



“Chip Market Grew 18% In Q2-09”

London, UK, 13 July 2009: Following hot on the heels of April’s 16 percent month-on-month sales growth, May grew a further 0.9 percent sequentially, putting June on track to break through the US\$20 billion barrier, for the first time since the chip market collapsed last September.

“Psychologically this will give everyone a shot in the arm”, commented Malcolm Penn, Chairman & CEO at the UK-based research firm, Future Horizons, “Second quarter growth is usually pretty pathetic ... there have been only three historical precedents when such a spurt has happened. The big question now is: Is this the start of the chip market recovery or is it merely a blip on the statistics radar screen?”

“It’s both”, Penn counselled, “the forth quarter market collapse was far too steep - a severe over-reaction to last year’s gross financial uncertainty - culminating with the Lehman Brothers collapse in September. The first quarter saw this stabilise with the second quarter restocking, but there are other positive factors also in play.”

The normal dynamics following any market collapse is (1) over-reaction, cutting back production and inventories too far (2) a correction phase to rebalance over-depleted inventories and (3) a resumption of demand-driven built.

“Whilst in Phase 1 chip sales equals OEM requirement *minus* inventory burn, hence understating real demand, Phase 2 results in sales equal to OEM demand *plus* inventory rebuild, thus overstating the actual demand”, continued Penn. “We are currently in Phase 2 of the recovery cycle”.

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**PRESS RELEASE**

Commenting on some of the other underlying issues, Future Horizons believes that the timing of this recovery is 'a good as it gets', given that third quarter seasonal demand will be on the increase just as the sales decline caused by inventory build ends. Capacity will also shortly start to come into play, given the unprecedented three years of fab under-investment. Traditionally tight availability positively impacts IC ASPs, but delayed by 12 months as existing contracts run their course. This time Future Horizons believes things could be faster, given the extend of the cutbacks, as already witnessed in the 2009 memory market.

"This (under-investment) eagle is one day coming home to roost" warned Penn, "we are already seeing the first signs of shortages at UMC affecting Xilinx and other firm's second quarter sales. And for shortages read ASP increases, it's inevitable, it's just a matter of time, the fabs will be looking to maximise the return on their costly and precious resources, especially now more and more firms are seeking their share of the foundry pie. Better to pay 5x the price and get the parts you need."

On the cautionary side, the overall economic outlook remains uncertain and moribund and firms are still in a wait and see mode, which ironically will only serve to make the market dynamics worse, as firms are then faced with a massive catch-up problem.

"Never forget market trends are not based just on rational decisions, but emotional ones as well, it is this that makes the outcome sometimes so difficult to predict" Penn reminded.

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For More Details

Packed with more than 200 slides – from the economy to capacity; key application markets to regional trends, additional information about the current industry outlook and trends will be presented at Future Horizons Mid-Term industry forecast seminar in London, UK on July 21. For further information on Future Horizons visit Future Horizons web site at (<http://www.futurehorizons.com/page/13/ifs-industry-forecast>) or e-mail info@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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