

Market Watchers Agree: 2006 Heralds Growth

By Jeff Chappell -- 12/15/2005

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There is one thing the market research firms and industry analysts agree on, and that's that 2006 will be a growth year for the chip industry, with much of that coming in the latter half.

That's the conclusion of a Webcast panel discussion hosted by Electronic News sister publication Semiconductor International, recorded Wednesday and being published today. Panelists included representatives from the Semiconductor Industry Association, Semico Research, In-Stat, Reed Business Information (the parent company of E News and SI, as well as In-Stat), Infrastructure, Advanced Forecasting, IC Insights, Gartner Dataquest, and InsideChips.

Just how much growth there will be next year is open for debate; the forecasters' predictions ranged from revenue growth of high single digits to as high as 17.5, forecast by Semico. Dataquest and In-Stat were the most conservative of the panel, forecasting 7.6 percent growth.

What panelists disagreed upon most seemed to be what would happen with world gross domestic product (GDP) and local GDP growth rates. Most agreed that the U.S. and Japan would see above average GDP growth in 2006, and that China would see slower, if still well above the global average GDP growth. But some panelists disagreed on how much growth Europe would experience.

Others noted that energy costs and the deflation of the housing bubble could serve to slow growth in 2006.

Everyone agreed, however, that the drivers had changed for the industry, and that the consumer is calling the shots. That means consumer products – often with short product life cycles – are the principal drivers for the chip industry today.

"We really need to understand, the buyer is no longer a middle-aged IT manager," said Doug Andrey, director of finance and a principal analyst with the SIA. Rather, it is someone under 30 that is buying mobile consumer electronics, like iPods, hand-held video games and high-end cell phones.

"It is still true that PCs are the largest segment, but we are seeing notebooks take an increasing share of that market," Andrey added.

It was sentiment echoed by many others on the panel. Historically, the drivers of the chip industry were government and military applications. Later, particularly in the 1980s and 1990s, business IT became the principal driver. But now that the chip industry depends on consumers to stimulate unit demand, the industry is going to have to be more cost conscious than ever before, observed Richard Gordon, a chip analyst and VP with Gartner Dataquest. "For many it may keep growth rates in single digits forever more," he added.

Is the Industry Mature and Cautious? Or is it Getting Reckless Once Again?

Noting that capacity utilization rates are at 90 percent or higher for some advanced technologies, the panel also took on the chip industry's favorite topic: maturity and cycles. While none of the panelists suggested that the industry will move beyond cyclical, at least not anytime soon, the depth of cyclical and the maturation of growth rates, i.e., slower growth, prompted some debate.

While the industry has become more cost sensitive, building new fabs, particularly a 300mm fab, has become more expensive. As a result, the chip industry is evolving towards an industrial model, focused on run rates and life cycle management, integrating designs brought into a fab as part of a broader product set – in sort, integrating more and more of the supply chain, observed Carl Johnson, president and co-founder of market researcher Infrastructure.

"It's very much a maturing business model," Johnson said, later clarifying that maturation didn't necessarily mean a lack of innovation, but rather how business is conducted and the growth rates the industry will be able to achieve.

Several panelists observed that the last cycle of 2003/2004 and 2005 was considerably muted, especially compared to the one before that. But whether the cautious behavior of the past few years continues in 2006 is a significant question, panelists acknowledged.

The demand for ICs will peak next year, but the decision makers at semiconductor manufacturers have been very careful with adding capacity the past few years, noted Moshe Handelsman, founder of Advanced Forecasting Inc. "That peak won't prompt recession unless they make the same mistakes they have in the past," he said. "Our opinion is that next year we won't see a turning point, but it is likely to happen in 2007."

SIA's Andrey noted that after every very deep downturn, such as in 1985 and 2001, cycles tend to be muted. "But in the past few months, we're seeing different buyers attitudes," he said. No longer are they getting verbally beat up by C-level executives for having inventory in the warehouse, but they are getting beat up by the company sales force for not having enough, he said. Does this forebode a change in the cautious behavior? Andrey asked.

"I think Doug (Andrey) is right," said Jim Haughey, director of economics at Reed Business Information. Industry players are not as cautious, they haven't been burned for the past few years, he observed. "We'll see if they blow right past the stop sign in the middle of next year," he added.

Editor's Note: Readers can tune into the Webcast beginning at 1 p.m. Central Time today or later here at Semiconductor International.

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