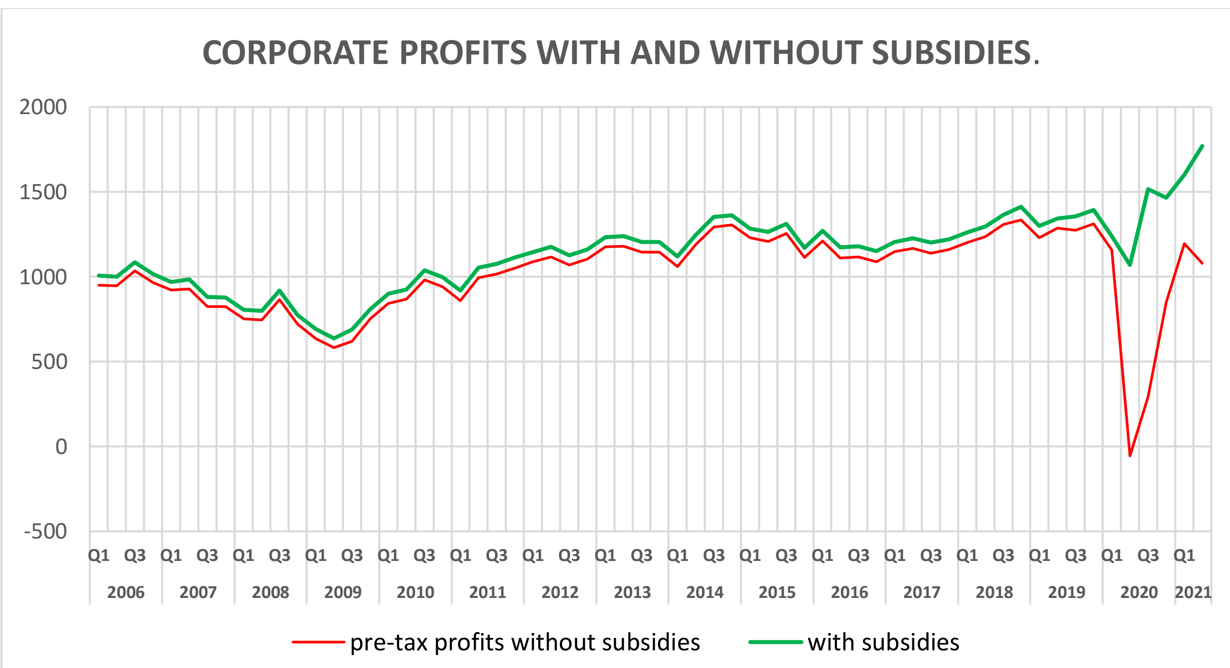
THIS IS THE LAST QUARTER US PROFITS WILL BE INFLATED BY COVID SUBSIDIES.

The BEA released its estimates for US corporate profits produced in the second quarter. (Spreadsheet for Table 1.14 attached.) This is the last time that profits will have been inflated by substantial subsidies as further fiscal support by Congress is unlikely. In quarter three, profits will have normalised, and for the first time the damage caused by the pandemic will become visible.

The final $1.9 trillion Biden Relief Fund called the American Rescue Plan was a boon for profits in Q2. It overlapped the first and second quarter, but the bulk, or nearly two thirds of the $250 billion given to non-financial corporations, was taken in the second quarter. In conformity with previous articles graphs will be presented with both adjusted and unadjusted profit, by adjusted, we mean the removal of subsidies and by unadjusted we mean produced profits plus subsidies. In the article below, a rate of profit of 4.6% was posited for 2019. No rate of profit will be estimated here. That will have to wait for the estimates in quarter three, but the rate of profit is likely to have fallen to close to 4%. If we include inflation which is likely to be running above that, then this will suggest a negative rate of profit. https://theplanningmotivedotcom.files.wordpress.com/2021/03/us-rate-of-profit-2020.pdf

Graph 1.

