

**Survey Report on Japan-based  
Companies Operating in the  
San Francisco Bay Area  
(Northern California)**

—2018 Survey—

**August 2018**

**JETRO San Francisco**

**JETRO** San Francisco



## Introduction

The survey of Japan-based companies operating in the San Francisco Bay Area began in 1992, the year the Japanese economic bubble burst and the “lost 10 years” began. Those lost 10 years stretched to 20 years, leading the Japanese economy into a long, dark period when Japan experienced several devastating earthquakes and the unprecedented Fukushima nuclear disaster.

Over past decades, there have been several trade negotiations between Japan and the U.S., including the Structural Impediments Initiative, the Second Semiconductor Agreement, and the initiatives regarding auto parts. However, the potential for further discussions as a result of those negotiations seemed to have cooled off. When the U.S. was heading towards an overly optimistic “new economy,” at the turn of the century, the collapse of the dotcom bubble, followed by the 9/11 terrorist attacks and other events led to economic crisis and national distress.

In the current year 2018, the results of Abenomics and the lead up to the Tokyo 2020 Olympics are supporting the Japanese economy from the ground up. The U.S. economy is also in good shape. However, on the macro scale there are concerns about the U.S. further tightening trade restrictions, as well as concerns over reductions in the world’s trade, such as with China. On the micro scale, concerns lie with whether the growth of tech startups will taper off and fizzle out, or if growth and technological advancement will disrupt established industries, including automobile manufacturing.

The survey of Japan-based companies operating in the San Francisco Bay Area looks at the economic situation and business operations of these companies through the historical lens outlined above. This report for 2018 was conducted during February and March of this year.

The results of this report identified the following three main points:

1. The confirmation of the highest number of companies yet total 913.
2. As with the previous survey, it indicates that while business conditions are generally strong, the surge in employment costs is a major issue for business expansion in the Bay Area.
3. There is a slight concern about the increasingly protectionist policies of the current U.S. administration.

Innovation has certainly become a major theme recently when discussing Japan’s economic growth and overall economy. Silicon Valley, and the greater Bay Area as a whole, are further expected to hold the fate of Japan’s future economy. It is likely that many more Japan-based companies are looking to expand to the Bay Area, and the results of the current survey have eloquently shown that ever-increasing trend.

This survey was conducted with the cooperation of the Japanese Chamber of Commerce of Northern California (JCCNC). I would like to take this opportunity to express my gratitude to all of the participating Japanese companies in the Bay Area, as well as my pride in the strenuous efforts of the JETRO San Francisco Research Team.

Norio Nakazawa, Chief Executive Director  
JETRO San Francisco  
August 2018



## Contents

◇ Survey Overview.....	1
◇ Overview of the Bay Area .....	3
◇ Summary .....	5
<b>I. Overview of Japan-based Companies Operating in the Bay Area .....</b>	<b>7</b>
I-1. Number of Japan-based companies.....	7
(1) Record high of 913 companies in the 26 counties of Northern California.....	7
(2) Companies in variety of industries branch out to the Bay Area.....	7
I-2. Location.....	8
(1) Santa Clara County accounts for over 40% of Japan-based companies.....	8
(2) San Jose accounts for 40% of Japan-based companies in Santa Clara County.....	8
I-3. Breakdown by industry .....	10
(1) Service industry ranks first.....	10
(2) Manufacturing ranks top in Santa Clara .....	11
(3) Santa Clara and Alameda account for over 70% of Japan-based manufacturing companies .....	12
I-4. Newly founded companies .....	13
(1) Newly founded companies account for 40% of Japan-based companies in Santa Clara ...	13
(2) Surge of newly founded manufacturing companies .....	13
I-5. Year of market entry or incorporation .....	15
(1) Twenty-one companies were newly established in both 2016 and 2017 .....	15
(2) Forty percent of service companies, and 50% of finance companies were founded in 2011 or after .....	15
I-6. Company size by sales amount .....	17
I-7. Forms of corporate management and methods of market entry or incorporation.....	18
(1) Percentage of branch offices of U.S. subsidiaries surpassed that of companies founded by Japanese entrepreneurs .....	18
(2) More than 40% of service companies funded by Japanese entrepreneurs .....	18
(3) More than 90% of companies entered the Bay Area market by establishing its office .....	19
<b>II. Financial Status.....</b>	<b>21</b>
II-1. Sales .....	21
(1) Year-over-year sales increased for more than half of companies.....	21
(2) Wholesale and retail particularly perform well .....	21
II-2. Operating income .....	23
(1) Over 60% of companies are profitable, the highest level recorded in this series of surveys .....	23
(3) More than 50% of every industry makes a profit .....	24
(4) Japan-based companies operating in the Bay Area continue to perform well in year-over-year operating income.....	25
(5) Wholesale and retail steadily improved .....	25
II-3. Evaluation of overall financial results—Over 70% of Japan-based companies in the Bay Area are satisfied with their financial status in 2017 .....	27
II-4. The thriving Bay Area economy .....	29
(1) The DI business confidence indicator declines slightly, but remains at the highest level since 2000 .....	29

(2) The Bay Area’s favorable economy continues to benefit the financial status of Japan-based companies .....	30
II-5. Financial forecasts for the next one to two years .....	33
(1) Nearly 60% of companies predict increased sales.....	33
(2) More than 50% of companies predict increased operating income .....	33
II-6. Investment and business plans .....	35
(1) Nearly 50% of respondents are likely to expand or build new facilities .....	35
(2) More manufacturing companies plan to expand than other companies .....	35
<b>III. Contribution to the Local Economy .....</b>	<b>37</b>
III-1. Employment .....	37
(1) Japan-based companies operating in the Bay Area generate employment for more than 47,000 people .....	37
(2) Manufacturing and the service industry create 70% of the employment .....	38
(3) The employment provided by Japan-based companies remains stable .....	39
III-2. Bay Area Wage payments estimated to total \$4.8 billion .....	40
III-3. Benefits offered to local employees.....	41
(1) More than 80 % of Japan-based companies offer medical/dental insurance .....	41
(2) Fewer Japan-based companies offer 401(k)s & life insurance .....	41
<b>IV. Business Environment.....</b>	<b>43</b>
IV-1. Advantages of the Bay Area .....	43
(1) Market size continues to rank first (272 companies surveyed) .....	43
(2) Market size and mild climate account for the largest percentages in most industries .....	44
(3) Advantages of the Bay Area include its industrial hub and universities/research institutes. ....	45
IV-2. Concerns over future business operations .....	46
(1) Concerns over rising employment costs increase substantially.....	46
(2) Rapid increase in “trade friction” and “strengthening of environmental regulations” .....	47
(3) Economic trends are the main concern for companies in all industries .....	47
(4) Trade friction and strengthening of environmental regulations are big concerns in Southern California as well .....	48
(1) Subsidize employment costs ranks first .....	49
(2) Subsidize employment costs ranks first in Southern California as well .....	50
(3) Bay Area wages are highest in the United States .....	51
(4) Average wages continue to rise.....	53
(5) High costs pose difficulties for Japan-based companies.....	54
(6) Rising concerns over traffic jams and public safety.....	55

## ◇ Survey Overview

This is the 14th edition of the biennial survey conducted by JETRO San Francisco with the cooperation of JCCNC.

### 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 these companies make to the local economy, as well as on the problems and challenges they face in their business development.

### 2. Survey targets

(1) Locally incorporated companies that are more than 51% owned (including through indirect investments) by Japanese companies; (2) branch offices or local offices of companies headquartered in Japan; and (3) companies founded and managed by Japanese citizens or Japanese-Americans. In this survey, “the Bay Area” (Northern California) includes counties in a 100-mile radius of San Mateo, where JCCNC is headquartered, such as:

- |                 |                   |                 |
|-----------------|-------------------|-----------------|
| 1. Alameda      | 10. Merced        | 19. San Mateo   |
| 2. Amador       | 11. Mendocino     | 20. Santa Clara |
| 3. Calaveras    | 12. Monterey      | 21. Santa Cruz  |
| 4. Colusa       | 13. Napa          | 22. Solano      |
| 5. Contra Costa | 14. Placer        | 23. Sonoma      |
| 6. El Dorado    | 15. Sacramento    | 24. Stanislaus  |
| 7. Fresno       | 16. San Benito    | 25. Sutter      |
| 8. Lake         | 17. San Francisco | 26. Yolo        |
| 9. Marin        | 18. San Joaquin   |                 |

### 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.

### 4. Survey period

February 1 to March 12, 2018

### 5. Response rate

Of the 913 Japan-based companies that we identified as operating in the Bay Area, we sent a link to the questionnaire via e-mail to 768 that had e-mail addresses and received valid responses from 320 (response rate: 41.7%; coverage of Japan-based companies operating in the area: 35.1%.)

### 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.

### (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 they have, and the improvements 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 JETRO San Francisco.



## 8. Survey Report on Japanese Companies in Southern California 2018

The Japan Business Association of Southern California (JBA) and JETRO Los Angeles office have released the 2018 edition of the "Survey of Japanese Companies in Southern California."

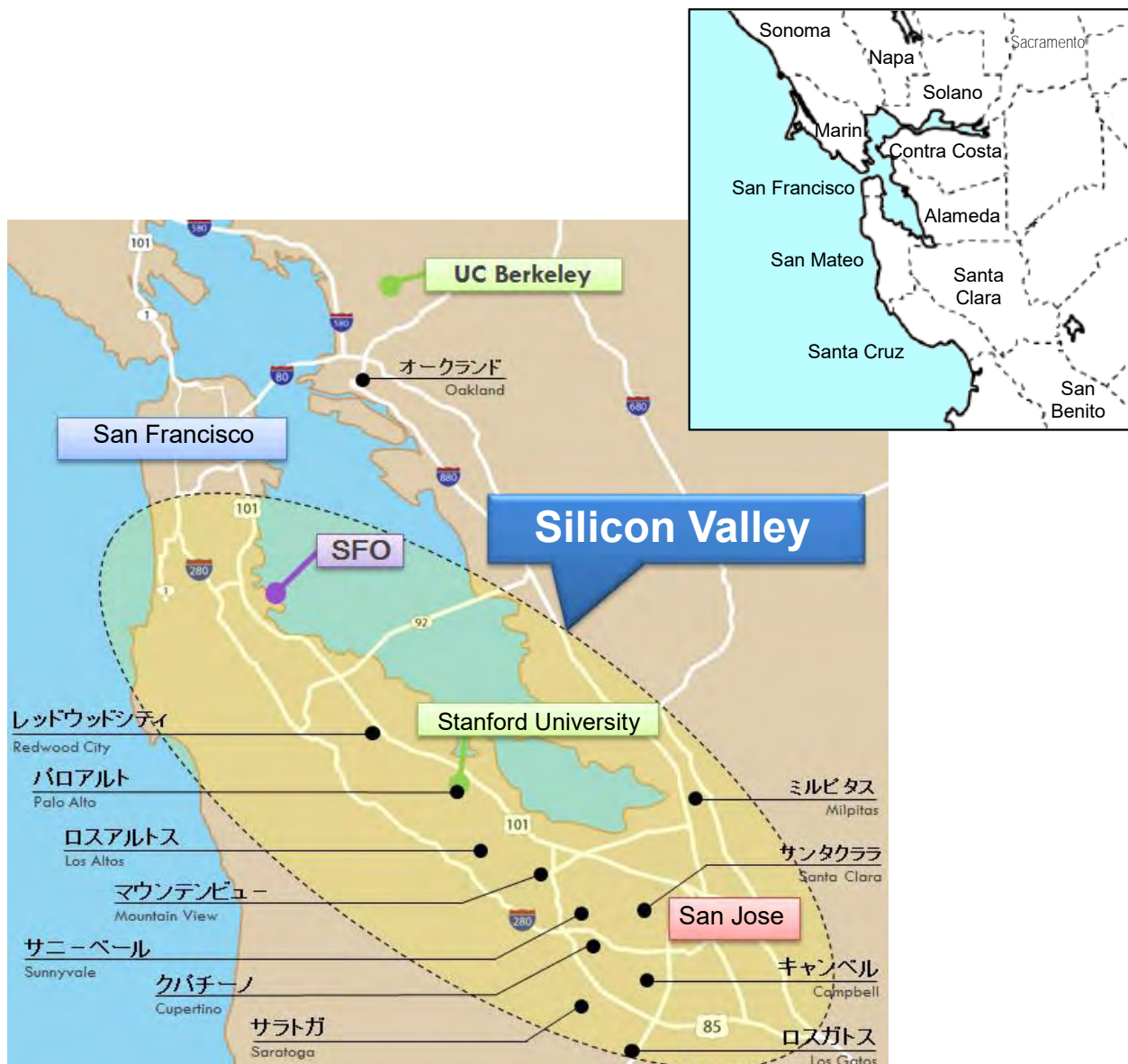
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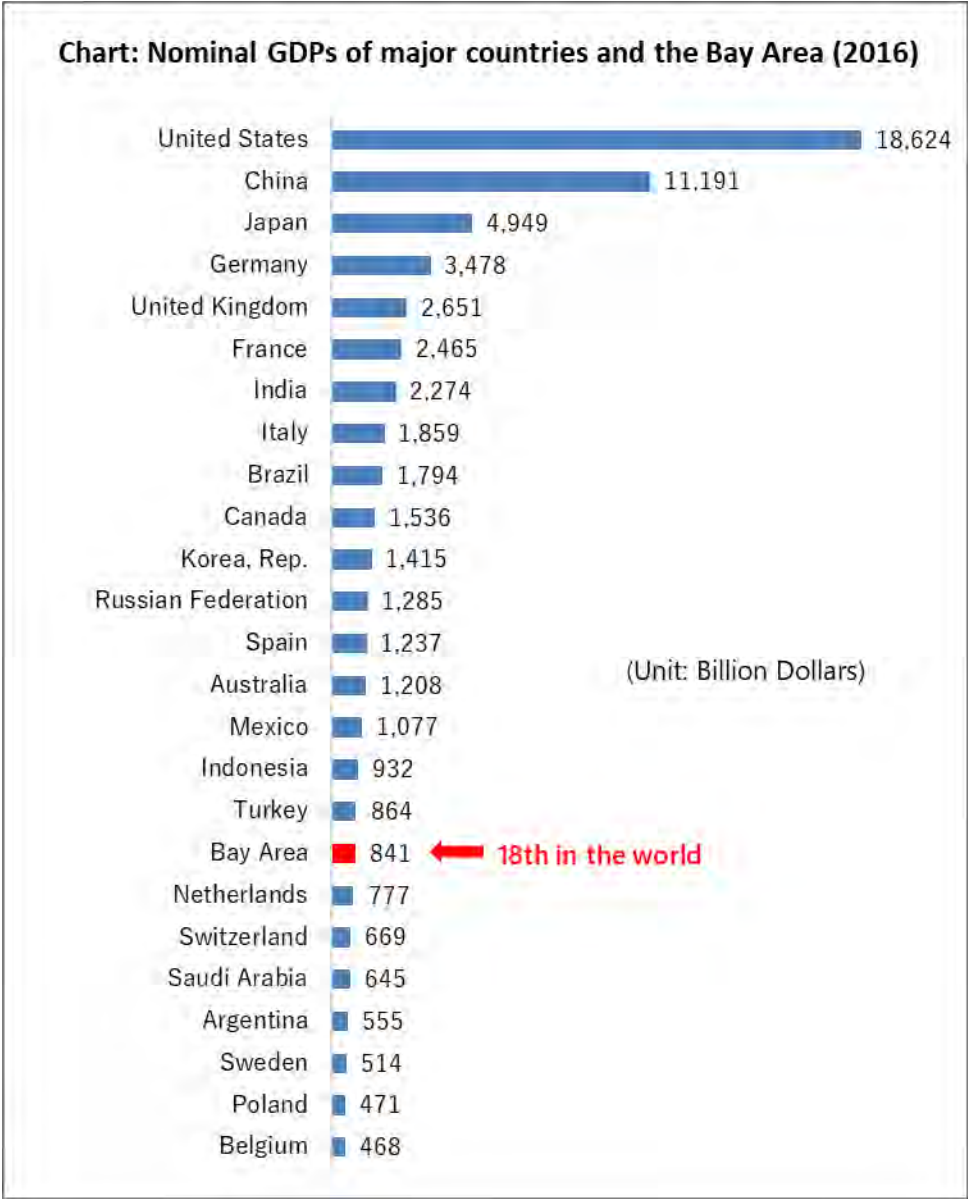
## ◇ Overview of the Bay Area

Located in the northern part of the state of California, the San Francisco Bay Area region (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 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 arts and culture.

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 Area<sup>1</sup> is 841 billion dollars. Given this, the Bay Area place 18<sup>th</sup> – between Turkey and the Netherlands (see below).



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

<sup>1</sup> 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 26 counties in Northern California totaled 913, the highest number ever recorded since this series of surveys was first conducted in 1992, and a dramatic increase compared to the previous high of 770 recorded in the 2016 survey. Of the 913 companies, 143 were identified in the current survey.
- Broken down by area, the data show approximately 90% of Japan-based companies operating in the Bay Area are concentrated in four counties, with 44.5% in Santa Clara (which includes the bulk of Silicon Valley), 19.2% in San Francisco, 18.2% in San Mateo, and 11.2% in Alameda. Of the 143 companies that were newly identified in the current survey, only eight companies are located in the 15 counties that were newly added this year to expand the survey scope.
- Broken down by industry, the data show 45.3% of these companies are in the service industry, 32.0% in manufacturing, and 5.0% in trading and wholesale/retail. A further breakdown of the service category indicates 44.0% of the companies are in the information system business, 21.7% in the professional businesses and 13.0% in the restaurant business.
- Between 2016 and 2017, 42 companies were founded. Of those newly founded, 40% are located in Santa Clara. While the number of companies established in the last two years was smaller compared to 2011-2015, it has still maintained the same level as 2010. The number of manufacturing companies focused on R&D or other business related to manufacturing has increased.

