



Vol . 144

High-tech Sector

Week ended Dec. 19, 2004

Changes in Mobile Phone Manufacturer Rankings

Panasonic Mobile Communications edged up to the top of the ranking of mobile phone makers for the third quarter. The top ranking NEC slipped to the third spot as sales of its core models turned sluggish. Panasonic's models with replaceable cover were well received, driving up sales. Sharp came in second as its multi-functional mobile phones were highly rated for their superior performance. In the third quarter Panasonic had a market share of 17.8%, Sharp 17.4% and NEC 15.1%.

Mobile Phone Shipments Decline in October

Shipments of mobile phones in October fell 41.7% from the same month a year ago to 2.33 million units, according to JEITA, a trade body. This was the tenth consecutive year-on-year decline in monthly shipments. JEITA blamed the slowdown in shipment on the slower-than-expected pace of replacements of 2G phones with 3G models and the mismatch between services provided by providers and those required by consumers.

Consumer Electronics Sector- Demand Peaked at Mid-year

The consumer electronics demand peaked just after the Olympic games and has been slowing ever since, driving up inventories of electric components, devices and end products. However, some in the industry (Toshiba president Okamura) see the inventory adjustment completed by next spring and demand to start picking up from mid-2005. According to industry insiders, device manufacturers adopted supply management and other systems to better match production plans to demand fluctuations and this will help them bring down inventories faster. However, they warn that prices will not recover and only rising volume will be able to offset the current slowdown. This, industry insiders also warn, will separate the winners from the losers in 2005.



Survey Shows Current Correction in Electronics Sector Likely to be Short

The current slowdown in the electronics sector is likely to be short, with production picking up again around April, according to a recent survey of major electronics firms in Japan by a leading industrial daily. According to the survey results, 68.1% of the companies polled feel that the electronics sector has entered a downturn but that the slide will slowdown in the first quarter of 2005. Only 10.6% said that the electronics sector has entered a prolonged correction phase. Declining prices of consumer digital electronics should fuel demand both at home and abroad. A majority is also of the opinion that the sector is better prepared for the slowdown this time, having installed SCM and other production control systems.

Semiconductor Maker Ranking – Japanese Makers Slip

Despite rising sales of semiconductors to digital equipment manufacturers, Japan's semiconductor manufacturers slipped in the global ranking of semiconductor manufacturers. Renaissance Technology, a Hitachi-Mitsubishi joint venture, slipped from the third spot to the fifth. Toshiba fell to the sixth position from the fifth position at which it was ranked last year. Matsushita came in 13th and Sony was ranked 16th.

Optical Cable Demand Forecast

The demand for optical cables in Japan will increase at an annual average rate of 6.5% to 10.04 million kilometers in fiscal 2008, according to the Japan Electric Cable Industry Association, a trade body. However, demand in fiscal 2004 is likely to be down 19.5% compared to the previous fiscal year. Expected growth in backbone infrastructure to cope with growth in traffic along with the spread of FTTH services was cited in the report to explain the bullish forecasts. The report also sees a growing demand from LAN networks in buildings, FTTH networks in residential condominiums and the spread of CTAV networks.

Orders for Small Machine Tools to Stay Strong in 2005

Next year is likely to turn out to be a bumper year for manufacturers of small machine tools as they are less dependent on the electrical machinery and precision equipment sectors, areas from which orders are slowing. Small machine tool builders have the automobile and general machinery sectors as their core customer sectors and they focus on niche areas which large machine tool builders find unattractive. A recent survey by the association of small machine tool makers showed that orders in the third quarter rose 38.4% to ¥22.5 billion. Orders in the fourth quarter are likely to rise to ¥23 billion. Prices are also recovering. The average price of small machine tools shipped by the 35 members of the association in the first quarter was ¥5.91 million. The average price rose to ¥6.45 million in the second quarter and to ¥6.55 million in the third quarter. Despite the rosy outlook, rising raw material prices may squeeze profit.



Machine Tool Orders Up in November

Machine tool orders in November rose 48.4% year-on-year to ¥113.3 billion. This was the 26th consecutive year-on-year gain in monthly orders. It was also the seventh straight month for monthly orders to stay above the ¥100-billion level. Orders are expected to stay at this level in December also. Domestic orders rose 52.6% to 62.8 billion and overseas orders were up 43.5% to ¥50.4 billion. Orders from the automobile, general machinery and precision machinery industries were particularly strong. Orders from Europe rose for the 11th month in a row and those from the U. S. were up for the 14th straight month.

Vacuum Equipment Sales Up in Third Quarter

Sales of vacuum equipment in the third quarter rose 39% year-on-year to ¥176,177 million. Sales were up 5% from the previous quarter. Orders were up 5% year-on-year. Orders were down 15% compared to the previous quarter, with domestic orders down 28%. Overseas orders fell 5% from the previous quarter. The only gainers were the measuring instruments, up 50% and the vacuum pump sectors, up 31%.

Music DVDs Winning Greater Recognition

Music DVDs are winning greater recognition in the music industry, with their market expected to reach ¥60-¥63 billion and shipments rising 10% to 40 million records in 2005. Music DVDs are growing out of the early diffusion phase and coming into their own. The double-digit growth will come despite lower prices.

Mobile Game Market Expanding

Japan's mobile game market is expanding, with the new models from Sony and Nintendo off to a smooth start. The first shipment of 200,000 units of PlayStation's new model were almost sold out on the first day. Sales of Nintendo's Nintendo DS already top 1.4 million units worldwide. Domestic shipments total 800,000 units. Sony plans to launch its new PS model in the U. S. and Europe in 2005 and expects sales to reach 3 million units by March. Nintendo has raised its shipment forecast for 2004 to 2.8 million units from the previous 2 million units. Core users were the primary buyers on the first day. Popular software titles for the PS are Minnanno Golf and Ridge Racers. The most popular game title for the DS is Super Mario. With Square-Enix planning to launch the mobile game version of its popular title Dragon Quest, the game market looks as if it is set for a rebound. However, industry experts warn that it is too early to declare that this is the case.



Earnings Roundup**Vitec (9957 TSE2) Reports Strong Interim Results**

Vitec's consolidated net sales in the first six months of the current fiscal year ending March 2005 rose 11% year-on-year to ¥67.7 billion, according to the interim results released recently by the company. Operating income was up 38% YoY to ¥1.19 billion. The ED Division drove sales and profit, as sales rose 13% to ¥59.4 billion. The company has drawn up a bullish three-year medium term plan that envisions strong growth in Sony devices, global devices and original devices.

Profit Jumps 13-fold at Access

Consolidated ordinary income at Access, a vendor of browser software, in the February-October period rose 13-fold to ¥1.08 billion on a sales gain of 38% to ¥7.4 billion. Sales were driven by its mainstay software development operations, which saw sales surge 41% to ¥6.67 billion. Reflecting the spread of 3G phones, royalties on software products increased sharply, underpinning profit growth. In Japan sales of Net Front, browser software used in cell phones and digital electronics were particularly strong. Royalty revenue on sales of devices that use its software rose 63% to ¥2.56 billion. Operating income increased 580% to ¥1.08 billion. Despite the strong showing, the company has left its full fiscal year forecasts, which see ordinary income rising 66% to ¥2 billion on a sales gain of 16% to ¥10.2 billion, unchanged.

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

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

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.	99.9	106.1	81.5	74.9								253
YoY	1.3	112	0.9	-0.9	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

