

Chip companies foresee slower growth

December 23 2011, By Steve Johnson

Microchip company executives expect the economy's continuing sluggishness to put a drag on their finances as well as their spending on new hires, capital improvements and research and development efforts next year, according to an industry survey made public Monday.

Of 155 executives with [Silicon Valley](#) and other chip companies who were surveyed in October and November by the audit, tax and advisory firm KPMG, just 41 percent said they expect their revenue to grow by more than 5 percent in 2012. That compares with 78 percent who had predicted to see that rate of growth in 2010 and 87 percent in 2009, according to KPMG, which has done the survey for seven years.

Optimism about chip-company bottom lines has waned, too. While 30 percent of the surveyed executives anticipate profits will increase by more than 5 percent next year, that's down from 37 percent last year. As a result, the executives said they plan to carefully control expenses.

Only 27 percent, compared with 46 percent a year ago, anticipate capital spending to increase by more than 5 percent. Just 33 percent of them expect more than a 5 percent rise in research and development spending, compared with 47 percent a year ago. And 19 percent think their workforces will expand by more than 5 percent, compared with 29 percent who had predicted that rate of growth in 2010.

"It is not unexpected to see the industry take a breath after two strong years following the economic and industry downturn," concluded Gary Matuszak, who chairs KPMG's technology, media and

telecommunications practice. While many chip companies still expect their businesses to grow next year, many of them "remain very apprehensive about the direction of the economy."

At Santa Clara, Calif.-based [Intel Corp.](#), the world's biggest chipmaker, "our early plans are for an incremental increase in hiring of a few percentage points," said spokesman Jon Carvill, noting that the company this year bolstered its workforce by about 17,000 in part through corporate acquisitions. Beyond 2012, he added, Intel plans "significant" increases in its manufacturing-related workforce.

Connecticut technology research firm Gartner also foresees only modest growth for the chip industry in 2012. In a report earlier this month it predicted worldwide chip sales would be about \$309 billion next year, up 2.2 percent from 2011. Gartner previously had expected 2012 sales to increase 4.6 percent.

Gartner's revised estimate was partly prompted by the recent floods in Thailand, which limited hard-drive production and caused a slowdown in personal computer sales.

Another factor weighing on the industry is counterfeiting, according to KPMG. It found that nearly two-thirds of the chip executives it surveyed feared the proliferation of bogus chips will cut their sales by at least 3 percent next year. In addition, 30 percent of the respondents expect their costs to rise by more than 5 percent because of infringements of their intellectual property.

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