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High-tech Sector

***Japanese Companies
Boosting Digital Still Camera
Output***

Reflecting a strong and growing global demand for DSCs, Japanese manufacturers are increasing production not only in Japan but also in their overseas production plants in South East Asia. Japanese manufacturers expect the DSC demand to increase from an estimated 25.5 million units in fiscal 2002 to about 32 million units in fiscal 2003. The U. S. will represent the largest market, with demand estimated at 10 million units, followed by Japan where demand is projected at some 7.5 million units.

***China's Electronics Market Set for
Solid Growth in 2003***

China's telecommunications carriers are expected to resume investment in 2003 now that reorganization of the sector is largely complete. Here, investment in optical transmission systems is expected to increase 40% YoY to some ¥315 billion. The picture is also bright for mobile phones, where demand is expected to increase 15% to 60 million units. China will be the largest mobile phone market in 2003, accounting for 40% of the global demand. The demand for notebook PCs is also expected to increase 40% to 450,000 units. Color television demand in 2003 is projected at 35 million units.

***Government Panel Sees the TV
Set as a Multi-media Terminal***

A government advisory panel came up with a medium-term IT strategy. The recommendation calls for a change of focus from building infrastructure to promoting the use of IT at the corporate and the individual level. It recommended that technology be developed to convert the television set into a multi-media terminal. The panel also recommended that the IPV6 standard be promoted to enable all consumer electric items to be linked to the Internet.

***Measuring Instruments Sector
Set for Recovery***

In a recent survey by a leading Japanese industrial daily, 85% of the measuring instrument manufacturers polled expect demand to grow, with 30% expecting a double digit growth. A majority (65%), however, see demand rising by a single-digit figure. Growth is expected to come from the automobile, 3G communications, energy and digital home electronics sectors. On the outlook for profit, nearly 40% of the firms polled expect operating income to rise by a double-digit figure. Nearly half think that profit growth will be slower and limited to a single digit.



Tax Credits for IT Investment

The government, in its tax reform plan for fiscal 2003, plans to introduce a special deduction for spending on IT for a limited three-year period. It will translate into a ¥600 billion tax-cut and is likely to boost spending on IT devices and systems. An amount equivalent to 10% of IT spending will qualify for tax credits (or 50% extraordinary depreciation). Tax credits will apply to personal computers, servers, and printers, in addition to routers, digital copiers, Internet telephones, and even to intangible assets like software.

2002 IT Sector Leaders

Sony ranked at the top in terms of market shares for both desktop and notebook PCs. Microsoft was the dominant player in software, including operating systems and application software, with shares exceeding 75%. MELCO was the clear leader in peripherals and LAN network devices. Seiko Epson came out on the top in printers.

Earnings Roundup

Nitto Denko Set for Solid Profit Growth

Nitto Denko in the current fiscal year to March 2003 is likely to post a 66% year-on-year gain in consolidated operating income to ¥32,000 million, surpassing its original forecast of ¥30,000 million. Consolidated net sales are also likely to increase 11% to ¥376,000 million, topping the initial forecast by ¥6,000 million. Sales are getting a boost from a growing demand for optical films for use in LCD panels. The company will also benefit from reduced payroll and foreign exchange gains.

Yahoo Reports Sharply Higher 3Q Profit

Yahoo said that its third quarter ordinary income rose 2.3 times year-on-year to ¥6.78 billion, a record high for any quarter. The stellar performance is attributed to higher network ad revenue, up some 14%. It is the first time in two years that ad revenues were up by a double-digit figure. Sales and profit also got a strong boost from the rising number of ADSL subscribers. Monthly page views rose sharply topping 10 billion.

General Economy

Corporate Bankruptcies in 2002

Bankruptcies in 2002 at 19,087 were marginally lower (dropped 0.4%), according to Tokyo Shoko Research, a major credit research firm. The failed firms left ¥13.7 trillion in unpaid bills, a figure 16.5% lower than the previous year. Bankruptcies were concentrated in the first half. Bankruptcies between September and December declined 10.7% as companies refrained from issuing notes and opted for liquidating their businesses. The number of such firms is estimated at four times the number going bankrupt.



Office Vacancies Up Sharply

Office building vacancy rates in the 23 central wards of Tokyo as of the end of December was 6.1%, up 1.8 percentage points from the previous year. The vacancy rate in the four inner wards rose 3.3 percentage points from a year ago to 7.3%, the highest level in seven years and eight months. Reflecting the office-space glut, rents fell 3.4% last year. The rates are now at only 45% of the peak recorded in January 1999.

New BOJ Index Confirms Deflationary Trend

The Bank of Japan has created the corporate goods price index (CGPI). It replaces the wholesale price index. The 2002 CGPI for 2002 stood at 95.8, against 100 for the base year (2000). The revised index places greater emphasis on electric appliance prices. The average CGPI for 2002 for electrical appliances was down 7.8%. Higher weighting of electrical appliances dragged down the composite index. The processed food index was off 0.4% and the index for chemical products fell 2.4%. The index for oil and oil products was up 5%. The preliminary CGPI for December was down 1.2% from the same month a year earlier. The new index provides a better picture of price trends, the central bank claims.

Basic Electronics Industry Statistics

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
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.	117.3	125.6	93.5	80.6	1,942	1,577	16,161	2,030	6,169	7,962
Nov.	112.7	120.0	89.5							
YoY	14.4	15.4	-9.0	17.2	-4.6	-6.4	9.1	10.2	-5.1	22.9

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

