

Wall Street Beat: Dow means little to IT

The Dow hits all-time record, but IT vendors have a long way to go before they reach pre dot-com bust days

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The Dow Jones Industrial Average broke a record this week, but that doesn't mean that the technology sector has recovered from its half-decade hangover after the burst of the dot-com bubble.

The Nasdaq has made gains in recent weeks and closed the third quarter up about 4 percent, compared with the second quarter, but it is still about 55 percent down from its peak in March 2000.

On Tuesday, the Dow hit 11,727.34, its highest point ever, and continued to climb, closing Thursday at 11,866.69. Strong retail sales, signals from the U.S. Federal Reserve that lending rates will be kept low, and generally lower oil prices (though there have been some spikes recently) have generated a feeling of optimism for business. Though there are signs that some of this optimism has spilled into the tech sector recently, IT vendors have a long way to go before they reach the exalted levels of 2000.

While the Dow index measures 30 large companies, including four of the largest IT vendors (Microsoft Corp., Hewlett-Packard Co., Intel Corp., and IBM Corp.) the Nasdaq is a much better bellwether for the tech sector, since it is so heavily weighted with technology companies, large and small. Thursday it closed at 2306.34, up 15.39 points for the day. But at its peak on March 10, 2000, it hit 5048.62.

Corporate IT departments are still under great pressure to contain costs, so vendors aiming at the enterprise have an uphill battle. According to a CIO Magazine Tech Poll released this week, executives surveyed during the third quarter forecast IT budget increases of 6.5 percent for the next 12 months. That's down from an average 6.9 percent increase reported in the second-quarter survey. In one worrying sign, only 46 percent of the executives said they had intentions of moving to software-as-a-service (SAAS) computing architectures. SAAS has been seen as a harbinger of better times for the software industry.

Other surveys are more optimistic, however. For example, The Equus Group's poll, also released this week, found that 55 percent of executives surveyed plan budget increases of 5 percent to 15 percent for 2007, and that 21 percent of the respondents forecast spending increases between 25 percent and 50 percent.

Analysts at brokerages have been raising expectations on the tech sector, reasoning that some IT vendors shares have fallen so low that they are now a bargain. Also, price decreases as a result of vicious competition in the PC sector are expected to trigger a miniboom in hardware shopping at the end of the year.

While it may take years for the Nasdaq to attain the level it reached in the boom years, some clarity around the next few quarters should happen in the next few weeks. In the week of October 16, financials reports should give a good indication of how end-of-year sales will shape up, especially in hardware. A variety of industry bellwethers will be reporting: Dell Inc., Intel Corp., Apple Computer Inc., Advanced Micro Devices Inc. and IBM Corp.

Intel will get a chance to report whether its latest spate of product announcements, including 64-bit processors, has helped it regain market share it lost to AMD. Analysts will get a chance to press Apple about how it will weather competition from Microsoft Corp. in the music player arena, and whether a lack of a new video iPod will be a big blow.