
Article Title: Tough year ahead; long-term semicon outlook still bright

HALF MOON BAY, USA: The [global recession](#) will not leave the high tech industry unscathed and it could be 2011 before a strong recovery occurs, according to a keynote speaker at ISS 2009.

Nariman Behravesh, chief economist for Global Insight, said the downturn would be at least as bad as 2001. However, "this time around it's the economy dragging down high tech, not the other way around."

A silver lining for developed nations was the collapse in commodity prices, although this was hurting many emerging economies. The dramatic drop in oil prices is the equivalent of a \$250 billion tax cut for American consumers, according to Behravesh. For the semiconductor industry, this year will be "horrific" and 2010 will be weak, but a strong recovery could be expected in 2011, he said.

Ted Chu, director of global economic and industry analysis for General Motors, noted that the auto industry was in a depression, not a recession, with global vehicle sales essentially "collapsing" over the past year.

Although this will impact auto electronics sales in the short term, GM and other auto makers continue to push for more high tech vehicles. "The intensity of electronics use per vehicle will continue to rise, thus electronics demand is likely to be much stronger than vehicle production itself," he noted.

Chu was optimistic that developing markets, such as China and India, will provide strong future growth for auto electronics as they move to introduce safer and more fuel efficient autos.

Randy Bane, chief economist for Applied Materials, said electronics spending has "fallen off the table" leading to unprecedented cuts in memory wafer starts in order to stabilize prices. "The global economy is more tightly coupled than we every thought and that's why we are in this soup," he said.

Bane noted that [semiconductor](#) capital equipment spending cuts this year could be in the range of minus 25 to minus 40 percent. "I do not believe these cuts are sustainable and at some point we will bounce off this," he said.

Bane pointed out that an expanding middle class will add another two billion people to the market for electronics products. The size of the global middle class in 2000 was 2 billion people and that's expected to double by 2012. "They continue to rise up and spend money on information

technology," he said.

However, Bane said the biggest change was yet to come: *A connected, green economy*. As one example he cited the potential for energy savings in data centers that power the Internet. In line with an expected doubling of Internet traffic every two years, there could be a doubling of electronics consumption by data centers. Bane noted that the biggest operating cost was keeping the semiconductors cool so they can operate efficiently.

Bane finished up with the following observation: "Your industry will be green and lean and operating at super-scale in the next upturn."

Dan Hutcheson, CEO of VLSI Research, highlighted the unprofitable [memory sector](#) as a continuing problem, referring to it as a "hobby, not a business" for Asian politicians who have subsidized local DRAM players. He emphasized that capacity does not drive revenues, it drives prices, which is the root cause of the problems being experienced by memory makers.

"Memory suppliers will restore profitability by bringing down capex," said Hutcheson. However, that will "make it very tough for the equipment suppliers."

Despite the troubles in the NAND flash market, San Disk president and chief operating officer Sanjay Mehrotra, painted a rosy picture for the medium to long term with new markets enabled by solid state drives (SSDs) and continued growth in existing markets such as high end cell phones.

More than 1 billion new phones are sold each year, and 700 million of those have card slots for flash memory, according to Mehrotra. In the computer space, he cited Gartner research forecasting that by 2012 one in five computing devices sold will use solid state drives.

To address the overcapacity situation in NAND flash, San Disk is cutting its fab output by 30 percent and will reduce 2009 capital expenditure by half, he said. "But we will continue product innovation and R&D to continue to grow the market," according to Mehrotra.

Jim Feldhan, president of Semico Research, also was positive on the long term potential for [semiconductors](#). "Electronics is an integral part of our life. We can't get away from it and that's the good news," he said.

In the [solar-PV space](#), Feldhan said grid parity is achievable and is coming, noting that the market was still in its infancy. "We will in a few years be able to offer cost competitive, non-fossil fuel energy," he said.

Source: SEMI, USA

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