### **II. Financial status**

- Data on the financial status of Japan-based companies show they have continued performing well since the previous survey. More than 60 % of companies (62.3%) were profitable in 2017, the highest level recorded in this series of surveys.
- Companies reporting an increase in year-on-year operating income in 2017 totaled 43.4%, while companies reporting no change totaled 41.4%, and companies reporting a decrease in operating income totaled 15.2%. The data broken down by industry reveal the percentage of wholesale and retail companies with increased operating income has continued rising to 64.0%, up 8.0% from 56.0%, the highest percentage of all industries in the 2016 survey.
- With respect to projected earnings for the next one or two years, many of them have positive prospects for the future. Nearly 60% (59.6%) of companies expected an increase in sales, and more than 50% (53.4%) of companies predicted their earnings would increase for the first time since the 2010 survey.
- Almost half of companies (46.5%) plan to expand or build new facilities in the next year or two.

### **III. Contribution to the local economy**

- Japan-based companies have created employment for an estimated 47,222 people in the Bay Area.
- Data on employment shares by industry show that the manufacturing industry (36.9%) and the service industry (33.1%) accounted for 70%.
- Of the companies that responded, 85% indicated that their employment in 2017 had either increased or remained at the same level since 2016.
- The total annual amount of wage payments made by Japan-based companies operating in the Bay Area is estimated to be approximately \$4.8 billion. The annual wage payment per employee was \$101,900, up \$17,600 from \$84,300 recorded in the 2016 survey. The wage level of Japan-based companies has finally started catching up with the regional standard.
- While more than 80% of responding Japan-based companies provide health insurance, with 55.0% offering 401(k) plans to their local employees, Japan-based companies still leave much room for improvement in employee benefits, compared to those provided by U.S. companies. Only 25.1% of Japan-based companies offer a flextime policy, with 24.4% allowing their employees to work from home, while larger percentages of U.S. companies offer a flexible work environment (flextime policy: 57.0%, work-from-home: 62.0%) to their employees.

### **IV. Business environment**

- Bay area advantages that attract Japan-based companies are listed in descending order of importance: the existence of a large market; the mild climate; its role as an industrial hub, and the presence of universities and research institutes. The percentage of companies choosing the mild climate as the key advantage has increased from the previous survey. This is most likely a result of several catastrophic natural disasters that the U.S. has experienced in recent years.
- Economic trends were chosen as future business issues by 76.0% of the responding companies. Those trends remain the top concern, despite a slight decrease since the previous survey. This was followed by rising employment cost (62.4%) and impact of exchange rates (43.9%). The percentage of companies that chose rising employment cost exceeded 60% for the first time. Trade friction and strengthening of environmental regulations (22.8%) increased rapidly over the previous survey. Increasing concern over trade friction is thought to be partly a result of the change in the U.S. administration. Tightening of environmental regulations is most likely a result of recent amendments to California's Proposition 65.
- The top request to the state government was for subsidizing employment costs, followed by requests for tax reform, improving transportation infrastructure, improving public safety, and simplifying and accelerating customs procedures. While the percentage of respondents who selected subsidizing employment costs, dropped by a drastic 19.4%, it is still the top response and likely to continue to rise.
- Japan-based companies made many comments regarding the requests for improving transportation infrastructure and public safety. This is thought to be attributed to the increase in the number of commuters and homeless people, resulting from the ever-increasing costs of real estate and commodities in the Bay Area. Many companies also expressed their frustration over difficulty in acquiring a work visa and the troublesome process of obtaining a driver's license.

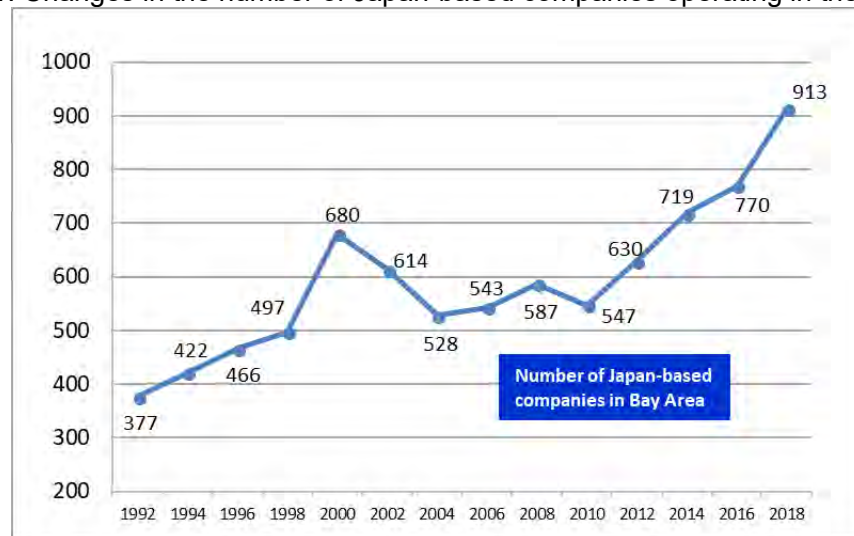
# I. Overview of Japan-based Companies Operating in the Bay Area

## I-1. Number of Japan-based companies

### (1) Record high of 913 companies in the 26 counties of Northern California

As of March 2018, a total of 913 Japan-based companies were confirmed to be operating in the in the 26 counties of Northern California. This figure is the highest number ever recorded and a dramatic increase compared to the previous high of 770, recorded in the 2016 survey. Of the 143 companies newly identified in the current survey<sup>2</sup>, 42 were founded between 2016 and 2017, of which eight were located in the 16 counties that were added this year to expand the survey scope<sup>3</sup>.

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



### (2) Companies in variety of industries branch out to the Bay Area

The majority of Japan-based companies operating in the Bay Area in prior years tended to be IT companies founded with the goal of forming an alliance with other IT companies established in Silicon Valley. But recently, Japanese companies have been branching out into a wide variety of industries.

The 2016 survey confirmed that a particularly large number of companies has entered the restaurant industry, while the 2014 survey shows companies entering retail sales apparel, houseware and food. In this survey, we found an increase in the number of companies branching out into the manufacturing industry (the details will be described later).

According to the survey conducted in Southern California during the same period as the current survey, 790 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). Combined with the number of companies operating in the Bay Area, we have identified<sup>4</sup> a total of 1,703 Japan-based companies.

<sup>2</sup> 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.

<sup>3</sup> In the current survey, the survey scope was expanded to 26 counties from 10 counties.

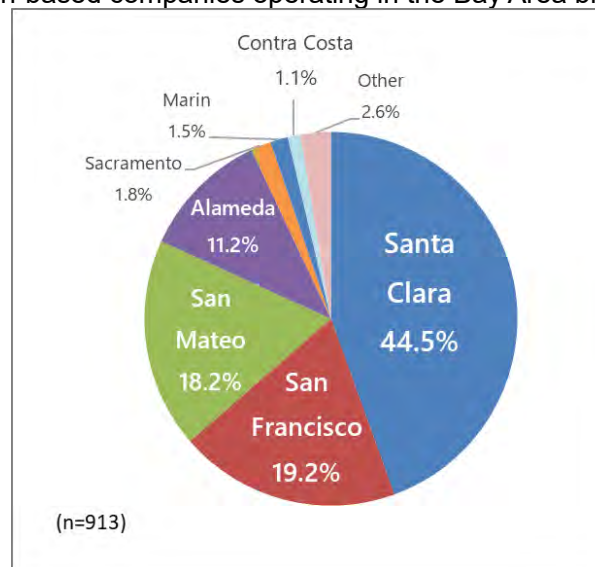
<sup>4</sup> Survey on Japan-based Companies Operating in Southern California (July 2018, Japan Business Association of Southern California (JBA) and JETRO Los Angeles).

## I-2. Location

### (1) Santa Clara County accounts for over 40% of Japan-based companies

Data on the 913 companies show 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 44.5% (previous survey: 42.1%). This is followed by San Francisco County at 19.2% (previous survey: 21.3%) and San Mateo, a county located between Santa Clara County and San Francisco County, at 18.2% (previous survey: 20.5%). 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 11.2% (previous survey: 10.8%). With these four counties accounting for more than 90% of the companies, only a limited number of Japan-based companies are located in other counties.

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



Compared to the previous survey, the percentage of companies in the top four counties is largely unchanged, with Santa Clara accounting for roughly 40%, San Francisco and San Mateo for about 20% respectively, and Alameda for about 10%. In many of the surveys conducted over the past several years, these four counties have continued to account for approximately 90% of the total.

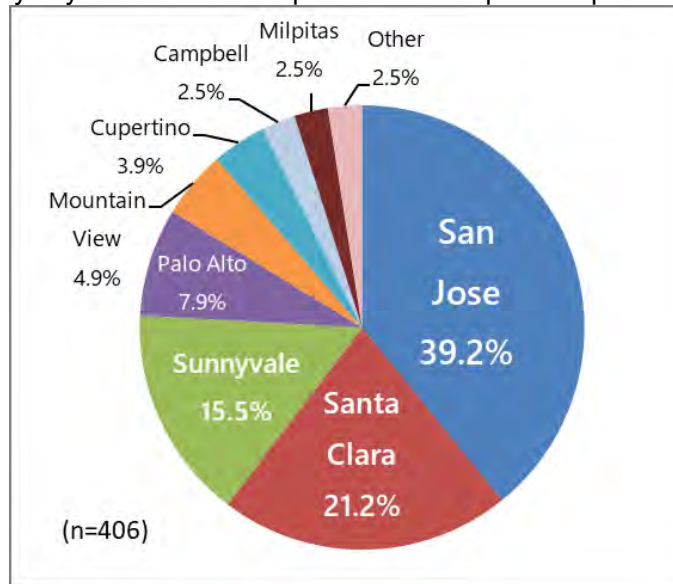
### (2) San Jose accounts for 40% of Japan-based companies in Santa Clara County

Nearly half of all Japan-based companies operating in the Bay Area are located in Santa Clara County. A city-by-city breakdown of these companies shows that the largest percentage (39.2%) of companies 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 (21.2%), where Intel and other world-famous semiconductor manufacturers are headquartered. Third place is held by Sunnyvale at 15.5%, home to Yahoo's HQ and Microsoft's Research Facility.

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



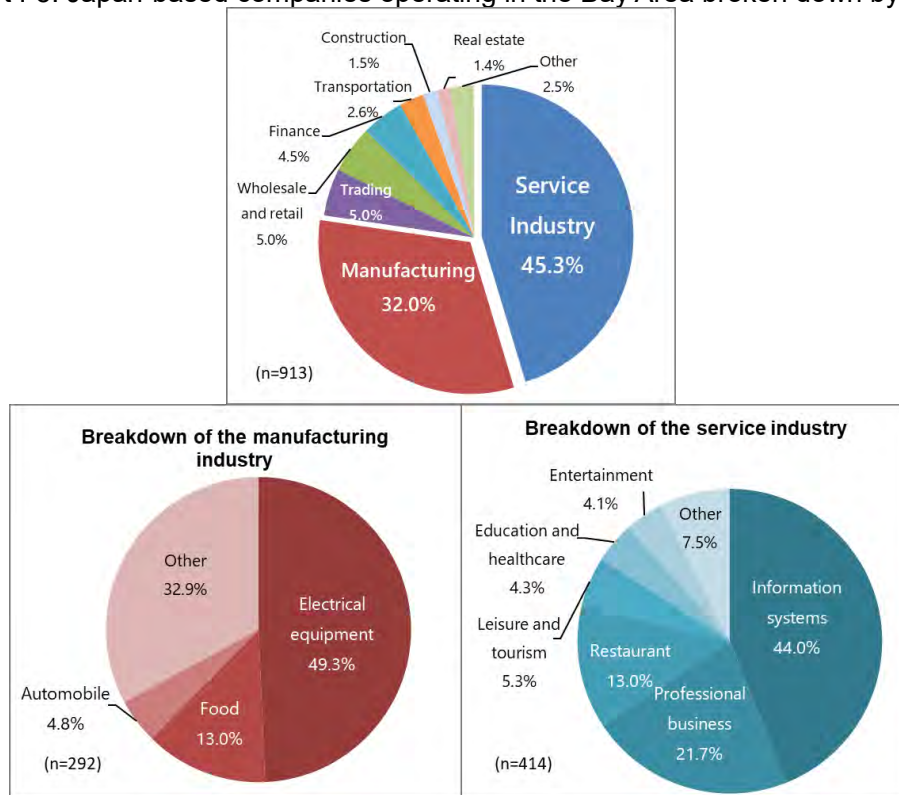
### I-3. Breakdown by industry

#### (1) Service industry ranks first

An industry-by-industry breakdown of the 913 companies reveals the service industry accounts for the largest percentage (45.3%) of Japan-based companies operating in the Bay Area, followed by manufacturing (32.0%). Trading and wholesale/retail were tied for third place (5.0%). The percentages for these top four industries have changed slightly since the previous survey, with the service industry increasing by 2.3%, manufacturing increasing by 7.4%, trading decreasing by 4.6%, and wholesale and retail decreasing by 3.3%. In past surveys, company industries have been aggregated based on company responses to the survey. However, for this year's survey each confirmed company's industry was determined by research, which is thought to have contributed to the change in percentages.

Despite changes in industry determination and expansion of the survey scope, there was no drastic change to the overall results. Thus, the top 4 industry sectors still account for almost 90% of all companies. The breakdown of that 90% has remained fairly consistent in recent years, with the service industry contributing around 40%, manufacturing around 30%, and trading and wholesale/retail about 5% each.

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



A further breakdown of the service industry indicates most Japan-based companies operating in the Bay Area are concentrated in the information systems business industry (44.0%) and professional businesses (21.7%), with these two top industries accounting for more than 60% of the total. The restaurant industry, which held the top percentage in the previous survey, moves to third place at 13.0%.



Information systems, which ranked second in the previous survey, rose by almost 20% to the top. Professional businesses rose from fifth place to second place, increasing by about 13%. These significant changes are thought to be attributed to the change in survey strategy and scope.

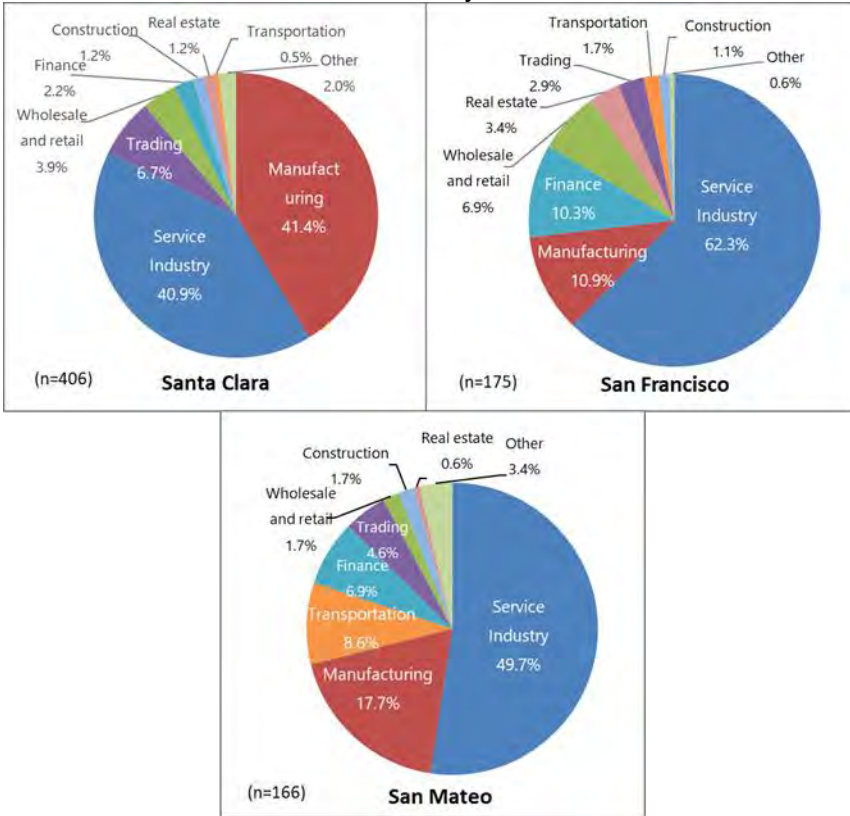
A closer look at the manufacturing sector shows a nearly half of the companies manufacture electrical equipment (49.3%), followed by food (13.0%) and automobiles (4.8%).

**(2) Manufacturing ranks top in Santa Clara**

Among the top three counties of San Mateo, San Francisco, and Santa Clara, the service industry ranks first in all except Santa Clara. San Francisco County represents the largest proportion, with the service sector accounting for over 60%, and about 50% in San Mateo. However, in Santa Clara County, the service industry (40.9%) is slightly overtaken by manufacturing (41.4%).

In San Francisco and San Mateo counties, manufacturing ranks second. However, manufacturing in the counties is proportionally much less than in Santa Clara, at only 10.9% for San Francisco and 17.7% for San Mateo. While manufacturing ranks top for companies in Santa Clara, in the Bay Area in general most of these companies are focused on R&D rather than raw manufacturing. Therefore, it is fair to say Santa Clara is the heart of Japanese manufacturing for the Bay Area.

