

Japanese electronics manufacturers uncertain about future

Japan is a leading producer of electronics components for the global market. Since the earthquake, many factories have been shut down indefinitely and others say they haven't been affected yet at all.



Office workers leave the headquarters of Sony Corp. in Tokyo Thursday, March 10, 2011, the day before a 8.9 earthquake struck Japan. Since then, electronics manufacturers like Sony have had to shut down some of their operations.

Koji Sasahara / AP

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By *Mary Helen Miller*, Correspondent / March 18, 2011

Fortunately for consumers, electronics are not like oil.

A sudden cost-increase in components doesn't send retail computer prices soaring. Rumors of a chip shortage today don't affect the price or availability of smartphones and iPads tomorrow.

Which is why the natural and nuclear disaster that has rocked Japan, which produces a fifth of the world's semiconductors and more than a third of its electronics and audio-visual components, has yet to register in electronics stores in the United States, Europe, or the rest of Asia. Although big manufactures such as Toshiba, Canon, Fujitsu, Panasonic, Sony, and Renesas have temporarily halted some operations because of electricity shortages or outright damage, the ripple effects of the earthquake/tsunami/nuclear disaster are still being sorted out.

Much depends on how long factories stay out of commission and how quickly key infrastructure in affected parts of Japan – from roads to ports to power plants – can be rebuilt to allow the companies to make and export their goods. Immediate concerns centered on a specific kind of memory chip called NAND flash as well as light-emitting diodes (LEDs) – the small lights common in many computers and other electronic equipment.

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"There's a lot of uncertainty with regards to infrastructure, electricity, roads, etc.," said David Wong, a US-based spokesman for SanDisk, which saw two of its Japanese semiconductor factories jointly owned with Toshiba close temporarily. "It will probably be many days or weeks before we know the extent of the impact."

The most noticeable ripple so far has been in computer memory, especially a kind of memory known as NAND flash, which is common in portable electronics. In the days following the earthquake and resulting tsunami, prices for NAND flash and another kind of computer memory known as DRAM surged up to 20 percent on the open market, said Paul Romano, the chief operating officer at Fusion, an electronics component distributor in Andover, Mass.

Part of that rise – perhaps all of it – comes from companies with Japanese suppliers buying extra memory in anticipation of shortages, he added.

Still, it's hard to tell at this point how prices will be affected in the longer term. "We are hearing today that NAND supply could be significantly impacted," Mr. Romano wrote in an e-mail.

Although northeastern Japan, where the earthquake and tsunami hit hardest, is not the heart of the nation's electronics manufacturing belt, many of the country's biggest electronics manufacturers have suspended production at some plants.

For example: Renesas, the world's top supplier of microcontrollers, currently has shut down seven of its 22 factories in Japan. (Microcontrollers are tiny computers on a chip.) Some of its buildings and equipment were damaged, but most plants are set to resume operations when a full electricity supply resumes. Fujitsu operates 11 factories in Japan, and six of them have been affected by the earthquake. Ceilings, walls, and drain pipes in some of the buildings were damaged, as well as some of the production equipment.

A shortage of electricity has also halted production. According to a spokesperson for Fujitsu, the company does not know when operations will return to normal.

Panasonic also halted production in affected factories. Hitachi Chemical, Sanyo Electric, and Sony closed plants that make parts for rechargeable batteries.

Perhaps the component segment hardest hit is LEDs, said Chris Versace, an analyst at Think 20/20, an equity research firm in Reston, Va. Japan is one of the world's leading producers of LEDs, and Versace expects that as Japanese manufactures cope with fallout from the earthquake, business will increase for companies in other parts of the world.

But some of this shift may come about because of perception than the actuality on the ground.

Nichia, for example, is one of Japan's top LED manufacturers with six plants that are all up and running. So far, "there has been zero impact" from the earthquake, because the plants were far from the epicenter, said Shawn Du, senior manager of sales for Nichia America Corp. But he added that Nichia is not sure what could happen in the coming days or weeks, especially if a Japan's nuclear disaster worsens.

Even if production doesn't slow, business could be affected simply because of companies' desire to diversify from Japan, he added. "That's a competitive advantage, by saying, I'm not from [Japan], therefore I can supply you."

If factories remain closed long enough and a shortage in electronics components develops, consumers could eventually see a price hike, Romano said. But it will still be another couple of weeks before that's clear.

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