



Feb. 23, 2003

Vol . 60

High-tech Sector

NTT East and West to Launch Wide-area Data Communication Service

NTT East and NTT West are planning to start data communication services countrywide in Japan. So far they had been limited to data communication services within single prefectures. This will mean more competition for new common carriers that specialize in long-distance data communications service. This will also open up the opportunity for starting an IP telephone service, which they now offer only within a prefecture. Plans call for extending the services nationwide by the end of 2003.

Intel to Acquire an Equity Stake in Elpida

Intel will invest ¥36 billion in the capital of Elpida Memory, a joint venture semiconductor manufacturer set up by Hitachi and NEC. It is also the only surviving DRAM manufacturer in Japan. The company wants to raise ¥80 billion for capital investment. It will also enter into a technology tie-up with Intel. This is also the first time for a Japanese semiconductor manufacturer to accept investment in capital from a foreign firm.

Security Services Market Set to Show Solid Growth

The security services market in Japan is expected to grow 18 times, compared to the 2001 level, to ¥780 billion by 2007, according to a forecast by Fuji Kimera, a high-tech research firm. In related areas, demand for security SI (security system design and installation) services is likely to rise from ¥15 billion in 2001 to ¥53 billion in 2007. Demand for security-related products, including FWs, and anti-virus software, is likely to increase from ¥92 billion to ¥210 billion during the same period.

IT Management Services Market to Expand Rapidly

The IT management services market is likely to increase at annual rates of 11% to 14% up to 2006 when the market size will have reached ¥2.9 trillion, up from ¥1.8 trillion in 2002. IT management services include help desk management, application management and operation services. With IT systems becoming more complex, a growing number of businesses are outsourcing these services.



Indian Software Exports Brisk

Indian software exports in the 2002 April-December period rose 28% year-on-year to ¥918 billion, according to NASSCOM, the Indian software industry's trade association, despite sluggish investment in IT in its major overseas markets. India expects a shortage of some 200,000 software engineers by 2008. English language skills, combined with technical skills, are increasing demand for software services from India.

China's Software Market Expanding

China's software market in 2001 was ¥1.2 trillion, according to estimates by Daiwa Securities Research Institute. Japan's major companies, including NEC, are also increasing outsourcing software development to China to slash development costs. Software development in China is believed to be 20-30% cheaper than in Japan.

Govt. to Launch the FOCUS 21 Project to Strengthen Japan's Competitiveness

The Japanese government will launch the FOCUS21 project, a program designed to promote the development of strategic technologies to boost Japan's competitiveness. The ¥13 billion R&D program will focus on five key areas: next-generation semiconductor materials, EUV systems, semiconductor application chips, advanced LSI designs, and semiconductor nano materials.

Earnings Roundup

Pioneer to Report Sharply Higher Operating Income

Pioneer is expected to see its consolidated operating income in the next fiscal year to March 2004 rise 32% to ¥45 billion from the current fiscal year estimates. The company is benefiting from a favorable home electronics division and strong demand for car navigation systems. Sales in the next fiscal year are likely to be up 11% to ¥800 billion.

Konami Computer Entertainment Tokyo to See a 2.3-fold Jump in Ordinary Income

Konami Computer Entertainment Tokyo is expected to report a 2.3-fold increase in non-consolidated ordinary income to ¥4.3 billion, a figure ¥3.05 billion higher than the previous forecast. Sales are likely to top the previous forecast by ¥2.3 billion or 64%, reaching ¥13.3 billion. The company plans to raise dividends to ¥85.5 per common share, up from last year's ¥32.5.

Profit Rebounding at Matsushita – Can the Recovery be Sustained?

Matsushita Electric Industrial Co.'s consolidated operating income in the current fiscal year to March 2003 is expected to rebound reaching ¥120 billion. The figure is ¥20 billion higher than the previous forecast. Sales are likely to be up 6% to ¥7.3 trillion. However, a part of the gains come from new subsidiaries included in the consolidation. On the other hand, net income before income taxes is forecast at ¥96 billion, a ¥9 billion shortfall from earlier estimates. Net profit is estimated at ¥25 billion, a shortfall of ¥12 billion from the original estimate. With a part of the growth coming from an expanded scope of consolidation, we must wait to see if growth is sustainable.



General Economy

Industrial Machinery Orders Likely to Rise for the First Time in Three Years

Orders for industrial machinery in fiscal 2003, the year ending March 2003, are likely to rise 4.9% year-on-year to ¥4.3 trillion, according to Japan Industrial Machinery Association. The first gain in three years is attributed to strong demand from the Asian region that is likely to offset sluggish demand in the home market. Demand in Japan is likely to increase only 0.8% to ¥2.8 trillion. Overseas demand for Japanese industrial machinery is likely to be up 13.9% to ¥1.4 trillion. Orders for boilers and power generation equipment are likely to rise 5.1% and those for chemical machinery will probably be up 7.8%

Japan's Economy to Stay Sluggish in 2003

Japan's GDP is expected to grow only 0.1% in 2003, according to forecasts by Nomura Research Institute, a major Japanese think-tank. Daiwa Securities Research Institute sees a GDP growth rate of 0.5%. Both expect the economy to be driven by rising exports of electrical machinery. The research firms warned that the growth rate might turn negative in the event of a long drawn-out war with Iraq.

Honda Rated Top Firm in a PRISM Survey

In a PRISM survey designed to evaluate business corporations using multiple parameters, Honda was ranked No. 1 among Japanese companies. Canon came in second and was followed by Kao in the third spot. Nissan moved up from 16th place in 2001 to fourth place. The top 10 also included Takeda, Eisai, Sharp, Fast Retailing, Toyota and Ricoh.

Japan's Trade Surplus Shrinks 43% in January

Japan's external trade surplus shrank 42.8% in January compared to the same month a year ago. This was the first drop in the country's trade surplus in eleven months. Exports rose 7.9% to ¥3.8 trillion and imports were up 10.7% to ¥3.7 trillion. The sharp jump in imports resulted from higher crude oil imports for electric power generation as Tokyo Electric Power had to shut down its nuclear power plants for repairs.



Basic Electronics Industry Statistics

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
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	76.5	1,995	1,546	15,127	2,086	5,588	7,452
Dec.	112.9	119.3	90.2	74.1	NA	NA	NA	NA	NA	NA
YoY	12.1	15.4	-8.0	10.1	-1.3	-4.9	1.7	22.6	-18.5	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

