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High-tech Sector

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IP Phones – Demand Surges in Consumer Market

The number of IP telephone lines as of the end of 2003 reached 5.32 million, according to a research report released by Yano Economic Research Institute, a private think-tank. The report projects that the growth will continue, with the number of lines topping 27 million by the end of 2007. Yahoo BB has the largest market share.

Electronics Materials Production to Recover

Production of electronics materials in 2004 is expected to increase 4% year-on-year to around ¥300,000 million, according to EMAJ, the sector's trade association. The bullish projection assumes that demand for electronics materials for use in digital home electronics will accelerate in 2004 and that use of electronics materials in car electronics will also increase. However, the association expects production to move offshore because of continuing pressure on prices and the weakening of the US dollar against the yen. By product, demand for piezo-electric ceramics is likely to be up 9% and that for magnets should rise 4%. On the other hand, demand for soft ferrites is likely to drop 7%.

Capital Investment by Electronic Component Manufacturers Recovering

Japan's electronic component manufacturers are stepping up investment in production facilities for components going into digital home appliances and car electronics. Supplies of miniature, high-performance and high-reliability components are short in Japan. The focus is also on next-generation parts with excellent growth potential, which includes miniature chip parts (0603 size and 1005 size), miniature chip coils, camera modules and optical pickups. Alps Electric is adding capacity for GMR headswire Mitsumi Electric is focusing on semiconductors and high-frequency devices.

Production of Miniature Chip Inductors Rising

Production of chip inductors for use in mobile phones, notebook PCs, digital video cameras, that is, consumer electronic devices, is increasing. Japanese manufacturers have a competitive advantage in super-miniature parts, for which they are adding production capacity. Leading Japanese manufacturers include Sumida Corp., Toko, TDK, Taiyo Yuden and NEC Tokin.



SPE Outlook – 2003 –2007

Sales of Japan-made semiconductor production equipment (including LCD panel production equipment) in fiscal 2003, the year ending March 2004, is likely to be up 23.8% to ¥1.06 trillion. This will be the first time in three years that sales will top the one-trillion-yen level. The association expects the double-digit growth rate to continue through fiscal 2005, with sales in that year reaching ¥1.58 trillion. Sales of production equipment for LCD panels in fiscal 2004 is expected to increase 35.0% to ¥472,600 million to register three consecutive years of double-digit growth. The association warns that demand for LCD panel production equipment will enter a correction phase in fiscal 2006, falling to ¥372,200 million, or to the fiscal 2003 level.

IT Investment Outlook

IT investments in 2004 in Japan will rise an estimated 2.2% year-on-year to ¥12.1 trillion, according to IDC, a high-tech market research firm. In addition to large corporations, small and medium-size firms are also likely to invest more in IT systems in 2004. IT investment in the telecommunications sector is expected to increase 3.6%, up from a 0.6% increase in 2003, as telecom carriers install more routers and servers for IP telephone networks. IT investment in the financial sector is also expected to increase. It accounts for 11% of the total IT investment in Japan. Investment in low-cost systems featuring inexpensive PC servers, Linux-based systems, and BB networks is likely to be up.

Small IT Service Firms Find Themselves in a Harsh Environment

Sales of the IT service sector in fiscal 2002, the year ended March 2003, declined 1.4% YoY to ¥3.6 trillion, according to IPA, an association of small and medium-size IT service firms. The ordinary income margin at firms with sales of less than ¥1,000 million was 3.5%, a level much lower than the 5.6% recorded by firms with sales higher than ¥1,000 million.

IT Service Sector Sales Up in November

Sales of the IT service sector in November rose 1.7% to register a second consecutive year-on-year increase in monthly sales. The feeling that IT service sector may now be set for growth is spreading among IT service firms in Japan. Outsourcing-related sales were up 9.5%. Sales of software products rose 0.4%, with game software sales up 0.8% and non-game software sales falling 0.4%. Database service sales rose 2.5%. Custom software demand is also rising, with orders in October up 2.3%.



Video Game Machine Sales Trends in Year-end Buying Season

Sales of Nintendo game software were strong during the year-end buying season but those for the PS2 platform were sluggish, particularly in the North American market. Sales of PS2 from November through December fell 8% worldwide to 7.83 million units. On the other hand, sales in Japan around the year end rose 18% to 1.11 million units, due mainly to price markdowns. Sales in the North American market were down 27% to 2.94 million units, mainly because SCE did not reduce prices in that market. Nintendo reported that global sales of Gamecube in December rose 70% year-on-year as it benefited from price markdowns. X-Box sales are likely to have risen, but seem to have faced headwinds in Japan.

Kyocera (6971 TSE) to Enter EL Market

Kyocera said that it plans to enter the electro-luminescence market. Plans, according to the company, call for starting mass production in 2005 using a new technology that will give it a 30% competitive advantage over competitors. Kyocera plans to market its EL panels for use in mobile phones and digital cameras. Japanese companies have a lead in EL panels. Major players in this market are Sanyo Electric and Tohoku Pioneer.

Measuring Instruments Market Set for Rebound in 2004

In a recent survey by a leading electronics journal, 86% of electrical measuring instrument manufacturers expect demand to grow by a single-figure in 2004, with five percent expecting double-digit growth. More than 70% of the respondents to the poll expected operating income to increase by a double-digit figure, with 55% expecting sales to rise by more than 10%. Demand is expected to be driven by digital terrestrial broadcasting, telecommunications networks (2.5G and 3G service expansion), and new areas such as wireless LAN.

Global MEMS Gyroscope Market to Grow

Demand for MEMS gyroscopes is likely to increase at an annual average rate of 24% from 2002, when commercial shipments started, through 2007, when the market will have grown to \$400 million. At present most sales are to the automobile and defense sectors but if the price can be brought down to \$10, it will find greater acceptance in consumer products.

IC Tag Project Launched

The government, in cooperation with the industry, has launched a project to popularize IC tags. The government has budgeted ¥14,000 million for research and development that aims at developing a ¥3 IC tag. Forecasts see the IC tag creating an economic impact estimated at ¥31 trillion in 2010. A private think tank projects the RFID market at 300 million tags in 2006, rising to 700 million tags in 2010. Full-fledged use of IC tags is expected to start in 2006, with the market entering an expansion phase in 2009.



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
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
Nov.	99.3	99.7	81.8									244
YoY	10.3	7.1	-4.4	-6.5	2.8	-11.4	9.2	17.3	8.1	7.8	2.7	-24.3

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

