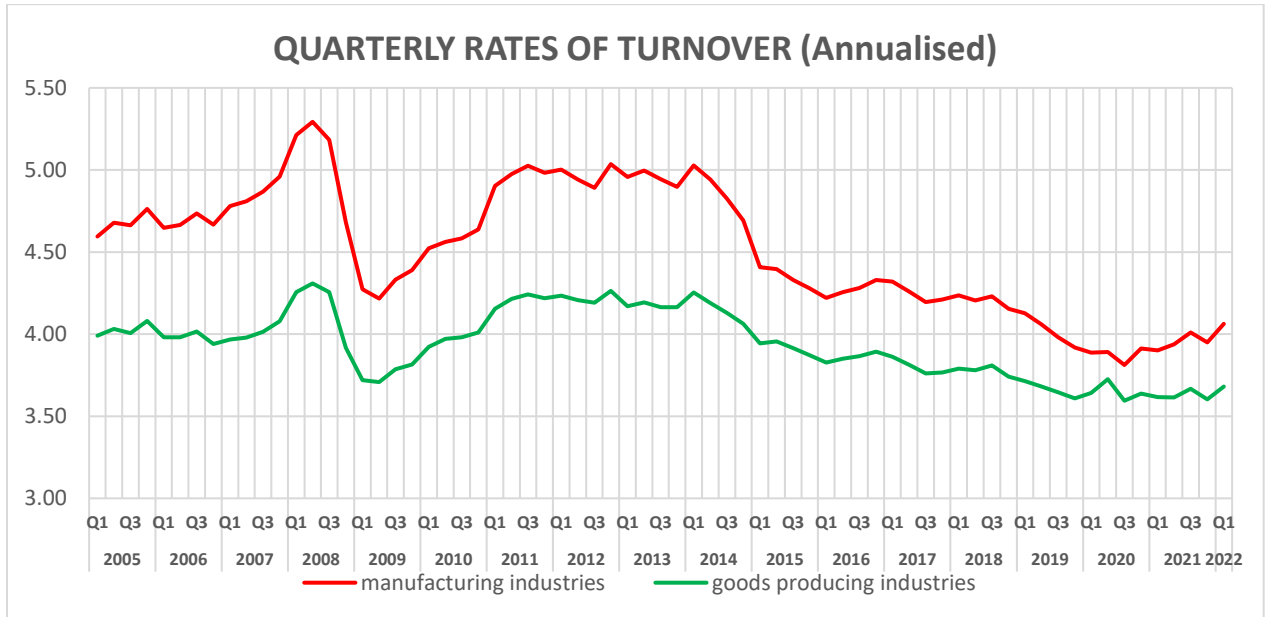


US CORPORATE PROFITS Q2 2022, DIFFICULT TO INTERPRET?!

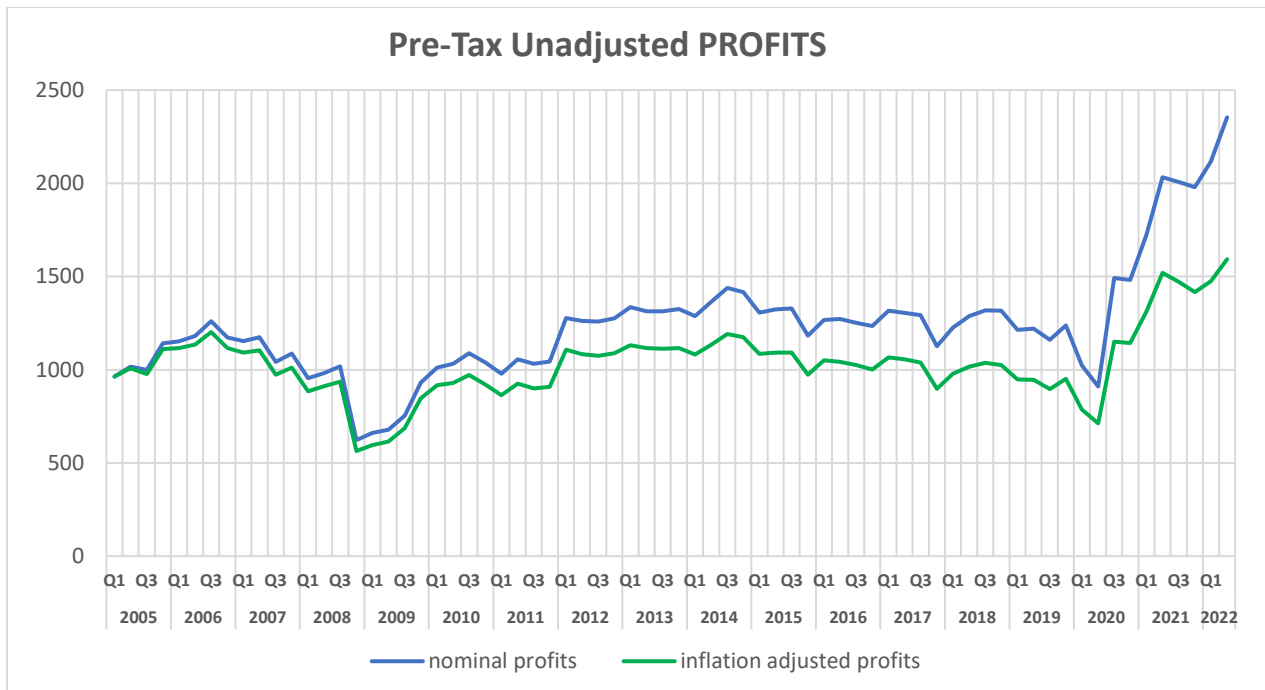
I won't be commenting on US profitability as it's rise is difficult if not impossible to interpret. The graphs will be presented as information only. I can only assume that price rises play a role in this morass.

