

TECHNOLOGY TAKES A BREATH AS MARKET'S GROWTH DRIVER

Semiconductor Industry as a Gauge

In June I wrote about the semiconductor industry being a gauge for the direction of the whole technology sector, and, in turn, for the rest of the market [One Gauge of a Recovery in Technology](#). I concluded in that article that, if the forecasts were correct, semiconductors worldwide would have bottomed in 2001, and the bottom for The Americas would come in 2002 sometime, which would suggest a market recovery underway by now.

As it turns out, the Semiconductor Industry Association's (SIA) forecast was partly right:

- Worldwide chip sales did bottom in the last quarter of 2001, improving in the first quarter of 2002;
- But sales in The Americas fell by -12% in 2002 from sales in 2001.
- The December quarter, typically the strongest, ended sluggishly for most chipmakers, which makes me question the SIA's 2003 forecast for growth of 13.5% in The Americas, if GDP grows by 3.2% for the year.

Revised Conclusion: A recovery in the semiconductor business might still be a harbinger of the technology sector returning to health. But will technology again drive the market?

Is There Growth in Technology?

Not lately. In the next two weeks, during "earnings season", many tech companies will provide some answers to the growth question, as they report earnings and reveal their outlook for the next quarter and/or year.

At Morgan Stanley's conference last week Cisco's CEO, John Chambers, expressed his opinion that IT budgets will continue to be conservative in the coming year. (IT spending, i.e. corporate business investment in technology, is by far the largest driver of technology markets.)

Most analysts are not optimistic for 2003, a viewpoint not without support. Goldman Sachs released their January Enterprise Information Technology survey*, which polled company decision makers regarding 2003 IT spending plans. Major findings from the survey can be summarized as:

- An average response indicated a decline of -1% in IT spending for 2003;
- Two-thirds felt budgets would be further tightened in 2003;
- Earnings estimates for technology companies are probably too high;
- Tech stock prices are too high, with the average P/E on tech stocks at 1.8 times that of the overall market a premium commonly awarded *growth stocks*.

Tech's Future

Several theses put forward on the future of technology and its growth potential include:

- **Consolidation:** Chambers and IBM's CEO, Samuel Palmisano, have said they will continue or even increase their acquisitions, particularly because of lower valuations now for so many smaller companies. For the telecommunications industry, consolidation

may be the only option left, and would hopefully reduce costs. In a maturing market, as technology now appears to be, taking market share is necessary for growth.

- **Alliances and Partnerships:** According to Chambers (at the Morgan Stanley conference), “Strategic alliances will be one of the key factors that separate the winners from the losers.” Cisco and IBM recently formed such an alliance regarding manufacture and sale of data storage switches. Intel’s Japanese subsidiary and Nippon Telegraph and Telephone also have an arrangement to sell inexpensive PCs in conjunction with broadband internet access services.
- **TV vs. PC:** At last week’s Consumer Electronics Show in Las Vegas, the future direction for technology boiled down to TV vs. PC as the future home entertainment hub, according to keynote speeches by Microsoft Chairman Bill Gates (PC advocate) and Kunitake Ando, president and COO of Sony Corp. (TV). Sony’s upcoming RoomLink box will network TV, stereo, and PC with a remote control. Hewlett Packard demonstrated its Digital Media Receiver, which accesses music and photo files via the TV. Those championing the other side of the “platform war” were Dell’s Michael Dell and Intel’s CEO, Craig Barrett, who introduced their new “unwired” technology called Hyper-Threading (HT), which allows computer use anywhere within the home, “unwired”.
- **New Wave of Product Development:** The continual flood of new improvements in technology over the last ten years has stopped. There is no pent-up demand, because there is no compelling new technology with which enterprises must replace or upgrade their existing systems.

Technology Takes a Breather

Meanwhile, *technology is not a growth sector*. During this time of consolidation, partnering, platform war, and new product development, investing in tech companies for growth will be difficult. Earnings reports in the coming weeks will shed some light on company expectations and plans and may provide clues about which companies are positioning themselves to be the future growth drivers.

The first clues may come from semiconductor companies:

Intel reports January 14th after the close – Gain of 14 cents expected.

Advanced Micro Devices reports January 16th after the close – Loss of 43 cents expected.

Motorola reports January 21st after the close – Gain of 10 cents expected.

Texas Instruments reports January 22nd after the close – Gain of 3 cents expected.

*For more on this survey read Briefing.com’s 1/6/03 Stock Brief “More Evidence That Technology Is Maturing”.

Linda Stewart for www.fizone.com
January 13, 2003