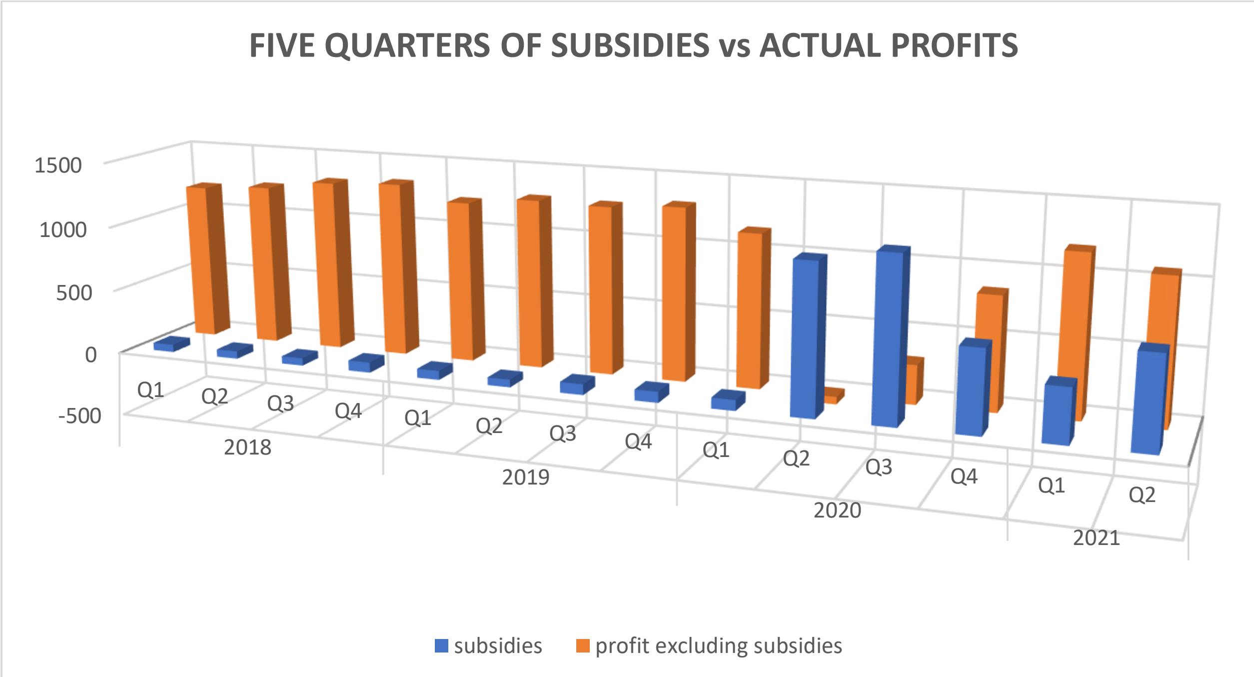


(Sources: NIPA Tables 1.14 and 1.12 see attached spreadsheet.)

We note that with subsidies, total corporate profits have hit a peak in nominal terms. Without subsidies this is not the case. At the most extreme point which occurred in the second quarter of 2020, corporate profits were wiped out falling to a negative $56 billion. This represented a contraction of $1.36 trillion, but with subsidies that fall was only $0.33 trillion yielding a profit of $1.07 trillion. Today the gap is $690 billion which when closed in quarter 3, could jolt share markets. Speculators need to “mind the gap”.

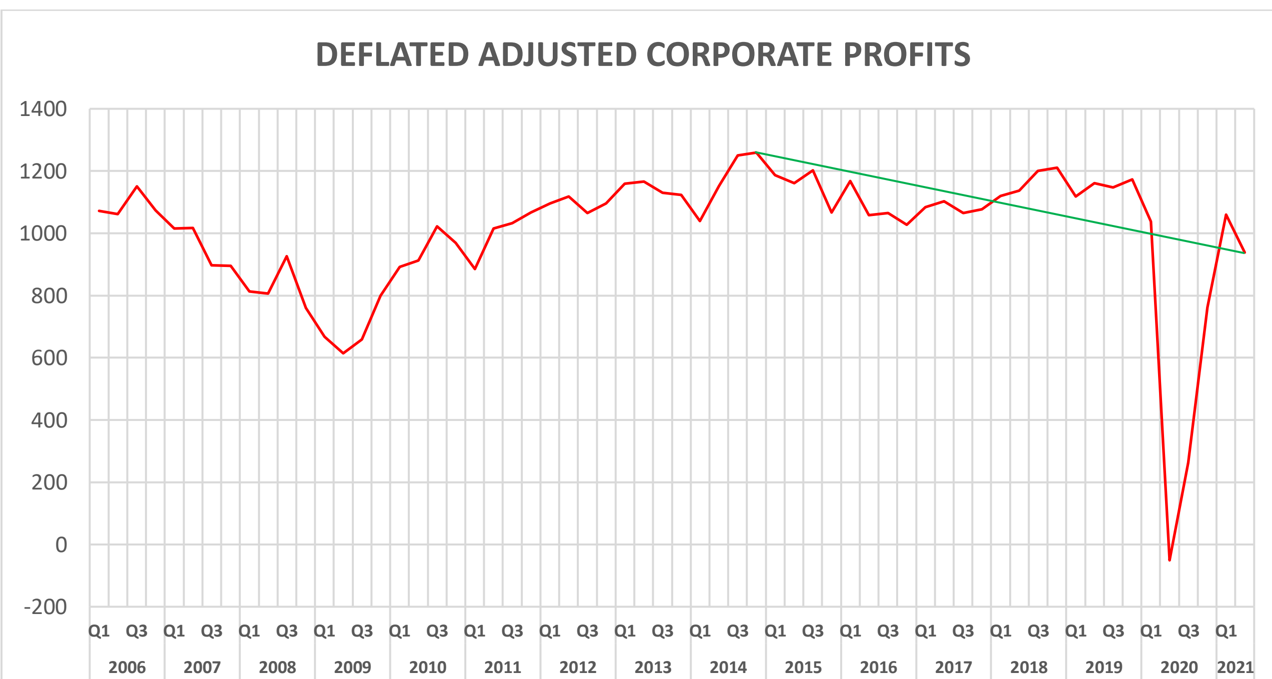
Graph 2 below is a graphic example of the scale and impact of the subsidies which began in the second quarter of 2020.

