RESEARCH BULLETIN

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IC Insights Lowers 2007 IC Market Forecast

Memory price declines exert major drag on industry growth

Inventory adjustments now underway in the IC industry, severe pricing pressures in the flash memory and MPU product segments, and the recent start of a major DRAM price collapse have caused IC Insights to lower its expectations for full-year 2007 worldwide IC market growth from 7% to 2%.

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Over the past 30 years, the average sequential monthly decline in the *actual* (not three-month average) IC market in January as compared to December was about 17%. Such declines are looked upon as being normal considering that December is a five-week accounting month (as are all of the quarter-ending months like March, June, and September) and January is a four-week month. Thus, the 18% January 2007/December 2006 IC market decline was viewed as typical and, correctly, did not receive much attention.

In comparison to the "normal" January sequential IC market results, however, February's IC market data was at the opposite end of the spectrum. As shown in Figure 1, the February 2007/January 2007 *actual* IC market plunged 8.0%!

This was by far the largest February sequential decline in the IC market in the past 30 years and may have been the largest February/January decline in the history of the IC industry! It was also only the fourth February/January IC market decline in the past 30 years.

Interestingly, historical February/January IC market changes have not been a precursor to full-year market results. For example, prior to February 2007, there were three February/January declines in the IC market—1985, 2000, and 2005. The full-year IC market growth rates for these February/January decline years were -17%, +37%, and +7%, respectively. Thus, the February decline years previously occurred during an extreme downturn year (1985), a boom year (2000), and a moderate growth year (2005). Moreover, in three of the four negative growth years over the past 30 years (i.e., 1996, 1998, and 2001), February/January IC market growth was moderately positive.

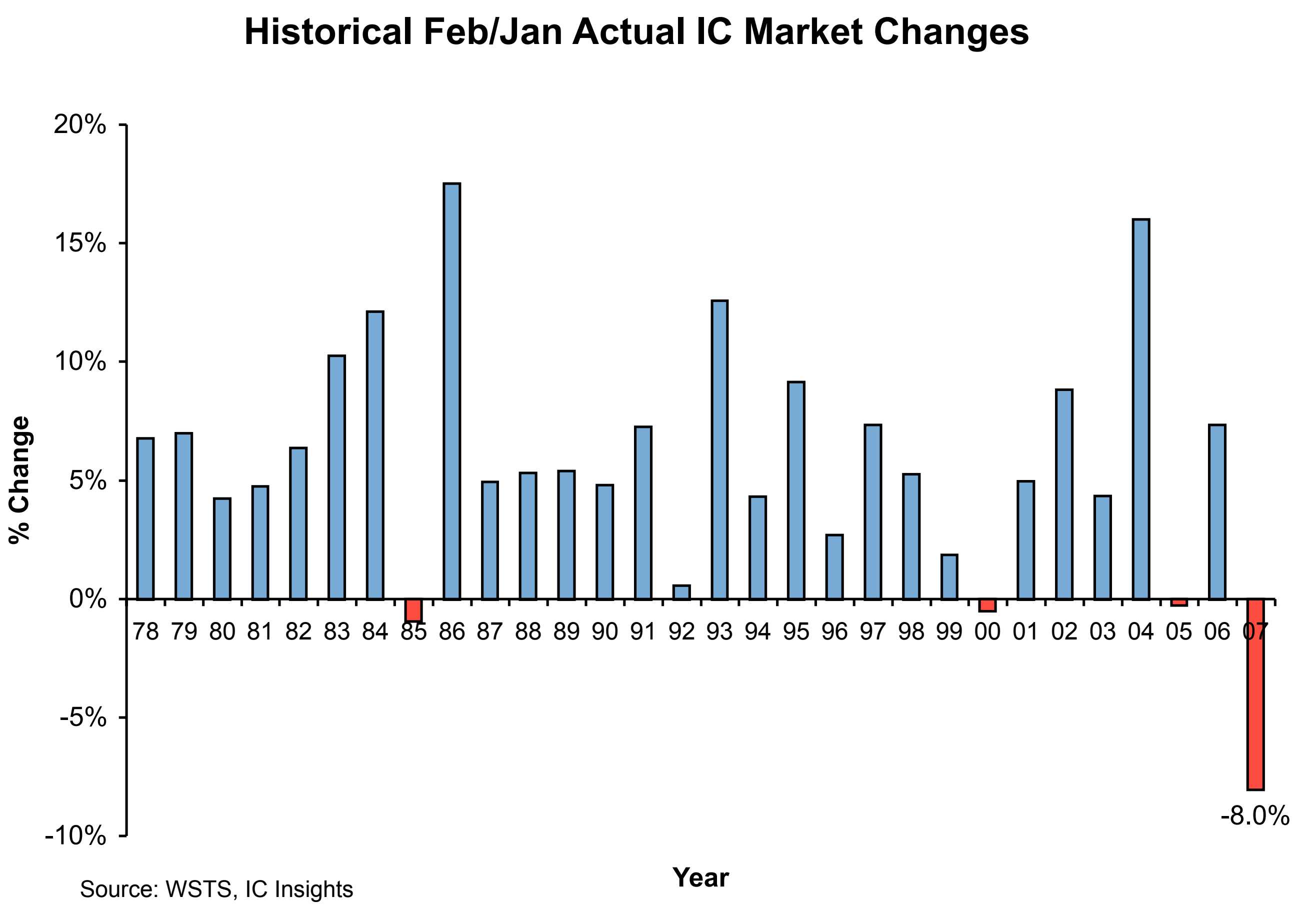

Figure 1

So, what are we to make of the seemingly disastrous February 2007 results? Should they be ignored? No! At this point, IC insights believes they do indicate a slowing IC market and the beginning of a noticeable inventory correction. Although the first quarter of 2007 is now history, the actual IC market results for March will not be announced until the end of this month.

The 30-year average March/February IC market increase is about 21%. If the March 2007 IC market registers a typical sequential increase of 21%, the total 1Q07 IC market would be $49.6 billion, representing a steep 11% decline from 4Q06 ($55.7 billion). If the March 2007 IC market matches the highest March/February increase that occurred within the past 30 years (i.e., +36.6% logged in March 2002), the total 1Q07 IC market of $52.0 billion would still represent a significant 7% drop from 4Q06.

It should be noted that the correlation of first quarter IC market results with the entire year results for the IC market is much more significant than when looking at individual monthly data.

Over the past 30 years, the 1Q/4Q IC market has shown a decline of more than 4% only four times—1985, 1996, 1998, and 2001. What is unsettling is that these four years also happen to be the only negative growth years for the IC industry since 1978!

Report Details

The 2007 edition of IC Insights' *McClean Report—A Complete Analysis and Forecast of the Integrated Circuit Industry*, is now available for purchase. Packed with over 400 tables and graphs, the report is available in three-ring binder, CD-ROM, and on-line formats, and also comes with free monthly updates by e-mail from March through November. A single copy of the report in CD-ROM or binder format is priced at $2,590. A bundled CD-binder set is priced at $3,085. An Internet access password is available as a $695 option. The report is also available under a multi-user corporate license for $5,490.