

Semico: 2006 to Bring 18% Growth

By Jessica Davis -- 9/15/2005

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Inflation and rising oil prices are areas of concern for the overall economy and therefore the semiconductor industry in the coming years, but the picture for 2006 still looks bright.

That's according to the 2006 Outlook report from analyst firm Semico, presented today during its conference in San Jose.

Semico is forecasting a stronger second half of 2005 and an 18 percent revenue growth rate for semiconductors in 2006, with the next downturn coming in the second half of 2008 and in 2009.

Both traditional end markets and emerging end markets will bring higher unit sales for the semiconductor industry. Semico is forecasting unit growth of 17 percent for traditional semiconductor markets that include computing and cell phones. Broken down, desktop PCs will grow 6 percent, notebook PCs will grow 29 percent and cell phones will grow 18 percent.

Consumer markets for semiconductors will see more dramatic growth at 40 percent. Broken out Semico expects digital television markets to grow by 98 percent, DVD recorders by 54 percent, video game consoles by 34 percent and MP3 players by 27 percent.

"It seems like the consumer is not worrying about gas at \$3 a gallon," said Jim Feldhan, president and founder of Semico, in his lead off presentation. But, he added, there could be a marked change in behavior over the next few years due to higher oil prices.

"Oil prices affect the whole industry," he said.

Prices now in the \$60 to \$70 range for a barrel of oil are high, but still in the range that people will pay, Feldhan said. That confidence and willingness to pay higher prices may come from the rising value of real estate: "Don't worry, the value of your house is increasing," said Feldhan.

And in spite of a weak job market, possible slowing real estate appreciation rates, and higher oil prices, consumer confidence is expected to be stronger in 2006 and consumers will continue to spend. Interest rates are also stable, and end-market demand is improving, contributing to an improving business climate, according to Feldhan.

And consumer spending will influence the semiconductor market more and more. In 2009, while Semico still forecasts computing to make up, the largest chunk of the overall semiconductor market at 34.9 percent, that's a far cry from its peak at 52 percent of the entire market. Other areas such as consumer, consumer computing, and communications (including handsets) have been on the rise and will make up 16.5 percent, 11.6 percent and 22.2 percent of the overall market in 2009, according to Semico.

The automotive market, while it makes up a small portion of the total semiconductor market, is expected to grow significantly over the next 5 years to \$28 billion as digital content and GPS technologies go into more and more cars. Other new technologies such as electric and hybrid vehicles, HCCI engines, smart sensors and actuators, collision avoidance standards, and others will also drive growth.

In manufacturing, Semico expects capacity utilization rates, which were up in Q2, to continue to rise for the rest of 2005.

And the industry will continue to innovate and offer new applications, particularly in the consumer arena.

"This year we will see 4 gigabyte flash drives," Feldhan said. "In the next several years we will see new rotating media that will make DVDR seem like 4-inch floppy disks."

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