Graph 2.



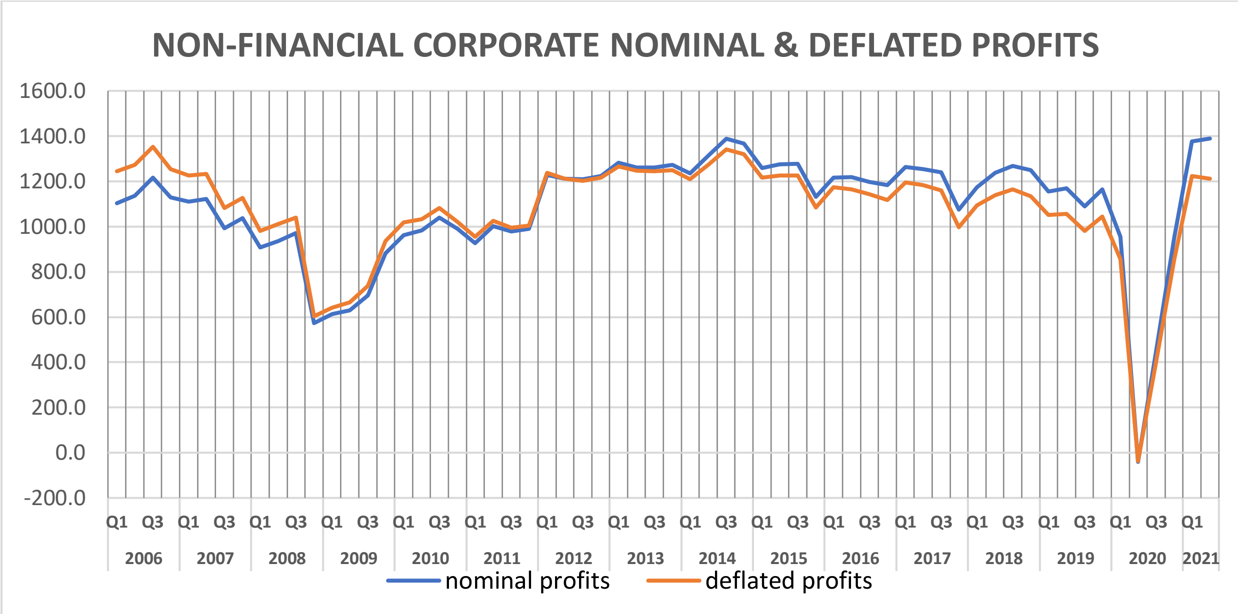
The graph below deflates total corporate profits with the deflator found at the bottom of Table 1.14. It shows that total corporate profits in the 2nd quarter, despite all the financial gains from a booming stock and bond market, stands 25% below their 2014 peak.

Graph 2.



To eliminate most of the financial gains the next series of graphs looks at non-financial corporations only.

