



Vol . 142

High-tech Sector

Week ended Dec. 5, 2004

Competition Heating Up in Telecommunication Services

Both fixed line and mobile phone rates continue to decline as competition between the three major carriers turns brutal. Competitors quickly match every rate cut quickly. Competition is getting so tough that the rate wars have now come down to units of ¥0.1. When KDDI cut its domestic call rate to ¥8/three minutes, Telecom Japan immediately slashed its rate to ¥7.9/three minutes.

Outlook for Japan's Telecommunications Equipment Market

Demand for telecommunications equipment in fiscal 2004, the year ending March 2005, will increase by an estimated 2.2% to 4.53 trillion, according to a forecast released by CIAJ, the sector's trade association. Demand is expected to increase at an annual average rate of 1.9% through 2009, reaching ¥4.7 trillion.

IT Investment to Recover

Investment in information systems in 2004 is expected to increase 1.4% year-on-year to ¥11.17 trillion, after falling for three years from 2001, according to IDC Japan. IT investments are projected to increase at an annual average rate of 2.1% through 2008 and reach ¥12.2 trillion. IT investments will be driven by large companies in 2004 but demand is likely to shift more toward small and medium-size firms after 2005. At present, large corporations account for nearly half of all IT investment.

Network Storage Demand Set for Solid Growth

Demand for network storage is expected to increase at an annual rate of 73% through 2006 when it will reach 232,000 TBs, which translates into ¥399 billion. The growth reflects a growing volume of data being handled.



Digital Electronics Inventory Increases

Orders at electronic device manufacturers usually peak in Sept-October as orders come in for the year-end buying season. But this year, orders seem to have peaked in June-July, suggesting that year-end sales of consumer electronics will be slow. Certain device manufacturers report that inventories at their customers have increased rapidly and that orders have plunged. However, the situation does not seem to be as bad as it was after the IT bubble burst. Except for Taiyo Yuden, device manufacturers are scaling down their investment plans. What is more troubling, however, is that higher inventories will drive down prices. Electronic device prices in the first half have already slid by 7%, exceeding the expected 5%.

Raw Material Prices Surge

Despite weaker sales of consumer electronics, prices of raw materials used in their manufacture are increasing sharply. Higher prices of oil, steel and copper as well as rare metals like cobalt and nickel are hurting their profits. Prices of steel and copper are up more than 50% and these increases cannot be absorbed through operational streamlining. Prices of resins used in the manufacture of consumer electronics are also up sharply, reflecting higher oil prices. This is forcing set makers to increase pressure on raw material suppliers while at the same time reviewing product designs to switch to lower-priced materials and cutting down consumption of raw materials.

SPE Orders Plunge in October 2004

Orders for Japan-made semiconductor production equipment in October fell 21.3% compared to the same month a year ago to ¥114.3 billion. This was the second consecutive year-on-year decline in monthly orders, which seemed to have entered a correction phase after increasing steadily from autumn 2003. Although domestic orders were up 0.4%, those from abroad, Taiwan and S. Korea in particular, were lower. Sales, including exports, were up 35.1% to 84.2 billion.

Next-generation DVD Format

Four U. S. movie producers, including Warner Brothers, have chosen the HD-DVD format being promoted by the Toshiba/NEC group. They plan to switch to the new format in December 2005, when the new DVD decks are expected to hit the market. With Sony promoting the BD DVD, an intense struggle to become the industry standard is expected, although the HD-DVD format seems to be in the lead at present.



Electrical Measuring Equipment Production Up Sharply

Production of electrical measuring equipment in the first six months of the current fiscal year ended September 2004 rose 48% compared to the same period a year earlier to ¥330 billion. Demand for electrical measuring equipment is rising due to favorable sales of digital home electronics and the continuing shift to 3G phones.

Flat Panel TV Sets Selling Well

Sales of plasma, LCD and other flat panel televisions are strong in the year-end buying season, according to retailers. With the launch of terrestrial digital broadcasting, consumers are becoming more critical about picture quality and this is also a factor behind the growing demand for flat panel models. At the same time prices are coming down and retailers are trying to shift the focus to larger-screen models in a bid to sustain profit margins.

Earnings Roundup

Internet Ad Agencies Post Strong Profits

The six major Internet advertising agencies reported strong growth in sales and profit in the July-Sept. quarter. AD billings at Septeni were up 35% to ¥3,131 million and ordinary income rose 71% to ¥202 million. Opto reported a 21% year-on-year increase in ordinary income to 70 million yen and a 2.2-fold sales gain to ¥1,940 million. Ordinary income at Cyber Agnet rose 70% to ¥416 million on a sales gain of 66% to ¥7,873 million. With the Internet advertising market expected to continue to grow, Internet ad agencies are expected to continue to report strong earnings growth for the foreseeable future.

Initial Public Offerings News (For detailed information, go to:

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

Miho Japan (2880 Hercules)

Miho Japan Co., Ltd., a Japanese manufacturer and retailer of frozen and other foods, will list on the Hercules market of the Osaka Securities Exchange on December 28. The company will offer 1,500 shares to the public in its initial public offering. Of those 1,000 are newly issued shares and 500 are shares currently privately held in private. The tentative price range will be announced on December 12. The fixed offering price will be announced on December 15. Toyo Securities is the lead underwriter of the offer.



Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
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.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	8,160	3,596	321
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	7,941	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	100.1	106.2	81.5									253
YoY	1.5	1.2	0.9	13.4	19.2	10.2	0.1	-2.2	0.5	0.3	-1.3	11.1

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

