

FORECASTS FOR 2008

29 November 2008

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Outline

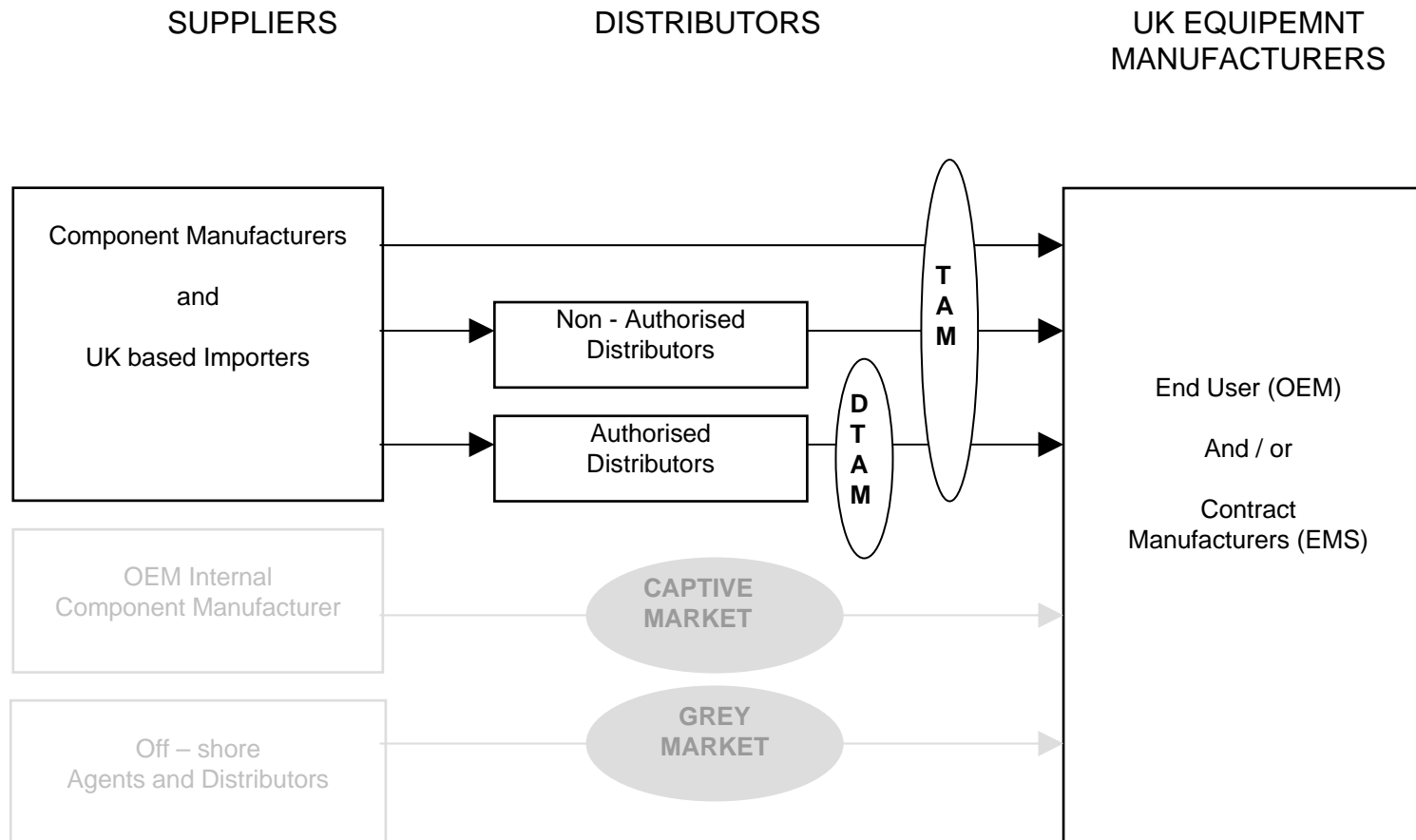
- Introduction to the Forecast
- Economic Conditions
- Market 2007
- Forecast 2008/9
- Key Trends and Issues for the UK Electronic Components Distribution Market

AFDEC – Annual Forecast Process

- Forecast of the UK Electronic Components Market
 - based upon actual billings as reported by AFDEC members
- Interviews/Questionnaires with a broad spectrum of AFDEC members
 - refined and approved by the AFDEC Council.
- Interviews/Questionnaires with Component Manufacturers across a wide range of the Electronic Component Manufacturers
- Considering input from other trade associations
 - Semiconductor Industry Association, IDEA etc
- Considering input from other market reports
 - Future Horizons, iSuppli, WSTS, Bishop etc
- Considering Economic forecasts
 - International Monetary Fund, Financial Times, Bank of England, ECB etc



Electronic Component Market Model



World Economy Slowing

IMF Forecast of GDP Growth

Country	2006	2007	2008
China	11.1	11.5	10
Euro Area	2.8	2.5	2.1
France	2	1.9	2
Germany	2.9	2.4	2
Japan	2.2	2	1.7
United Kingdom	2.8	3.1	2.3
United States	2.9	1.9	1.9

