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## iPhones, iPods to Hog Flash Chip Market



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**Flash memory may be in short supply for the next few months as Apple ramps up production for the holidays, according to Dramexchange, a Taiwan-based spot market for memory chips. Dramexchange issued the prediction based on the popularity of Apple's flash memory-based products, which it says will**

**consume a quarter of the available chips.**


The popularity of flash memory-based products, particularly the iPhone and iPod music players, is sending waves through the market for the type of memory chips they use, and that is leading [Dramexchange.com](#), a Taipei-based spot market for memory chips, to project a spike in prices over the next three months as pre-holiday production ramps up.

Specifically, the iPhone and iPod will consume 25 percent of the market's capacity for NAND Flash chips in the third quarter, Dramexchange projected.

The market is unprepared for the demand because snags in global production have resulted in lower-than-expected output.

### Spot Shortages

"It will take roughly two to three quarters before manufacturers can raise their yield rates to a higher level. DRAMeXchange holds the view that a Flash chip shortage will occur in 3Q07. Coupled by the fact that many downstream vendors are beginning to stock up on inventory ahead of the Christmas sales, an insufficient supply should be seen in 3Q07," Dramexchange says in its report. Flash prices are projected to continue rising as a result, it concluded.

Such a shortage is indeed conceivable -- especially if rumors of a cheaper iPhone actually materialize, Adrienne Downey, a research consultant with [Semico Research](#) told MacNewsWorld. "It is entirely possible, in that scenario, that [Apple](#) (Nasdaq: AAPL)  could take that much capacity," she said.

However, Downey disagrees with Dramexchange's supply projections. "There is quite a bit of capacity coming up in the second half of the year," she said. In the best-case scenario, she concluded, the market can expect to see spot pricing spikes and shortages, particularly in the third quarter.

### Some Disagreement

The projections may be a bit high, said Jim Handy, a principal with [Objective Analysis](#).

"When Apple introduced the nano, it used 20 percent of the entire NAND market," he told MacNewsWorld. "I don't know how many iPhones Apple is making, but I understand it is in the neighborhood of 3 million."


That is a good number for an introductory product, he said, but it is nothing compared to the 15 million nanos that sell.

Spot shortages and price spikes are set to occur, Handy also believes.

## Perpetual Watch

The NAND market has been on perpetual watch ever since Apple's iPod product line became so popular. Analysts and competing manufacturers have been monitoring the market all that more closely since the plans for the iPhone were announced. Projections vary, but the consensus is that supply will be tight for the rest of the year and prices higher than normal.

Much depends on what Apple will do: rumors that a smaller iPhone will be released persist. There are other products in the works as well that could gobble capacity.

Not only might Apple expand its use of NAND flash memory in its iPods and Macintosh  PCs, but there are also indications that Apple could release a small, "subnotebook" computer that uses NAND flash for its main [storage](#), American Technology Research analyst Shaw Wu predicted.

Manufacturers are ramping up production in response to the growing demand.


IDC forecasts the NAND market will grow 3 percent to US\$12 billion in 2007, a 3 percent decrease compared to its previous forecast in February 2007. The NAND market will return to a normal growth pattern in 2008, it also predicted.

In the long term, IDC forecasts NAND revenue to reach \$19.7 billion in 2011 at a 13 percent compound annual growth rate from 2007 to 2011.

## Rubber Ball Pricing

IDC also projects a 43 percent bit price erosion during the same period, driven primarily by high-density products.

Indeed, NAND market pricing tends to be very volatile, which is why most analysts are sanguine about the possible price spikes this year.

"Revenue growth was spectacular for several years, but as more manufacturers enter the market, prices fall to profit-erasing levels," Downey wrote in a recent report. "Shortages tend to appear when a significant new application hits the market and consumes all the available NAND in sight." 

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