

**2010 PRODUCTION FORECASTS FOR THE
GLOBAL ELECTRONICS AND
INFORMATION TECHNOLOGY INDUSTRIES**

December 15, 2009

JEITA

JAPAN ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES ASSOCIATION

FOREWORD

This report summarizes the results of a survey of companies participating in product sector-specific boards in the Japan Electronics and Information Technology Industries Association (JEITA). Thanks to the participation of these boards, one of the unique characteristics of our association, I am confident of the high quality of the survey results.

Japan's electronics and information technology (IT) industries were deeply affected by the global financial crises that began in September 2008 with the so-called "Lehman shock." Manufacturing adjustments and uncertain economic conditions resulting from sudden decreases in stock prices worldwide, currency rate fluctuations and the rapid drop in exports from Japan led to a feeling of economic suffocation never felt before.

Completing this year's survey was made all the more difficult by this uncertain economic environment. However, JEITA held three study sessions with external organizations, including trading companies, and implemented a survey of its member companies. This work continued until mid-November in an effort to fully reflect the economic environment and attain the most realistic forecasts possible.

The results of these endeavors are presented herein under the themes of "Production Forecasts for the Global Electronics and Information Technology Industries," "Forecasts of Global Production by Japanese Companies" and "Forecasts of Domestic Production by the Japanese Electronics Industry."

According to the survey, taking into account the conditions outlined above, JEITA forecasts that global production by the electronics and IT industries will at last hit bottom, rising slightly in 2010 to the ¥20 trillion level. Nevertheless, this represents a 15% decline from the 2007 level. In particular, domestic production by Japanese companies is seen dropping to 60% of the historical peak of 2007, to ¥15 trillion. On the other hand, high growth levels should be attainable if product development emphasizes market trends such as enhancing environmental friendliness.

The electronics and IT industries are gaining increasing attention around the world for their potential to contribute significantly to global economic expansion and countering global warming.

With these forecasts, our aim is provide a reliable reference for industry insiders and the public at large. We therefore look forward to receiving the comments of readers, which will help us improve the annual survey in years to come.

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

PRODUCTION FORECASTS FOR THE GLOBAL ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES

In 2009, production by the global electronics and IT industries is seen declining 15% from the previous year, to ¥190.3 trillion, owing to the global financial crisis that began in the fall of 2008. However, the many fiscal measures implemented by countries worldwide have helped bring the global economy in the direction of recovery, and for this reason global production is forecast to increase 5% in 2010, reaching ¥200.4 trillion. Although the immediate crisis seems to have passed, the global economy remains unstable, and demand in the industries is expected to center on low-priced products with specific functions, which will slow the process of recovery.

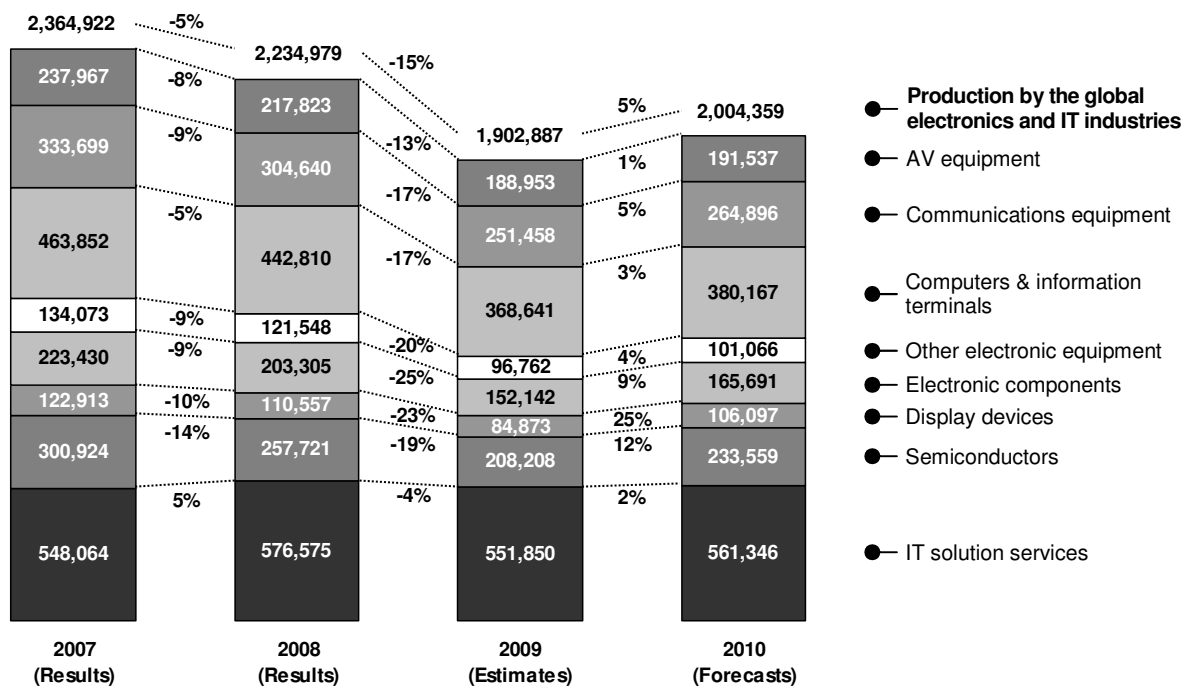
This year saw economies around the world slide rapidly following the constriction of economic and financial activities in the USA in 2008. Financial turmoil spread from the USA and Europe to emerging economies. Concerns such as the drop in American property value and worsening corporate results led to sudden inventory adjustments and currency exchange rate fluctuations, pushing the global economy into a state of uncertainty. In this situation, production by the electronics and IT industries (including solutions and services) is estimated to decrease 15%, to ¥190.3 trillion. Of this total, production of electronics (hardware including electronic equipment, components and devices) is seen dipping 19%, to ¥135.1 trillion. The electronics and IT industries have grown at a rapid pace in recent years, sustained by strong consumer demand against the backdrop of economic growth in emerging economies. However, needs are growing for low-priced products—such as flat-panel televisions,