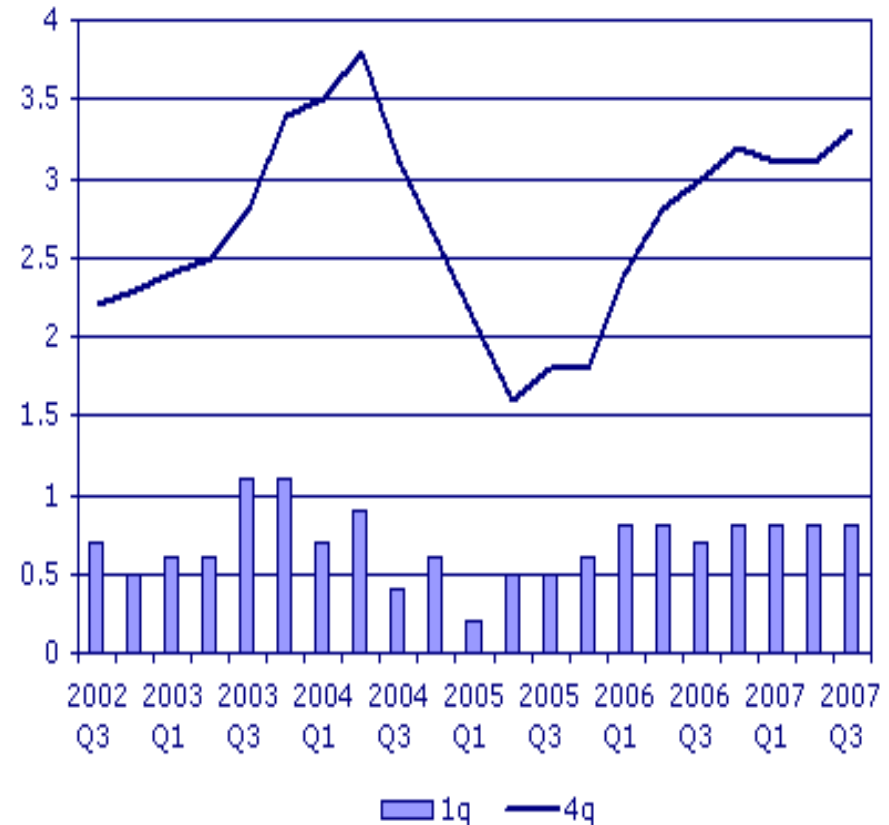


Economic Considerations

- Oil Price at \$100 per barrel – unlikely to fall – will keep inflationary pressures in all economies
- Fall Out from Sub-Prime Lending in USA likely to continue
- Central Banks likely to keep interest rates stable – little room for cuts maybe even upward pressure
- IMF data showing a global slowdown in 2008
- Slowing Growth in European Economies – which is UK's main market
- UK likely to do better than other European Economies.
- USA unlikely to increase growth. (approx 2%)

