INVESTMENT IN COMPUTER SOFTWARE AND HARDWARE HIT A DECADE LOW

Investment in computers and peripheral equipment, worldwide, slowed in the first quarter of this year – for the first time in the past decade.

Investment in computer hardware and peripherals was reduced by about 3 percent, compared with the last quarter of 2000, while investment in computer software dropped about 2 percent.

Not Since the January-March quarter of 1991 has there been such reductions.

Since about 1995, there has been a 45-percent increase, per quarter, compound, in computer hardware investment, on average.

In contrast, investment in computer software has increased during that period, on average, by about 20 percent, per quarter, compound.

The slowdown in investment in these 2 important areas, therefore, is significant.

Cost-cutting measures by corporations is taking effect, clearly.

If equity markets can be considered an indicator to future growth in industry, then, they should, rightly, respond to the statistics that are being churned out by governmental agencies in the Western World.

Equity markets are driven by earnings, and earnings expectations.

Micro data feeds macro data, allowing the painting of a picture as to the financial health of an industry, or a leading player within that industry.

Equity markets have, over the past decade, proven to be the catalyst to the creation of what is known in the parlance as the *'wealth effect'*.

This has been especially pointed in the US, more so than in Europe, where equity markets have tended to replace the role, to some extent, of the *'seed capital'*, traditionally provided by wholesale banking institutions.

Technology companies, telecommunications companies and media companies have found it relatively easy to raise money through the *'good offices'* of organised marketplaces, dedicated to the sale and purchase of equity securities.

This is fast coming to a screeching halt, however.

The wealth effect has had a real effect on the real economy of the US, raising fears in some circles as to the effect that will come about when there is a marked decline in this source of funding.

Falling share prices are, now, seen to be increasing the cost to companies, wanting *'to feed'* entities which, for the foreseeable future, will need cash handouts in order to keep creditors at bay.

Marginal investments are, now, seen to be expendable.

This is especially true of those companies, engaged in the telecommunications and technology industries.

As investors look more for profits and shareholders' values, rather than the pie-in-the-sky promises of the past few years, falling prices of shares are triggering immediate and/or further cutbacks in investment spending.

High-technology companies, which were the rage in the past decade or so, are now seen to be cutting back workforces at an unprecedented pace.

This is in stark contrast to the way in which so-called *'old economy'* companies handled situations in days of yore.

As more and more workers are given their marching orders, it is bound to have a knock-on effect, down the line.

Consumers, concerned about the immediate future of the breadwinner's pay-cheque, will think twice before making any new financial commitments.

Personal consumption will always be the most important growth *'engine'* of an economy – and one has to wonder whether or not the US *'engine'* has sufficient fuel to keep it running, smoothly.

US consumer sentiment has deteriorated of late and, most likely, it will continue to deteriorate in the near future as the mass layoffs continue to dominate labour's waking hours.

Also, as share prices continue to fall, it will create a negative wealth effect.

The stock markets' performances slashed the value of US households' equity assets to about $US2,000 billion, or a reduction of about 14 percent, year-on-year.

Households will experience a renewed rise in debt service at a time when they can ill afford additional monthly expenditures.

Personal consumption will have to be sacrificed in order to meet the requirements of debt service.

In light of reduced corporate earnings in corporate America, there must be seen to be considerable risk in respect of any further investment in equipment and computer software.

As such, the potential for a recession in the US is greater than many may realise on looking at first quarter statistics of the largest economy in the world.

The effects of the 5 reductions in US interest rates will not be seen for some months to come and, in the meantime, consumers are likely to tighten their financial belts a couple of more notches.

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