Chart I-6: Japan-based companies in the top three Bay Area counties broken down by industry



Comparing the three counties, San Francisco has the highest proportion of finance companies at 10.3%, while Santa Clara (2.2%) and San Mateo (6.9%) are much lower. However, San Mateo has proportionally more Transportation companies at 8.6%, compared to San Francisco at 1.7% and Santa Clara at 0.5%.

To summarize, manufacturers represent the highest percentage in Santa Clara, while San Francisco has the largest presence of service and finance companies and San Mateo has a significant presence of transportation companies.

### **(3) Santa Clara and Alameda account for over 70% of Japan-based manufacturing companies**

According to detailed data on Japan-based service companies in the three Bay Area counties of Santa Clara, San Francisco, and San Mateo, where such companies are concentrated, the largest percentages are involved in the information systems industry. The service sector in Santa Clara totals 54.2%, San Mateo, 48.3%, and San Francisco, 31.2%. In Santa Clara and San Mateo, second place goes to professional businesses, at 24.7% and 20.7% respectively. In San Francisco, second place is held by restaurants at 22.2%, while professional businesses rank third at 19.4%.

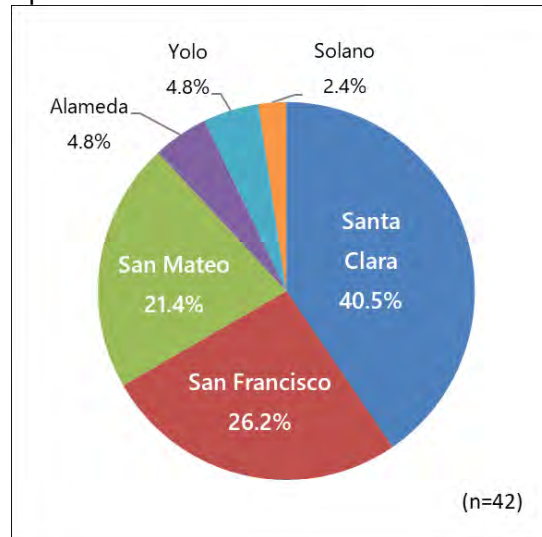
In addition, over 70% of Japan-based manufacturing companies are concentrated in Santa Clara and Alameda. A breakdown of manufacturers in these two counties shows that many of these companies manufacture electrical equipment (61.3% in Santa Clara and 40.0% in Alameda). And although the percentage of food companies is low (1.2% in Santa Clara, it accounts for 14.0% in Alameda. Also, automobile companies account for only 0.1% in Alameda, whereas in Santa Clara they make up 7.1%.

## I-4. Newly founded companies

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

As mentioned earlier, 42 of the 143 Japan-based companies that were newly identified in the current survey were founded between 2016 and 2017. A breakdown of these newly founded companies by county indicates that the largest percentage (40.5%) is located in Santa Clara, followed by San Francisco (26.2%) and San Mateo (21.4%).

Chart I-7: Companies founded in 2016 or 2017 broken down by county



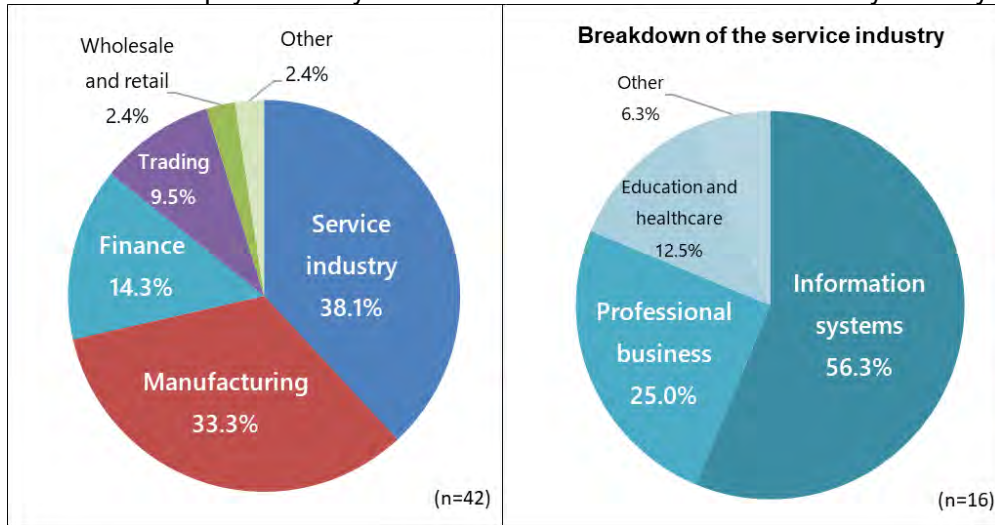
### (2) Surge of newly founded manufacturing companies

The service industry comprises the biggest portion of newly founded Japan-based companies at 38.1%, followed by manufacturing (33.3%), finance (14.3%), and trading (9.5%). Compared to the previous survey, companies in the service industry dropped by a substantial 23.6%, while the manufacturing industry saw an equally substantial increase of 24.8%

A breakdown of newly founded companies in the service industry indicates the largest percentage of companies (56.3%) was involved in the information system business, followed by professional businesses (25.0%) and education/healthcare (12.5%).

A closer look at the second-place manufacturing portion (33.3%) reveals most of these companies are not new companies that actually conduct manufacturing themselves; rather they focus on manufacturing research or other business related to manufacturing.

Chart I-8: Companies newly founded in 2016 or 2017 broken down by industry

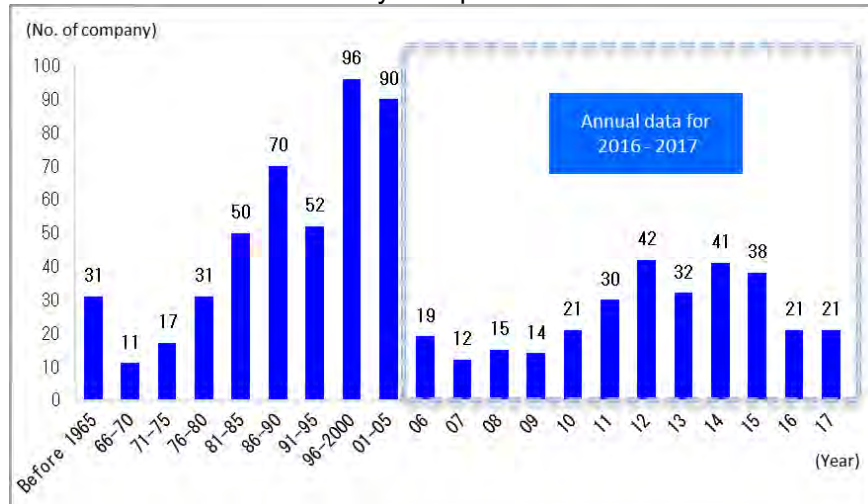


## I-5. Year of market entry or incorporation

### (1) Twenty-one companies were newly established in both 2016 and 2017

Chart I-9 shows the numbers of Japan-based companies operating in the Bay Area according to their year of market entry or incorporation. Of the 754 companies identified by this criteria, 21 companies were newcomers, which entered the Bay Area market in 2016 and 2017. While fewer companies branched out in the Bay Area in 2016 and 2017 compared to the period from 2011 to 2015, the number of companies in the prior two years has still maintained the same level as 2010. Assuming that 20 companies per year will continue to branch out in the Bay Area until 2020, approximately 100 companies would be expected to start business in the Bay Area between 2016 and 2020, a decline from the level between 2011 and 2015 (183 companies established in 5 years). However, this surpasses the level between 2006 and 2010 (81 companies established in 5 years).

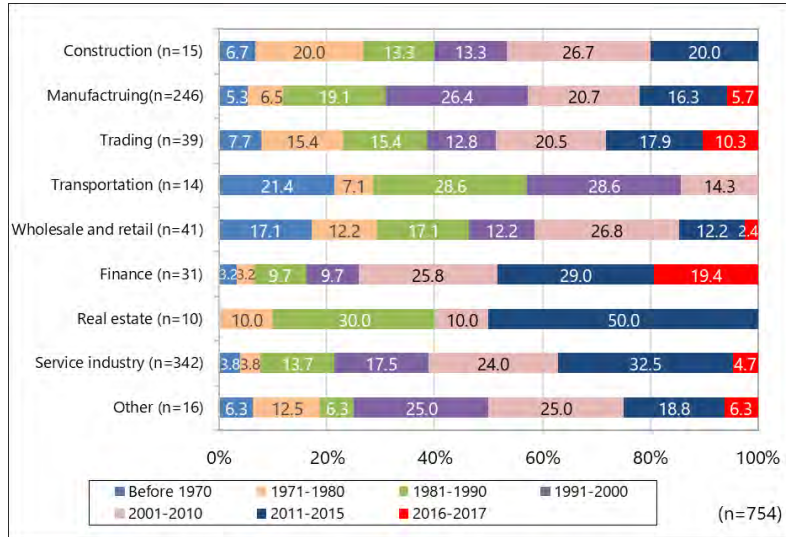
Chart I-9: Number of Japan-based companies broken down by year of market entry/incorporation



### (2) Forty percent of service companies, and 50% of finance companies were founded in 2011 or after

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 manufacturing, transportation, etc. branched out into the Bay Area before the year 2000. However, during the 2000s and after, the number of companies in the trading, finance, and wholesale/retail industries began to increase. In recent years, the service and finance industries have seen a particularly rapid increase, with more than 40% of service companies and 50% of finance companies having entered the market between 2011 and 2017.

Chart I-10: Japan-based companies operating in the Bay Area broken down by industry and year of market entry/incorporation

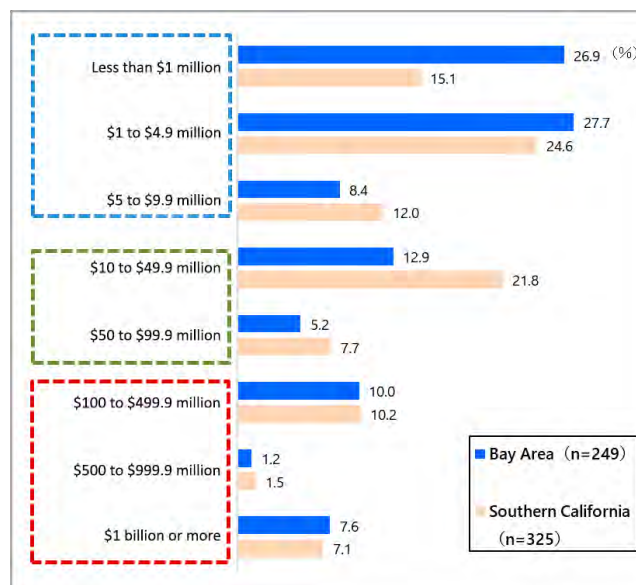
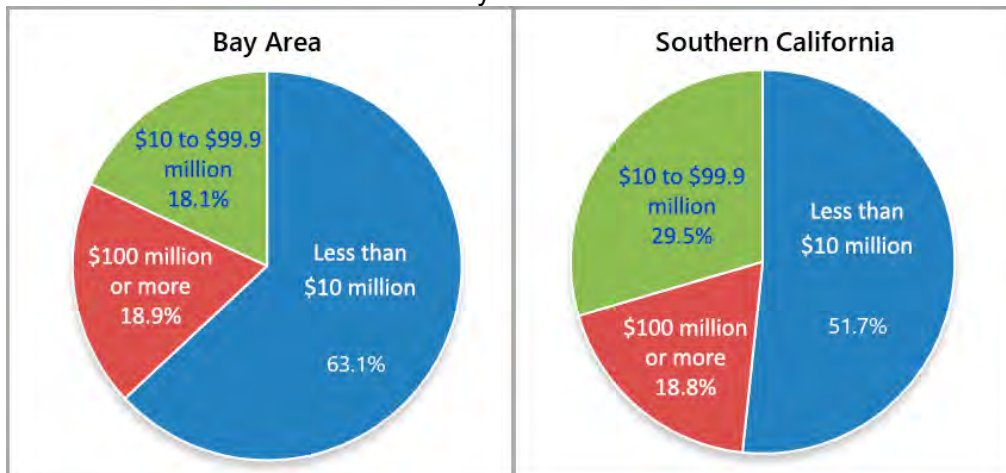


## I-6. Company size by sales amount

Typically, there have been more companies with lower sales in the Bay Area compared to Southern California, and this trend remained in the current survey. The percentage of companies with sales of less than \$10 million in the Bay Area totaled 63.1%, and 51.7% for those in Southern California. Compared to the previous survey in 2016, the percentages increased 1.2% in the Bay Area and 0.7% in Southern California, indicating there was no significant change in company size by sales amount in both regions.

In the Bay Area, the percentage of companies with sales of less than \$1 million fell to 26.9%, down 3.1% since 2016, while the percentage of those with sales of \$1 million to \$4.9 million increased to 27.7%, up 3.6% from the previous survey.

Chart I-11: Japan-based companies in the Bay Area and Southern California broken down by sales

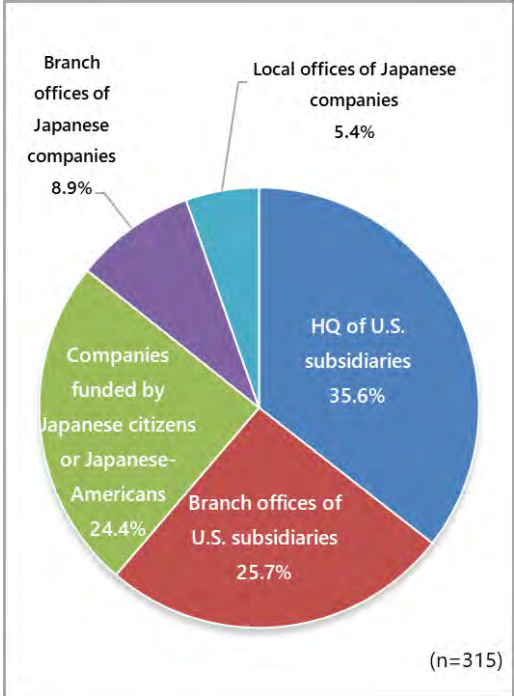


# I-7. Forms of corporate management and methods of market entry or incorporation

## (1) Percentage of branch offices of U.S. subsidiaries surpassed that of companies founded by Japanese entrepreneurs

Data on forms of corporate management and methods of market entry or incorporation indicate the percentage of U.S. subsidiary headquarters was 35.6%, accounting for the largest portion as it has been since the survey began in 1992. The percentage of branch offices of U.S. subsidiaries (25.7%) exceeded that of companies founded by Japanese citizens or Japanese-Americans (24.4%) for the first time since the survey in 2010. Compared to the previous survey, the percentage of branch offices of U.S. subsidiaries increased by 5.4%.

Chart I-12: Forms of corporate management and methods of market entry/incorporation for Japan-based companies operating in the Bay Area



## (2) More than 40% of service companies funded by Japanese entrepreneurs

For the data of Japanese companies in the four key industries<sup>5</sup> broken down by form of corporate management and method of market entry/incorporation, the overall trend remained similar to the previous survey.

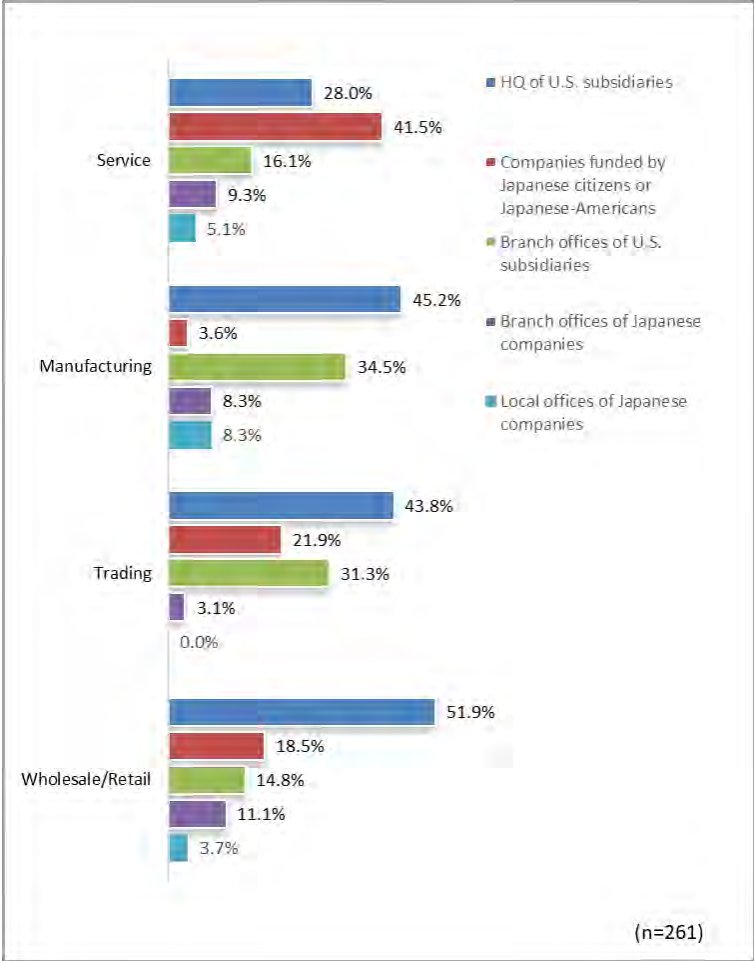
<sup>5</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.