UK GDP - Economic Growth

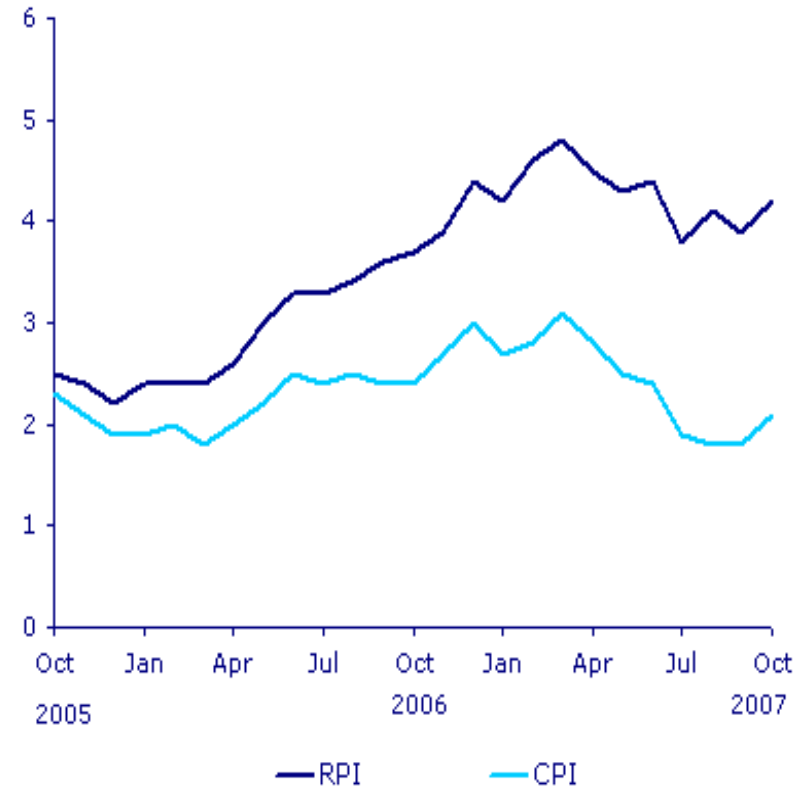
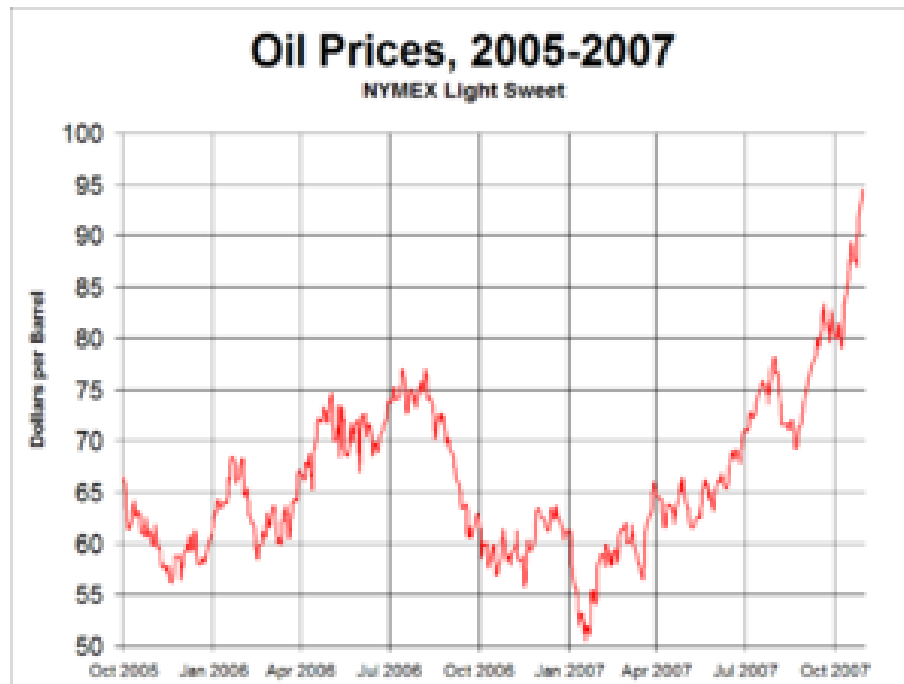
- Treasury Forecast
 - 3% for 2007
 - 2 - 2.5% for 2008
 - Revised in Autumn Statement
- IMF Forecast
 - 3.1% for 2007
 - 2.3% for 2008
 - Revised in October report



