

**2014 PRODUCTION FORECASTS FOR THE
GLOBAL ELECTRONICS AND
INFORMATION TECHNOLOGY INDUSTRIES**

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JEITA

JAPAN ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES ASSOCIATION

FOREWORD

For the Japanese economy, 2013 was the year of turnaround toward a departure from deflation under so-called Abenomics. The exchange rate of the yen began to weaken in the second half of December 2012, falling to 103.25 yen against the dollar in May 2013. The stock market was also rising, with the Nikkei Stock Average reaching 15,727.12 yen in November, the highest in six years, and GDP showed positive growth for the fourth straight quarter since the October-December quarter of 2012, showing signs of an improvement in the economy. Meanwhile, in its October 2012 World Economic Outlook, the IMF lowered its real global growth forecast for 2013 to 2.9%, down 0.3 percentage point from July. Although the growth rate for the world economy is expected to rebound to 3.6% for the next year, the pace of economic growth in emerging countries such as China and India warrants concern. In Japan, a moderate recovery is expected in 2013 (2.0%) and 2014 (1.2%), despite the consumption tax hike.

According to the annual industries survey conducted by JEITA, production by the global electronics and information technology industries is estimated to have increased 20% year on year in 2013, to ¥248.4 trillion, showing double-digit growth partly because of the weaker yen. The forecast for 2014 is a 5% year-on-year increase, to ¥261.2 trillion, anticipating a moderate recovery given an expected increase in demand for electronic components and devices for not only electronic equipment but also automobiles and medical equipment, in addition to higher demand for smartphones and tablets. Production by the electronics industry in Japan is estimated to rise 3% in 2014, to ¥11.8 trillion, which is half the 1997 level of ¥25.4 trillion, when production reached its peak in terms of scale. In terms of the growth rate, however, production in Japan has shown positive year-on-year growth for the first time in two years and eight months in August 2013 on a monthly basis and is also expected to turn positive for the first time in four years since 2010 on a yearly basis. While growth in offshore production by Japanese companies is forecast to decline from 11% in 2013 to 3% in 2014, offshore production still accounts for 65% of total production by Japanese companies, with that high ratio maintained in association with ongoing globalization. Offshore production of electronic equipment, in particular, is believed to have risen to 71% of the total in 2013 and is forecast at 76% in 2014, rising 5 percentage points in both years.

JEITA pursues a wide range of activities under the theme of contributing to the proposal and construction of lifestyles of the future, through collaboration with and involvement in the new society and other fields in Japan and overseas by harnessing IT and electronics technologies. To accelerate the creation of a prosperous, safe, and secure society with energy saving and to discover new possibilities, JEITA is pursuing innovation in the electronics and IT industries and striving to encourage the use and application of IT and electronics technologies, along with stronger links to them, in a broad array of fields in the short and long terms. In 2013, JEITA conducted research on M2M (Machine to Machine) and IoT (Internet of Things) and Car Electronics / Car Infrastructure, where the use of IT is promising in developing a smart society, and found results that appeared to herald the arrival of the smart society. For instance, JEITA research found that growth in electronic components and devices is higher than that in electronic equipment in both Japan and overseas, and that growth in electronic medical equipment is high even by the standards of electronic equipment. These results suggest that international competition for the smart society has begun.

In 2014 and beyond, JEITA will continue to bolster its activities by reflecting a broad base of comments and opinions from both within and outside the electronics and IT industries. We will strive to contribute not only to the growth of these 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
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PRODUCTION FORECASTS FOR THE GLOBAL ELECTRONICS AND INFORMATION TECHNOLOGY INDUSTRIES

Production by the global electronics and IT industries is expected to have risen 20% year on year, to ¥248,422.3 billion(*) in 2013, reflecting a rapid expansion of the market for personal mobile terminals linked with the internet. In 2014, global production is forecast to grow for a third straight year, rising 5%, to ¥261,232.3 billion, backed by continued growth in the market for personal mobile terminals and expected growth in the production of electronic components and devices that will benefit from the solid expansion of the automobile market.

