

Report: Excess Semiconductor Inventories Decline “” But Don’t Cheer Yet

Written by

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EL SEGUNDO – Reductions in chip inventory levels often indicate a rise in global semiconductor sales, but an expected decline in surplus stockpiles during the last quarter is revealing troubling signs of market weakness, says **iSuppli Corp.**

Excess semiconductor inventory in the global electronics supply chain is expected to fall to \$2.9 billion by the end of the first quarter, down 14.6% from a revised \$3.4 billion in the fourth quarter, according to iSuppli. This follows a 21% sequential fourth-quarter reduction.

“The expected drop in surplus stockpiles in the first quarter mainly is due to a pullback in semiconductor production among suppliers,” said Rosemary Farrell, analyst for iSuppli.

“In reaction to the lackluster demand late in December, chip suppliers began throttling back on manufacturing. This allowed their customers to draw down inventories.”

While the semiconductor market is struggling with particularly sore spots – most notably NAND-type flash memory – mid-quarter updates from chip suppliers indicate broad-based weakness, with most companies likely to miss their first-quarter forecasts, says the research firm. Because of poor visibility of future market conditions, semiconductor suppliers seem to be taking a wait-and-see approach, and keeping production levels low in the first quarter.

Semiconductor suppliers are holding much of the excess inventory, rather than OEMs, EMS firms or distributors.

The large quantity of inventory at suppliers was offset by declines elsewhere in the chain, which helped to reduce overall excess inventory in the electronics industry, according to iSuppli.

With inventory levels high at the semiconductor suppliers themselves, and with worries mounting regarding market conditions, stockpiles could begin rising again in the second quarter.

If the end-demand situation worsens, and order cancellations begin rolling in, then suppliers

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will be forced to add to their already bloated inventories.

All semiconductor segments experienced weak January sales, particularly the memory markets. In the PC supply chain, the year started out with news of reductions in orders of semiconductors.

However, amid the glum January semiconductor sales, news was not all bad from chip customers.

iSuppli's channel checks indicate, with the exception of some inventory pockets in Europe, the PC value chain is clear of excess supply and levels now conform with seasonal patterns. OEM demand is tracking to forecasts and, although OEMs are placing orders slightly lower than typical, this activity has not led to order cancellations.

Although the PC supply chain remains concerned about inventory and demand for microprocessors, the slowdown in the price war between **Intel** and **Advanced Micro Devices** has removed much uncertainty from the market.

DRAM inventory increased slightly at the end of February and iSuppli expects average selling prices for these memory chips to keep sliding throughout March. DRAM ASPs are expected to hit bottom in the second quarter.

Lower-than-expected demand and pricing for NAND flash in the first quarter led Intel to reduce its financial outlook. The company plans to write off excess NAND inventory at the end of March. As iSuppli has reported, weak consumer trends are causing buyers to cut their expected NAND order levels for 2008, with **Apple** the most notable example.