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Chips: This Boom Is Just Powering Up; "Economic recovery will further boost demand-and prices-across the industry" "New chips from Intel and AMD are set to fire up Wi-Fi and computing"

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If the chip industry picked a theme song for 2004, it might well be the Cars' classic Let the Good Times Roll. For the first time since the tech-boom peak in 2000, semiconductor watchers across the board are welcoming the New Year with giddy celebrations. They anticipate that the recovery of 2003 won't just continue -- it will accelerate.

After growing 16% in 2003, global sales of chips in 2004 will swell by a further 19.5%, to \$195 billion, according to the Semiconductor Industry Assn. Historically, SIA forecasts have been overly bullish. But this year, the SIA's numbers sit squarely in the middle of projections by other market researchers.

Unlike previous growth cycles, no single product will lift the overall market. Instead, the continuing economic recovery will fuel broad demand across all chip markets: computers, consumer electronics, telecom -- cell phones, in particular -- transportation, and industrial equipment. Moreover, every geographic market will share in the surge. Growth in North America, Japan, and Europe will top 17%, according to the SIA. And the rest of Asia, with Taiwan and Korea leading the way, will jump 23%. Today, notes SIA President George Scalise, "the pervasiveness of chips is more evident than ever."

Even more heartening to industry execs, rising prices should account for half of this year's growth. Strong demand will strain chipmaking capacity, and utilization rates at leading-edge chip factories will climb to near 100%, up from the current average of around 90%, says G. Dan Hutcheson, president of chip watcher VLSI Research Inc. That bodes well for the bottom line. "The environment looks excellent," says John P. Daane, CEO of chip developer Altera Corp.

If there's one surprise, it's the projected revival of networking devices such as Internet routers. The hardware glut in the wake of the dot-com bust is now history, and Gary Grandbois, an analyst at market researcher iSuppli Corp., is calling for 7.5% growth in chips for networking gear. "Companies haven't improved their infrastructure for many years," he says. "There will be reasons to upgrade."

Five Times as Fast

A similar upgrade cycle will bolster growth in PCs -- the largest market segment, at around 30% of total chip consumption. Grandbois is forecasting 14% growth for PC chips this year, up from 12% last year. Intel Corp. hopes to do its part by enticing more PC purchases with two new offerings, one for desktops and one for laptops, both due early this year. The chips will feature circuit lines just 90 nanometers (nm) wide, or 1,000 times as thin as a strand of hair.

The new PC chip, code-named Prescott, will offer about a 25% boost in speed, initially running at 3.4 gigahertz (GHz), up from 3.2 GHz for current high-end chips. Versions later in the year will reach 4.0 GHz. The other big Intel release is an upgrade to its successful Centrino laptop chips, and carries a name that sounds like a Star Trek villain -- Dothan. For Dothan, the microscopic 90nm lines mean it can be crammed with advanced wireless-communications technology, including the new and brawnier Wi-Fi networking standards -- known by techies as 802.11a and 802.11g. As a result, laptops with Dothan chips will transmit data up to five times as fast as current laptops.

Yet Intel also faces stiffer competition from its age-old rival, Advanced Micro Devices Inc., which gained notice with its new line of 64-bit computer chips for PCs and servers. This year, AMD will release its first 64-bit chip for notebooks, and a smaller, cheaper version for desktops. The first PC software that can take advantage of the 64-bit capabilities will begin to arrive toward the middle of the year, say execs.

Short of another economic meltdown, says Steve L. Cullen, director of chip-market research at In-Stat Inc., the good times should roll not only in 2004 but also for a few years out. In 2000, its best year ever, the industry sold \$220 billion worth of chips. It may take a couple of years, but that record is back in sight.

[Illustration]

Illustration: Chart: SPOTLIGHT; Illustration: Chart: GROWTH PROSPECTS

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