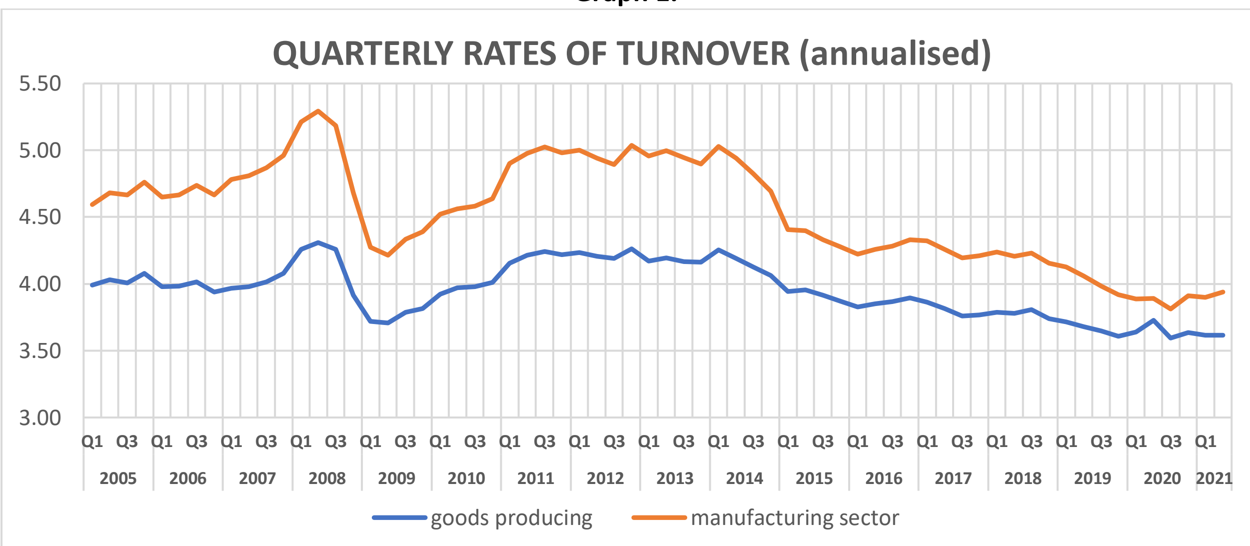
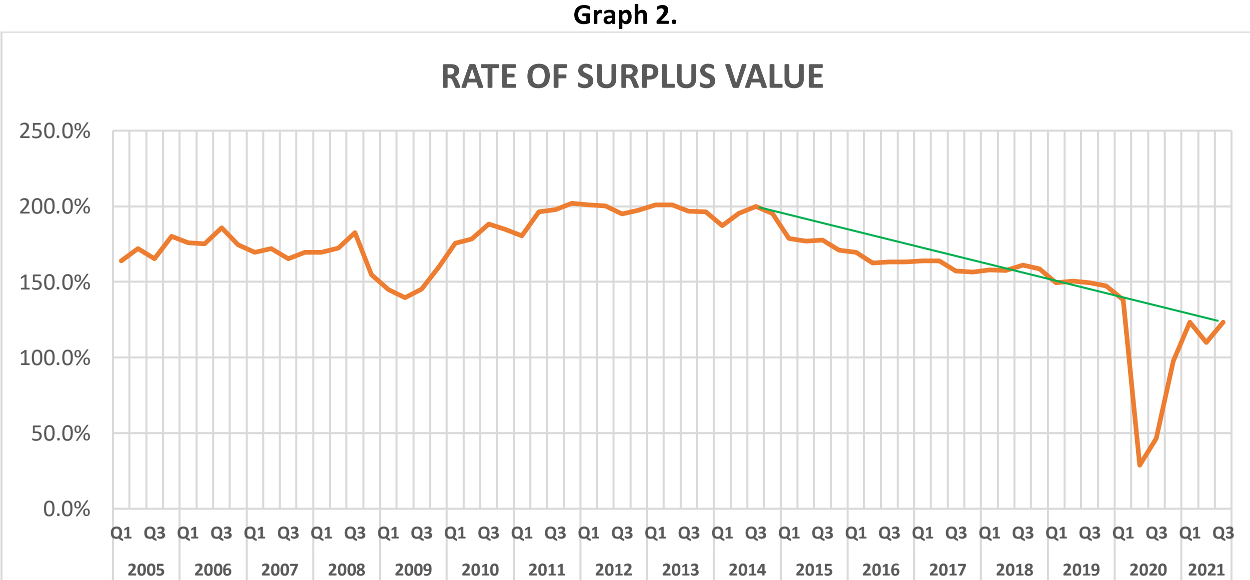
US NON-FINANCIAL CORPORATE PROFIT IN QUARTER 3 (ended September 2021)
Quarter on Quarter growth ends.

