

# PC and smartphone vendors amass chip stockpiles as demand plummets in China

Article

**The news:** Chinese demand for smartphone and PC chips is plunging, with some manufacturers stuck with up to five months of inventory, [per](#) The Register. Orders have

dropped “like a rock” according to **Zhao Haijun**, CEO of **Semiconductor Manufacturing International Corporation (SMIC)**, China’s largest chipmaker.

**How did we get here?** Zhao said some smartphone makers are overstocked on chips and holding off on ordering new products. PCs, consumer electronics, and even appliances are also in trouble, he added.

- The sales slump is being attributed to the [war in Ukraine](#)—which has made shipments to the Russian market untenable and has effectively removed “Ukraine’s 44 million citizens out of the global market for non-essential purchases,” Zhao said during SMIC’s Q1 2022 earnings call.
- [COVID-19 lockdowns in China](#) have resulted in various factory [closures](#) and a [five-month manufacturing low](#). SMIC has continued production throughout the lockdowns by operating a closed-loop system in which two-thirds of its workers have been living in their factories since March, [per](#) the South China Morning Post.
- Global chip stocks have lost nearly a quarter of their value this year, [per](#) MarketWatch. “From an investment perspective, semiconductor stocks are almost uninvestable today,” said **Evercore ISI analyst C.J. Muse**.
- Zhao said the demand slump is affecting China more than other markets. The US and European markets have experienced a “very quick recovery,” but China’s buyers have ceased spending as a result of sweeping coronavirus lockdowns, he stated.
- SMIC expects smartphone sales in China to slip by 200 million this year.

**What’s next?** Inventory hoarding and overproduction of PC and smartphone chips is leading to an oversupply. This is one of the [outcomes we predicted](#) would follow the industry-wide move to establish new chip fabs and increase production capacities.

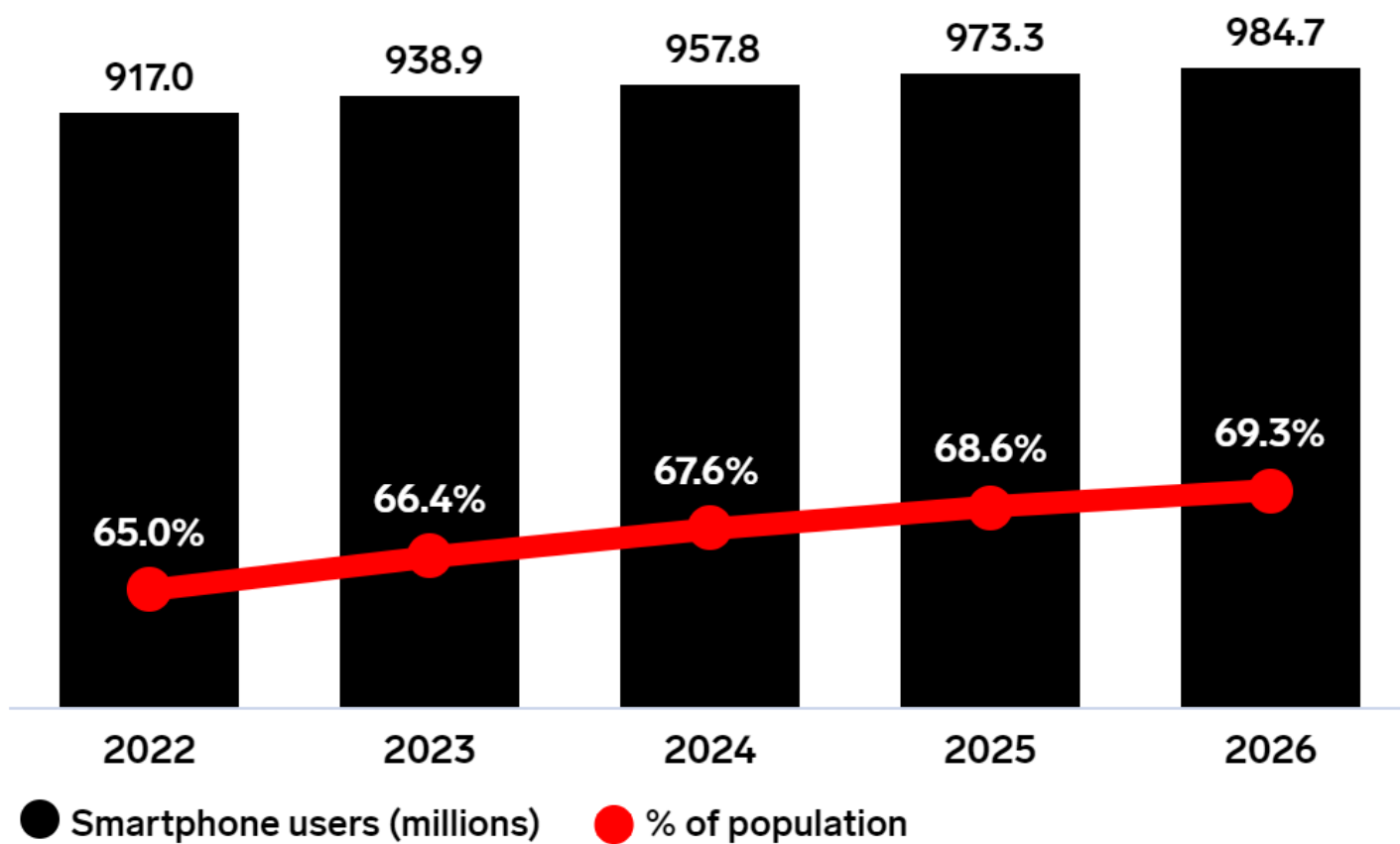
- **The global chip crisis is expected to [stretch into 2023](#)** and possibly beyond for certain segments.
- The general reticence of Chinese PC, smartphone, and consumer electronics producers to buy more chips could abate once the COVID-19 shutdowns are lifted, but it could take months to reach pre-lockdown levels.

**The big picture:** For chip manufacturers like SMIC, they can either refocus their production on more in-demand sectors like EVs, or reduce output, which could lead to plant closures and job cuts.

- Zhao said there is still **unmet demand for chips to power Wi-Fi 6, power conversion, green energy products, and analog-to-digital conversion**. Doubling down on these segments could help chipmakers weather slowing demand for PCs and smartphones.
- SMIC's experience with China's plummeting chip demand is an example of what could happen on a global scale once chip supplies overwhelm demand, leading to supply chain glut.

## Smartphone Users

China, 2022-2026



Source: eMarketer, February 2022

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