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## Analyst's Couch: Semico sees '07 slowdown

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*This contributed article was written by Jim Feldhan, president of Semico Research Corp. (Phoenix), a market research firm. [Semico has cut](#) its semiconductor forecast in 2006 and 2007.*

On the heels of the latest Semico Inflection Point Indicator (IPI) reading, Semico is forecasting the next slowdown in 2007 — one year sooner than previously forecasted.

With the recent results, the IPI has fallen for the last three months. The IPI's forward-looking view of the market three month ago points to an inflection point in January 2007 as the start of the next slowdown. Semico forecasts the semiconductor industry growth rate will fall to 3.4 percent in 2007.

What factors have transpired to support this change in growth prospects?

**Capital expenditures will increase 20 percent in 2006.** This outpaces our January 2006 forecast of 12.5 percent that was characterized as overly optimistic. This equipment will be rapidly put into production during the second half of 2006 and in 2007. The effect will be lower capacity utilization rates, coupled with weaker consumer spending, will result in lower semiconductor prices.

**Oil prices rose to a record, almost \$80 a barrel.** Strong demand and geopolitical uncertainty — which contributed to higher prices — remain. Higher oil prices contribute to a weakening of retail sales.

**The global political situation worsened when North Korea defied the United States, France, Japan, and others by launching seven missiles in early July.** Continued unrest and the possible need for more troops in the Middle East adds to the political unrest, resulting in downside volatility in the stock market.

**Growth in consumer borrowing slowed.** This is partial fallout of soaring gasoline prices, as consumers are cutting back on spending in other areas. Further, interest rates have continued to increase and now stand at the highest in more than five years.

**Economic growth is moderating.** Growth is moderating as companies face those same higher energy prices and interest rates, causing employers to cut back on new hires.

Despite a slowdown looming in 2007, 2006 still looks promising. We continue to see robust handset sales, notebook demand is solid, and the migration toward triple-play and the digital home are driving a host of end-use products. The markets are strong, but ASPs have recently

taken a drastic decline, resulting in a revision of our overall semiconductor revenue forecast to \$250.7 billion, a 11 percent growth.

The good news is Intel revealed its next-generation multi-core MPU family based on the Core microarchitecture at the Intel Developer's Forum. At introduction, this family will be manufactured at 65nm on 300mm wafers. Intel is targeting the entire computing spectrum — servers, workstations, desktops and notebooks.

Systems with these new MPUs will ship in early 3Q06. This raises the potential for a new upgrade cycle to start. The consumer still represents the new high growth opportunities for market expansion. These topics will be discussed in detail at the Semico IPI Outlook in September 6, 2006 in San Jose. For more information go to [Semico.com](http://Semico.com)