

Q3 to be Weak, Recovery Delayed, Semico Says

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Even though it is easier to make an accurate forecast for total worldwide semiconductor sales near the end of the year than at the beginning of that year, some forecasters can miss even then, according to Semico Research.

The Phoenix, Ariz.-based firm noted that in recent weeks some industry analysts have revised forecasts for total annual semiconductor growth into the low 20 percent range. With only one month of sales still not reported by the Semiconductor Industry Association (SIA), the firm believes it is hard to see how the annual growth rate could be that low.

At the beginning of last year, Semico forecasted an annual growth rate of 26.8 percent for overall annual worldwide semiconductor sales. Through November, sales were on track to slightly exceed that forecast and if December sales equal Semico's forecast of \$20.8 million, then annual sales growth in 2004 will have been 28.8 percent.

From the vantage point of early January, that seems to be easily attainable, Semico believes. November sales were 4 percent above Semico's forecast, hinting at a good December; and sales of \$20.8 million in December fit past trends. If December sales are within + / - 10 percent of Semico's forecast, then the annual growth rate for 2004 would be in the range of 27.5 percent to 30 percent, slightly above the firm's beginning of year forecast.

For annual growth to fall as low as 23 percent, reported SIA December sales would have to fall to \$11.2 million, a decrease of nearly 40 percent from reported November sales and a decrease of nearly 35 percent from the previous December, which doesn't seem likely, Semico believes.

If December sales had been that low, screams of despair would have been heard all over the semiconductor industry, but instead, there was murmuring about inventories building, but no shouting yet about sales going away.

Yet, there is cause for concern. According to Semico's inflection point indicator (IPI), an index that predicts semiconductor sales trends six to nine months in advance, the semiconductor industry is at an inflection point, with December marking the high point.

Sales are expected to turn down in Q1 and not turn up again until the second half, with the January IPI warning that Q3 is to be weaker than originally expected, indicating a delayed market recovery, pushing the start of the recovery to Q4, the firm explained.

Semico concluded that total worldwide semiconductor sales are to be down 5.5 percent this year, and a forecast for annual semiconductor sales growth in the low 20 percent range for 2004 is too low, requiring a downturn that has not yet happened.