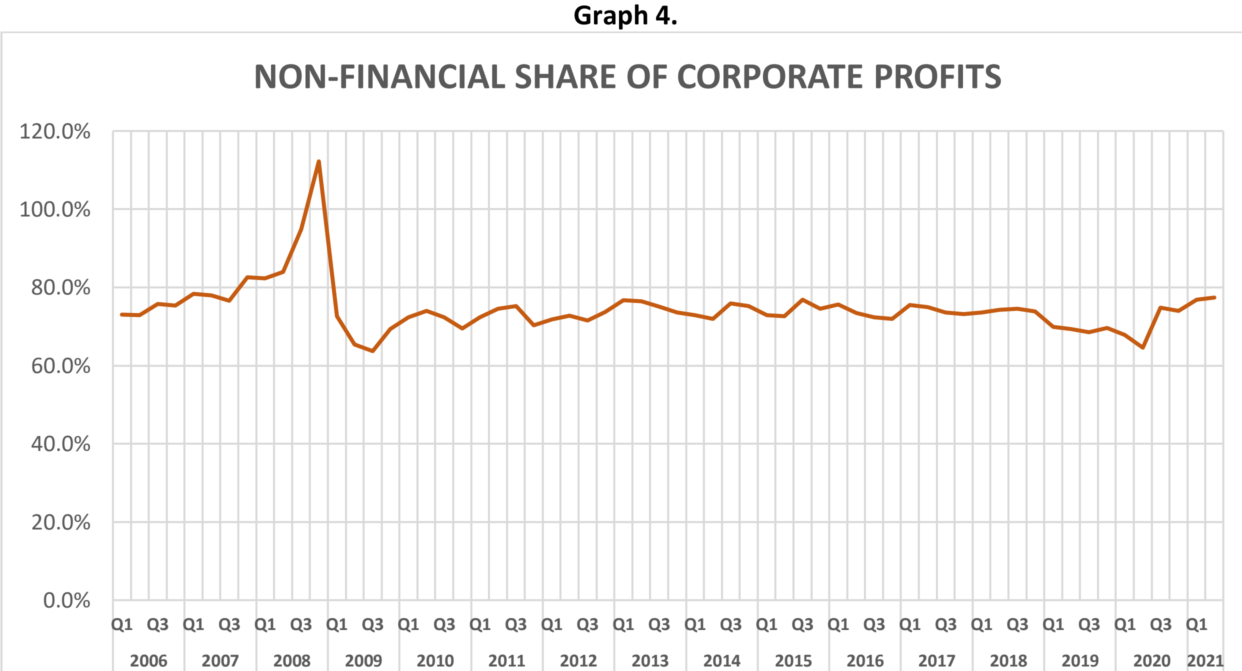
Graph 3.



In the case of non-financial corporations the adjusted and deflated fall in profits compared to 2014 is only around 10%. The uplift in non-financial corporations has been due to the pandemic surge in demand for goods. Goods production which dominates non-financial corporates has expanded and the higher prices obtained for these goods has boosted profit margins. Once again, these elevated margins are vulnerable as consumer demand ebbs now that the Relief Funds have been more or less spent. It is worth pointing out that deflated profits actually fell quarter on quarter despite more of the economy opening up.

The improvement in profits generated by changed consumer expenditures during the first six months can be seen in the graph below which measures the share of non-financial profits.

Graph 4.

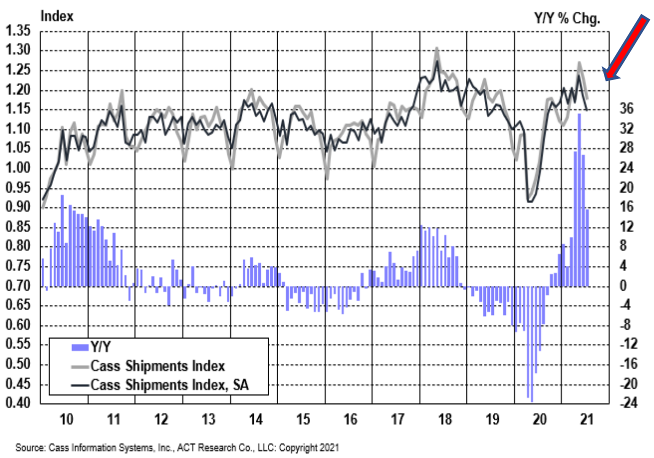


It all ends in the third quarter.

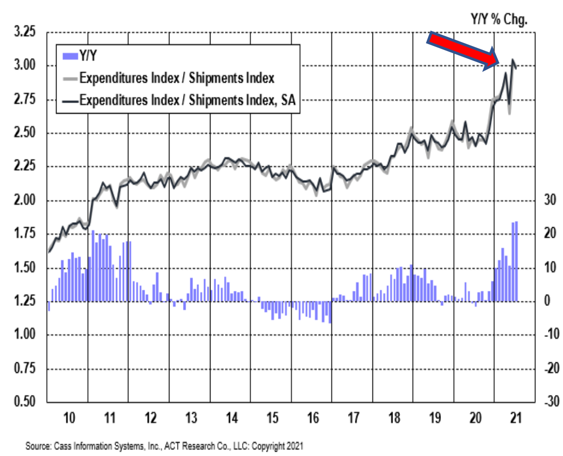
The third quarter, as predicted is becoming precarious not only for US corporations but all global corporations. They are being squeezed. On the demand side sales and price increases are falling, reducing their revenue. On the supply side input costs continue to be elevated due to a number of factors. Firstly there is the dislocation of supply chains because of Covid, secondly some producers are rebasing their supply chains, and finally, but no less importantly, corporations are increasing their stock holdings as they move away from just in time.