While 40-50% of Japan-based companies involving in manufacturing, trading, and wholesale and retail served as the headquarters for U.S. subsidiaries of Japanese companies, only 28.0% of those in the service industry operate as the headquarters of U.S. subsidiaries.

The percentage of companies founded by Japanese citizens or Japanese-Americans in the service industry was 41.5%, far exceeding the results for the other key industries. The percentage of companies founded by Japanese entrepreneurs was lowest in manufacturing at 3.6%, 37.9% lower than the service industry.

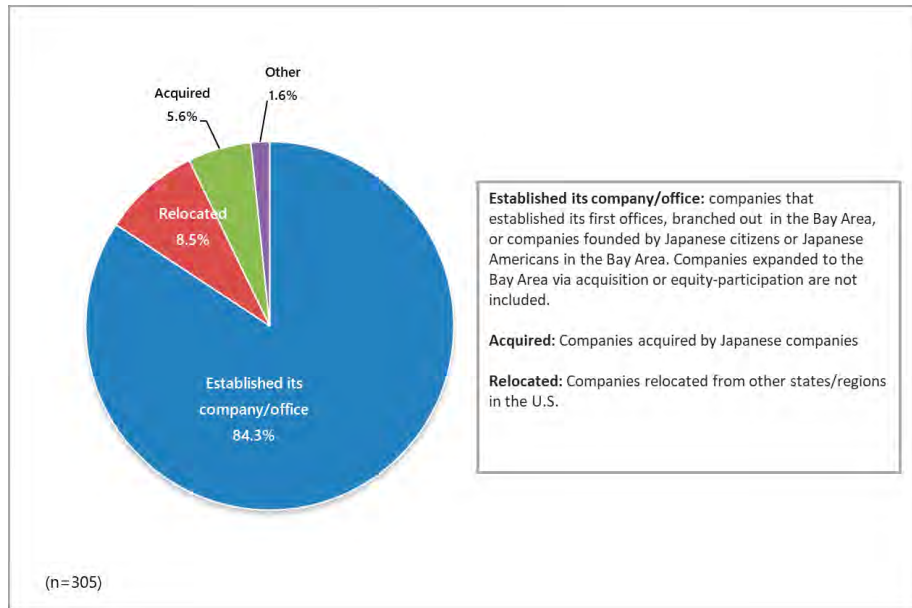
Chart I-13: Japan-based companies operating in the Bay Area broken down by form of corporate management, method of market entry/incorporation, and industry



**(3) More than 90% of companies entered the Bay Area market by establishing its office**

Data on the methods of market entry and incorporation show an overwhelming majority (92.8%) of the 305 respondent companies entered the Bay Area market by establishing a first company/office (84.3%) or relocating from other states/regions in the U.S. (8.5%), not by equity participation or acquiring local companies.

Chart I-14: Japan-based companies broken down by method of market entry/incorporation



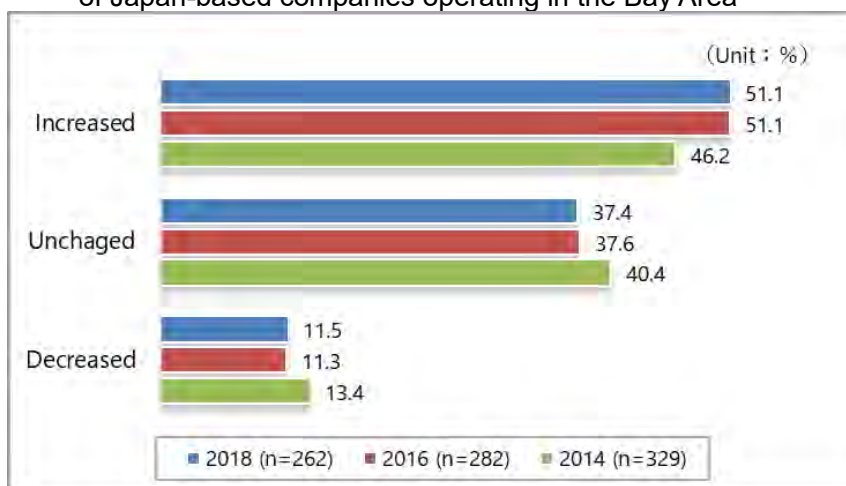
## II. Financial Status

### II-1. Sales

#### (1) Year-over-year sales increased for more than half of companies

The percentage of companies that experienced year-over-year sales growth as of December 31, 2017, was 51.1%, unchanged from the 2016 survey. Meanwhile, the percentage of companies that experienced a decrease in sales was 11.5%, nearly unchanged from the low of 11.3% recorded in the 2016 survey. Overall, the financial performance of Japan-based companies has remained strong since the previous survey.

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



#### (2) Wholesale and retail particularly perform well

Broken down by industry, the data indicates most of the key industries<sup>6</sup> performed strongly in sales. The percentage of companies with sales growth in wholesale and retail rose to 72.0%, up 6.6% from the previous survey, which greatly exceeded the all-industry average by 20.9%.

The percentage of companies with sales growth sales was 55.6% for manufacturing, 53.3% for trading, and 41.7% for the service industry. Compared to the previous survey, manufacturing and trading sales rose 15.6% and 10.0% respectively, while service industry sales fell 13.3% for the first time since the 2010 survey when most industries experienced a year-over-year sales decrease in the aftermath of the 2008 financial crisis.

A breakdown of the service companies, identified mostly in the Bay Area, indicates the percentage of companies with sales growth exceeded the service industry average of 41.7% with 53.1% for information systems, 66.7% for entertainment/journalism, 50.0% for education/healthcare, and 44.4% for leisure and tourism.

<sup>6</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

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

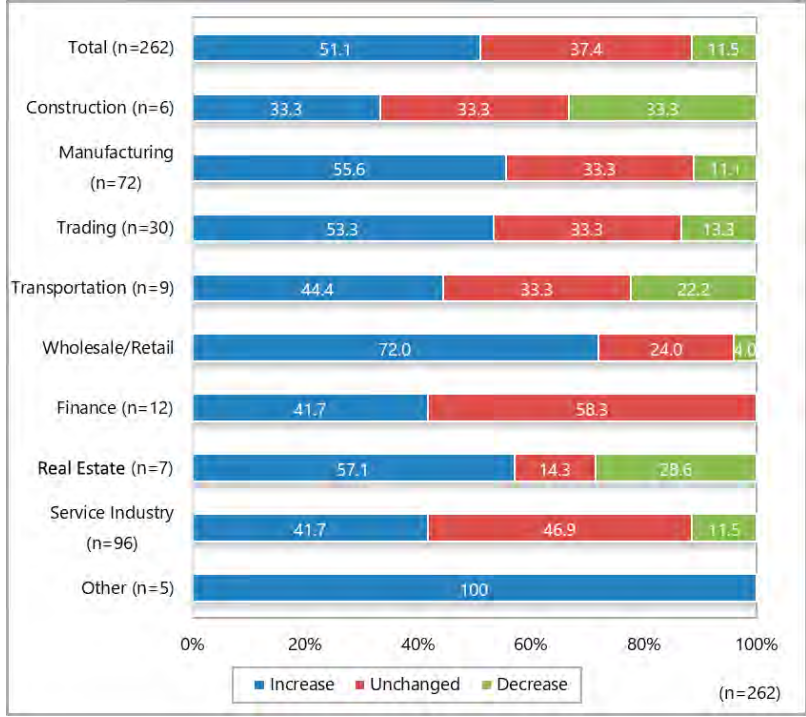
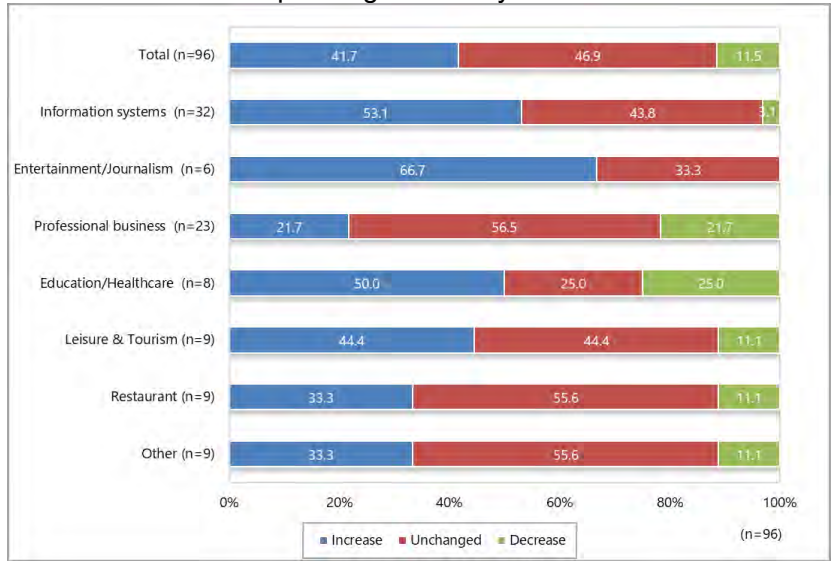


Chart II-3: The year-over-year sales of Japan-based service companies operating in the Bay Area



## II-2. Operating income

### (1) Over 60% of companies are profitable, the highest level recorded in this series of surveys

The percentage of companies that made a profit in 2017 exceeded 60% (62.3%, large profit: 6.2%; small profit: 56.0%) for the first time since the 2000 survey, hitting the second highest level since 1992 when our survey was first conducted. The percentage of companies that broke even was 23.3%, and the percentage of those that posted a loss was 14.4% (large loss: 4.3%; small loss: 10.1%), the lowest level recorded since 1992. In the current survey, the financial performance of Japan-based companies reached the level prior to the burst of the dotcom bubble in 2000.

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

Survey Year	Companies that made a profit			Companies that broke even	Sum of companies that made a profit or broke even	Companies that made a loss		
	Profit-making total	Large profit	Small profit			Loss-making total	Small loss	Large loss
92 (n=215)	49.80%	49.80%		13.50%	63.30%	36.70%	36.70%	
94 (n=249)	48.20%	48.20%		11.20%	59.40%	40.60%	40.60%	
96 (n=261)	60.10%	15.70%	44.40%	13.80%	73.90%	26.10%	18.40%	7.70%
98 (n=206)	56.90%	0.50%	56.40%	20.40%	77.30%	22.80%	16.50%	6.30%
00 (n=264)	63.60%	13.60%	50.00%	16.30%	79.90%	20.10%	14.00%	6.10%
02 (n=299)	49.50%	6.00%	43.50%	17.10%	66.60%	33.40%	22.70%	10.70%
04 (n=204)	53.50%	6.40%	47.10%	20.10%	73.60%	26.50%	22.10%	4.40%
06 (n=207)	57.00%	6.30%	50.70%	26.10%	83.10%	16.90%	13.00%	3.90%
08 (n=178)	59.00%	4.50%	54.50%	26.40%	85.40%	14.60%	10.10%	4.50%
10 (n=124)	42.70%	2.40%	40.30%	23.40%	66.10%	33.90%	25.00%	8.90%
12 (n=354)	52.50%	3.40%	49.20%	29.10%	81.60%	18.40%	16.10%	2.30%
14 (n=326)	58.00%	3.70%	54.30%	27.00%	85.00%	15.00%	13.50%	1.50%
16 (n=289)	57.40%	4.50%	52.90%	27.00%	84.40%	15.60%	12.80%	2.80%
18 (n=257)	62.30%	6.20%	56.00%	23.30%	79.40%	14.40%	10.10%	4.30%

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

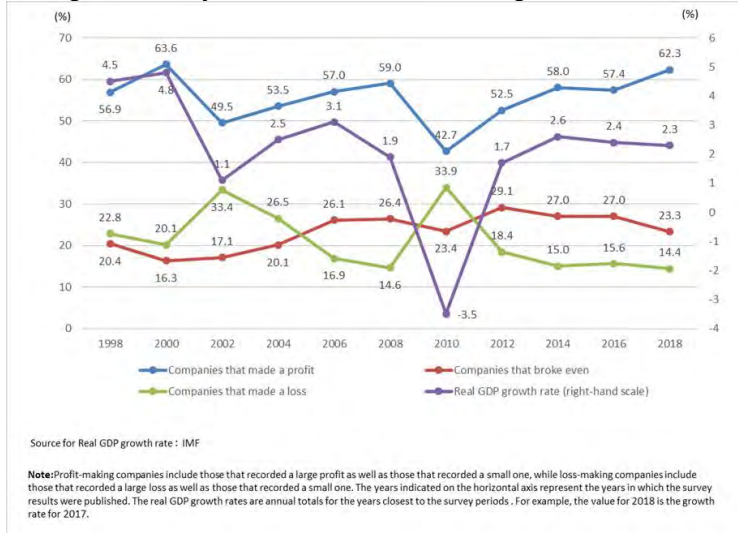
### (2) Operating income continues to rise, while real GDP growth rate slows

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 to 60%.

Even in the 2010 survey, which recorded the worst results 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.

The percentage of profit-making companies and the real GDP growth rate of the United States (also shown in Chart II-5) have roughly fluctuated in tandem with each other in most of the past surveys. In the current survey, the percentage of profit-making companies went up by 4.9% from the 57.4% recorded in the previous survey, while the real GDP growth rate remained almost the same as in 2016.

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

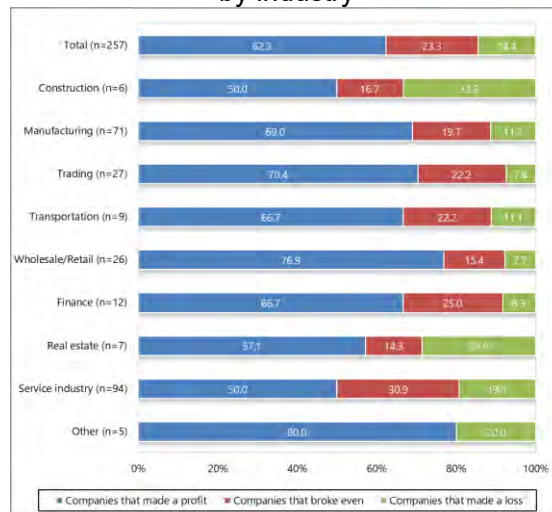


### (3) More than 50% of every industry makes a profit

Chart II-6 shows the financial status of Japan-based companies operating in the Bay Area broken down by industry. The percentage of profit-making companies in every industry reached 50% or more for the first time since the 2008 survey.

The percentages of profit-making companies exceeded the all-industry average (62.3%) in three of the four key industries<sup>7</sup>: manufacturing (69.0%), trading (70.4%), and wholesale and retail (76.9%). The percentage of those in trading greatly rose by 18.8% from the 51.6% recorded in the previous survey.

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



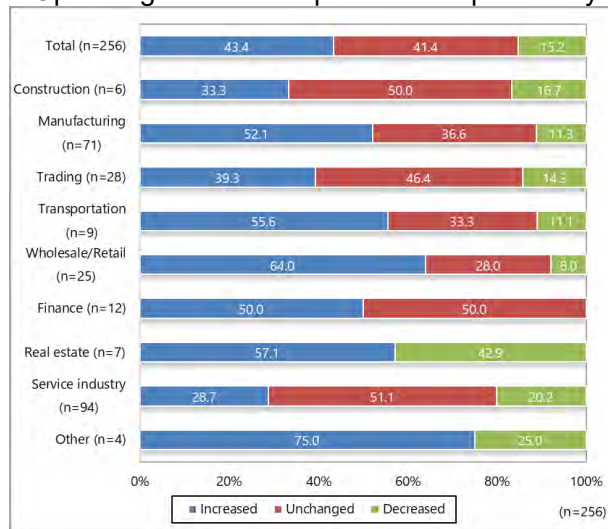
<sup>7</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

#### (4) Japan-based companies operating in the Bay Area continue to perform well in year-over-year operating income

Of the company respondents 43.4% stated their operating income had increased between 2016 and 2017, while 41.4% stated their operating income had remained unchanged and 15.2% of those stated it had decreased.

Compared to the 2016 survey (increased: 45.0%; unchanged: 42.3%; decreased: 12.8%), the percentage of companies with increased operating income fell by 1.6% and that of companies with decreased operating income rose by 2.4%, which suggests there was no significant change in year-over-year operating income in 2017 from the prior year. These data indicate the financial status of Japan-based companies in the Bay Area have remained strong since the previous survey when they performed strong financially after having recovered from the 2008 financial crisis.

Chart II-7: Operating income compared to the previous year (2016)



#### (5) Wholesale and retail steadily improved

A comparison with the previous survey broken down by industry reveals the following three of the four key industries improved on year-over-year operating income: manufacturing, trading, and wholesale and retail, especially wholesale and retail with increased operating income of 64.0%, up 8.0% from 56.0% the highest recorded among all industries in 2016.

The percentage of companies in manufacturing with increased operating income exceeded 50.0% (52.1%) in the current survey and improved by 11.8% compared to the forecast in 2016.

