

rate of \$19.3 billion in the third quarter from the second, as domestic earnings dropped by \$41.2 billion. The drag from sagging U.S. sales and huge writedowns offset robust earnings abroad, fueled by the weak U.S. dollar. The fourth quarter may be an even bigger bust.

`` In the third quarter, the tide shifted, and for the worse," says Joseph Quinlan, chief market strategist for Bank of America Corp. in Charlotte, North Carolina. `` The domestic-profits squeeze is in its early stages and will be severe enough to overwhelm strong foreign earnings."

Caterpillar Inc. of Peoria, Illinois, the world's largest maker of bulldozers and excavators, shocked investors in October when it said it expected the economy to be `` near to, or even in recession" in 2008. At the time, Dearborn, Michigan-based Ford Motor Co., the second-largest U.S. automaker, was still `` optimistic," Chief Executive Officer Alan Mulally said Oct. 15. `` There's a lot to be positive about," he told reporters.

` Dicey Territory'

Little more than a month later, in a Nov. 19 interview, Ellen Hughes-Cromwick, Ford's chief economist, said the economy was `` in some dicey territory," though would likely `` edge by" without a recession.

Profits for the Standard & Poor's 500 companies fell almost 25 percent on a per-share basis in the third quarter, the biggest year-over-year decline in almost five years. David Wyss, S&P's chief economist, expects their earnings to fall as much as 30 percent in the fourth quarter as companies take more writedowns for bad investments. Excluding such extraordinary items, operating profits may fall as well, he says.

Consensus estimates compiled by Bloomberg indicate S&P 500 operating profits may rise just 1.1 percent in the current quarter.

Reduced Expectations

That's down from the 8.8 percent increase analysts foresaw a month ago. Operating profits fell 2.5 percent in the third quarter, the first drop in more than five years.

Even if profits have peaked, that doesn't mean the economy is about to turn down, says Steven Wieting, managing director of economic and market analysis at Citigroup Global Markets Inc. in New York. In the last expansion, profit margins began contracting in late 1997; there was no recession until March 2001.

What's troubling this time is that much of last quarter's damage came in the financial sector, where operating earnings fell 25 percent, as banks and brokers were hurt by losses from subprime mortgages and related investments. Analysts' estimates compiled by Bloomberg indicate the industry's profits this quarter may decline more than 25 percent.

The plunge in financial profits is a triple whammy for the economy as banks and other institutions pare payrolls, cut capital spending and become stingier with loans.

Job Cuts

Bank of America, JPMorgan Chase & Co., Bear Stearns, Citigroup Inc., Lehman Brothers Holdings Inc. and Morgan Stanley have announced some 25,000 job cuts so far this year. Gustavo Dolfino, president of New York executive-search firm Whiterock Group LLC, said in a Nov. 20 interview he expects them to fire

thousands more.

Claims for unemployment benefits jumped to a nine-month high in the week ended Nov. 24. Economists polled by Bloomberg forecast that data to be released Dec. 7 will show payroll growth slowed to 70,000 in October from 166,000 in September, while the jobless rate rose.

``We see a significant slowdown in the growth of jobs and equipment spending in 2008," says Allen Sinai, chief global economist for Decision Economics in New York.

Orders for non-defense capital goods excluding aircraft, a proxy for future business investment, fell 2.3 percent in October, the most since February, according to Commerce Department figures.

Disappointed Investors

Weaker business spending held back sales at Cisco Systems Inc., the world's biggest maker of networking equipment. That disappointed investors, who have pushed the San Jose, California-based company's shares down more than 17 percent since Nov. 6. Chief Executive Officer John Chambers said orders have slowed from Cisco's top 25 U.S. customers, which include eight financial-services companies.

Stamford, Connecticut-based Pitney Bowes blamed weakness in the financial-services market for a 14 percent drop in its quarterly net income. The company, the world's largest maker of postal meters, also announced plans to fire 1,500 workers.

The biggest hit to the economy from fading financial profits may come from tighter lending standards. The Federal Reserve reported last month that banks were making it harder for businesses and consumers to borrow. Analysts including Sinai expect terms to tighten further.

Advanta Corp., a Spring House, Pennsylvania-based provider of corporate credit cards, cut its 2007 earnings forecast Nov. 27 and withdrew its 2008 estimate as late payments rose.

``Higher delinquency rates will continue for some time," Chief Executive Officer Dennis Alter told analysts. ``What is not clear is where the economy and consumer behavior is headed."

Sinking Boat Sales

Scarce credit could make things even tougher for companies such as Brunswick Corp. of Lake Forest, Illinois, maker of Bayliner boats. The firm is cutting 170 jobs as it struggles with what Chief Executive Officer Dustan McCoy suggested might be the weakest U.S. boat market since 1965.

Foreign companies are starting to feel the fallout from weakness in the U.S. -- a reversal of the recent trend, in which American firms benefited from strength overseas.

Stockholm-based Ericsson AB, the world's biggest maker of wireless networks, said Nov. 20 that fourth-quarter sales may be at the lower end of a forecast it gave a month earlier as demand falters in North America and Europe.

Shares in Morgan Crucible Company Plc, a U.K. ceramics maker for the steel industry, plunged the most in nine years today after saying a weaker dollar and a slowdown in the U.S. construction and automotive markets will almost erase revenue growth.

Wolseley Plc said Nov. 28 it will cut 1,300 jobs in the U.S. after the decline in homebuilding led to a 15 percent fall in profits at the world's biggest distributor of plumbing and heating equipment.

`` Looking out over the next 12 months, the U.S. is going to be very challenging," Chip Hornsby, chief executive officer of the Reading, England-based company, said on a conference call.

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JQS Note: Remember, no matter how things get shaken up in the "real" if you have "real faith" it cannot be shaken. Let's see how many of you are reading this.