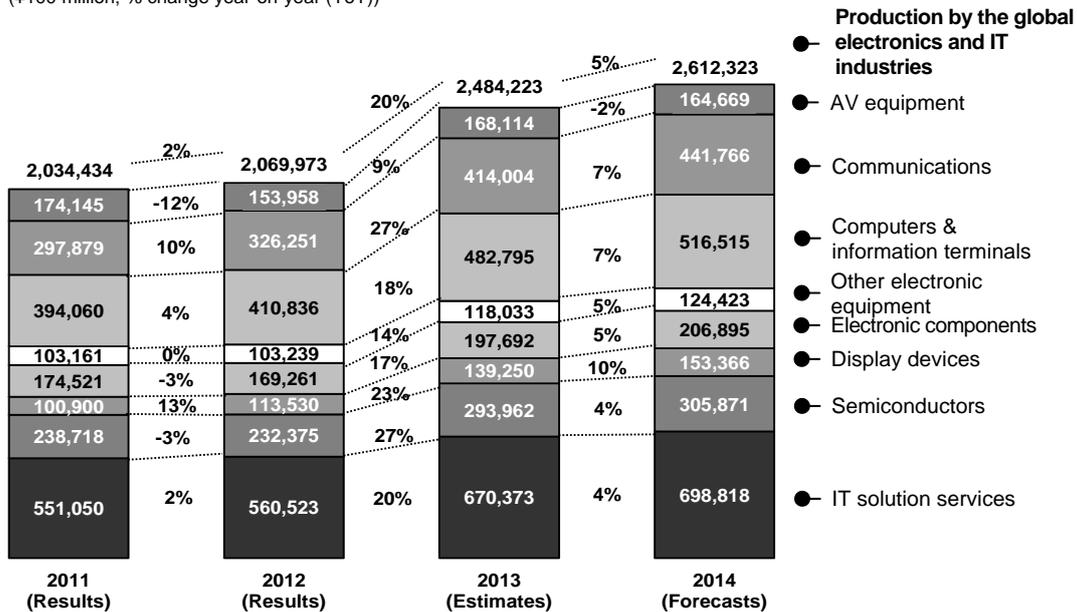
*: Including the effect of changes in foreign exchange rates to the weaker yen.

In 2013, the world economy was gradually moving toward recovery. The U.S. economy, in particular, continued to follow a moderate recovery path against the backdrop of firm consumption in housing, automobiles, flat TVs and others. The market for smartphones and tablets also expanded significantly in emerging countries, and the personal trend of wearing or carrying a device that is connected to the internet was becoming entrenched. In addition, the rise of environmentally friendly eco-cars and progress in the computerization of automobiles encouraged an increase in in-vehicle electronic equipment, which broadened the base for electronic components and devices. In this situation, total global production by the electronics and IT industries (total of electronics industry and IT solutions and services) in 2013 is estimated to climb 20% year on year, to ¥248,422.3 billion. Of this total, production by the electronics industry (hardware, including electronic equipment, components and devices) is seen rising 20%, to ¥181,385.0 billion, increasing for the second straight year.

In 2014, the world economy is expected to pick up moderately, helped by a recovery to some extent in the European economy, continuous growth in the U.S. economy and a recovery in the Japanese economy supported by the policies of Abenomics, notwithstanding concerns such as a slowing growth rate in emerging economies. In the electronics and IT industries, the use and application of information will make progress in the field of social infrastructure as new values will be created by more active strategic IT investments in the United States and Europe, in particular, and trends resulting in the differentiation of management strategies will be advancing. Since the expansion of the markets for personal mobile terminals and automobiles will lead to greater production of electronic components, semiconductors and display devices, production by the global electronics and IT industries is expected to achieve a third straight year of growth in 2014, rising 5%. The result will exceed the 2008 level of ¥223 trillion and should mark a recovery, although the effect of exchange rate fluctuations needs to be considered.

Production by the Global Electronics and IT Industries

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



FORECASTS OF GLOBAL PRODUCTION BY JAPANESE COMPANIES

In 2013, global production by Japanese electronics and IT companies (including offshore production) appears to have increased for the first time in three years, rising 5% year on year, to ¥37,705.9 billion and breaking away from negative growth for the second straight year, thanks generally to the positive effect of exchange rate fluctuations. Global production by Japanese electronics and IT companies in 2014 is expected to rise 3%, to ¥38,786.4 billion, reflecting growth in electronic components and devices and firm growth in IT solutions and services, benefiting from growth in the markets for personal mobile terminals and automobiles.

