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Analysts Cautiously Optimistic for 2008

Peter Singer, Editor-in-Chief -- Semiconductor International, 12/19/2007 9:41:00 AM

Consumers now account for more than 50% of semiconductor consumption, and concerns about consumer spending caused by higher oil prices, the mortgage crisis in the United States and fears of a possible recession have made analysts more cautious, but still optimistic, about growing semiconductor revenues in 2008. In the [2008 Semiconductor Industry Forecast webcast](#) presented by *Semiconductor International* today, forecasters made their predictions for next year. The majority of the panelists predicted that the worldwide semiconductor would see growth in the 6-11% range, while three others predicted a year of flat or even negative growth.

"We're still fairly confident that we're going to reach 7-8% compounded annual growth rate over the forecast period that we have before us," said Anne Craib, director of market research, International Affairs and Finance for the [Semiconductor Industry Association](#) (SIA, San Jose). "Clearly in 2008, part of the underlying factor that we have taken into account is the global economic situation. One of the things that we have to be particularly concerned with right now is the impact on the consumer. Semiconductor demand is driven over 50% by consumer demand currently. That is something we should increasingly be aware of. Areas like gas prices and the home mortgage market are things that we previously would not have paid much attention to that we have had to take into account in our forecasting this cycle."

Craib said consumer consumption is not only from traditional consumer devices, such as MP3 players, digital TVs and cell phones, but includes PC unit demand, which is now almost 40% consumer-driven, and automotive electronic content.

One of the biggest unknowns is the possibility of a recession in the United States and what impact that will have on consumer spending. "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 in the markets," said Gary Grandbois, principal analyst for [iSuppli Corp.](#) (El Segundo, Calif.). "We have reduced our forecast to 7.5% for 2008 and think it might go lower than that. We think it's going to be a negative first half. Certainly in the DRAM area, it's looking very poor. We think it will improve in the second half, almost mirroring 2007, but giving us a far weaker year in 2008 than we've expected."

Richard Gordon, managing vice president, semiconductors at [Gartner Dataquest Research](#) (Stamford, Conn.), was also less optimistic about 2008 than he has been in the past, expecting growth of ~6% next year. However, he believes downward pressure is more of a factor of overcapacity and overinvestment during 2007 rather than the recession scenario. He said Global Insights is putting the probability of a recession at about 35%. "In other words, there's a 65% chance that it won't happen," he said. "I think most people's gut feel is that there is something in the works and that will play out, which will only be bad news on the demand side, both from consumers and then probably later on from business spending as well. With a 6% forecast for next year, the only alternative scenarios are downside to that, and the industry could actually fall into negative growth next year if there's a serious problem on the demand side."

Jim Feldhan of [Semico Research Corp.](#) (Phoenix) was the most bullish of the group, expecting 11% growth next year. He pegged the probability of a recession in the United States at 30%. "Next year is an election year. We've already seen interest rate reduction, so the current administration is going to do as much as it can to improve the economy next year. It's fairly unusual to have a recession during an election year, but we have had historically reasonably good semiconductor years even with a not very good economy," he said. "When we look at the end markets, the notebook market looks very strong next year. We think there's some pent-up demand that has developed in '07 due to some battery shortage situations that we've had this year. The cell phone market was pretty weak this year. We think the cell phone market will grow stronger due to new features like touchscreen and mobile TV. HDTVs will do very well next year as well," Feldhan said.

Feldhan said unit growth in 2007 was strong, coming in at 14%, and that he expected a similar growth or even slightly higher next year. "The fundamental demand is there. We've had some pricing issues. We think that will improve as we've seen some more disciplined investment coming through from the semiconductor side of the business, outside of the memory market, which looks like they'll have some excess capacity next year. From a foundry perspective, they're quite tight and we believe that will be tight next year as well."

Steve Szirom of [InsideChips.com](#) was the most bearish of the panelists, predicting -8% growth for 2008. "Because of the consumer wildcard, I'm pessimistic about consumer spending."

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