

Talking Defense

Trends in the U.S. electronics equipment market (shipments only)

	% Change			
	July	Aug.	Sept.*	YTD
Computers and electronics products	3.0	1.6	-3.5	13.1
Computers	7.7	-2.5	-4.7	13.5
Storage devices	1.1	-0.2	2.1	11.3
Other peripheral equipment	7.6	4.2	-13.1	6.1
Nondefense communications equipment	3.8	7.1	-7.9	10.4
Defense communications equipment	-2.9	1.6	-1.6	20.5
AV equipment	3.6	9.0	-10.1	0.4
Semiconductors	5.1	-0.5	-5.4	22.3
Components ¹	1.2	-0.4	0.3	9.6
Nondefense search and navigation equipment	-13.4	7.4	6.0	7.3
Defense search and navigation equipment	6.3	0.0	1.7	9.6
Medical, measurement and control	-1.3	2.4	-0.1	14.3

* Preliminary. ¹Includes semiconductors. Seasonally adjusted. Source: U.S. Department of Commerce Census Bureau, November 2004.

October Manufacturing Rejects Seasonality

Tempe, AZ – The rate of growth in the manufacturing sector ignored historical seasonality in October, dropping for the third straight month. New orders upticked, but production dropped sharply. The electronics industry appears to be slowing, said the Institute for Supply Management (ism.ws).

Manufacturing grew for the 17th consecutive month, ISM said, based on its monthly poll of the supply chain. ISM said that while growth remains strong, inflation worries are rampant. "Strong growth continues, but at a slower rate than in September," said ISM chairman Norbert Ore. "However, energy prices and commodity price inflation are major concerns for manufacturing buyers."

	June	July	August	Sept.	Oct.
PMI	61.1	62.0	59.0	58.5	56.8
New orders	60.0	64.7	61.2	58.1	58.3
Production	63.2	66.1	59.5	61.6	54.8
Inventories	51.1	49.9	51.7	51.0	48.2
Customer inventories	39.0	37.5	45.5	41.4	43.5
Backlogs	58.5	58.0	55.0	55.0	49.0

Source: Institute for Supply Management, November 2004

The PMI measure of economic activity fell 1.7 points to 56.8%, but remained above the benchmark 50% level for the 17th straight month. New orders rose 0.2 points and production declined 6.8 points. "Manufacturing experienced three quarters of strong growth this year [and] the decline in order backlogs is an indication that manufacturing has peaked," said Ore.

Trends in pricing (higher) and customer inventories (lower) continued. Order backlogs dropped in October, yet imports and exports rose. Electronic Components and Equipment, and Industrial and Commercial Equipment and Computers were among the sectors reporting growth.

Industry Market Snapshot

Book-to-bills of various components/equipment

	June	July	August	Sept.
Semiconductor equipment ¹	1.07	1.04	1.01	0.96
Semiconductors ²	40.3%	1.0%	1.1%	1.0%
Rigid PCBs ³ (North America)	0.95	0.99	1.05	1.01
Flexible PCBs ³ (North America)	1.57	1.57	0.98	1.38

Sources: ¹SEMI, ²SIA (3-month moving average growth), ³IPC

SIA: Flat Semi Sales in 2005

San Jose – Record semiconductor sales of \$214 billion in 2004 will be followed by flatness next year, the Semiconductor Industry Association (sia-online.org) said Nov. 3. In its annual forecast, SIA projects sales will grow 6.3% in 2006 and 14.2% in 2007, reaching \$259 billion. The trade group projects "less favorable" demand for memory products will dampen expansion next year.

SIA expects that 2004 year-on-year growth rate will be 28.5%. More than 50% of the semiconductors sold in 2004 will go into products purchased by consumers, a ratio that will grow as consumers embrace portable digital media, SIA said.

Driving Ahead

Reno, NV – Will automotive drive our future? After outpacing the overall IC market through the recession (the sector fell just 1% in 2002), semiconductors for automotive applications are expected to reach \$13 billion to \$15 billion next year, says Databeans (databeans.net), a market research firm.

According to an October report, demand for chips for cars and trucks is forecast to rise 9% per year through 2009, well ahead of the overall vehicle market (3%).

Strike Up the Broadband

Cambridge, MA – Broadband Internet access is soaring in the U.S., according to the latest data from Forrester Research (forrester.com). The number of households with Internet access is forecast to grow from 68 million in 2003 to 83.7 million by 2008, a 23% clip. Yet the number of households with broadband will jump 226% during the same timeframe, from 19.5 million to 63.6 million. By 2008, households with broadband will make up 76% of all wired homes, Forrester says, up from 29% last year.