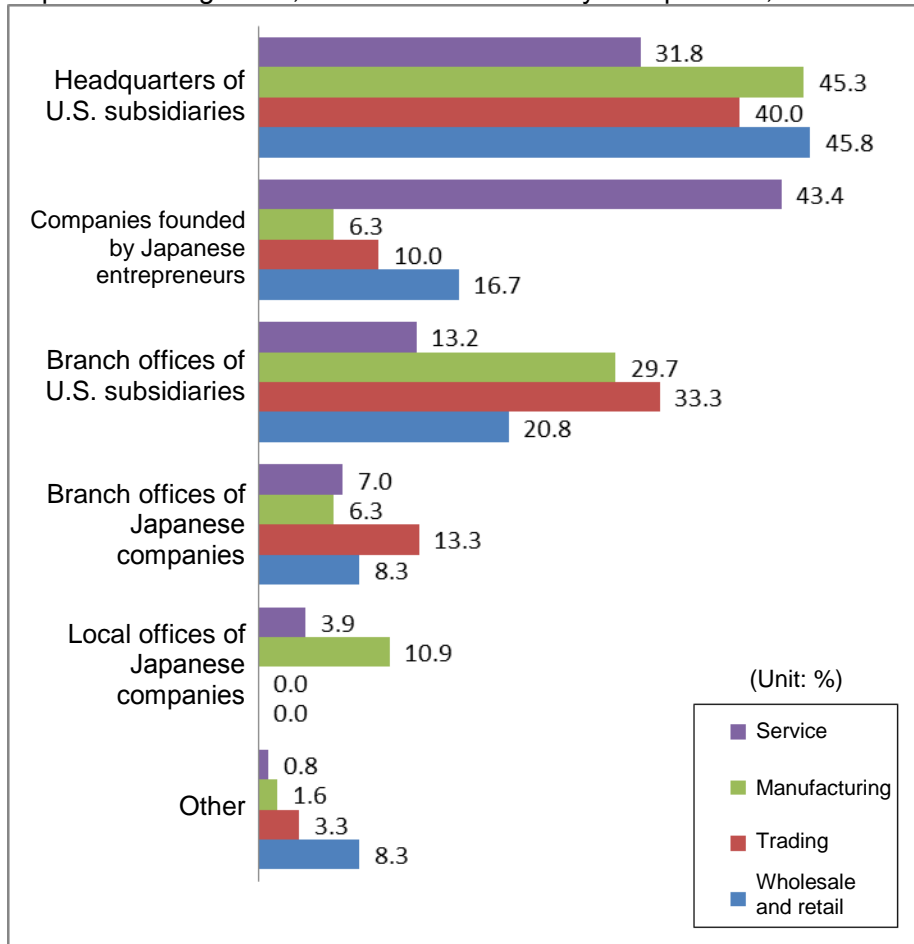
Chart I-14: Forms of corporate management and methods of market entry/incorporation for Japan-based companies operating in the Bay Area



(2) Slightly over 40% of service companies founded by Japanese entrepreneurs

In the key industries⁴, 40 - 45% of Japan-based companies involved in manufacturing, trading, and wholesale and retail served as the headquarters for the U.S. subsidiaries of Japanese companies. In the service industry, however, the percentage of headquarters for U.S. subsidiaries was 31.8%, much lower than in other industries. Meanwhile, the percentage of companies founded by Japanese entrepreneurs in the service industry was 43.4%, far exceeding the results for the other key industries. The percentage of companies founded by Japanese entrepreneurs was lowest in manufacturing at 6.3%, which is more than 37% lower than the percentage for the service industry.

Chart I-15: Japan-based companies operating in the Bay Area broken down by form of corporate management, method of market entry/incorporation, and industry



(3) Newly Founded Japan-based companies account for almost 90% of respondents

Data on the methods of market entry and incorporation shows that an overwhelming majority (87.5 %) of the 260 companies that responded are Newly Founded. The percentage of acquired companies fell further from the previous survey to 8.8% (previous survey: 10.6%). Even combined with

⁴ Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

the percentage of companies with equity-participation, the percentage still only reaches slightly more than 10% (Chart I-16).

Data on the capital structure of these companies also reveals that 84.0% of Japanese subsidiaries or affiliates that responded are 100% owned by their parent companies, while 79.7% of companies founded by Japanese entrepreneurs that responded are 100% owned by Japan or U.S. born Japanese. Compared to the previous survey, these percentages increased by 3.1% and 12.4%, respectively.

Chart I-16: Japan-based companies broken down by method of market entry/incorporation

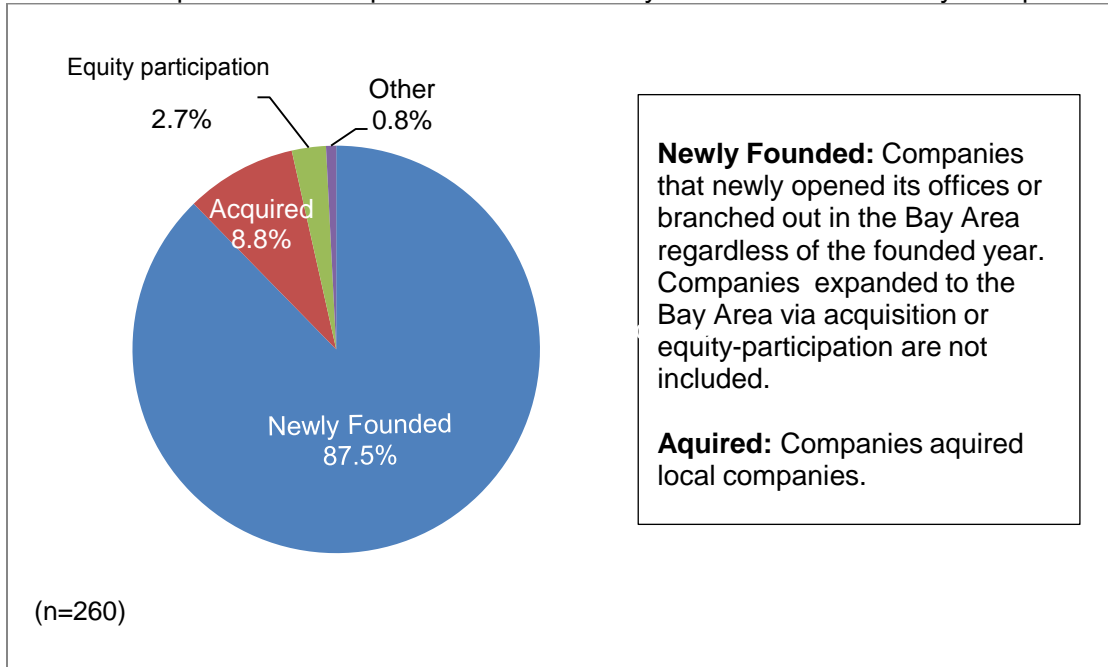


Chart I-17: Investment ratios for Japanese parent companies and for companies founded by Japan or U.S. born entrepreneurs

Investment ratio for Japanese parent companies	2016		2014	
	No. of companies	Percentage	No. of companies	Percentage
100%	179	84.0%	208	80.9%
50 to 99%	15	7.0%	20	7.8%
10 to 49%	4	1.9%	8	3.1%
Less than 10%	15	7.0%	21	8.2%
Total	213	100.0%	257	100.0%

Investment ratio for companies founded by Japan- or U.S.-born Japanese entrepreneurs	2016		2014	
	No. of companies	Percentage	No. of companies	Percentage
100%	47	79.7%	70	67.3%
50 to 99%	7	11.9%	18	17.3%
10 to 49%	4	6.8%	11	10.6%
Less than 10%	1	1.7%	5	4.8%
Total	59	100.0%	104	100.0%

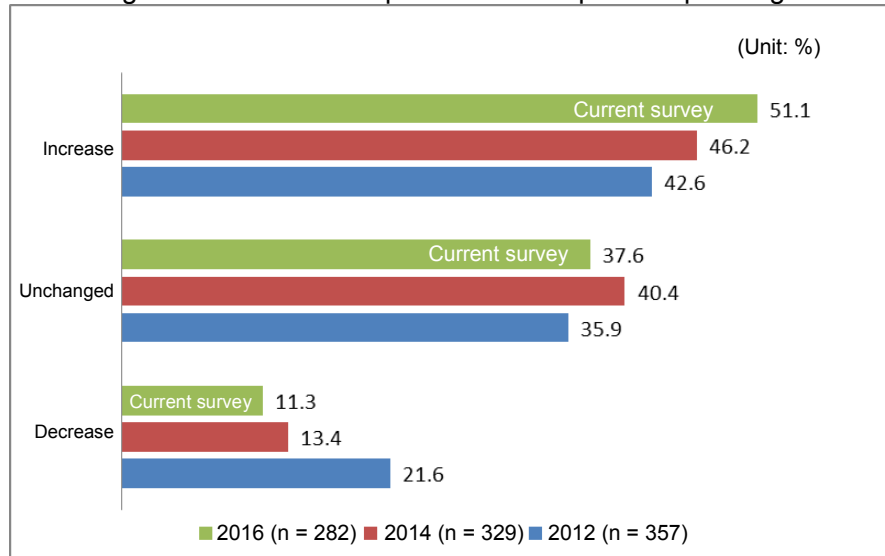
II. Financial Status

II-1. Sales

(1) Sales increase more than 50% compared to the previous year

The percentage of companies that expected a year-on-year increase in sales for the fiscal year including December 31, 2015, was 51.1%, up 4.9% from the 46.2% recorded in the previous survey (2014). Meanwhile, the percentage of companies that expected a decrease in sales was 11.3%, a 2.1% drop from the low 13.4% recorded in the previous survey. The percentage of those companies expecting sales to remain unchanged also fell 2.8% to 37.6%. In the current survey, the financial performance of Japan-based companies showed further improvement since the previous survey, which was conducted when the economy was showing signs of recovery from the 2008 financial crisis.

Chart II-1: Changes in the sales of Japan-based companies operating in the Bay Area



(2) Wholesale and retail continue to perform well, while the financial performance of the service industry greatly improves

Broken down by industry, the data shows that the percentage of companies with growing sales exceeded the all-industry average for two of the four key industries: wholesale and retail (65.4%) and the service industry (55.0%). In the previous survey, the percentage of companies with growing sales in wholesale and retail was 60.6%, up more than 10% from the 50.0% recorded in the survey before last, and this percentage showed a further increase of 4.8% in the current survey. The corresponding percentage in the service industry was 55.0%, up 12.6% from the 42.4% recorded in the previous survey.

A breakdown of the service companies that are found in the Bay Area indicates that the percentage of companies with growing sales is more than 55.0%, the all-industry average, for professional businesses, education and healthcare, and the restaurant business.

Chart II-2: Changes in the sales of Japan-based companies operating in the Bay Area broken down by industry

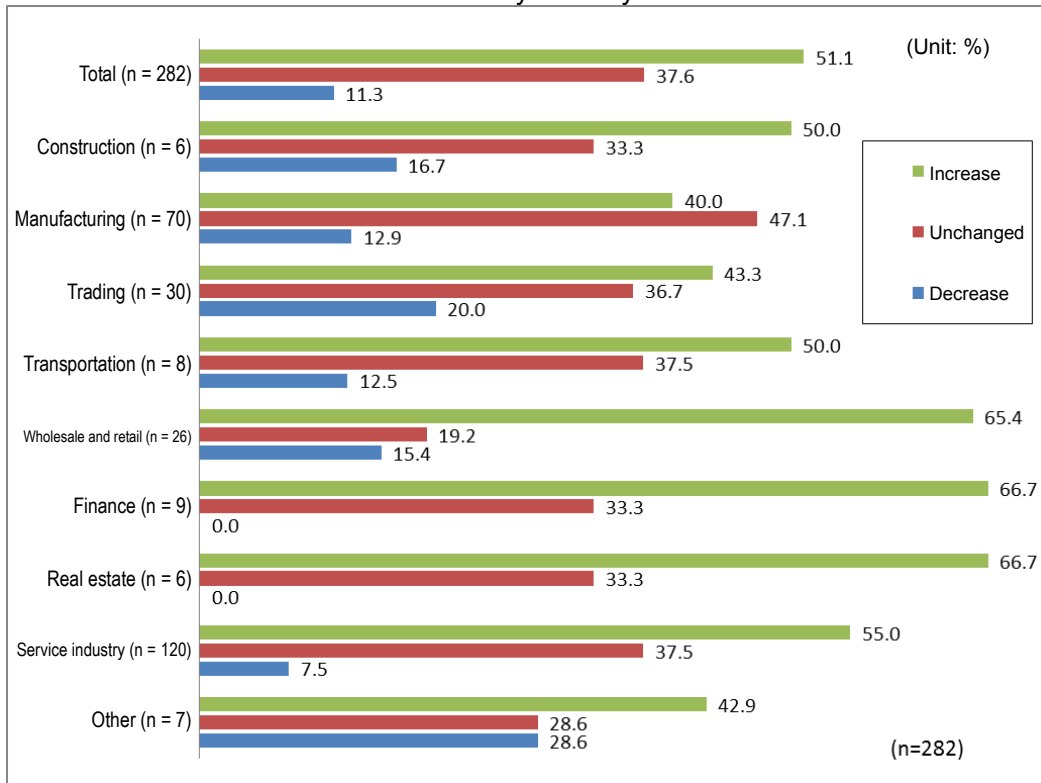
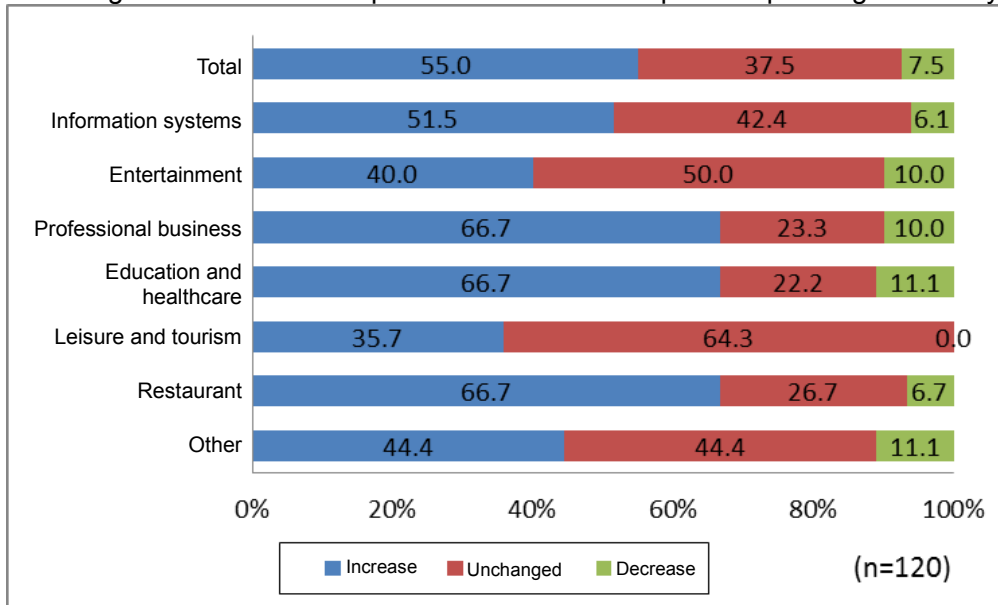


