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## Waiting for a Big Rebound in Profits? Wait Longer

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**C**orporate profits season goes into full swing this week, but results for the third quarter — and the outlook for the fourth — are not likely to be upbeat.

Expectations are being lowered by loan problems at banks and the weakness in the foreign earnings of American companies. The dollar, surprisingly, is not helping, either.

A few months ago, third-quarter reports from companies like [Intel](#), [Charles Schwab](#), [Coca-Cola](#), [Bank One](#), [Bank of America](#), [Caterpillar](#), [Citigroup](#), [General Motors](#), [Johnson & Johnson](#) and [Motorola](#) were expected to confirm that a long-awaited rebound in corporate earnings had arrived. Analysts hoped that this earnings surge, coming after five consecutive quarters of profit decline and one of minimal growth, would finally help lift the stock market.

But earnings expectations for the companies in the Standard & Poor's 500-stock index are now falling for both the third and, more important, the fourth quarter. Taking their toll are a weaker-than-expected economic recovery, problem bank loans, the falling stock market, the threat of a war with Iraq and the fear that consumers may be slowing their spending.

Wall Street analysts are now predicting earnings growth of 4.7 percent for the S.& P. 500 for the third quarter, compared with the year-earlier period, according to Thomson First Call. That is down from a forecast of 16.6 percent on July 1. For the fourth quarter, the current consensus is 19 percent, down from 27.7 percent on July 1 — and there is plenty of time for more downward revisions.

The new forecasts are especially disappointing because the third and fourth quarters were supposed to be easy ones for profit growth. That is because they hardly have tough acts to follow: earnings declined 22 percent in both the third and fourth quarters of last year.

Financial companies in the S.& P. have a big effect on earnings. That is because they are the largest sector of the index, accounting for 81 of the 500 stocks and 23 percent of total profits. According to Thomson First Call, the forecast for profit growth for this group in the third quarter has fallen to 25 percent, from 39 percent at the

beginning of July, and to 27 percent for the fourth quarter, from 35 percent.

Earnings expectations were reduced after J. P. Morgan Chase increased write-offs and reserves for bad loans. [Bank of New York](#) then said loan losses cut its profits by \$260 million in the third quarter. More bank losses are likely because banks have the most bad loans on their books in a decade, according to federal regulators. The loans include those made to troubled companies like [Enron](#), [Adelphia Communications](#) and [WorldCom](#).

The frantic pace of the estimate downgrades can be seen in the number of profit revisions at some individual banks. In the last 30 days at J. P. Morgan alone, there have been 16 negative revisions for the third quarter and 15 for the fourth quarter. Bank of New York has had 16 for the third and 13 for the fourth, while Citigroup has had 7 for the third and 7 for the fourth, according to Thomson First Call.

About 20 percent of earnings for the S.& P. 500 companies index come from abroad. Analysts at [Morgan Stanley](#) estimate that these earnings declined by 2.8 percent in the second quarter and that they are unlikely to rise very soon.

And while the dollar has fallen 7.6 percent against the euro in the year ended Sept. 30, it is stronger against many other major currencies. That means that gains from abroad will be reduced — or losses increased — when they are translated back into the dollar.

A third negative, the port closings on the West Coast, may be limited by President Bush's move to reopen them using the Taft-Hartley Act. Still, billions of dollars have been lost. The actual cost to fourth-quarter profits will depend on how quickly the ports can unload their backlog, said Richard Berner, chief United States economist at Morgan Stanley.

But any way you slice it, a meaningful revival in corporate earnings may have to await the new year.