Graph 1.



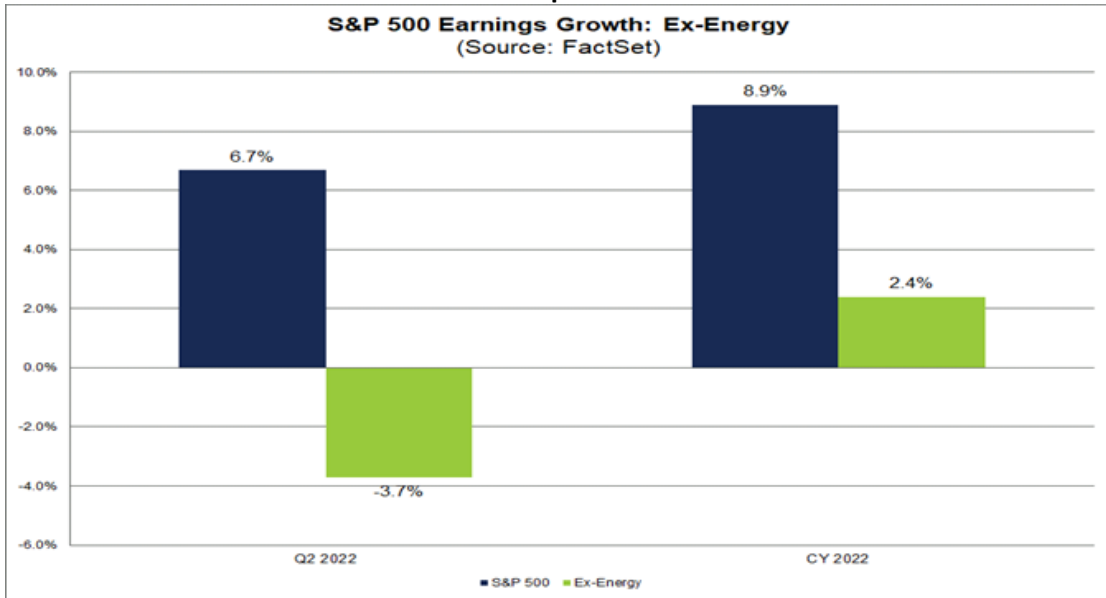
(This graph will be updated at the end of September when Q2 GVA and GO data is released.)

Graph 2.



(Please see the accompanying spreadsheet 'Table 1.14 up to Q2 2022' for data and calculations.)

Graph 3.



(Source: [FactSet](#))

I have included this graph from FactSet to contrast it with Graph 2. This covers 87% of S&P corporations reporting their profits. Bear in mind this is earnings per share and with [buybacks averaging 2.2 to 2.5%](#) of the value of all shares, profit growth would be lower were this to be accounted for. And, given these corporations are the largest in the USA producing 2/3 of total profits, their profitability should be higher than the run of the mill corporations.

Except they were not. So whereas corporate profits increased by 12% QoQ according to Table 1.14, for the S&P 500 they fell by 12.3% according to Graph 4. Make of this 24% discrepancy what you will.

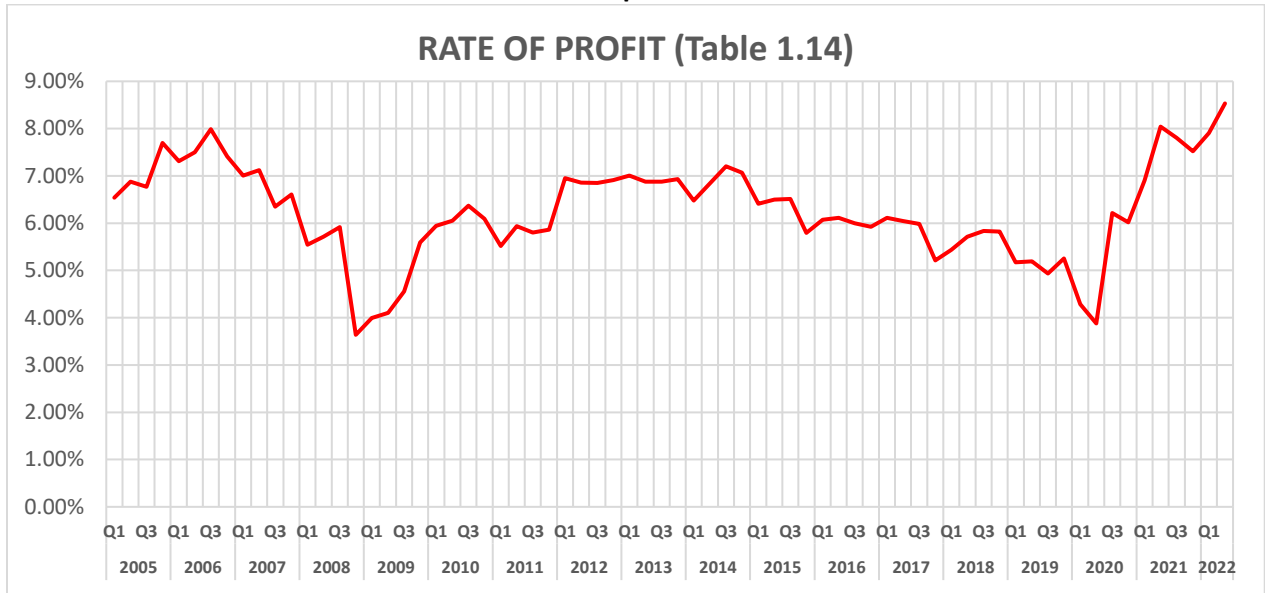
Graph 4.



(Source: FRED Table CP_SP500)

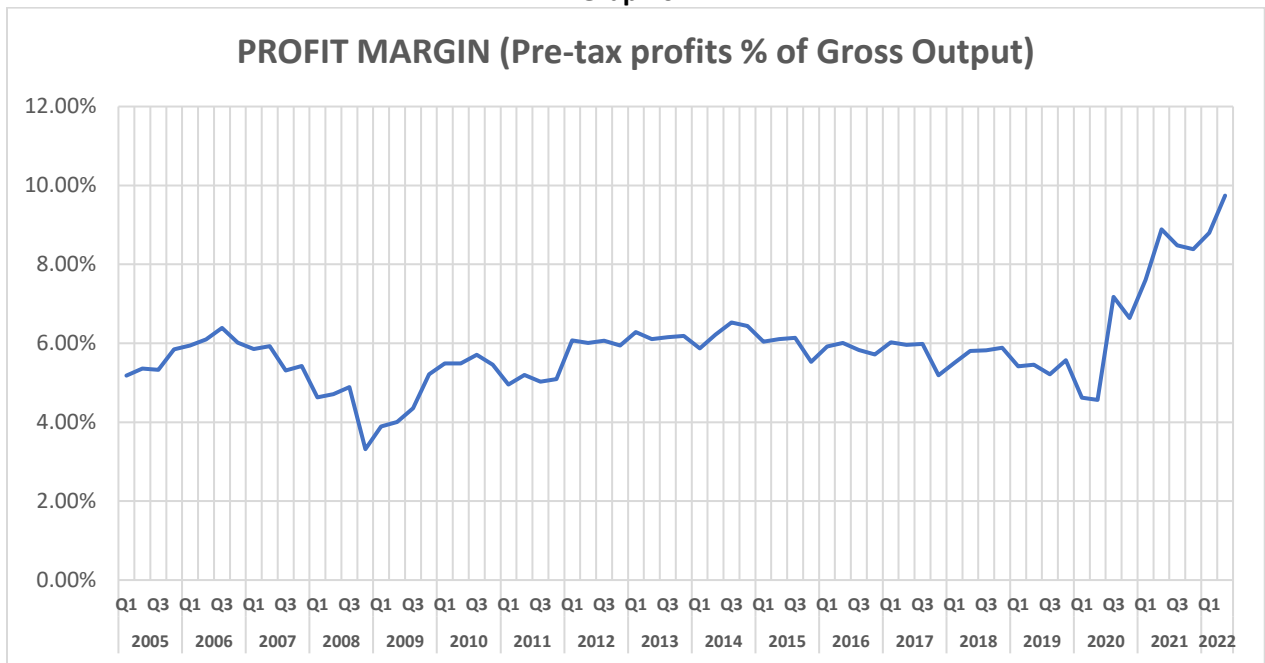
I am unable to determine where the profit advances occurred because the [profit breakdown from the BEA](#), notably Table 10, is unavailable in this first release.

Graph 5.



The fixed capital and circulating capital which form the denominator for the Q2 rate of profit are estimates which previously have proven to be 98% accurate once the official data has been released. (See accompanying spreadsheet for more detail.)

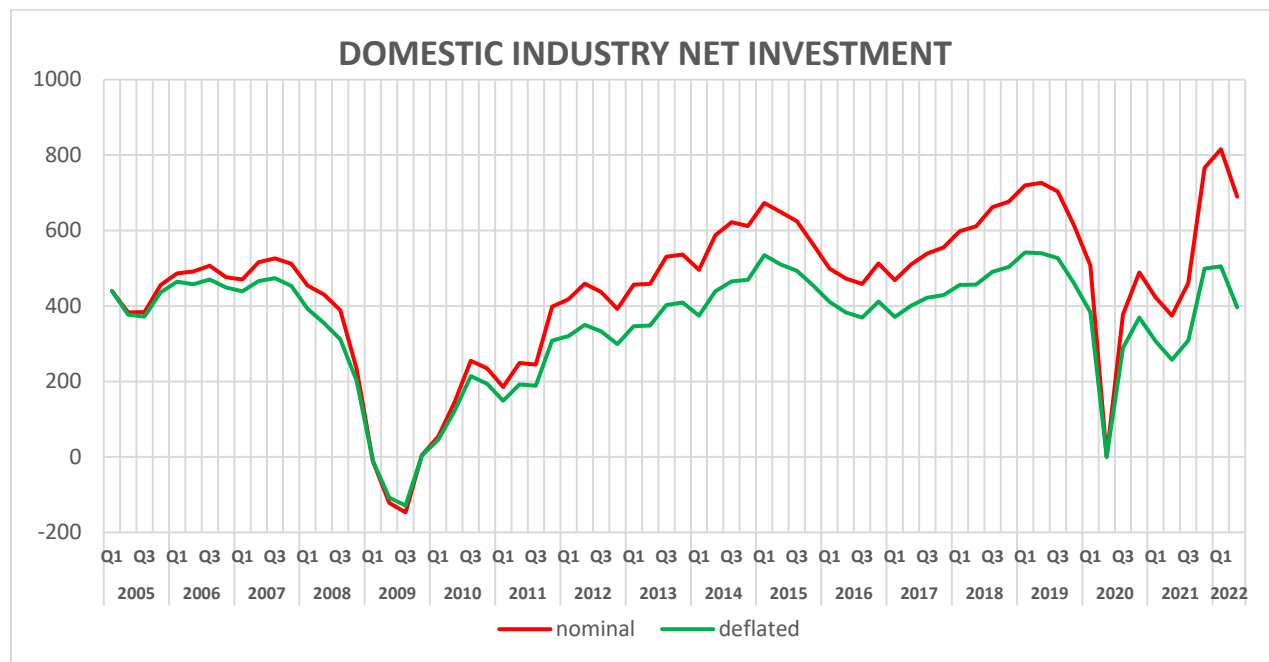
Graph 6.



