2011 PRODUCTION FORECASTS FOR THE GLOBAL ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES

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JEITA

JAPAN ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES ASSOCIATION

FOREWORD

After the 2008 financial crisis, though countermeasures in many countries led to a bottoming out and fueled a trend toward global economic recovery in 2009, unemployment rates in the USA and other major economies remained high in 2010. The Japanese economy was particularly hard hit by the first major rise in the value of the yen against the US dollar in 15 years, a slowdown in production and exports as overseas economic growth decelerated, a gradual trend toward deflation, and rising costs of materials such as rare earth resources.

In this situation, according to the annual survey conducted by the Japan Electronics and Information Technology Industries Association (JEITA), production by the global electronics and information industries is estimated to increase 10% in 2010, to ¥208.8 trillion, and is forecast to advance a further 6%, to ¥220.9 trillion, in 2011. Although these forecasts point to a gradual advance, they fall short of the 2008 total of ¥222.8 trillion. Production by the industries in Japan is forecast to reach ¥15.7 trillion in 2011, 15% short of the total of ¥18.5 trillion in 2008. Offshore production by Japanese companies is expected to continue increasing, leading to a particularly severe environment for Japan's production base.

At JEITA, we see an important role for the IT and electronics industries in achieving stable economic growth and a low-carbon society, and we are pursuing our activities on behalf of the industry under the theme of "advancing both the environment and growth." If further progress is made in introducing products suited to the global market in high-growth sectors such as those related the environment, expectations will be strong for continued economic development. To this end, in 2010 attention has been focused on saving, storing and creating energy, which is why JEITA also implemented a survey of globally competitive Japanese products and services in the fields of power semiconductors, lithium ion batteries and the Smart Grid.

The survey that forms the basis of the “Production Forecasts for the Global Electronics and Information Technology Industries” is implemented among member companies by JEITA's product-specific committees with cooperation from seven industry-related associations.

In addition to examining the three topics noted above, the survey covers the high-potential field of electronic equipment for the medical industry. In addition, JEITA held study sessions with external organizations and implemented a questionnaire among member companies until mid-November. The result is a realistic snapshot of the industry's situation and prospects.

In the future, JEITA will continue to enhance its activities by reflecting a broad base of comments and opinions in new products and services to contribute not only to the industries, but also to the lifestyles of people everywhere. I look forward to reporting on our progress in the future and hope that the results of this year's survey prove to be a valuable resource.

Tsutomu Handa
President
Japan Electronics and Information Technology Industries Association (JEITA)

PRODUCTION FORECASTS FOR THE GLOBAL ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES

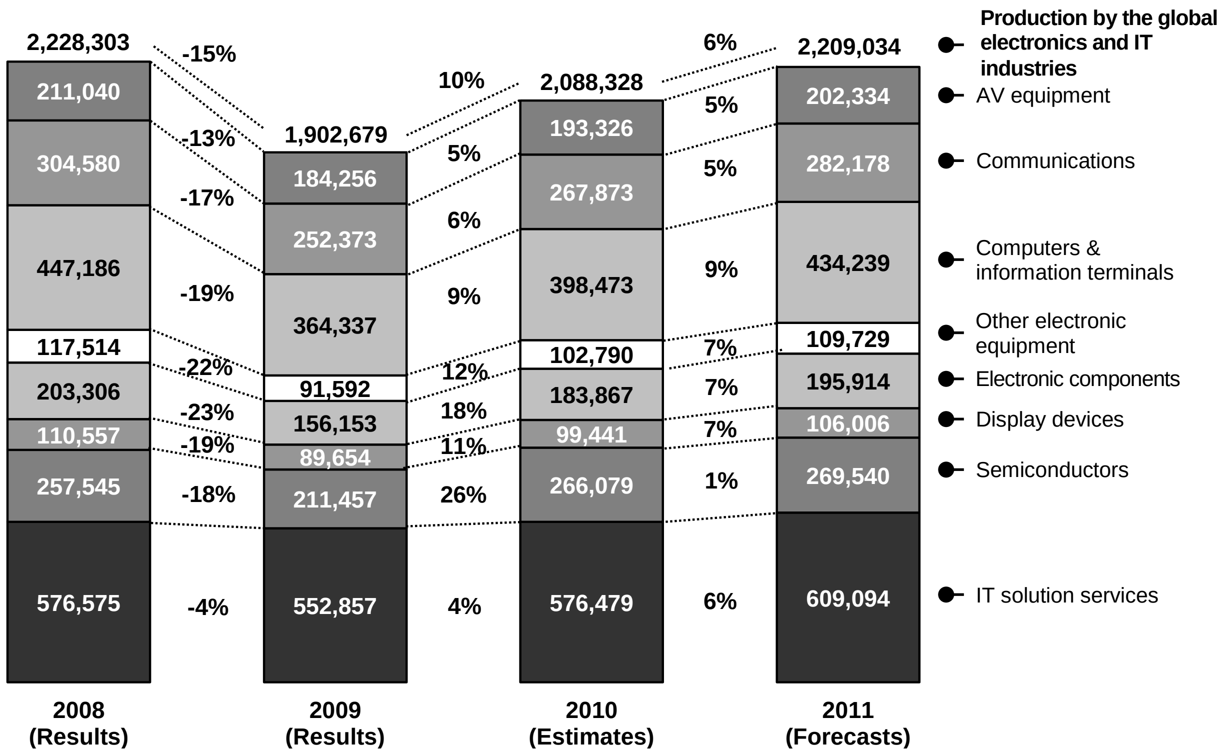
Production by the global electronics and IT industries followed the path of recovery in 2010. After the financial crisis sparked by the Lehman Shock of 2008, economic stimulation efforts led to recovery in major economies, sustaining an estimated 10% year-on-year increase in production this year, to ¥208.8 trillion. The economy will have to be closely watched following the implementation of stimulus measures, but new needs are foreseen with the expansion of cloud computing and the introduction of new information terminals, leading to a production forecast of ¥220.9 trillion in 2011, equivalent to a 6% rise.

