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AmEx Posts Weak Results And Shelves Its Targets

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Even the wealthy are starting to pinch their pennies.


Kenneth Chenault

American Express Co. said Monday that its most affluent cardholders spent less on discretionary purchases in the second quarter, contributing to unexpectedly weak earnings that illustrate how the credit crisis is spreading to a swath of consumers.

The poor results prompted AmEx, which has built a reputation of catering to high-end consumers, to shelve its growth forecast and warn that delinquencies and charge-offs are expected to accelerate for the rest of 2008.

The news came after the close of regular trading, and AmEx shares fell more than 11% after hours.

The situation prompted Kenneth Chenault, the company's chairman and chief executive, to participate in a conference call with Wall Street analysts. Mr. Chenault typically steers clear of such calls, leaving that chore to AmEx's finance chief.

"They may not be in the same situation as other [customer] segments, but the reality is that we're seeing very affluent people who historically have had strong spending histories...change some of their spending behavior," Mr. Chenault said.

The results represented the second consecutive quarter of disappointing earnings from AmEx, long a darling of the financial-services industry. Even though AmEx previously acknowledged that the environment was poor, ***the company said Monday that the deterioration exceeded its expectations. The month of June was particularly bad, the company said.***

AmEx reported second-quarter income of $653 million, or 56 cents a share, down 38% from $1.06 billion, or 88 cents a share, a year earlier. The results fell far short of Wall Street expectations that the company would earn about 83 cents a share, according to Thomson Reuters.

The card company, which both issues plastic and processes electronic-payment transactions on its proprietary network, has been hurt by a slowdown in cardholder spending and rising losses and delinquencies in its fast-growing lending portfolio, which allows cardholders to carry a balance. To stem the losses, AmEx has been slashing credit lines and tightening its underwriting standards to a range of customers.

"What we are certainly trying to do on a geographic basis is be very targeted [with credit lines]. What you don't want to do in this situation is to apply a blunt instrument across the board," Mr. Chenault said.

AmEx added $600 million to its reserves for bad loans, representing the biggest hit the company has taken since the credit crisis began a year ago. It also took a $136 million charge, reflecting the deteriorating value of its lending portfolio.