In contrast to the rise in margins FactSet's own calculation shows no rise in margin in Q2 compared to Q1 and in fact Q2's margin is 0.8% lower than the peak found a year ago in Q2 2021. No further comment.

Finally the profit message from the BEA does not seem to have got through to corporations. Perhaps market conditions ran interference because net investment fell over the quarter.

Graph 7.



(Source: NIPA Table 5.1)

Inflation.

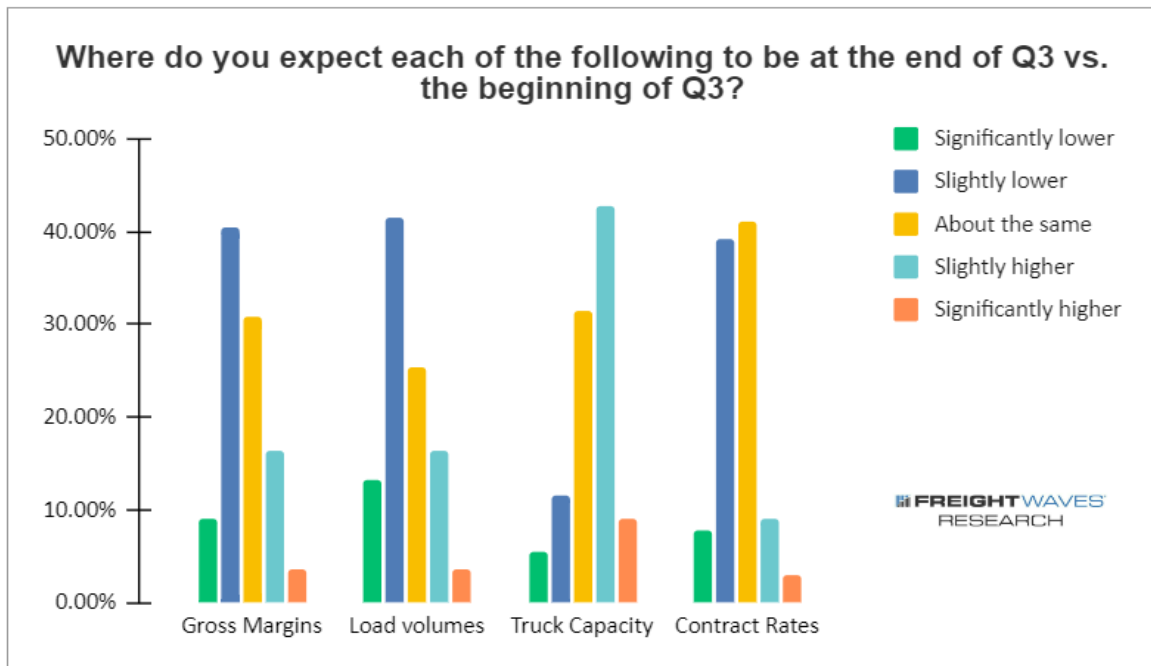
[“The price index for gross domestic purchases](#) increased 8.4 percent in the second quarter (table 4), an upward revision of 0.2 percentage point from the previous estimate. The personal consumption expenditures (PCE) price index increased 7.1 percent, the same as previously estimated. Excluding food and energy prices, the PCE price index increased 4.4 percent, also unrevised.” To its credit the BEA moved its inflation deflator in the right direction. As a result the gap between the GDP deflator and the PCE deflator remained at 1.3%. This is concerning because the PCE deflator is the preferred deflator for the FED, and it is also used for deflating Personal Consumption Expenditures which forms the biggest component of GDP. Had the PCE deflator been closer to the CPI deflator the GDP print would have been more negative.

