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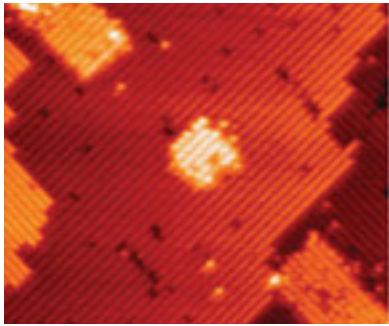
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WE LOOK AT WHETHER EXTENDED LEAD TIMES ON PASSIVE COMPONENTS ARE EVIDENCE OF RECOVERY OR A SHORT-LIVED BUBBLE **PAGE 18**



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Are extended lead-times on passive components evidence of recovery, or a short-lived bubble? asks **Edmund Coady**

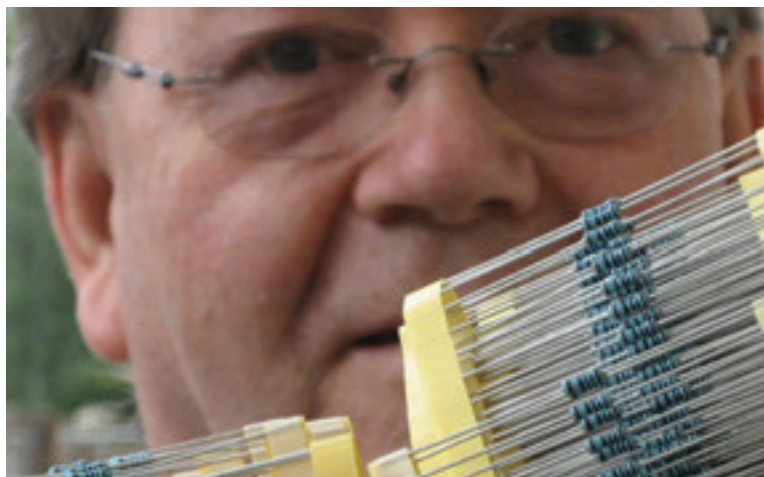
Don't be too quick to call the bounce

Lead-times for some passives are being stretched as many component manufacturers report a huge rise in bookings during the first quarter of 2010.

The question, however, is whether this is a real and sustained bounce or a short-term bubble in demand.

The message from passive component manufacturers is certainly upbeat. One major resistor manufacturer has told us that year-to-date bookings are 70% above budget, and a leading capacitor manufacturer is "working with its customers to ensure uninterrupted supply" in the face of lengthening lead-times.

One indication of the drivers for this rise in demand is suggested by a recent report from market analyst Gartner, which gives a year-on-year,



first-quarter rise of 17% in mobile phone sales and a 19% rise in sales of

PCs into Western Europe.

With each mobile phone handset potentially containing 100 or more passive components, it is easy to see how even a small upswing in consumer demand can create a much larger demand on the passive component production lines, especially when capacity has still not been fully restored to pre-recession levels.

Passive component demand is also being driven by increased interest in renewable energy and growth in the automotive sector, as well as by healthy sales of LCD TVs, perhaps spurred by World Cup fever.

The upswing in demand is certainly generating longer lead-times which, in turn, are making buyers anxious to secure product and distributors keen to increase inventory. The big question, however, is whether this is a real and sustained upturn, or a temporary lift which cannot be supported while there is still uncertainty in the financial markets.

One manufacturer warned that it "will not get ahead of the market" and, while working to reduce lead-times, is not planning an explosive surge in capacity.

For some manufacturers, responding to the upsurge may not be as easy as simply re-commissioning existing lines.

So far, allocation is not a word that the manufacturers want to use, although some lead-times are extending beyond 25 weeks and there is already pressure on manufacturers to balance competing customer

demand for product.

The good news for buyers is that the increasing lead-times are not universal and there can be a significant difference between different case sizes of the same products and between different manufacturers.

Take tantalum chips, for example: the lead-times for A-cased chips are currently as short as eight weeks or up to 16 weeks, depending on the manufacturer, while lead-times for B-cased versions range from 20 to 30 weeks.

Aluminium electrolytic capacitors are also seeing a 10-week difference, with lead-times from 14 to 24 weeks. The really long lead-times are on high-CV ceramic capacitors, for which some versions are out to 40 weeks, and 5mm boxed polyester film capacitors are being quoted at between 33 and 60 weeks.

Of course, increased pressure on capacity eventually results in increased prices. This time, however, there are other factors which are also helping to push up prices.

Many passives manufacturers have a three-month contract for raw materials and are likely to pay a higher price for any materials bought above their contracted volume.

Buyers should avoid the temptation of double ordering and make their distributor work harder to find alternatives. A careful check of the inventories of a number of manufacturers, or a slight change in specification, may find parts which are available ex-stock or on shorter lead-times.

The outlook for passives is certainly more positive than it has been for some time, but there are dangers in placing too much confidence in a sustained bounce: a slight dip in consumer spending could create a large dip in demand.

The component manufacturers remain cautious, and the possibility of some double ordering by OEMs means that the growth that passives are seeing could be a bubble rather than a bounce. ●

Author is Ed Coady, sales director at Charcroft Electronics

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