2012 Production Forecasts for the Global Electronics and Information Technology Industries

December 15, 2011

JEITA

Japan Electronics and Information Technology Industries Association

FOREWORD

I would like to open this year's "Production Forecasts for the Global Electronics Industry" by sending the condolences of everyone at the Japan Electronics and Information Technology Industries Association (JEITA) to those affected by the Great East Japan Earthquake, as well as our best wishes for a speedy recovery.

In the quarter ended July–September 2011, the Japanese economy experienced the first growth in four quarters, but electricity shortages and the unprecedented rise of the yen made for a difficult economic situation throughout the year. Financial instability in Europe, the slowdown in growth in the United States and newly emerging economies and the impact of widespread flooding in Thailand are all causes for concern on the global stage. The Japanese electronics and information technology industries have made tremendous efforts to bring damaged manufacturing facilities back online even as the disasters of March 11 reminded us of the need for business continuation plans and the importance of strong supply chains. Nevertheless, developed economies will continue to face financial and fiscal risks that could dampen future growth.

According to the annual industries survey conducted by JEITA, production by the global electronics and information industries is estimated to have slipped 1% in 2011, to ¥204.7 trillion. In 2012, the survey suggests a 5% year-on-year increase, to ¥215.0 trillion, owing mainly to demand for electronic components and devices for smartphones and tablet PCs. Nevertheless, despite expectations of a slight recovery in the industries in 2012, the annual production forecast is still below the ¥222.8 trillion recorded in 2008. Production by the industries in Japan is estimated to have decreased 10% in 2011, to ¥13.8 trillion, and the same level is forecast for 2012. In addition, while offshore production by the Japanese industries fell 3% in 2011, it is forecast to grow 3% in 2012, accounting for 62% of total production by the industries and accelerating the shift to manufacturing outside Japan. Offshore production of electronic equipment, in particular, has risen from 69% of the total in 2009, to a forecast 73% in 2012.

To help fulfill the important role of the IT and electronics industries in achieving stable economic growth and a low-carbon society, JEITA pursues a wide range of activities under the theme of "advancing both the environment and growth." The disasters of 2011 pointed out the value of the cloud for keeping business going smoothly. Light-emitting diode (LED) illumination and solar power generation also came to the fore in efforts to conserve energy. For these reasons, JEITA focused its survey on the fields of cloud computing, LEDs and solar cells/modules.

In 2012 and beyond, JEITA will continue to enhance its activities by reflecting a broad base of comments and opinions in new products and services. We will strive to contribute not only to the growth of the industries, but also to better lifestyles for people everywhere. We will continue to report on our progress in the future with the sincere hope that information from JEITA proves 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

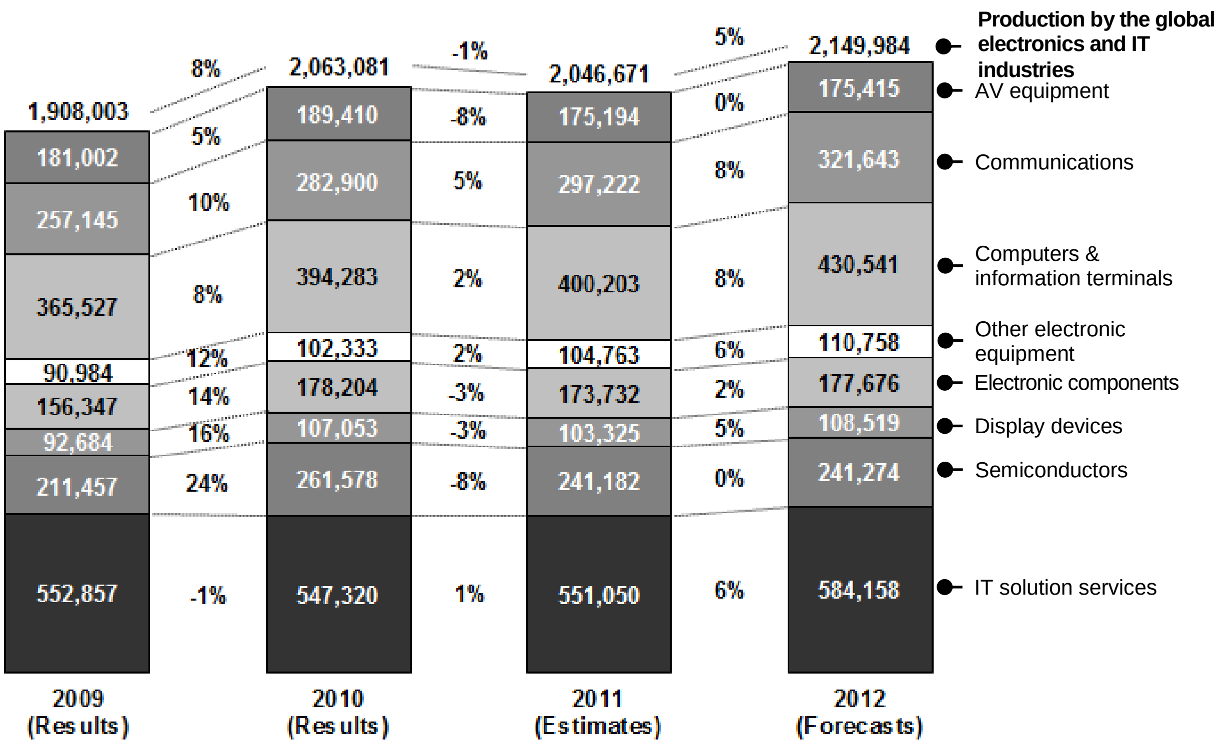
Production by the global electronics and IT industries was flat in 2011. Economic stimulus measures fell short of expectations and severe competition pushed down prices of end products. In this environment, 2011 global production by the industries is estimated to have dipped 1% from the previous year, to ¥204.7 trillion. In 2012, backed by expected new demand for cloud computing, smartphones and tablet PCs, global production is forecast to increase 5%, to ¥215.0 trillion.