Source: National Statistics Office

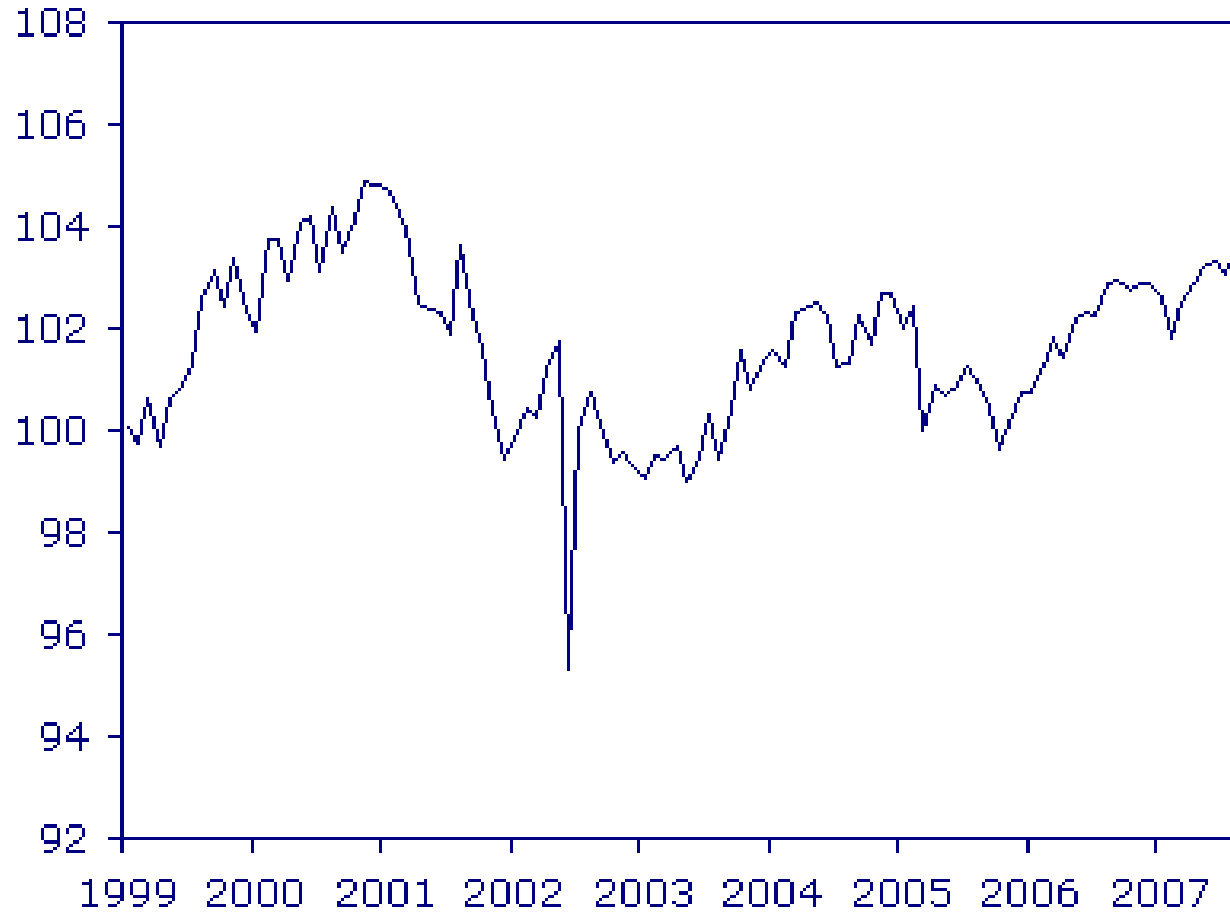


UK Key Issue - Inflation



Source: National Statistics Office

UK Manufacturing Output



Source: National Statistics Office



Influences on UK Component Market

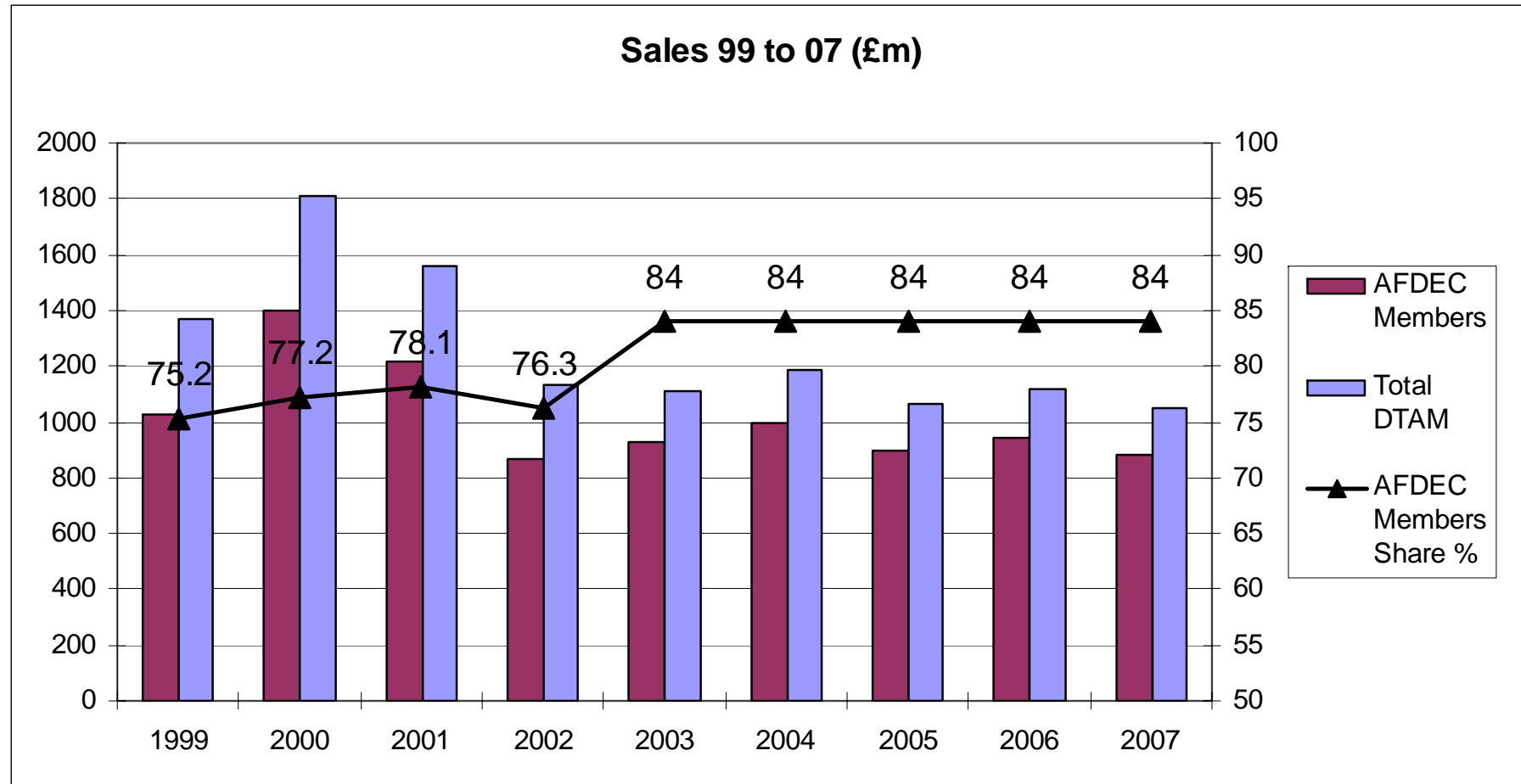
- Global Component (Semiconductor) Cycle
 - Lead Time, Pricing, Availability
- UK Economic Conditions
 - Business Confidence, Government and Industrial Spending
- Economic Conditions in Major Export Markets
 - Business Confidence and Market Demand
- Long Term Trends
 - Manufacturing/Sourcing Moving Offshore
 - Widening Applications for Electronic Systems