personal computers (PCs) and mobile telephones—with specific functions. This situation is making it difficult to realize increases in the value of production and creating a severe operating environment.

In 2010, economic stimulation measures implemented in 2009 by governments around the world are expected to steadily bear fruit, taking the situation from crisis to recovery. Expectations are that measures to spur demand in America and Europe will turn around these economies, while in emerging markets strong demand is foreseen in China and other countries. These factors are expected to fuel a slight recovery in the electronics and IT industries, though lingering uncertainty will keep the level of this recovery well below the peak of 2007. On the other hand, the expanding range of IT equipment applications worldwide should lead to a recovery in demand centered on display devices and semiconductors, sustaining an increase in global production by the industries.

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 decline 19% in 2009, to ¥38.7 trillion. However, an increase of 5% is forecast in 2010, to ¥40.4 trillion. Production by Japanese electronics and IT companies accounted for 20% of the global total in 2009, the majority share by country, and while these companies are facing increasing global competition, they are seen improving results by focusing on their strengths in high-value-added and environmentally friendly products.

Global production by Japan's electronics and IT industries, including overseas production, is estimated to decline 19% in 2009, to ¥38.7 trillion. Of this total, global production of electronics by Japanese companies is expected to decrease 21%, to ¥33.2 trillion.

Japan's electronics and IT industries are maintaining their global competitiveness and a large market share, but the worldwide economic slowdown and the rapid rise in the value of the yen against other currencies are impacting profitability. In addition, Japanese companies specializing in providing high-performance, high-value-added products are losing overseas market share to other Asian companies with low-priced products offering specific functions. Production of electronic components and semiconductors has also dropped markedly in line with reduced demand for electronic equipment and inventory adjustments.

