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DRAM market remains dynamic

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SAN JOSE, Calif. — DRAM manufacturing capacity has clearly exceeded OEM demand.

But does this signal a major overcapacity situation in the second half of 2007? There are no easy answers, based on the current dynamics in the marketplace.

Bit growth has increased at approximately 20 percent for the past two quarters — mostly on the strength of the 512-megabit market, according to Semico Research Corp. But if DRAM capacity remains exactly flat with no increase in capacity for the remainder of 2007, DRAM bit growth will still achieve highest growth rate in 7 years, according to the firm.

In previous years, DRAM manufacturers were faced with the choices of idling the fabs in order to reduce the supply or continuing to increase their output in order to reduce their average cost per device.

However the rise of NAND as a high volume commodity memory product has presented another variable to the memory manufacturers. Because of the manufacturing similarities between NAND and DRAM, some memory manufacturers have the option of shifting enough resources between the two products to impact the total production.

"The second half of 2007 clearly establishes that the analysis of DRAM supply and demand can no longer be separated from a coordinated and linked analysis of NAND conditions," said Bob Merritt, an analyst with Semico, in a statement. "The demand and production ramp for NAND in iPhones is now directly linked to the DRAM cost and availability for Vista."

One new impact from this new market equation has already been seen. "DRAM capacity is building in the supply channels in anticipation of tighter DRAM supply in the fourth quarter," he said.