Chart II-3: Changes in the sales of Japan-based service companies operating in the Bay Area



II-2. Operating income

(1) Approximately 60% of companies are profitable, nearly the same as in the previous survey

The percentage of companies that expected to make a profit in the fiscal year including December 31, 2015, was 57.4% (large profit: 4.5%; small profit: 52.9%). Although this was a slight decrease from the 58.0% recorded in the previous survey, it remained at roughly the same level of 60% of the total. The percentage of companies that expected to break even was the same (27.0%) as in the previous survey and the percentage of those that expected to make a loss was 15.6% (large loss: 2.8%; small loss: 12.8%). This was an increase of 0.6% from the 15.0% recorded in the previous survey, but it was essentially unchanged. Having recovered in the previous survey (2014) to the level reached prior to the 2008 financial crisis, the financial performance of Japan-based companies did not show any significant change in the current survey.

Chart II-4: Changes in the financial status of Japan-based companies operating in the Bay Area

Year	Profit-making total	Companies that made a profit		Companies that broke even	Sum of companies that made a profit or broke even	Loss-making total	Companies that made a loss	
		Large profit	Small profit				Small loss	Large loss
92 (n=215)	49.8%	49.8%		13.5%	63.3%	36.7%	36.7%	
94 (n=249)	48.2%	48.2%		11.2%	59.4%	40.6%	40.6%	
96 (n=261)	60.1%	15.7%	44.4%	13.8%	73.9%	26.1%	18.4%	7.7%
98 (n=206)	56.9%	0.5%	56.4%	20.4%	77.3%	22.8%	16.5%	6.3%
00 (n=264)	63.6%	13.6%	50.0%	16.3%	79.9%	20.1%	14.0%	6.1%
02 (n=299)	49.5%	6.0%	43.5%	17.1%	66.6%	33.4%	22.7%	10.7%
04 (n=204)	53.5%	6.4%	47.1%	20.1%	73.6%	26.5%	22.1%	4.4%
06 (n=207)	57.0%	6.3%	50.7%	26.1%	83.1%	16.9%	13.0%	3.9%
08 (n=178)	59.0%	4.5%	54.5%	26.4%	85.4%	14.6%	10.1%	4.5%
10 (n=124)	42.7%	2.4%	40.3%	23.4%	66.1%	33.9%	25.0%	8.9%
12 (n=354)	52.5%	3.4%	49.2%	29.1%	81.6%	18.4%	16.1%	2.3%
14 (n=326)	58.0%	3.7%	54.3%	27.0%	85.0%	15.0%	13.5%	1.5%
16 (n=289)	57.4%	4.5%	52.9%	27.0%	84.4%	15.6%	12.8%	2.8%

Note: "n" represents the number of companies that responded to this question in the questionnaire.

(2) Operating income fluctuates roughly in tandem with U.S. economic trends

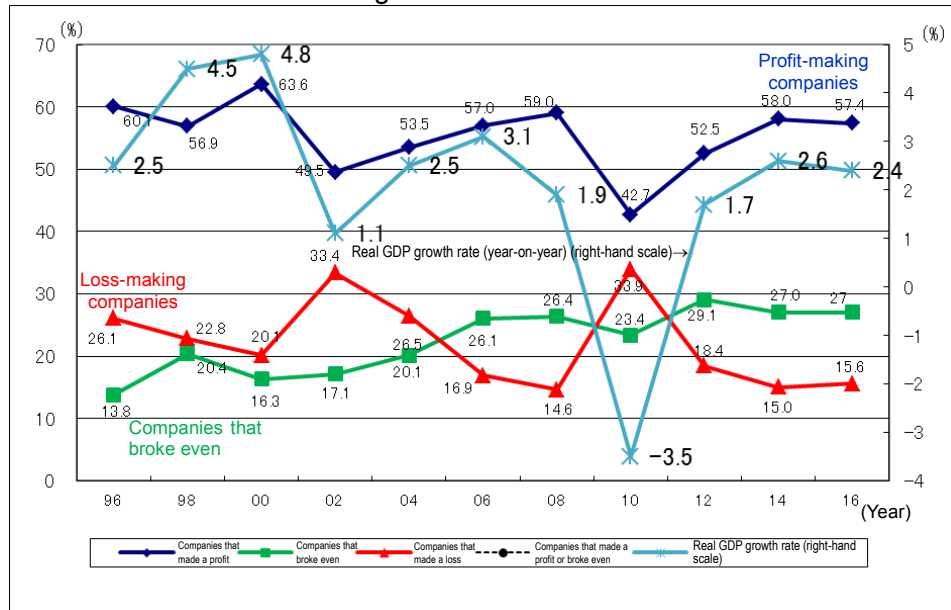
As shown in Chart II-5, the percentage of profit-making companies has always exceeded the percentage of loss-making ones, fluctuating within the range of roughly 50 - 60%.

Even in the 2010 survey, which recorded the worst result since this series of surveys was first conducted in 1992, the percentage of profit-making companies exceeded the percentage of loss-making ones, indicating that the earnings structure of Japan-based companies has a solid foundation.

A comparison of the percentage of profit-making companies and the real GDP growth rate of the United States (also shown in Chart II-5) reveals that they fluctuate roughly in tandem with each other. In other words, there is a strong correlation between the economic trends of the United States and the operating income of Japan-based companies operating in the Bay Area. As has been the case in the past, many of these companies (79.2% of those that responded to the relevant question; details provided later) chose economic trends in the current survey as their main concern in terms of future business operations.

These companies showed a greater interest in U.S. economic trends than they did in the rising employment costs in the Bay Area.

Chart II-5: Operating income of Japan-based companies operating in the Bay Area and the real GDP growth rate of the United States



Note: Profit-making companies include those that recorded a large profit as well as those that recorded a small one, while loss-making companies include those that recorded a large loss as well as those that recorded a small one. The years indicated on the horizontal axis represent the years in which the survey results were published. The real GDP growth rates are annual totals for the years closest to the survey periods (source: Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce). For example, the value for 2016 is the growth rate for 2015.

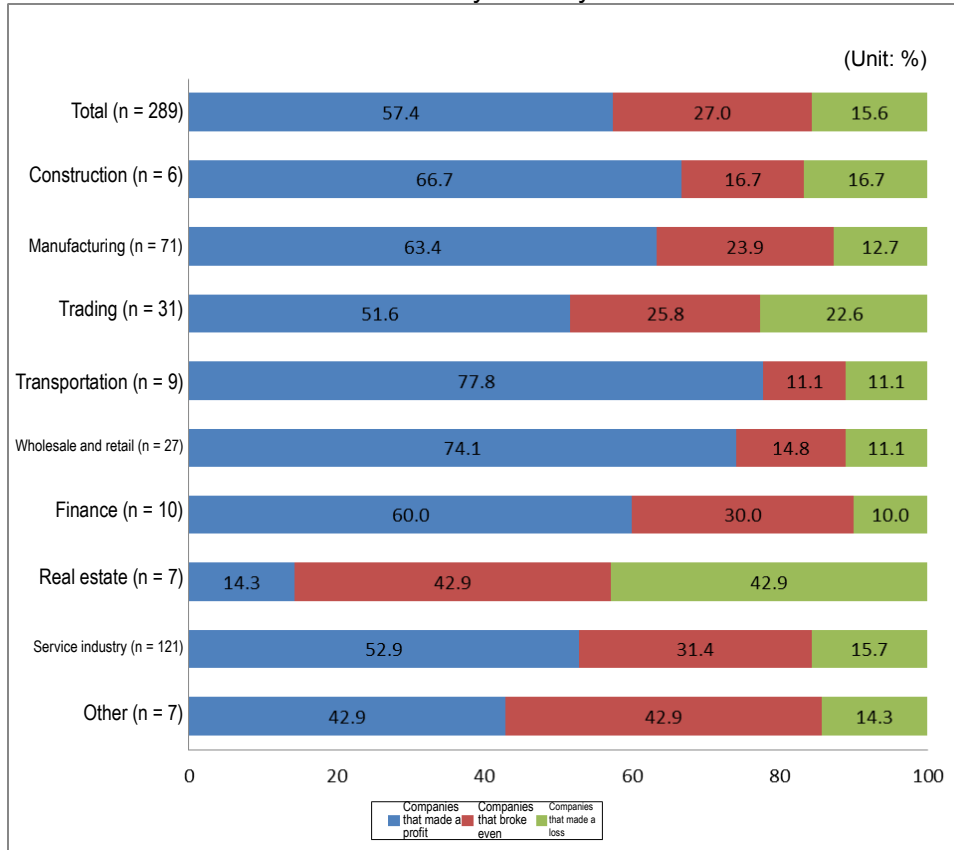
(3) Increase in the percentage of profit-making companies in the service industry

Chart II-6 shows the financial status of Japan-based companies operating in the Bay Area broken down by industry. As this chart shows, the percentages of profit-making companies exceed the all-industry average in two of the four key industries: manufacturing (63.4%) and wholesale and retail (74.1%). In fact, the percentage of profit-making companies in wholesale and retail rose by more than 10% from the 64.7% recorded in the previous survey (2014).

The percentage of profit-making companies in the service industry fell short of 50% in the previous survey and the survey before last (2012). In the current survey, however, the percentage increased by 5.1% to 52.9% from the 47.8% recorded in the previous survey. The combined percentage of service companies that made a profit or broke even was 84.3%, which is nearly the same as the all-industry average (84.4%) and up 4.4% from the previous survey (79.9%).

Meanwhile, the percentage of profit-making companies involved in trading was 51.6%, which is 5.8% short of the all-industry average. This percentage was down by more than 10% from the 61.8% recorded in the previous survey. The percentage of loss-making companies in this industry (22.6%) is 7% lower than the all-industry average (15.6%).

Chart II-6: Operating income of Japan-based companies operating in the Bay Area broken down by industry



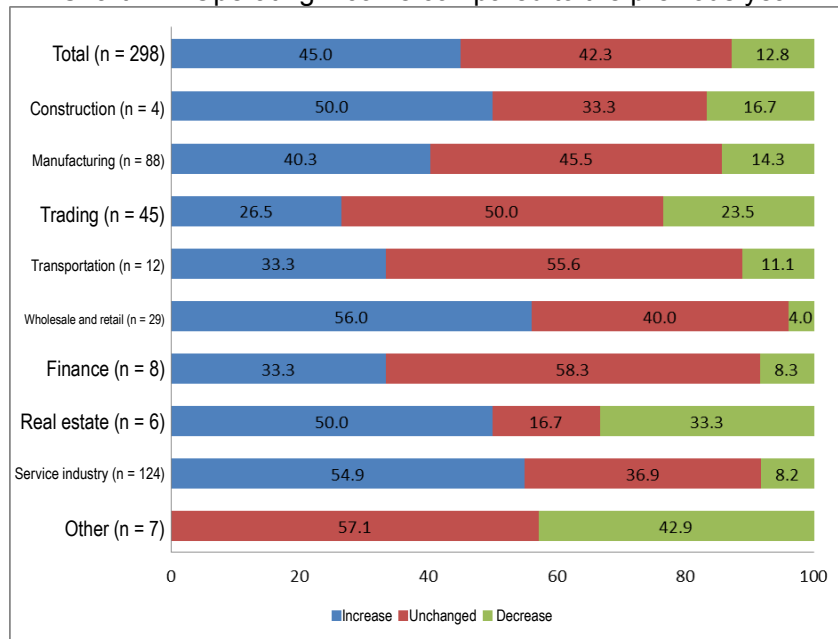
II-3. Changes in operating income

(1) Japan-based companies operating in the Bay Area continue to perform strongly

Of the companies that responded, 45.0% stated that their operating income had increased compared to the previous year, while 42.3% stated that their operating income had remained unchanged and 12.8% stated that it had decreased.

