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High-tech Sector

Government Decides to Cut Connection Charges

The government has decided to cut ADSL connection charges from ¥1,690 to ¥1,290 paid by the service provider to NTT in case the service is restricted to Internet access. The decision aims at increasing competition between fixed-line phones and ADSL-based IP phones.

Changes in Japan's Mobile Phone Market

NTT DoCoMo, Japan's largest mobile phone carrier dropped to second place in the April-September period in terms of net subscriber growth. On the other hand, KDDI moved up to first place as it cut rates and benefited from innovative new services. Vodafone is also stepping up marketing. Moreover, higher packet charges are also hurting NTT DoCoMo. KDDI offers a 30% discount on packet charges and Vodafone has come up with a low ¥5/minute, with certain limitations. Competition on communications speed is also heating up. KDDI has announced that it will be launching mobile phone models with communications speeds double that of NTT DoCoMo's FOMA 3G phones. So far NTT DoCoMo has failed to come out with a strategy to roll back competition and maintain its market share.

NTT's (9432 TSE) FTTH Business Facing Head Wind

NTT is likely to fall considerably short of its subscriber growth target of one million for the current fiscal year ending March 2004. NTT added only 300,000 subscribers in the first half of the current fiscal year. Pressures are also mounting on NTT to cut connection charges to its FTTH network and to fully open it to new common carriers. NTT is betting on its FTTH network to offset losses in its fixed-line phone network.

TEPCO (9501 TSE) Plans to Double Its Fiber-optics Network

TEPCO plans to invest ¥70,000 million next year to double its fiber-optics network, enabling it to service 8 million households in major cities in Japan. It will no doubt increase competition with NTT'S FTTH network, which are experiencing head winds.



Wireless LAN System Demand Growing

Driven by the launching of dual-band systems that combine the three current standards, demand for wireless LAN systems is growing worldwide and they are increasingly being bundled with the PC. Moreover, with the development of smaller chips that consume less power, the range of applications is spreading to mobile terminals and digital home electronic products. According to an ABI Research report, the market for wireless dual-band LAN systems will start expanding in 2003 and increase to \$2,000 million in 2008, accounting for 80% of the market.

FY2003 first-half Mobile Phone Shipments at Record High

Led by strong demand for camera-equipped models, shipments of mobile phones in the first six months (April – Sept.) of the current fiscal year rose 27.5% year-on-year to 25.69 million units, according to a report by Multimedia Research Institute. NEC was the largest supplier, with a market share of 23.7%, up from 18.8% last year. Matsushita (Panasonic Mobile Communications) came in second at 16.7%, down from 18.6% in the same period in 2002. Sharp was ranked third with a share of 10.7%, down from 14.7% in the same period last year. Shipments for fiscal 2003, the year ending March 2004, are likely to fall short of 50 million units, as the round of demand for camera-equipped phones nears its end. Led by NTT DoCoMo and Vodafone, shipments of 3G mobile phones are projected at 40.9% to 10.8 million units.

Personal Computer Shipments

Shipments of personal computers in the April-September period increased 13% year-on-year to 5.15 million units, the first gain in semi-annual sales in the half-year period ended March 2001, according to JEITA, the sector's trade body. The association expects the uptrend to continue, with annual unit sales rising above the previous-year level for the first time in two years. The value of shipments was up 3% to ¥796.8 million, as the average unit value plunged 9%, the highest decline. JEITA projects fiscal 2003 shipments at 10.2 million units. The shipment growth accelerated in the July-September quarter, with shipments up 24% year-on-year in volume and 17% in value.

Security Software Market

Changes are occurring in the security software market, in which two firms, Trend Macro and Semantic, account for 80% of the market. Matsushita Electric Industrial in October 2003 decided to bundle NAC's security software on its personal computers. This was followed by a similar decision by NEC in September. All NEC personal computers now come with NAC's bundled software. Computer users tend to stay with bundled security software even after its initial contract period expires. This could give a significant foothold to NAC in Japan's security software market.



Robot Shipments Set for Steady Growth

Installation of industrial robots worldwide are expected to increase at an average annual rate of 7.4% through 2006, according to a UNICE report. Replacement demand in Japan is driving orders and is expected to do so through 2006.

Electronic Components Manufacturers Focus on MEMS Devices

Japanese electronics components manufacturers are stepping up R&D and commercialization of MEMS (micro electro-mechanical systems) devices. Matsushita Electric and Omron seem to have a clear lead in this area and are gearing up for mass production. Matsushita Electronic Components and Hokuriku Electric are also emerging as major players and Rohm and Hitachi Metals are stepping up R&D. MEMS devices include pressure sensors, micro gyros, micro valves etc. used in sensors and actuators, RF switches, RF filters, optical switches etc. for communications systems, display devices and optical scanners for optical systems, and u-TAS, bio-sensors and DNA chips for bio and medical systems.