The global economy steadily recovered from the financial crisis in 2010. Many countries implemented subsidy programs and lowered taxes, which fueled a recovery in demand for automobiles, flat-panel TVs and other durable consumer goods. In addition, diffusion of smartphones and the launch of new digital book terminals brought information closer to people in everyday life. In line with improved financial results, enterprises also implemented strategic IT investments, leading to demand for personal computers (PCs) with new operating systems, as well as scanner/OCR equipment and printers. In this environment, total global production by the electronics and information industries (including IT solutions and services) is seen reaching ¥208.8 trillion, a 10% increase from 2009. Of this total, production by the electronics industry (hardware, including electronic equipment, components and devices) is estimated to increase 12%, to ¥151.2 trillion. These results indicate that the industries are on the way to recovery from the effects of the financial crisis.

In 2011, corporate financial results are expected to improve in Europe and the Americas, and internal demand is anticipated in China and other developing economies. However, the gradually declining effects of stimulus measures make it necessary to keep a close watch on consumption trends. Continuing volatility in the foreign exchange market also makes it difficult to be optimistic moving forward. Nevertheless, the electronics and information industries will continue to effectively apply IT tools in global warming and energy consumption countermeasures, and enterprises will distinguish their management strategies around their related activities. The expanding range of IT application, centered on computers and other information terminals, is expected to contribute to a 6% increase in global production by the industries in 2011, for two consecutive years of overall growth.

Production by the Global Electronics and IT Industries

(¥100 million; % change year-on-year (YoY))



FORECASTS OF GLOBAL PRODUCTION BY JAPANESE COMPANIES

Global production by Japanese electronics and IT companies is estimated to rise 11% in 2010, to ¥43.2 trillion, the first year-on-year increase in three years. The trend of recovery is expected to continue in 2011, when production is forecast to increase 4%, to ¥45.1 trillion. Production by Japanese electronics and IT companies accounted for a significant 21% of the global total in 2010. Although Japanese companies are facing increasing competition worldwide, production is seen growing in line with the introduction of products taking advantage of environment-related and other technologies.

Global production by Japan's electronics and IT industries (including production outside Japan), is seen increasing 11% in 2010, to ¥43.2 trillion. Of this total, global production of electronics by Japanese companies is expected to advance 12%, to ¥38.1 trillion. Japan's electronics and IT industries are maintaining their global competitiveness and a large market share, but the rapid increase in the value of the yen against the US dollar and other currencies after the financial crisis is impacting the profitability of Japanese companies and cutting the competitiveness of products exported from Japan. However, in sectors such as flat-panel TVs and printers, production of which was shifted outside Japan at an early stage, high growth was seen in 2010.