In the second quarter revenue increases mitigated the issue of supply chain bottle necks and price rises. But in the third quarter input prices will come to dominate and that will put the squeeze on margins. The issue can be seen below in Graph 5 & 6. In Graph 5 we see a deceleration in the volume of shipments of goods with volumes falling back to 2019 levels. The year on year increases really reflects the collapse of volumes in 2020. However, when we view Graph 6 which compares volumes to revenues earned in transport, a different picture emerges. Total revenues per mile are 20% higher than in 2019, and most of these costs will have to be borne by corporations now confronted by falling demand.

Graph 5.



Graph 6.



https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/july-2021

The main argument currently is that sales are falling because of supply side issues. There are not enough goods to sell because of the bottlenecks. It seems to be all about the shortage of semi-conductors particularly in the automotive industries. This argument is getting increasingly difficult to sustain. More like yesterday's argument put out by price gougers. Global production of chips have rebounded, yet all the markets for chips seem to be declining. In the second quarter of 2021, 313 million smartphones were sold globally compared to 373 million in the peak quarter of 2018, and even accounting for the difference in processing power, it seems unlikely that this can compensate for a near 20% contraction in the number of phones sold. (IDC data) At around 70 million per quarter in the first half of 2021, global computer sales were no higher than that found in 2019. (Statista). Global motor vehicle sales which make up 9% of semi-conductor usage has fallen dramatically this year including the 2nd quarter as Table 1 below shows and it is unlikely that the growth in electric vehicles which use more chips, makes up this shortfall. It is difficult to find buoyant industries with exception of games consoles accounting for this demand, even when their buoyancy has been impacted by shortages of inputs.

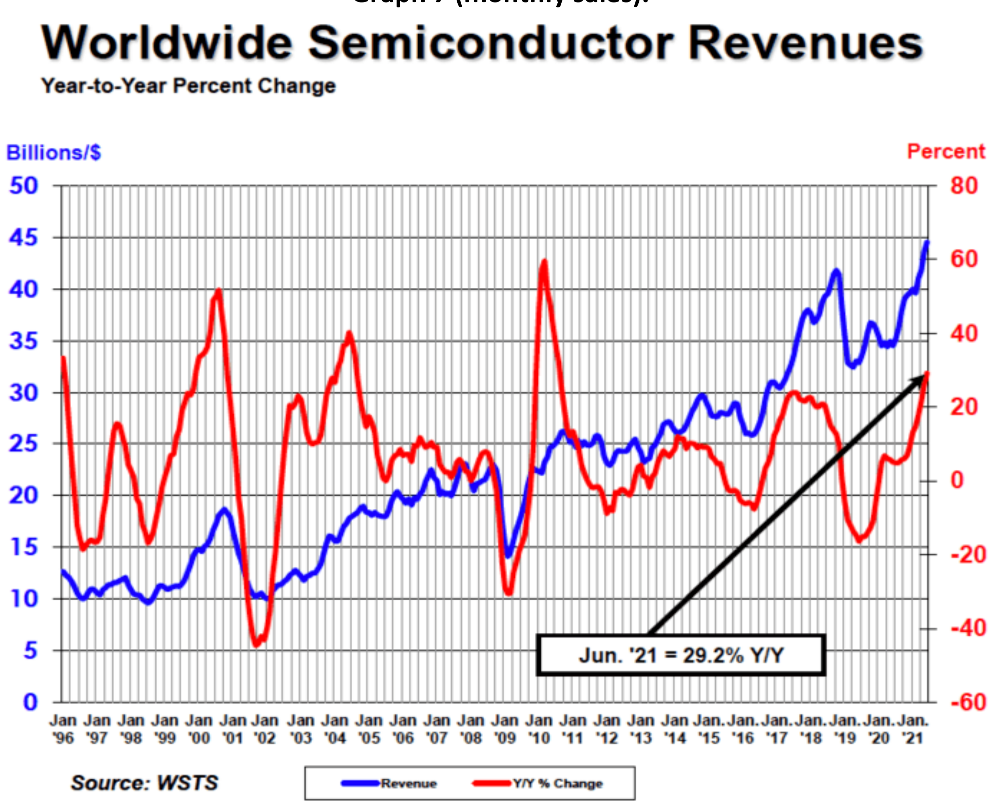
Table 1. Worldwide Car Sales in 2021 (Half Year)

Region	Q2/2021	% 20/21 (Q2)	1-6/2021	1-6/2020	% 20/21	1-6/2019	% 19/21
Europe**	3,405,700	66.3	6,486,400	5,101,700	27.1	8,426,200	-23.0
Russia	483,400	103.6	870,000	636,000	36.9	828,800	5.0
USA*	4,392,800	49.6	8,294,100	6,429,000	29.3	8,412,900	-1.4
Japan	846,500	24.9	2,043,400	1,826,000	11.9	2,285,700	-10.6
Brazil*	509,400	120.5	1,007,900	765,200	31.7	1,251,800	-19.5
India	646,300	320.4	1,495,100	NA	92.6	1,556,800	-4.0
China	4,809,000	-1.2	9,830,000	7,717,000	27.3	9,932,900	-1.0

https://www.best-selling-cars.com/international/2021-half-year-international-global-worldwide-car-sales/

