Ahead of the Bell: Manufacturing Sector

HARTFORD, Conn. (AP) — How investors react to second-quarter earnings from industrial companies is an open question, with share prices for several companies that have so far reported rising only barely, an analyst said late Sunday.

Deutsch Bank-North America analyst Nigel Coe said shares on average increased slightly for companies such as General Electric Co., Alcoa Corp., Koninklijke Philips Electronics N.V., Fastenal Co. and W.W. Grainger Inc.

"On earnings day, the reaction has been mixed with an average gain of around 1 percent, although there is no clear pattern as to how the market is accounting for headline beats and misses," he said in a note to investors.

For example, GE reported Friday that its second-quarter net income totaled $2.6 billion, or 24 cents per share, after paying preferred dividends. That fell 49 percent from $5.1 billion, or 51 cents per share, last year. Revenue declined 17 percent to $39.1 billion.

The Fairfield, Conn., company beat Wall Street estimates by a penny.

GE's results, despite beating expectations and including solid signs of execution, are "probably the uber-example of how expectations can frame the market's reaction," Coe said.

"As such, we have no clear roadmap on how to play the rest of the quarter from the first week," he said.

For the manufacturing sector, pricing has been stable over the past few months with "huge surplus capacity" and steep declines in raw-material costs, Coe said. He expects companies will warn of "nascent pricing pressure" through the second half of this year and deflation in the first half of 2010.

In addition, industrial production declined 0.4 percent month-over-month in June, following a revised 1.2 percent decline in May, he said.

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