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# Earnings Recession Has Arrived

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U.S. corporate [profits are in a recession](#), and the entire economy may not be far behind.

Slower sales and higher energy and labor costs are forcing companies from Bear Stearns Cos. to Pitney Bowes Inc. to reduce spending and hiring. Their efforts to keep earnings from eroding even further raise the risk that the economy, already weakened by the steepest housing slide since 1991, may shrink sometime next year.

"The earnings recession has already arrived," says David Rosenberg, North America economist for Merrill Lynch & Co. in New York. "We are going to see an economic recession in '08."

Corporate profits, as measured by the Commerce Department, fell at an annual 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.

## 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.

## 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.

## Is China The Savior?

There was an interesting article in the [Financial Times with Fred Smith, chief executive of FedEx](#).

FT: Do you believe that global growth is going to offset and help the US mitigate the effects of a slowdown?

MR SMITH: Sure, our international business is very strong, we've been saying that for a long time and in many parts of the world stronger than the United States.

FT: Even so, the last quarter you had to say that overall things were going to be tougher, because of the US.

MR SMITH: I'm not saying that it doesn't make any difference, certainly not to FedEx, because it is still the majority of our revenue, so over time our international business is growing much faster.

What I am saying is that the growth elsewhere helps cushion the shock, but nothing can displace a slow down in the United States. I don't care how optimistic people are about China or anything else, it's still 25 per cent of the world's economic activity, so when it slows down, it's going to have an effect.

FT: Even from as global a company as it gets, FedEx?

MR SMITH: Of course.

### **GM Increases Incentives Amid Sales Decline**

November [sales plunge 11% at GM \(GM\)](#) which ended three months of increases.

"Brisk headwinds from the soft economy are making tough sailing for automakers as they try to turn around their U.S. business," said Pete Hastings, a fixed-income analyst at Morgan Keegan & Co. in Memphis, Tennessee. "It looks like it's going to be tough for a while."

GM incentives increased 2.6 percent to \$3,136 and Ford fell 0.4 percent to \$3,191, Edmunds said. Chrysler retained the highest totals, at \$3,360 per model, with an 8.2 percent gain.

U.S. auto sales may not rise again until late spring or early summer, said Michael Robinet, an analyst at CSM Worldwide Inc. in Northville, Michigan. "We're still in the doldrums with respect to credit" and fuel prices, he said.

GM, Caterpillar, FedEx, Brunswick, and a multitude of financial companies are all reporting declining sales or declining earnings. Boat sales, car sales, truck sales, shipping, and construction equipment are all in a pullback. Job declines are sure to follow. In many cases they are already.

Professor Depew was talking about [The Profit Recession](#) in today's Five Things.

- Profits for S&P 500 companies fell almost 25% on a per-share basis in the third quarter, the biggest year-over-year decline in almost five years, the article noted.
- The problem with being a finance-based economy and no longer a manufacturing economy, however, is that we really need those finance-engines to run smoothly in order to generate solid economic growth.

So far we have a housing recession, an earnings recession, and auto recession. It will not be long before adjectives are no longer needed in front of recession.

Discounting a bogus GDP number that pins inflation at .8%, we are for all practical purposes there already. No matter how strong China and India remain, they cannot pick up the slack if the US, UK, and EU all headed for the big "R".

- Brian Croner  
11:06 AM  
Tue Dec 4th  
zero profit succeeds in employing workers