Compared to the previous survey (2014) (increase: 39.2%; unchanged: 46.4%; decrease: 14.4%), the percentage of companies with increased operating income rose by 5.8% and that of companies with decreased operating income fell by 1.6%. These results exceed the figures recorded in the previous survey (2014), which had in turn exceeded the figures recorded in the 2008 survey conducted prior to the Lehman Brothers collapse (increase: 38.8%; unchanged: 41.6%; decrease: 19.7%). In light of these results, we believe that the data collected on the financial status of Japan-based companies operating in the Bay Area indicates that these companies have continued on an upward trend since the recovery from the negative effects of the 2008 financial crisis.

Chart II-7: Operating income compared to the previous year



(2) Wholesale and retail perform well, while the performance of the service industry greatly improves

A comparison with the previous survey broken down by industry reveals that, as was the case in the previous survey, the following two of the four key industries are continuing to expand: wholesale and retail and the service industry. The percentage of companies in wholesale and retail with increased operating income rose by 4.5% compared to the previous survey (2014), while the percentage of those with decreased operating income fell by 5.1%. A detailed breakdown of the companies in the wholesale and retail industry reveals that the percentage of food and beverage companies with increased operating income exceeds the all-industry average by 25.0%, which suggests that these companies are serving as the driving force in this industry (Chart II-9).

Chart II-8: Operating income of Japan-based companies operating in the Bay Area compared to the previous year

	Year-on-year increase			Year-on-year decrease		
	2014	2016	Change	2014	2016	Change
Manufacturing	41.2%	40.3%	-0.9	15.3%	14.3%	1.0
Trading	27.3%	26.5%	-0.8	21.2%	23.5%	-2.3
Wholesale and retail	51.5%	56.0%	4.5	9.1%	4.0%	5.1
Service industry	36.6%	54.9%	18.5	14.2%	8.2%	6.0

Chart II-9: Operating income of Japan-based wholesale and retail companies operating in the Bay Area compared to the previous year

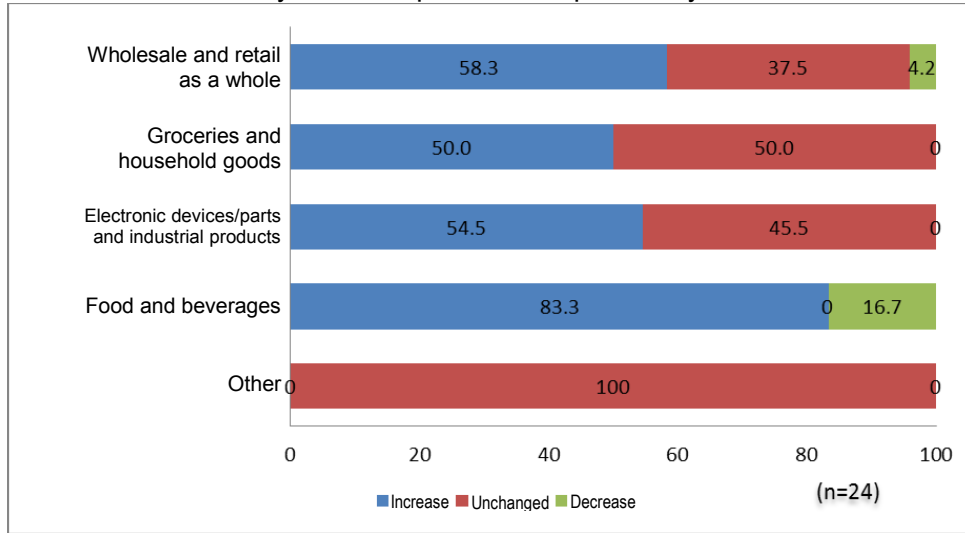
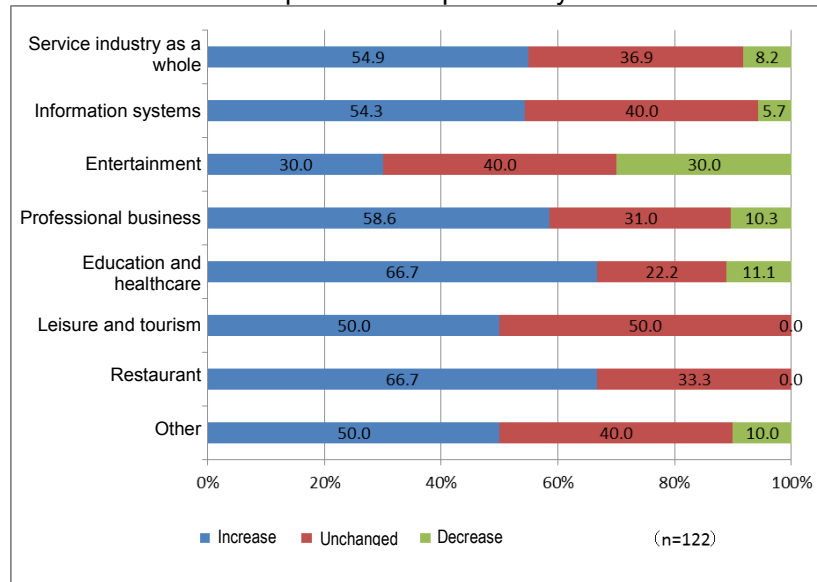


Chart II-10: Operating income of Japan-based service companies operating in the Bay Area compared to the previous year



The service industry saw the largest improvement of the four key industries targeted in the current survey, as the percentage of companies with increased operating income in this industry rose by 18.5%, while the percentage of those with decreased operating income dropped by 6% (Chart II-8).

A breakdown of the service companies by service category shows that the percentage of companies with increased operating income exceeded 50% for all categories other than entertainment, which suggests that the industry as a whole is performing well financially. In addition, the percentage of companies with increased operating income exceeded the average for all categories (54.9%) in professional businesses (58.6%), education and healthcare (66.7%) and the restaurant business (66.7%).

Meanwhile, the percentage of companies in manufacturing and trading that reported increased operating income dropped while the percentage in trading that reported decreased operating income rose, which suggests that there is a difference in business conditions between the industries.

(3) The DI business confidence indicator continues to rise

An analysis of changes in operating income using the diffusion index (DI)⁵ also indicates that Japan-based companies are performing well financially (Chart II-11). The DI was 32.2 in this survey, up 7.4% from the previous survey (2014). This result is also 6.8% higher than the level recorded in the survey conducted in 2004, when the Japanese market was booming thanks to the real-estate bubble economy.

Until the previous survey (2014), the DI for Japan-based companies had fluctuated roughly in tandem with the real GDP growth rate of the United States. In the current survey, however, the DI continued rising in 2016 despite a slight decline in the real GDP growth rate.

⁵ An abbreviation for diffusion index, DI is calculated by subtracting the percentage of companies with decreased operating income from the percentage of those with increased operating income. This index is an indicator of changes in business confidence.

Chart II-11: Changes in the DI for Japan-based companies operating in the Bay Area and the real GDP growth rates of the United States

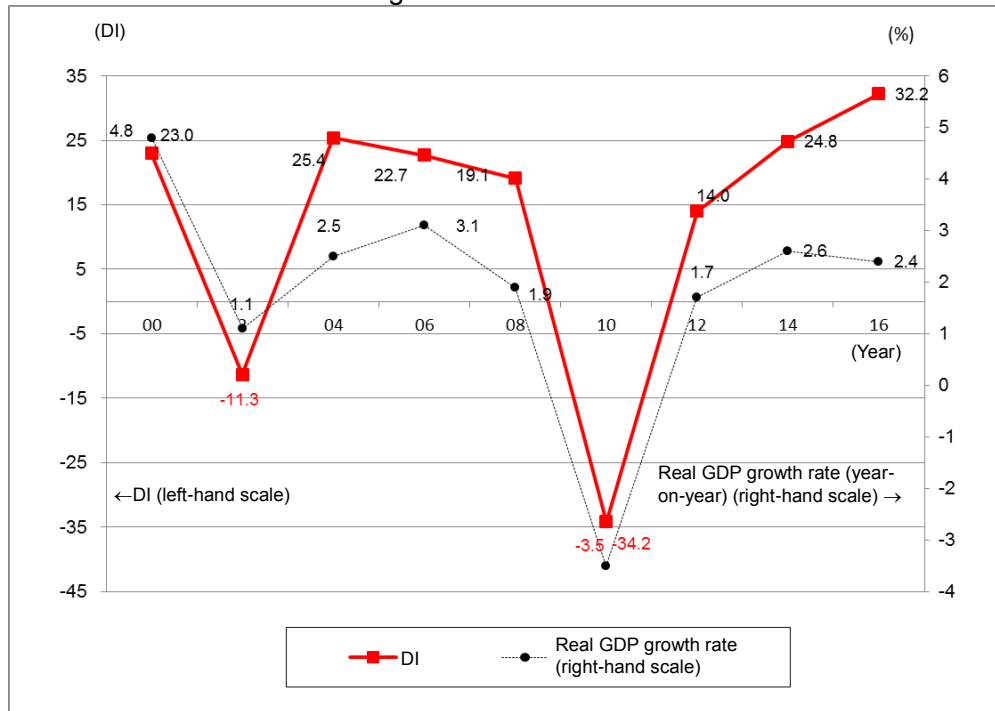
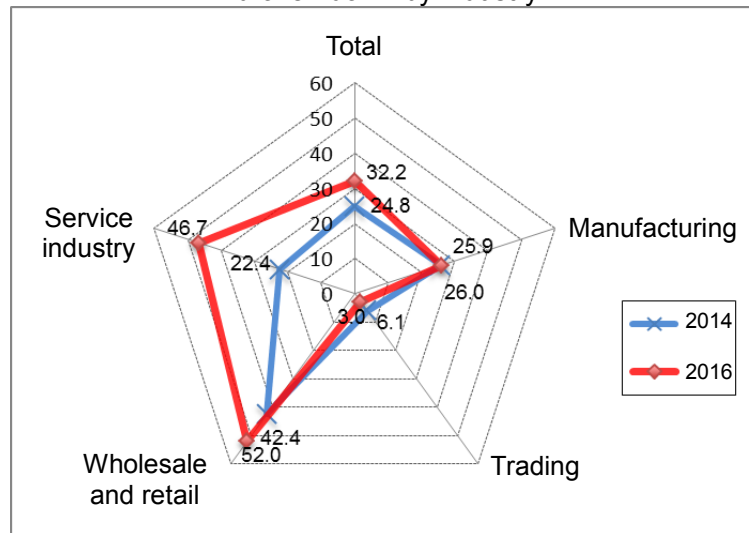


Chart II-12: Changes in the DI for Japan-based companies operating in the Bay Area broken down by industry



The graph in Chart II-12 shows a comparison of the DI for all-industry average and for the four key industries in both the current survey (2016) and the previous survey (2014). As you can see, the red line representing the results of the current survey has expanded beyond the blue line representing the results

of the previous survey, which indicates that there has been a marked improvement in the DI for wholesale and retail and the service industry.

The DI shows a particularly significant improvement for the service industry, where the increase of 24.3% far exceeded the average increase (7.4%) for the four key industries. The results of the previous survey had revealed an upturn in the financial status of Japan-based companies operating in the Bay Area, and the results of the current survey lead us to believe that their financial performance has further improved as a result of the strong performance of wholesale and retail and the service industry.

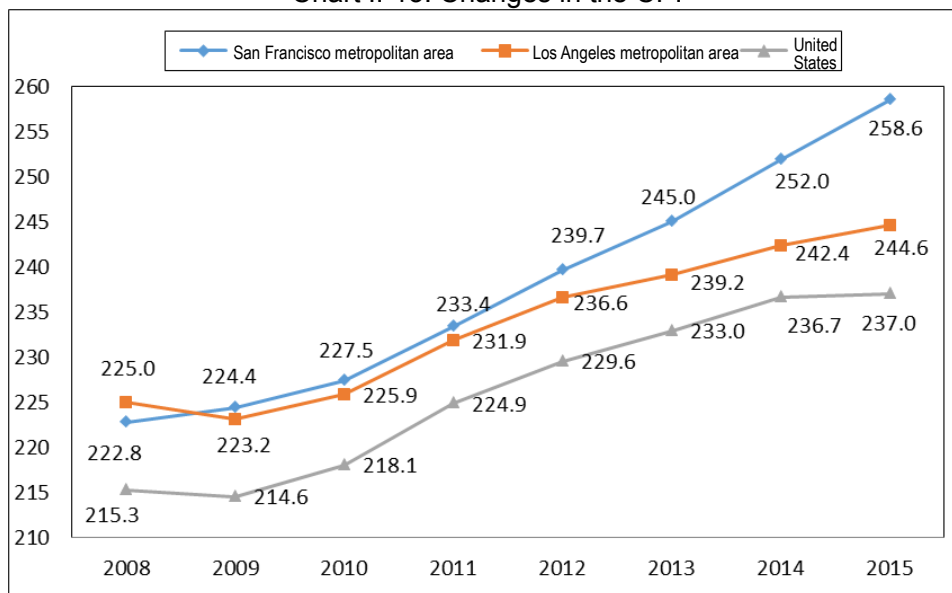
(4) Support from the thriving Bay Area economy

One of the reasons for the strong financial status of Japan-based companies is the Bay Area's thriving economy, including its tech boom. Companies that are actively engaged in business in the Bay Area include not only IT giants such as Google, Apple and Facebook, but also emerging companies such as Uber and Airbnb. According to the U.S. National Census, the Bay Area population in 2015 was 7,608,992, which represents a year-on-year increase of 87,311.

