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Semico IPI Warns of 3Q05 Weakness

Semico Forecasts Both the U.S. Economy and the Worldwide Semiconductor Industry Will Experience a Slowdown In 2005

PHOENIX, Jan. 17 /PRNewswire/ -- Semico's Inflection Point Indicator (IPI) showed a dramatic dip this month, indicating an increased risk of weakness in the 3Q05. The November IPI reading of 14.23 was down 5.8% from the October IPI of 15.12. This was the largest percentage drop in over three years, when the August 2001 IPI fell 8.0%.

Since the IPI is designed to forecast the semiconductor market 8 to 9 months in advance, this is a predictor of the market conditions for the July/August timeframe. The significant drop in the IPI brings to question the length and depth of the 2005 downturn. With this latest reading, it now appears that 3Q05 will be weaker than originally expected. This would indicate a delayed market recovery, pushing the start of the recovery out one quarter -- from 3Q05 to 4Q05.

Continued decline in hardware sales and a sharp weakness in the PCB industry have impacted the semiconductor industry. Notably, in November 2004, the North American PCB book-to-bill ratio, which includes both rigid PCB and flexible circuits, was 0.96. This was the first month it has been below 1.00 since April 2003.

Semico reiterates the anticipated market weakness in 2005 as we face an overcapacity situation when the 300mm capacity added in 2003 approaches full production. Additionally, there appears to be some inventory remaining in the channel. Combined with perpetual falling prices in 2005, the market will struggle to minimize the revenue decline expected this year.

The Semico IPI peaked in March 2004 at 15.83, and (with the exception of July) has been on a steady decline. If this trend continues, our overall 2005 revenue forecast of -4.7% may be too optimistic. We will closely monitor the IPI over the next few months, and reassess our forecast, if necessary.

While we're looking ahead to 2005, worldwide semiconductor revenue shipments released by the SIA showed November 2004 shipments finished at \$18.3 billion, a boost of 6.2%. Together with an October revenue decline of 19.2%, Semico forecasts 4Q04 will finish with a slight revenue increase of 1.9% over the third quarter.

November unit shipments fell a moderate 1.6%, from October's reading of 33.6 billion units. This translates into a weekly run rate of 8.4 billion units, down significantly from July's run rate of 9.4 billion -- the high point in 2004. Aggregate ASPs rose 7.9%, from \$0.51 in October to \$0.55 in November.

Geographically, revenue growth was distributed relatively evenly among the four regions. Europe emerged as the stronghold in November, posting a growth of 7.7%, and edging out second-place Japan,

which registered a respectable 6.7% increase for the month. Third-place Asia Pacific was not far behind, increasing 6.3%, while semiconductor revenue grew by 3.7% in the Americas. Although 2004 is officially over, final SIA numbers are not yet available.

Semico forecasts 2004 will finish with a respectable revenue growth of 28.9%, with revenues topping \$214.6 billion. The strong economy in 2004 created favorable conditions for the semiconductor market. Expansion that was fueled by tax cuts and low interest rates served as a good foundation for growth. The year ended on a high note as consumer confidence rose in December 2004, from 90.2 to 99.9.

U.S. GDP grew at an annual rate of 4 percent in the third quarter, which was up from the second quarter GDP growth of 3.3 percent. The GDP reflected the brisk spending by consumers and businesses, and was an indication that the trade deficit had less of a negative effect on the economy as had been expected. Semico forecasts both the U.S. economy and the worldwide semiconductor industry will experience a slowdown in 2005. This is expected, despite an attempt by President Bush to overhaul Social Security and the nation's tax system. A number of key factors will result in a slowdown in U.S. economic growth.

Interest rates are on the rise. The Federal Reserve boosted short-term interest rates on December 14th for the fifth time in 2004. As the Federal Reserve continues to raise short-term rates, long-term rates will head higher, which will have an effect on the housing market.

The unemployment rate remains at 5.4 percent. While wages are increasing, they aren't keeping up with inflation, which will cut into growth of consumer spending. This trend is expected to continue, as employment growth is expected to be unspectacular in 2005.

The dollar continues to fall. The continued weakness of the dollar, which has lost 25 percent in trade-weighted terms since early 2003, could pose risks to the global economy.

Fears of rising oil prices will have a dampening effect on the economy. Oil prices continue to be unpredictable with the uncertainties in the Middle East, which will make consumers more likely to moderate spending. Consumer behavior is an important factor in determining the overall strength of the economy.

We do, however, see some exciting new developments that will drive semiconductor growth. The digital home revolution, for example, is at last catching on fire, with Intel and Microsoft making major pushes in this market.

Couple that with digital consumer product introductions by a host of other players from the PC, consumer, and communications markets, and the opportunities are significant. Unfortunately, the economy and an overcapacity situation will curtail much of this growth until 2006.

Semico Research developed the Inflection Point Indicator to assist in forecasting semiconductor revenues approximately three quarters in advance. IPI combined with our bill-of-materials, end-market analysis and primary research has helped Semico Research accurately forecast the industry ahead of all the other prognosticators. To order the Semico IPI and receive this report monthly in its entirety, please contact Connie Wong at conniew@semico.com.

About Semico

Semico Research Corp. is a marketing and consulting research company located in Phoenix, Arizona. Semico was founded in 1994 by a group of semiconductor industry experts. We have improved the validity of semiconductor product forecasts via technology roadmaps in end-use markets.

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