

Electronic News
September 10, 2004

[Downturn Forecast for 2005](#)

By Jessica Davis

The semiconductor industry is headed for an imminent downturn in 2005, but nothing as deep or lengthy as the one the industry has recently recovered from.

The prediction came from analyst firm Semico Corp., which released its 2005 outlook this week, calling next year "a bump in the road."

This year the semiconductor industry will grow by 31.5 percent and in 2005 that will retreat a bit, falling by 5.5 percent, according to Jim Feldhan, president of Semico, during his presentation at Outlook conference.

Factors leading to the decline next year include a maturing 90 nanometer process with better yields, more 300mm capacity, substantial 200mm capacity in China, slowing cell phone growth, and a slowing PC cycle in the second half of the year.

Inventories are also on the rise across the industry, which will lead to an inventory reduction program and more ASP pressure next year, Feldhan said.

While comparisons can be drawn between this period of expansion and the one that preceded the deep recession of 2000, we aren't headed down the same road this time, according to Semico.

In the 1999-2000 time frame, the length of the expansion period lasted 6 quarters while the 2003-2004 expansion period so far has lasted 5 quarters and is forecasted to be 7 quarters, according to Jim Feldhan, president of Semico, during his presentation at Outlook conference.

Growth rates hit 42.3 percent in 2000 versus the 32.5 percent we are experiencing in 2004. And inventories at semiconductor companies today are currently at May of 2000 levels.

Across end markets in 2000 desktops were 15.7 percent; notebooks, 23.5 percent; handsets 57.4 percent and digital cameras 50 percent. That compares with 2004's desktops at 10.7 percent; notebooks at 28.3 percent, handsets at 27.1 percent and digital cameras at 59 percent.

It's not just the semiconductor industry that will feel the pressure next year. Slower economic conditions overall will contribute to next year's bump.

Gross domestic product for the United States in 2005 will be only 2.2 percent compared to 2004's 4.5 percent, Feldhan said.

Negative forces driving the change include the political status of the country. Election year GDP is typically more than 4 percent while post election year the number falls to 2 percent or less. In addition, inflation is beginning to build and oil prices are sky high at \$45 a barrel which translates into less disposable income for consumers. And interest rates are edging up.

Similarly Japan's GDP will also drop in 2005 to 1.9 percent from 4.3 percent this year. While the country is coming out of a decade of recession, 2005 represents a glitch in that recovery with lower retail sales across multiple categories such as televisions, PCs and furniture.

China is still booming with an 8.9 percent GDP this year which will fall back slightly to 8.1 percent in 2005. Inflation will also slow in that country to 3.5 percent next year from 3.8 percent this year, according to Feldhan.

Oil prices have been stalling the recovering economy in Korea and that will continue through 2005. Softening exports there will lead to a softer economy with GDP for 2005 of 5.1 percent compared with this year's 6.2 percent.

While factors look negative for 2005, slow growth will return in 2006, and more significant growth will follow in 2007 and 2008, Semico said.

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Semico Research Corp is a marketing and engineering research company located in Phoenix, Arizona. Semico was founded in 1994 by a group of semiconductor industry veterans who believed that the validity of semiconductor product forecasts could be greatly improved if the forecasts were based on semiconductor consumption in end-use markets. Semico forecasts, today, are based on that idea. Corporate Headquarters: P.O. Box 9850 Phoenix, AZ 85068-9850 Tel: 602-997-0337 Fax: 602-997-0302 Web: www.semico.com