Industry Monitor

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High-tech Sector

How do the Manufacturers View the Outlook for 2002?

A recent survey by a leading industry publication showed that most manufacturers expect demand in 2002 to weaken and total sales to decline as a result. They also expect major structural changes to occur in the industry, as it becomes more global. To address these changes, manufacturers plan to: (1) consolidate and cut production at home while increasing overseas output, (2) install IT systems to streamline operations, (3) become more focused. On the outlook for demand, 40% felt that demand would increase by less than 10%, with only two firms expecting demand growth of more than 20%. A majority felt that an exchange rate of ¥110-¥120/$ would be ideal for running their businesses profitably, but many felt that the yen would be at the ¥120-¥130 level in the second half. A majority also replied that the ratio of exports to total sales will edge up in 2002. As companies focus on earnings, one-third expect to see current income rising by over 20%, on a sales gain of 10%-20%.

Outlook for Orders (electronic components)

A majority of electronic component manufacturers expect orders to head for recovery from the second half of the year, led by those for PCS, PC peripherals and cell phones. Some domestic manufacturers are already reporting signs of recovery in orders from major U. S. and European manufacturers of cell phones. Electronic components manufacturers cite completion of extended inventory adjustment in both finished products and components to explain the recovery. What's more, many manufacturers do not see this as a temporary recovery. Although a full-blown recovery is still sometime away, orders for components going into game machines, automobiles, personal computers and PC peripherals are definitely on the upswing. Most suppliers expect, overall orders to start recovering from next fall. SMK reports that PC-related orders were up 8% last year and the pace continues in January.

Nippon Densan also reports that orders for components for notebook PCs, game machines and optical devices are strong, with consolidated sales at record high levels in October and November. Orders for TCXO are close to record high levels at Kyocera.

Outlook by Sector

White Goods

BS digital television will hold the key to recovery in the audio visual and white goods sector. BS digital receiver shipments are expected to reach some two million units, with PDP and LCD televisions leading the growth. At the same time we will see strong demand for DVDs, HDDs and DV-VHS devices. The demand for digital cameras is also expected to show strong growth, reaching 20 million units globally, as new services integrating the device with the Internet are launched.

Telecommunications and Broadcasting

The new year will bring a full scale launch of the third-generation cell phone (IMT-2000). In Japan the cell phone market, after rising quickly to around 72 million subscribers, seems to be saturated. But we could see a demand revival as major service providers like KDDI and J-Phone launch 3-G services, following NTT Docomo and existing service areas are expanded nationwide. In the broadband area, subscriber growth is expected to continue unabated, driven by strong demand for cable Internet and ADSL services. In broadcasting, television networks will be busy getting ready for launching digital terrestrial broadcasting services in 2003.

Personal Computers and Servers

Personal computer shipments in 2002 are expected to increase 4.7% to 11.1 million units, according to JEITA, the industry's trade body. While the demand from the corporate sector is likely to be somewhat sluggish, Japan's e-Japan program, combined with the popularization of e-commerce, should underpin overall demand. At the consumer level, households are expected to be buying their second or even third PCs. The industry trade body predicts shipments of computers and computer peripherals to increase 1.7% to ¥5.7 trillion

Demand for servers should remain strong in the new year, but main frame demand is likely to decline marginally. In the high-end area, UNIX and IA servers will expand their market share, with domestic shipments increasing 20% year-on-year.

Information Processing

JISA, the information processing industry's trade association, sees demand in 2002 rising 5.0% to ¥10.2 trillion. Growth is likely to slow as the cost of custom software development comes down.

Factory Automation

Overall demand is likely to stay sluggish as Japanese manufacturers cut capacity at home and shift production offshore. The industry does not expect recovery anytime soon. Particularly affected will be semiconductor manufacturing equipment, electronic component mounting devices and machine tools.