Total investment in Silicon Valley companies for 2015 amounted to 27.348 billion dollars—which equates to 47% of all venture capital investments in the United States as a whole—and 30% of all transactions in the United States were conducted in the Bay Area⁶. This area has a well-developed circulatory system that creates a thriving economy by attracting people and money from all over the world.

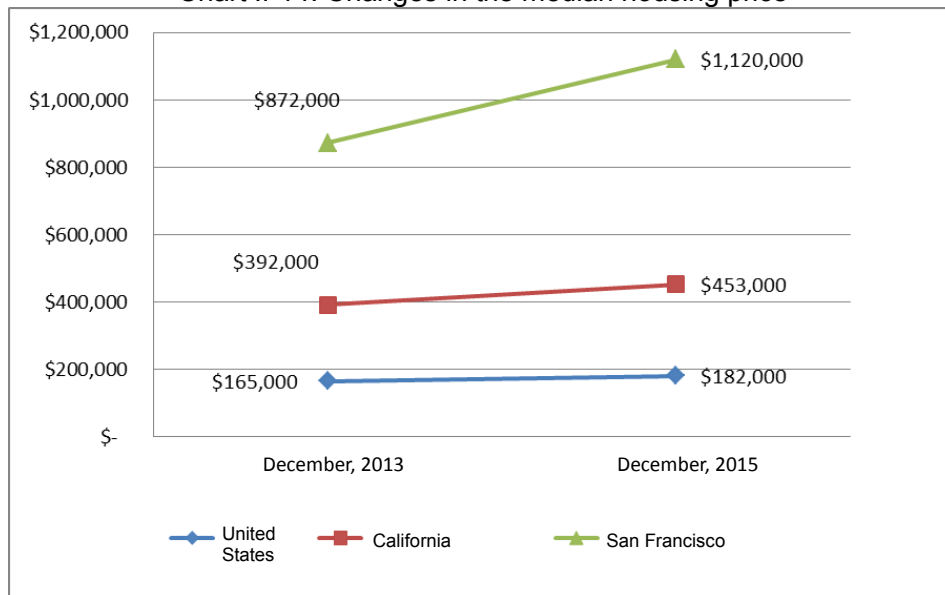
An examination of statistics on the consumer price index (CPI), a key economic indicator, reveals that the CPI for the San Francisco metropolitan area in 2015 was 258.6%, which is 14% higher than that for the Los Angeles metropolitan area and 21.6% higher than that of the United States as a whole (Chart II-13). In addition, data on changes in the CPI since 2013, the year companies reported on when answering the 2014 survey, shows that the CPI increased by as much as 5.6% for the San Francisco metropolitan area, but only 1.7% for the United States and 2.3% for the Los Angeles metropolitan area. These results make it clear that the Bay Area has a vibrant local economy.

Chart II-13: Changes in the CPI



⁶ MoneyTree™ Report, Q4 2015/full year 2015 summary

Chart II-14: Changes in the median housing price



Source: Compiled by JETRO based on data from Zillow

Housing prices, which closely reflect economic conditions, are also skyrocketing in the San Francisco area. San Francisco's median housing price in December 2015 was 1.12 million dollars, approximately 2.5 times greater than the median for California (453,000 dollars) and more than 6 times greater than the median for the United States (182,000 dollars). Housing prices have risen since December 2013 by 10.3% in the United States as a whole, by 15.6% in California, and by 28.4% in San Francisco.

II-4. Financial forecasts for the next one to two years

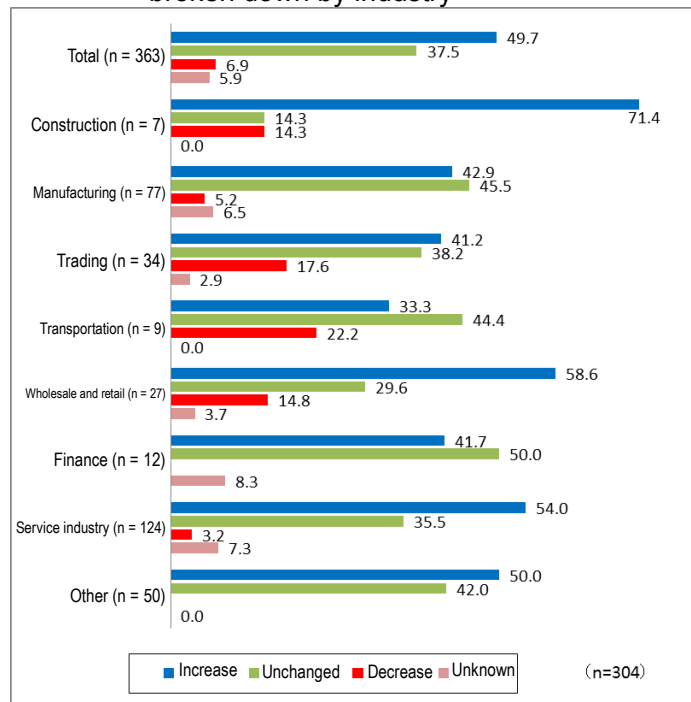
(1) Approximately 50% of companies predict increased operating income

The percentage of Japan-based companies predicting that their operating income would increase in the next one to two years was 49.7%, while those predicting that it would remain unchanged was 37.5%, and those predicting that it would decrease was 6.9%. Compared to the previous survey (2014), the percentage of companies predicting an increase rose by 3.2%, and the percentage of those predicting a decrease rose by 0.2%.

Broken down by industry, the data shows that the percentage of companies predicting an increase was higher than the all-industry average (49.7%) for two of the four key industries: wholesale and retail (58.6%) and the service industry (54.0%).

In the Southern California survey, the percentage of companies predicting that their operating income would increase was 52.4%, while those predicting that it would remain unchanged was 39.3%, and those predicting that it would decrease was 4.3%. The percentage of companies predicting an increase in operating income was 2.7% higher in Southern California than was the case in the Bay Area.

Chart II-15: Predicted operating income for Japan-based companies operating in the Bay Area broken down by industry



(2) Predicted increase in operating income achieved

Data on the key industries listed in Chart II-16 compares the operating income predicted in the 2014 survey with actual changes in the operating income recorded in the current survey in order to analyze differences between the predicted and actual results. The overall percentage of companies that predicted an increase in operating income in the previous survey was 46.5%, while the percentage of companies that actually saw an increase was 45.5%, according to the current survey. This 1% difference means that the predicted and actual results were approximately the same.

In the previous survey, 49.3% of companies in the service industry predicted an increase in operating income, while 54.9% actually saw an increase according to the current survey. This 5.6% difference means that the financial results achieved by companies in the service industry were better than predicted in the past one or two years.

Chart II-16: Comparison between predicted operating income (2014) and actual results (2016) for Japan-based companies operating in the Bay Area

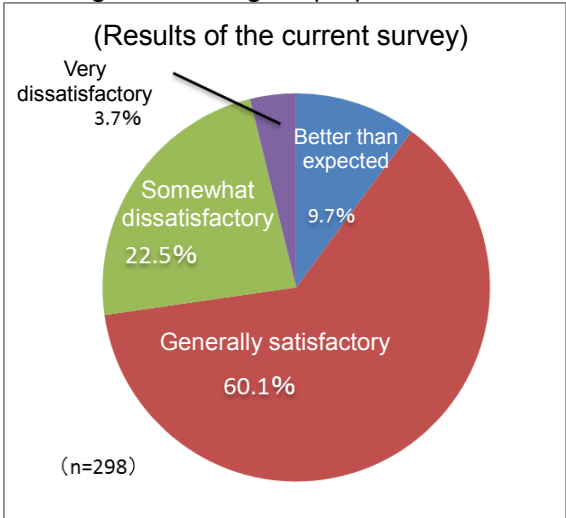
(Unit: %)

	Increase		Unchanged		Decrease	
	Forecast (2014)	Result (2016)	Forecast (2014)	Result (2016)	Forecast (2014)	Result (2016)
Total	46.5	45.5	39.1	42.3	6.7	12.8
Manufacturing	42.5	40.3	41.4	45.5	6.9	14.3
Trading	39.4	26.5	45.5	50.0	15.2	23.5
Wholesale and retail	55.9	56.0	35.3	40.0	2.9	4.0
Service industry	49.3	54.9	35.5	36.9	5.8	8.2

II-5. Evaluation of financial results—Nearly 70% of Japan-based companies operating in the Bay Area perform well

In response to a question about how Japan-based companies operating in the Bay Area evaluate their past financial results in light of the original purpose of their establishment, 9.7% of companies stated that their financial results were better than expected and 60.1% stated that they were generally satisfactory. This means, then, that the aggregate percentage of companies that responded positively to this question was 69.8%. However, this aggregate percentage was down 2.6% from the 72.4% recorded in the previous survey (2014). This represents a slight decrease compared to the previous survey, which was the first time the result had exceeded 70% since this question was included in the questionnaire.

Chart II-17: Evaluation of the current financial results of Japan-based companies operating in the Bay Area in light of the original purpose of their establishment

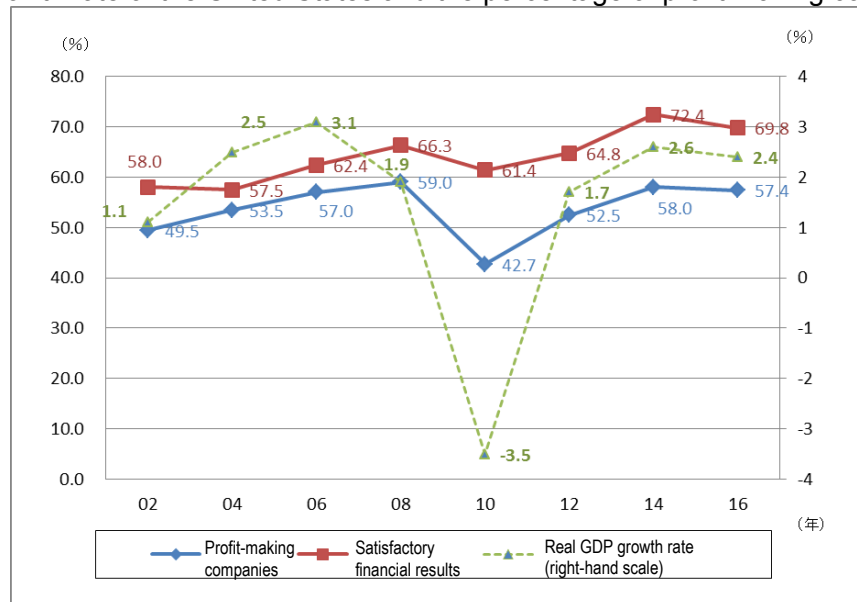


This question required respondents to express their subjective feelings (market psychology), but as Chart II-19 shows, the responses to this question are likely to correlate with variables such as the macro-economic trends of the United States and corporate financial performance.

Chart II-18: Evaluation of the financial results of Japan-based companies operating in the Bay Area in light of the purpose of their establishment broken down by year



Chart II-19: Changes in the percentage of companies with satisfactory financial results, the GDP growth rate of the United States and the percentage of profit-making companies



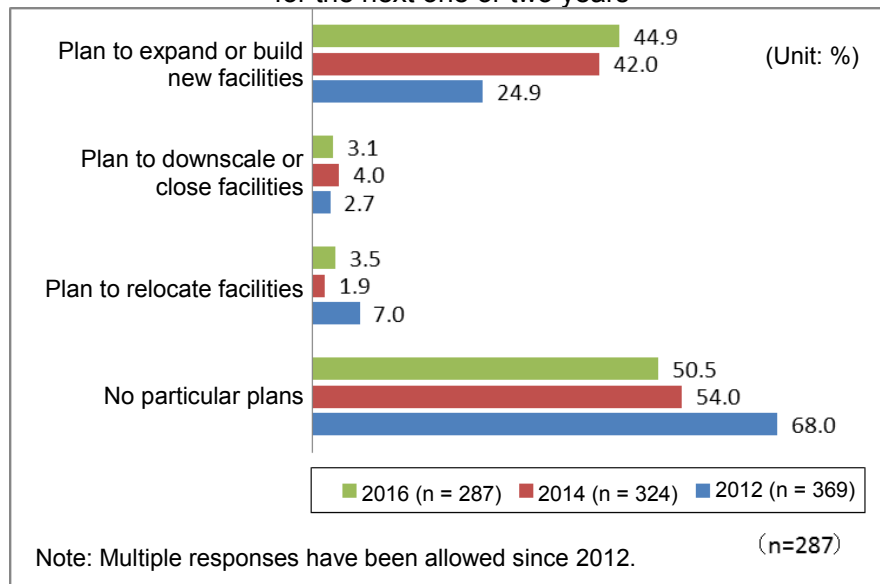
II-6. Investment and business plans

(1) Companies likely to continue to expand or build new facilities

Of the companies that responded, 44.9% stated that they plan to expand or build new facilities within the next one or two years. This percentage is the highest ever recorded since this series of surveys was first conducted in 1992 and an increase of 2.9% compared to the previous high of 42.0% that was recorded in the 2014 survey. Meanwhile, 3.1% of companies stated that they plan to downscale or relocate facilities, a drop of 0.7% from the 4.0% recorded in the previous survey.

