

# Merrill sees slowing PC growth ahead

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Merrill analyst Steve Milunovich estimates that PC unit shipments will expand by about 11% in 2005, up from previous estimates of 9%, and increase 7.5% in 2006.

Milunovich estimates that worldwide shipments should reach 210.4 million in 2005 and edge up to 227 million next year.

"The days of double-digit PC unit growth is over," Milunovich said in a research note.

Merrill's forecasting model "indicates that PC-unit growth peaked in 2004 and should slow through 2006," he said, adding that "we expect replacement PCs will be the only driver of growth."

PC shipments, while rising, have been affected by mixed data from several fronts, Milunovich said.

Total worldwide shipments are expected to reach 51.2 million in the third quarter of 2005, up from 49.4 million in the second quarter. Milunovich said that prices have been driven down by lower component costs, helping spur recent increases in shipments.

However, he noted that component prices are showing signs of tightening up, pointing to DRAM memory vendors and hard-disk drive companies as well as to efforts by Advanced Micro Devices to take market share from Intel Corp. as it comes out with a new, lower-power chip for mobile computing.

Milunovich added that movements in currency exchange rates could become a major factor in the PC industry due to recent strength in the dollar. Such strength could translate into slower sales outside the U.S., leading to particular weakness in Europe.

On the positive side, Milunovich said that dwindling competition has been a benefit to the PC companies' operating profits.

While the industry's average operating margins have declined from the high single digits seen in the 1990s, Milunovich said the average company has an operating margin of about 7% now.

He added that Apple Computer Inc. has one of the highest operating margins, at 12%, while Dell Inc. remains at 9%.

By Rex Crum

[MarketWatch](#) [2].

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