Electronic Materials

Electronic materials sales in 2002 are expected to increase only about 2%, after falling 27% in 2001. But stronger growth is expected for lead frame materials (8%) and pseudo-electric ceramics (12%). Demand for rare-earth magnets is expected to increase some 4%.

Electronic Measuring Instruments

According to the Japan Electronic Measuring Instruments Association, global demand for electronic measuring instruments is expected to rise 5.9% to ¥1.4 trillion. Domestic demand should, however, show stronger growth, increasing 9.0% to ¥334 billion. RF measuring instruments for 2.5G and 3G cell phones, LAN networks etc. will underpin demand growth. But demand for measuring instruments for the semicondcutor industry is likely to continue to decline, the association said. Asia, excluding Japan, will account for 22.3% of total demand, indicating a shift of production from Japan. Demand for spectrum analyzers is expected to increase 25% and that for signal generators and oscillators by about 50%. On the other hand, IC-related tester demand is likely to plunge 33%, and that for logic IC testers will be down about 25%. Demand for memory IC testers will fall by approximately 12%.

Sharp Projects Strong Demand Revival for Electronic Components

According to Sharp, domestic demand in 2002 for ICs should rise 4% year on year, with global demand growing by 5%. The company expects domestic demand for electronic components to surge 16% and the global demand to increase 12%. Demand for LCDs according to the company, will rise an estimated 11.1% in the home market, and by a marginally higher 11.4% globally.

Japanese Electronic Equipment Manufacturers Stepping Up Production in China

In a bid to stay competitive, Japanese electronic equipment and component manufacturers in 2002 are expected to increase production overseas (particularly in China) and form more alliances with local firms in that country, according to a recent survey by a leading electronics daily. China was the first choice for expanding overseas production for 75% of the firms polled. Japanese electronic measuring instruments manufacturers also see China as the only potentially lucrative market for the next few years and they are stepping up manufacturing and marketing in that country.

General Economy

Gloomy Picture Painted for Japan's Economy

A recent medium-term forecast for Japan's economy by Nikkei NEEDS, a think tank, hollowing out of the nation's industry poses the most serious problem for the economy. It has forecast three scenarios, depending on the extent of hollowing out. In the best-case scenario, by 2010 the weight of imports will rise by two percentage points to 14.8% and unemployment will increase only marginally. In case B, where, the hollowing out effect will be more pronounced, the unemployment rate will rise to 7.5%. In case C, that is if hollowing out is widespread, unemployment will shoot up to 17.0% and real GDP will decline at an annual rate of 0.3%.

Government Panel Projects Resumption of Stable Growth from FY2004

The council on fiscal and economic policy, an advisory body to the government, forecast a real GDP growth rate of 1.5%-1.6% starting in FY2004, assuming that structural reforms and bad-debt write-offs progress as planned. It does not expect the economy to show any growth in FY2002. With deflationary pressures easing and private sector demand recovering, the real GDP growth rate should be around 0.6% in FY2003, according to the council's forecast.

Basic Electronics Industry Statistics

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
April	118.5	121.0	122.0	83.1	2,261	2,202	18,136	1,503	8,552	8,081
May	118.1	121.9	126.2	82.2	2,007	2,180	18,217	1,623	8,877	7,717
June	112.9	118.2	122.4	88.9	2,150	2,407	18,758	1,718	9.334	7,706
July	106.8	110.7	118.0	83.1	2,044	2,353	17,229	1,707	8,085	7,436
Aug	104.2	109.1	116.6	67.0	1,898	1,588	15,348	1,460	7,445	4,174
Sept.	100.8	107.6	107.2	71.1	2,674	1,582	17,918	1,648	9,491	6,779
Oct	99.2	103.2	102.9	68.8			15,311	1,847	6,803	6,661
YoY	-30.2	-28.6	-5.4	-32.5	-10.4	-10.9	-31.4	-11.7	-30.1	-36.6

Base year 1995 = 100; 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations