

Consumers Give Lift to Technology Sales

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Consumers are helping pull the technology sector out of one of its worst-ever slumps, and optimism is building that businesses may also start switching on their spending soon.

That upbeat picture emerged as some bellwether technology suppliers issued numbers that were stronger than Wall Street expected, though still reflecting the recession's harsh effects. Their announcements point to improved demand for products such as laptop computers and flat-panel televisions -- particularly in Asia, where the Chinese government's stimulus spending appears to be sparking sales.

The latest evidence came from Intel Corp., which supplies the chips that serve as electronic brains in PCs. On Friday, the Silicon Valley giant -- which earlier this year pointed to signs of recovery -- boosted its third-quarter revenue forecast by 6%.

While the news sparked gains in technology shares Friday, with Intel adding 4%, the overall market struggled to build on its recent gains. After a big rally that has stocks up nearly 50% from their lows, investors are no longer bidding up shares on any good news, but instead growing worried that the economy won't follow the market's upward trajectory. Concerns linger about the health of consumer and business spending.

Intel's remarks came one day after Dell Inc., the No. 2 PC maker by shipments, reported results for its July-ended quarter that were well below a year earlier but showed improvement from the three previous months.

Dell said revenue from consumers rose 2% sequentially in the quarter, while revenue from large businesses fell 3% over the same period. Apple Inc., which gets nearly all its business from consumers, has posted record results in recent quarters.

Dell Chief Executive Michael Dell also expressed confidence that factors such as new Windows software from Microsoft Corp. will drive a turnaround as companies upgrade their hardware next year.

"I am here to tell you there's going to be a refresh cycle next year," he said during a conference call. "It's not all going to come in the first month or the second month, but over the course of the year, there will be a big refresh cycle."

Plenty of question marks remain about the strength and timing of any rebound in technology spending by corporations, which have opted during the downturn to

keep running old PCs and server systems as long as possible.

There are also plenty of signs that U.S. consumers are still being cautious. In the second quarter,

comScore reported that U.S. online retail spending in the June quarter slipped 1% from a year ago -- only the second quarter on record where e-commerce spending has fallen.

Then there are customers like Joe Russo. The lecturer at the University of Nevada in Reno, who is 52, said the recession has encouraged his family to "get smarter" about purchases -- but not cut back on cutting-edge gadgets.

"Nothing excites me more than a box at the front door," he said. His wife allows him to buy one new gadget each quarter; most recently, he bought his second Kindle e-book reader from Amazon.com Inc.

Jon Tew, 25, bought an \$800 Dell laptop earlier this month. He had just started law school at Temple University, and the school offered a back-to-school special through Dell's Web site.

"I've been toying with the idea for a while of getting a new computer but absent law school I wasn't going to spend the money," he said.

But analysts say the recent activity is even more dramatic in China, which is second to the U.S. in PC sales and has a greater proportion of first-time buyers. In the second quarter, customers there bought 11.7 million computers, up nearly 14% from the year-earlier period. By contrast, the 16.4 million PCs sold in the U.S. in the same quarter represents a slight decline from the year-earlier period.

Government economic-stimulus plans appear to have helped. One gives rural Chinese residents subsidies worth 13% off the price of electronic goods purchased from participating companies; Lenovo Group Ltd., China's largest PC maker, launched 15 computer models priced as low as \$365.

Jay Chou, an IDC analyst, said other stimulus plans are having a bigger impact by boosting sales in urban areas, where most of the PC sales growth is coming from.

In addition to laptop and desktop PCs, some Chinese consumers are opting to use the incentives to buy flat-panel TVs, said Unni Narayanan, chief executive of Primary Global Research, which provides data to institutional investors and analysts. China's stimulus spending "has been very important," agreed

Dale Ford, an analyst at iSuppli Corp.

Buying decisions are having different impacts on different players in the electronics food chain. Chip makers tend to be a leading indicator of an upturn, since manufacturers of PCs and other products place advance orders for components they will need based on their own predictions of customer demand.

Suppliers that not long ago grappled with excess production capacity and plunging prices are now racing to fill orders. "So pricing of components is going up," Mr. Narayanan said.

Firm prices are good news for companies such as Intel, which on Friday predicted that its third-quarter gross profit margin will fall in the upper half of a previously stated range. Intel put revenue at \$9 billion, plus or minus \$200 million; it had previously projected \$8.5 billion, plus or minus \$400 million. In the year-earlier period, Intel posted revenue of \$10.2 billion.

Corning Inc., which supplies glass used to make flat-screen TVs and computer monitors, has been unable to raise output quickly enough to satisfy surging demand for LCDs, especially in China. Corning expects LCD glass volume to rise 15% this year, even as prices continue to increase.

But component prices are a negative factor for PC makers such as Dell, which called out increases on components such as memory chips and computer displays as a problem. Another issue for PC makers is the rise of low-end laptops called netbooks, which

typically cost less than \$300 and carry thin profit margins. Acer Inc., which has focused heavily on the category, reported a 20% drop in quarterly profit Thursday.

The rise of netbooks is adding to broader pressures on manufacturers to sell PCs with lower prices. The price cutting was clear in Hewlett-Packard Co.'s results for the quarter ended in July. The world's biggest PC company said PC shipments rose 2% from the year-earlier period but revenue dropped 18%.

Another big question mark is the impact of a new version of Microsoft's flagship operating system, Windows 7, which hits store shelves Oct. 22. The software has gotten positive early reviews for some of its features -- notably its faster performance, including speedy start-up and shut-down times.

Some industry executives, including Mr. Dell, predict that the operating system and a new version of the Office software suite will help encourage customers to upgrade their systems. "You will love your PC again," he said.

Of course, many cash-strapped businesses and organizations can't consider such spending right now. Debbie Karcher, chief information officer for the Miami-Dade County Public Schools, said stimulus money her district received was used to save jobs, not buy computers.

—Nick Wingfield, Jerry A. DiColo, Yukari Iwatani Kane contributed to this article.



Notebook computers are displayed at a retail shop in Tokyo on Friday.

