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1H08 Nearly Over, What to Watch for in 2H08

Joint ventures, reduced capex spending, high wafer fab utilization rate, 450mm wafer venture, rising price of oil highlight first half of 2008. Rising average selling prices in store for 2H08?

The first half of 2008 is nearly in the books and with it, an eventful and oftentimes turbulent six months in the IC industry is set to close. Recapping several 1H08 IC industry highlights:

- Several joint ventures were formed, especially among memory suppliers (e.g., Micron-Nanya, Intel-ST, etc.) who were forced to take drastic measures to survive the cutthroat pricing environment that continued to characterize the DRAM and flash memory markets in 1H08.
- Reduced (or further reduced) capex budgets for 2008, which IC Insights believes will lead to 2008 having one of the smallest capital-spending-as-a-percent-of-sales ratios seen in many years.
- Capacity utilization rate was strong, averaging approximately 90% in 1H08. The capacity utilization rate at 300mm wafer fabs was 96% in 1H08!
- First-quarter earnings reports among many (mostly non-memory) IC suppliers were surprisingly favorable with several companies reporting strong bookings for 2Q08.
- Samsung, Intel, and TSMC announced they would combine their efforts and influence to develop a path to 450mm wafers with the goal of having a pilot production line running by the end of 2012.
- In the battle for ultra-mobile platforms, Intel introduced its Atom processor series. Intel's primary and aggressive competitors in this field are processor cores from ARM and Nvidia.
- Price per barrel of oil soared above \$135. IC Insights forecasts average price per barrel of oil for 2008 will be \$126. Impact of huge price spike will work its way through all facets of global economies in 2H08 and beyond.

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What can the IC industry expect in the second half of 2008? IC Insights is keeping its eyes on several issues, including:

- **Economy** — Economic growth in most Asia-Pacific economies will be equal to or slightly down in 2008 compared to 2007. Nevertheless, economic growth in Asia-Pacific remains strong and will offset weak economic growth in the U.S., Europe, and Japan. WW GDP is forecast to grow 3.2%, slightly below the 25-year average of 3.6%.
- **System Growth** — Seasonal growth in cell phones and PCs is likely to drive strong unit growth in these two applications in 2H08. IC Insights forecasts cell phone shipments to grow 13% and PC shipments 11% in 2008. Microsoft's decision to ship only the Vista OS in new PCs and to end shipments of Windows XP-based systems should help boost DRAM unit and bit volume growth. Also, shipments of digital TVs are forecast to increase in 2H08. The mandatory switch from analog to digital TV in the U.S. in 1Q09 is expected to create a surge in DTV sales in during the holiday season.
- **IC ASPs** — With capex budgets being trimmed at the same time that the global wafer fab capacity utilization is running 90% or more, it is highly likely that IC average selling prices will begin to increase as IC suppliers work to restore some level of profitability to their businesses.
- **IC Market, Unit Growth** — Though some segments of the IC industry are performing well in 2008 (portions of the analog and special purpose logic markets, 32-bit MCUs, etc.), other segments, particularly the DRAM and flash memory markets, remain weak and volatile. IC Insights will report its revised forecast for IC market and unit growth in its *Mid-Year Update to The McClean Report*, scheduled for release in July.

Report Details

Additional details about IC market growth (dollars, units, ASP) by product category as well as a review of capital expenditures, capacity utilization, electronic system growth, and global economic growth can be found in the *Mid-Year Update to The McClean Report*, IC Insights' complete analysis and forecast of the integrated circuit market. The *Mid-Year Update* will be released in July and is free to subscribers of *The McClean Report*. A single copy of *The McClean Report* in CD-ROM or binder format is priced at \$2,790. A bundled CD-binder set is priced at \$3,285. An Internet access password is available as a \$695 option. The report is also available under a multi-user corporate license for \$5,990.

About IC Insights

IC Insights, Inc., based in Scottsdale, Arizona USA, is dedicated to providing high-quality, cost-effective market research for the semiconductor industry. Founded in 1997, IC Insights offers coverage of global economic trends, the semiconductor market forecast, capital spending and fab capacity trends, product market details, and technology trends, as well as complete IC company profiles and evaluations of end-use applications driving demand for ICs.

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