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## **Analysts stay bullish on IC growth**

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LONDON — Although storms may be howling around the general economy, the bulls and bears are in surprising harmony when it comes to predicting the prospects for the global semiconductor industry in 2008. True to recent form, U.K.-based market analysis firm Future Horizons is among the more bullish with estimates of 10-percent unit growth and 12-percent growth in dollar terms.

At its annual Industry Forecast Seminar held here last week, Malcolm Penn, Future Horizons' CEO, also suggested capital expenditure in 2008 would be 10 percent down on that seen last year. That indicates a difficult year for semiconductor manufacturing equipment makers and should lead to upward pressure on chip pricing in 2009. The 2008 predictions of most other market research groups range from 6 percent to 12 percent, with Semico Research Corp. joining Future Horizons at the top end (see table). However, Penn conceded there are other predictions out there that are much less positive, including some even suggesting negative growth for the year.

But Penn is sticking to a scenario that sees a relatively quiet start to the year that "could become a barnstormer" over the second half, with capacity utilization, revenues and average selling prices (ASPs) all pulling together. Of course Penn qualifies this by adding that it only applies if the global economy holds up and does not lose its nerve " a prediction that remains in the balance as storm clouds gather over the United States.

Even as Penn was speaking at last week's event, the International Monetary Fund, on whose figures Penn's predictions for the global economy and thus the chips sector are predicated, was downgrading its global growth outlook from 4.4 to 4.1 percent, including a drop of 0.4 percent to 1.5 percent for the U.S.

Penn said most forecasts for 2007 were undone because of a collapse in ASPs for some of the most important components, including DRAMs and microprocessors. "ASPs, traditionally the industry's wild card, could again be a problem, but we think they are more likely heading for a 10-percent increase for the year. We are predicting a weak first half to the year, followed by strong recovery in the second half," said Penn.

Penn believes sanity will prevail in 2008 and memory makers as well as the traditional warring parties in microprocessors - Intel and AMD - will cease their price wars. He estimated that the DRAM antagonists lost \$12 billion in potential revenues last year chasing sales at any price. "We are, I believe, looking at more stable price erosion for this year, and anticipate that the memory sector will stop its bleeding-to-death curve and return to a more sane and normal learning curve."

The battles over microprocessor pricing have been no less beneficial to equipment companies and costly to chipmakers. Penn reckons that, between them, Intel and AMD have lost out on \$11 billion in revenues over the past two years, including \$6 billion in 2007.

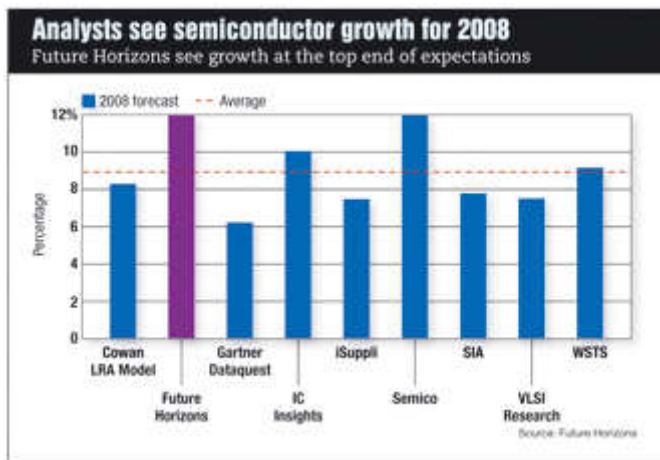
He maintains that if it had not been for these price wars last year, the extra \$18 billion in potential revenues would have meant a 12-percent increase in market growth, rather than the 3.6 percent achieved. "What it comes down to is that these actions cost the market 6 to 8 points in growth and did for the forecasts that we gave in January 2007," said Penn.

Of the other research groups, IC Insights suggests the industry is looking at a 1-percent decrease in ASPs in 2008 compared with the 6 percent last year. The company also suggests unit shipments increased 11 percent last year, with a 5-percent growth in the market. Future Horizons' figures are similar, with market growth in dollar terms up 4.4 percent and unit shipments ahead by 10 percent. Capital spending was up 8 percent.

Penn also painted a mixed picture for European semiconductor companies. "All three of the continent's big players are in what they term a restructuring phase, by which they mean downsizing mode. It seems to us NXP Semiconductors, STMicroelectronics and

Infineon Technologies are dumping the difficult stuff and increasingly focusing on high value, high ASP products. And with ST about to spin out its flash memory business into a joint venture with Intel, and Qimonda cutting back, it may not be long before Europe is not represented in the top-ten list of chip suppliers," warned Penn.

He adds that while Europe has many excellent fabless companies, only one, wireless chip specialist CSR plc (Cambridge, England) manages to get into the top 30. U.S. companies completely dominate this list with 63 percent, followed by Taiwanese companies with 27 percent. Penn also warned that there is no end in sight for Europe's decline in global market share - down from 19.7 percent in 2002 to 16.7 in 2007 and predicted to fall further to 15.3 percent by 2012. "The European CAGR between 2002 and 2007 was a meager 8.7 percent, compared with a global figure of 12.8 percent," Penn said.



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