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Semico Forecasts Q1 Downturn

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The semiconductor industry is headed for a downturn as 2007 begins, with slowing growth and falling capacity utilization.

That's according to a new forecast from Semico, presented today at a conference in San Jose. The market research analysis firm's key indicator, IPI (inflection point indicator) -- which has proven a good predictor of movement nine months ahead of when it happens -- shows a significant drop starting in the March time frame, according to Jim Feldhan, Semico's president.

"This drop is steepest drop we've seen since 2001," he said, and pointed to a big change coming in Q1 of 2007.

With that in mind Semico believes growth in the semiconductor industry will slow to 7 percent next year and hit about \$271 billion. That compares to growth this year which Semico is now forecasting will be 11.5 percent, reaching \$253 billion.

After so much capacity expansion this year, capacity utilization will fall in 2007, causing pricing pressure.

"It will take two to three quarters to suck up added capacity," Feldhan said. "By the end of Q3 and Q4 next year capacity utilization will go up again." He predicts capacity utilization will rise to 80 percent by the end of 2007, stabilizing prices.

"The industry is much more conservative than in the past," Feldhan said "A few years ago TSMC said they'd build a fab a year. That hasn't happened and they've become much more conservative. "What we've seen over past year is that industry has seen high capacity utilization and has expanded with 21 percent in capital expenditures this year, higher than we anticipated," he added. "But as capacity utilization falls companies turn off that spigot quickly. Take TSMC as an example. Their capacity utilization rates were starting to fall in Q3 and they've already slowed down expansion of 300mm facilities."

The Overall Economy

And while the semiconductor industry is cyclical, several factors in the economy overall will hit the semi space including oil prices that are up 30 percent from 2005, dragging on consumer spending; housing prices on the decline; and global competition keeping corporate profits and pricing down "We are very worried about deficit," Feldhan added. "The current deficit dwarfs what we saw in Vietnam era and we are going to have to pay for this deficit sooner or later."

In addition, the Middle East conflict is fueling uncertainty and North Korea remains a wildcard, adding to fear among consumers and businesses.

With those factors in mind, Feldhan said he believes the gross domestic product will fall next year to 2.9, down from 3.6 this year.

On the positive side, Feldhan pointed to growing investments in alternative energy, more consumer end markets and faster adoption rates for products.