In the survey conducted in Southern California, 44.5% of companies stated that they plan to expand or build new facilities (5.0% plan to downscale or close facilities, 4.7% plan to relocate facilities, and 46.0% have no particular plans).

Chart II-20: Investment/business plans of Japan-based companies operating in the Bay Area for the next one or two years



(2) The service industry and manufacturing maintain the status quo

The results of investment/business plans for the next one or two years broken down by industry show that wholesale and retail (53.8%) is the only key industry which exceeded the all-industry average (44.9%) for the percentage of companies that planned to expand or build new facilities. Data indicates that companies in the service industry (which has the largest employment share in the Bay Area) and those in the manufacturing industry (which has the second largest) are focusing their efforts on maintaining the status quo.

Chart II-21: Investment/business plans of Japan-based companies operating in the Bay Area for the next one or two years (by industry)

	Plan to expand or build new facilities	Plan to downscale or close facilities	Plan to relocate facilities	No particular plans
Total (n = 287)	44.9	3.1	3.5	50.5
Construction (n = 6)	66.7	16.7	16.7	16.7
Manufacturing (n = 71)	43.7	0.0	1.4	54.9
Trading (n = 31)	38.7	3.2	3.2	58.1
Transportation (n = 9)	11.1	11.1	11.1	77.8
Wholesale and retail (n = 26)	53.8	3.8	3.8	42.3
Finance (n = 11)	36.4	0.0	0.0	63.6
Real estate (n = 7)	71.4	14.3	0.0	14.3
Service industry (n = 119)	44.5	2.5	3.4	51.3
Other (n = 7)	71.4	14.3	14.3	0.0

III. Contribution to the Local Economy

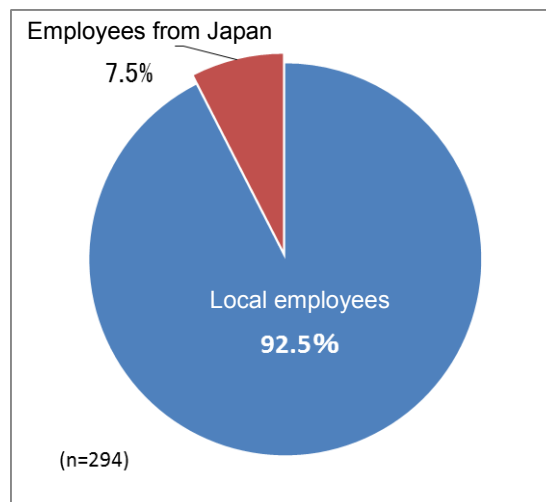
III-1. Employment

(1) Japan-based companies operating in the Bay Area generate employment for approximately 44,000 people

The estimated total number of employees working for Japan-based companies operating in the Bay Area increased by 10.8% from the 2014 survey to reach approximately 44,000. The number of employees working for the 294 companies that responded to the relevant question was 16,788. Of these employees, 1,262 were Japanese employees posted from Japan (7.5% of the total) and 15,516 were local employees (92.5%). The average number of employees per responding company was 57.1 (of which 4.3 were employees from Japan and 52.8 were local employees). By extrapolating this figure for the 770 Japan-based companies identified as operating in the Bay Area, we estimate the total employment generated by these companies as being 43,967 (3,311 employees from Japan and 40,656 local employees).

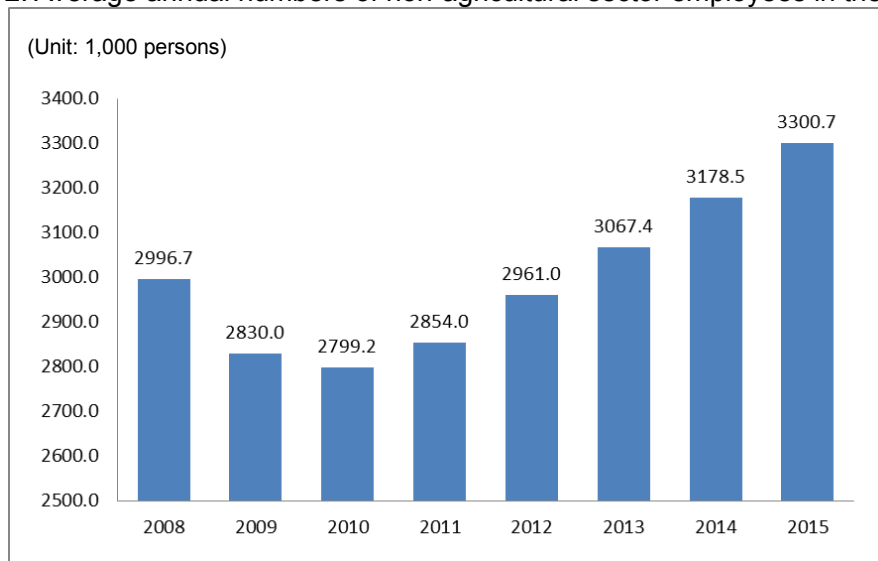
Chart III-1: Employment generated by Japan-based companies operating in the Bay Area

	Total (A = B + C)	Employees from Japan (B)	Local employees (C)
Employment (294 responding companies)	16,778	1,262	15,516
Employment per company	57.1	4.3	52.8
Estimated total employment generated by 770 Japan-based companies	43,967	3,311	40,656



In April 2015, the number of employees working in the non-agricultural sector in California reached a record high of more than 16 million. The booming IT industry is said to have greatly contributed to this expansion in employment. As Chart III-2 shows, the number of employees working in the non-agricultural sector in the Bay Area grew by more than 10% from 2008, prior to the financial crisis, until 2015. Supported by the strong local economy, Japan-based companies operating in the Bay Area also continued to expand their employment.

Chart III-2: Average annual numbers of non-agricultural sector employees in the Bay Area



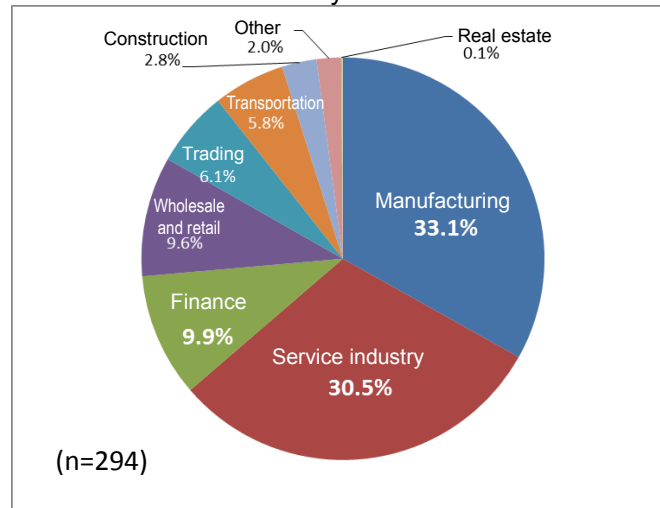
(Source: Compiled by JETRO based on data from the U.S. Department of Labor)

Note: For this chart, Bay Area refers to the statistical area of San Francisco–Oakland–Hayward and the statistical area of San Jose–Sunnyvale–Santa Clara.

(2) Manufacturing and the service industry have nearly the equal employment numbers

Broken down by industry, the data on the number of employees that work for the 294 responding companies indicates that manufacturing and the service industry employ nearly the same amount of people. They provide a majority of the employment in the area. The most marked difference compared to the previous survey is that the percentage of employees in the finance industry dropped from 16.4% to 9.9% in the current survey, while the percentage of those in wholesale and retail rose from 4.4% to 9.6%.

Chart III-3: Percentages of employees working for Japan-based companies broken down by industry



Broken down by industry, the data on the number of local employees per company indicates that the largest number (136.8 persons) is in the finance industry, followed by transportation (100.2 persons). The construction industry has the largest number of employees per company from Japan (10.8 persons), followed by manufacturing (7.8 persons) and transportation (7.2 persons).

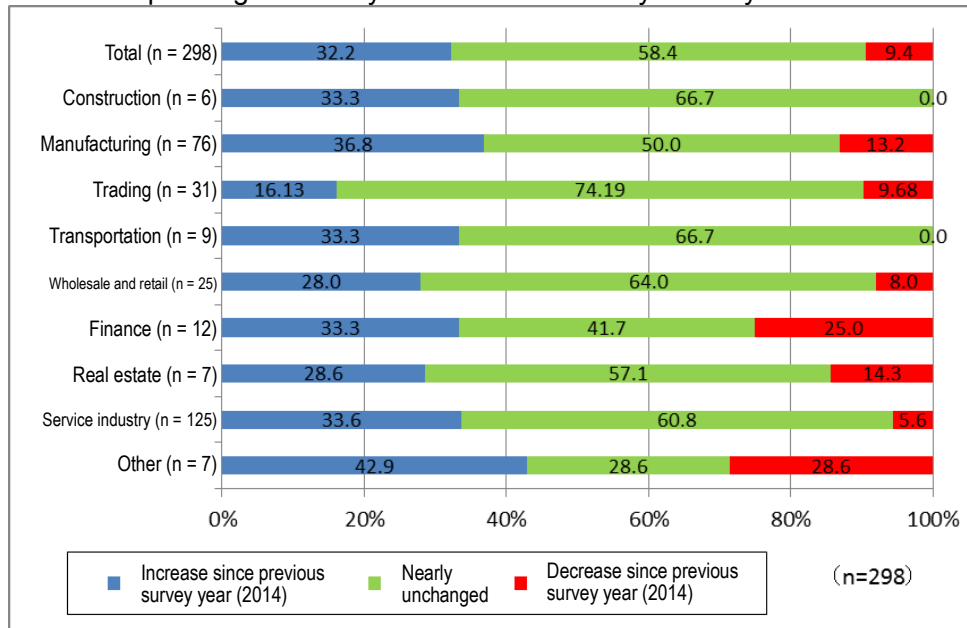
Chart III-4: Number of employees per Japan-based company operating in the Bay Area broken down by industry

		Construction	Manufacturing	Trading	Transportation	Wholesale and retail	Finance	Real estate	Service industry	Other	Total
No. of responding companies		6	74	30	9	27	12	7	120	8	294
Total no. of employees (294 responding companies)		466	5559	1027	967	1616	1665	23	5125	330	16,778
Break-down	Local employees (persons)	401	4,982	895	902	1534	1641	16	4856	289	15,516
	Employees from Japan (persons)	65	577	132	65	82	24	7	269	41	1,262
Per company	Local employees (persons)	66.8	67.3	29.8	100.2	56.8	136.8	2.3	40.5	36.1	52.8
	Employees from Japan (persons)	10.8	7.8	4.4	7.2	3.0	2.0	1.0	2.2	5.1	4.3

(3) Number of employees increases or remains unchanged for over 90% of companies

The percentage of companies that reported an increase in their number of employees compared to the previous year was up 6.2% from the previous survey at 32.2%, while the percentage of those that reported a decrease fell 1.3% from the previous survey. The aggregate percentage of companies that reported an increase or no change in their employment since the previous year was 90.6%, indicating that the employment provided by Japan-based companies is relatively stable.

Chart III-5: Increase or decrease in employment provided by Japan-based companies operating in the Bay Area broken down by industry



Broken down by industry, the data shows that the percentage of companies with increased employment exceeded the all-industry average (32.2%) for two of the four key industries: manufacturing (36.8%) and the service industry (33.6%). Meanwhile, the percentage was 4.2% lower than the all-industry average in wholesale and retail (28.0%). Over 70% of companies involved in trading reported that their employment remained nearly unchanged.

III-2. Wage payments in the Bay Area estimated to total 3.71 billion dollars

The 175 Japan-based companies operating in the Bay Area that responded to the relevant question made total annual wage payments (including benefits) of 690.399 million dollars. Based on this total, the annual wage payment per employee was calculated to be 84,300 dollars. Multiplying this number by 43,967 of the estimated total number of employees that work for the 770 Japan-based companies identified in the Bay Area gives 3,706.418 million dollars as the estimated total of annual wage payments.

Compared to the previous survey conducted in 2014, the annual wage payment per employee for Japan-based companies fell by 2,600 dollars from 86,900 dollars, rather than rising in proportion to the Bay Area's increasing wage levels (see Section IV-3 for details). One possible reason why the per-employee wage payments failed to increase despite the growing number of employees is that highly paid employees found better-paid jobs at local companies and were replaced by lower-paid employees. Responses to the relevant question suggest that the wage levels of Japan-based companies are falling short of the high wages paid at other companies in the Bay Area.

Meanwhile, the annual total of per-employee wage payments at Japan-based companies in Southern California is 57,300 dollars, which is 27,000 dollars less than in the Bay Area. The total of annual wage payments made by the 700 Japan-based companies identified in Southern California is 9.915192 billion dollars⁷ while the estimated total of annual wage payments made by all Japan-based companies in California is 13.62161 billion dollars.