The reason for the gap is due to weightings and imputations. [I have discussed](#) these issues before and expressed my dissatisfaction with how they currently influence price measures. What is new is that I have come across data from the UK Office for National Statistics (ONS). It produces a CPI print which includes, and which excludes, owner-occupier rents which are not real but which materially affect inflation readings. Thus the ONS has a CPI and a CPI(H) which includes owner occupier rents. The difference is significant as can be seen. [In the UK CPI](#) was 10.1% and the CPIH which includes owner occupier rents was 8.8%, a 1.3% difference in prices. If that difference was replicated across the Atlantic, and given the similarity in methodologies, the real contraction in GDP growth in the USA would be significantly higher. This vindicates my argument that imputations and incorrect weightings have distorted inflation in a manner favouring GDP data allowing Wall Street to continue singing *“recession what recession”*.

Falling demand and normalising supply impact the freight chain.

It was estimated that at the peak of supply chain disruptions, that freight rate hikes accounted for 40% of the increase in retail prices. In Q2 as the table below shows, freight volumes started to decline and with it charges. It has now reached the point where what was highly profitable has become unprofitable leading to freight firms closing, redundancies and owner-drivers handing back their keys to their leasing company. And it will get worse because hauliers expect this quarter (Q3) to end more negatively than when it started. In 3 out of the 4 graphs immediately below, namely *Gross Margins*, *Load Volumes* and *Contract Rates*, the ‘*significantly lower*’ and ‘*slightly lower*’ outweighs the ‘*slightly higher* and ‘*significantly higher*’. Against this dismal perspective only truck volumes have increased as truck builders continue to deliver backlogged orders at the worst of times.

Graph 8 & Table 1.



| DAILY AVERAGES | | | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| METRIC | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 |
| Tender Load Volumes Index (OTVI.USA) | 14,787.47 | 14,344.48 | 15,316.58 | 15,815.70 | 14,599.08 | 14,296.19 | 12,671.64 |
| Tender Rejection Rate (OTRI.USA) | 26.33% | 24.62% | 24.66% | 22.46% | 20.43% | 18.98% | 9.23% |
| Inbound Ocean TEUs Index (IOTI.USA) | 175.32 | 182.61 | 217.22 | 198.48 | 179.19 | 191.27 | 174.24 |
| National Truckload Index (NTI.USA)* | \$2.70 | \$2.88 | \$3.07 | \$3.21 | \$3.33 | \$3.42 | \$2.95 |

* INCLUSIVE OF FUEL

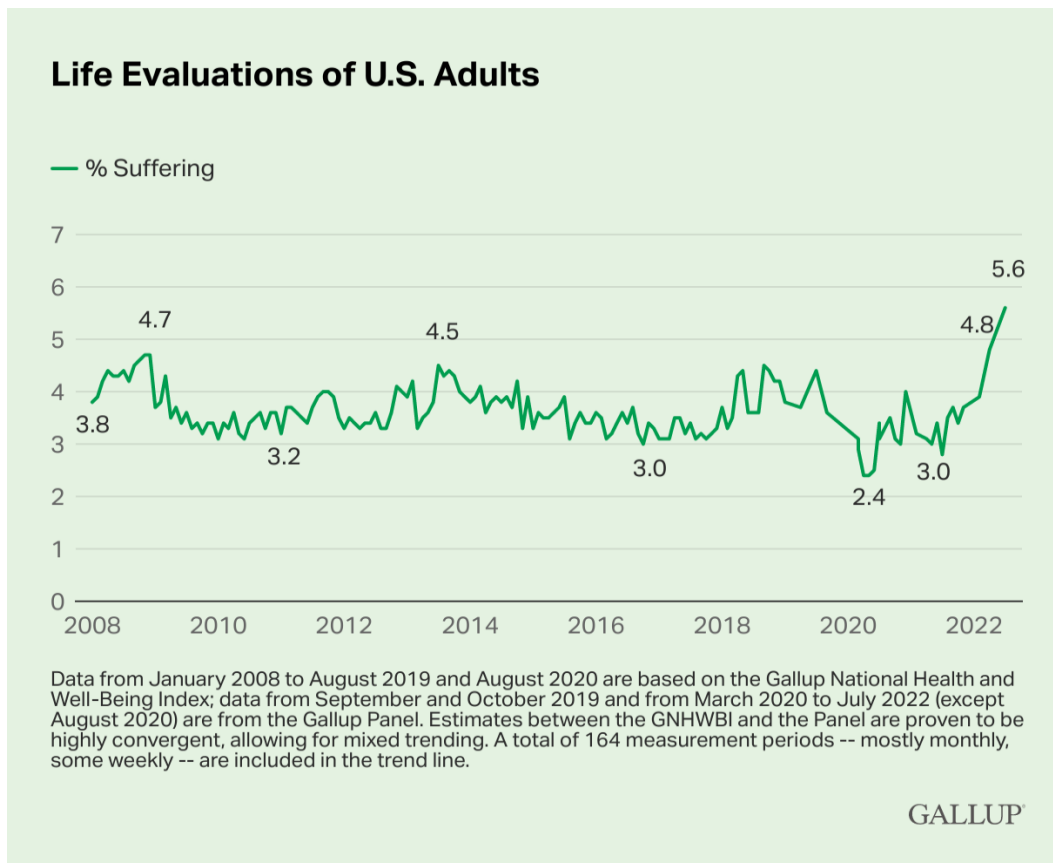
For the above graph and table follow this link [FreightWaves](#)

Not only robbing the poor but grinding them down.

