



**Vol . 93**

## *High-tech Sector*

**Week ended Nov. 23, 2003**

### ***CATV Firms to be Allowed to Distribute Digital Broadcasts***

Japan's major broadcasting companies have reached a basic agreement with CATV service firms that will allow cable television operators to distribute digital terrestrial broadcasts scheduled to start on December 1. To assure copyright protection, CATV operators will not be permitted to edit the broadcasts. Since the number of television sets designed to receive digital broadcasts is very limited this move, it is hoped, will win quick popularity for digital terrestrial broadcasting.

### ***Digital Terrestrial Broadcasting to Start on December 1 – Massive Market Taking Shape***

Digital terrestrial broadcasting is scheduled to start in the three main metropolitan areas in Japan on December 1. The service will be extended to other areas starting in 2006. Japan's public broadcasting service, NHK, estimates that about 23 million households could be receiving digital terrestrial broadcasts by 2005.

### ***KDDI (9433 TSE) Captures the Lead in 3G Phones in the First Half***

KDDI outpaced NTT DoCoMo in the first half of the current fiscal year ended September. Although NTT had a market share of 57.3% and KDDI only 19.4%, it did not fare well in 3G phones. Vodafone had a market share of 18.5%. In regard to 3G phones, KDDI had 10.02 million subscribers as of the end of September, against 1.1 million for NTT DoCoMo. NTT DoCoMo plans to step up marketing of its 3G phones (FOMA) and hopes to sign up 2 million subscribers by the end of March 2004.

### ***Semiconductor Producers Operating at Near Full Capacity***

The capacity utilization at the world's semiconductor producers in the third quarter (July-Sept.) rose 2.2 percentage points from the same period a year ago to 88.7% while at the same time production capacity for MOS and ICs in terms of 8" wafers rose 7.4%. The production capacity at the so-called foundries rose 12.3% from the previous quarter. The production capacity of bipolar ICs also rose 4.8% year-on-year.



### ***Investment in Semiconductor Production Facilities to Surge***

According to a recent survey on investment trends in semiconductor production facilities by a major high-tech newspaper, 36 major new wafer processing facilities are planned in the Asian region. Of these, 26 are in China. Investment in semiconductor manufacturing facilities in Asia (excluding Japan) in 2002 topped \$15 billion, representing 60% of global investment in such facilities. Semiconductor manufacturers from Taiwan, South East Asia, the U. S. and Japan are rushing to set up new facilities in China.

### ***More Firms Enter the Camera Module Market***

There is a rush of new entrants into the camera module market, a key device in camera-equipped mobile phones and digital cameras. Optical parts manufacturers, camera lens and shutter manufacturers in particular, are showing strong interest in camera modules, which they view as products they can produce by extending their core technologies. Participating in the two major markets, mobile phones and digital cameras, they hope this will position them to enter the automotive devices markets as well.

### ***Wireless IC Tag to Market Set for Huge Expansion***

The wireless IC tag market in Japan is expected to grow at rates from 25% to 50% through 2007, with demand in that year projected at ¥11,000 million, up from an estimated ¥4,200 million in 2002. In terms of volume the market is expected to reach 25,000,000 tags, a sharp jump from 5,000,000 tags sold in 2002. The trend is not limited to Japan. Comparable growth rates are expected worldwide.

### ***IT Market Shows Signs of Revival***

According to a recent report on the IT sector from Nomura Research Institute, demand for personal computers is expected to increase at a 2.1% compounded annual growth rate (CAGR) through 2008. Demand for mobile phones is likely to grow at 1.4%. However, demand for automotive-use terminals is likely to grow faster at an estimated rate of 9.7%. Demand growth for PDAs is projected at 5.0%.

### ***AV Year-end Sales Outlook***

Demand for AV products for the year-end buying season seems to be strong this year, according to retail sources. Consumers are picking up flat-panel TV sets, DVD players and digital cameras, and sales of these three key items are expected to surpass previous-year levels by wide margins.

### ***Network Storage Market to Grow Sharply***

Japan's network storage market, driven by demand created by spreading broadband networks which is boosting data volume, is expected to increase 1.7-fold a year for the next several years. Computer manufacturers are responding actively by offering total systems and not just the hardware. They view network storage as a strong growth area despite the current slowdown in IT investments.



### **Earnings Roundup**

#### ***Network Ventures Show Strong Profit Growth***

Most network-related venture businesses showed strong profit growth in the July-September quarter, with the general service provider Rakuten reporting a 78% year-on-year increase in ordinary income and Yahoo chalking up a 77% rise. Network ad firm, Cyber Agent, reported a 54% increase in billings and moved into the black. In telecommunications infrastructure, I-Access reported a 97% increase in sales and moved into the black.

#### ***Consumer Electronics Chains – A Mixed Picture***

Out of the 11 major consumer electronics chains, five reported higher sales in the first half of the current fiscal year ended September. The differences in their performances are due mainly to the share of digital consumer electronic devices and personal computers in total sales and the pace of new store openings. Yamada Denki was the best performer with sales rising 20.3% and operating income up 768.4%. Sales of personal computers rose 26% at Yamada Denki and the company opened 10 new stores in the first half and set up software corners in their existing stores. However, its rival, Kojima, suffered a 7.3% drop in sales. The company posted an operating loss of ¥3,648 million. Additionally, the Fukuoka-based Best Denki, reported that its sales were off 2.6%.

#### ***Game Software Producers Report Strong Profit***

Of the six major game software producers, four reported higher sales in the first six months of the current fiscal year. The two firms reporting lower sales were Sega and Capcom. However, profit was strong at all firms, with the largest, Konami, reporting a 2.2-fold increase in ordinary income on a sales gain of 14.8%. Sega saw its ordinary income rise by 53.4% despite a 1.8% drop in sales. All game software producers are projecting strong sales and earnings growth for the full fiscal year ending in March 2004.

#### ***Cable Producers Affected by Weak Demand for Optical Fiber Cable***

While profitability at Japan's six cable manufacturers improved, reported higher profit in the first half as they benefited from restructuring of their businesses, they continued to suffer from weak demand for optical fibers. The main source of their profit is now shifting to the automotive and electronics sectors. With demand for optical fibers unlikely to revive anytime soon in the U. S., the world's largest market, cable producers will have to depend more on electronics and the automotive sector for profit. The sector could see further consolidation.



**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	14,332	1,577	5,593	7,362	3,388	230
YoY	3.2	3.7	-0.3	-11.3	-3.2	-10.4	-1.4	6.4	-5.8	0.6	-0.7	-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

