Quarterly gains reassure investors

Company earnings even better than predicted

By Matt Krantz
USA TODAY

Investors who hoped for better corporate earnings are getting their wish.

Three-quarters of Standard & Poor's 500 companies have reported quarterly earnings, and the results are better than even the bulls could have expected.

So far, first-quarter operating earnings are up 82 percent from the same period last year at the 381 companies that have reported, S&P says. That's the biggest jump in earnings since S&P started tracking earnings using the same methodology in 1988.

Revenue, too, gained more than 8 percent, showing that the earnings growth wasn't just from cost cutting but also from real demand. "It's a fabulous earnings season," says Michael Farr, strategist at Farr Miller & Washington. "Investors welcome the opportunity to exhale."

Earnings reports so far highlight the:

■ Strength of the bounce from last year's business meltdown. The first quarter marks the second-straight quarter of earnings growth following nine quarters of freefall, S&P says. Earnings fell 39.2% in the first quarter of last year, for instance.

■ Streak of positive earnings surprises. So far, 78 percent of companies have generated more profit than analysts expected, says Thomson Reuters. That's just shy of the record of 79 percent upside surprises in the third quarter of 2009.

Meanwhile, just 15 percent of companies have missed estimates. The fact disappointments are so rare shows most companies are enjoying the recovery, says Jack Ablin of Harris Private Bank. "The lack of negative news is underplayed," he says.

■ Hopes for a better future. Seeing such strong first-quarter results, analysts have raised their earnings estimates for the remaining three quarters of the year, says Thomson's John Butters. For instance, analysts expect companies' earnings to grow 27.5 percent in the current quarter, up from the 22.7 percent they expected April 1.

■ Broad industry participation. Nine of 10 industry sectors are posting earnings growth, Butters says. Telecom is

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the only sector that's down, with earnings off 1.2 percent.

But while the earnings reports are nearly all positive, there are worries. Much of the earnings and revenue growth came from financials, not industrials, says S&P's Howard Silverblatt. More growth is needed from industrials to generate jobs, one aspect of the recovery that's still missing, he says. Financials' earnings grew 351 percent, Thomson says.

There's also concern that much of the earnings growth is due to temporary factors, such as easily-beaten year-ago earnings and the government stimulus, Farr says. "Is this recovery sustainable?" he says. "That's the question."