"Contrary To Collective Industry Wisdom…
The Sky's Not Falling In On The Chip Industry"
Comments Future Horizons' Malcolm Penn

London, UK, 23 July 2008: This was the message delivered by Malcolm Penn, Chairman & CEO of Future Horizons Ltd. (Sevenoaks, England) at the annual mid-term industry forecast seminar in London yesterday. "With all of the near-term industry fundamentals positively aligned; the market will inevitable respond with a strong second-half year rebound", comments Penn.

Citing recent reports from Intel and Nokia demonstrating ongoing strength in the first half year PC and mobile handset markets, Penn believes that the robust first half-year IC unit demand will be driven even stronger by the IMF's July quarterly economic update, which revised the 2008 GDP growth forecast upwards from 3.7 percent to 4.1 percent.

Referring to the cap ex cutback that started last year, we are now seeing net capacity growing much slower than demand. With utilisation rates already at 90 percent or over, the industry is perilously close to shortages (allocation) and inevitable price hikes, the only uncertainty is when. And with 2008's Cap Ex spend now forecast down 20 percent on 2007, the undersupply issue will really hit home in 2009.

"No Cap Ex … no capacity, it really is that simple, and it will take a year to rectify the situation" continued Penn. "There's no stomach in the boardroom to increase Cap Ex at the moment which means the earliest time for decision is Q4 2008, too late to significantly alter 2009's capacity. ASPs will inevitably increase."

Penn gave three possible results for annual chip market growth in 2008, ranging from 7 percent at the low side up to 10 percent growth at the top end. "I'm unashamedly optimistic … we're plumping for the 10 percent scenario for 2008." As for next year, because of a lack of investment in semiconductor manufacturing capacity, Penn believes that prices will continue to rise - alongside units - giving rise to a market growth forecast in the high-teens, maybe higher … something not seen in the industry since 2003-04.

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It is only memory pricing that is currently depressing the market, excluding memories 2008 ASP are up 4.8 percent versus the same period last year and market value growth is up 12.3 percent year to date, compared with only 4.9 percent with memory added back in. Logic is the current star performer with a year to date ASPs and the market up 12.3 percent and 22.6 percent respectively on 2007.

This is the first time in the history of the chip industry that Cap Ex has been cut in a period of maxed out capacity. With most major chip vendors moving away from chip manufacturing at the leading edge, where utilisation rates are even higher at 95 percent plus, the burden of supply falls squarely on the foundries. The combination of tight supply and increased wafer prices will change the 'fab-lite' strategy dynamic.

"Two years ago no-one foresaw $20/barrel oil increasing by a factor of 7x. I'm not saying that foundry wafer prices will go up from 2007's US$1100 average to US$7700, but they sure as night follows day they are going to be higher" warned Penn.

For a copy of the seminar material please email seminar@futurehorizons.com

About Future Horizons

Established in April 1989, Future Horizons provides market research and business support services for use in opportunity analysis, business planning and new market development. Its industry information seminars and forums are widely considered to be the best of their kind. Emphasis is placed on the world-wide semiconductor and electronics industry and associated markets.

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