Dividends roaring back in 2011

First-quarter increases hit record as economy continues to improve

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THE ASSOCIATED PRESS

NEW YORK — Big companies increased their dividends by a record amount in the first quarter.

Since the start of the year, 117 companies in the Standard & Poor's 500 index said they would raise or start paying dividends. The value of the new and raised annual dividends announced by these companies amounted to a record $16.6 billion, according to Howard Silverblatt, senior index analyst at S&P. Just 78 companies raised their dividends in the same period a year ago.

The surge in dividends reflects a turning point in the long recovery from the financial meltdown in 2008. After the meltdown many companies slashed or eliminated their dividends and, like many Americans, put their cash in the bank and sat on it. As a result, U.S. companies have amassed a record $940 billion in cash.

But now the economy is recovering, profits are rising and investors are demanding something for their patience. An easy way to keep shareholders happy is to restore or raise dividends. JPMorgan Chase & Co. is quintupling its annual dividend from 20 cents a share to $1, amounting to an increase of $3.1 billion. The value of the payout is a record for an S&P 500 company.

Even companies that have long resisted dividends are instituting them. Cisco Systems Inc. said it would begin paying shareholders $1.3 billion per year, a record amount for a first-time dividend payer in the S&P 500.

"The fact that dividends are increasing is a clear signal that the economy and businesses worldwide are on a much firmer footing than a few years ago," said Kent Croft, the manager of the $421 million Croft Value Fund.

Here is more evidence of the dividend boom:

■ Financial companies announced they will raise annual dividends by $7 billion, accounting for 42 percent of all S&P 500 dividend increases. That came after the Federal Reserve announced March 18 it would allow some banks to raise dividends if they passed certain "stress

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tests." JPMorgan, Wells Fargo & Co. and State Street were among those that increased their dividends for the first time since the financial crisis. Citigroup Inc. reinstated its dividend.

■ Ten S&P 500 companies announced during the first quarter that they would begin paying dividends. That's the most for any three-month period since at least 2003, when Silverblatt began collecting data. Besides Cisco, discount department store Kohl's and health benefits company WellPoint also became first-time dividend payers.

■ Besides financials, industrial companies and businesses focused on consumer products announced the most dividend increases during the quarter. Among those raising their dividends: cruise operator Carnival Corp., retailer Limited Brands and manufacturer Eaton Corp.

A strong recovery in dividends hasn't made up for all the losses the previous three. Even with the increases, quarterly dividends by companies in the S&P 500 are 13 percent lower than their peak in 2008.

Some companies that have raised their dividend still pay far less than before the recession. That is particularly true for banks and other financial services companies. Their dividend yield, which measures how much cash is being paid per share, runs around 1.41 percent today, far below the 3.32 percent yield in 2007.

JPMorgan's annual dividend is still well below the $1.52 a share it paid in 2008.

Citigroup will pay just 4 cents a year, the maximum federal regulators are allowing the bank to pay under the provisions of its bailout package. Citigroup had paid as much as $2.16 per share before the financial crisis.

Bank of America Corp. wasn't given the OK by the Fed to raise its dividend, which is also just 4 cents per share. At its peak in 2008, the company paid annual dividends of $2.56 per share.

"Companies are paying more dividends, but they are also taking it slow," Silverblatt says. "Dividends are far from being completely back."