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High-tech Sector

Domestic Mobile Phone Shipments Top 50 Million

Domestic shipments of mobile phones in 2003 rose 27.4% over the previous year to slightly above the 50-million unit mark, according to JEITA, a trade association. Demand is being driven by 3G phones. Demand also rose sharply in China, where subscription growth topped 60 million. Japanese manufacturers are focusing on replacement demand at home and new demand in overseas markets, particularly in China.

IT Outsourcing Service Turning into a Major Earnings Source

IT equipment vendors are finding that IT outsourcing services, including system maintenance and operation, are quickly becoming a major source of earnings. Japan's outsourcing services market in 2003 was an estimated ¥2.8 trillion, according to a high-tech market research firm. IT services represent about half of this figure. The main reason for expansion of this market is service diversification. Unlike the past, when IT services were limited to full outsourcing services (lump sum service contracts), services now extend to business process outsourcing.

Information Services Demand Looking Up

Sales of the IT services sector in 2003 fell 0.9% to ¥8.9 trillion. However, sales bottomed out in October and have been rising steadily in the fourth quarter. Sales in December were up 6.2% year-on-year. Orders for custom software development from the telecom sector were lower, but this was more than offset by strong orders from the manufacturing and financial sectors.



Electronic Components Supply-demand Balance Tightening

Prices of key electronic components, including semiconductors and LCDs, are rising, reflecting brisk sales of consumer electronic items. This has affected the conventional business cycle in this sector, making it difficult to forecast price trends. Another factor affecting price trends is the appearance of high-performance, multi-functional components. Particularly in short supply are LCD panels and memories. The price of the mainstay 256MB memory is up 30% from last fall. Similar trends have surfaced in LCD panels, where leading suppliers such as Sharp and South Korean firms are quickly increasing production capacity. Manufacturers have raised the price of the 30" LCD panel for January shipments by 4-8% compared to the previous month.

Japanese Producers Increasing Production of Solar Cells

Japanese electrical equipment manufacturers, particularly Sharp and Sanyo, are increasing production of solar cells. Sanyo is doubling output and plans to boost output by 30%. Sharp's global market share is estimated at 23.6% and that of Sanyo at 6.7%. Underpinned by subsidies from the government, demand for solar cells is growing worldwide.

Business Machine Shipments in Fourth Quarter

Domestic shipments of business machines in the fourth quarter of 2003 were up 8.9%. Shipments in terms of value increased 9.7%. Shipments were led by color models (up 33.4%). However, shipments, including exports, fell 7.8% in volume and 7.2% in value. Total shipments in 2003 were 5.8% lower than a year before in volume and fell 1.2% in value.

Microsoft Claims Windows OS is Cheaper

In recent advertisements Microsoft has been claiming that its Windows software is cheaper than Linux. The advertisements placed in newspapers, magazines and the Internet claim that the cost over a five-year period after installation is 11%-22% cheaper for a Windows system than that for a comparable Linux system. Microsoft seems to be getting seriously worried about Linux. In a recent development, Fujitsu, a leading Japanese computer maker, chose the Linux system for its servers for banking systems. It expects sales of products and services of its Linux-based systems to total ¥60,000 million in fiscal 2006.



Japan's Network Service Providers Set for Solid Growth

Japan's two major network service providers, Yahoo and Rakuten, are looking to mobile network-based services and finance for growth. Yahoo is expected to report consolidated net income of ¥23,600 million, up 95% YoY on a sales gain of 26% to ¥74,500. Rakuten's sales in the year ended December 2003 seem to have increased 82% YoY to ¥18,000 million. While the company is expected to report a net loss due mainly to heavy depreciation expenses, its operating income is likely to have increased 76% to ¥4,500. Internet-based sales in Japan in 2002 were ¥2.8 trillion, but they still account for only 1% of total merchandise sales. However, Internet-based sales are rising at an annual rate of 80% and are expected to reach some ¥12 trillion by 2007.

Outlook for Injection Molding Machines

The Industrial Machinery Manufacturers Association expects demand for the three major kinds (injection, extrusion and blow types) of injection molding machines to stay at the 2003 level for the next two years. Demand in 2003 rose 40.5% year-on-year to 18,828 units. Demand will be underpinned by smaller-size models (below 200-ton pressure type), which are likely to account for about 80% of all sales. By region, exports, led by Asia, will represent 70% of total sales.

Machine Tool Orders Up in January

Orders (eight major manufacturer-basis) for machine tools in January rose 29.3% year-on-year to ¥30,847 million, according to a survey by a leading industrial daily. Total orders in January rose 28.5% to ¥81,983 million, according to the Machine Tool Manufacturers Association. Orders are being driven by a revival in capital investment in Japan and strong export demand, particularly from the Asian region. The biggest gainer was Toshiba Kikai, which saw orders rise 2.3 times, compared with the same month a year earlier.

Earnings Roundup

VeriSign Japan to Report Strong Profit

VeriSign Japan is expected to report ordinary income of ¥850 million, up 24% year-on-year for the year ended December 2003. Sales are likely to have increased 20% to ¥5,100 million, reflecting growing demand for the authentication service for e-commerce applications.

Brother Industry to Post Record Profit

Brother Industry is expected to report a 4% YoY increase in consolidated ordinary income to a record ¥37,500 million in the current fiscal year ending March 2004. This will be the second consecutive record high profit for the company. Sales are likely to be up 4% to ¥424,000 million. Both ordinary income and sales will top previous forecasts. Demand for its products is strong from the US SOHO market and sales are also rising in Japan and in Europe.



SPE Manufacturers Profit Under Pressure

Of the seven major SPE producers, four (Nikon, Tokyo Electron, Yokogawa Electric, Hitachi Kokusai Denki) reported net losses in the fourth quarter of 2003. They were affected by restructuring expenses and losses carried forward from the previous fiscal year. Six of the seven expect to report ordinary profit for the full fiscal year ending March 2004.

Initial Public Offerings News

For detailed information, go to: <http://www.ipotokyo.com>

Connect Technologies (3736 TSE Mothers)

The company specializes in the development of systems for mobile phones.

Alpha Trend (4352 Sapporo)

The company's core activities are the planning, design, development, and marketing of computer systems.

DNA Chip Research (2397 TSE Mothers)

The company's principal activities include research on consignment, and marketing of DNA chips and related products

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.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
Dec.	100.4	102.7	81.3									321
YoY	13.2	12.7	-4.1	-5.1	-4.4	-5.3	8.0	6.4	6.5	9.7	8.5	-17.0

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

