



[EE Times: Latest News](#)

Analyst: Lean inventories could speed recovery

[Dylan McGrath](#)

(03/09/2009 8:01 PM EDT)

URL: <http://www.eetimes.com/showArticle.jhtml?articleID=215801395>

SCOTTSDALE, Ariz.—The semiconductor industry will suffer double-digit contraction in 2009, but lean inventories across the supply chain could jump-start a rapid recovery when the economy finally starts to improve, an analyst said Monday (March 9).

Delivering a forecast at the Semico Summit 2009 here, Jim Feldhan, president of Semico Research Corp., predicted that semiconductor revenue will decline by about 15 percent this year, down to roughly \$213 billion. But Feldhan forecast that revenue would grow by 13 percent in 2010 to reach \$244 billion and continue steady growth to pass \$330 billion 2013. Feldhan said the chip industry reacted quickly to the deteriorating economy and that he believes there is a lot of opportunity for a recovery.

"It's not going to be a good year, but I don't think we are going to see as disastrous a year as we did in 2001," Feldhan said. Following the bursting of the dot com bubble, semiconductor revenue in 2001 declined more than 32 percent from 2000.

Discussing inventories, Feldhan cited as an example Apple Inc.'s popular iPhone. Sales of iPhones continue to grow, he said, noting that the product is now available in some Walmart locations. But Feldhan said he has heard reports that the contract manufacturer that produces the iPhone has cut orders for components, simply because it didn't want to be caught holding excess inventory.

"I think at this point everyone is fearful of holding inventory," Feldhan said.

Because inventories are being kept low, Feldhan said, there is likely to be a "whiplash" effect when the economy starts to recover and orders improve. He added that the industry is likely to see a few false starts on demand improvement before it stays steady.

"We are having a hard time finding anyone who admits they still have a lot of inventory," said Joanne Ito, a senior analyst at Semico. "It's not anything close to 2001."

Semiconductor industry revenue contracted in every month from October 2008 through January of this year, Feldhan said, the first time that has ever happened during that time of year. But unlike previous downturns, Feldhan noted, this one was not preceded by a big dramatic peak of double-digit growth.

Feldhan, like many analysts in today's turbulent economy, "guard-banded" his forecast, providing a 2009 contraction range of 14 to 20 percent. He said he believes Semico's forecast is more optimistic than other analysts' predictions, some of which call for [revenue decline of greater than 20 percent](#).

Feldhan said he considers some forecasts and other statements by industry executives about the severity of the downturn to be overly pessimistic. He said he disagrees with a widely reported statement last month by TSMC founder Morris Chang that it would be three years before semiconductor industry revenue returns to 2008 levels.

Feldhan highlighted what he said were fundamental differences between current conditions and those that existed in 2000 and 2001. The last downturn hit following several consecutive quarters of dramatic capacity increases, Feldhan said, while this time around companies had been pulling back on capital spending in advance of the downturn.

The 2000 downturn struck after electronics companies had been increasing inventories for two years and ignoring the build-up, Feldhan said. This time, inventories were cut quickly, he said.

Feldhan said there are some positive trends in semiconductors. Some of the smaller foundry companies are experiencing an increase in capacity utilization, he said.

But the big problem in the chip industry that is likely to linger well into next year is memory, Feldhan said. Even with recent fab shutdowns, DRAM and NAND flash makers have so much overcapacity that it is going to take a while before a restoration of the supply-demand equilibrium is achieved, he said.

Feldhan noted that countries all over the world have reacted to the downturn by enacting financial stimulus packages. The U.S. government must spend money to stimulate the economy, even if it doesn't curb the recession, Feldhan said, because the it may be more difficult for the U.S. to compete post-recession with other countries that are investing in infrastructure and financial institutions.

"Whether you believe in it or not, it's a defensive move," Feldhan said. "If we don't spend it, other countries will."

Feldhan outlined developments on the alternative energy front, saying, "I think the semiconductor industry has a lot of opportunity to participate in the new energy economy."

All materials on this site [Copyright © 2009 TechInsights, a Division of United Business Media LLC](#). All rights reserved.

[Privacy Statement](#) | [Your California Privacy Rights](#) | [Terms of Service](#) | [About](#)