All the advance indications were for a fall in quarterly profits. Productivity had collapsed in the third quarter, GDP quarterly growth was a mere 0.5%, the rise in consumer prices fell further behind producer prices, the rate of surplus value remained below its 2019 levels, turnover had plateaued, subsidies were waning but slower than expected, and goods' sales were down 2.2%. The last point is important because the switch by consumer to goods meant an increase in profits because goods production produces more profit per $ of sales than does the service sector. From all these symptoms, one could have deduced that profits were due a quarterly fall in Q3, instead of as it turned out, they appeared to be in reasonable health (Graph 4). If only the health of the nation was as robust as profits, the virus would have gone unnoticed.

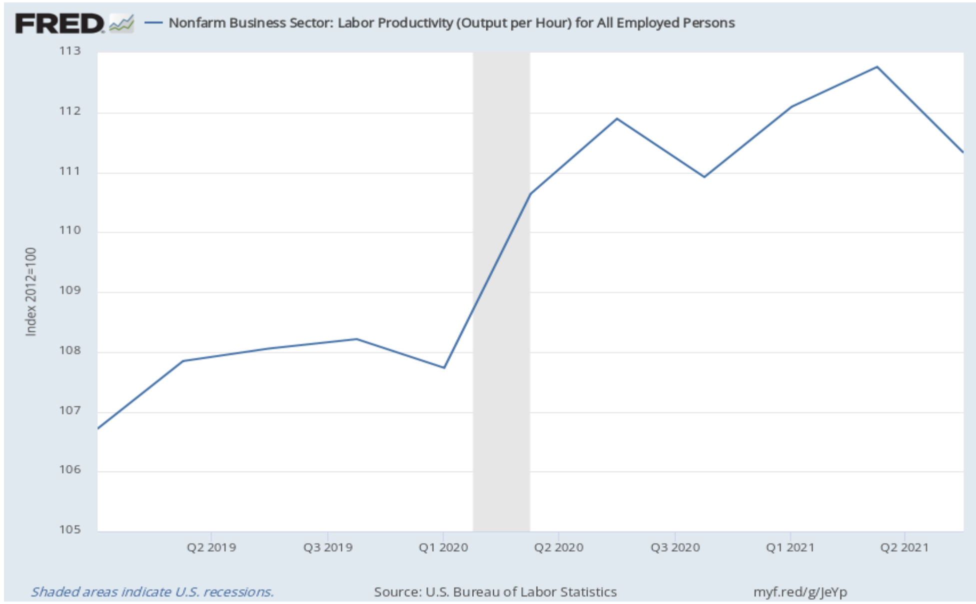
Graph 1.



Graph 2.