Chart II-8: Operating income of Japan-based companies operating in the Bay Area compared to the previous year (2016 vs. 2018)

	Year-over-year increase			Year-over-year decrease		
	2016	2018	Change	2016	2018	Change
Manufacturing	40.3%	52.1%	11.8	14.3%	11.3%	3.0
Trading	26.5%	39.3%	12.8	23.5%	14.3%	9.2
Wholesale/Retail	56.0%	64.0%	8.0	4.0%	8.0%	-4.0
Service industry	54.9%	28.7%	-26.2	8.2%	20.2%	-12.0



### II-3. Evaluation of overall financial results—Over 70% of Japan-based companies in the Bay Area are satisfied with their financial status in 2017

In response to a question of how Bay Area Japan-based companies evaluate their overall financial results as of December 31<sup>st</sup> 2017, requiring respondents to express their subjective feelings (based on market psychology), 63.2% of companies stated “Generally satisfactory” and 10.8% stated “Better than expected.” The combined percentage of companies that positively described their financial status is 74.0%, up 4.2% compared to 69.8% in the previous survey, and an all-time high since this question was included in the survey in 2010. As Chart II-11 shows, the responses to this question likely correlate with financial results of Japan-based companies.

Chart II-9: Evaluation of overall financial status in 2017

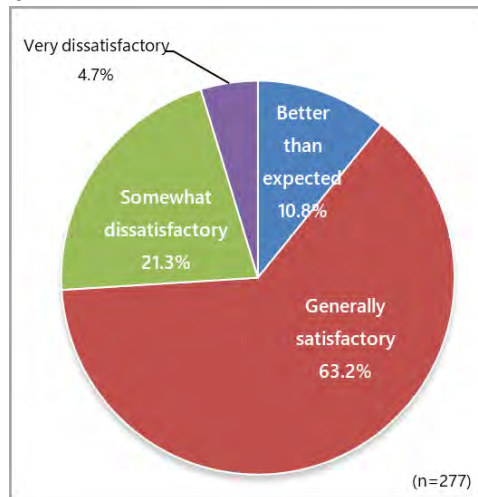


Chart II-10: Evaluation of overall financial status broken down by year

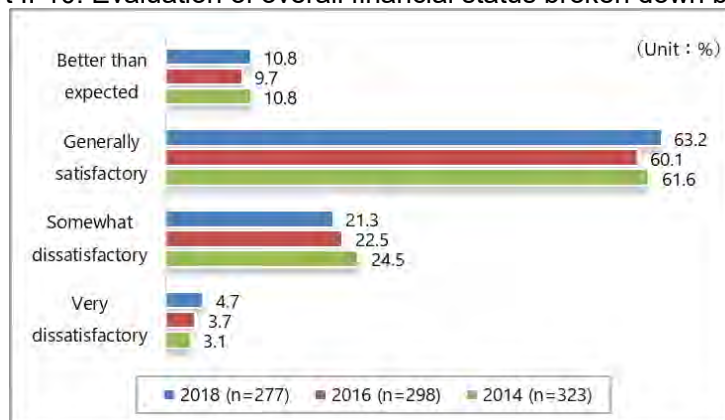
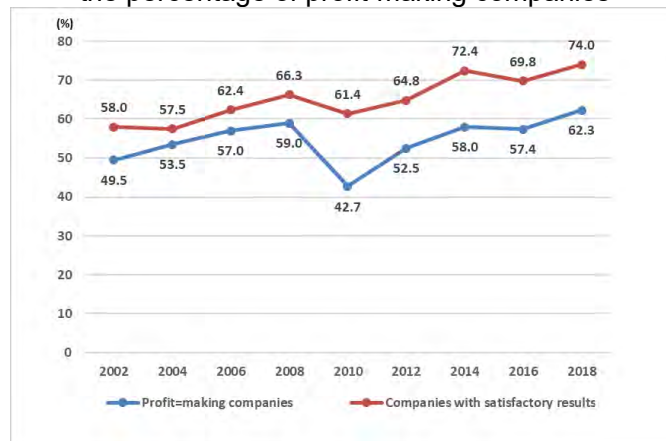


Chart II-11: Changes in the percentage of companies with satisfactory financial results and the percentage of profit-making companies



## II-4. The thriving Bay Area economy

### (1) The DI business confidence indicator declines slightly, but remains at the highest level since 2000

The diffusion index (DI)<sup>8</sup> and U.S. real GDP growth fluctuated roughly in tandem with each other in most of the past surveys. In the current survey, the DI (28.2%) was in tandem with the current real GDP growth that declined slightly from 2016, while the DI continued rising despite a slight decline in the real GDP growth rate in the previous survey. Although the current DI fell 4.0% from the previous survey, it marks the second highest DI since the 2000 survey.

Chart II-12: DI Change for Japan-based companies operating in the Bay Area and U.S. real GDP growth rates

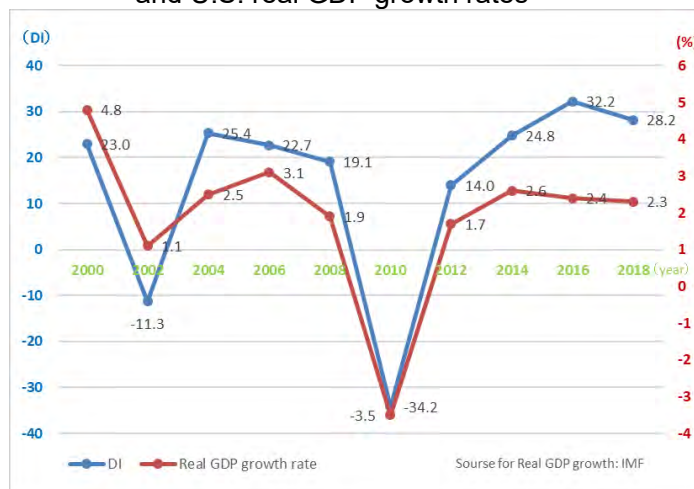
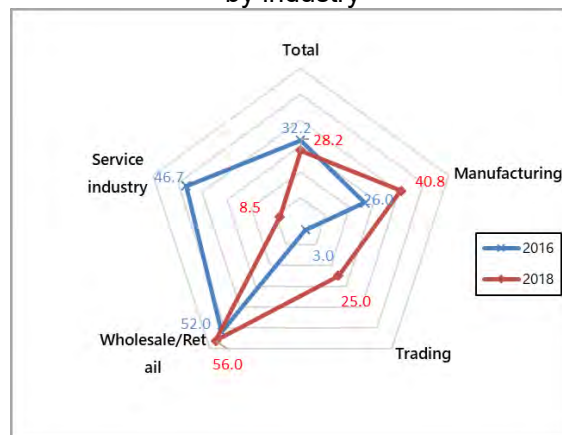


Chart II-13: DI Change for Japan-based companies operating in the Bay Area broken down by industry



<sup>8</sup> 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.

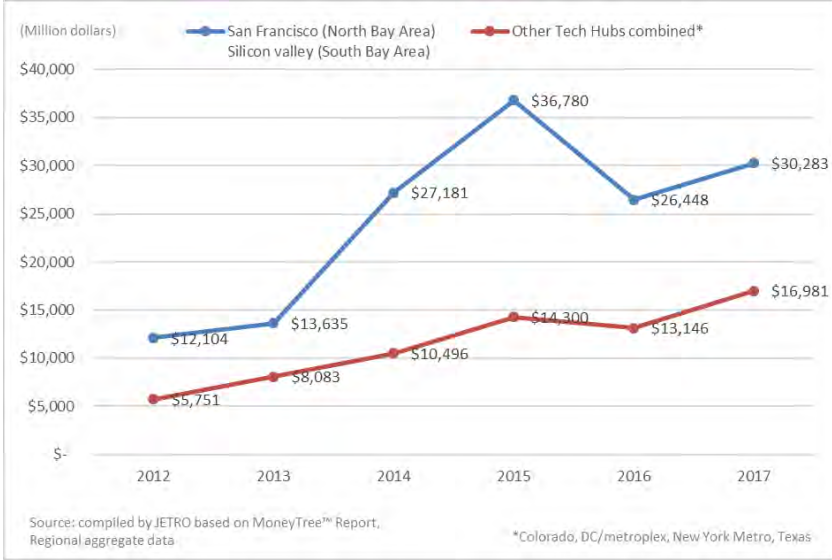
The graph in Chart II-13 shows a comparison of the DI for the all-industry average and the four key industries in both the current survey (2018) and the previous survey (2016). Compared to the previous survey, the DI shows significant improvement for manufacturing (up 14.8%) and trading (up 22.0%), while the service industry has drastically decreased (down 38.2%). The DI for wholesale and retail remained the highest among the four key industries with an increase of 4.0% from the previous survey.

**(2) The Bay Area’s favorable economy continues to benefit the financial status of Japan-based companies**

The Bay Area's thriving economy including its tech boom has been one of the reasons for the strong financial status of Japan-based companies in recent years.

Total investment in companies operating in Silicon Valley (in the South Bay Area) and San Francisco (in the North Bay Area) in 2017 totaled 30.3 billion dollars<sup>9</sup>—or 40.8% of all venture capital investments in the U.S. as a whole (\$74.1 billion)—and 31.5% (1,658 deals) of all transactions in the United States (5,268 deals) were conducted in the Bay Area<sup>10</sup>. While 2017 investments declined compared to those in 2015 (\$36.8 billion<sup>11</sup>), the region still dominates the nation in venture and startups. Investments in the Bay Area overwhelmingly exceeded investments in emerging tech hubs combined including Colorado, Washington D.C. and metropolitan area, the New York metropolitan area, and Texas by \$13.3 billion in 2017 (Chart II-14). The number of deals in the Bay Area also surpassed that in the tech hubs combined by 356 deals.

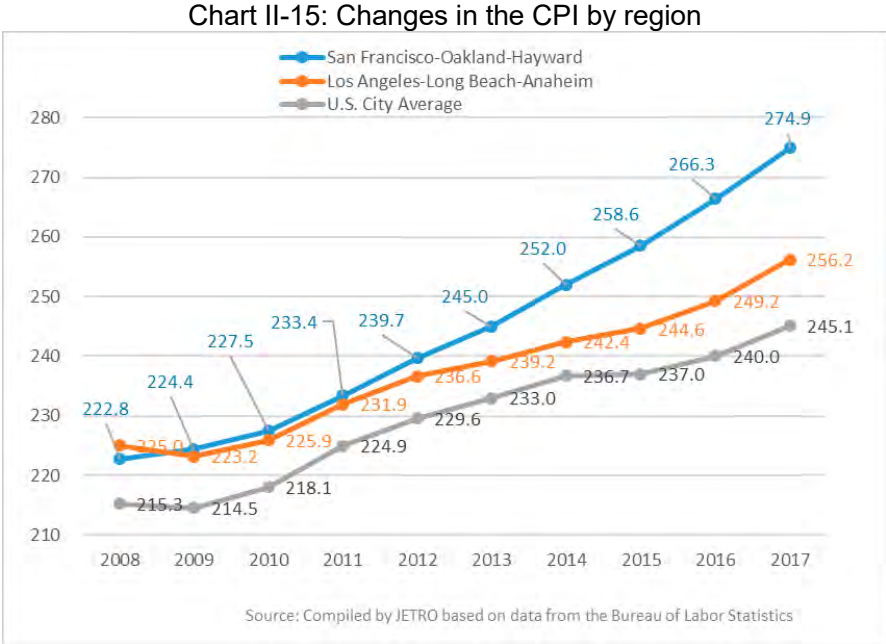
Chart II-14: Changes in venture capital investments by region



An examination of statistics on the consumer price index (CPI), a key economic indicator, reveals the CPI for the San Francisco metropolitan area in 2017 was 274.9%, 18.7% higher than that of the Los

<sup>9</sup> Rounded off to one decimal place  
<sup>10</sup> MoneyTree™ Report, Regional aggregate data  
<sup>11</sup> Rounded off to one decimal place

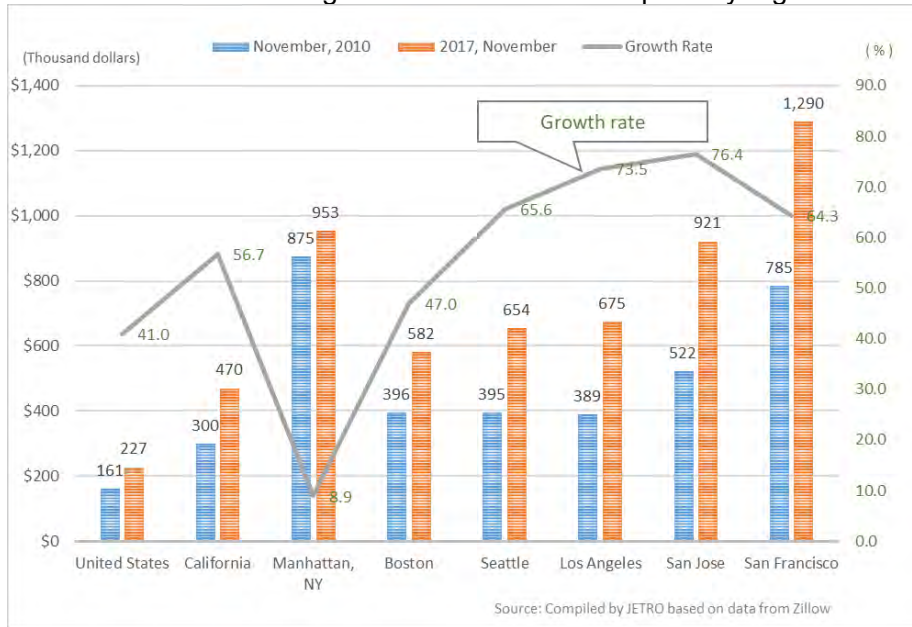
Angeles metropolitan area and 29.8% higher than that of the U.S. as a whole (Chart II-15). In addition, the CPI in 2017 increased 6.3% since 2015<sup>12</sup> for the San Francisco metropolitan area, but only 3.4% for the U.S. and 4.7% for the Los Angeles metropolitan area.



Housing prices, which closely reflect economic conditions, have also continued soaring in the Bay Area. San Francisco's median home sale price in November 2017 was \$1.29 million, approximately 2.7 times greater than the median for California (470,000 dollars) and nearly 6 times greater than the median for the United States (227,000 dollars). The median for San Jose, one of the major cities in Silicon Valley (\$921,000) is almost catching up with the median for Manhattan (\$953,000). Housing prices have drastically risen since November 2010 by 64.3% in San Francisco, and by 76.4% in San Jose.

<sup>12</sup> The closest year available for the CPI when the previous survey (2016) was conducted

Chart II-16: Changes in median home sale price by region

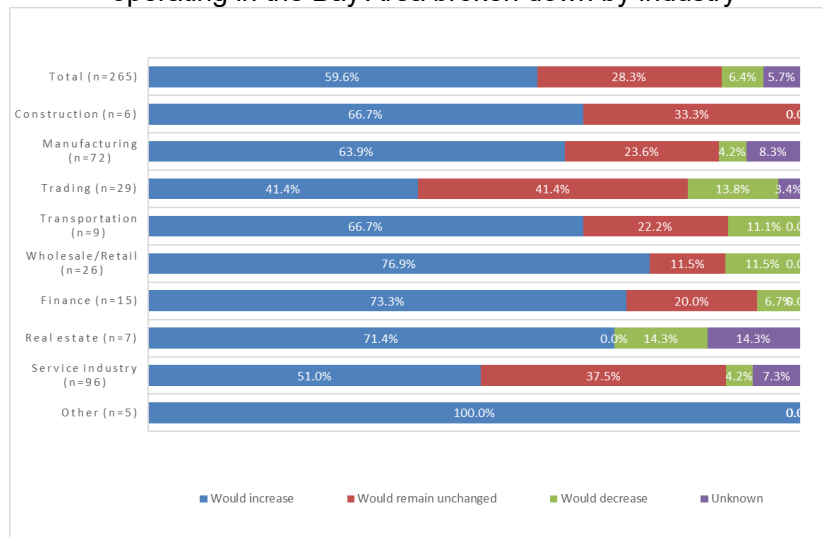


## II-5. Financial forecasts for the next one to two years

### (1) Nearly 60% of companies predict increased sales

The percentage of Japan-based companies predicting sales increases in the next year or two was 59.6%, while those predicting it would remain unchanged was 28.3%, and those predicting it would decrease was 6.4%. The percentage of wholesale and retail companies predicting a positive outlook in sales was 76.9%, which exceeded the all-industry average by 17.3%.

Chart II-17: Predicted sales for Japan-based companies operating in the Bay Area broken down by industry



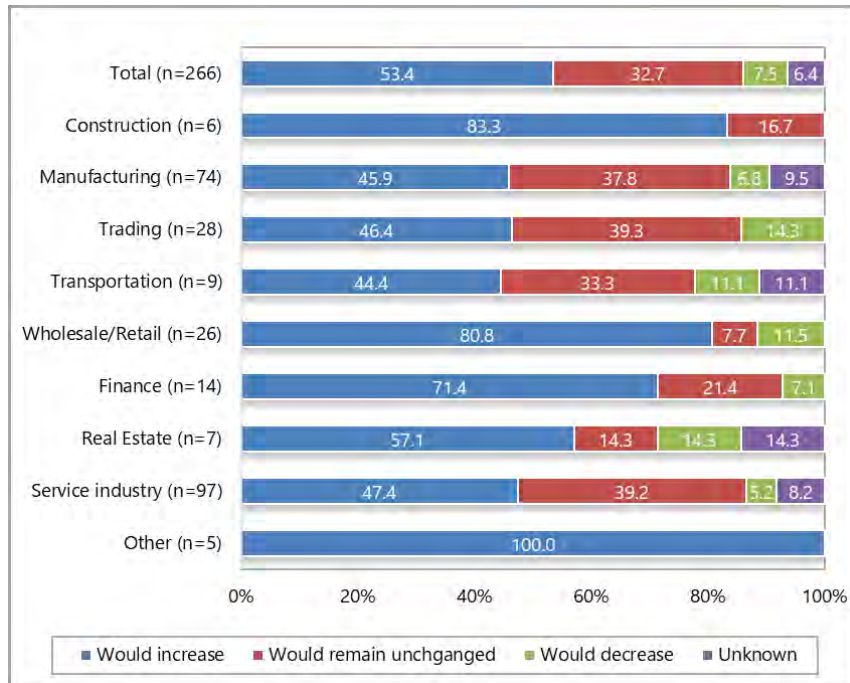
### (2) More than 50% of companies predict increased operating income

The percentage of Japan-based companies predicting their operating income would increase in the next year or two was 53.4%, while those predicting it would remain unchanged was 32.7%, and those predicting it would decrease was 7.5%. Compared to the 2016 survey, the percentage of companies predicting an increase rose by 3.7%, and the percentage of those predicting a decrease fell by 0.5%. The percentage of companies predicting an increase in operating income surpassed 50% for the first time since the 2010 survey, and the current 53.4% was the highest in the past decade.