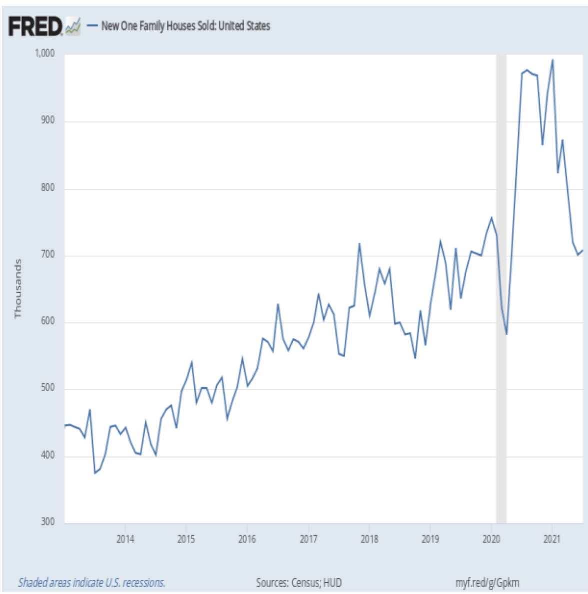
And this seems to be borne out by the graph below. Adjusted for inflation, global revenues for chips are higher than in 2018, and yet a shortage of chips abounds. Unless there is an epic hoarding of chips, particularly in China because of US embargoes, it is difficult to find the cause. Of course the highly concentrated nature of this industry with a mere two dominant global fabricators, TMSC and Samsung (soon to be joined by SMIC in China), allows for price gouging and this seems to be the case as TSMC jacks up its prices, particularly for high end chips. But this industry, despite its concentrated nature remains vulnerable to cyclical changes, and should demand continue to contract we could see a sharp fall in prices.

Graph 7 (monthly sales).

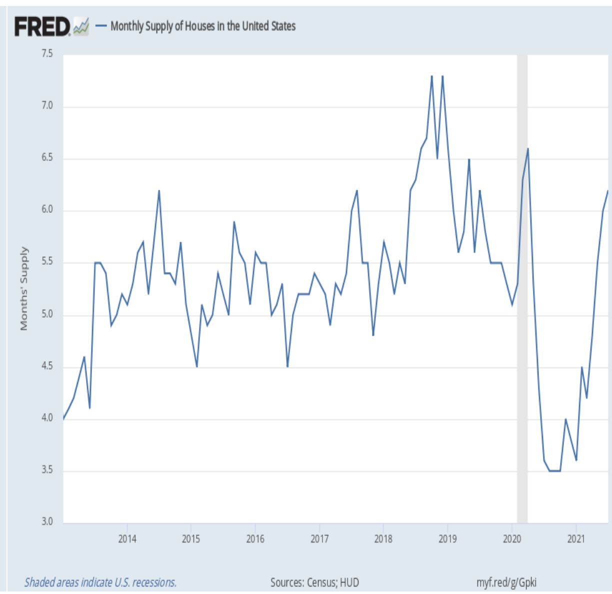


I am reminded about the argument that took place within the US housing industry. When sales began to fall earlier this year, this fall was blamed on lack of housing stock together with bottlenecks around building materials such as timber. Well that argument has been harder and harder to sustain as sales continued to fall back to trend over the last six months. Below are two graphs, each with a tale to tell. The fall in single family units is found on the left and the increase in the stock of unsold housing is seen on the right. The reader should note that multi-family units, e.g. apartment blocks have fallen even faster than single units. In other words housing market sales have normalised, but the median and average prices of homes remains elevated. Here we have a situation analogous, but further ahead of the semi-conductor industry. It seems it will take above average inventories to force down prices, because of the lift given by the pandemic, but when it comes it will be savage.

Graph 8.



Graph 9.



For the third quarter at least input prices will continue to compress margins, but beyond the third quarter, unless the pandemic harbours some surprises, the balance of power will shift in the market away from the producers of scarce industrial and technical inputs to the users. Taking all this into account, we will have passed peak inflation by August. Already the data coming out for July supports this proposition as wholesale and retail industries has risen for two months in a row, the first time this has happened since March last year, while the composition of foreign trade has gone back to its pre-pandemic patterns.

