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America as Export Juggernaut Led by Intel With Surge in Chips
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By Timothy R. Homan and Anthony Feld

May 28 (Bloomberg) -- Intel Corp., the world's largest maker of computer chips, is increasing production and commanding higher prices as an export boom puts American manufacturing at the forefront of the economic recovery.

Santa Clara, California-based Intel's factories are operating at 80 percent of capacity, up from a record low of about 50 percent last year in the midst of the recession. The average selling prices of personal computer processors have risen a total of 12 percent over the past two quarters.

Overseas demand for U.S.-made goods from semiconductors to printers is boosting the fortunes of manufacturing, which has been shrinking as a proportion of the economy in 13 of the past 14 years. As a result, trade may add to growth for the first time in a post-recession year since World War II, says Morgan Stanley economist Richard Berner.

"U.S. manufacturing has really seen a renaissance of sorts driven by improved competitiveness and strength in global markets," said Joseph Carson, director of economic research at AllianceBernstein LP in New York. "Exports have been the key driver of growth. We think it's a new trend."

Net exports, or the difference in value between what the U.S. sends overseas and what it buys from abroad, will add about 0.3 percentage point to gross domestic product this year, according to Berner, Morgan Stanley's co-head of global economics in New York. He forecasts economic growth of 3.4 percent in 2010 after last year's 2.4 percent contraction.

European Crisis

Companies from Palo Alto, California-based Hewlett-Packard Co. to Cisco Systems Inc. are boosting sales forecasts in anticipation of stronger demand for semiconductors, computers and software in the world's fastest-growing economies. In the near term, exports may suffer from a European debt crisis that's strengthening the dollar and making euro-zone goods cheaper worldwide.

Paul Otellini, chief executive officer of Intel, whose chips run more than 80 percent of the world's personal computers, said this month that the PC market may expand as much as 16 percent in the next four years. The company's ability to manufacture more advanced chips is putting it further ahead of the competition, he said.

Strong demand and tight supply have allowed Intel to limit the discount it gives its customers and to raise average chip prices, according to Dean McCarron, an analyst at Cave Creek, Arizona-based Mercury Research.

U.S. exports to China, the third-biggest market for American-made goods, were up 47 percent in the first quarter this year from the first three months of 2009. Shipments to South Korea, the seventh-largest

importer of American-made goods, increased 66 percent during the same period, Commerce Department figures show.

Business Spending

"Consumer and business demand in the rapidly growing economies have become key factors driving their growth," Morgan Stanley's Berner wrote in an April 28 research note. "U.S. exporters will be increasingly leveraged to that fast-growing pie as their share of exports to those regions increases, especially in capital goods and consumer business services."

In an interview yesterday, Berner said the dollar's almost 7 percent gain against the euro this month hasn't changed his forecast for U.S. export growth.

"We had anticipated in the wake of what was going on that we would see further strengthening of the dollar against the euro," he said.

Shares in companies that make computer and technology goods are poised to weather the recent stock-market downturn better than other industries. The Philadelphia Semiconductor Index is up 0.5 percent so far this year, compared with a 1.1 percent decline in the broader Standard & Poor's 500 Index. Technology stocks have outperformed the S&P 500 over the last year and are trading near a 52-week high on a relative-performance basis.

'Many Bargains'

"From a longer-term perspective I'm really bullish on this sector," said Benjamin Tal, a senior economist at CIBC World Markets Inc. in Toronto, who sees "many bargains in the market" among technology and communications companies.

"Those big companies in the manufacturing sector in the U.S. are cheap because they will surprise on the upside two, three, four years from now," he said.

Manufacturing, which accounts for 11 percent of the world's largest economy, down from 12.3 percent in 2006, helped lead the U.S. out of recession in the second half of last year. The industry contributed to more than half of the expansion in the past two quarters, the economy's best six-month performance since 2003, as companies stabilized inventories after a record drawdown in 2009, according to Commerce Department figures.

Export Forecast

Exports will keep growing, some manufacturers forecast. San Jose, California-based Cisco, the world's biggest provider of networking equipment, is calling for sales of at least \$10.7 billion in the current quarter, following record revenue in the quarter ended May 1.

Sales of semiconductors in the Asia-Pacific region climbed to a record \$12.57 billion in March, up 72 percent from a year earlier, according to the Semiconductor Industry Association, based in San Jose. Worldwide sales in March were \$23.1 billion, an increase of 4.6 percent from the previous month, the industry group said on May 3.

The recovery is "accelerating," John Chambers, chief executive of Cisco, said on a May 12 conference call. "I'd say now almost without exception, most people are beginning to slowly turn cautiously optimistic."

The expansion is not without risks. Sovereign-debt concerns in Europe are threatening to impede the global recovery, while a decline in the value of the euro makes European exports cheaper. Still, the crisis may not translate into significant losses for U.S. manufacturing, according to AllianceBernstein's Carson.

"Not all changes in exchange rates turn into product races," Carson said. During the last nine months "the European demand hasn't been there, but that still has not stopped one of the most powerful export cycles we've ever seen," he said.

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