Influences on UK Component Market In 2007

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UK DTAM: Gains of 2006 – Lost in 2007



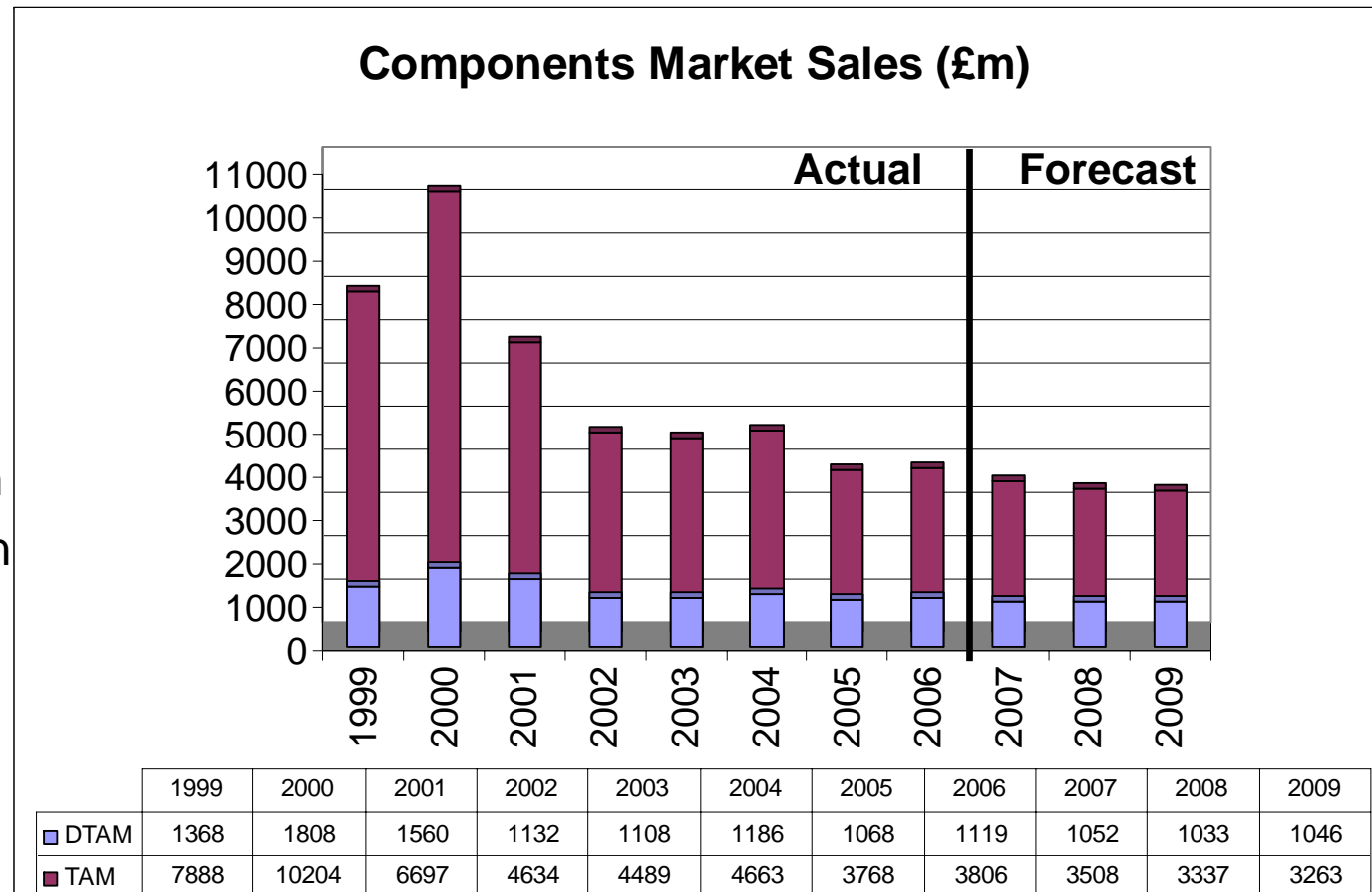
UK Components Market

- **AFDEC 2007 Forecast**

- TAM -7.8%
- DTAM -6.0%

- **2007 Market**

- TAM £3.51Bn
- DTAM £1.052Bn



UK DTAM Value and Growth

	2006 Actual		2007 Forecast		2008 Forecast		2009 Forecast	
	Value	Growth	Value	Growth	Value	Growth	Value	Growth
Semiconductors	529	10.6%	475	-10.2%	461	-3.0%	466	1.2%
Passives	138	-0.7%	124	-10.1%	120	-3.0%	121	1.0%
Electro-mechanical	261	4.4%	257	-1.5%	253	-1.5%	256	1.0%
Component Assembly	112	-9.7%	107	-4.5%	105	-1.5%	106	1.0%
Other Products	79	3.4%	89	12.7%	93	5.0%	96	3.0%
TOTAL	1119	4.8%	1052	-6.0%	1033	-1.8%	1046	1.3%