Broken down by industry, the data show the percentage of companies in wholesale and retail (80.8%) was the only one of the four key industries<sup>13</sup> that surpassed the all-industry average (53.4%) in predicting an increase.

<sup>13</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

Chart II-18: Predicted operating income for Japan-based companies operating in the Bay Area broken down by industry





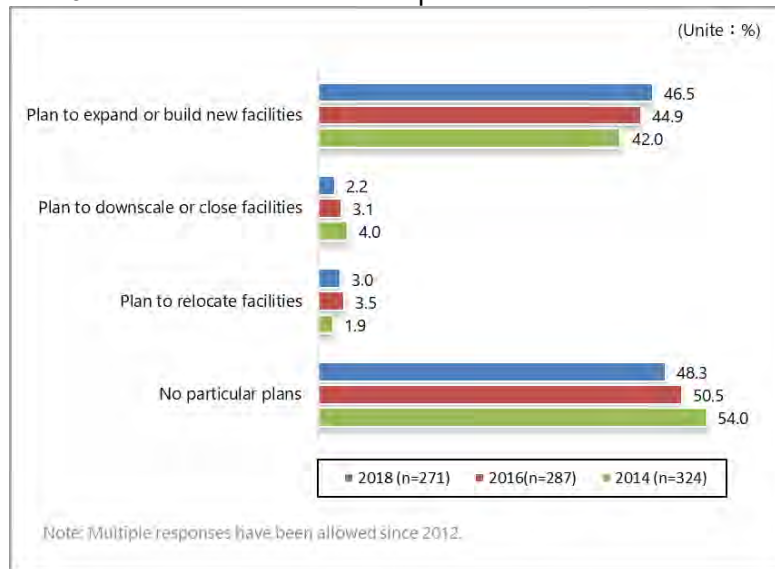
## II-6. Investment and business plans

### (1) Nearly 50% of respondents are likely to expand or build new facilities

In response to a question asking about respondents' investment and business plans for the next one or two years, 46.5% of companies stated they plan to expand or build new facilities, up 1.6% from the 44.9% recorded in the previous survey.

High costs have been one of the significant challenges for Bay Area businesses, however, most companies do not seem to be planning to move out of the region: only 3.0% stated that they plan to relocate.

Chart II-19: Investment and business plans for the next one or two years



### (2) More manufacturing companies plan to expand than other companies

Among the four key industries<sup>14</sup>, the data show that manufacturing companies were most willing to expand. More than half of manufacturing companies (54.7%) stated that they plan to expand or build new facilities. While wholesale and retail companies and service companies were more focused on maintaining the status quo rather than expanding, a majority of trading companies split their plan between expanding (44.4%) and maintaining the status quo (44.4%).

<sup>14</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

Chart II-20: Investment and business plans 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
<b>Total (n=271)</b>	<b>46.5</b>	<b>2.2</b>	<b>3</b>	<b>48.3</b>
Construction (n=6)	66.7	0	0	33.3
Manufacturing (n=75)	54.7	2.7	2.7	40
Trading (n=27)	44.4	7.4	3.7	44.4
Transportation (n=9)	22.2	0	0	77.8
Wholesale/Retail (n=25)	40	0	8	52
Finance (n=17)	52.9	0	0	47.1
Real estate (n=7)	57.1	0	0	42.9
Service industry (n=99)	39.4	2	3	55.6
Other (n=6)	83.3	0	0	16.7

### III. Contribution to the Local Economy

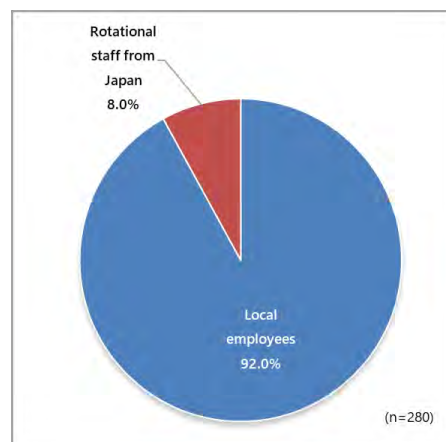
#### III-1. Employment

##### (1) Japan-based companies operating in the Bay Area generate employment for more than 47,000 people

The estimated number of employees working for Japan-based companies operating in the Bay Area increased by 7.4% from the 2016 survey to reach 47,222. The number of employees working for the 280 companies that responded to this relevant question was 14,482. Of these employees, 1,158 were rotational staff from Japan (8.0% of the total) and 13,324 were local employees (92.0%). The average number of employees per responding company was 51.7 (of which 4.1 were rotational staff from Japan and 47.6 were local employees). By extrapolating this figure for the 913 Japan-based companies identified as operating in the Bay Area, we estimate the employment generated by these companies totals 47,222 (3,776 rotational staff from Japan and 43,446 local employees).

Chart III-1: Employment generated by Bay Area Operating Japan-based companies

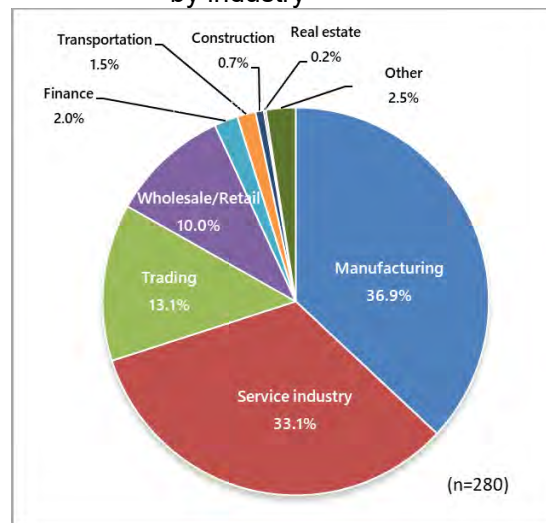
	Total (A=B+C)	Rotational staff from Japan (B)	Local employees (C)
Employment (280 responding companies)	14,482	1,158	13,324
Employment per company	51.7	4.1	47.6
Estimated total employment generated by 913 Japan-based companies	47,222	3,776	43,446



## (2) Manufacturing and the service industry create 70% of the employment

Broken down by industry, the data indicate manufacturing and the service industry collectively employ 70 % of people that work for the 280 responding companies. The employment is nearly equally divided among three sectors: manufacturing (36.9%), the service industry (33.1%), and other industries (combined, 30.0%). The overall trend remained mostly unchanged from 2016 data.

Chart III-2: Percentages of employees working for Japan-based companies broken down by industry



The data on the number of local employees per company indicates the largest number (62.1) was in manufacturing, followed by trading (59). Manufacturing (7.4) and construction industry (7.3) have the largest number of rotational staff from Japan per company, followed by trading (6.5).

Chart III-3: Number of employees per Japan-based company operating in the Bay Area broken down by industry

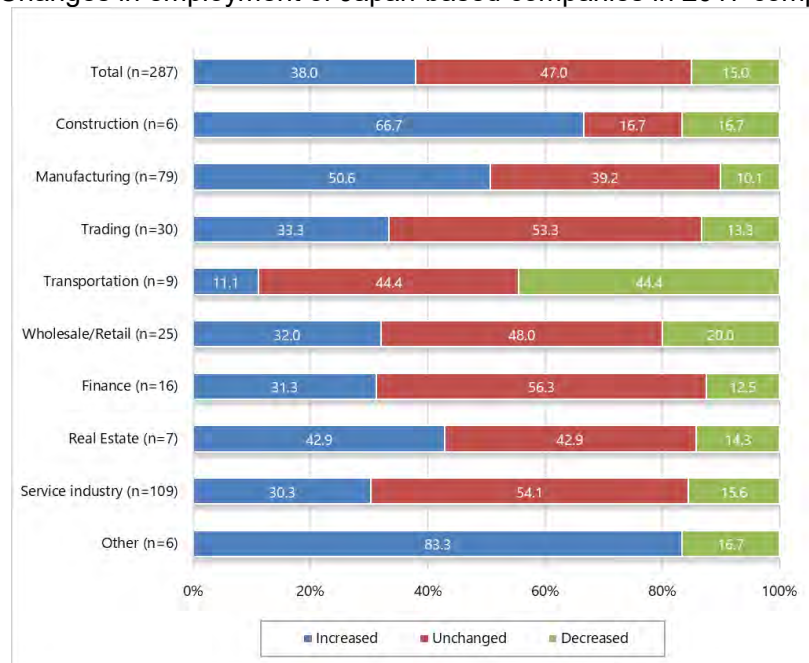
		Construction	Manufacturing	Trading	Transportation	Wholesale/Retail	Finance	Real estate	Service industry	Other	Total
Number of responding companies		6	77	29	9	25	17	6	105	6	280
Total number of employees (280 responding companies)		100	5,350	1,899	224	1,442	288	25	4,795	359	14,482
Breakdown	Local employees (persons)	56	4,784	1,711	207	1,378	242	18	4,594	334	13,324
	Rotational staff from Japan (persons)	44	566	188	17	64	46	7	201	25	1,158
Per company	Local employees (persons)	9.3	62.1	59	23	55.1	14.2	3	43.8	55.7	47.6
	Rotational staff from Japan (persons)	7.3	7.4	6.5	1.9	2.6	2.7	1.2	1.9	4.2	4.1

### (3) The employment provided by Japan-based companies remains stable

The percentage of companies that reported adding employees in 2017 compared to the previous year was 38.0%, up 5.8% from the previous survey, while the percentage of those that eliminated employees was 15.0%, up 5.6% from the previous survey.

The aggregate percentage of companies that reported adding employees or no change in their employment since the previous year was 85.0%, which indicates employment at Japan-based companies has remained stable.

Chart III-4: Changes in employment of Japan-based companies in 2017 compared to 2016



Broken down by industry, only manufacturing (50.6%) exceeded the all-industry average (38.0%), while three other key industries<sup>15</sup> hovered at approximately 30% (trading: 33.3%, wholesale/retail: 32.0%, the service industry: 30.3%).

<sup>15</sup> Industries in which large numbers of Japan-based companies are involved; namely, service, manufacturing, trading, and wholesale and retail.

### III-2. Bay Area Wage payments estimated to total \$4.8 billion

Total annual wage payments, including benefits made by the 170 Japan-based respondent companies in the Bay Area totaled \$646.972 million. Based on this total, the annual wage payment per employee was \$101,900, up \$17,600 dollars from \$84,300 dollars recorded in the 2016 survey. According to Bureau of Economic Analysis, the per capita personal income for the San Francisco – Redwood City – South San Francisco metropolitan division in 2016, the most recent year for available data, was \$108,222. The wage levels of Japan-based companies have finally started catching up with the regional standard.

Multiplying the annual per-employee payment by 47,222 of the estimated total number of employees that work for the 913 Japan-based companies identified in the Bay Area gives an estimated \$4.8 billion in total annual wage payments.

Chart III-5: Wage payments made by Bay Area Japan-based companies

	Bay Area	Southern California
Number of responding companies	170	237
Annual wage payments (\$1,000)	646,972	3,623,483
Annual wage payment per employee (\$1,000)	101.9	89.6
Estimated total of annual wage payments (\$1,000)	4,811,922	10,550,477

Note: The annual wage payments per employee was calculated by dividing the annual wage payments by the aggregate number of employees of the responding companies.

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.

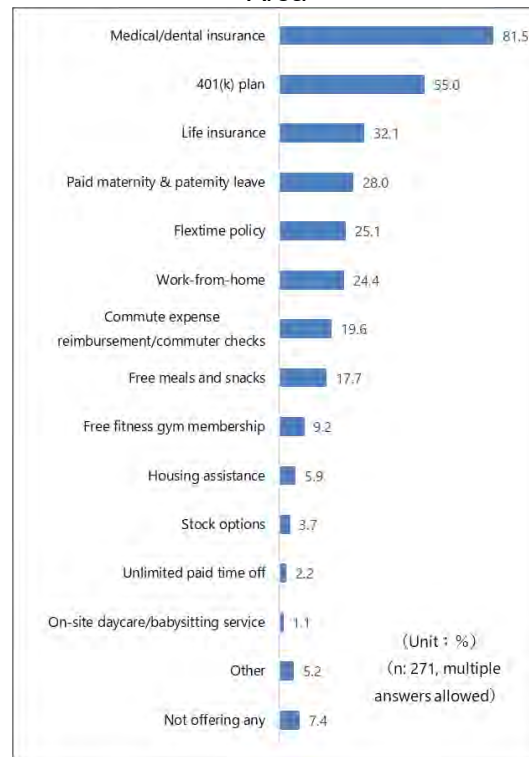
### III-3. Benefits offered to local employees

#### (1) More than 80 % of Japan-based companies offer medical/dental insurance

In addition to higher compensation, employee benefits play an important role in attracting and retaining a talented workforce. According to a new survey of more than 800 employed U.S. adults released in April 2018<sup>16</sup>, the top reasons American employees would leave their current job were better benefits (50%) and a flexible work environment (42%), excluding higher compensation. In a climate of low unemployment and an acute skills shortage, Japan-based companies are also required to be competitive to win more talent in the Bay Area.

In response to a question asking companies what benefits and perks they offer their local employees, (a new question in the current survey) the largest percentage of companies (81.5%) provides their employees medical/dental insurance. This was followed by a 401(k) plan (55.0%), life insurance (32.1%) and paid maternity and paternity leave (28.0%).

Chart III-6: Benefits offered to local employees of Japan-based companies operating in the Bay Area



#### (2) Fewer Japan-based companies offer 401(k)s & life insurance

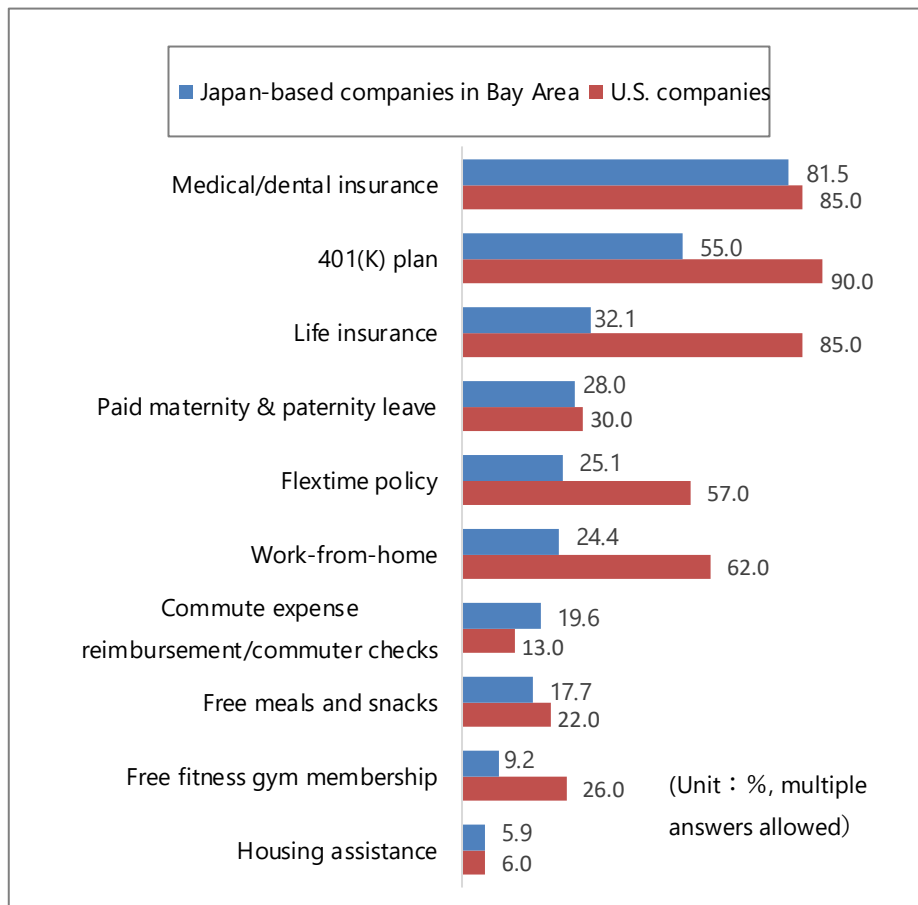
Chart III-7 shows a comparison of benefits and perks of Bay Area Japan-based companies and U.S. companies. It shows the percentages of the Japan-based companies offering medical/dental insurance, paid maternity & paternity leave, commuter expense reimbursements/commuter checks, free meals and snacks have reached or exceed the percentages of U.S. companies. However, more U.S. companies provide local

<sup>16</sup> <http://www.yoh.com/press-room/yoh-survey-top-reasons-employed-americans-would-accept-a-new-job-offer>

employees other benefits.

