

# Fragile European Economy Dampens CEOs' Outlook

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NEW YORK (AP) — Deteriorating financial conditions in Europe are weighing down companies' profits. And hope of salvation from other regions — such as China, Brazil and the United States — is starting to dim as those economies weaken.

That's the message from this week's parade of second-quarter earnings from some of the world's largest companies.

"The new reality is that this world is not in a normal growth mode," Dow Chemical CEO Andrew N. Liveris said on a conference call Thursday. "And it does not appear that we will see this for at least 12 to 24 months."

One CEO after another told investors and Wall Street analysts that Europe was making them nervous.

Royal Caribbean CEO Richard D. Fain said, "The steady drumbeat of negative news emanating out of Europe is certainly having an impact." The chief executive of German automaker Daimler AG, Dieter Zetsche, referred to "economic clouds in the sky, which are floating especially over Europe."

Europe's debt crisis has worsened over the past few months. Six of the 17 nations that use the euro currency are in recession. Solutions have proven elusive.

Because the global economy is so integrated, what happens in Europe doesn't stay in Europe. As Europeans buy fewer cars, for instance, profits of American automakers fall. Ford Motor Co. expects to lose more than \$1 billion in Europe this year. Europe's slowdown also hurts factories in China. In turn, those Chinese factories buy less iron ore from Brazil.

So, after three years of trying to crawl out from the Great Recession, companies are once again faced with "uncertainty," "headwinds," the prospect of "slow growth" and any other corporate buzzword you can think of. For many, their prospects aren't looking good.

But not every company is so glum. Heavy construction equipment manufacturer Caterpillar reported blockbuster earnings Wednesday, driven in part by companies making long-term investments to upgrade their aging machines.

Here is a look at five of the world's bellwether companies and what their earnings say about the economy:

Volkswagen AG

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— **WHY IT'S IMPORTANT:** Volkswagen is Europe's largest carmaker — selling nearly a quarter of all cars there — and is a key player in North America, China, Russia and India.

— **WHAT THE NUMBERS SAID:** Volkswagen's second-quarter profit jumped 18 percent to \$6.84 billion, or \$14.61 per share. That's up from \$5.86 billion net income, or \$12.18 per share, a year ago.

— **WHAT THE EARNINGS SAID ABOUT THE ECONOMY:** It's tough to sell cars when the economy is in the tank, which is the case in southern Europe. The overall European car market shrank 6.8 percent. Volkswagen held up better, with its European sales declining just 1.5 percent. In other parts of the globe, people still want to buy cars. Demand for cars increased in the second quarter in the U.S., China, Russia and India. Volkswagen said that should continue in the second half of the year, although at a slower pace. The German automaker warned the car market in western Europe would continue to shrink.

— **WHAT THE EXPERTS SAID:** Analysts told clients not to worry about a slowdown in China for Volkswagen after seeing the results. They said the overall earnings numbers were solid, even though the Volkswagen brand had its worst European volume performance in a long time.

— **THE QUOTE:** "Our strong position on world markets will help us to exceed the development of the overall market despite the challenging environment," CEO Martin Winterkorn said in a statement.

McDonald's Corp.

—**WHY IT'S IMPORTANT:** McDonald's is the world's largest hamburger chain and has become an investor darling by consistently delivering strong results through boom and bust times. But the global economy is starting to take some of the shine off the Golden Arches.

—**WHAT THE NUMBERS SAID:** The company's net income fell 4 percent in the second quarter as a strong dollar took a bite out of results. Global sales at restaurants open at least a year rose 3.7 percent, which would be a respectable showing for most fast-food chains. For McDonald's, it was the slowest growth since the end of 2009.

—**WHAT THE EARNINGS SAY ABOUT THE ECONOMY:** Even fast-food can seem pricey when times get tough. McDonald's executives noted that they're seeing consumers change their behavior. In the hardest-hit regions of the world, for example, people are simply opting to eat out less.

—**WHAT THE ANALYSTS SAID:** Analysts said that McDonald's ability to grow sales at established restaurants in such a challenging climate reflected positively on the company's ability to execute. Others noted that McDonald's could face increased competition and continuing pressures from a strong dollar. Companies that do a lot

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of business overseas take a hit when the dollar strengthens because international sales translate into fewer dollars back home.