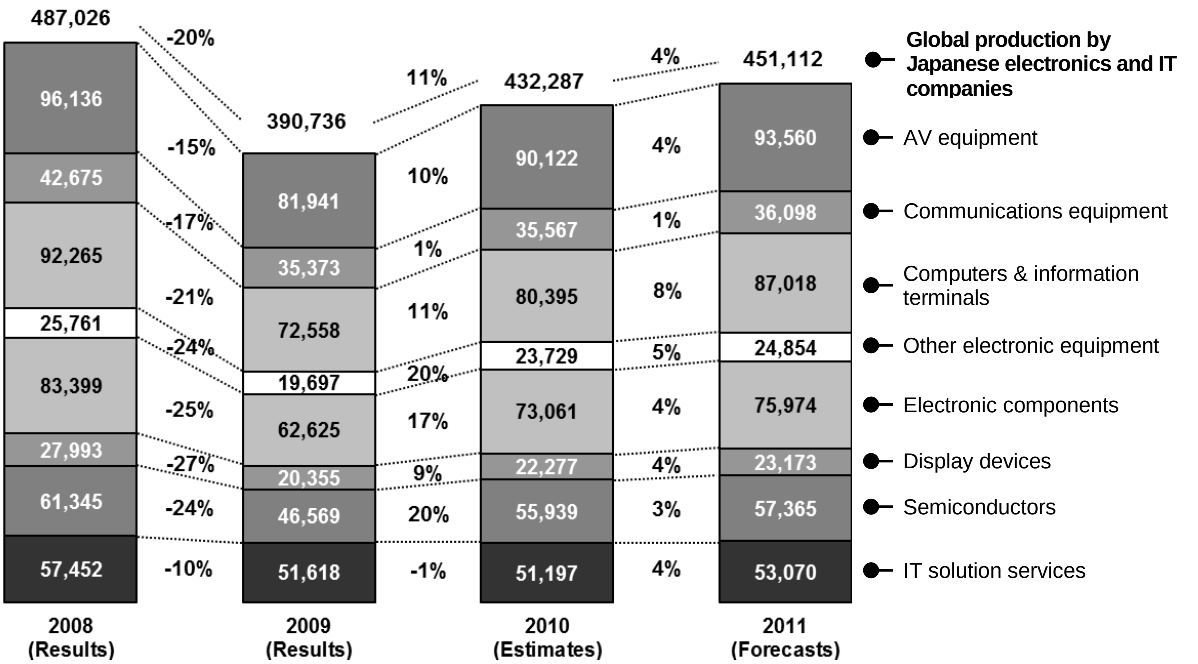
In 2011, a 4% increase is forecast for both total global production by the Japanese electronics and IT industries (including offshore production) and global production by the Japanese electronics industry alone, though these totals remain well below the peak levels of 2008.

Digitization drove a trend toward the commoditization of high-performance products, creating a difficult operating environment for Japanese companies. However, demand is strong for technologically advanced products with features such as global warming countermeasures, low energy consumption, increased display resolution and compact sizes. In addition, new advances in the semiconductors and electronic components that make such products possible can be anticipated from Japanese companies. In addition, the IT solutions and services market will see expanding demand related to combating global warming and new services for using information via cloud computing. For these reasons, though it is too early to be optimistic about the future, an overall increase in production can be anticipated again in 2011.

In 2010, the product segments in which Japanese companies maintained the highest global market share continued to center on AV equipment and electronic components, specifically image projection equipment (92%), video recording and playback equipment (66%), image scanning/OCR equipment (65%), car AV communications equipment (51%), printers (43%), flat-panel TVs (43%) and electronic components (40%).

Global Production by Japanese Electronics and IT Companies

(¥100 million; % change YoY)



FORECASTS OF DOMESTIC PRODUCTION BY THE JAPANESE ELECTRONICS INDUSTRY

Domestic production by the Japanese electronics industry is estimated to increase 13% in 2010, to ¥15.3 trillion, the first year-on-year expansion in four years. Special demand was seen for flat-panel TVs and other products thanks to the Eco-point System, and for automobiles thanks to subsidies implemented by the Japanese government. This demand also contributed to needs for electronic components and devices. However, the rise of the yen against other major currencies restricted exports. Progress will continue toward the establishment of global production structures. In this environment, though domestic production is forecast to increase 2%, to ¥15.7 trillion in 2011, this amount is still 15% below the result for 2008.

Japan continues to face a severe economic environment. The rapid rise in the value of the yen has delayed a recovery of exports, and while cost-reduction efforts have improved corporate results, the pace of recovery is slow. Worsening employment and decreasing incomes are also impacting personal consumption. In this situation, domestic production by the industry receded from ¥20 trillion in 2007 to ¥13 trillion in 2009.

In 2010, measures by the Japanese government, including the Eco-point System for flat-panel TV and other environmentally friendly product purchases, as well as automobile subsidies created demand for these products and sustained an estimated 13% increase in domestic production by the electronics industry, to ¥15.3 trillion. Factors contributing to this rise included flat-panel TVs (up 12%), replacement demand for which was sustained by the Eco-point System and the 2011 shift to terrestrial digital broadcasting, PCs with new operating systems (up 14%), electric measuring instrumentation (up 32%) thanks to a recovery in capital investments related to semiconductors, electronic components (up 19%) in line with the expanding usage of electronics and digital equipment in automobiles, and semiconductors (up 22%).

Domestic production in 2011 is forecast to rise a slight 2%, to ¥15.7 trillion. Demand for flat-panel TVs is expected to drop following the full-scale shift to terrestrial digital broadcasting in July. On the other hand, domestic production of electronic components and devices is expected to grow in line with global market expansion for electronics products, but production will continue to shift to offshore bases.

In 2010, the Japanese electronics industry manufactured 40% of its products in Japan. Domestic production should remain strong for products offering high reliability and quality, such as electric measuring instrumentation (79% of which was manufactured in Japan in 2010), display devices (79%), server/storage equipment (73%). electronic medical equipment (74%) and semiconductors (70%).

Domestic Production by the Japanese Electronics Industry

(¥100 million; % change YoY)