

Boost your bottom line.

Start today with
The Wall Street Journal
Online Small Business Channel.

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL

WSJ.com

EARNINGS | JULY 28, 2010

Earnings Streak Defies Consumer Fears

By PAUL VIGNA And JOHN SHIPMAN

Second-quarter earnings, up 21% from a year ago so far this season, are heading to a three-quarter string of spectacular gains. But double-digit increases from companies including [AT&T Inc.](#), [Coca-Cola Co.](#), and [Lockheed Martin Corp.](#), are in sharp contrast to consumer worries.

The profit recovery isn't something that consumers, coping with stagnant wages, a weak jobs market and flat to declining housing values, feel. And it shows in their mood and in recent retail spending declines.



"Without consumers on board, the economic recovery is looking dangerously vulnerable," Capital Economics' Paul Dales wrote Tuesday, after the latest dour reading on consumer confidence. July confidence slipped to 50.4, below the 51.9 from July 2008, indicating consumers are as worried about the economy and its prospects as they were as the recession took root. One consequence: consumers are saving more again. Personal savings rate in May increased to 4%, its highest level since September.

A July reading on consumer sentiment from the University of Michigan dropped to its lowest level in almost a year, with Americans particularly downbeat about income prospects. Barclays Capital noted only 39% of respondents expected an increase in their income in the year ahead, "the smallest proportion in the history of the survey," it said.

Consider the glum outlook at grocery chain [SuperValu Inc.](#) "We continue to see a very, very challenged economic environment," Chief Executive Craig Herkert said Tuesday during a conference call.

Supervalu is also seeing "huge increases in coupon usage," as well as "unbelievable growth numbers in consumers who are requiring government assistance to feed their families," Mr. Herkert said.

Supervalu saw its profit slide 41% as revenue fell to \$11.5 billion from \$12.7 billion a year ago. [Safeway Inc.](#), another large grocer, reported last week a similar profit drop versus a year ago, which included a tax gain, while revenue inched up slightly.

With about half of big companies reporting, earnings are up 21% above a year ago, said Standard & Poor's. Sales are up 6.9%.

But consumer-oriented companies are growing more concerned. [Masco Corp.](#), maker of KraftMaid cabinets, Delta faucets and Behr paint, said its sales trailed off after gains in March and April. On Tuesday, Chief Executive Timothy Wadhams said June sales were down a "low-single digit" percentage versus a year ago, and those trends "have continued into July."

Credit Suisse said Masco's results "threw another bucket of cold water" on expectations for home-improvement retailers including [Lowe's Cos.](#) and [Home Depot Inc.](#) It points to a historical link between cabinet sales and home-improvement revenue.



Bloomberg News

But double-digit increases from companies including [Inc.](#), [Coca-Cola Co.](#), and are in sharp contrast to consumer worries. Above, a worker arranges a display of Coca-Cola soda in New Rochelle, N.Y.

Masco trimmed its view on 2010 housing starts to a range of 575,000 to 625,000, down from 600,000 to 700,000. The home-buyer tax credit "did not seem to drive a lot of activity from a housing start standpoint," Mr. Wadhams said.

Meanwhile small businesses create a majority of the nation's new jobs, but they have been cutting staff. Small businesses overall have posted a sales drop of 6.5% so far in 2010, according to data from research firm [Sageworks Inc.](#)

Retail sales fell in May and June from a year ago, according to the [Census Bureau](#). Retail analyst [Redbook Research](#) reported Tuesday that chain-store sales were down 0.7% through the first three weeks of July.

The weak job market is the likely culprit. Employers are reluctant to hire, and with roughly five prospective employees for each job opening in the U.S., they are under no pressure to offer higher wages. The latest report from the [Bureau of Labor Statistics](#) showed average hourly wages slipped two cents in June, only the second drop since the recession started.

The Upshot comments on trends in corporate earnings.

Write to Paul Vigna at paul.vigna@dowjones.com and John Shipman at john.shipman@dowjones.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com