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## Earnings Streak Defies Consumer Fears

Paul Vigna and John Shipman, July 28, 2010

Second-quarter earnings, already up 21% so far this season from a year ago, are heading toward a three-quarter streak of strong 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 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," he said. (Please see related article on B6.)

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.

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.