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## *High-tech Sector*

### *DSL Subscribers Top Five Million*

The number of subscribers to DSL lines in November increased 10% from the previous month to top 5 million, according to government statistics. Subscriber growth has been strong since September 2001. Now, DSL lines account for nearly 70% of all broadband lines in Japan. The Softbank Group had the largest market share (26%), followed by NTT East, with a market share of 22%.

### *Growth in Mobile Phone Subscription Lowest in November*

Net subscriber growth for mobile telephones declined to a record low of 363,800 in November. Subscriber growth has been slowing since August when the new subscriber numbers fell below the 400,000 mark. With the penetration rate reaching 57% not much in terms of net growth is expected. However, new models, such as phones with cameras are selling well, as users replace their old phones with ones offering new features.

### *NEC Launches IP Telephone Field Tests*

NEC started offering an IP telephone service to the subscribers of its Internet provider service "Big Globe." The service is limited to 10,000 individuals subscribing to the ADSL service.

### *Government to Allow Established Broadcasters to Take More Stake in BS Stations*

The government said on the 9<sup>th</sup> that it will allow established broadcasters to acquire up to a 50% stake in BS. Now established broadcasters can acquire only one-third equity interest in BS stations.

### *CCD Production Jumps*

Production of CCDs is rising sharply, fueled by demand for use in digital cameras, mobile phones and auto electronics. Sony is the largest producer with a global market share estimated at 50%-60%. Other major producers include Sharp, Matsushita, Sanyo and Fuji Film. All are planning to aggressively add capacity.



***Price of CCDs for Digital Cameras on the Downturn***

The price of CCDs used in digital cameras is declining sharply despite growing demand and a limited number of suppliers. The price of a 1/1.8 inch, 3m, DSC fell from about ¥2,500 at the beginning of the year to roughly ¥2,100 in December. This is attributed to growing supplies and declining prices of digital cameras as competition heats up.

***e-Japan Enters Phase 2***

According to estimates by Fujitsu, a major IT firm, the e-Japan program will result in public demand in the IT sector of about ¥1. 5 trillion from 2001 through 2003. Private-sector IT demand will get a ¥3.5 trillion boost during the same period. Among the areas that will benefit significantly will be regional medical networks, e-learning and SOHO human resources development.

***Shift of Focus Finally Starts to Pay Off***

Japanese semiconductor manufacturers seem to be finally starting to benefit from a change in the strategy that shifted focus from DRAMs to system LSIs. System on chip for digital home electronics, including digital cameras, video game machines and DVD, seems to be emerging as a core product for Japanese semiconductor manufacturers.

***Toshiba-Sony Develop LSI With one-fourth the Area of Conventional LSIs***

Toshiba and Sony working jointly have established the basic technology for the 65 nano-meter design rule. This will effectively reduce the chip size to one-fourth that of comparable existing chips, the companies claimed. This will give the Japanese firms a year's technological lead compared over market leaders like Intel. Mass production is expected to start in 2004.

***Asia to Represent 60% of Global Semiconductor Investment***

According to a survey by a leading industry daily, investment in wafer processing facilities after 2003 will be in Asia. Of the 31 major projects planned 16 will be in China. This is also an indication that semiconductor production in Asia is shifting from Japan to other Asian countries.

***IT Service Sales to Grow at Slower Pace in FY2002***

IT service sales in the current fiscal year to March 2003 are expected to grow by 4.5% year-on-year, according to the Japan Information Service Industry Association. The growth rate will be only half that of the previous fiscal year. Orders for software development that accounts for roughly half of total sales have been running below previous year levels. Orders from the banking and the securities industries have slowed although demand from the manufacturing, telecommunications and public sectors is strong.



### **Orders Up Strongly for Power ICs**

Seiko Instruments reports that orders for power ICs for mobile phones are running about 50% ahead of last year and exceeding 100 million units pr month, a level higher than the previous peak recorded in 2000.

### **November Machine Tool Orders Up**

Orders for machine tools in November rose 25.6% from the same month a year earlier to ¥61.1 billion, according to the Japan Machine Tool Manufacturers Association. Orders topped the ¥60 billion mark for the first time since September 2001. Domestic orders were up 29% to ¥33.5 billion, with export orders rising 20.9%.

### **Machinery Orders Down in November**

Machinery orders (excluding electric power and ships) in November fell 4.1% year-on-year, the first drop in two months. Orders were affected by weak demand from the telecommunications and financial sectors. Orders from the telecommunications sector were down 28.5% and those from the financial sector fell 13.7%.

### **Earnings Roundup**

#### **Companies with Focus Report Earnings Growth**

Companies that focus on a particular niche and develop a competitive advantage are reporting solid earnings growth despite the generally lackluster earnings picture. Canon is focusing on color printers, Olympus on endoscopes, Ricoh on copying machines and Nikon on steppers. The same holds true in the consumer electronics field. Here Sharp, leveraging its strength in liquid crystal displays, has established a strong position in LCD televisions, an area experiencing explosive growth.

### **Manufacturing Sector Sees Strong Profit Growth**

Interim consolidated ordinary income of listed firms rose 41% year-on-year. The gains come from cost savings, such as payroll cutbacks and favorable exports which benefited the automobile and the electrical machinery sectors. The manufacturing sector is expected to continue to drive profit growth in the second half.

### **Video Rental Firms Report Strong Profit**

All three publicly-listed video rental firms are projecting strong profit growth. CCC expects to see consolidated ordinary income in the current term increase 20%. Geo is likely to see its ordinary income double from the previous fiscal year and Rentrack is projecting a 23% gain in ordinary income.



**General Economy*****Japanese Increasingly Concerned  
About Job Security***

One in four persons working in the private sector are concerned about possible loss of job, according to a recent survey. As many as 25% said they might lose their jobs in the next 12 months. The figure is up by 4 percentage points from a similar survey in April. The concern was the highest in the construction industry where 39% feared loss of job. As many as 65% said it would be extremely difficult to find another job. Nearly half said their annual income had declined from the previous year. Asked about measures they were taking to prepare for a possible loss of job, 46% said they were cutting back on household expenses.

***More Deregulation in  
Temporary Help Services***

The government plans to lift the ban on the supply of temporary workers for production lines. At the same time, the maximum contract period for temporary workers for sales and marketing jobs will be extended from one year to three years. Rules on temporary placements, with the option of switching to regular employee status, are also to be eased. The measures aim at eliminating the serious mismatch between available jobs and human resources. The number of temporary workers in Japan is growing at annual rates exceeding 20%.

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

The will probably set its FY2003 GDP growth target at 0.5%. The government feels that it can secure positive growth despite deflationary pressures and a weak U. S. economy. Government initiatives to spur the economy will help realize positive growth.



**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
Aug	116.2	120.9	93.9	84.9	2,465	1,555				
YoY	15.5	12.6	-12.3	18.4	-8.4	-0.7	-4.0	1.8	-15.0	16.8

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

