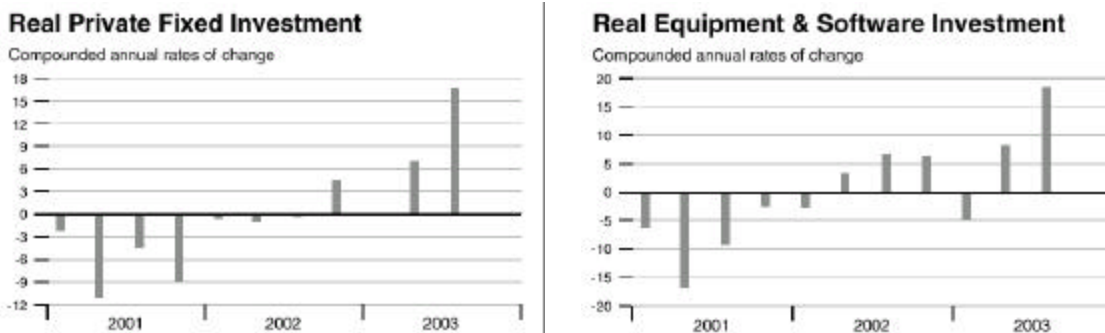


**OUR VIEWS**

January 2004

Last year, 2003, was a good one for the stock market. Most major indices, including the Dow Jones Industrial Average and the Standard and Poor's 500, which rose by 25.32 percent and 26.38 percent, respectively, reversed a three-year slide. Interest rates remained low, which benefited various sectors of the economy, most notably the residential home market.

As shown in the following charts, investment in both equipment and software grew in the second and third quarters of 2003.



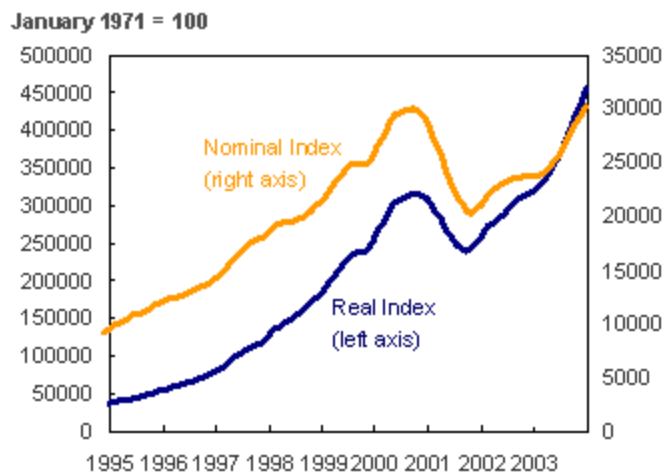
Source: National Economic Trends, December 2003; Federal Reserve Bank of St. Louis, December 2003.

Most surveys seem to report that business executives have a positive outlook on the economy; however, any number of events, including international unrest, growing unemployment, rising interest rates, uncertainty about the Presidential election, or new corporate scandals, could reverse this optimism. A weak dollar will make U.S. exports cheaper but put more pressure on businesses that rely on imports for their sales. Interest rates will probably remain low for the short term, but growing concern about the federal budget deficit could put upward pressure on interest rates, which may cause the expansion in the U.S. economy to stall.

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Unemployment remains more problematic especially in this Presidential election year. One theory holds that as the application of computing technologies mushrooms, the workforce will continue to restructure, resulting in a loss of jobs in certain sectors and geographic regions. From 1990 to 2000, the average annual growth rate of real investment in computer capital was about 33 percent<sup>1</sup>. As Gordon Moore predicted almost 40 years ago, the overall power of computers continues to grow while the price declines. This phenomenon has enabled business to continually improve its overall efficiency<sup>2</sup>.

According to the Federal Reserve Bank of New York, the Tech Pulse Index, which is a summary statistic that tracks the health of the technology sector of the economy, grew at an annualized rate of 48.7 percent and a nominal rate of 32.5 percent in December 2003. The Tech Pulse Index is compiled from data drawn from investment, consumption, employment, industrial production, and shipments in the technology sector<sup>3</sup>.



Source: Federal Reserve Bank of New York – Tech Pulse Index  
[http://www.ny.frb.org/research/national\\_economy/tech\\_pulse\\_index.html](http://www.ny.frb.org/research/national_economy/tech_pulse_index.html)

As a result of a buoyant stock market, reduced capital gains taxes, low interest rates, and ongoing drives for efficiency, the overall business environment in the information technology sector, along with merger and acquisition activity, should improve in the coming year. However, unexpected events could have a negative effect on the region's and nation's economy.

<sup>1</sup> Ruben Hernandez-Murillo, "Computer Use and Productivity Growth," National Economic Trends, December 2003; Federal Reserve Bank of St. Louis, December 2003.

<sup>2</sup> *ibid.*, Hernandez-Murillo

<sup>3</sup> Federal Reserve Bank of New York – Tech Pulse Index  
[http://www.ny.frb.org/research/national\\_economy/tech\\_pulse\\_index.html](http://www.ny.frb.org/research/national_economy/tech_pulse_index.html)

**Strategic Planning**  
**Advisory Services Relating to the Purchase and Sale of Businesses**  
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