MIC
Ministry of Internal Affairs and Communications

March 13, 2009

Release of Report on Economic Trends in the ICT Industry (Q4 of 2008)

The Ministry of Internal Affairs and Communications has released its Report on Economic Trends in the ICT Industry for the fourth quarter (October to December) of 2008.

Key trends

- Mainly due to economic slowdown in the United States, business confidence deteriorated from the previous period. ICT manufacturing-related production and shipment plummeted, and inventory grew substantially.
- Capital investment by the ICT industry continues to decline.
- ICT-related consumption expenditure decreased year on year for the first time in seven quarters.
- Overall orders received for ICT-related machinery, already on the decline, dropped further.
- ICT-related prices continue to decrease.

Reference 1: Outline

Reference 2: Report on Economic Trends in the ICT Industry

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Reference 1

Outline: Economic Trends in the ICT Industry (Q4 of 2008)

● Key Economic Trends in the ICT Industry

As business confidence deteriorated from the previous quarter, ICT manufacturing-related production and shipment plummeted, and inventory grew at a sharper rate. ICT-related consumption expenditure took a downturn. Capital investment by the ICT industry remained on a downward trajectory. Prices of ICT-related goods and services continued to decrease.

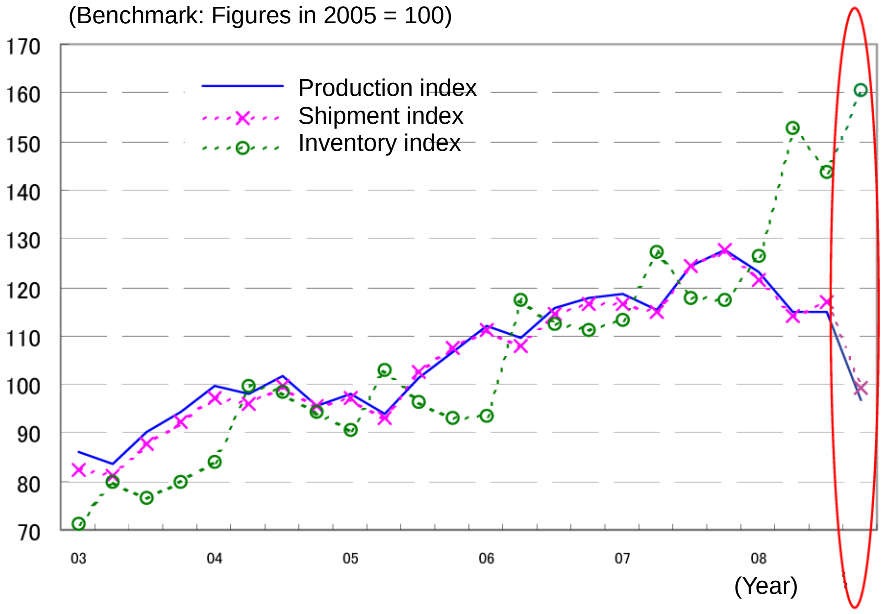
	Direction	Remarks
Business confidence in the ICT industry	↘	Business confidence further deteriorated from the previous period. With regard to information and communications, only large-sized enterprises remained positive while business confidence among small and medium-sized enterprises deteriorated by double-digit rates. As for electrical machinery, business confidence among small-, medium- and large-sized enterprises dropped by over 30 points. Taking all enterprises as a whole, future outlook is further deteriorating in both electrical machinery and information and communications.
Activities in the ICT industry	↘	Both production and shipment for ICT manufacturing plummeted due to further cutbacks in producer goods, such as integrated circuits. Inventory also grew substantially with sluggish demand, both at home and abroad, due to the global economic slowdown (Fig. 1). The activity index for ICT services dropped further due to a decrease in average monthly revenue per user (ARPU) and a drop in sales of game software.
Capital investment trends in the ICT industry	↘	Capital investment by ICT-related business categories decreased, except electrical machinery/tools manufacturing. Capital investment in information and communications reversed direction and began heading down, while the same dropped even more sharply in ICT machinery/tools manufacturing (Fig. 2).
Employment in the ICT industry	↗	The year-on-year employment growth rate in ICT-related business categories shrank. While employment in ICT machinery/tools manufacturing turned upward, figures for the year-on-year increase in information and communications decreased considerably.
Wage trends in the ICT industry	↘	Wages in ICT machinery/tools manufacturing continued to increase year on year, while wages in electronic parts/devices manufacturing and information and communications decreased.
Trends in ICT-related consumption	↘	Consumption expenditure decreased year on year for the first time in seven quarters (Fig. 3). Expenditure on ICT-related devices, such as personal computers, declined for two consecutive quarters. Consumption expenditure related to mobile phones and the Internet continued to increase, albeit at a lower rate.
Trends in ICT-related investment	↘	Orders received for ICT-related machinery dropped further (Fig. 4). While orders received for computers continues to increase, orders for semiconductor manufacturing equipment and communications equipment plunged due to a decrease in shipment of mobile phones and sluggish demand for semiconductors as a consequence of the slowdown in spending.
Trends in ICT-related export/import	↘	With regard to the trade balance of ICT-related goods, surplus fell to the lowest level since Q1 of 2002. Due to a decrease in China-bound export of semiconductors and other electronic parts, which are used in the production of mobile phones and personal computers, among others, the export value plunged. The import value also dropped substantially.
Trends in ICT-related prices	↘	Overall, the downtrend continues. The fall in consumer prices is partly attributed to the price-cutting war for flat-screen televisions and laptop PCs (Fig. 5). Corporate goods prices fell due to a reduction in production costs, which was achieved through technological innovations. Corporate services prices dropped as demand for advertising decreased due to a downturn in business.

