

Semico IPI Points to Late Third Quarter Upturn in Semiconductor Industry

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While Semico continues to predict a downturn in the semiconductor industry in the first half of 2005 and an overall decline of 3.6 percent for the year, the analysts say that their Inflection Point Indicator may point to an upturn occurring in the late 3Q to early 4Q05 timeframe. Semico says that its IPI has risen for two consecutive months -- December and January. If this trend continues, the semiconductor market is likely to strengthen in the second half of the year.

Semico's Inflection Point Indicator (IPI) registered 15.5 in January, up from a revised reading of 15.3 in December. This marks two consecutive months that the IPI has risen. Since the IPI is designed to forecast the semiconductor market 8 to 9 months in advance, the January IPI is a predictor of the market conditions for the September to October timeframe.

At first glance, the reinforced Semico forecast for a soft 2005 appears to contradict worldwide semiconductor shipment data released by the SIA, which shows January sales were better than expected. Semico believes that the SIA data could lead to the general perception that 2005 will experience modest growth. Although January sales fell 12.7% from December, the January weekly revenue run rate of \$4.2 billion was an increase of 8.8% over December's run rate of \$3.9 billion. In addition, January 2005 shipments were 22.8% higher than January 2004.

While the level of January semiconductor shipments is good news for the industry, the Semico IPI is based on a much broader view of the market, and takes into account other data points -- including hardware sales, inventory levels, and PCB bookings and billings. The Semico IPI continues to predict a downturn in the first half of the year, with the industry picking up in late 3Q05. The illusory strength of January shipments can be attributed to:

Backlog in the third and fourth quarters were shipped in January.

Apparently, some of the actual sales that were reported were actually semiconductor inventory that was pushed into the distribution channel.

Semico forecasts worldwide semiconductor revenue shipments will fall 3.6% this year. Weaker end markets, revised guidance resulting in lower forecasts from leading semiconductor companies, a downward trend in ASPs (-2.8% in January) and a focus on inventory burn-off will all contribute to a weak first half. The market is expected to turn around in the second half of the year as OEMs begin rebuilding inventories.

About the market research

Semico Research developed the Inflection Point Indicator to assist in forecasting semiconductor revenues approximately two quarters in advance. The IPI combined with Semico bill-of-materials, end-market analysis and primary research, helps Semico Research accurately forecast the industry ahead of other prognosticators.