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High-tech Sector

Wireless LAN Market Set for Explosive Growth

The growth rate of Japan's wireless LAN market is expected to accelerate to the double-digit level from next year onward, according to a research report by Yano Economic Research Institute. The report sees Japan's wireless LAN market topping ¥50,000 million in fiscal 2005. Along with the 54Mbps system, the UWB system is also likely to become one of the mainstay wireless LAN systems.

Telecommunications Market Forecast

The telecommunications market on the whole is likely to grow at an annual rate of 2.8% through fiscal 2008 to ¥9,257.7 billion, according to a report by Nomura Research Institute. However, growth rates in sub-sectors will vary widely, with the wide-area Ethernet market expected to grow at an annual average rate of 49.6% to ¥605 billion. The IP-VAN market should also post strong growth, increasing at an annual rate of 27.3% to ¥464.2 billion. On the contrary, demand for the conventional leased-line service will decline at an annual average rate of 9.7%, the report forecasts.

Broadband Diffusion Rate Rises

As of the end of September, one in four Japanese households were connected to broadband networks, according to Multimedia Research Center. The number of subscribers to FTTH lines in the first half of the current fiscal year doubled from the same period a year earlier to 686,100. The number of subscribers to ADSL lines increased by 2.2 million to 9.22 million. In ADSL, Softbank BB has the largest, 35.2% market share, followed by NTT East at 20.7% and NTT West at 16.5%. In FTTH NTT East had a market share of 36.0% and was followed by NTT West with a share of 35.9%. The number of subscribers to broadband networks, including ADSL, FTTH and cable, totaled 12.25 million. This translates into a diffusion rate of 26%. The report forecasts broadband subscribers at 27.8 million by the end of March 2006.



Digital Television Broadcasting Market Set for Solid Growth

The digital television broadcasting market is expected to grow at an annual rate of 31.0% through fiscal 2008 to ¥2,084.3 million, according to a report released by Nomura Research Institute. In this sector, the terrestrial digital broadcasting service is likely to expect the highest growth, expanding at an annual average rate of 122.4% to ¥1.1 trillion. The BS digital television broadcasting service will also see strong growth, increasing at an annual rate of 33.9% to ¥351.4 billion through fiscal 2008, the report claims.

LCD Panels to be a Sellers Market for a While

Contrary to expectations, the LCD market is a sellers market at present. This is mainly because of higher-than-expected demand growth for LCD televisions, strong sales of notebook PCs and delays in the completion of the 5th generation lines. Although the supply-demand balance is expected to ease somewhat in the first quarter of 2004, supplies will get tight again from the second quarter onward. The demand for LCD panels is expected to increase 57% year-on-year in 2003 to 48 million units, 40% in 2004 to 67 million units and 22% in 2005 to 82 million units, according to a forecast from Techno Systems Research, a high-tech marketing research firm.

FPD Demand to Increase Rapidly, but a Shake-out Awaits PDP Suppliers

The outlook for FPD (flat panel display) televisions is bright, with demand rising from an estimated 4.6 million units in 2003 to 17.1 million units in 2005. Of this the LCD type is likely to account for 13.4 million in 2005. The rest, 3.7 million units, represent the PDP type. While the outlook for both types is promising, massive capital investment in PDP production facilities will mean that supply could outstrip demand after 2007, leading to a shake out in the sector as more powerful firms absorb their less powerful rivals.

Japan's IT Outsourcing Market Finally Coming into its Own

Business corporations are moving from the exploration to implementation stage as they see in it an option to strengthen their competitive position. At the same time, software service firms, see it as an excellent growth opportunity as the software development market weakens. Japan's outsourcing services market is expected to grow at an annual average rate of 4.7% reaching ¥7.9 trillion in fiscal 2006, according to IDC Japan. Factors driving the growth will be, re-focus on core-competence, cutbacks in TCO, a shortage of skilled manpower, and a continuing rapid switch to new systems. Full-scope IT outsourcing and BPO (business process outsourcing) and BTO (business transformation outsourcing) will be the core services that will propel market growth.



Consumer Electronics Shipments Rise 11% in September

Shipments of consumer electronic products in September 2003 rose 10.5% year-on-year to ¥186,900 million, according to JEITA. Shipments were driven by LCD and PDP televisions and DVDs, and auto navigation systems. This was the first year-on-year double-digit growth in two years and eight months.

Sharp's (6753 TSE) LCD Television the Most Popular

While LCD televisions are selling well in general, it is the Sharp models that seem to be the most popular, according to retail sources. Customers come in asking specifically for Sharp's AQUOS 30" and 37" models. In plasma televisions, the 42" model is the most popular, according to retail industry sources. In plasma televisions, Hitachi, Pioneer and Sony models seem to be relatively more popular.

Earnings Roundup

Major Electronics Manufacturers – Interim Results

Eight of the nine major Japanese electronics equipment manufacturers had released their interim results by the end of last week. A clear distinction has appeared in their performance. What seems to be making the difference? Positions in digital consumer electronics (televisions, digital cameras, DVDs), and mobile phones, the two strong growth areas, seem to be key factors. Latecomers or those with weak positions in these markets seem to be suffering. Fujitsu and Toshiba reported operating losses and three reported lower operating incomes. On the other hand, Matsushita Electric and Sharp reported operating incomes topping ¥50,000 million. Of the eight, four—Toshiba, Fujitsu, Hitachi, and Sony— are facing headwinds.

Semiconductors

Of the eight major semiconductor manufacturers, six reported operating profit. The only exceptions were Fujitsu and Mitsubishi Electric. Earnings were driven by strong demand for use of semiconductors in digital consumer electronics and mobile phones. Toshiba benefited from LAND type flash memories, where it managed to push up the operating profit margin to over 10%. NEC Electronics saw strong demand for its semiconductors for mobile phones and automotive electronics. Sony, Matsushita and Sharp, that is, consumer electronics manufacturers, benefited from strong demand for CCD and CMOS memories. As a result, interim net sales of the eight were up an average 6.9% and operating income rose 4.4 times compared to the same period a year ago. Reflecting strong sales, Japan's semiconductor manufacturers are stepping up capital investment. Capital investment in the current fiscal year is expected to total, ¥625.6 billion, up 49% from the previous fiscal year.



Mobile Phones

Among mobile phone manufacturers, NEC, Matsushita and Sharp reported strong profit growth, underpinned by replacement demand at home and a growing demand for high-performance mobile phones overseas. Toshiba, dependent on the Japanese market for 80% of its mobile phone sales, was the only loser, reporting a 7% decline in interim sales.

Software Services

With business corporations taking a critical look at IT investments, IT solutions providers are facing stiff demands for price cutbacks from their customers. As a result, sales in the interim period were flat or only marginally better. Operating profit is also under pressure. Hitachi was the only company that reported strong sales growth, but this is partly because it includes some other products in this category.

Electronic Component Manufacturers

The spread of digital consumer electronic devices is also benefiting electronic component manufacturers, with TDK expected to more than double its operating profit margin for the full year. Japan's electronic component manufacturers are also strong enough to withstand the strong yen and still continue to report strong growth. Nitto Denko is benefiting from strong sales of LCD televisions, which is pushing up demand for its optical films. Sales of optical films were up 31% to ¥62.6 billion at Nitto Denko. Strong demand for motors used in HDDs as well as those for DVDs is benefiting Nihon Densan.

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