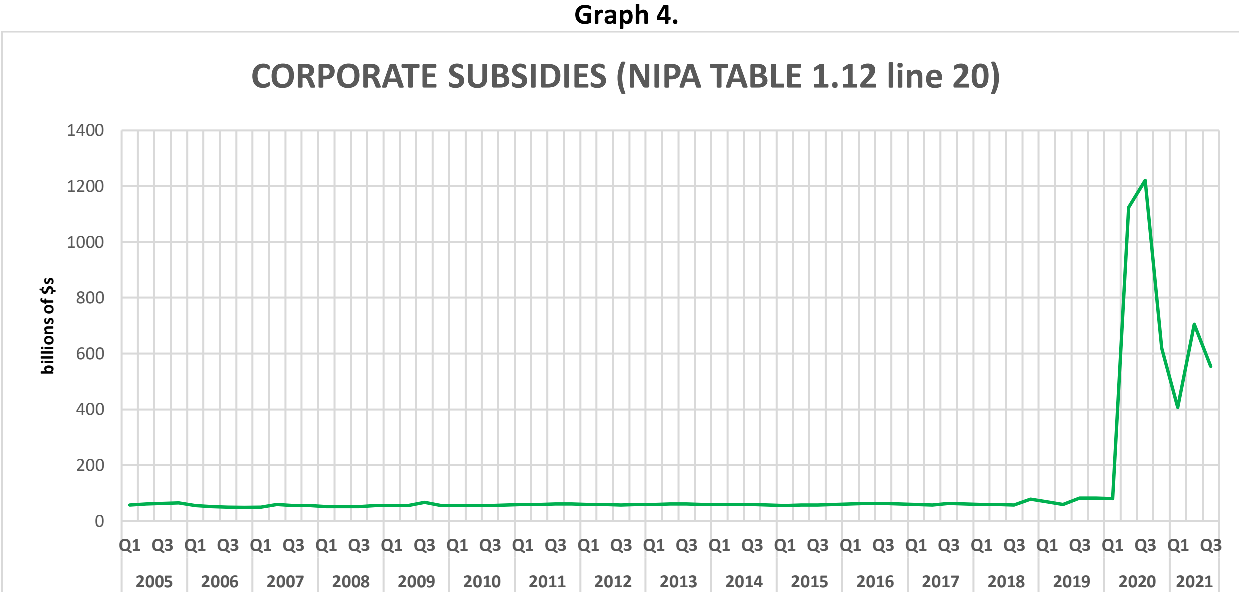


Graph 3.



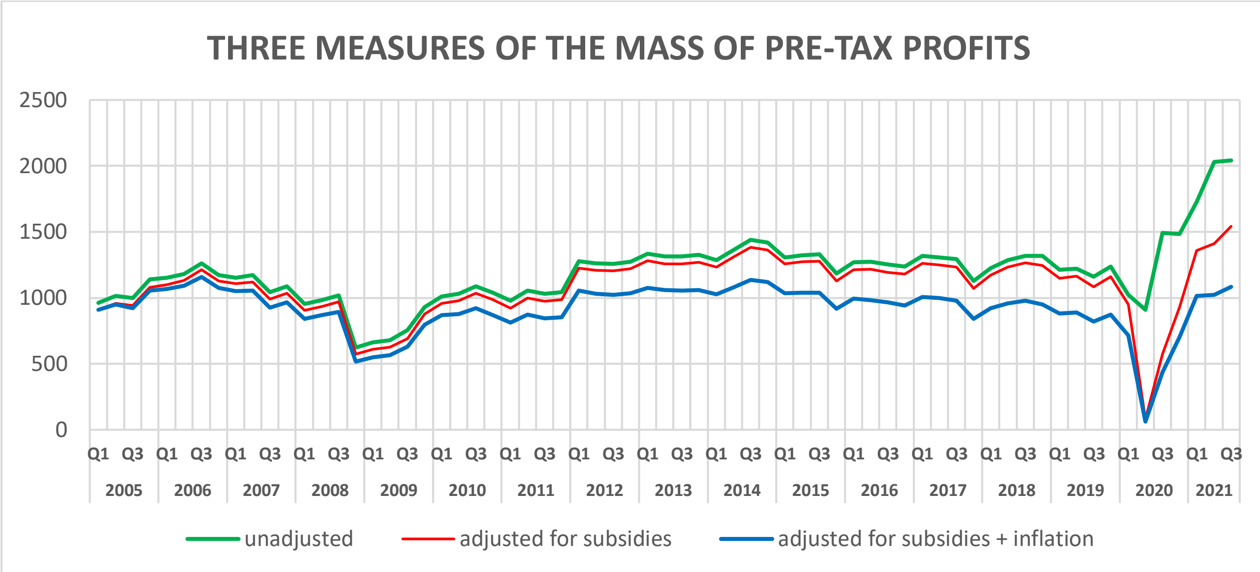
Turnover runs only to Q2 but is extrapolated to produce Graph 2, because the rate of turnover between quarters does not fluctuate significantly. All data, sources and calculations can be found in the accompanying spreadsheet 'US Q3 PROFITS TABLE 1.14'. The rate of surplus value is significant because the current rate sits on the downward trend since 2014. The rate of exploitation is net value added (in Table 14 non-financial), minus remuneration then divided by remuneration, and the rate of surplus value is the rate of exploitation multiplied by annual turnover. However the improvement in the rate of surplus value this quarter is at odds with the data from the BLS which shows a 5.1% quarterly fall (annualised) in productivity and an 8.3% rise in labour costs. (Graph 3) https://www.bls.gov/news.release/pdf/prod2.pdf

