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High-tech Sector

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Ripplewood Holdings Reaches Agreement with Vodafone Over Japan Telecom

Vodafone has reached an agreement to sell Japan Telecom to Ripplewood Holdings, a major U. S. investment fund, for ¥262,000 million through a buyout of Japan Telecom Holdings, the holdings company of Japan Telecom. Ripplewood plans to strengthen Japan Telecom's position in data communication by investing heavily in its business.

Bill to Ease NTT Obligations in Fiber-optic Lines Postponed

A bill to ease NTT's obligation to open its fiber-optics network to new common carriers has been postponed as the pinion on its desirability was split within the ruling parties. New common carriers are fiercely opposed to any change in rule that would allow NTT to stop access to its fiber-optics networks by new common carriers. NTT claims that under the current access fee structure it loses money and has no incentive to lease its fiber-optic lines to other telecom carriers. The new common carriers were determined to sue the government if the bill went through.

Kyocera to Launch Wireless ADSL System

Kyocera will supply a high-speed (one megabit per second) wireless ADSL system (I-Burst) to Australia's PBB and South Korea's KT next fall. Since the area covered by each ground station is comparable to that of conventional mobile phone systems the cost of construction and maintenance of the system will be on a par with conventional mobile phone networks. In Japan the system could be easily integrated with 3G phone systems, assuming that the government comes up with the necessary approvals.

Mobile Phone Sales Show Strong Growth in May

Sales of mobile phones in May increased 23.5% year-on-year to 4 million units. Sales have been growing at double-digit rates since last November. Sales are being driven by replacement demand fueled by new models such as camera-equipped mobile phones.



IT Services Market Continues to Grow

Despite a marked slowdown in corporate IT investment, the IT services market continues to show healthy growth, with IT systems operation and management services demand expected to expand 13% in 2003 to ¥1.7 trillion. The total market is now almost certain to top two trillion yen, according to Gartner a high-tech market research firm. IT management and services will be in focus since growth in this area is expected to outstrip that in other IT services areas such as system integration, development and maintenance.

Demand Brakes in Information Services Market

Demand in the information services sector is plunging as businesses are cutting back on IT investment. According to government statistics, sales in May declined 11.2% year-on-year to record the fifth consecutive decline in monthly sales. Particularly hard-hit was the demand for system integration, which fell 13.7%, suggesting that the IT sector might be entering a period of full-blown recession. The major factor affecting May sales was a 20.4% drop in software development that accounts for roughly half of total demand. Orders from the telecommunications and financial industry also slowed as major projects were completed. Sales of game software were down 15.4%, resulting in a 3.4% decline in aggregate software product sales. On the other hand, demand for outsourcing services (system operation and management) was up by more than 20%.

IT Asset Management Software Market Expanding

The potential market for IT asset management software is estimated at 14.7 million clients. However, only about 20% of the market is tapped as of now. For the time being, demand growth is likely to be led by public bodies more than the private sector.

System Integrators Set to Report Record Profit

Japan's seven major system integrators, NTT Data, CSK, CTC, Nomura Research, Hitachi Software, TIS and NSSOL, are expected to report higher ordinary income in the current fiscal year ending March 2004, with four, including CSK and NTT Data, expected to report record ordinary incomes. CSK is likely to post a 59% year-on-year increase in ordinary income to ¥26,000 million and NTT Data is likely to see a 12% increase in ordinary income to ¥53,000 million. NTT Data has stable and growing income from services to the government, an area in which it has particular strengths. CSK expects strong growth in system development for corporate customers. TIS will offset the effects of slower sales by extensive cost cutting. NSSOL is likely to report profit on a par with last year as it is affected by lower prices and a slowdown in orders.



Global Nickel-Hydrogen Battery Market Expanding

Demand for nickel-hydrogen batteries is expanding worldwide, reflecting growing popularization of IT products like digital cameras and PDAs that need a large current for operating. Larger capacity nickel-hydrogen batteries are fueling demand for use in such appliances. Nickel-hydrogen batteries are also environment-friendly since they are rechargeable. Demand is expected to accelerate over the next few years. What makes them more attractive to manufacturers and retailers is that unit prices have not declined as capacity has increased. Demand for nickel-hydrogen batteries is likely to increase from 100 million batteries in 2002 to 130 million batteries in 2003.

Foreign Semiconductor Manufacturers Pulling Out of Japan

Foreign semiconductor manufacturers in Japan are pulling out of wafer processing. Motorola sold certain production lines at its wholly owned subsidiary Tohoku Semiconductor to Fuji Film Micro Devices. LSI Logic has also announced plans to sell its Tsukuba Plant. Global restructuring of production networks seems to be behind these moves.

Car Navigation Demand Growth Accelerates

With more model variations coming on the market and prices on the skids, demand for car navigation systems is set to accelerate again. The year-on-year demand growth rate in 2003 is likely to accelerate to 30% from the 20% recorded last year. Demand is also shifting from the CD and the DVD types to the HDD types which offer higher processing speeds. VAN-integrated systems that offer superior cost-performance are in strong demand.

Storage Capacity Demand Set to Surge

Demand for data storage capacity is expected to grow at an average annual rate of 270% through 2006, reflecting growing demand along with the spread of the Internet and the ongoing revolution in business processes. Demand for services that will bring down total cost and assure safety of data are increasing rapidly. Demand for integrating data storage to bring down storage cost is rising. At the same time data security in case of natural disasters, fires and other calamities is also increasing. Storage management software demand is likely to increase at an average annual rate of 13.3%, that for middle-range arrays 6.5% and for enterprise arrays at 5.4%.



SPE Forecast

According to SEAJ, the SPE manufacturers trade association, sales of Japanese-made semiconductor production equipment in 2003 is likely to increase 8.6% to 931.3 billion, the first growth in three years. This replaces the previous forecast released in January, which saw sales rising 17.3% to ¥1.07 trillion. The downward revision allows for an expected slowdown in sales after fall. Sales of LCD panel production equipment are likely to be a record ¥327.4 billion, up 15% from the previous year, according to the same report.

Basic Electronics Industry Statistics

	Prod.	Ship.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059
YoY	3.2	6.1	-2.0	-3.3	-2.6	-6.7	3.8	21.4	-8.7	1.3

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

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