The year 2011 began with high expectations that fiscal policy measures would bring about a recovery from the crisis caused by the so-called "Lehman shock" of 2008. However, government stimulus plans had limited effect, and large-scale fiscal policy moves forced developed economies to implement strict austerity measures. Fierce competition is also reducing the prices of end products, further impacting the financial results of manufacturers. At the same time, demand in both developed and emerging economies is fueling a rapid expansion in the markets for smartphones and tablet PCs. In this situation, total global production by the electronics and information industries (including IT solutions and services) is estimated to slide 1%, to ¥204.7 trillion, a 1% decrease from 2010. Of this total, production by the electronics industry (hardware, including electronic equipment, components and devices) is seen declining 1%, to ¥149.6 trillion.

In 2012, the continuing debt crisis in Europe will lead countries to strengthen their risk hedging moves, leading to new concerns over the real economic outlook, as unavoidable austerity measures squeeze personal consumption. On the other hand, positive trends are also foreseen, including strategic IT investments in Europe and North America, and expanded demand in emerging economies such as China and India. In the electronics and information industries, progress in cloud computing, which will fuel demand for networked IT resources and for terminals such as smartphones and tablet PCs, is expected to drive demand for electronic components, semiconductors and display devices. Also foreseen is increased investments for computers and other information communications equipment, as companies in many industries seek to differentiate their products and services from competitors. For these reasons, global production by the electronics and information industries is forecast to advance 5% in 2012. The result will still fall below the ¥222.8 trillion total of 2008 but should mark the start of a trend toward gradual recovery.

Production by the Global Electronics and IT Industries

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



FORECASTS OF GLOBAL PRODUCTION BY JAPANESE COMPANIES

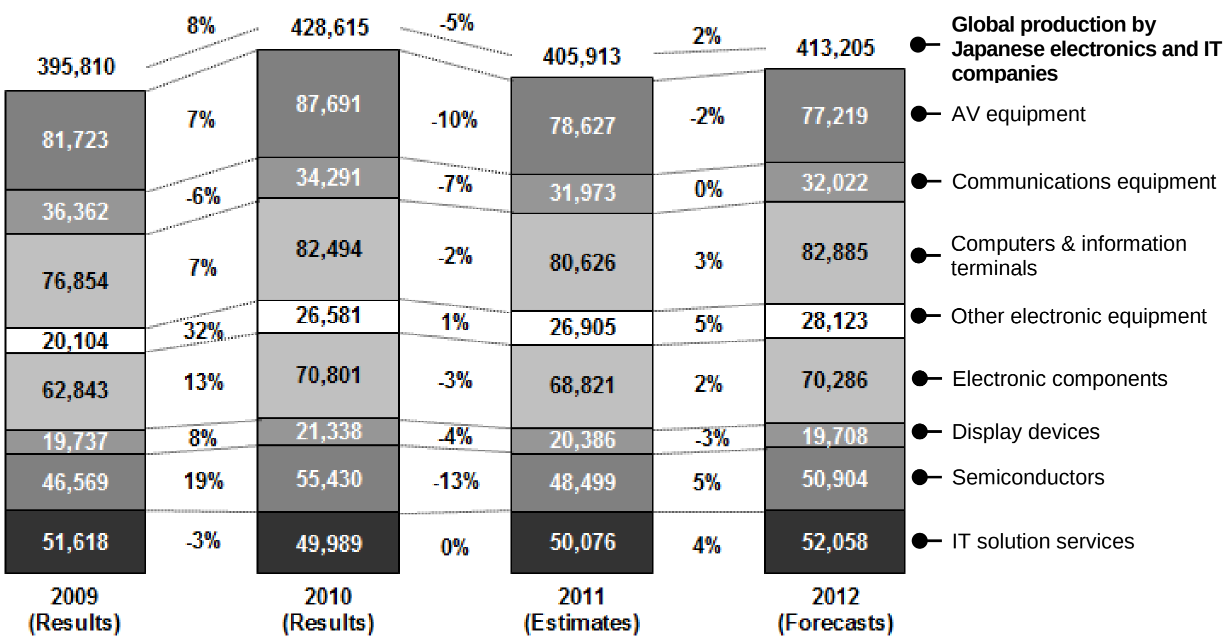
In 2011, global production by Japanese electronics and IT companies is seen decreasing 5%, to ¥40.6 trillion, the first year-on-year decline in two years. In addition, this production is estimated to account for 20% of the global total, also a slide from 2010. In particular, the rapid rise of the value of the yen against other major currencies is creating an atmosphere of severe competition, but demand is expected to increase for new ecological products and services that help save energy. As a result, global production by Japanese electronics and IT companies in 2012 is forecast to expand 2%, to ¥41.3 trillion.