Graph 4.



(I cannot account for the continuation of COVID subsidies in Q3. According to this file of source data they should have ended. https://www.bea.gov/sites/default/files/2021-11/effects-of-selected-federal-pandemic-response-programs-on-federal-government-receipts-expenditures-and-saving-2021q3-2nd.pdf)

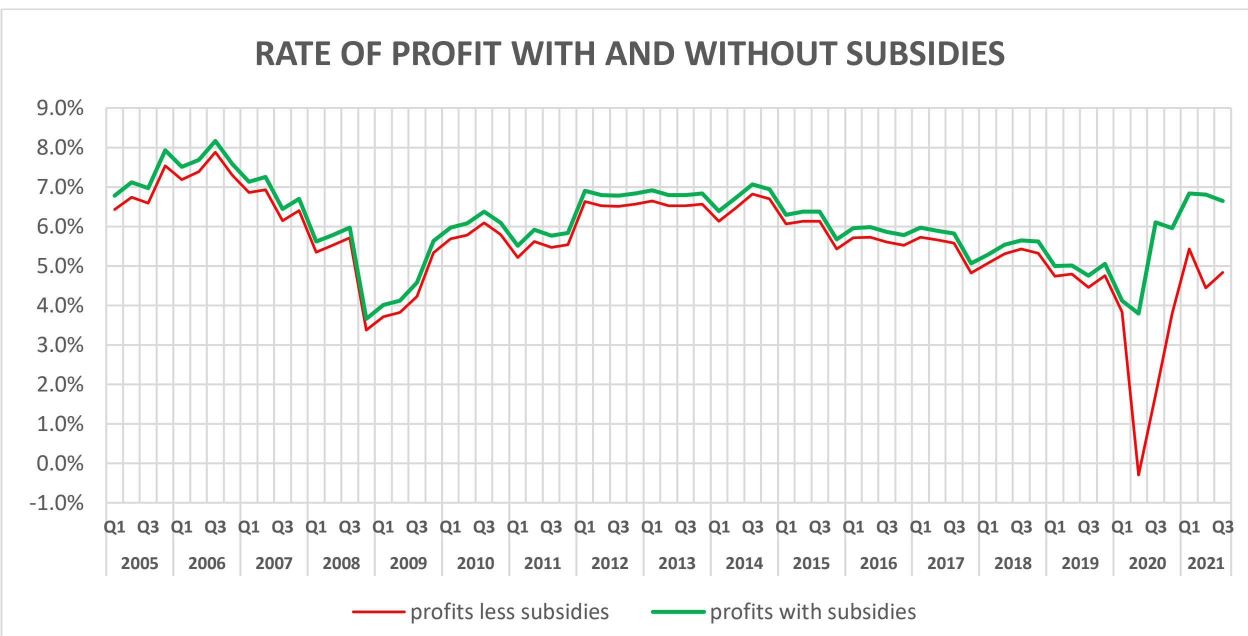
Graph 5.



