

Analysts Agree Industry Nearing the Bottom

By Jeff Chappell -- 1/10/2005

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HALF MOON BAY, Calif.—Analysts here at ISS all seem to agree that 2004 was a cyclical peak for the chip industry and its supply chain, and that 2005 will be a down year.

Beyond this generality, however, the consensus ends among the forecasters from Semico, Advanced Forecasting, VLSI Research, Gartner and IC Insights, as well Semiconductor Equipment and Materials International (SEMI). It is SEMI that puts on the annual Industry Strategy Symposium (ISS).

As usual, the devil is in the forecasting details. A panel of market research analysts gave previews today of the forecasts that they plan to present in more detail here on Tuesday, as well as answered questions from the media and others.

Semico Research Corp. predicts that capital expenditures in the chip industry to be down 8 percent this year, following 52 percent growth in 2004, as the overall market for semiconductors will contract 4.7 percent, following 28 percent growth last year. The market researcher predicts that growth will return to the semiconductor industry in 2006, specifically 14.6 percent, while capex will grow 18 percent year over year, said its president, Jim Feldhan.

"We still see some excess inventory in the channel, and there are some factories that are just now coming online," Feldhan noted. Furthermore the current replacement cycle for items such as cell phones and PCs is nearing its end, he said.

Gartner Inc.'s Dataquest unit, meanwhile, anticipates the semiconductor industry growing a meager 5.2 percent this year. But it sees capex shrinking 12.8 percent while equipment spending in particular will shrink 15.3 percent this year compared to 2004, according to its forecast.

Moshe Handelsman, president of Advanced Forecasting Inc., declined to put specific numbers on his forecast, saving them for his presentation on Tuesday. But he did say that that softening within the chip market that began last year would continue into Q2 of this year, before growth would resume.

Bill McClean, president of IC Insights, also suggested that the worst would be over by mid-year. "We think most of the correction within this IC industry cycle will happen in the first half of '05," he said, noting that it had already begun in the latter half of 2004.

Panelists also seemed to concur with one another that macroeconomic factors will have considerable influence of the nature of the recovery, but differed on the nature of that influence. Several cited the blooming United States deficit, instability in the Mid East and the Iraq war and continued weakness of the U.S. currency as all playing considerable factors in what happens within the industry in the longer term.

Risto Puhakka, VP at VLSI Research, suggested that rather than recovery in 2006, that year may be more of a downturn than 2005 proves to be. Although he saved the specifics for VLSI's presentation Tuesday,

he observed that industry fundamentals here at the dawn of 2005 in fact are the best they have been in a decade. Puhakka's characterization of China also underlined the continued concern over China within the industry over whether that country will prove a boon or bane for the industry.

"We really think this a form of economic warfare," he said of Chinese policies concerning its domestic chip industry, suggesting it is purposefully trying to keep labor costs down. "We use this term deliberately," Puhakka said, referring to economic warfare.

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