Industry Monitor

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High-tech Sector

KDDI (9433 TSE1) Reports Highest Net Growth in Mobile Phone Subscribers

The number of subscribers to mobile phones in November increased by313,000 to 84.9 million. The net increase in subscribers at KDDI was 167,000 and that at NTT DoCoMo totaled 135,000. Sales of 3G phones have been particularly strong, with 3G subscribers topping 7.5 million at NTT DoCoMo. KDDI continues to dominate the market, accounting for 88% of all 3G phones in Japan, but NTT DcoMo has been in the lead for eight months in a row.

Softbank (9984 TSE1) Applies for 800MGh License

Softbank applied for a 10MHz bandwidth in the 800MHz frequency band ground stations for mobile phones, indicating its determination to enter the mobile phone market. The company plans to launch its mobile phone service in 2007. The application challenges the government's decision to allocate this bandwidth only to existing service providers NTT DoCoMo and KDDI. In response, the government announced an additional allocation of the 1.7GHz band, which would be allocated to new entrants. The government's move was welcomed by some companies planning to enter the market, placing Softbank in a difficult position.

Semiconductor Production Trends

The combined production of semiconductors at Japan's 12 major semiconductor firms in the first half of the current fiscal year ended September 2004 rose 10.7%. Production rose at all semiconductor producers, except Sharp and Sanyo. However, all twelve have scaled back their forecasts for the second half in view of the recent trends, highlighted by slowing output of digital home electronics. The renewed forecast sees production for the full fiscal year rising 5.8% year-on-year. The previous forecast saw output rising 10.5% YoY.

S. Korean Firms to Launch Flat-panel CRT TV

South Korea's LG Phillips Displays and Samsung SDI will launch new CRT TV models that are just 38cm thick. Although they are thicker than LCD TVs, which are about 11cm thick, their thickness is roughly the same as that of DVD players and set-up boxes used as add-ons to televisions. The most attractive feature, however, is the price. Flat-panel CRT TVs are expected to cost less than half that of comparable-size LCD TVs. These could have a significant impact on the popularization of flat-panel televisions, including LCD and plasma televisions.

Electronic Materials Output Dips in October

Production of electronic materials in October declined 4% compared to October 2003. Despite the overall decline, production of permanent magnets rose 13%, according to EMAJ, the sector's trade body. Output of rare magnets increased 18%, reflecting strong demand for choke coils. Output of semiconductor ceramics rose as demand for multi-layer type variable resistors used in digital portable devices was up. Production slowed down mainly because of a sharp decline in the output of electronic equipment and devices.

IA Server Shipment to Record Strong Growth

Shipments of IA servers in the first half of the current fiscal year will rise an estimated 17.4% year-on-year to 422,300 units. Shipments in the first half were up 23.1% to 203,800 units. Orders from the manufacturing, financial academic and the public sectors were particularly strong. While blade servers, 64-bit servers and Linux servers were in the news, orders were not particularly high. Orders for the rack-type server stayed strong but it was the low-priced entry server that led the growth.

Flat-Panel TVs Selling Fast, Ripple Effects Spread to Other Consumer Electronic Items

Flat panel televisions, the LCD-type in particular, are selling like hot cakes, with sales more than double the last year's level at most major consumer electronic chains. Sharp's 32" LCD television models priced between ¥348,000 to ¥398,000 are the most popular, according to retail sources. Sony's 32" LCD TV priced around the same level is also selling well. The diffusion rate of flat-panel televisions in fiscal 2004 in expected to rise by 5 percentage points to 11%. Sales of DVD decks are also up, rising an estimated 80% from 2003. Personal computers supporting audio and video functions and priced between ¥200,000-¥300,000 are also in demand. In video game software, Dragon Quest VIII (Square - Enix) and Metal Gear Solid III (Konami) for PSP and Nintendo DS platforms are the most popular.

Electronic Component Manufacturers Focus on Exploring New Growth Areas

Although the traditional year-end peak in orders did not materialize this year, Japan's major electronic component manufacturers, such as TDK, Nihon Densan and Alps Electric, remain bullish, expecting orders to pick up from next spring as inventory adjustment in mobile phones in China runs its course. Moreover, demand from the automotive sector is strong and new digital consumer electronic products seem to be selling well. While many electronic component manufacturers expect the growth rate in the second half to be slower, they continue to boost sales, led by new growth areas and value-added products.

Internet AD Market Comes into Its Own

While ad billings have been sluggish in recent years, Internet ad billings have been rising steadily, topping ¥100 billion in 2003, up 1.4 times from the previous year as the number of people connected to the Internet has reached almost 80 million. Internet advertising has become an integral part of advertising strategies at major companies including those in the automotive, cosmetics and other consumer sectors.

Machine Tool Orders Up in October but Outlook Uncertain

Machine tool orders in November rose 45.6% compared to the same month a year earlier to ¥111.1 billion, according to the Japan Machine Tool Builders Association. Monthly orders have been above previous-year levels for 26 months in a row. Orders have also been above the ¥100 billion level for seven months. Domestic orders were up 52.9% to ¥63.0 billion while overseas orders rose 37.0% to 48.1 billion. Of the seven major machine tool manufacturers, orders rose more than 20% at seven. Mitsubishi Heavy Industries reported the highest growth, with orders up 53.8%. Despite the rosy picture, machine tool builders have become cautious, expecting orders in the second half to decline form the first-half levels. They expect orders to dip in the second half, falling an estimated 3.2% YoY, as production of digital home electronics slows in the months ahead. On the other hand, orders from the automobile industry are expected to stay strong and the manufacturing sector is moving some production back to Japan, which bodes well for machine tool builders. It is against the backdrop of these factors, that machine tool manufacturers do not expect orders to crash.

Industrial Machinery Orders Down in October

Orders for industrial machinery in October fell 6.3% year-on-year to ¥286.8 billion. Compared to the previous month, aggregate orders plunged 52.2%. Export orders were 34.0% lower compared to October 2003 and 67.2% below than the previous month due mainly to an absence of orders for production plants. Domestic orders rose 3.3% year-on-year but fell 46.9% from the previous month. Orders for tanks (down 93.4%) and metal machining equipment (down 65.6%) suffered the steepest declines. Orders were higher for compressors, fans and plastic processing machinery.

Tokyo Gas (9531 TSE1) to Launch Fuel Cell for Home Use

Tokyo Gas will start leasing home use fuel cells from next February. This is the first time that home-use fuel cells have been commercialized. The company hopes to lease 200 units in the first year and expects sales to rise to an annual 10,000 units by 2009. Other oil and gas companies are working on fuel cells of their own and expect to enter the market in 2005-2006.

Initial Public Offerings News (For detailed information, go to: http://www.tokyoipo.com/top/en/index.php?id=&segid=)

No new issues were approved for initial public offering during the week.

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