IDC: Enter Adjustment Phase — Top 10 Trends for the Smart Devices Market in 2H21

BEIJING, September 2, 2021 — As IDC predicted late last year, chip shortages, smart devices fragmentation and some other problems had posed challenges to China’s smart devices market in the 1H21. The smart devices market in 2021 will show a trend of high before and low after. What will be the changes in the 2H21? Fiona Wu, Director Research at IDC China, summarized the top 10 trends in the smart devices market in the 2H21 as follows:

1. China’s smart devices market will enter the adjustment phase, showing an increase of 7.6% year on year (YoY). In the 1H21, the shipments of smart devices were about 400 million units in China, up 16.5% YoY. The overall smart devices market will enter an adjustment phase, with a shipment of about 460 million units in the 2H21 and YoY growth falling back to 7.6%. On the one hand, the overall macro-environment has entered the post-pandemic era. To be more specific, GDP growth, export growth, and other significant economic indicators are undergoing downward adjustment. On the other hand, due to the global shortage of smart device components, smart device in the 2H21 will still be in short supply in China, which is also one of the important factors leading to the market decline.

Figure 1
2. The products will be more fragmented, and the smartphone will no longer be the only choice among smart devices. Compared with the situation of smartphone dominance five years ago, the 1H21 witnessed the diversification of smart devices. The wearables market rose by 37.3% YoY in the 1H21, making it the fastest growing product, whereas the smartphone market grew by only 6.9% during the same period. More even, there is even expecting a decline of 5.7% YoY for the smartphone market in the 2H21. Currently, consumers are using more and more smart device products, which also leads to longer smartphone renewal cycles. In addition, PC and tablet products increased by about 30% YoY in the 1H21, showing a sustained trend of high demand. However, the shortage of supply will lead to a significant slowdown in PC and tablet growth in the 2H21.
3. A huge transformation will happen in the current smart device operating system (OS). Despite this, Android, iOS, and Windows are still the mainstream OS of smart devices. However, with the rise of Harmony OS in China, a series of domestic PC OS were invented. Meanwhile, smart assistants have been installed in more and more smart home devices and wearable devices. The OS of smart device is moving from the traditional definition to a more open one. In the 2H21, smart assistants will be more crucial for the connectedness coverage of consumer Internet of Things (IoT) products and the development of Harmony OS.
4. Auto-pilot will have a window period. Domestic IT vendors will accelerate their pace to enter this field. Despite the severe chips shortage, IDC expects that the shipment of L1 to L5 autonomous vehicles in China will increase from 7.7 million in 2021 to 13.4 million in 2025, and the compound annual growth rate (CAGR) from 2021 to 2025 will be 15.1%. Compared with the global market, China's favorable economic situation, and market and policy environments will boost the development of auto-pilot and the market will be more promising in the future. In this window period, Huawei, Xiaomi, Baidu, and many other smart device-related enterprises are also accelerating their pace.

Figure 4
5. The supply of smart devices will still tighten up in the 2H21. Supply shortages have continued from 2020 till now as the Covid-19 has stimulated the consumer and commercial customers’ demand for smart devices. In the 2H21, the supply of processor chips will enter the recovery phase, but there is still a serious shortage of panels and IC chips. As a result, the performance of smart device supplies remains unsatisfactory, especially in the PC, autonomous vehicle, smart home, and other fields where supply is still in extreme shortage, and with some products even needing three to six months to be ordered. Previously, the ordering cycle for
these products was only about a week.

6. Undergraduates will continue to drive the overall demand for the PC and tablet market. IDC breaks down the PC and tablet customer base into undergraduates, fashion icons, K12 students, and their followers. In the next two years, undergraduates’ tech needs will continue to develop. Their needs in learning, designing, gaming, and social networking will be fully met on PCs and tablets. For fashion icons, the CAGR for the next five years will be about 5%, as customers will pay more attention to product specifications such as thinness, appearance, or color, etc.

7. The policies of "Double Reduction" and "Prevent Minors from Getting Addicted to Online Games" have limited impact on the demand for smart devices. However, the commercial demand for private education will be significantly reduced. For the K12s, the “Double Reduction" policy will not affect short-term K12 demand. On the contrary, online education will in turn stimulate short-term demand. In the long run, the fundamental idea of school time extension and studying-related burden reduction for students will partially affect K12’s demand after two to three years. As for gaming market, the newly announced "Prevent Minors from Getting Addicted to
Online Games” policy will have a limited impact on the overall demand of PCs and tablets based on the fact that only about 15% of consumers using PCs and tablets to play games are minors. Since major smartphone consumers are adults, the policy will also have some impact on smartphone consumption. In terms of private education, IDC revised its previous demand forecast for 2021 from 450K to 210K units, a decline 43.7% YoY in 2021.

8. The demands for smart devices from various industries will enter a volatile phase. Discrete manufacturing industry will be the major driver. IDC expects discrete manufacturing to grow 22.4% YoY in 2021, making it one of the fastest growing sectors. On the one hand, the upgrading of the manufacturing industry in recent years has boosted the growth of the design use case, auxiliary use case, and other PC-related demand. On the other hand, macro-environmental and technological changes have accelerated the growth of some discrete manufacturing industries, such as the automotive industry, which has been developing rapidly in recent days, and whose PC purchases will also increase by 17.0% YoY in the 2H21. In addition, IDC believes that PC purchases in the internet and gaming industries will decline 17.6% YoY in the 2H21.
9. In the post-pandemic era, more small and medium-sized enterprises (SMEs) will realize the importance of smart office. Over the past two years, an increasing number of customers have got used to various videoconferencing software. Companies have realized that smart office is a great boost to the efficiency and cost saving of their businesses. In addition, smart office has facilitated the establishment of corporate culture and direct human-machine coordination and has satisfied the needs of mobility. Undoubtedly, this has driven the deployment of a range of smart device hardware, software, and solutions in the enterprise as well. In the 21, smart office software suite will be deployed more rapidly in enterprises.

10. The new urbanization will make tier 3–5 cities the major source of demand for smart device products. The geographic distribution of smart device users is also changing as regional urbanization adjusts. Traditional tier 6 cities will not experience large-scale growth in the second half of the year, while tier 1–2 cities have been seeing rapid growth in their demand over the past two years. According to IDC, many emerging urban clusters and regions have instead become the main drivers in the second half of the year. It is expected that compared to the first half of the year, the market ratio of tier 3–
5 cities for the demand of smart devices will increase from 60.4% to 62.5%.

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Figure 5
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