—THE QUOTE: Chief Financial Officer Peter Bensen said the problem is not just that the economy is weak, but that has remained weak for so long. "People are staying at home," he said in a conference call with investors. "And the magnitude of the issues in Europe is having ripple effects around the world."

United Parcel Service Inc.

— WHY IT'S IMPORTANT: UPS moves millions of packages between consumers and businesses every day — everything from flowers to car parts and computer chips.

— WHAT THE NUMBERS SAID: Second-quarter net income rose just 2 percent to \$1.12 billion, while revenue improved by little more than 1 percent. International revenue fell, while Internet shoppers kept UPS trucks busy in the U.S. UPS sees the global economy getting worse before it gets better. That's why it cut its full-year earnings forecast to \$4.50 to \$4.70 per share from \$4.75 to \$5 per share previously.

— WHAT THE EARNINGS SAID ABOUT THE ECONOMY: The world's largest package delivery company has thrived domestically, but now it's more pessimistic about U.S. growth than many economists. UPS expects the U.S. economy, by far the world's largest, will grow just 1 percent this year. The company cited slower growth at U.S. service companies, lower retail sales and still-high unemployment as signs that the U.S. isn't holding up as well as UPS anticipated just three months ago. And shipments out of Asia, which grew by double-digits two years ago, have shrunk as Europe's economy founders.

— WHAT THE EXPERTS SAID: Several analysts reduced their outlooks for the company, saying the quarterly results were somewhat disappointing. Even so, they think UPS should be able to grow in a weaker global economy as it saves money through reduced service out of Asia.

— THE QUOTE: "Economies around the world are showing signs of weakening and our customers are increasingly nervous," Chairman and CEO Scott Davis said in a conference call with analysts. He added: "I wouldn't say we're pessimistic about the future. We're just a lot more uncertain about how much the economy will grow."

ArcelorMittal

— WHY IT'S IMPORTANT: ArcelorMittal is the world's largest producer of steel, a product used in everything from skyscrapers and bridges to appliances and cars.

— WHAT THE NUMBERS SAID: The company announced Wednesday net income of \$959 million for its second quarter, down nearly 38 percent from the \$1.535 billion a year earlier. However, the company's profit was up sharply from the \$11 million posted in the first quarter of this year.

— WHAT THE EARNINGS SAID ABOUT THE ECONOMY: The company said the global

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economy "remains fragile" and that it expects the second half of 2012 to look pretty much like the first six months. The situation in Europe and its potential impact on other markets remains the biggest concern. The company saw hopeful signs in the U.S. housing market, but says a real recovery in the construction market won't happen quickly. Arcelor says its outlook for Brazil, where it has a large presence, is "bullish," but cautions the economy there is experiencing "growing pains."

— **WHAT THE EXPERTS SAID:** Analyst Jeff Largey of Macquarie Capital said the steel market "remains challenged," but investors may be underestimating the strength in Arcelor's mining operations.

— **THE QUOTE:** "Market conditions have been very challenging, indeed more challenging than we had expected due to a combination of factors, not least the still unresolved crisis in the eurozone," CEO Lakshmi Mittal said in a statement.

Caterpillar Inc.

— **WHY IT'S IMPORTANT:** Caterpillar is the world's largest maker of mining and construction equipment.

— **WHAT THE NUMBERS SAID:** Caterpillar's second-quarter profit soared 67 percent to \$1.7 billion, or \$2.54 per share. That's up from \$1.02 billion net income, or \$1.52 per share, a year ago. North America was a bright spot. Sales in Europe decelerated from month to month.

— **WHAT THE EARNINGS SAID ABOUT THE ECONOMY:** Caterpillar's results suggest the economy may be doing better than most people realize. Sales were up in every region of the world. The biggest improvement came in North America, where construction firms were upgrading their aging equipment. Caterpillar executives predict the global economy is bound to grow in 2013 because interest-rate actions by several countries will take effect and questions about U.S. fiscal policy will be resolved by the election.

— **WHAT THE EXPERTS SAID:** Analysts praised Caterpillar's solid second-quarter results, but they said the company faces some economic headwinds through the rest of 2012 because of slower growth in China, Europe's debt problems and uncertainty about the U.S. economy.

— **THE QUOTE:** Speaking about the economy, Chief Financial Officer Ed Rapp said: "It's better than what you read in the newspapers."

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