Chart III-6: Wage payments made by Japan-based companies operating in the Bay Area

	Bay Area	Southern California
No. of responding companies	175	222
Annual wage payments (1,000 dollars)	690,399	1,511,850
Annual wage payment per employee (1,000 dollars)	84.3	57.3
Estimated total of annual wage payments (1,000 dollars)	3,706,418	9,915,192

Note: The estimated total of annual wage payments was calculated by multiplying the annual wage payment per employee by the total number of employees working for Japan-based companies identified in the area.

⁷ Since fractions for the total numbers of employees are treated differently, the figures given in this paragraph are different from those given in the "2016 Survey on Japan-based Companies Operating in Southern California."

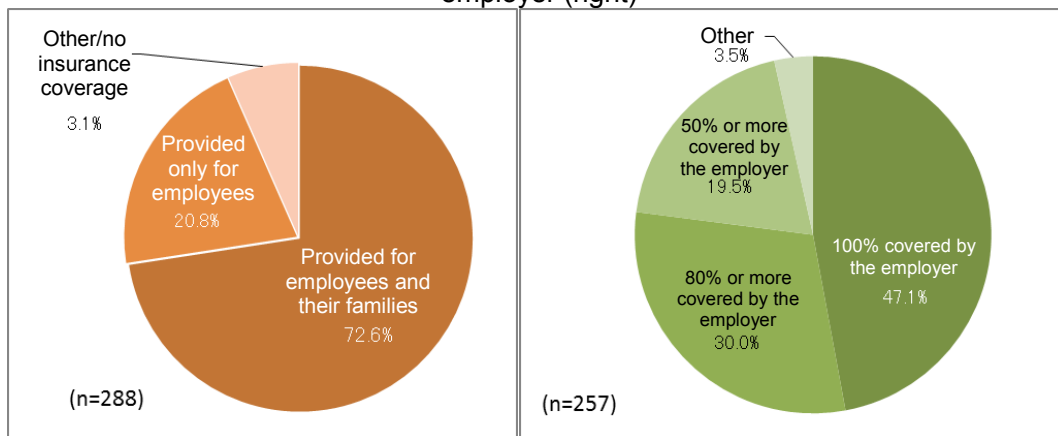
III-3. Health insurance coverage

(1) More than 90% of companies provide health insurance coverage

Of the 288 companies that responded to the relevant question, 72.6% (previous survey: 67.3%) provide health insurance coverage for employees and their families while 20.8% (previous survey: 16.0%) provide it only for employees. This means that a total of 93.4% of Japan-based companies provide employees with some form of health insurance coverage.

Compared to the previous survey, the percentage of companies providing health insurance coverage for employees and their families rose by 5.3% and the percentage of companies providing it only for employees rose by 4.8%, while the percentage for the "Other/no insurance coverage" category fell by 13.6%.

Chart III-7: Type of health insurance coverage (left) and rate of coverage broken down by employer (right)

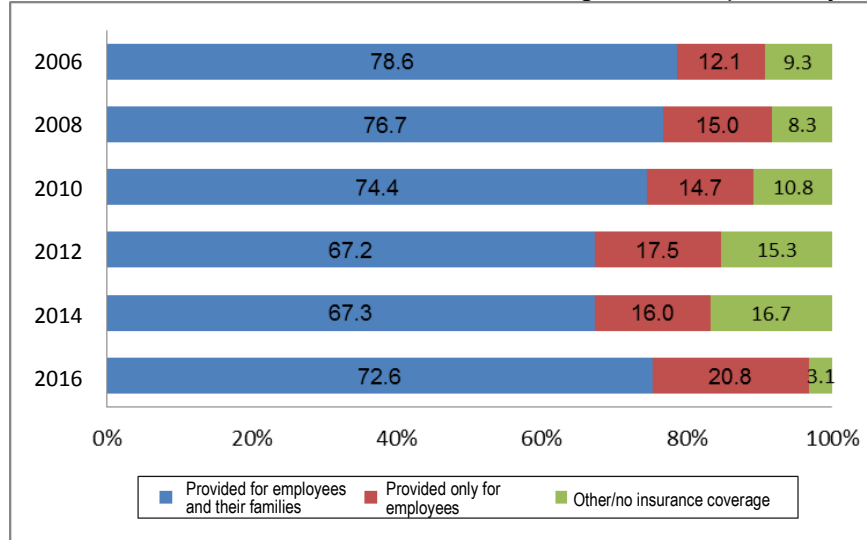


(2) Percentage of Japan-based companies providing health insurance coverage reaches a 10-year high

Data on trends in health insurance coverage reveals that the percentage of Japan-based companies that provide employees with some form of insurance coverage had decreased each survey year since 2010 until 2014. In the current survey, however, the percentage rose by 10.1% from the previous survey, reaching a record high for the past 10 years. This rise is most likely a result of the Affordable Care Act (commonly known as ObamaCare) having made it obligatory⁸ for employers to provide health insurance coverage.

⁸ The Affordable Care Act applies to companies with 50 or more full-time employees.

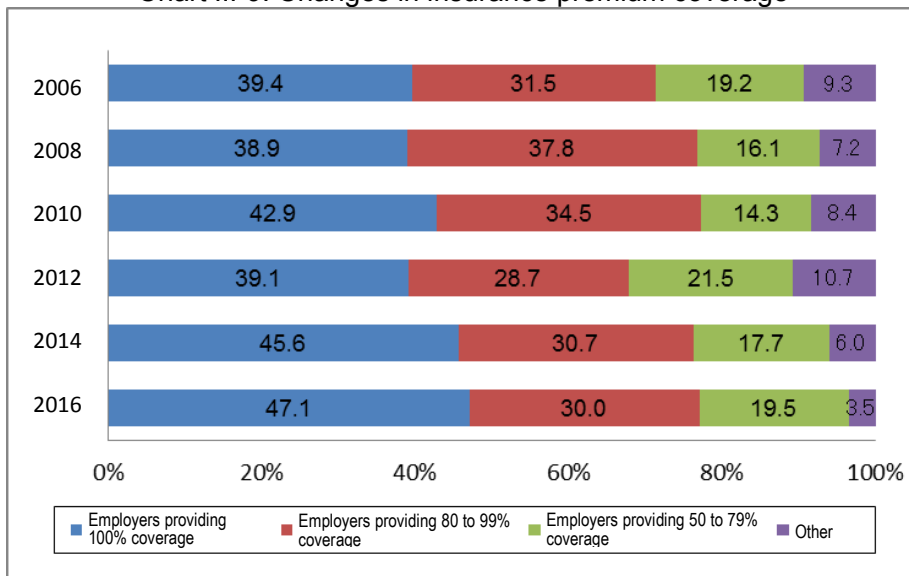
Chart III-8: Provision of health insurance coverage over the past 10 years



(3) High level of health insurance coverage maintained

Data on the proportion of insurance premiums covered by companies that provide health insurance shows that the percentage of companies providing 100% coverage increased to a 10-year high of 47.1%, up 1.5% from the 45.6% recorded in the previous survey. The percentage of companies providing 80% or more coverage decreased by 0.7% to 30.0%.

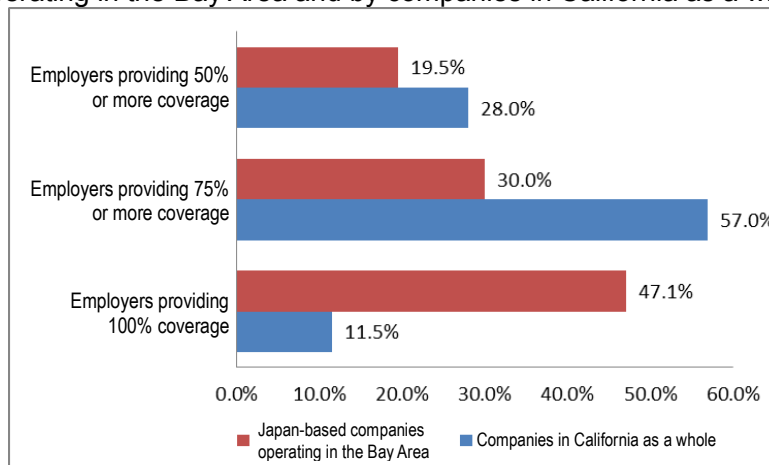
Chart III-9: Changes in insurance premium coverage



The percentage of companies providing 80% or more health insurance coverage—i.e., the total percentage of companies that fall under the "Employers providing 100% coverage" or "Employers providing 80 to 99% coverage" categories—was 77.1%, which is nearly as high as the record 77.4% recorded in 2010. Furthermore, the number of companies providing health insurance coverage increased as a result of the enforcement of the Affordable Care Act (commonly known as ObamaCare) in the current survey, while employer-coverage of insurance premiums remained at the same level as that in the previous survey. Making the provision of health insurance coverage obligatory is likely to impose a burden on companies, but not many Japan-based companies operating in the Bay Area have attempted to cut costs by reducing their insurance premium coverage.

Examining data provided by the California Healthcare Foundation⁹ in order to compare the level of health insurance coverage provided by Japan-based companies operating in the Bay Area with the situation in California as a whole reveals that the percentage of companies in California that provide some form of health insurance coverage is 57% (the same as for the United States as a whole). The percentage of companies that provide 100% insurance premium coverage was just 11.5%. In contrast, the corresponding percentage for Japan-based companies operating in the Bay Area was 47.1%, more than four times greater than the figure for companies in California as a whole.

Chart III-10: Health insurance premium coverage provided by Japan-based companies operating in the Bay Area and by companies in California as a whole



Source: Compiled by JETRO based on data provided by the California Healthcare Foundation

Note: The data on companies in California as a whole does not include an "Employers providing 80% or more coverage" category. For the purpose of comparison, we used data from the "Employers providing 80% or more coverage" category used in our survey of Japan-based companies operating in the Bay Area for the "Employers providing 75% coverage" category in the above chart.

The percentage of Japan-based companies operating in the Bay Area that provide 80% or more insurance premium coverage is 77.1%. In California as a whole, however, even the percentage of companies that provide 75% or more insurance premium coverage is less than 70% (68.5%). Our findings also confirm that the level of health insurance coverage that Japan-based companies provide remains as high as it was in the previous survey conducted in 2014. While Japan-based companies operating in the Bay Area are having trouble paying more than the Japanese wage level, they seem to

⁹ California Healthcare Foundation, "California Employer Health Benefits: Workers Pay the Price," June 2016, <http://www.chcf.org/publications/2016/06/employer-health-benefits>

have little opposition to increasing their health insurance coverage. This is most likely due to the fact that Japan has a universal health insurance system.

Today, however, Japan-based companies operating in the Bay Area are faced with a need to continue offering a high level of benefits that includes health insurance coverage, as more local companies continue to adopt healthcare coverage with their benefit packages. The percentage of companies in California that provide 75% or more insurance premium coverage rose to 57.0% in 2015, up 12% from the 45.0% recorded in 2013, the year companies reported on when answering the 2014 survey.

Japan-based companies must continue to differentiate their employee benefit packages from what American companies in the area can offer, including by covering a high proportion of health insurance premiums.

IV. Business Environment

IV-1. Advantages of the Bay Area

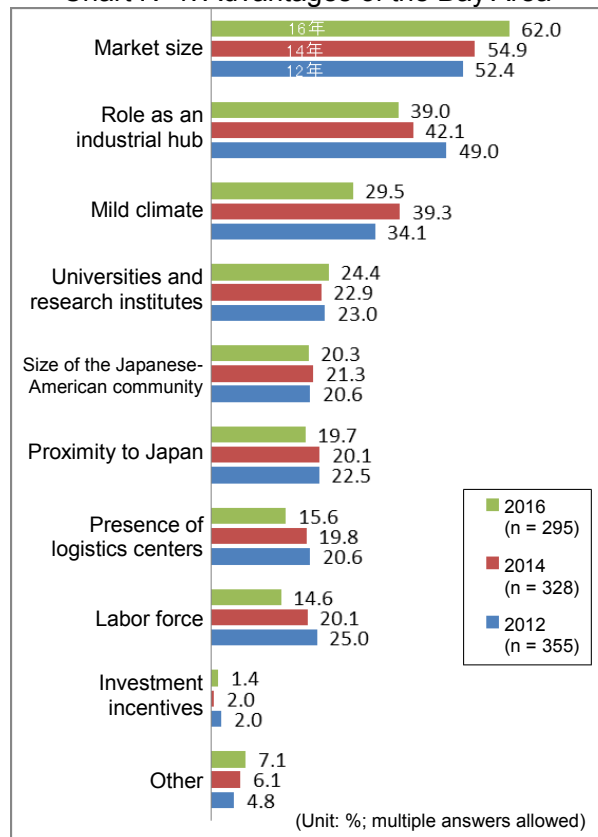
(1) Market size ranks first

In response to a multi-answer question about the advantages of the Bay Area, the largest percentage of companies (62.0%) chose market size as its key advantage, as was also the case in the previous survey. This was followed by the area's role as an industrial hub (39.0%) and its mild climate (29.5%).