Influences on UK Component Market In 2008

- Global Component (Semiconductor) Cycle
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Outlook for 2008

- Cyclical Nature of Market suggests that 2008 will be better than 2007
- However economic outlook suggests that market conditions will be tougher in 2008 - slowing growth in the world economies, increasing price pressure and the continuing shift in Production/Sourcing
- Short lead times and low visibility of forward orders will make it extremely difficult for any companies to see beyond about six months.
- Risk that there will be consolidation within the current EMS companies that will further reduce spend on components in the UK
- New applications
 - Medical
 - Military
 - Security
 - Informatics

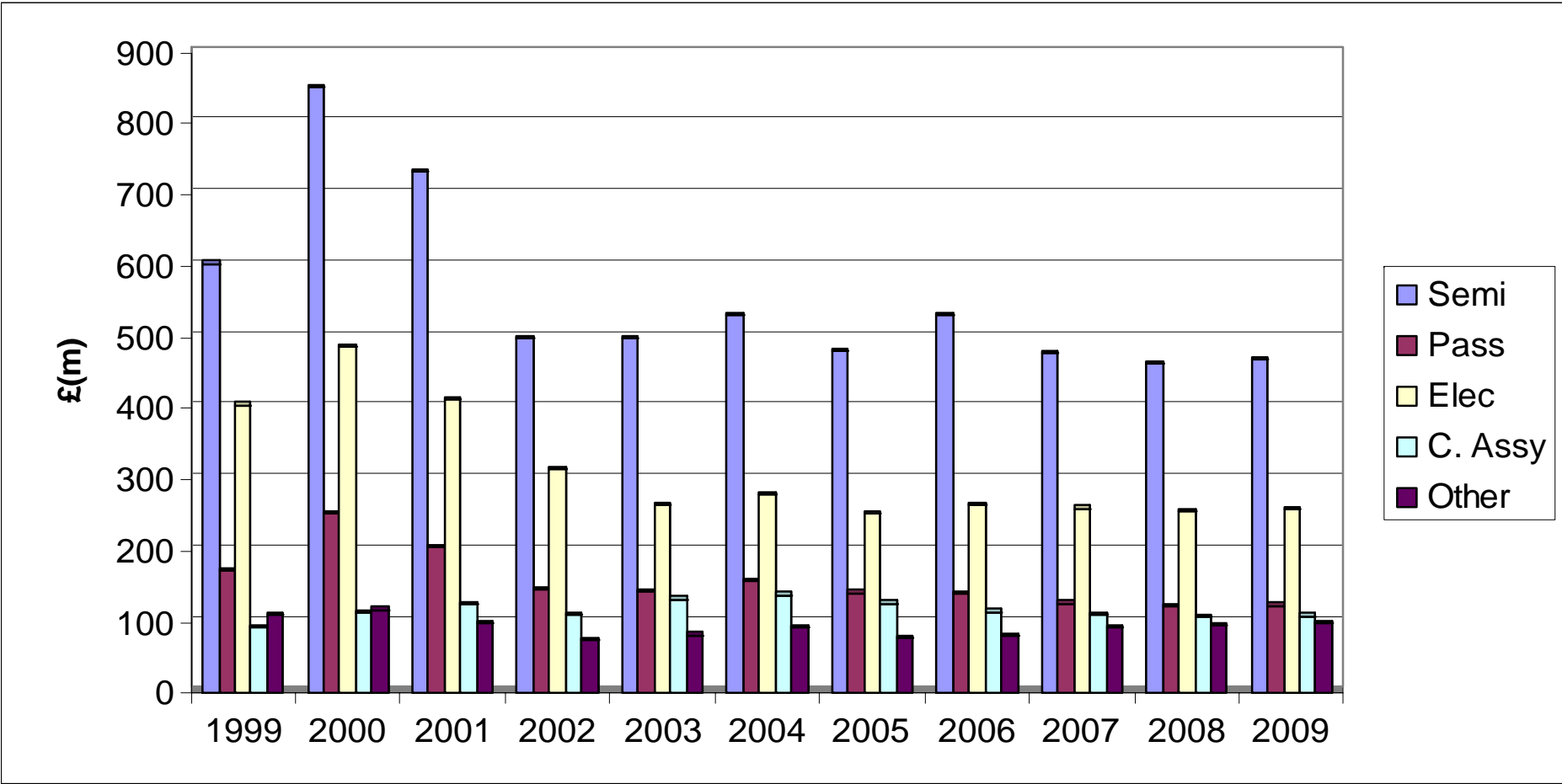