According to the Society of Human Resource Management, 90.0% of U.S. companies offers 401(k) plans and 85.0% provides life insurance. However, 55.0% of the Japanese based companies offer 401(k) plans and only 32.1% provide life insurance. Similarly, many Japan-based companies provide fewer flexible work opportunities to their employees. More than half of U.S. companies (57.0%) have flextime policies and some type of work-from-home option (62.0%), compared with about a quarter of Japan-based companies overall (flextime policy: 25.1% and work-from-home option: 24.4%).

Chart III-7: Comparison of benefits offered to local employees



Note: The percentage of U.S. companies offering paid maternity leave is used for the percentage of U.S. companies offering paid maternity leave & paternity leave.

Japan-based companies: n=271

U.S. companies: n=2,701-2,868 (Various questionnaires)

Source: Society of Human Resource Management

<https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2017%20Employee%20Benefits%20Report.pdf>



## IV. Business Environment

### IV-1. Advantages of the Bay Area

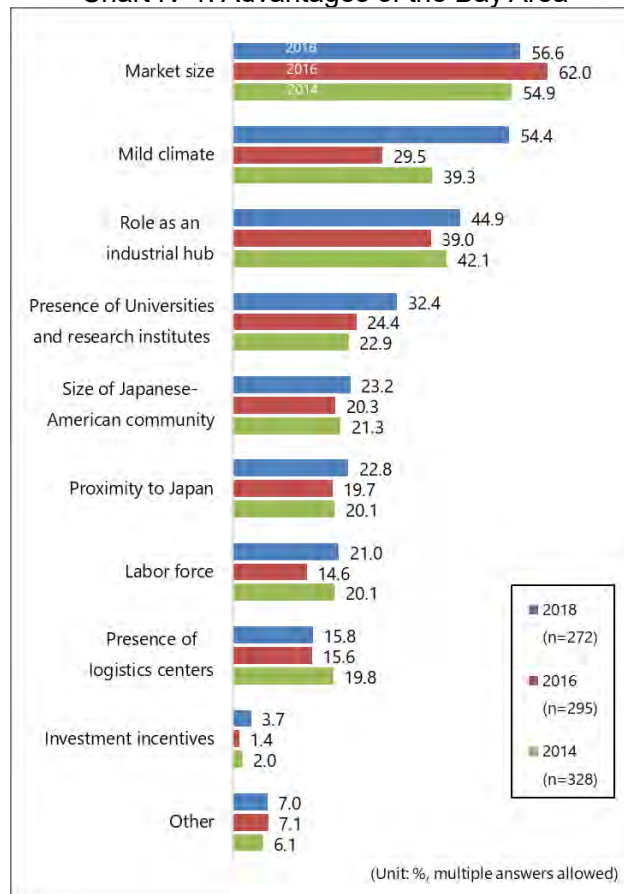
#### (1) Market size continues to rank first (272 companies surveyed)

In response to a multi-answer question about the advantages of the Bay Area, the largest percentage of companies (56.6%) chose market size as its key advantage, as was also the case in the previous survey. This was followed closely by the area's mild climate (54.4%), and next by its role as an industrial hub (44.9%).

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 2012 survey, however, market size has placed first.

In this survey, the percentage of companies that chose the area's mild climate (54.4%) dramatically increased from the previous survey (29.5%). The low percentage in the previous survey was attributed to the effects of the historic drought that had gripped California since 2012. It has now increased by 24.9% and accounts for over 50% of responses.

Chart IV-1: Advantages of the Bay Area



## (2) Market size and mild climate account for the largest percentages in most 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 and mild climate as major advantages of the Bay Area. Out of the eight industry categories, market size placed first in construction (83.3%), manufacturing (50.0%), wholesale/retail (66.7%), and finance (72.2%).

The industries that had “mild climate” as the top response were trading (50.0%), transportation (66.7%), real estate (57.1%), and service (46.6%). “Mild climate” also placed high in construction (66.7%), wholesale/retail (59.3%), finance (50.0%), and other (50.0%). “Mild climate” accounted for at least 50% of responses for all industries aside from manufacturing and service.

Last year, America experienced several catastrophic natural disasters, including Hurricane Irma in Florida and destructive flooding in Texas from hurricane Harvey. In addition, both Northern and Southern California faced record-breaking forest fires, with the Santa Barbara wildfires in the south, and the Napa/Sonoma county fires in the North.

Especially in San Francisco, with its closeness to Napa and Solano counties (about 47miles/76km), some companies reported damage as a result of the fires and ash fell over parts of the city. These Bay Area companies experienced first-hand the destructive power of natural disasters.

However, most Japan-based companies in the Bay Area and surrounding areas did not experience damage as a result of last year’s natural disasters. That is believed to have confirmed their belief that the Bay Area’s climate is mild and stable, leading them to select “mild climate” as a top advantage.

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

	Constru- ction	Manufa- cturing	Trading	Trans- portation	Wholesale and retail	Finance	Real estate	Service industry	Other
Market size	<b>83.3</b>	<b>50.0</b>	37.5	44.4	<b>66.7</b>	<b>72.2</b>	42.9	45.8	<b>50.0</b>
Size of the Japanese- American community	33.3	16.7	15.6	33.3	14.8	22.2	28.6	23.7	16.7
Presence of logistics centers	16.7	15.5	25.0	33.3	18.5	5.6	14.3	8.5	16.7
Mild climate	<b>66.7</b>	41.7	<b>50.0</b>	<b>66.7</b>	<b>59.3</b>	<b>50.0</b>	<b>57.1</b>	<b>46.6</b>	<b>50.0</b>
Labor force	0.0	17.9	18.8	11.1	14.8	16.7	28.6	19.5	<b>50.0</b>
Universities and research institutes	33.3	29.8	25.0	22.2	11.1	61.1	14.3	28.0	<b>50.0</b>
Role as an industrial hub	16.7	41.7	43.8	44.4	33.3	<b>50.0</b>	42.9	36.4	<b>66.7</b>
Proximity to Japan	0.0	17.9	28.1	22.2	22.2	11.1	28.6	22.0	0.0
Investment incentives	0.0	3.6	9.4	0.0	0.0	11.1	14.3	0.0	16.7
Other	0.0	8.3	3.1	11.1	3.7	11.1	0.0	5.9	0.0

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

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

In Chart IV-3, which shows our findings for responses concerning local advantages in the Bay Area compared to Southern California, the top advantages for both areas were market size followed by mild climate. The percentage of companies that chose market size was 56.6% in the Bay Area and 65.8% in Southern California, a 9.2% increase for the latter. Mild climate was second for both, with 54.4% for the Bay Area and 52.1% for Southern California.

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

	Bay Area		Southern California	
Market size	56.6	(1)	65.8	(1)
Mild climate	54.4	(2)	52.1	(2)
Role as an industrial hub	44.9	(3)	9.4	(7)
Presence of Universities and research institute	32.4	(4)	5.4	(8)
Size of Japanese-American community	23.2	(5)	42.7	(3)
Proximity to Japan	22.8	(6)	30.2	(5)
Labor force	21.0	(7)	19.4	(6)
Presence of logistics centers	15.8	(8)	40.5	(4)
Investment incentives	3.7	(9)	0.6	(9)
Other	7.0	—	3.1	—

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

Multiple answers were allowed.

In the Bay Area, its role as an industrial hub (44.9%) placed third and the presence of universities and research institutes placed fourth (32.4). In Southern California, however, these advantages ranked low, with the former placing seventh (9.4%) and the latter eighth (5.4%).

Although the size of the Japanese-American community ranked fifth (23.3%) and presence of logistics centers, eighth (15.8%) they were not chosen by many companies operating in the Bay Area.

In contrast, these advantages were chosen by many companies in Southern California, with the former placing third (42.7%) and the latter fourth (40.5%). This is likely because the manufacturing and trading industries account for a larger percentage of companies in Southern California than in the Bay Area, where there are more service-industry companies. In addition, Southern California has larger Japanese communities and more emphasis on logistics.

The availability of investment incentives was chosen by only a few companies operating in the Bay Area (3.7%) as well as in Southern California (3.1%). It placed last in both areas and has stayed around or below 4% for the past 10 years of surveys.

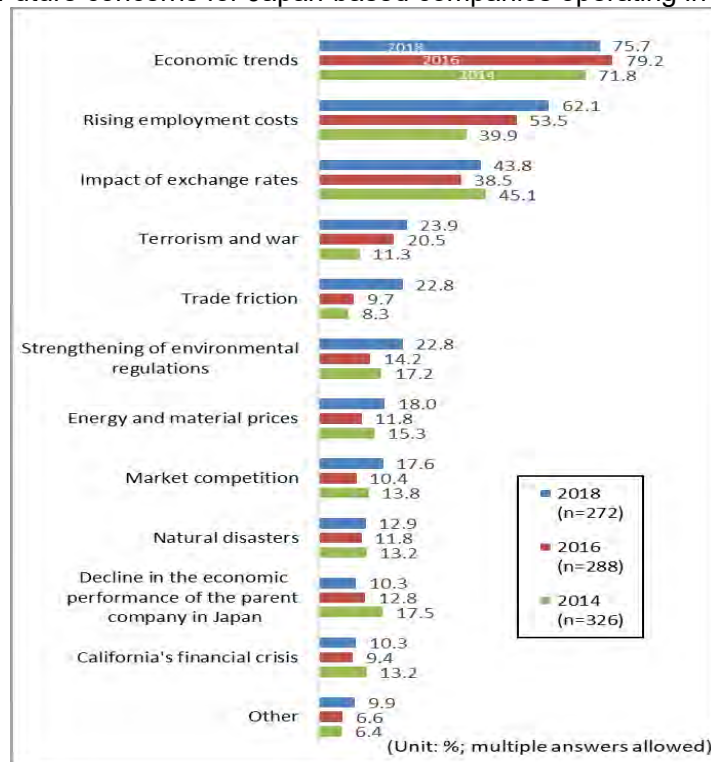
## IV-2. Concerns over future business operations

### (1) Concerns over rising employment costs increase substantially

In response to multiple-answer questions about future business issues, 75.7% of the 272 responding companies chose economic trends as a concern for the future. This was followed by rising employment costs (62.1%), impact of exchange rates (43.8%), and terrorism/war (23.9%). There was no change in the top four rankings compared to the previous survey. While economic trends decreased by 3.5% over the previous survey (79.2%), they remain the top concern as they have for nearly every survey.

Concern about rising employment costs, which ranked second in the current survey, has continued to increase since the 2012 survey. At 62.4% for this survey, it rose 8.6% from the 2016 survey (53.5%), and a dramatic 22.2% from the 2014 survey (39.9%). This year's survey marks the first time this category has exceeded 60% of responses. The percentage difference between the first-place category of "economic trends" and second-place category of "rising employment costs" has been gradually shrinking. At this rate, it is possible that rising employment costs could become the top concern for Japan-based companies in the next survey.

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



## **(2) Rapid increase in “trade friction” and “strengthening of environmental regulations”**

In fifth-place rankings and below, categories that showed the biggest changes compared to the previous survey are trade friction and strengthening of environmental regulations, which tied for fifth place at 22.8%. Trade friction at 22.8% had an increase of 13.1% over the 2016 survey, and 14.5% over the 2014 survey. Strengthening of environmental regulations at 22.8% had an increase of 8.6% from the 2016 survey, and 5.6% from the 2014 survey.

The increase in the trade friction category is in part attributed to the change of the U.S. Administration, which took place in 2016-2017. In contrast to former President Obama, who cooperated with and encouraged foreign trade, the current Republican President Donald Trump, with his campaigns “America First” and “Make America Great Again” and his withdrawal from the Trans-Pacific Partnership (TPP), has taken quite the opposite approach. With his renegotiation of NAFTA and tariffs imposed on steel and aluminum, he seems to be turning his back on the notion of free trade. Because of these new policies and their impact on trade with Japan and other countries, it is understandable that more Japan-based companies would be concerned about “trade friction” affecting business now as opposed to during the previous Administration.

As for the increase in strengthening of environmental regulations, recent amendments to California’s Proposition 65 Warning Requirements were likely considered. Under Prop 65, companies that use any one of over 900 chemicals on its list are required to display a warning on their products. In 2016, the second amendment of Prop 65 went into effect, which added BPA to the list of chemicals. BPA is often used in the production of plastic materials such as PET bottle caps.

Since BPA is used in a wide variety of products and in various industries, such as food manufacturing and wholesale/retail, a wide range of Japanese companies are affected by the requirement to put warnings on their products. Companies selling imported goods from Japan will also be required to display these warnings.

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

Broken down by industry, the data show a large percentage of companies in all industries identified economic trends as their main concern for the future. This percentage is high in all industry categories except for “other,” with over 70% 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, manufacturing, transportation, wholesale/retail, service, and “other” industries identifying rising employment costs as a major concern. The data also reveal a large percentage of the trading industry recognizes trade friction and impact of exchange rates as concerns for the future.

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 cost	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	16.7	16.7	0.0	16.7	66.7	33.3	0.0	66.7	16.7	0.0	0.0
Manufacturing (n=74)	75.7	14.9	20.3	27.0	55.4	60.8	18.9	16.2	23.0	6.8	10.8	9.5
Trading (n=29)	82.8	27.6	51.7	24.1	62.1	41.4	20.7	0.0	10.3	13.8	10.3	3.4
Transportation (n=9)	88.9	33.3	11.1	0.0	44.4	88.9	22.2	11.1	33.3	11.1	22.2	11.1
Wholesale and retail (n=26)	73.1	34.6	38.5	34.6	50.0	84.6	42.3	15.4	38.5	19.2	15.4	11.5
Finance(n= 17)	88.2	17.6	0.0	17.6	41.2	47.1	41.2	0.0	5.9	5.9	0.0	23.5
Real estate (n=7)	85.7	14.3	14.3	14.3	28.6	42.9	14.3	14.3	14.3	0.0	28.6	14.3
Service industry (n=97)	70.1	28.9	17.5	6.2	32.0	63.9	18.6	9.3	7.2	9.3	15.5	10.3
Other (n=6)	66.7	16.7	33.3	33.3	33.3	83.3	16.7	16.7	50.0	33.3	16.7	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%. Multiple answers were allowed.

#### (4) Trade friction and strengthening of environmental regulations are big concerns in Southern California as well

In comparing the Southern California survey results, both had the same top three rankings of economic trends, followed by rising employment costs, and impact of exchange rates. In both regions there was a dramatic increase in concerns about trade friction and strengthening of environmental regulations, compared to the previous survey. In Southern California, trade friction took fourth place (28.3%) and strengthening of environmental regulations took fifth (26.6%).

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

	Bay Area		Southern California	
Economic trends	75.7	(1)	73.1	(1)
Rising employment costs	62.1	(2)	64.9	(2)
Impact of exchange rates	43.8	(3)	45.6	(3)
Terrorism and war	23.9	(4)	24.1	(6)
Trade friction	22.8	(5)	28.3	(4)
Strengthening of environmental regulations	22.8	(6)	26.6	(5)
Energy and material prices	18.0	(7)	19.3	(7)
Market competition	17.6	(8)	17.3	(8)
Natural disasters	12.9	(9)	14.2	(9)
Decline in the economic performance of the parent company in Japan	10.3	(10)	11.9	(11)
California's financial crisis	10.3	(11)	13.6	(10)
Other	9.9	—	7.1	—

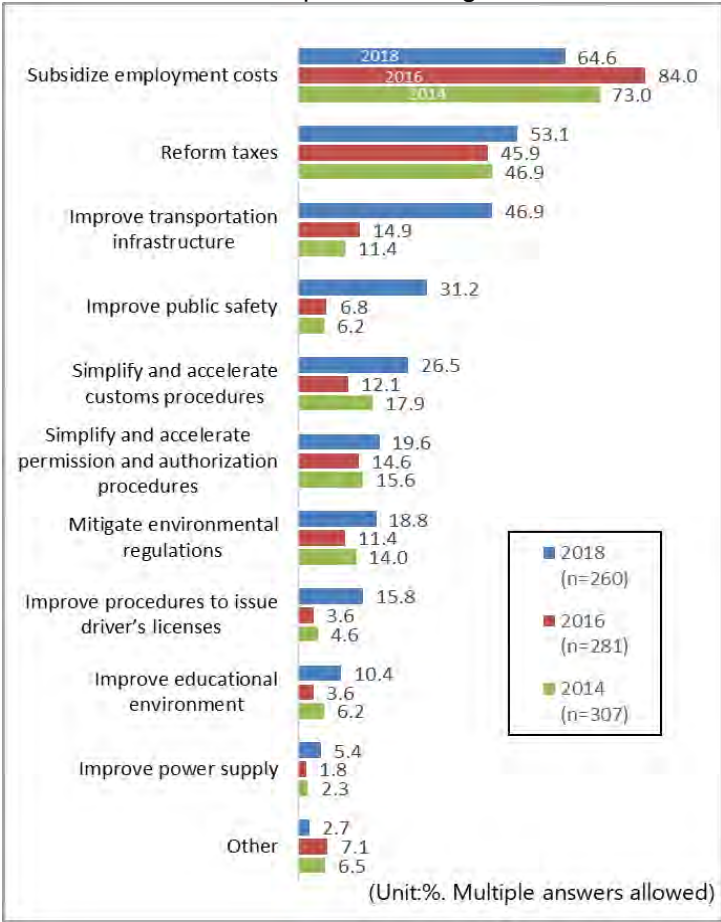
Note: Unit: %. Numbers in parentheses represent the rankings for the respective responses. Multiple answers were allowed.