CCD/CMOS Image Sensor Market Expanding

Production of CCD/CMOS image sensors in the first eight months of this year nearly doubled from the previous fiscal year, according to the camera and video device manufacturers association. Growth is expected to continue as applications expand beyond digital cameras to camera-equipped mobile phones and automotive electronics. Among the major CCD image sensor manufacturers, Matsushita, Sanyo, and Fuji Film are boosting production. In CMOS imagers, Fujitsu, Sony and Toshiba plan to raise output. Production of both CCD and CMOS cameras is expected to double by 2005 from the current levels.

ETC Market Trends

The number of ETC tollgates on Japan's expressways is expected to reach 1,300 by the end of the year. The number of vehicles installing ETC devices reached 1.61 million and is growing at a rate of about 200,000 units per month. With 0.68 million vehicles passing through ETC toll gates on highways everyday, the number of cars on highways using the system per day has also risen to 10.5%. As the highway authorities introduce more incentives and prices of ETC units installed on cars come down, the ETC system is poised to enter the expansion phase.



Video Game Market Undergoing Changes

The video game market is clearly slowing, with sales of PS2, the most popular model also suffering. Sony's weak profits in the first half and its revision of full-year forecasts are due mainly to sluggish sales of game software and hardware. With games becoming more complex, only game-maniacs seem to be buying new games. Video game machine makers are planning to come up with next-generation machines in the next two to three years. The market may stay sluggish while it waits for the new machines.

Consumer Electronics Sales Up in September

Consumer electronics sales in September rose 6.3% year-on-year to ¥178,600 million, according to NEBA, an association of large consumer electronics chains. This was the second consecutive year-on-year increase in monthly sales. Brisk sales of televisions (thin-screen models) and DVDs fueled the sales growth. In personal computers both the volume and value of monthly sales rose in September.

Earnings Roundup

Sharp (6753 TSE) Differences in Earnings between Sony (6758 TSE) and NEC(6701 TSE)

While Sony, affected by sluggish demand for audio-visual products, suffered sales and earnings declines, NEC reported strong sales and profit growth as it benefited from a rising demand for mobile phones. The business results of the two firms also reflected their relative positions in digital home electronics and related products.

Interim Profit Surges at Yahoo (4689 JQ)

Yahoo's interim consolidated ordinary income in the first six months ended September increased 87% year-on-year to ¥17,540 million on consolidated net sales of ¥33,100 million, up 71% in real terms after allowing for changes in accounting policies. Ad billings were ¥9,100 million, a record high for any semi-annual period. Favorable auction services, virtual malls and ADSL contributed to the sales gain.

Canon (7751 TSE) Revises Profit Target for Its Interim Business Plan

Canon revised the target for profit before taxes for the year ending December 2005 the final year of its medium-term business plan, from ¥400,000 million to ¥470,000 million. Consolidated net sales are, however, expected to fall ¥200,000 million short of the projected four trillion. The company in the current year to December 2003 is expected to post a record ¥440,000 million in consolidated pre-tax profit on consolidated net sales of ¥3.18 trillion, both record figures.

Profits Rise Sharply at Epson(6724 TSE)

Interim consolidated ordinary income increased 3.9 times to ¥32,100 million, against the previous forecast of ¥25,000 million, at Seiko Epson. The surge in profit is attributed to strong demand for electronic components, including color filters for mobile phones and a reduction in operating expenses such as those for advertising and sales promotion.



Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	El. devices	Semicon (Production)	Consumer electronics (sales)
Jan.	90.9	95.2	83.9	72.0	1,953	1,255	14,010	1,302	5,837	6,871	3,140	336
Feb.	88.8	92.8	81.6	85.2	2,091	1,439	15,026	1,420	6,573	7,033	3,192	234
Mar.	88.6	88.7	84.4	107.7	3,155	1,691	19,029	1,748	9,561	7,720	3,456	266
Apr.	86.6	92.6	82.7	96.2	1,788	1,677	14,103	1,783	5,261	7,059	3,171	216
May	92.0	96.2	81.1	97.0	1,857	1,707	14,721	1,952	5,501	7,269	3,307	205
June	92.6	96.2	81.1	115.9	2,003	2,039	16,003	1,954	6,481	7,569	3,449	229
July	91.3	90.4	92.6	106.4	2,023	1,924	15,859	1,823	6,206	7,830	3,545	247
Aug.	91.2	95.8	87.0	60.5	1,771	1,165						230
YoY	3.2	3.7	-0.3	-11.3	-3.2	-10.4	-1.2	2.7	-1.2	-2.1	-2.6	-263

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

