# Tech Earnings Foretell Economic Trends

JESSICA MINTZ

*Editor's Note: I have always maintained that America's future economic freedom lies in our hands. Without a healthy electronics industry, this country is lost.*

SEATTLE (AP) - The technology sector is often talked about as if it were a unified front, an easy-to-define monolith. People say technology stocks rose or technology stocks fell. Tech helped drive a huge boom in the 1990s, and when that collapsed in 2001, tech contributed to the last recession.

In reality, technology companies have about as much in common as Toyota Motor Corp., Boeing Co. and JetBlue Airways Corp. Sure, all three play a part in getting you places, but their customers are different, as are their sales cycles and the metrics used to measure their prospects.

When some of the biggest technology names post earnings this week, investors shouldn't expect one clear picture to emerge. The reports, however, are a revealing proxy for the broader economy.

Two chip makers, Advanced Micro Devices Inc. and Texas Instruments Inc., could provide early evidence of a recovery when they report results this week. They make the silicon building blocks of computers, cell phones and other gadgets. Manufacturers of those devices are assessing what consumer demand will be several months from now, and their level of confidence can be reflected in the orders they place with suppliers like AMD and Texas Instruments.

Online retailer Amazon.com Inc. is on next week's list, as is Netflix Inc., the DVD rental service. Strong e-commerce sales and margins at Amazon could point to a consumer spending recovery, although big growth at Netflix could say the opposite: that people are still trying to save by spending more nights at home.

Making the picture harder to read, big technology companies such as IBM Corp. and Google Inc. showed last week that their obsession with cost-cutting is helping them squeeze more profit from their operations. That makes their numbers look good, even though sales are falling at IBM and barely growing at Google because of the economy.

Here's a look at some of the technology companies that will post earnings this week, and what might be gleaned about the economy:

**Yahoo Inc.**

Why it's important: Its performance will help clarify the state of the online

advertising market, which is in its worst funk since the dot-com bust in 2001. Google already indicated Thursday that the ad market remains sluggish, but that tells only part of the story. Google makes most of its money from text-based ads while Yahoo is the largest seller of the online billboards known as display ads — a format that tends to track more closely with the economy's overall direction.

When will it report: Tuesday, July 21.

What the experts say: Analysts polled by Thomson Reuters, on average, predict Yahoo will earn 8 cents per share on revenue of $1.14 billion (after subtracting commissions paid to advertising partners). The earnings estimate doesn't include a projected charge of up to $27 million to cover the costs of layoffs. Yahoo earned 9 cents per share on net revenue of $1.35 billion at the same time last year.

You'll know the economy is improving if: Yahoo's ad sales are climbing or at least not falling as much as they did during the first quarter. That would indicate advertisers are starting to promote their brands and products more aggressively in anticipation of better times ahead.

You'll know the economy is not improving if: Yahoo's ad slump worsens. That would signal advertisers are pinching their pennies because they believe consumers are still sitting on their wallets too.

The quote: Yahoo started slumping before the overall economy, so analysts like Brigantine Advisors' Colin Gillis are still trying to determine how much of the company's problems are self-inflicted. "Are Yahoo's problems secular or cyclical?" he said.

**Apple Inc.**

Why it's important: Apple is the closest thing the tech sector has to a luxury brand, and its performance might hint at how many people are feeling flush enough to spend extra on style.

When it will report: Tuesday, July 21.

What experts say: Analysts expect Apple to post a profit of $1.16 per share on $8.18 billion in sales. Last year, Apple earned $1.19 per share on revenue of $7.46 billion — but Apple is known for giving analysts very conservative guidance.

You'll know the economy is improving if: Mac computer revenue rises, or average sales per retail store increase. Apple's iPods and iPhones have been selling well despite the recession, but people have been choosing cheaper computers and spending less in Apple's stores.

You'll know the economy is not improving if: Sales of iPhones miss expectations. Apple just put out new hardware and a software upgrade, and cut the price of its cheapest iPhone in half, so the gadget should be selling briskly.

The quote: Apple might be so well run that its overall strong performance masks the effects of the recession, said Brian Marshall, an analyst for Broadpoint AmTech. "The economy is separating the management-team winners from the losers," he said.

**eBay Inc**.

Why it's important: EBay operates a vast online marketplace where anyone can buy or sell anything from auto parts to zebra-striped pants. It shows how big online retailers are faring and indicates the extent to which the recession is leading everyday people to sell stuff to raise cash. EBay also facilitates online payments through its PayPal network and a short-term credit provider, Bill Me Later. The payments business is good barometer for the overall health of e-commerce.

