

EE Times: Latest News
Foundry wafer prices to fall through 2005

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SAN JOSE, Calif. — The silicon foundry industry remains embroiled in a subtle but damaging price war for select products and processes. This in turn will cause foundry wafer prices to drop for the remainder of 2005, according to a report from Semico Research Corp. For months, many silicon foundry vendors have been competing on price amid a slowdown in the industry. Some analysts point to the Chinese silicon foundry startups as the main culprits in the foundry pricing wars.

Semico (Phoenix) believes that there will be a lag, but most foundries will not be dropping prices for much longer. This is especially true as the dynamics in the foundry industry are moving away from its traditional "Priceline.com" pricing model, according to Semico.

But according to the latest research released by Semico (Phoenix), foundry wafer pricing experienced another quarter of falling prices and declined by 6.4 percent in the second quarter of 2005.

Foundry wafer prices will stabilize to some degree, but they are also expected to drop by 3.0 percent in the third quarter and 2.3 percent in the fourth quarter, according to the research firm.

This trend somewhat reflects Semico's forecast of a better second half in the overall semiconductor industry. Semico continues to forecast worldwide semiconductor revenue shipments will increase by 2.0 percent to \$217.3 billion in 2005.

Semico's Inflection Point Indicator (IPI) model shows two years of moderate growth for the worldwide semiconductor industry in 2005 and 2006, followed by a strong, double-digit upswing in 2007 and 2008. Semico developed the IPI model to assist in forecasting semiconductor revenues approximately two quarters in advance (see July 26 story).

New dynamics

Meanwhile, the dynamics in the foundry industry are changing. "During periods of soft demand, foundries have reduced prices to accommodate potential customers and increase sales," according to Semico. "While practical in theory it has produced a band-aid effect. During the recovery period foundries could not return to pre-downturn pricing structures. Customers continued to practice what made Priceline.com famous — shop and compare. This put pressure on prices leaving foundries in an ongoing 'catch-22.' "

So what's different about the state of foundry wafer pricing today?

It is Semico's belief "that companies respond to early-warning indicators of potential overcapacity concerns quicker than during the last downturn," according to Semico. "It has been noted that there are more niche players who are customizing processes and services for their customers. This is all happening as the overall semiconductor industry shifts much of its focus to consumer oriented products."

"We all know that just about any product geared toward the consumer experiences pricing pressures," said Joanne Itow, managing director of manufacturing for Semico. "But quick time to market and trendy products also creates the potential for opportunistic pricing," she concluded.

Foundry vendors have reported mixed results in recent days. Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) projects a recovery in the lackluster foundry business in the second half of 2005, amid a jump in its own sales, profits and fab utilization rates for the second quarter (see July 26 story).

Not all are benefiting from the recovery. Taiwan's foundry chip maker United Microelectronics Corp. has reported poor financial results for the second quarter, but gave an upbeat forecast for the third quarter. UMC also cut capital spending (see July 27 story).

Chartered Semiconductor Manufacturing Pte. Ltd. last week said that it has begun processing wafers from its initial 300-mm wafer fab -- a month sooner than previously expected. But the troubled Singaporean foundry provider is still spilling red ink amid lackluster demand (see July 21 story).

When it reports on Thursday (July 28), Chinese silicon foundry provider Semiconductor Manufacturing International Corp. (SMIC) is projected to meet expectations for Q2, with a possibility of moving out of the red in Q3, according to an analyst (see July 25 story).

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