UK DTAM Value and Growth

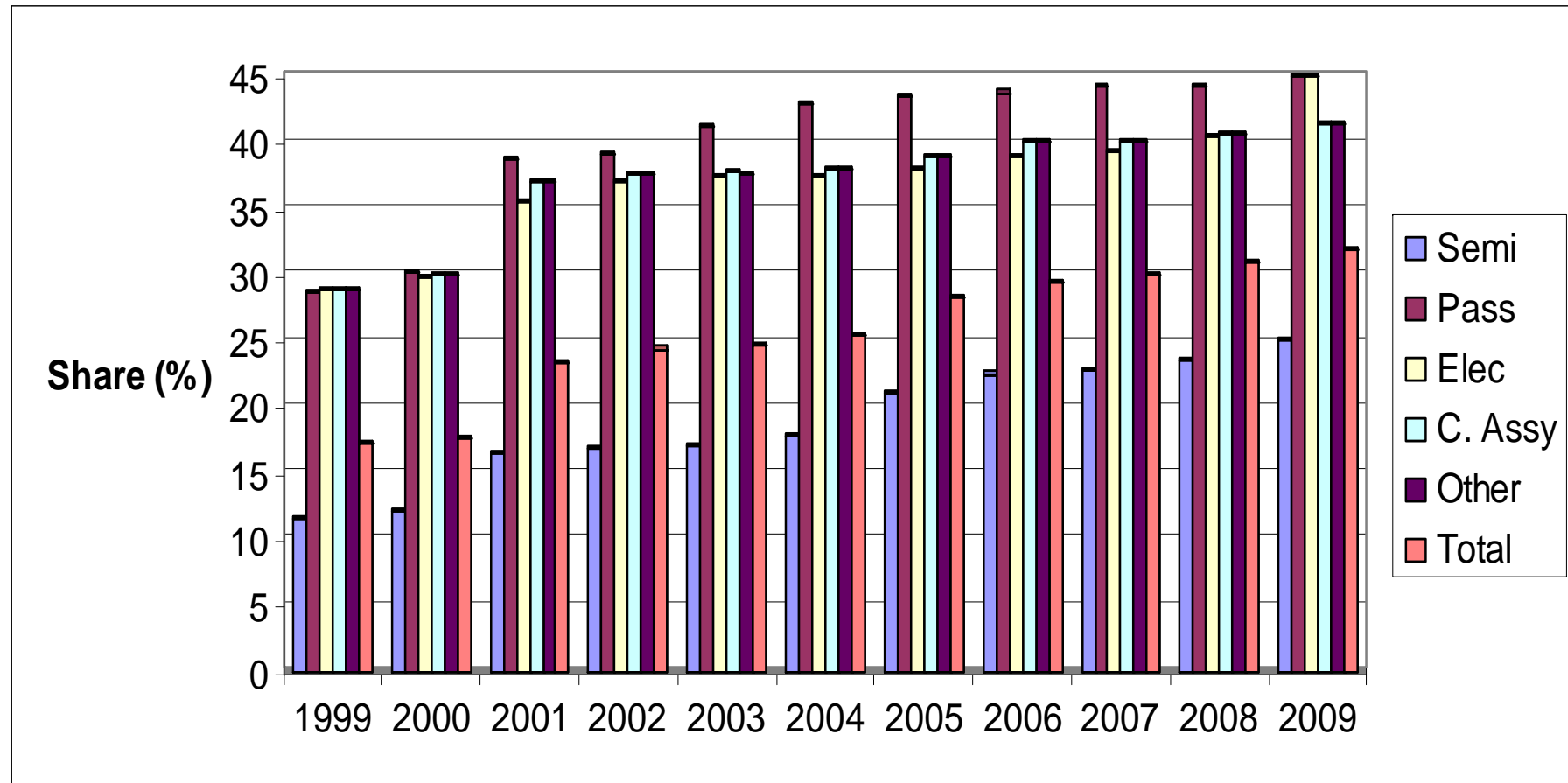
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DTAM by Product Category



Distributor Share of Market



Afdec Forecast for 2008/9

- 2008
 - Current market conditions suggest no upturn in business in first half of 2008.
 - The forecast is based upon decrease in interest rates in first half of 2008 and some upturn in the second half.
 - Afdec forecast that
 - TAM will decline further by -4.9%
 - DTAM will decline further by -1.8%
- 2009
 - An upturn in second half of 2008 would bring limited recovery in 2009
 - Afdec forecast that
 - TAM will decline further by -2.2%
 - DTAM will increase by 1.3%
- Distributors will take an increasing share.
- Pricing/Margins on commodity products will remain under pressure.



