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ISS Forecasters See Positive Signs

Pete Singer, Editor-in-Chief -- Semiconductor International, 1/9/2007

Pointing to positive economic signs for 2007 and 2008, forecasters at the [Industry Strategy Symposium \(ISS\)](#), held this week in Half Moon Bay, Calif., said they expect 2007 to be a fairly good year, although not quite as good as last year, which was the second best ever. The forecasters were in agreement that IC revenues in 2007 would grow at a rate of 7%. By comparison, IC revenues in 2006 grew 10%.

Bill McClean, president of [IC Insights](#) (Scottsdale, Ariz.), noted that one particular piece of good news is that the average IC unit volume growth has been in double digits every year for the past five years (15% in 2002 and 2003, 17% in 2004, 11% in 2005 and 18% in 2006). "We see one of the best five years ever for integrated circuit unit volume growth — double digits each year," McClean said. "We do have some inventory issues out there, but we're looking for a relatively soft landing. There are a lot of applications driving these markets." In fact, McClean was so optimistic about the industry's future that he said a return to 20-30% growth rates was not out of the question. "The only difference between 2004 and 2006 was the average selling price. IC units grew better in '06 than '04. You add a +9 or 10% average selling price in the future to an 18% growth industry, and you have 20-30% growth in this industry again."

Jim Feldhan, president of [Semico Research Corp.](#) (Phoenix), was similarly optimistic: "We do see a positive outlook for the industry. The end markets are really driving the industry, and there's a ton of exciting new applications." Semico believes 2006 is going to wind up at ~9.8%, with unit shipments up 16%. "Our current forecast is 7% growth for revenue. I caution there is some downside risk, really due to the ASP pressures. From the unit standpoint, we see a little better than 8.5% unit growth for 2007."

Among the devices driving end applications, according to Semico:

- Wireless (WiMAX, WiFi, ZigBee, WiBree, UWB, Bluetooth)
- Ultraportable computing (computers weighing ~1 lb)
- Mobile TVs, video phones, bio-sensing, GSP, etc.
- Electronic clothes
- Virtual keyboard, projection screens
- Home medical electronics/home health care
- Automotive electronics
- Consumer electronics (HDTV, game consoles, cameras, music players)

Stan Myers, president of [SEMI](#) (San Jose), noted that 2006 was an "outstanding" year. "It was the second largest year for growth to date, eclipsing the year 2004. As our year-end forecast for the chip equipment industry points out, 2006 was a very robust year, with many fabs investing significant capital into new capacity to keep up with the steadily growing demand of consumer products. Among the factors that helped make this such a strong year were continued demands for cutting-edge consumer products, such as iPods and other media players, as well as new cell phones, that continue to create a sustainable market opportunity, but also opportunities for tremendous long-term growth. One of the most important keys to long-term opportunities lies in the continued diversification of the market. Recently, the [SIA](#) estimated that the global IC market grew over 9% between 2005 and 2006, and will grow another 10% in 2007. On the capital equipment side, we expect growth in the mid-single digits, with the market ultimately breaking the \$50M level in 2009."

Forecasters have made assumptions about a variety of factors, some of which could hinder growth. McClean said assumptions of 0-10% growth were based on the following factors:

- The worldwide economic situation would see 3.2% GDP growth.
- Non-Japan Asian economies would see 4.8-5.8% GDP growth.
- The IC industry would see 84-89% capacity utilization.
- IC unit volume shipments would increase by 5-10%.
- Worldwide electronic system sales would increase by 3-7%.
- Average selling price (ASP) will remain stable at \$1.46-1.54, reflecting a change of -3% to +2%.

IC Insights also predicts that the value of the dollar will be moderately deflationary, and there will be no terrorist attacks/threats.

Speaking on the uncertainty of the ASP issues, Feldhan said, "If you look at 2006, average selling price declined 5.5%. Currently, our forecast for 2007 is really only showing a 1.7% drop in average selling price. The downside is, with lower capacity utilization, which we think is going to happen in 2007, if we wind up getting a 5-6% decline in prices like we did in 2006, our 7% forecast for this year could evaporate down to about 2%. We think we'll see a weaker cell phone market this year, and also some inventory issues that we think are going to occur in the first half of the year that will have some downward pressure on pricing. On the unit side, though, we think we'll continue to see relatively strong unit growth this year."

Risto Puhakka, president of [VLSI Research](#) (Santa Clara, Calif.), added, "There's been some discussion of elevated inventory levels. Yes, they are elevated, but with the backdrop of the overall chip business, they are not too bad."

From a general economic perspective, Robert Fry, senior associate economist at [DuPont](#) (Danville, Calif.), downplayed fears of a recession or dollar devaluation. "Where we are right now is what we would characterize as a mid-cycle slowdown. It's a period of slower-than-trend growth, trend being about 3%. We're looking for growth slightly better than 2% for a 4-6 month period, very much like what we had in 1995 and 1985," he said. "You can think of it as the pause that refreshes. You have a slowdown in the middle of the cycle, you don't fall into a recession, and then growth picks up again for another 3-4 years."

See what other industry analysts had to say in our [2007 semiconductor industry forecast webcast](#), now available on demand.

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