The greatest achievement of neo-liberalism was to atomise the working class through debt, job insecurity, the commodification of all aspects of life, a reduction in the welfare net and paranoid propaganda. Add in the current inflation eroding wages and the well-being of half of the US population is being corroded. Nowhere is this truer than in the realm of energy affordability. *“At least 20 million households -- or about 1 in 6 American homes -- are behind on their power bills as soaring electricity prices spark what is said to be the worst-ever crisis in late utility payments, according to [Bloomberg](#), citing data from the National Energy Assistance Directors Association (Neada).”* California's PG&E Corp said there had been a 40% jump in the number of residential customers behind on payments since February 2020. New Jersey's Public Service Enterprise Group said customers at least 90 days late have risen 30% since March. And this is before we even discuss rent affordability.

This mix of escalating financial insecurity and over-work has led to more suffering now than in 2008 as this recent Gallup Poll reveals.

Graph 9.



“The percentage of Americans who evaluate their lives poorly enough to be considered “suffering” on Gallup’s Life Evaluation Index was 5.6% in July, the highest since the index’s inception in 2008. This exceeds the previous high of 4.8% measured in April and is statistically higher than all prior estimates in the COVID-19 era.” [Gallup Poll on Poor Life Ratings](#) Currently 48% of US adults worry daily and 42% are stressed by

their circumstances. Part of this could be the falling views on moral values that is to say they recognise the fabric of society is beginning to tear.

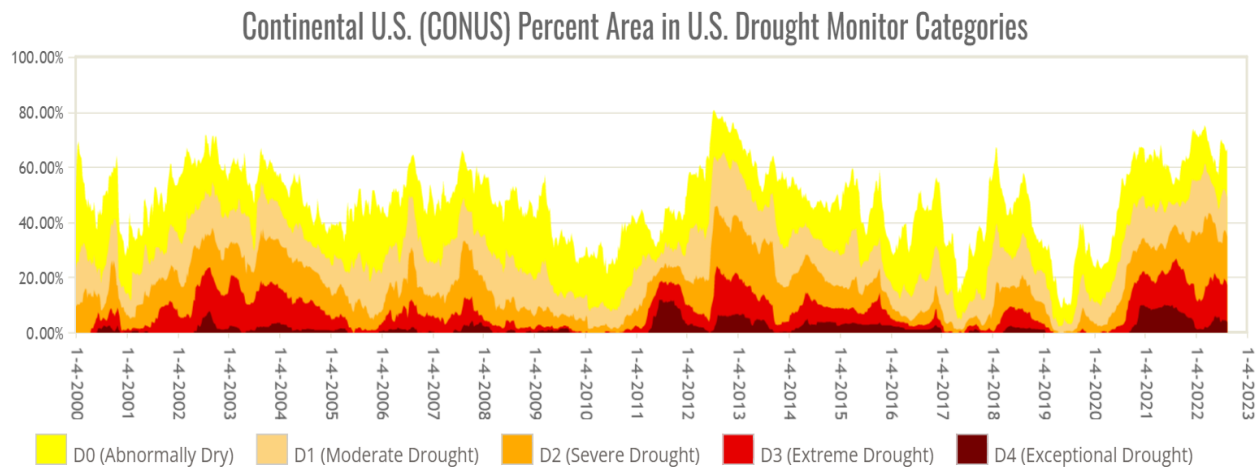
Clearly the majority of workers can no longer live in the old way. This is not a moralistic question but a political question. In the absence of a political alternative and amidst isolation whole sections of the working class could degenerate, and in their desperation, be attracted to the right-wing fool's gold put out by the likes of Trump. Making a revolution is not only possible, but necessary to preserve our class. It alone is the source of regenerative hope and salvation.

If energy prices and rent prices was not enough, drought is driving up food prices as well.

As of August 16, droughts of different levels of severity affect more than 66 percent of the area of the continental United States. The US joins Europe and China in drought. The current drought plaguing the USA is more extreme than at any time this century as measured by the D3 and D4 values. One figure says it all. This summer Europe has experienced a temperature rise which is 2°C above the pre-industrial average. True it is not an annual rise, but the rise comes when it matters most for people and crops - the height of summer. What hope is there for the 1.5°C ceiling?! None, not as long as capitalism throttles this planet.

Graph 10.

US DROUGHT MONITOR



[USDA World Agricultural Production](#) shows grain production is down in Europe but up in China, Russia and Canada. The ultimate irony is that growing conditions in the Ukraine were ideal. Globally the August 12th USDA report shows combined production of wheat, coarse grains, and oil seeds to be similar to last year's production. Futures for wheat, corn and rice tell a similar story, they have not flared up recently and remain below their June highs. However, to obtain a definitive judgement we will have to wait for the October report from the USDA once crops have been harvested.