Market size, which placed first in the current survey, is a factor that depends on business confidence. In the 2010 survey, which was directly influenced by the financial turmoil that followed the Lehman Brothers collapse, market size placed below the area's mild climate and its role as an industrial hub. Since the survey before last (2012), however, market size has been placed first. Also, the percentage of companies choosing this factor as the key advantage of the Bay Area has continued to increase every survey year. These findings lead us to believe that Japan-based companies are benefiting from the Bay Area's strong economy.

Meanwhile, the percentage of companies that chose the area's mild climate (29.5%), which placed third, significantly declined in the current survey, down 9.8% from the 39.3% recorded in the previous survey. This result may be due to the effects of the historic drought that has gripped California since 2012.

Chart IV-1: Advantages of the Bay Area



(2) Market size accounts for the largest percentage in many industries

Even when the data received from responding companies is broken down by industry, it still shows that the largest percentage of companies chose market size as the key advantage of the Bay Area. Market size placed first in the following five of the eight industry categories: construction (100.0%), manufacturing (59.5%), trading (58.1%), wholesale and retail (57.7%), real estate (62.5%), and the service industry (62.8%). The area's role as an industrial hub was also chosen as the key advantage in many industries, with over 60% of companies choosing this factor as the key advantage in finance (61.5%) and more than 40% in manufacturing (43.2%) and trading (41.9%).

Chart IV-2: Bay Area advantage chosen in each industry (Unit: %)

	Construction	Manufacturing	Trading	Transportation	Wholesale and retail	Finance	Real estate	Service industry	Other
Market size	100.0	59.5	58.1	44.4	57.7	57.7	62.5	62.8	42.9
Size of the Japanese-American community	50.0	9.5	22.6	22.2	30.8	23.1	37.5	21.5	14.3
Presence of logistics centers	16.7	10.8	25.8	55.6	23.1	15.4	25.0	9.9	28.6
Mild climate	16.7	23.0	25.8	33.3	34.6	23.1	50.0	31.4	57.1
Labor force	0.0	20.3	12.9	0.0	7.7	15.4	12.5	13.2	42.9
Universities and research institutes	16.7	29.7	19.4	11.1	7.7	53.8	37.5	20.7	71.4
Role as an industrial hub	33.3	43.2	41.9	0.0	26.9	61.5	37.5	37.2	71.4
Proximity to Japan	16.7	4.1	35.5	11.1	23.1	23.1	12.5	25.6	14.3
Investment incentives	0.0	1.4	0.0	0.0	0.0	7.7	12.5	0.8	0.0
Other	0.0	6.8	12.9	0.0	3.8	15.4	12.5	5.8	14.3

Note: Gray-shaded boxes indicate advantages chosen by the largest percentage of companies in the respective industries.

(3) Advantages of the Bay Area include its industrial hub and universities and research institutes

Chart IV-3 compares our findings for responses concerning local advantages in the Bay Area and Southern California. As the table shows, the key advantage for both areas was market size. The percentage of companies that chose market size was 62.0% in the Bay Area and 58.3% in Southern California.

Chart IV-3: Comparison of local advantages in Northern and Southern California

	Bay Area		Southern California	
Market size	62.0	(1)	58.3	(1)
Its industrial hub	39.0	(2)	12.2	(6)
Mild climate	29.5	(3)	26.8	(4)
Universities and research institutes	24.4	(4)	5.5	(8)
Size of the Japanese-American community	20.3	(5)	19.8	(5)
Proximity to Japan	19.7	(6)	11.4	(7)
Presence of logistics centers	15.6	(7)	30.3	(2)
Labor force	14.6	(8)	28.9	(3)
Investment incentives	1.4	(9)	1.7	(9)
Other	7.1	-	4.7	-

Note: Unit: %. Numbers in parentheses represent the rankings for the respective responses.

In the Bay Area, its industrial hub (39.0%) placed second and the presence of universities and research institutes there placed fourth. In Southern California, however, these advantages placed low, with the former being placed sixth (12.2%) and the latter eighth (5.5%). Furthermore, although the presence of logistics centers (15.6%; seventh) and labor force (14.6%; eighth) were chosen by only a few companies operating in the Bay Area, these advantages were chosen by many companies in Southern California, with the former being placed second (30.3%) and the latter third (28.9%). This is probably because the manufacturing industry, which depends heavily on the existence of logistics centers and an abundant labor force, accounts for a larger percentage of companies in Southern California than it does in the Bay Area, where more companies are found in the service industry.

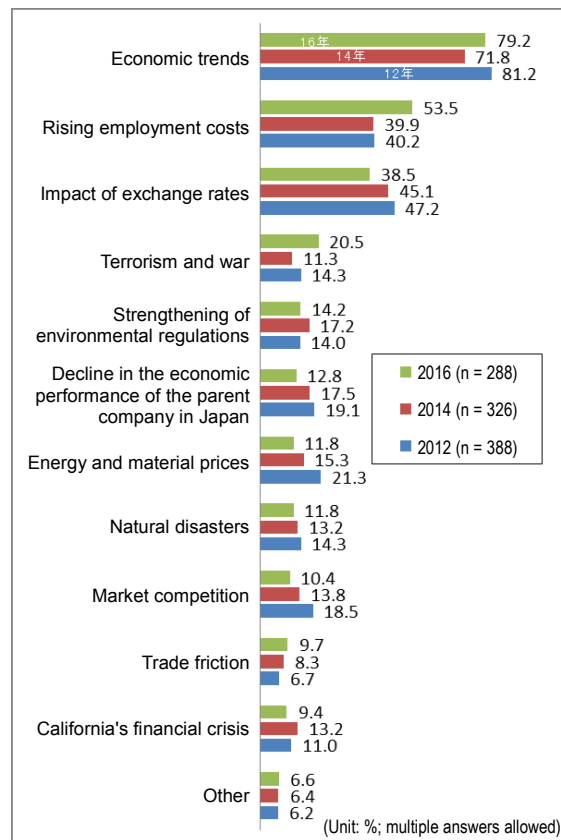
The availability of investment incentives, which refers to preferential treatment being provided by state government and other local authorities, was chosen by only a few companies operating in the Bay Area as well as in Southern California. It placed last in both areas.

IV-2. Concerns over future business operations

(1) Rising employment costs ranks second

In response to a multiple-answer question about future business issues, 79.2% of the 288 responding companies chose economic trends as a concern for the future. This was followed by rising employment costs (53.5%), which rose one place from third in the previous survey. The impact of exchange rates, which placed second in the previous survey, was the concern for 38.5% of the companies in the current survey.

Chart IV-4: Future concerns for Japan-based companies operating in the Bay Area



(2) Terrorism and war rises rapidly to rank fourth

The most significant changes since the previous survey were rising employment costs (53.5%), which placed second, and terrorism and war (20.5%), which placed fourth. Rising employment costs rose by 13.6% from the 39.9% in the previous survey. The percentage of companies with concerns over terrorism and war increased by 9.2% from the previous survey (11.3%). This concern jumped to fourth from eighth. This change is most likely a result of Japan-based companies paying greater attention to terrorism and war following the series of terrorist attacks that have struck Europe since the second half of 2015.

(3) Economic trends are the main concern for companies in all industries

Broken down by industry, the data shows that a large percentage of companies in all industries identified economic trends as their main concern for the future. This percentage is especially high in the seven industries other than the service industry, with over 80% of companies expressing concerns over economic trends. In many industries, companies also expressed concern over rising employment costs, with more than 50% of companies in construction, transportation, wholesale and retail, real estate, and the service industry identifying employment costs as their main concern.

Chart IV-5: Future concerns for Japan-based companies operating in the Bay Area broken down by industry (Unit: %)

	Economic trends	Terrorism and war	Trade friction	Market competition	Impact of exchange rates	Rising employment costs	Strengthening of environmental regulations	Decline in the economic performance of the parent company in Japan	Energy and material prices	California's financial crisis	Natural disasters	Other
Construction (n = 6)	100.0	0.0	0.0	0.0	33.3	66.7	0.0	16.7	16.7	33.3	0.0	0.0
Manufacturing (n = 72)	80.6	9.7	5.6	20.8	43.1	45.8	11.1	15.3	12.5	4.2	8.3	5.6
Trading (n = 29)	86.2	24.1	17.2	13.8	44.8	44.8	13.8	13.8	6.9	13.8	6.9	13.8
Transportation (n = 8)	87.5	75.0	37.5	12.5	37.5	75.0	12.5	12.5	25.0	0.0	0.0	12.5
Wholesale and retail (n = 27)	81.5	18.5	33.3	18.5	55.6	59.3	25.9	25.9	25.9	14.8	11.1	3.7
Finance (n = 13)	92.3	30.8	0.0	0.0	46.2	23.1	30.8	0.0	23.1	7.7	15.4	0.0
Real estate (n = 8)	87.5	37.5	0.0	0.0	25.0	50.0	25.0	12.5	12.5	0.0	37.5	0.0
Service industry (n = 118)	73.7	22.9	5.1	2.5	29.7	59.3	11.0	8.5	6.8	10.2	15.3	6.8
Other (n = 7)	57.1	0.0	14.3	28.6	57.1	71.4	28.6	28.6	14.3	14.3	0.0	14.3

Note: The figures given in the above chart represent the percentages of responding companies that chose the respective responses. Gray-shaded boxes indicate percentages that are greater than 50%.

(4) Impact of exchange rates is a key concern in Southern California

A comparison between the Bay Area and Southern California reveals that although economic trends placed first in both areas, the percentage of companies that chose this response was 6.9% higher in the Bay Area (79.2%) than it was in Southern California (72.3%).

In the Bay Area, concerns over the impact of exchange rates placed third (38.5%). It was far outpaced by concerns over rising employment costs which placed second (53.5%). In Southern California, however, concerns over the impact of exchange rates were ranked second, having been chosen by 50.7% of companies. This percentage was nearly the same as that of companies that chose rising employment costs (49.3%), which placed third. These findings may also be attributed to differences in the industrial structures of Northern and Southern California. Changes in exchange rates have a direct impact on the business operation costs of manufacturing companies that import parts and raw materials from overseas. In contrast to the Bay Area, which has a high concentration of service companies that have little need for parts and raw materials, Southern California has a large number of manufacturing companies that are likely to pay greater attention to the impact of exchange rates.

Chart IV-6: Future concerns for Japan-based companies operating in Northern and Southern California

	Bay Area		Southern California	
Economic trends	79.2	(1)	72.3	(1)
Rising employment costs	53.5	(2)	49.3	(3)
Impact of exchange rates	38.5	(3)	50.7	(2)
Terrorism and war	20.5	(4)	17.5	(5)
Strengthening of environmental regulations	14.2	(5)	18.4	(4)
Decline in the economic performance of the parent company in Japan	12.8	(6)	9.0	(10)
Energy and material prices	11.8	(7)	16.9	(6)
Natural disasters	11.8	(7)	11.7	(8)
Market competition	10.4	(9)	16.0	(7)
Trade friction	9.7	(10)	11.1	(9)
California's financial crisis	9.4	(11)	9.0	(10)
Other	6.6	-	6.1	-

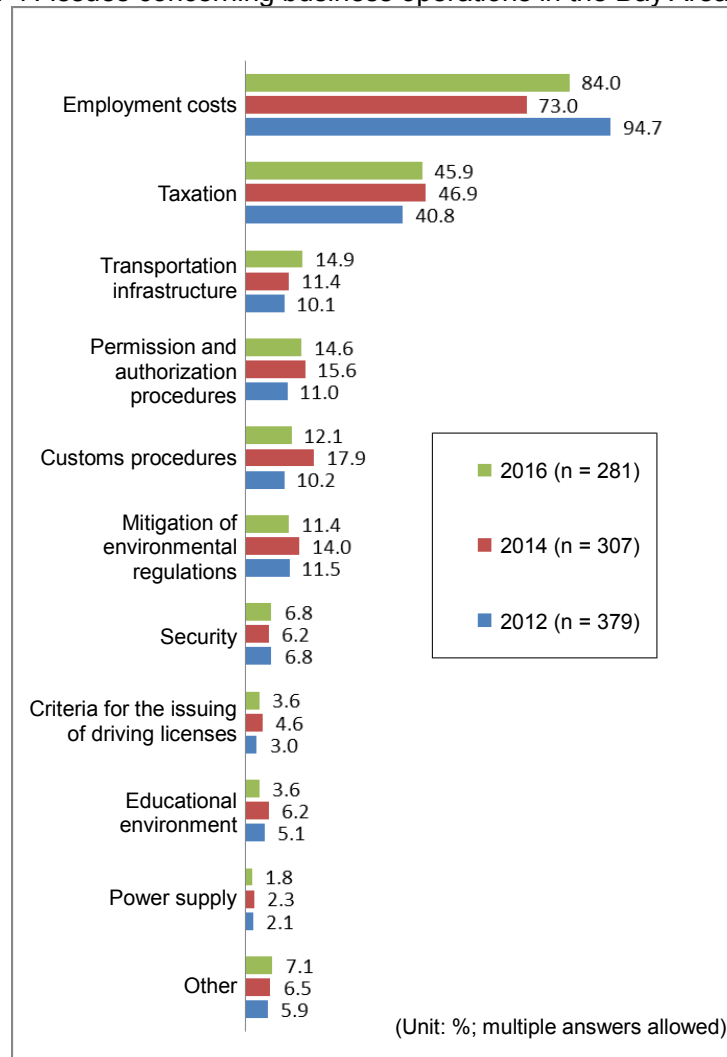
Note: Unit: %. Numbers in parentheses represent the rankings for the respective responses.

