



**Dec. 15, 2002**

**Vol . 51**

## *High-tech Sector*

### *IP Telephony Could Catch On*

Tokyo Gas plans to change all its telephone lines for internal corporate use to IP telephones. Doing so, the company says will cut its annual one billion yen in communications charges by roughly 50%. Tokyo Gas is the first major Japanese company planning to move completely to IP telephones. If the trend spreads, which is most likely, it could affect NTT's revenues.

### *Japan's VoIP Market Poised for Rapid Growth*

Japan's Internet communications market is expected to grow from an estimated ¥80 billion in 2002 to ¥160 billion in 2006, according to IDC Japan, a high-tech research firm. The report also forecasts that the VoIP service will become one of the mainline services as deregulation progresses and broadband networks spread. However, it will be a while before VoIP starts affecting conventional telephone service since no clear business model has yet been established.

### *Telecommunications Equipment Production Slipping in Japan*

Production of telecommunications equipment may slip below the four trillion yen mark in 2002. The decline is blamed largely on sluggish infrastructure investment by telecom carriers. Although capital investment in some areas such as broadband is relatively strong, investment in backbone networks, such as optical fiber networks, is weak. Moreover, the mobile phone market is also losing momentum. Development of the 3G phone, IP phones, wireless LAN and other new technologies will dictate, what areas will lead recovery.



### ***Industrial Electronics to Look Up After Next Fiscal Year***

Domestic demand for industrial electronic machinery in fiscal 2002 is expected to decline 8.1% year-on-year and aggregate demand (including exports) is likely to fall 8.6%, according to a JEITA (the industry's trade body) forecast. However, demand should recover, increasing 2.2% at home and 2.0% overall, according to the report. Demand will grow at an annual average rate of 3.4% and 2.7% between fiscal years 2002 and 2005, according to JEITA. Factors driving demand will include, start-up of digital TV broadcasting, launch of IMT2000 mobile phone service, spread of broadband networks, the e-Japan program and the launch of the ETS system.

### ***Japanese Consumer Electric Equipment Manufacturers Narrowing Focus***

Sanyo Electric will withdraw from 10 home electric appliances in order to better focus its management resources. The company plans to pull out of appliances in which it has less than 10% market share.

### ***Japanese Semiconductor Manufacturers Slip in Ranking***

No Japanese semiconductor manufacturer ranked among the top three in the world in 2002. Intel clinched the top spot and was followed by Samsung (moved up from the 4<sup>th</sup> spot last year) and ST Microelectronics. Toshiba, which ranked third last year, fell to the fifth spot. NEC came in seventh and Hitachi tenth.

### ***Toshiba to Increase Semiconductor Investment***

Toshiba plans to invest ¥35 billion over the next four years in semiconductor production facilities. The company will build 300-mm wafer lines at its Oita and Yokkaichi plants. The move aims at keeping Toshiba competitive in the global semiconductor market.

### ***Production of Electronic Materials Rises in October***

Production of electronic materials, seen as a leading indicator, in October rose 12% year-on-year to ¥26.5 billion, according to figures released by the sector's trade association. Production of metallic materials, permanent magnets, semiconductor ceramics, and piezo-electric ceramics rose in October.

### ***Canon Reports Strong DVC Sales***

Canon said that sales of its digital video cameras were strong in all the three major markets --Japan, the U. S. and Europe. Sales in 2002 are likely to reach 1.2 million units, exceeding the previous estimate by some 20,000 units. The company estimates demand for digital video cameras at 6.4 million units in fiscal 2002. Canon has captured a 30% share of the North American market.

### ***Korean PCB Exports Rising***

Exports of printed circuit boards from S. Korea in the Jan-Oct period were up 10% year-on-year to \$598 million. Demand for PCBs for mobile phones is propelling exports. Exports in 2002 are estimated at \$732 million, up 19.2%. The momentum is expected to continue through 2003.



### *Printer Sales Slow*

Printer sales in Japan fell 10.5% year-on-year in the third quarter to 1.33 million units. The value of shipments was down 13.1% to ¥75.8 billion. However, sales of color page printers, after slowing in the second quarter, were up again in the third quarter. Sales fell in all other printer categories.

