Rising Semiconductor Inventory Spurs Oversupply Fears

Semiconductor inventory levels may have headed into oversupply territory in the third quarter, according to the market research firm iSuppli Corp.

Semiconductor Days of Inventory (DOI) for chip suppliers are estimated to have climbed to 75.9 days in the third quarter of 2010, up 1.5 days from the second-quarter. DOI in the third quarter also was 4.8 percent higher than the seasonally adjusted average for the period.

Mirroring the rise in DOI, the total dollar value of semiconductor inventory held in by chip suppliers continued to grow as well. Inventory in the third quarter was estimated to amount to $34.3 billion, up 10.6 percent from the second quarter. The value of inventory has not been this high since the second quarter of 2008, when semiconductor suppliers' stockpiles peaked at $35.4 billion.

"By most estimates, the increase in day of inventory is thought to be in line with projected revenues for the coming quarter, posing no overt danger toward overinflating the current supply chain," said Sharon Stiefel, a researcher for semiconductor inventory and manufacturing for iSuppli. "Likewise, inventory dollars, also on the upswing, will remain generally appropriate when measured against DOI. Nonetheless, softness in demand is being noted in some sectors, raising flags about potential trouble down the road."

"Whether that softness is an isolated event or portends a broader slowdown remains to be seen, but it is commonly believed that the industry will need to moderate inventories at the appropriate time in its growth curve in order to capture current revenue opportunities while they still exist," Stiefel said.

"Should demand decline at a rate faster than initially forecasted - an entirely reasonable assumption given the slower-than-expected pace of economic recovery around the world - semiconductor inventory may go into an oversupply situation," she added.

http://www.isuppli.com/Pages/Market-Research-Search-News.aspx

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