IV-3. Issues concerning business operations

(1) Over 80% of companies hope to see an improvement in employment costs

The questionnaire featured a multiple-answer question about issues that companies face when doing business in the Bay Area, and the responses to this question can be considered requests to the state government. As was the case in the previous survey, Japan-based companies identified rising employment costs (84.0%) as the main issue. This issue was followed, respectively by taxation (45.9%) and transportation infrastructure (14.9%).

Chart IV-7: Issues concerning business operations in the Bay Area (Unit: %)



Two-hundred and thirty-six (84%) of responding companies identified employment costs as the main issue, an increase of 11% from the 73% in the previous survey. Although this figure is lower than the 94.7% recorded in the 2012 survey, it is worth noting that over 80% of responding companies indicated that reducing employment costs is the main issue that they face when doing business in the Bay Area.

The previous survey also indicated that Japan-based companies are facing an increase in business operation costs due to a number of factors, including the following: rising wages due to the improved economic performance of local companies; the costs incurred as a result of complying with laws for the protection of workers; and the need to offer improved benefit packages to compete with local companies. The results of the current survey, which was conducted two years after the previous one, suggest that business operation costs have increased, which is causing serious difficulties for Japan-based companies operating in the Bay Area.

Chart IV-8: Issues concerning business operations broken down by industry (Unit: %)

	Total (n=281)	Construction (n=6)	Manufacturing (n=70)	Trading (n=30)	Transportation (n=9)	Wholesale and retail (n=25)	Finance (n=10)	Real estate (n=8)	Service industry (n=117)	Other (n=6)
Employment costs	84.0	100.0	88.6	76.7	88.9	76.0	80.0	87.5	83.8	83.3
Taxation	45.9	16.7	40.0	63.3	55.6	64.0	20.0	12.5	47.0	33.3
Customs procedures	12.1	0.0	14.3	23.3	33.3	28.0	10.0	12.5	3.4	16.7
Permission and authorization procedures	14.6	0.0	15.7	3.3	22.2	40.0	10.0	37.5	9.4	33.3
Mitigation of environmental regulations	11.4	0.0	11.4	10.0	11.1	24.0	10.0	25.0	6.8	50.0
Transportation infrastructure	14.9	16.7	12.9	10.0	33.3	20.0	0.0	37.5	15.4	0.0
Security	6.8	0.0	4.3	6.7	11.1	20.0	10.0	12.5	5.1	0.0
Educational environment	3.6	0.0	1.4	6.7	11.1	0.0	0.0	0.0	5.1	0.0
Criteria for the issuing of driving licenses	3.6	0.0	1.4	10.0	22.2	12.0	0.0	0.0	0.0	16.7
Power supply	1.8	0.0	0.0	0.0	11.1	4.0	0.0	0.0	1.7	16.7
Other	7.1	16.7	5.7	10.0	0.0	0.0	20.0	0.0	8.5	0.0

Note: The figures given in the above chart represent the percentages of responding companies that chose the respective responses. Gray-shaded boxes indicate percentages that are greater than 50%.

Broken down by industry, the data indicates that well over 70%—which is by far the largest percentage—of companies in all industries identified employment costs as a crucial issue, leading us to believe that this is the most serious problem faced by Japan-based companies operating in the Bay Area.

(2) Growing need for improvement in employment costs in Southern California

A comparison of the survey results for this item between the Bay Area and Southern California reveals that 76.4% of companies in Southern California also identified employment costs as a crucial issue, although the figure was lower than that for the Bay Area. The percentage for the Bay Area was 5.2% higher than that for Southern California in the previous survey and 7.6% higher in the current survey.

Taxation placed second in both areas, and the percentage of companies in Southern California that chose this response was 9.1% higher than that for the Bay Area. In addition, although customs procedures placed fifth (12.1%) in the Bay Area, it placed third in Southern California where it was chosen as a crucial issue by 18.2% of companies there.

Chart IV-9: Business operation issues chosen by Japan-based companies operating in Northern and Southern California

	Bay Area		Southern California	
Employment costs	84.0	(1)	76.4	(1)
Taxation	45.9	(2)	55.0	(2)
Transportation	14.9	(3)	15.7	(4)
Permission and authorization procedures	14.6	(4)	15.7	(4)
Customs procedures	12.1	(5)	18.2	(3)
Mitigation of environmental regulations	11.4	(6)	13.8	(6)
Security	6.8	(7)	10.7	(7)
Educational environment	3.6	(8)	3.5	(10)
Criteria for the issuing of driving licenses	3.6	(8)	6.3	(8)
Power supply	1.8	(10)	3.8	(9)
Other	7.1	-	7.5	-

Note: Unit: %. Numbers in parentheses represent the rankings for the respective responses.

(3) Bay Area wages exceptionally high compared to other areas in the United States

Data published by the U.S. federal government makes it clear that wages in the Bay Area are extremely high compared with other metropolitan areas in the United States. Chart IV-10 shows the median annual wages for the top 30 metropolitan divisions and regions based on data that was published by the U.S. Bureau of Labor Statistics in March, 2016 for 421 divisions in the United States (including the Commonwealth of Puerto Rico). Note that the four metropolitan divisions located in the central Bay Area are all placed in the top 10.

The San Jose–Sunnyvale–Santa Clara metropolitan division, where over 40% of Japan-based companies are concentrated, had the highest median annual wage (78,620 dollars) in the United States. This was followed by 72,740 dollars for the San Francisco–Redwood City–South San Francisco division, which was nearly 6,000 dollars higher than the 66,790 dollars recorded for Washington–Arlington–Alexandria division (third place).

Furthermore, the Oakland–Hayward–Berkeley metropolitan division (of the Bay Area) placed ninth with 61,840 dollars, while the San Rafael metropolitan division (located in the north of the Bay Area) placed tenth with 61,370 dollars.

The high-wage level in the Bay Area is more apparent when compared with wages in the metropolitan areas in Southern California, where efforts to reduce rising employment costs are continuing, just as they are in the Bay Area. In Southern California, the Anaheim–Santa Ana–Irvine metropolitan division had the highest median wage of 54,370 dollars, which is approximately 24,000 dollars lower than the median wage of the top-ranking San Jose–Sunnyvale–Santa Clara metropolitan division.

Chart IV-10: Median annual wages broken down by metropolitan division/region
(published May 2015)

Rank	Metropolitan division/region	Median annual wage (in dollars)
1	San Jose-Sunnyvale-Santa Clara, CA	78,620
2	San Francisco-Redwood City-South San Francisco, CA Metropolitan Division	72,740
3	Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division	66,790
4	Boston-Cambridge-Newton, MA NECTA Division	65,860
5	California-Lexington Park, MD	64,810
6	Framingham, MA NECTA Division	63,190
7	Bridgeport-Stamford-Norwalk, CT	62,610
8	Silver Spring-Frederick-Rockville, MD Metropolitan Division	62,170
9	Oakland-Hayward-Berkeley, CA Metropolitan Division	61,840
10	San Rafael, CA Metropolitan Division	61,370
11	New York-Jersey City-White Plains, NY-NJ Metropolitan Division	61,300
12	Seattle-Bellevue-Everett, WA Metropolitan Division	61,000
13	Trenton, NJ	60,950
14	Lowell-Billerica-Chelmsford, MA-NH NECTA Division	58,840
15	Newark, NJ-PA Metropolitan Division	58,330
16	Boulder, CO	58,040
17	Durham-Chapel Hill, NC	56,980
18	Anchorage, AK	56,910
19	Hartford-West Hartford-East Hartford, CT	56,870
20	Nassau County-Suffolk County, NY Metropolitan Division	55,780
21	Fairbanks, AK	55,410
22	Ithaca, NY	54,900
23	Ann Arbor, MI	54,640
24	Denver-Aurora-Lakewood, CO	54,450
25	Anaheim-Santa Ana-Irvine, CA Metropolitan Division	54,370
26	San Diego-Carlsbad, CA	54,210
27	Los Angeles-Long Beach-Glendale, CA Metropolitan Division	53,870
28	Baltimore-Columbia-Towson, MD	53,690
29	New Haven, CT	53,680
30	Wilmington, DE-MD-NJ Metropolitan Division	53,670

Note: The regions highlighted in bold in yellow-shaded boxes are the Bay Area regions targeted in our survey.
Source: Compiled by JETRO based on data published by the U.S. Bureau of Labor Statistics.

Other data published by the U.S. Bureau of Labor Statistics shows a difference between the average wages in Northern and Southern California. Chart IV-11 shows data that the Bureau published in June this year on the weekly average wages for the various counties in California during the third quarter of fiscal 2015. This data shows that seven counties in the Bay Area are in the top ten counties. In particular, the average weekly wages in the three counties of Santa Clara, San Mateo and San Francisco—where 80% of Japan-based companies operating in the Bay Area are concentrated—remain high at more than 1,900 dollars. Meanwhile, the average weekly wage for Los Angeles, which is the highest-paying county in Southern California, is 1,266 dollars, approximately 1,000 dollars lower than the 2,335 dollars for Santa Clara, which is the highest-paying county in the Bay Area.

Chart IV-11: Weekly average wages broken down by Californian county
(fourth quarter of fiscal 2015)

County	Weekly wage during the fourth quarter of fiscal 2015 (in dollars)	Year-on-year increase (%)	Rankings for the rate of increase among 343 of the counties in the United States
Santa Clara	2,335	9.3	5
San Mateo	2,095	-2.3	332
San Francisco	1,981	6.4	61
Alameda	1,407	6.5	53
Marin	1,334	4.7	175
Contra Costa	1,286	6.5	53
Los Angeles	1,266	5.5	114
Orange	1,205	4.1	225
San Diego	1,184	4.3	21
Sacramento	1,153	5.2	137
Yolo	1,151	5.4	120
Solano	1,080	5.3	127
Placer	1,071	3.4	266
Ventura	1,065	3.9	237
Sonoma	1,049	10.0	2
Santa Barbara	1,038	5.8	94
Santa Cruz	952	3.1	284
Monterey	914	6.8	36
San Luis Obispo	900	8.2	15
San Joaquin	894	7.1	28
San Bernardino	888	4.7	175
Stanislaus	888	6.2	68
Kern	884	0.6	323
Fresno	846	5.2	137
Riverside	840	4.7	175
Butte	800	5.5	114
Tulare	761	3.8	246

Note: The regions highlighted in bold in yellow-shaded boxes are the Bay Area regions targeted in our survey, while the regions in blue-shaded boxes are the regions targeted in the Southern California survey.
Source: County employment and wages, fourth quarter 2015, <http://www.bls.gov/news.release/cewqtr.t01.htm>

(4) High costs pose difficulties for Japan-based companies

The extremely high employment costs of the Bay Area impose a burden on the business operations of Japan-based companies. This sense of burden is clearly reflected by the views expressed in the open-ended comments section of the questionnaire. Responding companies' comments include:

- "Rising wages make it difficult for us to secure personnel"
- "Paying high wages doesn't necessarily deliver the results we expect"

Some companies also stated that they are outsourcing some of their operations to companies outside California due to the high employment costs.

The following are comments made by companies that are allocated an operational budget by their head offices in Japan:

- "The budget that our head office allocates for employment does not meet the local wage standard and is insufficient for us to employ the personnel we require"
- "To secure the personnel we require, we need to set wages that are the same as, or higher than, local wages, but we lack the resources to compete with American companies"

Some respondents feel that, in addition to employment costs, all of the other costs involved in business operations—including commodity prices, office rental fees and transportation costs—are rising, too. Related comments include:

- "If costs continue to rise, we will need to urgently consider relocating our office outside of California"

- "We need to be very cautious in making new investments"

Some companies in the manufacturing industry pointed out that the serious drought of recent years is causing an increase in business operation costs. More specifically:

- "The price of plant-derived raw materials is rising"
- "Skyrocketing water bills are imposing a heavy burden"

The following is one other comment that was made about the difficulties involved in securing personnel:

- "Because commodity and real estate prices remain high, people are leaving California, which is causing a labor supply shortage"

(5) Wages continue to rise

We also received many open-ended comments about state laws and local authority ordinances. The revised Employment Act that was enacted recently in California contains stipulations for the protection of workers, including commitments to raise the minimum wage, oblige employers to provide paid sick leave and expand the eligibility for permission to take leave to attend children's school events.

The current minimum wage in California is 10 dollars per hour, which is one dollar higher than it was in July 2014 and five dollars higher than it was in March 1997. In April 2016, the Governor signed state legislation to raise the minimum wage to 15 dollars per hour by 2022. In light of these developments, the following comments were made:

- "A rapid rise in the minimum wage is placing financial pressure on business operations"
- "Since workers are guaranteed a certain wage level and working conditions, lazy workers are working even less"
- "We would like to give promotions and bonuses to employees who contribute to the company, but it is difficult to secure the necessary budget due to the rising minimum wage"

California also has detailed employment stipulations regarding paydays, overtime payments, and break time. The following comments reflect these restrictions:

- "There are too many complex laws regarding corporate management and employment in California"
- "We need to consider too many things in order to comply with the Employment Act, and we must pay experts a lot of money to confirm what we need to do"
- "We need to revise our employment rules each time the Employment Act is revised, which happens every year"

Chart IV-12: Changes in the minimum wage in California

