A Technology Bellwether for the U.S. Economy *(SB News-Press)*

(January 20, 2012) Last week was my annual pilgrimage to the Consumer Electronics Show (CES) in Las Vegas – with over two million square feet of exhibit space, for almost 3,000 firms, and more than 150,000 in attendance. In many ways, CES may provide insights into the U.S. (and global) economic outlook, as companies introduce their latest tech innovations and visions for the future. Perhaps the most notable new data reported was that China's economy grew at a very robust 8.9 percent rate during the most recent fourth quarter (October-November-December), and would likely be at 9.2 percent for all of 2011 – while the U.S. economy barely budged upward at a paltry 1.3 percent rate in the second quarter, and just 1.8 percent during July-August-September (preliminary fourth quarter and final 2011 figures will be released January 27th).

A first insight is that the consumer electronics industries may be good lead indicators for the overall economy. While there are certainly numerous "toys" for grown-ups showcased throughout CES, the vast majority of the products and services on exhibit are "discretionary purchases," meaning they are generally not required for the home, work, or personal enrichment. Voice-activated devices, rich content Web media for automobiles, OLED flat-screens with eye-popping 3D, and tablet-like phones are better gauges of whether American consumers have extra cash to spend on non-necessities. Optimism for such purchases is probably a direct result of secure employment, a.k.a. *the steady paycheck*. The people on the floor (presenting companies, product buyers, and individual consumers) all recognize that a strong, growing economy is what drives discretionary consumer spending. My discussions with attendees was generally a mixed bag of positive and negative expectations. On the one hand, most everyone was happy about the large crowds; but the overall mood remained "guarded," given the super slow pace of the U.S. economy and the huge uncertainties about making any forward progress to reform federal spending, and the concerns about U.S. deficits, the national debt, and the questions regarding the future of the Eurozone.

The CES floor is dominated by wholesale buyers perusing products and services they will channel through to retail stores during 2012 and beyond. The buyers I spoke with remained very cautious in their outlook for the consumer electronics sector this year, and stated very clearly that the November U.S. presidential election will be by far the biggest news item for generating optimism or pessimism for 2013 and the ensuing three-to-four year projections. Their main issues were personal taxes, corporate taxes, U.S. energy costs, the prospects for Obamacare being repealed, government regulations, and whether significant job creation will happen. Great new product innovations are always exciting to view and demonstrate, but the bigger issue is whether there will be significant wholesale and retail buyer demand – both now and in the future – for next generation phones, audio systems, televisions, tablets, streaming Web for cars, and various hybrid communication devices.

A second example is CES attendance. This year it was reported at 153,000 – a new record and up about two percent from the 150,000 in 2011. In 2010, attendance was 120,000 – but only 110,000 in 2009. With the second half of 2008 dominated by the subprime lending meltdown and the reality the U.S. was in a recession, CES attendance in 2009 was down 30,000 (a 22 percent drop from the 141,000 of January 2008, well before the negative economic news went mainstream). So the show was off significantly as the economy tanked, and then came back slowly by 9 percent in 2010, followed by a huge 25 percent increase last year, but levels off somewhat this year.

The third indicator is arguably the number of employment opportunities and the ratios of technology job seekers in each applicant pool hoping to secure at least an opening face-to-face meeting at CES. I made my way around to more than a dozen of the interview staging areas and spoke with company personnel at the appointment desks and counters. There did seem to be more job openings than in 2011, but the lines of individuals waiting for an initial interview were much longer, and the mood was definitely not enthusiasm. Faces were anxious, interviews were typically just 5 or 6 minutes long, and the competition for open positions is intense among sales and marketing professionals, engineers, and those with senior management backgrounds in the tech sector.

Another barometer for our economy is the relative presence of domestic U.S. firms compared to companies from Japan, South Korea, China, and India. My own informal purview (not scientific) of the show, chronicled in my iPad notes from four days walking the convention center, found that most of the hype and “buzz” did not involve American companies as much as those from the western edge of the Pacific Rim and South Asia. The various rankings of top CES products for 2012 (in places like PC-Magazine and CNET) were dominated by companies from South Korea (Samsung and LG), Japan (Mitsubishi, Nikon, Canon, Fuji), Hong Kong (Lenovo), Taiwan (Asus), India (Bharti Airtel, Tata, Infosys), Finland (Nokia), and China (China Mobile, Digital China).

That's not to say there aren't any top tech companies in the U.S., but the rosters of "best in show" are filled with literally dozens of foreign firms that are innovating across all product and service categories. Our large group dinner on Thursday night was dominated by conversation about when (and if) Silicon Valley, and California overall, would finally make a resounding comeback, and make real news at CES in the coming months or years. Certainly the lower-cost labor markets of East and South Asia will remain formidable barriers to U.S. price-competitiveness. But the American firms' aggregate commitments to significant and sustainable R+D remain the most important factor in whether U.S. companies will continue to be among the leaders – or leading outright – in the global competition for consumer electronics product-service purchases. In the end, CES provided a general barometer that perhaps the worst economic news might be behind us, but that does not translate into strong certainty and optimism. The next 10 months will no doubt remain in a "wait-and-see" mode pending who gets in the White House, and whether consumer-based businesses can look ahead to a strong economy in 2013 and beyond.