

Sales of chips set record pace

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Jason Janik / Bloomberg

Rising demand for electronic goods in emerging markets lifted global sales of semiconductors by 4.5 per cent in May to a record US\$24.72 billion (Dh90.79bn).

The growth represents an opportunity for Globalfoundries, the world's third largest chip maker which is owned by the Abu Dhabi Government.

The industry is expected to grow by up to 12 per cent over the next two years as demand for electronics such as mobile phones, televisions and computers rises. Semiconductors are the microcircuitry used in electronic products.

“Global sales of semiconductors in May reached a new high and remain on pace to reach the SIA forecast of 28.4 per cent growth to \$290.5bn in 2010,” said George Scalise, the president of the Semiconductor Industry Association (SIA).

“Chip sales have been buoyed by strength in sales of personal computers, cell phones, corporate information technology, industrial applications, and [cars].”

The semiconductor industry includes manufacturers, material suppliers, designers and foundries. Abu Dhabi has made a significant investment in the sector, with its Advanced Technology Investment Company (ATIC) holding a majority stake in Globalfoundries, the third-largest customised microchip foundry by revenue behind Taiwan Semiconductor Manufacturing and United Microelectronics.

ATIC has pledged \$3.6bn to double Globalfoundries's capacity at its facilities in Dresden and New York. This should increase production to about 200,000 silicon wafers a month by 2012. Semiconductors are made from silicon wafers.

"Even in tough economic times, consumers are still purchasing electronics, creating a strong demand for semiconductors," said Ibrahim Ajami, the chief executive of ATIC.

"Our customers are demanding more capacity, which is why we continue to invest to meet this demand."

The industry's growth has been impressive and has justified ATIC's Globalfoundries investment, said Boris Petrov, the managing partner of the Petrov Group, a semiconductor market analyst.

"Suppliers, especially wafer foundries, are at full capacity," Mr Petrov said.

"Their customers are on capacity allocation and wafer prices are increasing. This looks good for all, including Globalfoundries.

"However, the industry is cyclical and everybody is starting to wonder when the demand will soften."

Mr Scalise said that the emerging markets, including China and India, have been the main drivers of the stronger sales of computing and communications products.

"The automotive market is also slowly recovering after several years of weak sales," he said.

"Demand from the corporate information technology and industrial sectors that had pushed out replacement cycles during the global economic recession is beginning to come back."

But the industry's growth rates are likely to slow during the second half of this year, given government debt, weak consumer confidence and the pressures on government spending, he said.

"Recent chip sales have shown robust demand, but the year-on-year growth rates also underscore the very depressed market conditions of the first half of 2009," Mr Scalise said.

"The year-on-year growth comparisons will reflect the industry recovery that gained momentum in the second half of last year."

The semiconductor market has been a less painful sector for investors.

Although the Philadelphia Semiconductor Index, a closely watched price-weighted index composed of 18 US semiconductor companies, is down 3.4 per cent over the past year, it has outperformed the S&P 500 stock index as well as the NASDAQ stock index.

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