I have presented the movement of profits in three formats. The unadjusted which is the headline one lapped up by Wall Street, the second has subsidies removed and the last has been adjusted for inflation (using the Chained data found at the end of Table 1.14) as well. Non-financial profits are pre-tax and do not include adjustments for IVA and CCAdj (line 37). This aligns profits better with the net surplus.

In real terms current after tax profits adjusted for inflation are 5.0% below their recent 2014 peak but 24% higher than in 2019.

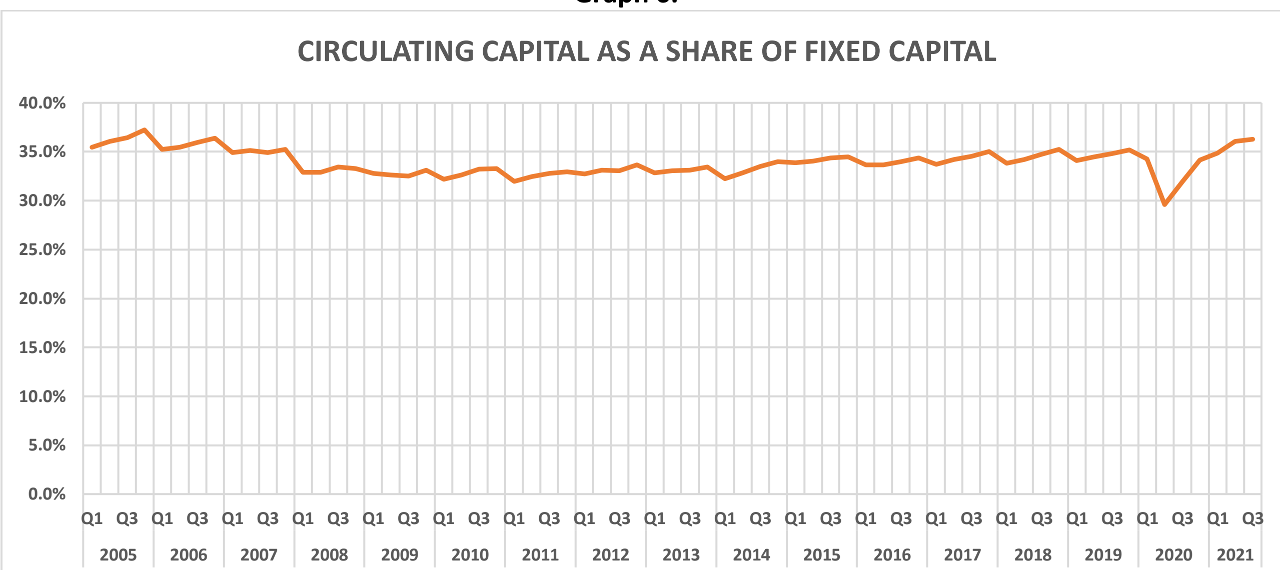
Graph 5.



The all-important rate of profit is found above in Graph 5. Because Current Cost fixed assets are not available yet for 2021, I have used ‘Consumption of Fixed Capital’ as found on Line 18 in Table 1.14 to estimate quarterly fixed assets. Having done this a number of times previously it has been found to yield reliable results. In this case, given a more rapid increase in investment, it may have led to a marginal overstatement in the rate of profit for the three quarters of 2021. In 2014 the rate of profit stood at 7.1%. By 2019 it had fallen by 3.4% or nearly by half. This year the rate of profit has added 1% bringing its fall to 2.4% still down a third on 2014.