Note: Upward-pointing arrows represent “increase or upturn” and downward-pointing arrows represent “decrease or downturn.”

(Reference) Key Trends in Q3 of 2008

As business confidence deteriorated further, both production and shipment related to ICT manufacturing declined. Inventory remained at a high level. Capital investment by the ICT industry was also on a downtrend. ICT-related prices continued to fall.

Fig. 1: Production, Shipment and Inventory Indices of ICT Manufacturing



Note: Figures were calculated based on the unit coefficients of industrial production index, shipment index and inventory index.

Source: Ministry of Economy, Trade and Industry, *Indices of Industrial Production*

Fig. 2: Capital Investment by ICT-related Business Categories

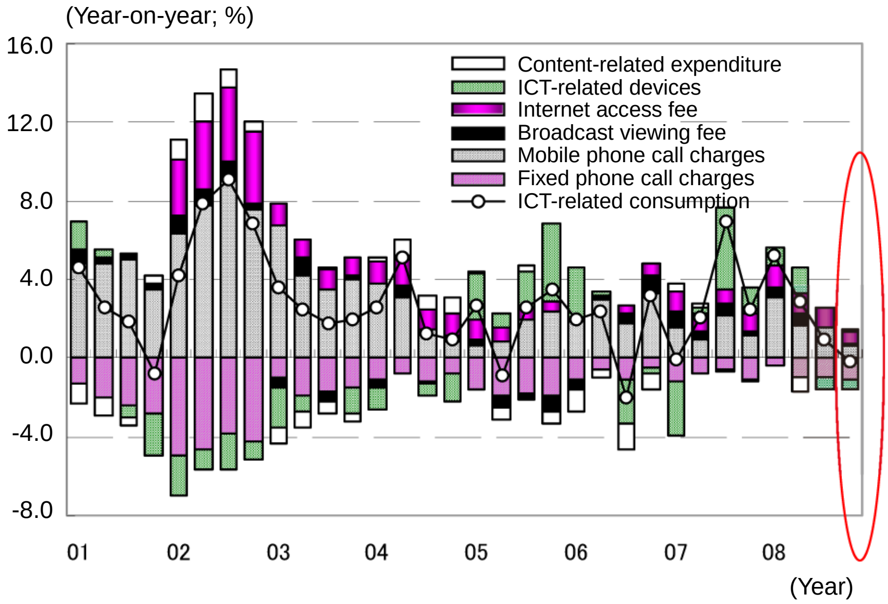
(Unit: ¥100 billion, %)