Table 02 Wheat Area, Yield, and Production

| Country / Region | Area (Million hectares) | | | | Yield (Metric tons per hectare) | | | | Production (Million metric tons) | | | | Change in Production | | | |
|----------------------|----------------------------|---------|--------|---------------|------------------------------------|---------|-------|------|-------------------------------------|--------|---------|--------|------------------------|---------------|-----------------------|---------|
| | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | |
| | | 2021/22 | Jul | Aug | 2021/22 | | Jul | Aug | 2021/22 | Jul | | Aug | From last month MMT | Percent | From last year MMT | Percent |
| World | 220.51 | 222.19 | 221.24 | 221.63 | 3.51 | 3.51 | 3.49 | 3.52 | 774.28 | 779.24 | 771.64 | 779.60 | 7.96 | 1.03 | 0.36 | 0.05 |
| United States | 14.89 | 15.04 | 15.23 | 15.19 | 3.34 | 2.98 | 3.18 | 3.20 | 49.75 | 44.79 | 48.47 | 48.52 | 0.06 | 0.12 | 3.73 | 8.33 |
| Total Foreign | 205.62 | 207.15 | 206.01 | 206.44 | 3.52 | 3.55 | 3.51 | 3.54 | 724.53 | 734.45 | 723.17 | 731.08 | 7.91 | 1.09 | -3.38 | -0.46 |

Table 03 Total Coarse Grain Area, Yield, and Production

| Country / Region | Area (Million hectares) | | | | Yield (Metric tons per hectare) | | | | Production (Million metric tons) | | | | Change in Production | | | |
|----------------------|----------------------------|---------|--------|---------------|------------------------------------|---------|-------|-------|-------------------------------------|----------|----------|----------|------------------------|---------------|-----------------------|---------|
| | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | |
| | | 2021/22 | Jul | Aug | 2021/22 | | Jul | Aug | 2021/22 | Jul | | Aug | From last month MMT | Percent | From last year MMT | Percent |
| World | 344.77 | 345.49 | 340.79 | 340.61 | 4.18 | 4.35 | 4.33 | 4.31 | 1,441.25 | 1,504.50 | 1,477.20 | 1,469.49 | -7.72 | -0.52 | -35.01 | -2.33 |
| United States | 36.81 | 38.35 | 36.77 | 36.72 | 10.13 | 10.40 | 10.41 | 10.25 | 372.89 | 398.71 | 382.76 | 376.49 | -6.27 | -1.64 | -22.21 | -5.57 |
| Total Foreign | 307.95 | 307.14 | 304.02 | 303.89 | 3.47 | 3.60 | 3.60 | 3.60 | 1,068.36 | 1,105.79 | 1,094.44 | 1,092.99 | -1.45 | -0.13 | -12.80 | -1.16 |

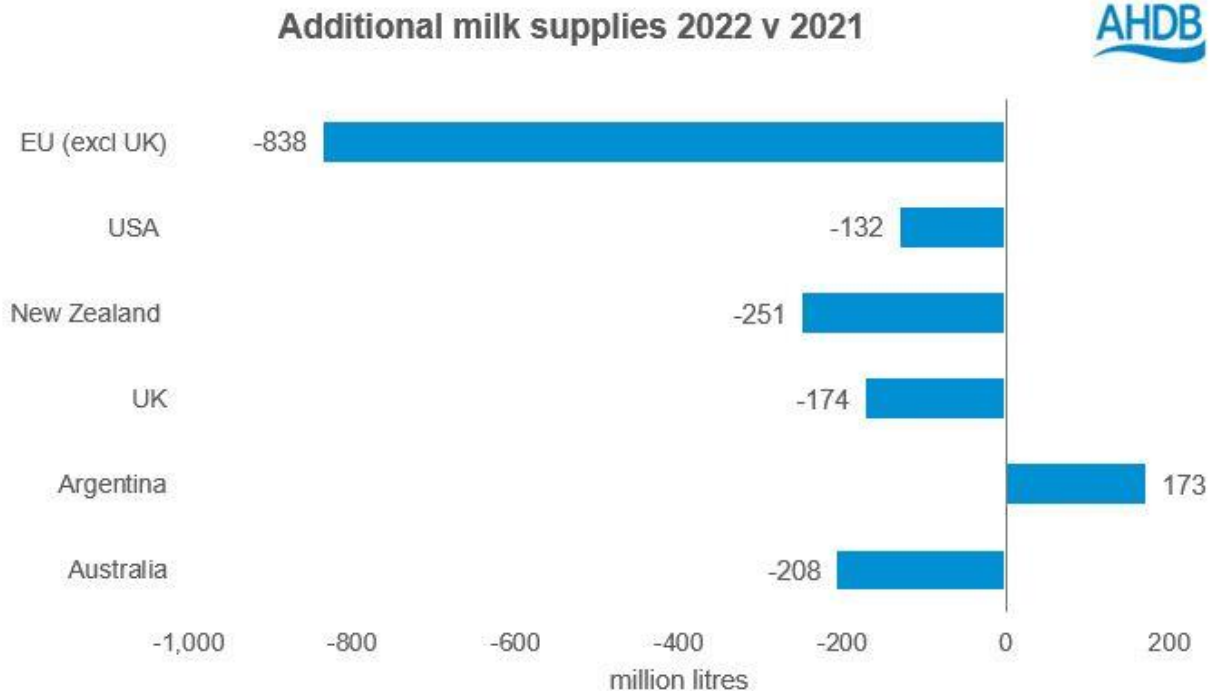
Table 10 Total Oilseed Area, Yield, and Production

