

Recession hits smart-phone makers in the chips

August 20 2010, By PETER SVENSSON , AP Technology Writer



This file photo made March 23, 2010, shows the HTC EVO 4G smart phone during the CTIA wireless show in Las Vegas. One of the few product categories that kept selling strongly through the recession was "smart" phones in the vein of the iPhone. (AP Photo/Isaac Brekken, File)

(AP) -- The seemingly recession-proof smart phone is suffering from a side effect of the rough economy: Manufacturers simply can't build enough of the gadgets because chip-makers that rolled back production last year are now scrambling to play catch-up.

The chip shortage means Apple Inc.'s rivals are having trouble making

enough phones to compete with the iPhone, a problem expected to persist through the holidays. It's also affecting wireless carriers, some of which are seeing delays in improving their networks, and it could even raise computer prices.

There isn't an across-the-board shortage of chips, but rather problems with certain components here and there. If just one of the 20 to 30 critical chips that go into a smart phone is unavailable, the whole production line screeches to a halt.

[Sprint Nextel](#) Corp., for instance, couldn't satisfy demand for [HTC](#) Corp.'s EVO 4G, the first phone to use a faster "4G" network, in parts of the country. Motorola Inc. said shortages of a wide range of chips, from memory to camera sensors to touch-screen controllers, are contributing to problems supplying enough of the new Droid X phones to [Verizon Wireless](#). The carrier's online store reports a two-week wait for shipping orders.

The chips that go into smart phones compete for production capacity with other chips at the gigantic factories run by contract manufacturers such as [Taiwan Semiconductor Manufacturing](#) Co. and United Microelectronics Corp. Makers of a vast array of electronics, from TVs to data center switches, also depend on the factories.

The chip-making industry had a tough start to 2009. February sales were only \$14.2 billion, down 30 percent from the year before, according to the Semiconductor Industry Association.

Although sales sprang back later in the year, manufacturers were spooked and reined in investment in chip factories. Capital spending plunged 41 percent to \$25.9 billion in 2009, after dropping 31 percent the year before, according to research firm Gartner Inc. Total chip production capacity shrank.

Now the factories are having trouble scaling up production fast enough. The chip factories, or "foundries," are running at 96 percent capacity, up from 56 percent at the depth of the recession, according to the SIA.

"The semiconductor guys are really continuing to operate on all cylinders," said Linley Gwennap, president of research firm The Linley Group.

Gartner predicts worldwide investment in the chip industry zooming 84 percent this year to \$47.5 billion. That forecast is up from March, when it looked for a 56 percent increase.

While investment is recovering, it takes months to set up new production lines and upgrade existing ones. That's why executives see shortages lasting until next year. Gwennap also sees caution in the industry because the global economic recovery is starting to look quite tentative.

"Even where companies are facing shortages, they're saying 'Nah, I'm not sure I want to invest right now, because demand could turn down any minute.' That makes for a very difficult environment," he said. "In normal times, companies would be hiring, investing in more equipment and factories and trying to increase supply, but these aren't normal times."

Though consumers may have to wait for new phones, they're unlikely to notice price increases. Phone prices are heavily subsidized by carriers, and competition in the industry means it's likely someone in the supply chain will absorb higher prices for the chips.

However, research firm iSuppli warns that prices for PCs could rise this year because of short supplies of memory chips. The prices for these commodity chips are highly volatile. Smaller memory-chip manufacturers need to replace factory equipment, and tool suppliers are

struggling to keep up, iSuppli said.

Makers of computer and phone networking equipment were the first to report problems this spring. They continue to face constraints, which means trouble for U.S. [wireless carriers](#) that are struggling to increase network capacity to cope with data traffic from the iPhone and other [smart phones](#).

Alcatel-Lucent and LM Ericsson AB, the two largest makers of equipment for U.S. phone companies, have both reported problems making deliveries. They're both suppliers to AT&T Inc., which has complained that it can't beef up its wireless data network as fast as it would like, as it's trying to deal with traffic from the iPhone.

Computer networking giant Cisco Systems Inc. is also feeling the pinch and expects problems to continue through the year.

"We continue to see challenges in procurement of components this quarter," Cisco CEO John Chambers said recently. "Supplier lead times now appear to have stabilized, but are still longer than we would like."

Apple is an exception. Although the company can't keep the iPad and [iPhone](#) 4 in stock, it blames that on demand outstripping assembly line capacity, not on problems procuring the right chips.

That may be partly "dumb luck" on Apple's part, Gwennap said, but it could also be a case of it being "good to be the king."

"As a chip supplier, you're going to service your best customers first," he said. "If my choice is to try to make Apple happy or some smaller customer of mine, I might take all of my supply and give it to Apple."

©2010 The Associated Press. All rights reserved. This material may not

be published, broadcast, rewritten or redistributed.

Citation: Recession hits smart-phone makers in the chips (2010, August 20) retrieved 24 April 2024 from <https://phys.org/news/2010-08-recession-smart-phone-makers-chips.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.