



# Market Watch: Keeping an Eye On Those Leading Indicators

by Stephen Brennan

The semiconductor industry is bouncing along a bottom, but this month promises to offer glimpses of when the environment will change. The current downturn is being driven by a global fall-off in end-user demand. Thus, the best leading indicators are those closest to the end-user, and October promises to offer several important predictors. So, if you want to know the industry's future, forget trailing indicators, such as fab utilization rates, and concentrate on big picture indicators, like unemployment statistics. If people don't have jobs, they won't be buying technology products that use chips. The four-week moving average of unemployment claims routinely reported by the Department of Labor ([www.dol.gov](http://www.dol.gov)) is a good gauge to determine where the consumer economy will take the industry. Consumer confidence reports, including those published at the end of the month by the Conference Board ([www.conference-board.org](http://www.conference-board.org)), are also key, but somewhat arbitrary, indicators. In addition October will see several semiconductor industry leaders release results.

### A POSSIBLE PC DRIVER – MICROSOFT XP?

Intel, AMD and Microsoft announce quarterly results this month. PC sales are still a key driver for the semiconductor industry, and there is a lot of attention being paid to what impact a new Microsoft operating system will have on PC sales. Hopes are high that XP will salvage the year, not just for Microsoft, but for the entire PC industry. Yet many analysts worry that users are content with their existing systems, so new purchases will not be driven by XP's release, scheduled for October 25. In assessing the impact of XP, pay attention to the revenue forecasts from the company and its analysts, while also watching the consumer reception XP receives. If XP does not re-ignite PC demand, it will be a worrying sign of a mature PC industry that no longer enjoys automatically strong growth with every new Microsoft operating system.

### TELECOMS WON'T RECOVER ANYTIME SOON

This year will go down as an unmitigated disaster for the telecommunications sector. Nortel reports results in October, and after recording a \$19.4 billion loss last quarter, everyone is hoping that the bad news is now behind them. It had better be,

since it is hard to imagine how the semiconductor industry will enjoy much of a robust upturn without a recovery in telecom. Market watchers will be leery of any signs that the telecom environment has worsened, and will be hopeful for positive comments on an improved outlook. There is a good chance they will get neither in this quarter, in which case Nortel's call will be a non-event – watch out for any surprises.

### CELL PHONE 911

This will likely be the first year the cell-phone industry posts a year-over-year decline in unit shipments. Wireless weakness is just one more example that the semiconductor downturn is spread across segments and is being driven by a global fall-off in end-user demand. Nokia, which will release results on October 19, controls about a third of the global cell phone market, so to some extent the outlook for Nokia also represents the outlook for wireless. Focus on the forward-looking comments from Nokia and covering analysts, but ignore market-share related statements. Finally beware a more cautionary outlook from Nokia, which will come if senior management sees greater than expected consumer weakness.

### OTHER INDICATORS

Although this downturn is hitting the semiconductor industry hard, it is about more than technology. The future direction of the global economy will reveal itself in indicators from several sectors. To determine the economic health of U.S. consumers, keep a close eye on retail spending, auto sales and the housing market, which has accounted for most of the economic strength this year. The situation for technology could get worse or better, depending on the consumer economy. Semiconductor industry leaders KLA-Tencor, Novellus, Lam, TSMC and UMC will also report quarterly results. Look to them for added details on the specific state of the sector, but don't expect too much in the way of extended guidance, since they are far removed from the end-users. ■

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