



Vol . 81

## *High-tech Sector*

Week ended Aug. 31, 2003

### ***Majority of ADSL Users Plan to Switch to Fiber Optic Lines***

According to a recent survey by KDDI, the second largest telecom carrier in Japan, 70% of those currently using ADSL lines want to switch to fiber optic lines. The same survey found that the service charge was the primary criterion in selecting a service provider. Although only 16% cited communications speed as a major consideration in selecting a service provider, roughly 60% want to switch to fiber optic lines to cope with the growing volume of content.

### ***Another Round of Restructuring to Start in Telecommunications Sector***

With IIJ joining the NTT Group and Vodafone selling its fixed-line network to Ripplewood Holdings, there are now five major players in this sector: NTT, KDDI, Fodafone, Ripplewood and the electric power group. However, reorganization of the sector is nowhere near being complete. The industry still suffers from excess capacity as telecom carriers aggressively try to increase market share in complete disregard for actual demand growth and traffic on the fixed-line network continues to fall. These factors are widening the supply-demand gap and bringing down telecom charges. The intensifying competition in the sector is looking more like a race for survival.

### ***NTT DoCoMo (9437 TSE) Develops Technology to Significantly Boost Speed of its 3G Mobile Phones***

NTT announced that it has developed a new technology to boost the communications speed of its 3G phones (FOMA) by 30 times, bringing it on par with the communications speed offered by ADSL lines. This will open up possibilities of introducing new services such as transmission of TV broadcasts and high quality music. Limited transmission speed of existing mobile phones makes these services impossible. The new technology will give NTT a powerful tool in the network services market, which is becoming increasingly important as voice traffic has peaked.



***EIA Business Set for Growth***

The EIA business (middleware for integrating IT systems) is expected to double this year, with sales expected to surge to ¥20,000 million, according to major system integration service firms, which include Nomura Research, Fujitsu SSL, and NTT Software. Leading EIA equipment manufacturers are Infoteria, Web Methods, NEC, IBM Japan, and Japan BEA Systems.

***Color Filter Demand Surges***

Demand for color filters is expanding rapidly in tandem with growing sales of LCD televisions. Major color filter manufacturers, Toppan, Dainippon Printing, Sumitomo Chemical and Toray have started aggressively adding capacity to cope with demand. The glass size is moving to the fifth and the sixth-generation types. As a result, the manufacturing process has become more complex and sporadic product shortages have started to appear. The manufacturing process itself is shifting from the spin-coating type to the spinless type.

***SPE Orders Up 27% in July***

Orders for Japan-made semiconductor production equipment were up 27.4% year-on-year in July to ¥98.6 billion, according to SEAJ, the SPE manufacturers' trade body. Orders were up 7.8% compared to June. With year-on-year order growth staying positive for three months in a row and the order level sustained at above ¥90 billion for two straight months, SPE makers expect that a recovery is finally materializing. Orders should stay strong in the second half of the current fiscal year, starting September 1, as semiconductor manufacturers are stepping up capital investment, which is also entering the second phase, which is installation of SPE equipment.

***OEM Automotive Electronics Report***

According to The Worldwide Market for OEM Automotive Electronics Report 2003 Edition, the global market for automotive electronics will expand from \$22 billion in 2002 to some \$35.5 billion in 2010. Areas that are likely to experience the most growth are hands-free communication tools, inter-car distance control and tire pressure monitors, among others. By geographic region, China and India will experience the fastest annual growth rate (14.8%), a rate much higher than the 5.8% forecast for Japan, the U. S. and Europe. Developing countries will overtake Japan in terms of global market share in 2004, the report claims.



**Consumer Electronics Sales  
Down in July**

Sales of home electronics devices fell 11.3% year-on-year to ¥203.5 billion in July, according to NEBA, an association of some 38 major consumer electronics chains. This is the eleventh year-on-year decline in monthly sales and the first double-digit decline in 12 months. A marked 44.3% decline in air conditioner sales dragged down sales in July. Air conditioners represent slightly more than 10% of total consumer electronics sales. VTR sales fell 30.8%, DVDs were off 32.9% and refrigerator sales plunged 21.9%. On the other hand, personal computer sales were up 0.9%, the first gain in 30 months. By geographical region, sales were up in Kyushu, an area that experienced a summer more normal than the rest of the country.

**First-half PDP Sales Up Sharply**

Sales of PDP television sets in the first six months of 2003 rose 34% year-on-year, with the 42-inch type accounting for more than 70% of the total.

**High-tech Crime Grows**

The number of reports of high-tech crimes filed by citizens and businesses in the first six months of the year more than doubled compared with the same period a year earlier, according to Japan's law enforcement authorities. More than 90% of the complaints were related to illegal use of the network

**IT Outsourcing Services Market to  
Grow but at a Slower Pace**

The IT software services market is expected to continue to expand but at a slower pace. At a time when Si services, software development and other IT services are under pressure, the outsourcing business is showing strong growth and other growth areas such as solutions for new technologies based on IP and IC tags. The IT outsourcing business is likely to represent half of software services business. The market is estimated at ¥2.8 trillion in 2003, up 2% from the previous year. The IT outsourcing services include process management, IS outsourcing and application outsourcing. Of these, network infrastructure management and application outsourcing are likely to experience the strongest growth. Sector sales in June were up 4.8% year-on-year, the first gain in six months. Software development-related sales, the largest component of total sales, were up 3.8%, the first gain in 10 months.



**Government Budget for Promoting Network-based Society in Japan**

The government plans to budget ¥12,600 million to promote network-based society in Japan. The focus next year will be on building a terabit network linking major research institutes, IC tags, test-head networks, web archives and security.

**Earnings Roundup**

**IT Component Manufacturers Report Strong Profit**

Manufacturers of components for IT devices are reporting strong profit growth. These include Citizen Electronics, SOTEC, Koha, Showa Shinku, and V Tech. Koha reported a 34% increase in sales in the April-June quarter and V Tech saw its sales jump threefold during the same period. Seiko Giken posted a 39% increase in sales and it expects consolidated net ordinary income to rise 2.8 fold in the current fiscal year ending March 2004.

**Strong Demand for Robots Lifts Interim Profit at FANUC**

FANUC's interim consolidated ordinary income rose 33% year-on-year to ¥43,000 million on a sales growth of 25% to ¥124,000 million. Sales were driven by mainstay robots as demand surged from the IT and automobile industries. Robot sales rose 32% to ¥63,000 million, topping the forecast by ¥3,200 million. Orders for injection molding devices from Japanese and other Asian mobile phone and digital camera manufacturers were particularly strong, pushing up production of this type of robots to a record 300 units per month.

**Basic Electronics Industry Statistics**

	Prod.	Shp.	Inv.	Capacity utilization.	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	EL. devices	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	7,269	205
June	92.6	96.2	81.1	115.9	2,003	2,039					229
YoY	5.5	6.8	-6.7	2.7	6.9	-1.8	0.5	18.7	-3.8	0.1	-27.4

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