The reader will note that the rate of profit found here, the pre-tax 'enterprise rate of profit' is lower than found elsewhere. The reason is that it includes variable capital as well as fixed capital in the denominator. The graph below shows the relative weights of the fixed and fluid forms of capital. Also the enterprise rate of profit is chosen above that of the net surplus rate of profit because it is the rate which determines investment decisions. Finally, current cost prices for fixed investment are chosen, not only because it is the more suitable metric but because it aligns with circulating capital which is always and unavoidably valued at current prices. The third quarter profit thus values fixed capital, circulating capital and profits in current prices. We note that circulating capital is about one third the size of fixed, thus it has a significant bearing on the rate of profit. It is not to be ignored.

Graph 6.

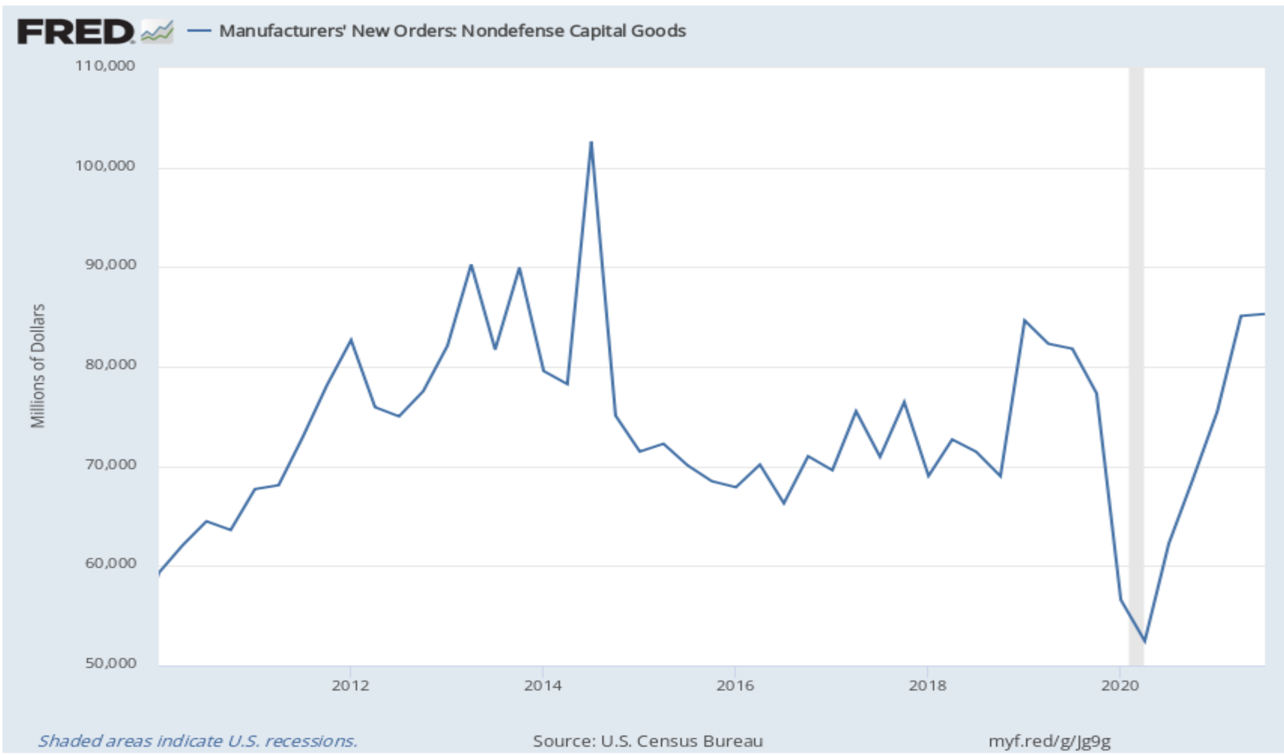


Before proceeding on to the discussions section, it must be noted that the rate of turnover is only as good as the data on which it is based. I use the Goods Produced Sector as the representative rate of turnover for the corporate sector for a number of reasons. Goods Producing provides the bulk of the revenue and profits found on the S&P 500, it has the fewest duplications which distort the rate, and finally it is the provider of value not the recipient. The last point is important. I do not add in the information sector for example, though I would like to, because there it is impossible to determine turnover. This sector is a recipient of value added rather than a producer. Take Google and Facebook. Over 90% of their collective revenues derives from other sectors, primarily the manufacturing sector in the form of advertising revenue. Additionally, because they are largely free-to-click or free-to-view, the labour of their workers is not converted into value through being sold and converted into money. Again this nullifies the formula. I hope this clarifies matters. (Incidentally, because tech giants like Google do not sell the labour of their workers, it reduces GDP and by implication it reduces productivity, because this lost revenue is lost to productivity.)