When it will report: Wednesday, July 22.

What the experts say: Analysts expect eBay to earn 36 cents per share, excluding certain items, on $1.99 billion in revenue. The company reported adjusted earnings of 43 cents per share on $2.20 billion in revenue during the year-earlier quarter.

You'll know the economy is improving if: eBay's revenue rises beyond the company's forecast. The company gave itself a wide range — $1.85 billion to $2.05 billion — so sales above that level would reflect a big bump in transactions on eBay or PayPal or both.

You'll know the economy is not improving if: eBay's revenue drops below the bottom end of its outlook. That would likely be because consumers are buying and selling fewer items — or buying cheaper items than they would if they felt more confidence.

The quote: In a recent note to investors, Bernstein Research analyst Jeffrey Lindsay said he will be paying attention to the number of active users of eBay's marketplace sites. That figure rose just 2 percent in the first quarter.

**Microsoft Corp.**

Why it's important: Few companies have as wide a reach among consumers and corporations as Microsoft, the world's largest software maker. The majority of the world's personal computers run its Windows operating system, and most people who write a letter or make a spreadsheet use Office. Businesses run their networks and e-mail on Microsoft's servers. People roam the Web on its browser and get links from its search engine, Bing.

When it will report: Thursday, July 23.

What experts say: Analysts expect Microsoft to earn 36 cents per share on $14.4 billion in sales. That's lower than in the year-ago quarter, when Microsoft earned 46 cents per share on $15.8 billion in revenue.

You'll know the economy is improving if: Microsoft gives specific guidance. It stopped sharing revenue and earnings expectations in January because of the market volatility.

You'll know the economy is not improving if: Groups that make Windows and Office (known as "Client" and "Microsoft Business Division") post year-over-year declines. It would add weight to recent quarterly PC shipment reports that said businesses are still spending less on technology and consumers are buying low-end Windows XP notebooks, the least profitable systems for Microsoft.

The quote: "I refer to what we're going through globally, frankly, as an economic reset, not a recession and not a depression," Microsoft CEO Steve Ballmer said at a conference last week. "When the debt came out of the system, the level of economic activity has to come back down."

**Amazon.com Inc.**

Why it's important: As the leading Internet retailer, Amazon illustrates what people are interested in buying and what they're holding back on. Amazon also reflects one key way that the economy is changing: Sometimes Amazon does well even when traditional "brick-and-mortar" retailers are struggling, which highlights an increasing shift toward buying things online.

When it will report: Thursday, July 23.

What the experts say: Analysts are looking for Amazon to earn 31 cents per share on $4.68 billion in revenue. The company earned 37 cents per share on $4.06 billion in revenue during the year-earlier quarter.

You'll know the economy is improving if: Sales of items like books, CDs, DVDs and electronics and other general merchandise rise while the company's profit margins hold up. This will show that people are feeling confident about buying items they don't necessarily need, and that Amazon isn't resorting to cutting prices to maintain sales.

You'll know the economy is not improving if: Amazon's sales growth slows or drops. The company predicted second-quarter sales would rise to between $4.30 billion and $4.75 billion. It consistently reports strong results, so any weakness would probably be an indicator of the overall economy rather than poor execution on Amazon's part.

The quote: Lindsay expects Amazon to report revenue growth "significantly outpacing" the rest of the U.S. e-commerce market.

**Xerox Corp.**

Why it's important: Even in the digital age, businesses still use a lot of ink and paper. And the more workers businesses hire, the more ink and paper they use. As a result, Xerox is "a pretty good proxy for white-collar employment," said Shannon

Cross, of Cross Research.

When it will report: Thursday, July 23.

What the experts say: On average, analysts expect earnings of 11 cents per share on sales of $3.72 billion. In the same quarter a year earlier, Xerox earned 24 cents per share on sales of $4.53 billion.

You'll know the economy is improving if: Equipment sales at Xerox pick up. The downturn has pinched information-technology budgets, especially for things that can be put off, like printers. So it would be a good sign if companies were interested in investing in new machines.

You'll know the economy is not improving if: Xerox sees a steeper drop in sales. Analysts expect revenue to at least level off, as customers stop slashing their spending. But if demand weakens even further, that would be a bad sign.

The quote: "I don't anticipate a huge rebound yet," Cross said.

**Source URL (retrieved on *03/09/2014 - 8:29pm*):**
http://www.ecnmag.com/news/2009/07/tech-earnings-foretell-economic-trends