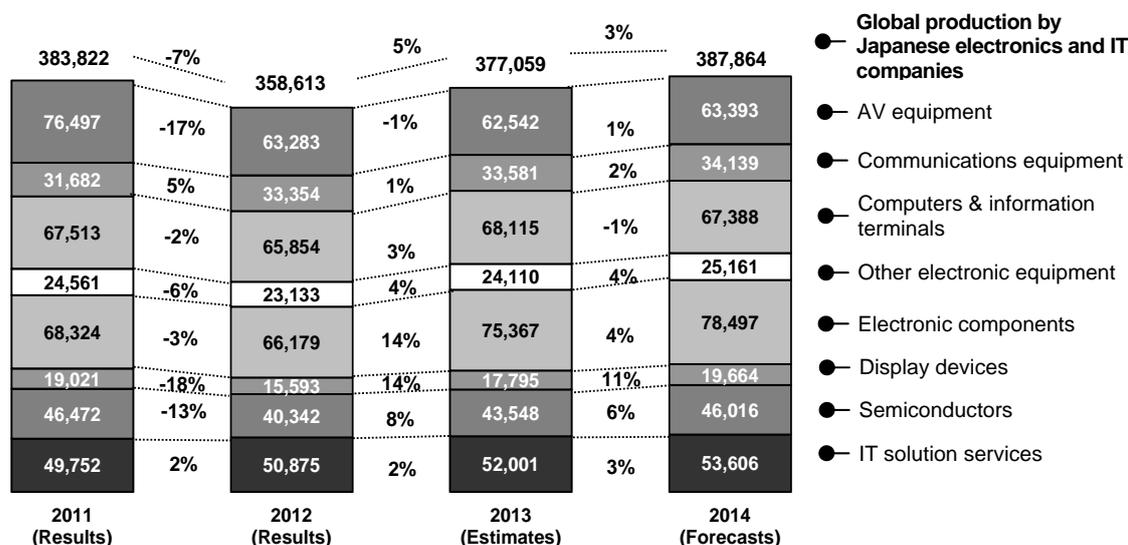
In 2013, Japanese companies generally posted improving operating results, owing mainly to growth in the Japanese economy thanks to Abenomics and stronger competitiveness due to a reversal of the unprecedented appreciation of the yen against the US dollar and the euro. Growth in electronic components and devices was larger than that in electronic equipment and IT solutions and services, as the competitiveness of products with a high domestic production ratio and a high export ratio was particularly strengthened. Electronics equipment, which generally has a high ratio of offshore production, continued to face fierce competition with overseas companies and saw negative growth for a number of items, coupled with a shift to smartphones in the market for personal digital equipment, which had been established as a stand-alone product. Despite these factors, production by Japanese electronics and IT companies (including offshore production) in 2013 is estimated to increase 5% year on year, to

¥37,705.9 billion. Of this total, electronics production is seen increasing 6%, to ¥32,505.8 billion.

In 2014, electronic components and devices are forecast to grow in step with anticipated solid growth in the global economy, notwithstanding the risks in emerging economies. In IT solutions and services, growth is expected to be higher than in 2013, given the expected business expansion due to the implementation of growth strategies going forward, reflecting their high domestic market ratio. In electronic equipment, Japanese companies are likely to continue to face difficult conditions, such as intensified global competition in growth areas such as personal mobile terminals and the erosion of the market for stand-alone products by smartphones. While global production by the Japanese electronics and IT companies is expected to grow 3%, the share of the global electronics and IT markets held by Japanese companies is forecast to remain unchanged at 15% in 2014.

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 2013 is expected to decline for the third straight year, dropping 3% from the 2012 result, to ¥11,418.7 billion. The slump in domestic demand for digital equipment and the withdrawal from production has had an impact on domestic production. In 2014, however, domestic production by the industry is expected to show positive growth for the first time in four years, climbing 3% year on year, to ¥11,780.4 billion, on the strength of an expected recovery in exports and improvement in domestic demand going forward.

The Japanese economy is in a recovery phase. Abenomics, the name given to the economic policies of the government, has led to an improvement in exchange rates and served as a spur for exports. Domestic production by the Japanese electronics industry has shown some positive signs, turning up in August for the first time in two years and eight months and posting double-digit growth in September. In particular, display devices and semiconductors, which are key devices and have a high domestic production ratio, became a driving force for higher domestic production, as they made up a high percentage of exports. Exports of semiconductors, in particular, returned to its position as the second largest item in the export value of Japan after automobiles in September 2013. However, as the trend of falling prices, the prolonged slump in domestic demand, and the move to withdraw from production due to intensified competition observed in digital equipment over the last few years cast a shadow, domestic production by the Japanese electronics industry in 2013 is expected to have declined

year on year for the third straight year, dropping 3% from the 2012 level, to a little less than 60% of the ¥20 trillion recorded in 2007.

In 2014, domestic production is set to increase, reflecting an anticipated recovery in the Japanese economy due to the continuation of Abenomics, coupled with the promotion of IT investments and other spillover effects on equipment for companies. In addition, given that exports are likely to increase because of the continuation of the weak yen, domestic production by the industry is forecast to show positive growth in 2014 and comprise 35% 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 (88% manufactured in Japan), server/storage equipment (75%), semiconductors (64%), electric measuring instruments (64%), and electronic medical equipment (63%), even though domestic production's share of total production is trending downward.

Domestic Production by the Japanese Electronics Industry

(¥100 million; % change YoY)

