

One firm's crisis is another's opportunity. A shortage of semiconductors has helped pump up the valuation of firms such as Nvidia, whose chips power everything from video-gaming to machine learning and data centres. But boom time for sellers means misery for buyers. Carmakers, whose products have become computers on wheels, are among the victims. Profits at Ford, America's second-biggest carmaker by volume, fell by half in the most recent quarter amid a global shortage of chips. Analysts say the industry might build around 5 million fewer cars this year, all for want for their tiniest components.



*"It keeps me from looking at my phone every two seconds."*

Carmakers are not the only firms feeling the pinch. Apple and Microsoft have also warned that they will be affected. Politicians are being drawn in too. Chips will be on the agenda later this month when America's vice-President Kamala Harris visits Vietnam, which has a flourishing electronics industry. Angela Merkel, the outgoing German chancellor, has lamented Europe's small share of global chip production.

The shortage is the result of a sudden surge in demand. Chip making is a cyclical business which between the peaks and troughs, has been enjoying strong growth for decades as computers into every corner of society. That trend was amplified by the pandemic. Locked-down consumers shopped online, logged into meetings remotely, and wiled the hours away with video-streaming and video-gaming. The result has been a spike in demand for the semiconductors that power the data centres and gadgets that make such things possible, clogging factories with orders.

The crisis has had three consequences, two encouraging and one less so. The first is an investment boom. Big producers such as Intel, Samsung and Taiwan Semiconductor are planning to spend hundreds of billions of dollar on extra capacity overt the next few years. As in many markets, high prices are the best cure for high prices.

The second is that the chip industry's customers are adapting too. When demand collapsed early in the pandemic, carmakers cut their orders with chipmakers. But when demand recovered, it found itself at the back of the queue, because of the long lead times and competition for capacity from the even bigger and more influential tech industry. As a result, car companies are forging closer relationships with chip makers and Volkswagen has announced plans to develop driver-assistance chips in-house.



The Economist

The third, unwelcome effect has been a surge of techno-nationalism. America is planning to hand out billion of dollars to lure chipmakers back from East Asia. Europe wants to double its share of global production, to 20% by 2030. Even Britain has declared the fate of a small chip factory in Wales to be a matter of national security.

There is some force in the argument that chips have come to occupy what used to be called the “commanding heights” of an economy, in the way that oil refineries or car factories did in the 20th century. The concentration of production in Taiwan, in particular, is an uncomfortable geopolitical risk. But as last century's governments discovered, subsidies lead to overcapacity and gluts -and, eventually, to yet more calls for public money to prop up uncompetitive businesses. The chip shortage is mostly a self-solving problem and we expect the current shortfall in semiconductors to resolve itself by this time in 2022, taking one major issue off the world economy's plate.

Be safe, be well!

Martin

1-519-546-5088