

Business Update

Chip sales outlook trimmed

By Ed Taylor, Tribune

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Semiconductor manufacturing is a cyclical industry, and that means 2005 is shaping up as a down year after spectacular growth in 2004.

That's the forecast that most market analysts are issuing this year for an industry underpinning the East Valley's economy.

Brian Matas, vice president of market research for IC Insights, a Scottsdale-based market research firm, said his company is predicting that worldwide industry sales will decline 2 percent this year from 2004. That follows a booming 2 percent gain last year.

A slowdown in the world economy and the prospect of lower prices will cause the industry to contract slightly this year, Matas said. But the slowdown will not be as sharp as previous cyclical downturns, he predicted.

"2005 will be a slower year. I don't think anyone disagrees with that," Matas said. "The only question is how great will be the slowdown."

Most semiconductor market predictions are ranging from 5 percent growth to 5 percent decline this year, he said.

Among the forecasts are a 5 percent decline by Semico Research, a 4 percent gain by Gartner, an 8 percent gain by VLSI Research, a 6 percent decline by In-Stat and a prediction of flat sales by the Semiconductor Industry Association.

Businesses that supply equipment and materials to the industry could feel the pinch this year, said Matas, who spoke at an industry forum Tuesday at the Arizona State University Downtown Center in Phoenix.

But he added that employment in the industry should remain fairly stable this year.

"(Semiconductor companies) are pretty well positioned to get through this year," he said. "A lot of the reduction in work force occurred in 2004 and earlier."

The weak outlook for semiconductors this year is largely the result of slower growth in the sales of electronic systems that use integrated circuits, such as stereos, cell phones and auto electronics, Matas said.

Electronic system sales have enjoyed two years of double-digit growth, and they are due for a slowdown this year, he said. IC Insights is predicting growth of just 2 percent this year.

The greatest impact of the slowdown may be felt in the semiconductor equipment industry, which may shrink about 9 percent this year, and the semiconductor materials industry, which may decline about 3 percent, he said.

The equipment industry manufactures machines that are used to make microchips while the materials industry produces chemicals and other materials used in chip making.

Capital spending by the semiconductor industry may decline as much as 10 percent this year as companies adjust to the slower market, Matas said.

While the industry may be about flat this year, he predicted it will grow about 8 percent in 2006 as the upturn in the industry cycle returns.

One of the biggest drivers of future chip sales is likely to be the cell phone handset market, Matas said.

Much of that is expected to be the replacement market as teens trade in their old cell phones for new models with features like high-resolution photos, video and television capabilities, he said.

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