

Future Horizons: “Q3-09 Chip Growth Sets Stage For 22 Percent Surge In 2010 vs 2009”

London, UK, 03 November 2009 - September's chip sales hit US\$24.0 billion, heralding a 20 percent quarterly increase on Q2-09. “That means,” commented Malcolm Penn, Chairman & CEO at the UK-based research firm, Future Horizons, “we are in the enviable position of announcing an increase to our 2009 forecast. We now see the market declining only 10 percent over 2008, a truly remarkable recovery considering the abyss we were staring into just this time last year. September's sales were even higher than our optimistic best expectations. This recovery now has a momentum of its own.”

The market rebound started at the end of Q1, with Q2 coming in at 17 percent sequential growth. With Q3 now up a further 20 percent and Q4 market guidance in the 5 percent to 7 percent range, the 2009 market is set to close out at between US\$220-225 billion. “Psychologically this ought to give everyone a shot in the arm but instead there's a strange air of disbelief and denial in the air,” said Penn. “The fact of the matter is no-one believes anything any more; I wish, really wish I was back running a chip division again. The competition's so befuddled you could walk all over anyone without even trying.”

The big question when Q2's results were announced was: ‘Is this the start of the chip market recovery or merely a blip on the chip statistics radar screen?’ Driven by the bean counters and financial community, most CEOs took the latter view and path of least resistance and continued to downsize. This is a decision many will now regret, counsels Future Horizons.

Commenting on some of the other underlying issues, Future Horizons believes that the normal dynamics following any market collapse are: (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 orders.

Phase 1 kicked in last September with the Lehman Bros collapse, with Phase 2 starting in March 2009. The industry is now firmly and clearly in Phase 3 of the recovery cycle, in line with Future Horizons' January 2009 forecast. “The only difference between our earlier forecast and reality is that the recovery is coming in stronger than even we dared to predict,” said Penn.

Looking ahead to 2010, Future Horizons believes growth will be up 22 percent up on 2009, just based on benign ‘normal’ quarterly growth patterns, dramatically ending a five-year ‘zero-

growth' period, without taking into effect any recovery in the world economy or price increases due to product shortages and lack of wafer fab capacity. That would mean a US\$272 billion market, well in excess of the past US\$256 billion 2007 peak.

“A 20 percent-plus growth year will nail the coffin of the ‘chip growth is over’ merchants of doom, especially when 2011 is likely to be even stronger still. This industry’s not changed one iota and market trends are still not based just on rational decisions but emotional ones as well. It is this that creates new market opportunities, but not for the faint-hearted, only those who really understand the chip business,” concluded Penn.

End

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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