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IC downturn due by mid-2007, warns analyst

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SAN JOSE, Calif. — Don't look now, but the semiconductor industry will suffer a "downward turning point" around mid-2007, warned Advanced Forecasting Inc. on Monday (Sept. 25).

"The 2007 downturn is likely to have a much stronger impact on the industry than the slowdown in 2H '04, which caught many off guard after three years of continued recovery," said Moshe Handelsman, president of Advanced Forecasting (Saratoga, Calif.), in a statement.

The depth of the decline will depend on the level of double-bookings and exaggerated revenue that precedes a forecasted decline, according to the research firm. But by the second half of 2007, the semiconductor industry will have reached the end of a nearly six-year continued growth stage, except for the short plateau in the second half of 2004, according to the research firm.

In the short term, there are also some concerns. "Currently, IC revenues are below underlying demand and are expected to increase into 2007," said Rosa Luis, director of marketing and sales for Advanced Forecasting. "Should the slope of their growth exceed that of underlying demand and over-heating results, the peak will take place earlier and the decline into a recession will be steeper than predicted."

Industry leaders have exercised caution in their decision-making since the recession of 2001 by adding capacity incrementally and limiting excess spending. This prevented overheating until now, allowing IC unit shipments to grow faster than revenues.

This kept average selling prices below expectations. The current annual growth rate of IC units is 23.8 percent but only 8.5 percent for IC revenues, according to the firm.

Others have a different viewpoint. [Semico](#) Research Corp. is moving back towards the bull camp, as the market research firm raised its IC forecast for 2007. Semico (Phoenix) predicted that the semiconductor market will grow by 7 percent in 2007 over 2006. The market research firm reiterated its forecast for 2006, which calls for 11 percent growth for chips.

[IC Insights Inc.](#) said IC revenues growth this year will match the 8 percent growth seen in 2005. Chipmakers will see 9 percent growth in 2007, and then the cycle will peak with a 20 percent revenue increase in 2008.