

Texas Instruments Takes a Step Back

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by: TraderMark

I was fortunate in the timing of this, as last evening (just hours after I shorted it) Texas Instruments (NASDAQ:[TXN](#)) lowered the top end of its guidance. It wasn't a huge change and the stock is not affected that much (it was down 2% in after hours but recovered much of that this morning) since I think many people already assumed there would not be much of an upside to guidance, but it's better than a raise in guidance, of course.

National Semiconductor ([NSM](#)) also warned last night and was down much more substantially (-5%+) overnight. Silicon Labs (NASDAQ:[SLAB](#)) warned the day before.

Bigger picture, we seem to be at the front end of a slowdown in the semi cycle, which is a leading indicator. Recall that a good portion of the rebound the past 4-5 quarters has been either (a) government stimulus or (b) inventory rebuild. The latter looks to be finally coming near an end point as people are 'restocked.'

In the bigger picture we are starting to see something that has not happened much in about 2 years - that is key earning warnings. Analysts were asleep at the wheel in late 07 to mid 08 (Kool-Aid does that to you) before finally realizing the financial black hole we were in, and eventually slashed estimates as they were way behind the curve. Firms responded to the crisis by slashing labor as rarely seen in the history of this country. Margins surged and analysts were again behind the ball but this time in the other direction, as earnings reports came in far better than expected early 09 til summer 10. This was one of the reasons earnings season has been so good for the past 4-5 quarters.

Now it looks like analysts are going to be behind the ball again. While economic forecasts have been dropping across the board the past 6-8 weeks we are seeing almost no reductions in earning estimates by the analyst community. Hence the sledding is not going to be so easy in the quarters to come in terms of besting analyst estimates... and year over year comparisons are finally going to become much more tough to boot.

Via [Reuters](#):

- Chip makers National Semiconductor and Texas Instruments Inc on Thursday issued quarterly financial targets that stoked investors' worries about a sluggish economy. **Both companies cited weak demand for personal computers and other devices that use microchips and National Semiconductor said consumers were not spending as much as expected.**
- "We'd all like to believe that consumer spending is onward and upward but I don't think it is," National Semiconductor Chief Executive Donald Macleod told Reuters.
- National Semiconductor's guidance follows industry giant Intel Corp's (NASDAQ:[INTC](#)) warning in August that weaker-than-expected consumer demand for personal computers would limit its sales growth.
- "You can see what's happening here between Intel, National Semiconductor and TI's report: **demand has peaked and is starting to head down,**" said Charter Equity Research analyst Ed Snyder.
- Ron Slaymaker, TI's head of investor relations, said that **on top of weakening demand for personal computers and related storage products, consumers also appeared to be buying fewer televisions than expected this quarter.**

Disclosure: Short Texas Instruments in fund; no personal position

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