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Semico's Feldhan sees second-half rebound

David Lammers
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AUSTIN, Texas — Despite current weak demand, the chip industry is set to rebound in the second half of 2005 and should enjoy strong growth through 2007, said Jim Feldhan, president of Semico Research Corp.

Speaking at a Fabless Semiconductor Association event here Thursday (April 7), Feldhan asked: "Has the chip industry run out of steam? Has it peaked? I don't think so."

Semico (Phoenix) predicts the U.S. economy will grow 2.5 percent this year, better than in Europe or Japan but far less than the 6.1-percent growth in South Korea or China's 8-percent growth.

Despite a U.S. economy facing rising interest rates, oil prices over \$50 a barrel and relatively weak consumer confidence, Feldhan said he has developed an inflection point index, or IPI, which points to a recovery soon. The chip market should improve in the second half as OEMs replenish depleted inventories. "This is a bump in the road for the first two quarters of this year. Then we should see positive growth in the next two years," he said.

Longer term, the chip industry will benefit from an impressive array of products that are expected to sell well over the next two years. While desktop demand is weak, notebook computers are enjoying 25 percent growth rates, increasing to 100 million units a year by 2009. The introduction of dual-core processors to the notebook market in 2007 could also spur demand.

Fuel cells are undergoing safety approval tests by the Underwriters Laboratory (UL), and Feldhan predicted that notebooks with two weeks of battery life, which could be recharged quickly, will change the way notebooks are used later in the decade. In developing countries, fuel cells could be used to power both computing and communications networks in remote areas.

The digital home also is a fertile field, he said, as consumers buy wireless media hubs, digital video recorders, wide-screen televisions and other entertainment gear. During a recent tour of Japan and South Korea, Feldhan bounced a prediction off of executives that HDTV sales would reach 65 million units in 2008. Japanese executives mostly viewed that number as too optimistic, while the Koreans said the forecast was too pessimistic. Chinese consumers alone would account for one-third of the 65 million units by then, the Korean managers argued.

Semico is predicting that 2008 may represent a peak for the digital still camera market. Beyond that, sales will flatten out as the market for digital cameras will resemble the film camera market of a decade ago.

Fab utilization is relatively weak now. Taiwan Semiconductor Manufacturing Co. reported that its capacity utilization dropped from 85 percent in the fourth quarter to 75 percent in the first quarter. That will rebound as inventories are replenished.

Overall, companies are filling out 300-mm fabs in small increments. Some 43 300-mm shells have been built, but only 17 of them are fully operational, he noted. A true overcapacity situation is unlikely to occur before 2009, when Semico sees a downturn led by a "significant drop in NAND flash and DRAMs."

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