

Thailand flooding could affect PC supplies, prices

October 19 2011, By JORDAN ROBERTSON , AP Technology Writer



In this Oct. 17, 2011, file photo, factory workers join hands in stacking sand bags to make floods barriers at Nawa Nakhon industrial estate on the outskirts of Bangkok, Thailand. The deadly flooding in Thailand, a slow-motion disaster that's been rolling through the country since August, has hurt one of the region's biggest industries: computer hard drives. (AP Photo/Apichart Weerawong, File)

(AP) -- The personal computer industry, already reeling from depressed demand, has been dealt another setback: Massive flooding in Thailand has curtailed production of a critical component - computer storage drives.

Factories producing a third of the country's hard drives have temporarily closed as flooding has gradually spread since August. Prices have spiked, and Apple warned that its Mac products will likely be affected.

Computer manufacturers, the companies that supply hard drives and the makers of components for those drives are all bracing for troubles. What's not yet clear is what extent PC production lines will be affected and whether PC makers will absorb costs or pass them along to consumers.

Thailand makes about a quarter of the world's hard drives and is the second-largest producer behind China, according to IHS iSuppli. Market research firm IDC estimates that the flooding has already affected a third of the country's output, equating to more than 120 million hard drives a year. Avian Securities says the slowdown is already leading to price spikes that have added several dollars to the cost of some drives.

The flooding has killed 317 people, mostly from drowning. Nearly 9 million people have been displaced or otherwise affected. Estimates of the economic cost were \$3 billion and rising.

The setback is particularly acute for the computer industry because it follows other troubles. Demand has slowed, particularly in the U.S. and Europe, because of debt and unemployment fears and the growing popularity of tablet computers, which causes many consumers to delay replacing PCs. In addition, the March 11 earthquake and tsunami in Japan hurt supplies of memory chips.

The biggest hard drive makers - Seagate Technology PLC and Western Digital Corp. - have warned of delays.

Western Digital has suspended its operations in Thailand. Floodwaters have affected two factories, which shut down last week. The company said its other hard drive manufacturing facilities, located in Malaysia, are fully operational. But it said flooding will have a significant impact on its ability to meet demand through the end of the year. Western Digital's Thailand operations account for more than half of the company's total

hard drive output. Western Digital's stock has fallen 15 percent since the company announced its delays last week.

Seagate says that its factories in Thailand are operational but warned that it is having difficulty getting some components. It said supply will be constrained the rest of the year, though the magnitude of the disruption is currently unclear.

Toshiba has also suspended its Thailand hard disk operations, as have a number of hard disk component suppliers.

Big computer makers are worried.

On Tuesday, Apple Inc. CEO Tim Cook said he is "virtually certain there will be an overall industry shortage of disk drives." But because a thorough assessment of the damage hasn't been possible, he said he couldn't immediately give a timeline for recovery. Cook warned that Apple's Mac lines would be most affected. Most of its mobile devices, including the iPhone and the iPad, use a different type of storage called flash memory.

Dell Inc., the No. 3 PC maker, said it expects minimal impact to supply through the current quarter, which ends this month. The company said it is working with suppliers to assess the impact for the rest of the year. Hewlett-Packard Co., the leading computer maker, said it is monitoring the situation in Thailand as operations there remain open.

Gartner Inc. analyst John Monroe called the disruptions "very serious and ongoing" and said they affect production of roughly half of the "spindle" motors that turn the hard disks, along with other technologies. Monroe expects slowdowns through March.

"We do not know yet what we do not know, many unknown unknowns,"

Monroe said.

But as was the case with the crisis in Japan, the industry has some manufacturing safeguards for natural disasters. Production is generally spread among several countries. Some analysts were optimistic that the delays would be short-lived.

John Rydning, an analyst with IDC, said that the hard drive industry's supply chain is "highly redundant and remarkably resilient." He noted that the hard drive industry recovered quickly from the Japanese disaster without any major disruption.

"It is premature to say the flooding will lead to potentially billions of dollars in lost revenue," he said in an email. "Not an impossible scenario, but we need to hear more about the clean-up efforts underway before making that call."

Stacy Smith, chief financial officer for Intel Corp., the biggest maker of computer microprocessors, told analysts Tuesday that he doesn't believe there will be an impact on PC sales in the current quarter.

"A combination of alternate supplies and inventory levels will carry us through," he said.

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Citation: Thailand flooding could affect PC supplies, prices (2011, October 19) retrieved 5 May 2024 from <https://phys.org/news/2011-10-thailand-smacks-hard-industry.html>

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