### *Japan's Music Software Market Shrinks*

Japan's music software market is expected to decline by 10% in 2002 to some ¥450 billion. This will be the fourth consecutive decline and push back the aggregate market to the 1991 level. Illegal copying is to blame, according to the industry's trade body.

### *Earnings Roundup*

#### *D3 Publisher Expected to Report Sharply Higher Profit*

D3 Publisher's forecasts for the fiscal year to October 2003 envision a 22% increase in ordinary income to ¥420 million. Sales will be driven by popularly-prized PS2 game software, which is likely to increase shipments by 2.4 times. Consolidated net sales are likely to increase 33% to ¥4.2 billion.

### *ACCESS Falls into the Red*

ACCESS reported a net consolidated loss of ¥1.4 billion for the February-October period. A sluggish mobile phone market combined with weak overseas sales affected earnings.

### *Cybozu Reports Sharply Lower Profit*

Cybozu's consolidated ordinary income for the Feb-Oct period declined 23% year-on-year to ¥460 million. Sales, affected by weak shipments of groupware in the consumer market and software for the corporate sector, fell 21% to ¥1.6 billion. The operating profit margin slipped by 2.8 percentage points to 28.9%. Net profit was down 33% to ¥210 million, due in part to extraordinary losses on removal of fixed assets.

### *General Economy*

#### *Number of Employees Losing Jobs Outnumber Those Finding Employment*

The number of employees losing their jobs in the first six months the year totaled 3.84 million. On the other hand, only 3.63 million found new jobs. This is the first time since 1994 that job losers outnumbered new job finders in the first half of the year. Job losses, at 114,000, were the highest in the construction industry, followed by manufacturing, wholesaling and retailing. Although job offers are increasing, any slowdown in the economy will affect the employment picture.

### *Bankruptcies Down in November*

The number of bankruptcies in the electrical machinery sector totaled 42, a decline of 17.6%. Of the total 58.1% of the firms going belly-up left less than ¥100 million in liabilities. One listed firm was among those going bankrupt. A total of 29 publicly traded firms have gone bankrupt in 2002.



### **Govt. to Aim at 0.5% Real GDP Growth in FY2003**

The number of bankruptcies in November declined by 22.6% compared with the same month a year earlier to 1,432. This is the first time in five months that the number has dipped below the 1,500 line. However, bankruptcies attributed to the current recession accounted for 78.6% of the total, the worst ever ratio. The number of bankruptcies in the first eleven months of the year totaled 17,901. Teikoku Data Bank, the credit research agency which released the bankruptcy figures, cautions that more companies are on the brink of getting into financial trouble and that the number of bankruptcies in 2002 is likely to be around 19,500.

### **Basic Electronics Industry Statistics**

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
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	2,037	1,683	15,311	1,847	6,803	6,661
Nov	98.5	104.0	98.4	69.7	2,026	1,624	15,443	1,695	7,233	6,515
Dec.	101.6	105.6	95.8	66.3	2,010	1,601	15,310	1,411	7,488	6,411
Jan.	100.0	106.3	92.3	65.0	1,920	1,358	13,562	1,093	6,342	6,127
Feb.	101.4	106.9	90.8	77.0	2,123	1,736	14,969	1,365	7,184	6,421
Mar.	104.8	110.3	85.6	91.7	3,009	1,887	19,197	1,582	10,386	7,228
Apr.	108.7	114.4	84.2	77.2	1,849	1,797	14,411	1,470	5,760	7,182
May	117.2	123.2	87.9	80.9	1,818	1,872	15,451	1,649	6,324	7,478
June	115.4	121.2	85.8	86.2	1,875	2,078	16,176	1,691	6,881	7,604
July	113.7	118.0	90.8	86.3	2,015	2,060	16,056	1,775	6,285	7,997
Aug	117.1	123.5	89.9	72.6	1,841	1,297	14,736	1,482	5,937	7,318
Sept.	116.2	120.9	93.9	84.9	2,465	1,555	17,659	1,762	8,117	7,780
Oct.										
YoY	15.5	12.6	-12.3	18.4	-8.4	-0.7	-1.8	7.1	-10.9	17.9

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

