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High-tech Sector

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Japan's IT Services Sector – Medium-term Outlook

Japan's IT services sector witnessed only marginal growth in the first half of 2007, but the outlook for the second half is somewhat better. Japan's IT services market in 2006 was an estimated 4.8 trillion yen, an increase of 3.6% over the previous fiscal year, according to IDC, a high-tech market research consultancy. The sector is projected to grow at an annual average rate of 3.6% through 2011, when the total revenue will reach 5.7 trillion yen. The finance and manufacturing sectors will drive demand. Orders for IT services from the retail, telecommunications and media sectors will be stable, the report adds.

IT Service Sector Sales Up in July

IT service sector sales in July rose 6.8%, recording the fourth consecutive year-on-year gain in monthly sales as game software and custom software development-related demand lifted total sales. Game software sales were up 38.5% YoY, driven by domestic demand. Custom software sales, centering on the financial sector, increased 4.3%. In the custom software category, system integration-related software sales were up 6.9%. IT outsourcing-related sales increased 5.9% and data service related sales rose 6.3%. Employment in the IT sector increased 1.8%, although the number of IT service firms dropped by 0.4%. The number of employees dispatched by staffing agencies increased 20.2%.

Japan Facing Serious Shortage of System Engineers

Japan currently has about half million software professionals, mainly system engineers. But it needs an additional 150,000 to meet current demand alone and this has started to affect companies that use IT systems extensively.

Vacuum Devices Orders Down in Second Quarter

Orders for vacuum devices in the second quarter were 25% lower year-on-year and 16% lower from the preceding quarter. Orders totaled 159.9 billion yen, according to the Japan Vacuum Industry Association. Sales, however, increased 10% year-on-year but were 2% lower compared to the previous quarter. Second quarter sales totaled 199.8 billion yen.

SUMCO (3436 TSE1) to Sharply Boost Wafer Production

SUMCO (Stock code: 3436) said Tuesday that it will invest 14.5 billion to build a new wafer production facility in Saga Prefecture, quadrupling the production capacity when the new plant comes on stream in 2009. Plans call for continually increasing capacity thereafter. Although SUMCO is the second largest silicon wafer producer for semiconductors, Europe has the lead in silicon wafers for solar cells.

Asahi Glass (5201 TSE1) Likely to Pull out of LCD Panel Market

Asahi Glass (Stock code: 5201) is planning to withdraw from LCD panel manufacturing and instead concentrate on its core businesses, plate glass, LCD and glass panels for plasma televisions. The decision to withdraw from the LCD panel market reflects intensifying competition in small to medium-size glass panels used in mobile phones and car navigation systems which is squeezing profit at its LCD panel subsidiary.

Machinery Orders Up in July

Private sector machinery orders (excluding ships and electric power) in July rose 17.0% from the previous month to 1.1 trillion yen, according to the Cabinet Office. This was the first gain in orders in two months and the highest gain in 45 months. While capital investment fell in the April-June quarter, the strong growth in machinery orders is seen as a reflection of a steady undertone to the economy. Machinery orders from the manufacturing sector were up 10.8% and those from the non-manufacturing sector increased 19.4%. In the manufacturing sector, orders were up from the electrical equipment and chemicals industries. In the non-manufacturing sector, more orders were received from the transportations and communications industries.

Mobile Phone Shipments Increase in July

Shipments of mobile phones (including PHS) increased 54.6% compared to the same month a year earlier to 5.34 million units, according to JEITA, the sector's trade association. Orders were robust exceeding the five million unit level for two months in a row. Shipments of mobile phones rose 67.8% led by 3G phones, in addition to new models of 1-seg summer models. Shipments of PHS phones were up 47.3%.

Earnings Roundup

Mitsubishi Materials (5711 TSE1) Likely to Post Strong Profit Growth

Mitsubishi Materials' (Stock code: 5711) consolidated ordinary income for the first half of the current fiscal year ending September 2007 is expected to rise 2% to 60 billion yen as sales climb an estimated 11% to 770 billion yen. Both figures are higher than the company's previous forecast. Full-year sales are likely to be up 3% to 1.5 trillion yen, with ordinary income rising by 12% to 120 billion yen, according to a leading Japanese economic daily. The company is benefiting from higher copper prices.

Initial Public Offerings

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

A. D. Works (3250 JAQ)

A. D. Works Corporation will list on the JASDAQ Securities Exchange on October 19. A real estate firm, A. D. Works offers a wide range of real estate services from real estate brokerage, real estate management and real estate appraisal to real estate investment fund support. The company will offer 6,400 shares to the public in its initial public offering. Of those, 5,400 are newly issued shares and 1,000 are shares currently held in private. The tentative price range will be announced on October 1. The fixed offering price will be announced on October 10. The company plans to use the proceeds to purchase real estate. Nomura Securities is the lead underwriter of the offer.

Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
July	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
Aug	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
Sept	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
Oct	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
Nov	112.9	118.2	85.0	82.9	2,507	1,545	17,643	2,939	5,972	8,731	3,823	238
Dec	111.6	116.0	83.6	85.4	2,568	1,771	16,809	2,468	6,005	8,337	3,544	306
Jan	110.8	116.8	82.9	76.3	2,327	1,342	15,193	1,657	5,335	8,201	3,626	257
Feb	110.4	117.4	84.0	84.1	2,507	1,463	16,648	2,070	6,535	8,043	3,539	177
Mar	102.6	112.3	78.9	94.7	3,487	1,550	19,984	2,448	8,513	9,023	4,053	214
Apr	108.9	114.8	78.3	96.5	2,410	1,739	15,644	2,552	5,024	8,068	3,592	205
May	110.3	117.3	77.2	101.5	2,359	1,624	15,402	2,427	4,781	8,195	3,722	198
June	108.6	118.2	72.4	116.2								209
YoY	-0.9	2.2	-16.0	0.9	11.1	2.9	-1.6	5.6	-8.6	0.8	1.1	-7.8

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change* preliminary

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations