



Display Dynamics Intelligence Service Article

2016 will be a sluggish year for the display industry

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Key findings

- **TV panel shipments and prices were robust in the first half of 2015. This trend turned around in the second half. As many as 40 million units of new panel inventories will be created in 2015.**
- **Main contributors to the sluggish TV panel market are the decline in IT product demand and the subdued consumption in emerging markets caused by the strong US dollar.**
- **In 2016, the display market will suffer from external factors, such as the continued strength of the dollar and economic recession in China and Brazil, as well as internal issues, such as panel inventory carried over from 2015.**

The year of 2015 was a roller coaster ride for the display market. Panel producers set ambitious business plans for 2015 based on the optimistic outlook fuelled by the buoyed markets at the second half of 2014. Set producers who experienced supply shortages towards the end of 2014 aggressively developed their panel demand-supply strategies. As a result, the market in the first half of 2015 saw a rise in prices which was driven by TV panels. Also, TV panel shipments surged to a record high with 136 million units, an 11% increase year on year in 2015. However, the market environment started to change quickly from the end of the second quarter amid weak demand in emerging markets, which was driven by strong dollar from the end of the first quarter, concerns over TV panel inventory, and shrinking demand for IT products in general including tablet PCs and notebook PCs. The price of 32-inch high-definition (HD) open cell fell from \$95 in early 2015 to \$65 as of September.

In particular, TV panel shipments are forecast to reach 265 million units in 2015 while TV set shipments will amount to 225 million, which means that 40 million units of new panel inventories will be created in 2015.

According to “Display Long-Term Demand Forecast Tracker” released recently by IHS, the TV panel market is expected to decline in 2016 for the first time in history. TV panel shipments are expected to fall by 3% to 257 million units in 2016 from 265 million in 2015. As the TV market takes up about 70% of the entire display



market in terms of area, so indicators showing the status of the TV market are critically important. In addition, as can be seen by market environment fluctuations triggered by the recent strengthening of the dollar, the display market is being increasingly affected not only by industry issues but also by external economic factors.

Economic headlines for 2016: US interest rate hike; China's economic recession; and the Brazilian economy

The table below is the GDP growth forecast by IHS. The table shows that while North America's economy driven by the United States is performing well, other regions including China, Russia and Brazil are experiencing a significant fall in GDP growth, with some economies even seeing a decline in GDP. There are many reasons to this drop but the strength of the US dollar would have had a huge impact. In fact, the rise of the dollar has caused subdued consumption in developing and emerging economies such as Eastern Europe, Russia and Brazil. This is evident in that global companies suffered the most in terms of performance. For example, Samsung Electronics Co. and LG Electronics Inc. were hit harder than Chinese TV companies who focused on domestic demand.

The Federal Reserve Bank (FRB) is concluding its quantitative ease program and is weighing the right time to raise interest rates. If the FRB does raise interest rates, this will cause the outflow of US dollars from foreign countries back to the United States. The United States will probably try to protect the strength of the dollar in the process. Consequently, the weakness in emerging markets caused by the strong dollar in 2015 is likely to continue into 2016.

Real GDP growth: Preliminary October forecast						
World	2.6	2.5	2.7	2.6	3.0	3.3
United States	2.2	1.5	2.4	2.5	2.9	3.0
Canada	1.9	2.0	2.4	1.0	1.8	2.3
Eurozone	-0.7	-0.2	0.9	1.6	1.7	1.8
United Kingdom	1.2	2.2	2.9	2.4	2.4	2.6
Japan	1.7	1.6	-0.1	0.5	1.0	0.6
China	7.7	7.7	7.3	6.5	6.3	6.5
India*	5.1	6.9	7.3	7.4	7.6	7.7
Brazil	1.8	2.7	0.1	-3.0	-1.9	1.4
Russia	3.5	1.3	0.6	-4.2	-0.8	1.2

Source: IHS

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Second, the Chinese economy is showing signs of recession. China recorded a mid-7% growth before 2015. The economic growth of 2015 is expected to be 6.5%, down 0.8% from the previous year. The trend is expected to continue with 2016 GDP growth projected to be 6.3%. Considering that China has become by far the largest consumption and production site for IT products and TVs, China's economy will have tremendous influence over the display industry. The recent dive of the stock market can weigh on consumer sentiment and the depreciation of the yuan can also have an impact.

Third is the fall of the Brazilian economy. Brazil is suffering from a growing deficit due to the hosting of the 2014 World Cup and the 2016 Olympic Games. To address the deficit, the government has raised the consumption tax and has also taken several measures that were not very successful, raising alarms for the

economy. Brazil is also one of the largest mineral exporters. China has been the largest customer for these goods for more than a decade. But with the recent recession in China, the demand for these goods has also declined, aggravating the state of the economy of Brazil. Brazil is expected to see a decline in GDP by 3% in 2015 from a year ago and the trend should continue in 2016. Given its presence among third world countries and Latin America, the continuous economic downturn is a risk to the display industry which heavily relies on the growth of emerging markets.

Industry leaders should switch to next-generation display ASAP

The above mentioned are the major economic factors that can impact the 2016 display industry. Of course, there are many other economic and industry issues that can influence the industry as well. For example, panel inventory was discussed briefly earlier and China's continuous new investment to the display industry can also be a threat to the industry.

The forecast for 2016 is not rosy, due to both internal and external factors. There are constantly new entrants and investments, while demand growth is not optimistic. It goes for all industries to say that such market environment can lead to industry-wide restructuring with only the self-sustaining resilient players in the market surviving.

At a time when latecomers, represented by China, are catching up quickly with Korean and other strong names in the conventional thin film transistor (TFT)-liquid crystal display (LCD) industry, it seems that the pioneers and technology and market leaders do not have a lot of time left to maintain their competitiveness. In this sense, moving on to next generation display, such as active-matrix organic light-emitting diode (AMOLED) and flexible displays, is of utmost urgency for the display industry to go beyond chicken games and truly leap to the next level.

Additional Reference

<https://technology.ihs.com/Services/431311/display-dynamics-intelligence-service>

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