### IV-3. Requests to the Government

#### (1) Subsidize employment costs ranks first

This questionnaire featured a multiple-answer question about requests to the government to improve the business environment in the Bay Area. As with the previous survey, the top issue/request was subsidize employment costs at 64.6%. This was followed by reform taxes (53.1%), improve transportation infrastructure (46.9%), and improve public safety (31.2%).

Chart IV-7: Requests to the government



Compared to the prior survey, the top-ranking category, subsidize employment costs, which accounted for 64.6% of responses, dropped by a drastic 19.4%, from 84% in the previous survey. In contrast, categories that dramatically increased were improve transportation infrastructure, which rose 32.0% taking third place, and improve public safety, which rose 24.4% for fourth place.

Chart IV-8: Request to the government (Unit: %)

	Total (n=260)	Const- ruction (n=6)	Manuf- acturing (n=71)	Trading (n=28)	Transp- ortation (n=9)	Whole- sale and retail (n=25)	Finance (n=15)	Real estate (n=7)	Service industry (n=94)	Other (n=5)
Subsidize employment costs	64.6	50.0	66.2	57.1	77.8	52.0	66.7	57.1	68.1	80.0
Reform taxes	53.1	83.3	50.7	39.3	44.4	80.0	60.0	42.9	52.1	20.0
Improve transportation infrastructure	46.9	66.7	43.7	32.1	33.3	52.0	66.7	42.9	47.9	80.0
Improve public safety	31.2	16.7	31.0	32.1	22.2	40.0	46.7	28.6	25.5	80.0
Simplify and accelerate customs procedures	26.5	0.0	29.6	57.1	66.7	44.0	6.7	42.9	11.7	0.0
Simplify and accelerate permission and authorization procedures	19.6	16.7	16.9	21.4	0.0	24.0	20.0	14.3	21.3	40.0
Mitigate environmental regulations	18.8	50.0	15.5	17.9	55.6	32.0	26.7	14.3	11.7	20.0
Improve procedures to issue driver's licenses	15.8	0.0	19.7	25.0	33.3	16.0	6.7	14.3	10.6	20.0
Improve educational environment	10.4	0.0	5.6	10.7	0.0	12.0	13.3	0.0	14.9	20.0
Improve power supply	5.4	16.7	9.9	3.6	11.1	8.0	0.0	0.0	2.1	0.0
Other	2.7	0.0	2.8	3.6	0.0	0.0	0.0	0.0	4.3	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%. Multiple answers were allowed.

Broken down by industry, the data indicates that well over 50% of companies in all industries identified employment costs as a crucial issue. The second highest ranking issue was tax reform, with over 50% of companies from construction, manufacturing, wholesale/retail, finance, and service industries identifying the issue.

## (2) Subsidize employment costs ranks first in Southern California as well

More than 60% of companies in Southern California also identified employment costs as the top crucial issue, a comparison of the Bay Area and Southern California survey results revealed. Reform taxes came in second for both regions, but beyond that the rankings differed. Third and fourth place in the Bay Area went to improve transportation infrastructure and improve public safety respectively. On the other hand, in Southern California third and fourth place went to simplify and accelerate customs procedures and simplify and accelerate permission and authorization procedures respectively.



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

	Bay Area		Southern California	
Subsidize employment costs	64.6	(1)	60.9	(1)
Reform taxes	53.1	(2)	56.1	(2)
Improve transportation infrastructure	46.9	(3)	31.6	(5)
Improve public safety	31.2	(4)	24.2	(6)
Simplify and accelerate customs procedures	26.5	(5)	37.0	(3)
Simplify and accelerate permission and authorization procedures	19.6	(6)	31.9	(4)
Mitigate environmental regulations	18.8	(7)	21.5	(7)
Improve procedures to issue driver's licenses	15.8	(8)	12.5	(8)
Improve educational environment	10.4	(9)	11.0	(9)
Improve power supply	5.4	(10)	6.0	(10)
Other	2.7	—	2.7	—

Note: Unit:%. Numbers in parentheses represent the rankings for the respective responses. Multiple answers were allowed.

### (3) Bay Area wages are highest in the United States

While the percentage of responses selecting “subsidize employment costs” as a concern has decreased since the last survey, it is still the top response for both the Bay Area and Southern California. In addition, employment costs are still high for both regions.

Chart IV-10 shows the average annual wages for the top 30 metropolitan divisions and regions based on data published by the U.S. Bureau of Labor Statistics in April, 2018 for 422 divisions in the U.S. (including the Commonwealth of Puerto Rico). Note the four metropolitan divisions located in the central Bay Area are all placed in the top 15.

The San Francisco-Redwood City-South San Francisco metropolitan division had the highest average annual wage in the U.S. at \$77,360. This was closely followed by the San Jose-Sunnyvale-Santa Clara metropolitan division, where over 40% of Japan-based companies are concentrated, at \$77,180 dollars. This was over 6,000 dollars higher than the third-place metropolitan division of California-Lexington Park, MD (\$70,860 dollars).

Furthermore, the San Rafael metropolitan division (located north of San Francisco across the Golden Gate Bridge) placed 11th with \$63,590, while the Oakland-Hayward-Berkeley metropolitan division (located east of San Francisco across the Bay Bridge) placed 14<sup>th</sup> with \$62,810.

The high-wage level in the Bay Area is more apparent when compared with wages in the metropolitan areas in Southern California, where rising employment costs are also a major concern.

In Southern California, the Anaheim-Santa Ana-Irvine metropolitan division had the highest median wage of \$56,620 (ranked 24<sup>th</sup>), approximately \$20,000 less than the median wage of the top-ranking San Francisco-Redwood City-South San Francisco metropolitan division.

Chart IV-10: Median annual wages broken down by metropolitan division/region  
(published in May 2017)

Rank	Metropolitan division/region	Average annual wage (in dollars)
<b>1</b>	<b>San Francisco-Redwood City-South San Francisco, CA Metropolitan Division</b>	<b>77,360</b>
<b>2</b>	<b>San Jose-Sunnyvale-Santa Clara, CA</b>	<b>77,180</b>
3	California-Lexington Park, MD	70,860
4	Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Division	70,170
5	Boston-Cambridge-Newton, MA NECTA Division	69,170
6	Bridgeport-Stamford-Norwalk, CT	67,540
7	Framingham, MA NECTA Division	66,480
8	Seattle-Bellevue-Everett, WA Metropolitan Division	65,350
9	Silver Spring-Frederick-Rockville, MD Metropolitan Division	65,060
10	New York-Jersey City-White Plains, NY-NJ Metropolitan Division	64,400
<b>11</b>	<b>San Rafael, CA Metropolitan Division</b>	<b>63,590</b>
12	Lowell-Billerica-Chelmsford, MA-NH NECTA Division	63,390
13	Trenton, NJ	62,980
<b>14</b>	<b>Oakland-Hayward-Berkeley, CA Metropolitan Division</b>	<b>62,810</b>
15	Boulder, CO	62,650
16	Newark, NJ-PA Metropolitan Division	60,780
17	Hartford-West Hartford-East Hartford, CT	60,040
18	Durham-Chapel Hill, NC	59,340
19	Anchorage, AK	58,980
20	Ithaca, NY	58,020
21	Nassau County-Suffolk County, NY Metropolitan Division	57,840
22	Denver-Aurora-Lakewood, CO	57,400
23	Fairbanks, AK	56,760
<b>24</b>	<b>Anaheim-Santa Ana-Irvine, CA Metropolitan Division</b>	<b>56,620</b>
25	Peabody-Salem-Beverly, MA NECTA Division	56,430
<b>26</b>	<b>San Diego-Carlsbad, CA</b>	<b>56,410</b>
27	Baltimore-Columbia-Towson, MD	56,400
28	Minneapolis-St. Paul-Bloomington, MN-WI	56,030
<b>29</b>	<b>Los Angeles-Long Beach-Glendale, CA Metropolitan Division</b>	<b>55,820</b>
30	Wilmington, DE-MD-NJ Metropolitan Division	55,630

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 show a difference between the average wages in Northern and Southern California. Chart IV-11 shows data the Bureau published in May of this year on the weekly average wages for various counties in California during the fourth quarter of fiscal 2017. The data show Bay Area counties account for the top six spots. 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 \$2,000, a year-over-year increase of at least 7% each. Looking at these statistics, the rapid increase in the Bay Area’s average wages becomes quite clear.

Meanwhile, the average weekly wage for Los Angeles, the highest-paying county in Southern California, is \$1,343 with a year-over-year increase of 6.4%. While this is approximately \$1,200 lower than the \$2,576 for Santa Clara, the highest-paying county in the Bay Area, it is clear that Los Angeles is experiencing a rapid increase in wages as well.

Chart IV-11: Weekly average wages in California broken down by county  
(fourth quarter of fiscal 2017)

County	Weekly wages during the fourth quarter of fiscal 2017 (in dollars)	Year-on-year increase (%)	Ranking for the rate of increase among 343 of the counties of the U.S.
<b>Santa Clara</b>	<b>2,576</b>	<b>8.9</b>	<b>5</b>
<b>San Mateo</b>	<b>2,341</b>	<b>11.5</b>	<b>1</b>
<b>San Francisco</b>	<b>2,232</b>	<b>7.4</b>	<b>7</b>
<b>Alameda</b>	<b>1,457</b>	<b>5.4</b>	<b>22</b>
<b>Marin</b>	<b>1,400</b>	<b>1.8</b>	<b>288</b>
<b>Contra Costa</b>	<b>1,344</b>	<b>4</b>	<b>85</b>
Los Angeles	1,343	6.4	11
Orange	1,234	2.8	188
San Diego	1,221	4.3	67
<b>Sacramento</b>	<b>1,180</b>	<b>4.5</b>	<b>52</b>
<b>Yolo</b>	<b>1,151</b>	<b>3.9</b>	<b>92</b>
<b>Napa</b>	<b>1,119</b>	<b>5.6</b>	<b>17</b>
<b>Solano</b>	<b>1,115</b>	<b>4.1</b>	<b>78</b>
<b>Placer</b>	<b>1,107</b>	<b>3.1</b>	<b>163</b>
Ventura	1,076	3	171
<b>Sonoma</b>	<b>1,070</b>	<b>4.8</b>	<b>38</b>
Santa Barbara	1,066	3.9	92
Santa Cruz	970	4.1	78
<b>Monterey</b>	<b>951</b>	<b>4.5</b>	<b>52</b>
San Luis Obispo	929	4.6	47
<b>San Joaquin</b>	<b>923</b>	<b>3.8</b>	<b>98</b>
<b>Stanislaus</b>	<b>915</b>	<b>3.5</b>	<b>122</b>
San Bernardino	906	2	270
<b>Fresno</b>	<b>888</b>	<b>3.6</b>	<b>117</b>
Riverside	873	4.7	44
Butte	826	4.8	38
<b>Merced</b>	<b>816</b>	<b>1</b>	<b>317</b>
Tulare	812	4.9	35

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 2017

<https://www.bls.gov/news.release/cewqtr.toc.htm>

#### (4) Average wages continue to rise

Bay Area Wages have been soaring, and will likely continue to rise. Chart IV-12 shows changes in the minimum wage in California and major cities in the Bay Area. The graph shows that California's minimum hourly wage increases approximately every other year. It is expected to continue to increase in this manner, eventually reaching \$15 in 2022.

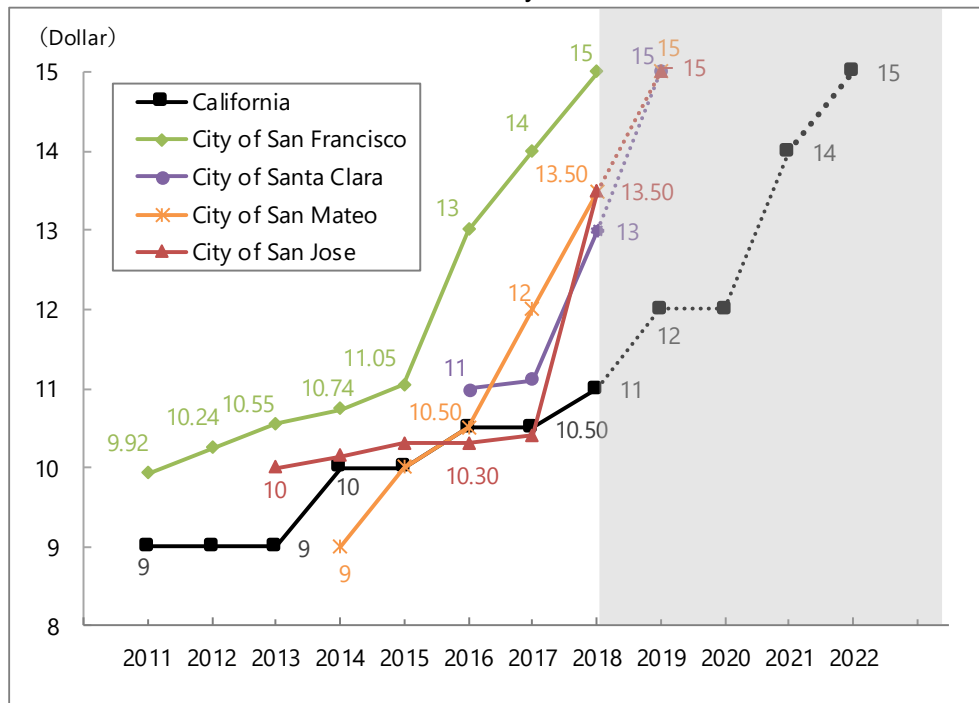
Changes in the minimum hourly wage of four major cities in the Bay Area (Santa Clara, San Jose, San Francisco, and San Mateo) indicated the rate of change and hourly wages in dollars has been increasing even faster than in California as a whole. The minimum hourly wage in San Francisco, for instance, has been increasing every year since 2010, and has risen \$5.21 to the current \$15 per hour wage.

In recent years in Santa Clara, San Jose, and San Mateo, average wages have been increasing

substantially. The average minimum wage in Santa Clara rose \$2 over 2016 to \$13 per hour, while San Jose rose \$3.20 for the same period to \$13.50, and San Mateo rose \$4.50 since 2014 to \$13.50. Measures are already in place for minimum wages to continue to rise in these three cities, with them reaching \$15 in 2019.

In addition, Santa Clara and San Mateo plan to reexamine their minimum wages in 2020, and it is very likely they will continue to increase it to align with the consumer price index.

Chart IV - 12 : Changes in the minimum hourly wage in California and major cities in the Bay Area



Note: Minimum wage on Jan. 1 each year. The minimum wage of City of San Francisco in 2015 is the one on May 1, 2015. The wages from 2016 - 2018 in City of San Francisco is the ones on July 1 in those years.

Source: State of California, California Department of Industrial Relations, City of Santa Clara, City of San Jose, City of San Francisco, City of San Jose.

### (5) High costs pose difficulties for Japan-based companies

Increasingly high employment costs in the Bay Area impose a burden on the business operations of Japan-based companies. This is clearly reflected by the views expressed in the open-ended comments section of the questionnaire, such as:

- “Employment costs are so high that it is difficult to secure profits.”
- “Employment costs are putting pressure on management.”
- “Because employment conditions and benefits at local companies are so good, it is difficult for us to acquire and secure talented people.”

- “Paying high wages doesn't necessarily deliver the results we expect.”

For companies that are allocated an operational budget by their head offices in Japan, comments such as this were received:

- “The salary levels are so high that it is difficult to get the head office to understand.”

From companies in the service or manufacturing industry:

- “We need to be very cautious in making new investments.”
- “Even though it is difficult to secure profits, we have to promote automation by introducing machinery to reduce employment costs.”

Many 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:

- “We are shrinking our operations in the Bay Area and expanding our operations in other states.”
- “We are considering relocating to other states.”
- “Because of cost issues, we are having to send people on business trips without an accompanying expatriate.”

## **(6) Rising concerns over traffic jams and public safety.**

In the open-ended comments section of this year’s survey, we received many comments regarding the improvement of transportation infrastructure and public safety, including:

- “The entire Bay Area is chronically congested with traffic and is getting worse.”
- “I cannot predict the time taken to get somewhere because of traffic jams.”
- “Transportation costs are rising due to traffic congestion.”
- “The frequency of traffic accidents is increasing.”
- “There aren’t enough parking spaces.”

And in regards to safety concerns:

- “The number of homeless people is increasing.”
- “Safety and security are getting worse.”

The rising concerns among Japan-based companies is thought to be attributed to the ever-increasing costs of real estate and commodities in the Bay Area. In addition, in recent years more people have been moving to the outer suburbs where costs are lower. However, the tradeoff is the rise in people commuting into the city, which has led to worsening traffic on the highways and lack of parking.

In regards to public safety concerns, because of rising housing and living costs, the number of homeless people living in the city and wandering the streets has been steadily increasing. This has led to many respondents feeling uneasy and unsafe in public.

In addition to these concerns, many companies also expressed requests aimed at the government, including many issues related to visas and driver’s licenses.

- “It is difficult to obtain a working visa. I would like Japanese companies to evaluate their contribution to the local economy and issue more work visas.”
- “I would like to see a relaxation of the strict visa-issuance policy for startups.”
- “Expatriates with a work visa frequently need to renew their driver's license. I would like to see the expiration date extended.”
- “The DMV is often incompetent, so updating one’s driver's license often fails as planned, and this causes business troubles as a result.”

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