

Profits are so last quarter: Wall St. eyes revenue

July 20 2010, By DAVE CARPENTER , AP Personal Finance Writer



This photo made June 7, 2010, shows a sign for Yahoo! in New York. Yahoo Inc., based in Sunnyvale, Calif., will release its second-quarter earnings, Tuesday, July 20, 2010, after the market close. (AP Photo/Mark Lennihan)

(AP) -- Even in a tough economy, increasing profits can be easy: Just cut costs enough and the bottom line keeps improving. But companies can only do that for so long.

Now Wall Street wants evidence that they're actually pulling in more money.

Big names like [General Electric](#), IBM and [Texas Instruments](#) are among the companies that have matched or beaten [analyst estimates](#) for profits in their quarterly earnings reports and still had their stocks punished because of disappointing revenue.

Wall Street wants to see sales growth because companies that are raking in more cash are more likely to hire people.

"We've got a major stimulus, major deficit. We need to get out of this and see that it's working, and sales are the best way to do it," said Howard Silverblatt, an analyst with Standard & Poor's.

"It all comes down to jobs - that's the bottom line," he said. "Without the jobs, there is no recovery."

In theory, corporate revenues should be growing by now. The [economy](#) has been growing for a year. And at some point, companies squeeze out all the profit they can through cost-cutting - including employee costs. Growth in actual sales has to take over.

At first glance, second-quarter earnings look encouraging. Of the companies in the Standard & Poor's 500 that have reported so far, earnings per share are up almost 50 percent from a year ago. Nearly two in three firms have beaten expectations.

But sales have risen only a disappointing 5 percent. That's clearly not enough for investors, even when companies turn in results slightly higher than Wall Street's expectations.

"The growth story is what the market is focusing on now," said equity strategist Cleve Rueckert of Birinyi Associates, a stock market research and [money](#) management firm in Westport, Conn.

And the market has gone sideways since earnings season began last week. Individual companies that might normally expect their stocks to be lifted by strong profits have taken a hit.

- General Electric Co. posted its first quarterly profit since 2007 last

week and issued an upbeat outlook, but investors seized on its 4 percent drop in revenue as a sign of concern because GE touches almost every part of the economy. Its stock fell 5 percent.

- IBM Corp. stock tumbled nearly 4 percent Monday after the computer company beat earnings expectations and raised its profit expectations for the year but fell short on sales.

- Texas Instruments Inc. reported a near-tripling of profit and a 42 percent surge in sales. Yet its stock sank more than 5 percent following the earnings report Monday. Why? Technology investors were banking on even better revenue figures.

The story was similar at Delta Air Lines Inc., the world's largest airline; Gannett Co., the biggest U.S. newspaper publisher; toy maker Hasbro Inc.; and giant banks JPMorgan Chase & Co., Citigroup Inc. and Bank of America Corp.

Not to downplay the importance of corporate profits to the economic recovery.

Market-watchers applauded last quarter as companies in the Standard & Poor's 500 index reported 92 percent higher operating earnings than a year earlier - the biggest yearly increase ever, Silverblatt said.

Those healthy results reflected an improving economy and suggested that Americans were spending more again. But after five straight quarters of bigger profits, investors are showing they want more evidence the recovery is on the right path.

Analysts say sales are the best indicator of when companies will start adding jobs. When jobs will come and where they'll come from are two of the biggest questions hanging over the recovery.

"The stimulus programs were supposed to jump-start the economy and break the downward cycle by convincing both companies and consumers that better times were here," Silverblatt said. "Earnings are good, but so far we're not seeing the sales or the jobs."

Investors may be overreacting, said Paul Hickey, co-founder of stock-data tracker Bespoke Investment Group in Harrison, N.Y. But it appears they can be won over when the numbers are good enough.

Just a week ago, Intel reported quarterly revenue that was more than a half-billion dollars above analysts' expectations en route to its biggest [profit](#) in a decade. Its stock climbed.

Wall Street's wariness, its instinct to sell at any hint of possible trouble, is understandable at a time of great economic uncertainty and a volatile market. No one wants to be burned like they were in 2008.

But sooner or later, they want to see companies delivering results on sales that are as good as the ones on profits.

"You have to have revenue growth eventually," says Hickey.

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