Discussion.

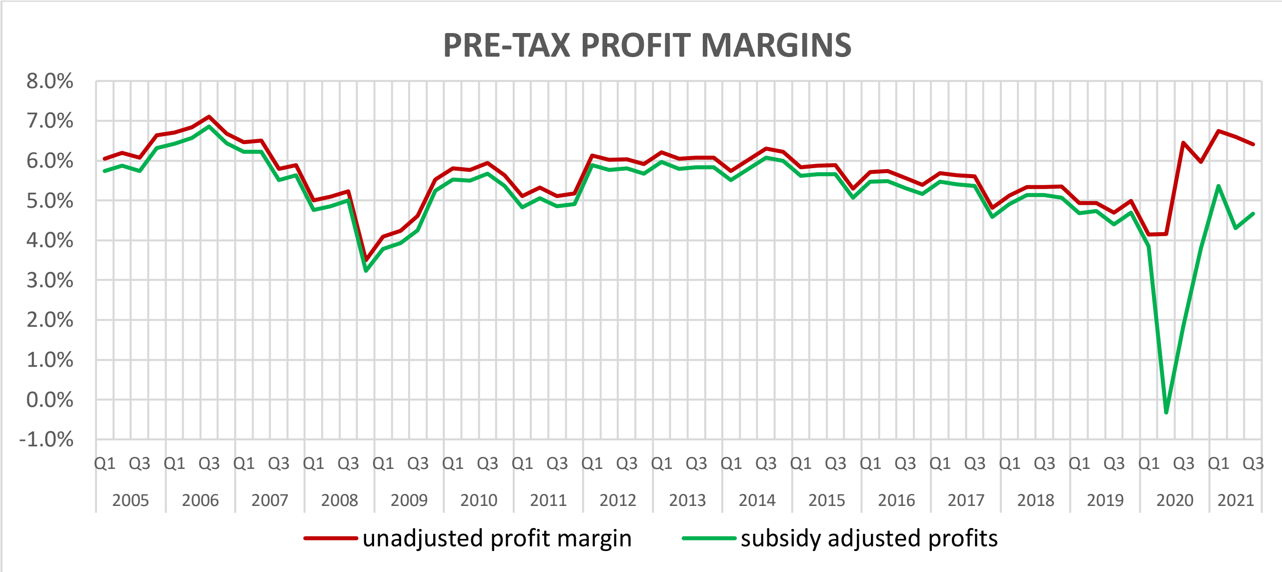
Over the period of the pandemic, that is from Q2 2020 to Q3 2021, the average annualised profit per quarter was $614 billion versus $863 for 2019 (These are the real adjusted values). This represents a reduction of 30%. During the same 6 pandemic quarters the amount of subsidy was $631 billion. Together the subsidies earned, and profits produced, amounted to $1,245 billion a 44% increase compared to the profits produced in 2019. This together with the spike in demand caused by COVID support to consumers are the reason production and to a degree investment has turned around. Investment is equal to the peak quarter of 2019 but well down on the period around 2014 when the rate of profit was a third higher.

Graph 7.



In addition, the question which arises is this, has the sheer volume of these subsidies returned many Zombie companies to better health by recapitalising them. It is too early to conclude one way or the other. Michael Roberts has detailed data on recent surveys investigating the liquidity of corporations on his website. We should also note that the improvement in margins has in turn improved the finances of corporations though margins are now declining weighed down by price inflation in the supply chains. Graph 8 below shows that pre-tax margins at 6.5% have reached levels last seen prior to the 2008 Financial Crash when they peaked at 7%.

