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Companies see sunny days ahead



HANS DERYK / The Associated Press

Companies such as Royal Caribbean are starting to reap the benefits of the economic recovery. And they have freer-spending consumers to thank for it.

Earnings reflect corporate America's return to growth

By Dave Carpenter
THE ASSOCIATED PRESS

CHICAGO — Corporate America is back.

Companies that do everything from making appliances to selling cruises are reporting strong first-quarter profits — not because of the layoffs many of them used to dress up last year's earnings reports but because people are spending more.

The turnaround has yet to produce a dramatic increase in hiring, which isn't expected until 2011 or later. But it provides emphatic new evidence that the economy has moved past the crisis and should continue to strengthen.

"We're out of the woods for good," says Joseph LaVorgna, chief U.S. economist at Deutsche Bank. "This is not just an arithmetic story. It's a story of legitimate growth."

Companies in the Standard & Poor's 500 index have reported 76 percent higher operating earnings than a year ago — on pace to be the biggest year-over-year increase ever, according to S&P analyst Howard Silverblatt. Nearly half the companies in the index have reported earnings so far.

One reason for the gains is simply that the economy in early 2009 was at the depth of the worst recession in generations, but consumer spending is clearly making a comeback.

After a year and a half of hunkering down, people are buying expensive items such as electronics and furniture and dining out more, even though an unemployment rate of 9.7 percent clouds the recovery and the housing market is still hurting.

"They've saved some money, they've paid down debt, and at a certain point you just get bored of eating frozen pizza and watching cable TV on a Saturday night," says Barry Ritholtz, head of the financial research firm FusionIQ.

Consumer spending has risen for five straight months, retail sales for four, and restaurant sales surged this spring after being stagnant since 2008.

Royal Caribbean Cruises Ltd. returned to a first-quarter profit as more travelers vacationed on its ships and spent additional money on board.

Exports have played a key role. Caterpillar enjoyed especially strong orders for its heavy equipment in developing countries, and Deere Inc. also is selling more internationally. But domestic demand also has been strong.