

A Cautious 2008 Semi Forecast



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OAK BROOK, IL – A coterie of leading semiconductor experts today said looming market concerns over higher oil prices, the U.S. mortgage crisis and fears of a possible recession make the outlook for consumer spending a cautious one. The market is slipping slowly, the panel said, but there is hesitant optimism for overall growth.

Consumer spending is key because, according to the panel, assembled by the **Semiconductor Industry Association**, that group now accounts for more than 50% of semiconductor consumption, which includes cellphones, MP3s and digital TVs. Plus, consumers now purchase almost 40% of all new PCs.

The trade group predicts a 7 to 8% CAGR from 2006 and 2011, according to Anne Craib, director of market research, International Affairs and Finance. That's an increase over 2007 – about 4% – but below historical patterns.

The possibility of a U.S. recession could impact consumer spending, some of the panelists agreed. Steve Szirom, president of **insidechips.com**, said, "The demand and supply balance is much better, but we may be headed for a recession. Because of the consumer wildcard, I'm pessimistic about consumer spending," he added.

"I think we have a high probability of a recession, and maybe it won't happen, but there's enough nervousness that we're already seeing some slowing," said Gary Grandbois, principal analyst for **iSuppli Corp**. The research firm cut its 2008 forecast to 7.5%, and says it might go lower. "The peaks and valleys are moderating. We think it's going to be a negative first half. Certainly in the DRAM area, it's looking very poor."

"Digital TVs will take a big turn" for the worse, he added. Sales in 2008 will be "less than half of what they were in 2007." iSuppli expects a 6.8% CAGR between 2006 and 2011.

Richard Gordon, managing vice president, semiconductors at **Gartner Dataquest** was also less optimistic, expecting growth of about 6%. He said Global Insights is putting the probability of a recession at about 35%.

Gordon expects a CAGR of 4.8% between 2006 and 2011. "ASPs have declined, and there are no new applications," except in price-sensitive consumer electronics.

Jim Feldhan, president of **Semico Research**, is more optimistic, expecting 10-11% growth in 2008, with a 15% end-market unit growth. He said there is a 30% chance of a recession next year, saying that it is "fairly unusual to have a recession during an election year."

"The notebook market looks very strong next year. The cellphone market was pretty weak. We think the cellphone market will grow stronger due to new features like touchscreen and mobile TV. HDTVs will do very well next year as well," Feldhan said.

"The fundamental demand is there," he said, adding there will be a continuing increase of content in cellphones and MP3 players.

Carl Johnson, executive director of **Infrastructure Research**, said, "Unit volume is robust," but he is cautious about the first half of the year, while the second half will be stronger. The upside, he stressed, is that global sales are a big factor. Overseas sales are better than they have been in the past, which could "level the potential for a deep, deep drop." He pointed to the U.S. mortgage debacle as a reason why consumers will be tight with spending in the first half of 2008.

Citing his LRA model – which is updated monthly and is based on SIA figures – independent analyst Mike Cowan forecasts 3.92% for 2007 and 8.15% in 2008.

Current market growth drivers include design for manufacturability, parallel computing and electronic system-level design, said consultant Gary Smith, a former Dataquest analyst. Market inhibitors, he said, are cyclical growth patterns in the overall semiconductor market and the cost of embedded software development. "We're in the middle of a software crisis that will affect the entire electronics industry in the next five to 10 years," he said.

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