SANTA CLARA, CA – **iSuppli** warned it could trim this year's semiconductor forecast later this month from an earlier prediction of 7.5%.

The research firm blamed signs of weakening pricing and reduced demand for NAND flash, as evidenced by **Apple's** recent slashing of its expected 2008 order levels for memory and **Intel's** financial warning. It said the second quarter will be the bellwether for the year.

The semiconductor market rose 4.1% in 2007, and is entering a period when revenue growth traditionally would be expected to accelerate. However, with weak growth and mounting economic worries, concerns are rising over whether the industry will regain its momentum this year.

The current growth cycle hit bottom in February 2006. Following past cyclical patterns, the market would be expected to see a robust rebound in early 2008. However, the current cycle is generating so little growth that a strong market expansion is not expected this year, says iSuppli.

Despite this, factors including tighter inventory controls and a limited economic downturn are expected to keep semiconductor growth positive for the year, noted Dale Ford, senior vice president, market intelligence at iSuppli.

Ford said semiconductor cycles tend to lose momentum because of supply/demand balance factors within the electronics value chain, rather than because of overall end-demand issues. An imbalance in supply/demand is most easily seen through an analysis of excess inventory levels.

"In the early stage of the expansion, we see the sales momentum return; we see the growth come back, and we see companies eager to capture market share," Ford said. "Thus, we have overproduction and overcapacity. Later, the market must bring things into balance, which leads to a correction."

However, Ford noted the inventory situation shows the industry is currently in a reasonably healthy balance at this point in the semiconductor growth cycle.

"The last major downturn (2001) had a perfect storm of overbuild of capacity, a collapse in demand and out-of-control inventory levels," Ford said. "The industry has gone through a learning period on how to manage capacity more tightly. We're now getting an earlier warning signal for excess inventories. Once there was a signal that inventories were out of balance, the industry responded quickly to get them back into balance. Once the inventories stabilize, we will see a return to balance between production and demand."

Ford said excess semiconductor inventories in the electronics value chain are expected to fall to the $3.3 billion range in the first quarter. This will be down dramatically from its peak of $6.1 billion in the first quarter 2006.

Meanwhile, semiconductor makers plan to manage overall factory utilization in 2008 at levels comparable to 2007, helping to restrain supply growth and to keep pricing from falling too much for many semiconductor part types.

Most economists, Ford said, predict the U.S. economy will show either low growth or a mild recession in 2008, but will avoid a major recession this year. With global electronics manufacturing growth projected to drop modestly in 2008 compared to 2007, this will limit the economic impact on the semiconductor industry.

The lack of a major increase in semiconductor revenue growth momentum reflects a long-term trend in the chip industry toward more restrained expansion, says iSuppli.

“It’s interesting to go back 20 years and see the shifts in long-term growth rates,” Ford said. “Years ago, the global semiconductor market maintained a 27% compound annual growth rate; then it slowed to 17%, and now we are in a period of approximately 7% long-term CAGR. These are maturing dynamics. This is a larger and more mature industry – and it’s acting like it.”

Whether the semiconductor market can shake off its woes and achieve growth in 2008 will hinge largely on the industry’s performance in the second quarter, Ford predicted.

The first quarter will be seasonally slow, with revenue declining by 7.5% sequentially. However, revenue growth will rebound in the second quarter, rising by 4.6% compared to the first quarter.

With flat growth of 0.1% in the fourth quarter and an 11.8% increase in the seasonally strong third quarter, the second quarter performance will be a key indicator of market momentum for the second half of 2008, says iSuppli.

“This is where the fate of the year lies,” Ford said. “Whether the year turns out well or not, the second quarter is the best indication of what will happen this year.”