Graph 8.



The driver of the economy now that personal saving rates have normalised continues to be the Stock Market. For a deeper insight read the *Bankers Bottle It* on my site. It shows total share prices stood at $54.8 trillion (FED). https://theplanningmotivedotcom.files.wordpress.com/2021/11/bankers-bottle-it-4.pdf This means that according to the Graph below the 50% increase in share prices since the last peak in 2019 translates into a gain of $18 trillion or nearly 10 times the combined value of profits and subsidies. According to the MIT study cited in the article above this would have contributed at least $900 billion to GDP in the form of Personal Consumer Expenditures. This compares to $2.1 trillion handed to the public in the form of Covid Funds. https://www.usaspending.gov/disaster/covid-19?publicLaw=all

Graph 9.

It was hoped that subsidies would have worked their way out of the system by the third quarter and that therefore the distortions to the data would have ended. This was not to be. They only fell from $705.6 billion annualised to $555 (source unknown). Thus in total, corporate subsidies between Q2 2019 and Q3 2021 amounted to $1,159 trillion, or 25% of the total disbursements of COVID relief amounting to $4,510 billion. It seems probable that subsidies will play no or little role in supporting profits in Q4.

I continue to remain disturbed by the quality of the data, particularly the retail data which has powered GDP. Over the last fortnight, I spent a considerable period of time downloading and analysing recent quarterly reports from key consumer-facing corporations. These releases can be found by inputting the corporate name followed by the words 'investor relations'. As the attached spreadsheet 'RETAIL SALES Q3 US ANALYSIS' shows, the 24 corporations listed there had an annual revenue growth of only 5.3% compared to the Census Bureau MARTS figure of 12.5%. Not only is this less than half of the official figure but it barely covers inflation. (All corporate revenues limited to the USA.) With a combined corporate turnover equal to about a third of total retail, this is a powerful study not easily dismissed. If the direct figures are more accurate than the MARTS data this has profound consequences for the size and growth of US GDP which has depended on consumer spending. I call this the China effect and it is disappointing.

The high frequency data for October so far shows an improvement on the 3rd Quarter. Thus while the economy has decelerated sharply from the first half, that deceleration appears to have stabilised for the time being. But these are not normal times as Europe has learnt, and it will be interesting to note what effect *Thanksgiving* will have on US transmission rates over the next three weeks. The key question is whether the infusion of funds and the shock administered to the economy has led to an enduring reversal of the decline since 2015. This author remains sceptical.

The discussion on inflation rages. This discussion is not academic. For the first time last week as well as this week investors were no longer content with the interest rates being offered on US bonds. It seems they no longer share the FED's view that inflation is 'transitory'. Consequently, the amount tendered for bonds fell, particularly on the short end (they were less oversubscribed) and the tails were long. Interest rates were pushed up and this is the primary reason share prices in the USA have wobbled recently particular the over-valued High-Tech shares. It may also be the reason the FED interrupted its regular sales due to "technical difficulties". It also means the imminent Spending Ceiling is more fraught than usual.

This said, supply issues are being straightened out. The number of ships outside US ports is declining. Chip production has been ramped up globally setting producers up for an epic oversupply next year, particularly given China's mastery of processes down to 7nm. Tensions with China have escalated since Biden spoke to Xi as Biden has just gifted Xi with a whole new swarm of embargoes on Chinese companies allegedly supporting the Chinese military effort. Xi learnt once again that Biden's bum's oot the windae.

Conclusion.

The clarity hoped for in third quarter data was not found. The pre-tax rate of profit at around 4.5% this year remains much lower than the 6.7% found in 2014. With margins under pressure it is unlikely to improve above this figure, therefore investment which did creep up is unlikely to endure beyond the new year. Thus the prognosis remains, a fragile economy vulnerable to shocks dependent on the fortunes of a fictitious bubble *too big to fail*.

Brian Green, 25th November 2021.