

## Research News

Semiconductors

Semico Research Indicates 3Q05 Weakness in Semiconductor Industry

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Semico Research Corp. - January 18, 2005

Semico forecasts both the U.S. economy and the worldwide semiconductor industry will experience a slowdown in 2005. Semico's Inflection Point Indicator (IPI) showed a dramatic dip this month, indicating an increased risk of weakness in the July-August 2005 timeframe.

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.