	2006			2007				2008			
	Apr–June	July–Sep	Oct–Dec	Jan–Mar	Apr–June	July–Sep	Oct–Dec	Jan–Mar	Apr–June	July–Sep	Oct–Dec
All industries	122.3	140.8	141.2	177.2	116.3	139.1	130.3	168.6	108.7	121.0	107.7
(Y-O-Y)	16.6	12.0	16.8	13.6	-4.9	-1.2	-7.7	-4.9	-6.5	-13.0	-17.3
Manufacturing	40.5	49.5	48.4	59.7	45.3	52.5	48.7	60.2	45.9	52.1	43.3
(Y-O-Y)	14.1	7.3	15.4	12.7	11.7	6.1	0.5	0.9	1.4	-0.9	-11.1
Electrical machinery + ICT machinery	9.8	12.2	9.7	12.8	10.5	11.4	9.1	13.3	11.0	10.7	8.3
(Y-O-Y)	25.1	31.2	21.7	15.1	7.6	-6.8	-6.8	3.3	4.1	-5.7	-8.1
Electric machinery/tools manufacturing	3.8	5.3	4.0	4.9	4.3	5.3	3.5	5.8	5.7	5.1	4.1
(Y-O-Y)	13.4	41.8	24.9	8.7	14.4	0.8	-13.3	18.6	32.6	-3.8	19.6
ICT machinery/tools manufacturing	6.0	6.9	5.8	7.9	6.2	6.0	5.6	7.4	5.2	5.6	4.2
(Y-O-Y)	33.8	24.1	19.6	19.5	3.3	-12.7	-2.3	-6.2	-15.9	-7.3	-25.1
Non-manufacturing	81.7	91.3	92.8	117.6	71.0	86.6	81.6	108.4	62.8	69.0	64.4
(Y-O-Y)	17.9	14.8	17.5	14.1	-13.1	-5.1	-12.0	-7.8	-11.6	-20.3	-21.0
Transport/Communications	15.3	23.1	21.7	34.5	15.7	25.9	19.0	31.7	18.6	19.5	18.4
(Y-O-Y)	17.8	24.4	11.5	24.2	2.8	12.5	-12.3	-8.3	18.0	-24.9	-3.3
ICT	9.0	13.7	13.4	16.7	8.7	9.6	8.9	15.0	10.5	9.7	8.7
(Y-O-Y)	12.7	26.3	12.7	14.2	-3.0	-29.7	-33.5	-10.3	20.3	0.4	-2.2

Note: Categorization of businesses was changed in the Apr–June 2004 period and onward.

Source: Ministry of Finance, *Financial Statements Statistics of Corporations by Industry*

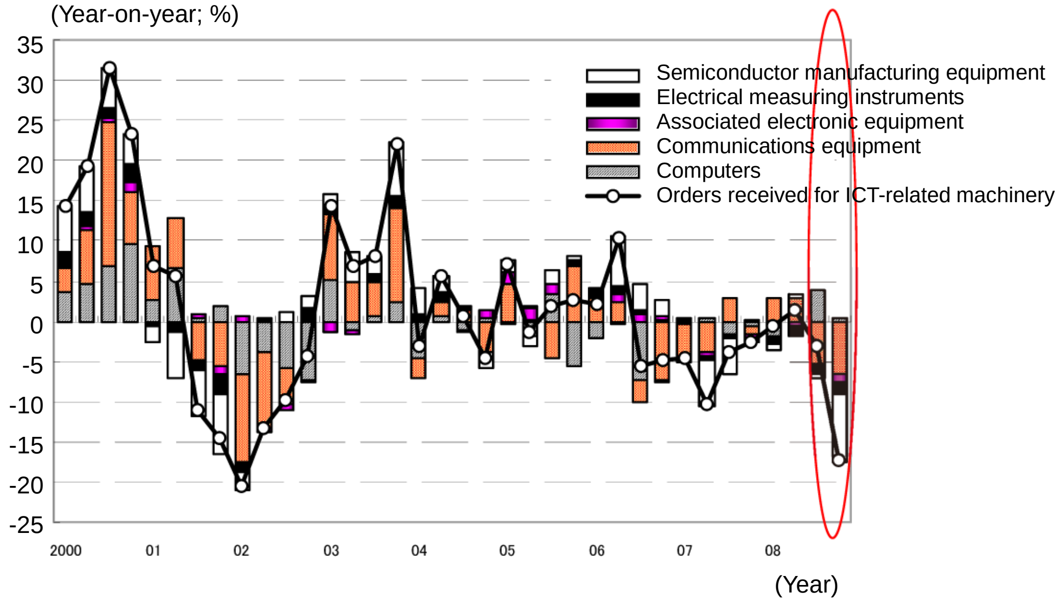
Fig. 3: ICT-Related Consumption Expenditure