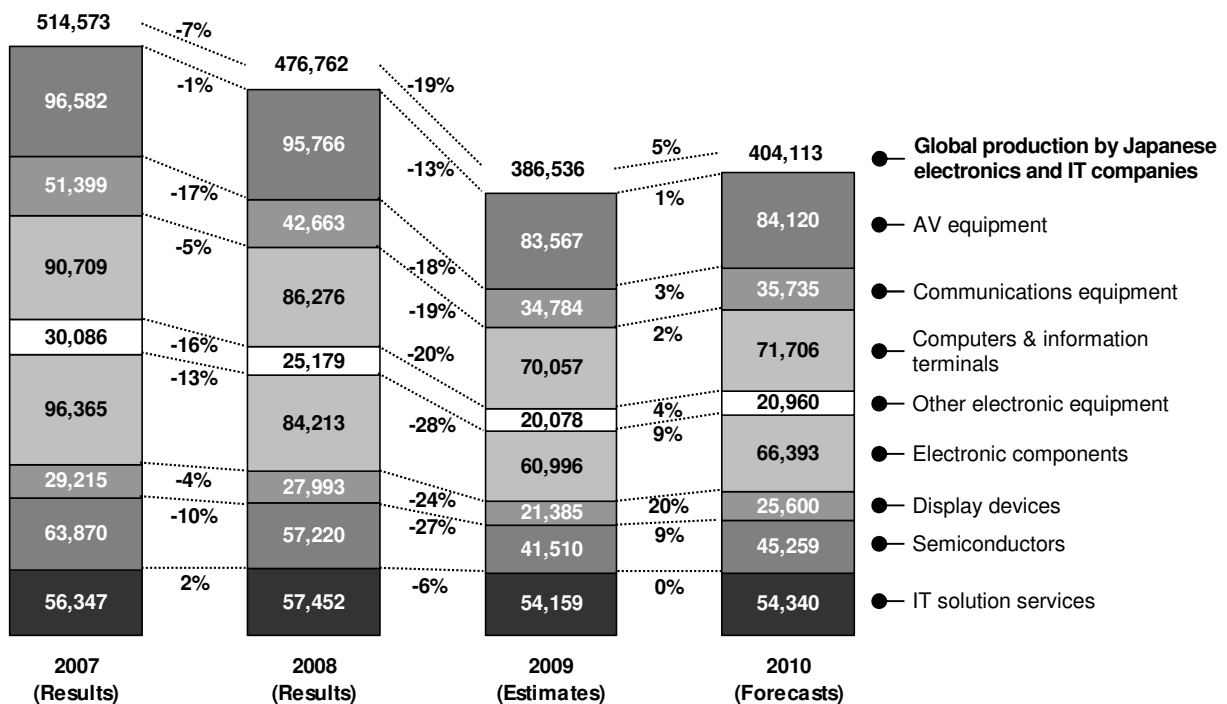
In 2010, global production by the Japanese electronics and IT industries (including offshore production), as well as by the Japanese electronics

industry alone, are forecast to expand 5% but end well below the peak levels of 2007. Japanese companies will continue to face a difficult operating environment, but demand for high-performance, high-value-added, high-precision and energy-efficient products, particularly in Japan, are seen increasing demand for display devices and semiconductors. Furthermore, in the areas of computers, information terminals and IT solution services, demand is forecast for new services related to corporate social responsibility, including support for global activities and environmental measures.

In 2009, the product segments for which Japanese companies maintained the highest market share continued to center on AV equipment and electronic components, specifically image projection equipment (89%), video recording and playback equipment (61%), image scanners/OCR (53%), car AV communications equipment (47%), flat-panel TVs (42%) 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 decline 25% in 2009, to ¥14.0 trillion, marking the third consecutive year-on-year decline. The primary factors in this estimate are rapidly decreasing exports—the result of the high value of the yen and adjustments of inventories outside Japan—and falling demand for mobile phones in Japan. In 2010, increased demand for AV equipment such as flat-panel TVs and expanded production of electronic components and semiconductors in line with increased demand for electronics around the world are forecast to sustain a 6% rise in domestic production, to ¥14.9 trillion.

The Japanese economy saw a major drop in exports in 2009, caused by the rapid global economic slowdown. In addition, the rapid rise in the value of the yen constricted the profits of Japanese companies, leading to reduced capital spending and investments in IT. Worsening employment and personal income environments have also placed the domestic economy in a difficult situation. Nevertheless, improvement is being seen in global financial markets, sustaining the trend toward recovery.

In this environment, domestic production by the electronics and IT industries is estimated to drop 25% in 2009, to ¥14.0 trillion. Domestic production of mobile phones (down 24%) was hit by the introduction of new sales policies that have lengthened the product replacement cycle. Domestic production of semiconductors (down 28%), electronic components (down 28%) and display devices (down 27%) was severely

impacted by inventory adjustments amidst uncertainty about the future of the global economy.

The forecast for 2010 is that domestic production will increase 6%, to ¥14.9 trillion, the first year-on-year rise in four years. While a further shift to offshore production is foreseen as a result of price competition, replacement demand is anticipated to drive sales of new TVs in advance of the full-scale shift to terrestrial digital TV broadcasting in 2010, and increased production of electronic components and devices is expected around the world as the global electronics market recovers.

In 2009, Japanese electronics and IT companies manufactured 42% of their products in Japan, and strong domestic production should continue for products offering high reliability and quality, such as semiconductors (76% of which are produced in Japan), display devices (76%), electric measuring instrumentation (71%) and server/storage equipment (71%).

Domestic Production by the Japanese Electronics Industry

(¥100 million; % change YoY)