Japanese companies faced worsening business results and a loss of competitiveness in 2011, owing mainly to the unprecedented increase in the value of the yen against the US dollar, the first major drop in the value of the euro in a decade, sluggish exports and production, rising costs of materials and other factors. As fiscal austerity measures were announced in many countries, a slight deflationary trend was seen, and the resulting price competition led to reduced value of sales for Japanese companies. In Japan, smartphones with multiple functions became popular, signaling a change in the mobile phone market structure. As digitalization led to the commoditization of multifunction products, it became apparent that the strategy of Japanese companies of focusing on high-end technologies and all-in-one products is no longer the most viable method of raising competitiveness. On the other hand, foreign companies that rapidly grasped user needs and introduced services and information terminals using the cloud are seeing their businesses grow. These factors lead to an estimated 5% fall in production by Japanese electronics and information companies (including offshore production), to ¥40.6 trillion. Of this total, electronics production is seen decreasing 6%, to ¥35.6 trillion.

In the future, needs will expand for compact products integrating ecological, energy-saving and network features. This trend will further propel demand for technological innovations in the fields of semiconductors and electronic components. The IT solutions and services industry is also seen expanding, as private companies and public organizations increase their usage of IT and opportunities grow for cloud services as social infrastructure to ensure continuing operations during crises such as the Great East Japan Earthquake. In addition, the strong yen will continue to force Japanese manufacturers to globalize their production. In this situation, while production by Japanese companies is forecast to increase slightly in 2012, the share of the global electronics and IT markets held by Japanese companies is seen dropping below the 20% mark, to 19%.

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 in 2011 is estimated to drop 10% from the 2010 result, to ¥13.8 trillion, the first year-on-year decrease in two years. Although tremendous efforts were made to restore supply chains and production lost after the Great East Japan Earthquake, the continuing high yen and economic sluggishness in many overseas markets impacted exports from Japan. In 2012, domestic production by the industries is expected to remain flat at ¥13.7 trillion, as the operating environment for Japanese manufacturers remains severe.

The Japanese economy continued to face hardships in 2011. The earthquake and tsunamis in March destroyed or severely damaged many facilities. The sundering of supply chains of electronic materials and semiconductor plants, in particular, had a major impact on automobile and electronics production. However, restoration proceeded faster than initially expected, and the domestic production structure recovered rapidly. Meanwhile, the full-scale shift from analog to digital terrestrial television broadcasting in July led to a major decrease in production of flat-screen TVs (except in the three prefectures of Tohoku directly affected by the earthquake). This situation, combined with the strong yen slowed down exports of electronic components and devices. In addition, the slowing of economic growth as a result of the European debt crisis and widespread flooding in Thailand in October also limited production in Japan, resulting in an estimated 10% drop in domestic production by the industries.

Continuing severity is forecast for production by the electronics and information industries in Japan in 2012. If the value of the yen remains high against major foreign currencies, more production will be moved to overseas bases. The industries stand at a crossroads where policies that encourage local manufacturing will be required. The "Act on Special Measures Concerning the Procurement of Renewable Electric Energy" is expected to drive new energy-related investment and investments in IT as a countermeasure to natural disasters. For these reasons, despite the numerous negative factors the industries face, a recovery is foreseen in demand for electric measuring instrumentation (+5%) owing to increased capital investments for semiconductors, for semiconductors backed by sales of automobiles, smartphones and tablet PCs (+4%), and for electronic medical equipment in line with expanding needs for healthcare-related products (+4%). On the whole, domestic production by the industries is forecast to retain the 2011 level and comprise 38% of total global production by Japanese companies. In particular, domestic production should remain strong for products offering high reliability and quality, such as display devices (85% manufactured in Japan), electric measuring instrumentation (78%), server/storage equipment (74%), electronic medical equipment (73%) and semiconductors (70%).

Domestic Production by the Japanese Electronics Industry

(¥100 million; % change YoY)