Outlook for UK Components Market

- Dollar will remain weak against Euro, Renminbi and Yen
 - Pricing for Asian Components is usually in dollars
- Continued Price Erosion in most component categories
 - shipping increased volume – less revenue.
- Production/Sourcing will continue to move offshore
- Manufacturing in UK will continue to shift to use of more 'modules' - decline in conventional semis and passive products.
- Increased design wins through distribution – all major companies supported by Authorised Distributors



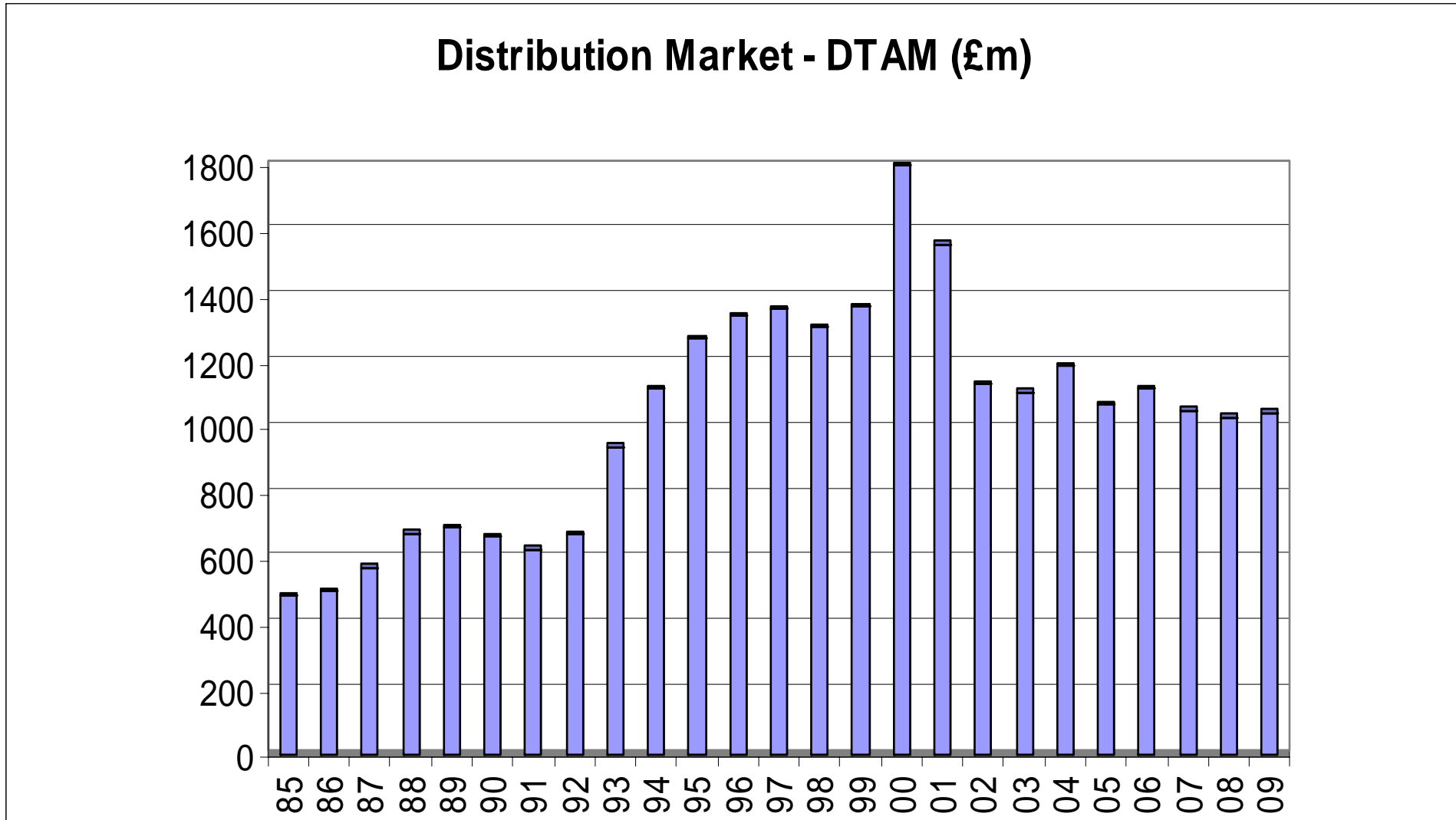
Outlook for UK Components Market

(Continued)

- Integration and Miniaturisation will continue Fewer higher value components
 - Many first designs have to use high integration
 - Microcontrollers and FPGA's
 - Passive Integration
- Rise in Tier 2 customer base – suppliers of sub-systems to the Tier 1 Customers
- UK Maintains its Enterprise culture –
 - Opportunities in start up companies
- New Specialist Semiconductor Companies in the UK
 - Xmos, Air Semiconductor, picoChip etc
- UK Government funds innovation not production
 - New Display Technologies



Appendix 1: UK DTAM 1985-2009



Notes