Note: The bars represent the contribution to the year-on-year change of ICT-related consumption expenditure. (The line plots represent the total.)
The amount of consumption expenditure refers to an average monthly expenditure of all households consisting of two or more persons, including households with householders engaged in agriculture, forestry and fisheries, across Japan.
ICT-related consumption expenditure is the sum of expenditures on: call charges (fixed-line and mobile calls combined); communications devices; personal computers; VCRs and the like; music/video media; cinema and theater tickets and the like; and books and other print materials.

Source: MIC, *Family Income and Expenditure Survey*

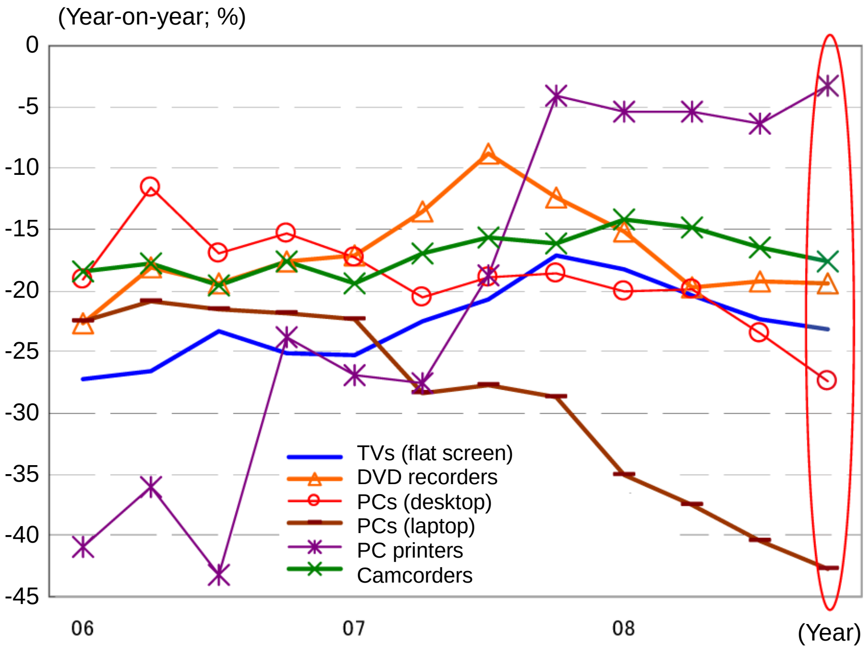
Fig. 4: Orders Received for ICT-related Machinery



Note: The bars represent the contribution to the year-on-year change of the orders received for ICT-related machinery.
Orders received for ICT-related machinery is the sum of orders received for computers, communications equipment, associated electronic equipment, electrical measuring instruments, and semiconductor manufacturing equipment, from among orders received for machinery (private-sector demand, excl. volatile orders for ships and orders from electric power companies).

Source: Cabinet Office, *Orders Received for Machinery*

Fig. 5: Consumer Price Index for ICT-related Devices



Source: MIC, *Consumer Price Index*