

Market Weakness Curtails Growth Until 2006

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New developments in such areas as the digital home are expected to drive semiconductor growth this year with Intel and Microsoft making major pushes, according to market researcher Semico Research. Significant digital consumer products are also anticipated from PC, consumer, and communications vendors helping to drive growth.

But, unfortunately, a slowdown in the U.S. economy and the worldwide semiconductor industry, combined with an overcapacity situation will curtail much of this growth until next year, the firm pointed out.

Semico's Inflection Point Indicator (IPI) dipped this month, indicating an increased risk of weakness in Q3. The November 2004 IPI reading of 14.23 was down 5.8 percent from the October IPI of 15.12, marking the largest percentage drop in over three years, when the August 2001 IPI fell 8 percent.

The IPI is meant to forecast the semiconductor market 8 to 9 months in advance and is therefore believed to be a predictor of market conditions for July/August. The significant drop in the IPI brings to question the length and depth of the 2005 downturn, Semico continued.

With this latest reading, it appears that Q3 will be weaker than originally expected, delaying a market recovery to Q4.

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 reiterated the anticipated market weakness this year with an overcapacity situation due to 300mm capacity added in 2003 approaching full production. Additionally, there appears to be some inventory remaining in the channel. Combined with perpetual falling prices, the market is expected to struggle to minimize the revenue decline expected this year, Semico said.

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, the overall revenue forecast of -4.7 percent may be too optimistic.

Worldwide semiconductor revenue shipments released by the SIA showed November 2004 shipments finished at \$18.3 billion, an increase of 6.2 percent. Together with an October revenue decline of 19.2 percent, Semico forecasted Q4 would finish with a slight revenue increase of 1.9 percent over Q3.

November unit shipments fell a moderate 1.6 percent, from October's reading of 33.6 billion units, translating to a weekly run rate of 8.4 billion units, down significantly from July's run rate of 9.4 billion, which was the high point last year.

Geographically, revenue growth was distributed relatively evenly among the four regions. Europe emerged as the stronghold in November, posting a growth of 7.7 percent, and edging out second place Japan, which registered a 6.7 percent increase for the month. Third place Asia Pacific was not far behind, increasing 6.3 percent, while semiconductor revenue grew by 3.7 percent in the Americas.

Although 2004 is officially over, final SIA numbers are not yet available. Semico forecasted 2004 to finish with revenue growth of 28.9 percent, topping \$214.6 billion. The strong economy last year 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.

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