

Electronic News, 6/20/2007

Advanced Forecasting: Beware of faulty forecasts

By Ann Steffora Mutschler, Senior Editor

[Advanced Forecasting](#), a Silicon Valley-based market research firm, says that [the SIA's recent downgrade](#) of its 2007 global semiconductors revenue growth forecast from 10 to 1.8 percent was a drastic change that may easily regress into negative growth, and questions if similar revisions will impact 2008.

The firm reminds that it has maintained its forecast from February 2006 in which it alerted the industry to expect a significant downward turning-point in underlying demand for ICs in mid-2007.

Dr. Moshe Handelsman, founder of Advanced Forecasting said that the recent, mid-year severe cuts in forecasts for this year prove that forecasts which include opinions/surveys in their methodology do a poor job of predicting a change in direction. "A purely quantitative model may be the only tool capable of doing just that, as it has done in the past 21 years, because it omits extrapolations due to human opinion. The question at hand is not what will happen in 2007. That's almost history. It is whether 2008 will behave as rosy as many forecasters still believe."

Regarding 2008, Handelsman suggests that decision-makers focus first on the methodology behind 2008 forecasts since he believes that any forecast that includes opinions, even as a small portion of the model should be taken with a grain of salt, since its predictions are likely to change.

Also, decision-makers should note whether there is a major turning-point embedded within a forecast of annual growth rate rather than to the absolute value of the forecasted growth. In this case, he says the former is more detrimental to the bottom line if the 2000/2001 timeframe is considered. The growth rate of 2000 was 36 percent, but October 2000 was the turning-point of the most disastrous recession for the industry, the firm concluded.