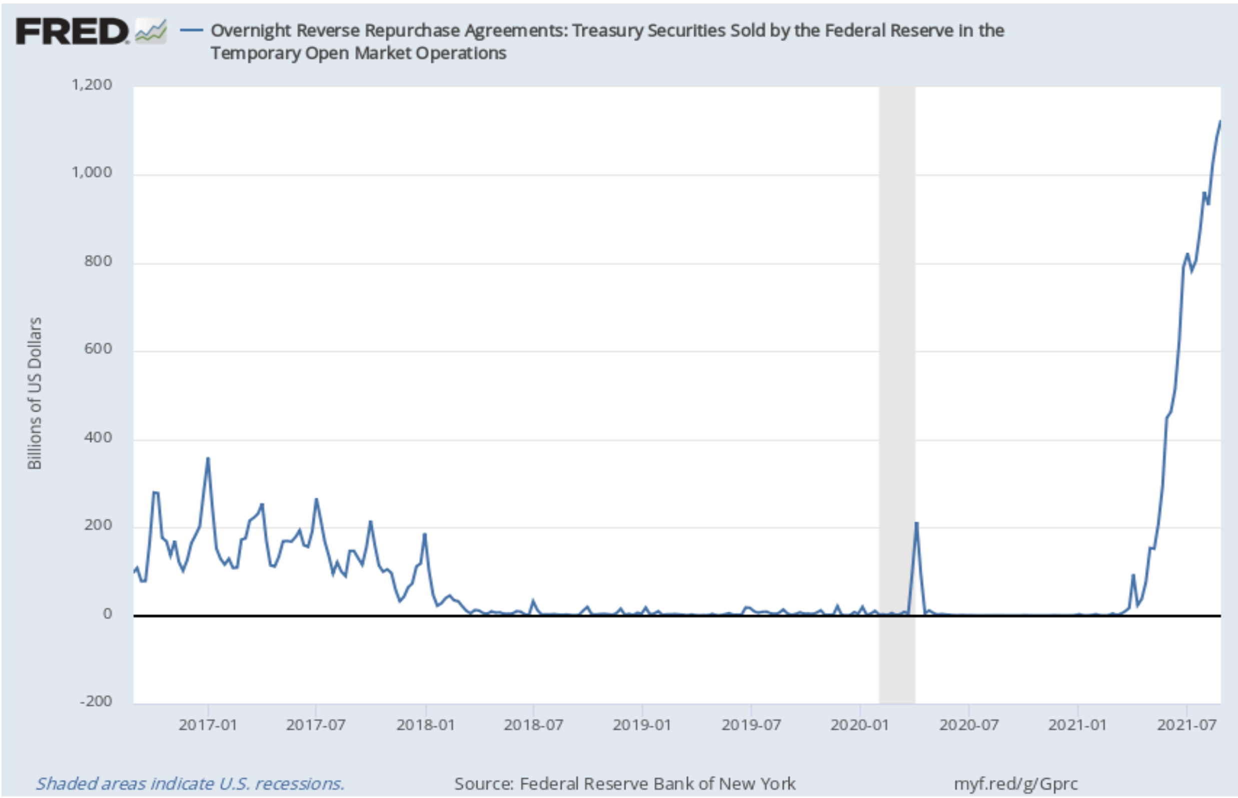
Turning back to profits. It is likely that unadjusted corporate profits in Q3 will fall year on year for the first time since the emergence of subsidies in the second quarter of 2020. As mentioned this would be a shock to the share markets. The severity of this shock will depend on additional factors such as below expected GDP growth and consumer expenditures, and a cloudier outlook. Whatever the case, the third quarter will be a testing time for the economy and financial markets.

Jackson Hole; behind the curve.

There was always going to be a time when QE and other financial measures would saturate the markets. That time has come. The graph below, based on Reverse Repos tells the whole story. No, that is not the trajectory of Bezos going into space, but the epic liquidity mopping up operation conducted by the New

York FED. Each night, before the banks switch off their lights over $1 trillion dollars is parked safely away in the FED Garage for a pittance. Well beggars, even ones with bulging pockets, cannot be choosers.

Graph 10.



This year Jackson Hole has become a tragicomedy. The FED is actively discussing tapering. So what? There is only so much water a sponge can hold. Turning off the tap after the sponge itself is dripping, makes no difference. It's like marooned sailors stranded at sea. Water, water everywhere but none to drink, or should translate, money, money everywhere but none to invest.

The FED has no choice but to taper. They are doing it amidst a perfect storm. The real economy is slowing down rapidly, the re-organising of supply chains is significantly raising cost prices, workers on furlough reflecting on just how shit their jobs were are holding out for more, and alas, all the financial supports have grown mouldy. What to do, when you have run out of runway, and the engine is beginning to sputter.

Fiscal measures are an option, but then government debt is already critically elevated by events post 2008 and the pandemic, while global warming has come knocking on the door. It is as though the walls are closing in reducing the room to manoeuvre. It is going to be a difficult meeting with platitudes and self-congratulation forming the concluding reports rather than additional measures. Will they dare to declare, "mission accomplished".

Afghanistan and China.

Degrading if not imploding empires always disgrace and embarrass themselves. It used to be said that Britain could not afford its Empire, the same can be said for the USA. It cannot afford to be the world's la gendarmerie. Its wealth producing economy has contracted while its global commitments have grown.

Nowhere more than in Afghanistan. Brown's University estimates that the US Afghan adventure has cost it $1.5 trillion in direct military costs over 20 years. https://news.antiwar.com/2021/08/25/new-report-finds-us-has-spent-over-2-3-trillion-on-afghanistan-war/

Over twenty years this amounts to $75 billion p.a.. This compares to Afghanistan's GDP, net of the narco-trade, of around $20 billion p.a.. If that money was helicoptered over Afghanistan, its GDP would have risen to $100 billion or $2500 per capita from $500. Measured in PPP this would have elevated Afghanistan from being the 174th poorest country in the world to the 116th poorest country. (World Bank data) Ah the madness of capitalism.

Despite having spent this treasure, the US decided to slink away in the middle of the night from Bagram Airbase leaving tons of military goodies behind while failing to inform the Afghan army or government. Of course the left behind items, including thousands of Humvees, pales into insignificance compared to the financial losses over the 20 years. The bigger impact was on the Afghan government and armed forces. This set off a chain of cascading events. The US was not only defeated by its endless war in Afghanistan, but it was also humiliated by it. It took the Taliban less time to reclaim the country than it took the US military to oust them twenty years ago.

The State Department must be beating itself up. Why oh why they must be wailing, did we not continue to fund the military madrassas in Pakistan as Bin Laden was promised by the CIA following the defeat of the USSR, thereby preventing the armed but now starving scholars from having to invade Afghanistan to survive, forming the Taliban in the process. Why oh why did we keep betraying Bin Laden turning him against us. All these rods we created to beat ourselves with. Had we not done these things perhaps we would have saved enough money to provide our own American people with clean and safe drinking water. Imperialist arrogance and greed make such a heady cocktail, costing the drinker the bar.

Clearly the comprador Afghan political leadership saw the US as simply providing bodyguards and a constant stream of lucre. It seems the ex-prime minister Ashraf Ghani, plundered nearly 5% of the $1.5 trillion plus, when he absconded with four vehicles and one helicopter loaded with dollars. The precipitous collapse of the government showed it had no legitimacy in the eyes of the population, that it was a product of occupation, allowing a mere 75,000 dedicated fighters to take back the country.

The only benefit was that Afghanistan was spared another bloody civil war, this in a country which has suffered 45 years of relentless and tragic bloodshed costing millions of lives. The United States has been the international home of reaction since the second world war. It has deposed, slaughtered, invaded, besieged and droned all those who opposed its global rule or reach. The US did not invade Afghanistan to free its people, but to free the US from any potential threat originating in that region. That is why Kabul fell so swiftly, and we should welcome this humiliating defeat of US imperialism without necessarily welcoming the Taliban.

Turning to the Afghan refugees. Refugee groups and supporters around the world are uncritically supporting all fleeing Afghan refugees. But there are three distinct groups, professionals who are economic migrants, political refugees who fought for human rights together with women's rights, and the majority, the collaborators and thugs who carried out the orders of the occupiers and their political agents. This last group is being repatriated, not because imperialism owes them a debt, but because if they did not, it will be much more difficult to cultivate collaborators when next they invade and occupy a country. We should not welcome the collaborators. Welcoming them just makes it easier for the imperialists to get away with what they do best. For example the group of around 600 Afghan soldiers helping guard the airport and promised safe passage out of Afghanistan as a reward, belong to the "National Directorate of Security", notorious for their suppression of any dissent or opposition to the previous Afghan government.

The hasty even clumsy retreat from Afghanistan may appear inexplicable until we factor in China. The degraded US forces reduced by innumerable regional wars need to be concentrated around China. The US can no longer afford to be distracted by anything other than China. With each day the USA is adding to its military forces in the region. It is running out of time as China ramps up military production in a way the US finds "eye-watering." Therefore, before we celebrate the US retreat from Afghanistan, we should understand the real reason behind the slinking and haste.

The insanity of capitalism can be summed up in one sentence. As hurricane Ida, now a category 4 storm, barrels into New Orleans and Louisiana, the USA focuses on China while its country is being torn apart by climate change.

Conclusion.

This year will be a year of two halves. The first half, dominated by the pandemic and its relief funds, the second half dominated by the fallout from the pandemic. The difference will be stark putting everything at risk. Clearly this outlook is not shared by the stock markets which continue to set weekly records. But evidence of a sharp slowdown is accumulating with every report.

Brian Green, 29th August 2021.