World and Selected Countries and Regions

| Country / Region | Area (Million hectares) | | | | Yield (Metric tons per hectare) | | | | Production (Million metric tons) | | | | Change in Production | | | |
|----------------------|----------------------------|---------|-----|---------------|------------------------------------|---------|-------|-----|-------------------------------------|--------|---------|--------|------------------------|---------------|-----------------------|---------|
| | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | 2020/21 | Prel. | | 2022/23 Proj. | | |
| | | 2021/22 | Jul | Aug | 2021/22 | | Jul | Aug | 2021/22 | Jul | | Aug | From last month MMT | Percent | From last year MMT | Percent |
| World Total | -- | -- | -- | -- | -- | -- | -- | -- | 607.26 | 600.47 | 643.07 | 646.00 | 2.93 | 0.46 | 45.53 | 7.58 |
| Total Foreign | -- | -- | -- | -- | -- | -- | -- | -- | 482.74 | 469.92 | 510.40 | 513.54 | 3.13 | 0.61 | 43.61 | 9.28 |

What is not captured by the USDA report are those areas of agriculture most susceptible to drought namely fruits and vegetables, animal husbandry and milk production as can be seen in the graph below. Milk production before the hot and dry weather was due to rise by 2% this year, so far the fall is in the region of 2% (but does not include the recent hot weather in July and August).

Graph 11.

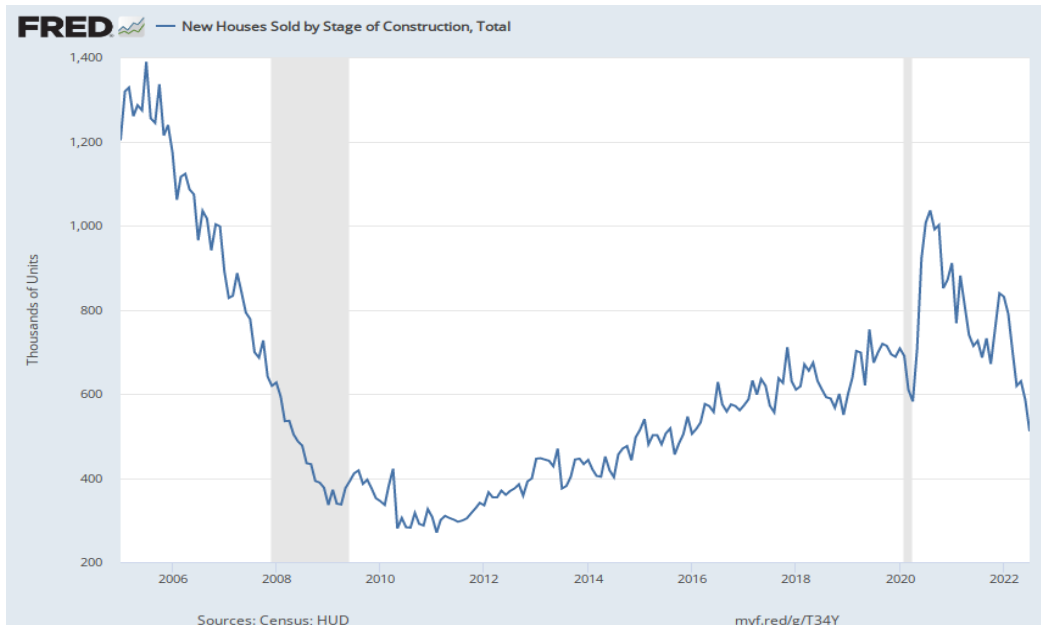


Source: AHDB estimates, Dairy Australia, DG-Agri, NZX, Quarterra, Rabobank, USDA

In inverse proportion to rising temperatures the housing market continues cool.

In July new home sales were down 29.6% YoY or -12.6% MoM vs the -2.5% expected. Supply is just shy of 11 months inventory, the worst since 2009.

Graph 12.



72% of new homeowners regret their recent home purchase knowing they overpaid and that soon they will be in negative equity. *“Nationwide, roughly 63,000 home-purchase agreements fell through in July, equal to 16.1% of homes that went under contract that month. That’s the highest percentage on record with the exception of March and April 2020, when the onset of the coronavirus pandemic brought the housing market to a near standstill. It’s up from a revised rate of 15% one month earlier and 12.5% one year earlier.”* (REDFIN) *“Nationwide, 44.3% of home offers written by Redfin agents faced competition on a seasonally adjusted basis in July, compared with a revised rate of 50.9% one month earlier and 63.8% one year earlier. That’s the sixth-straight monthly decline and the lowest share on record with the exception of April 2020, when the onset of the coronavirus brought the housing market to a near standstill.”* (REDFIN)

US house prices fell in July by a significant amount for the first time. July is likely to mark the inflection point when rising prices gave way to falling prices, and a seller’s market gave way to a buyer’s market. In the Hampton’s Long Island, the playground of the rich, 11% of homes sold in July did so with discounts ranging from 10 to 20%, double the amount in April.

Thus the implosion of the housing market is accelerating. As a share of GDP housing wealth is bigger today compared to the onset of the housing crisis in 2008. Of course, then the leveraging, or dicing and splicing of mortgages, meant that the total debt outstanding on housing was greater. Nonetheless housing is a black swan and how big it grows depends on future FED interest rate policies and its effect on mortgage rates.

Forward looking indicators turn down.

The current US flash PMI was the lowest of the large economies due to collapse in the PMI for services from 47.3 to 44.1.

Graph 13.



[Siân Jones, Senior Economist at S&P Global Market Intelligence](#) said: “August flash PMI data signalled further disconcerting signs for the health of the US private sector. Demand conditions were dampened again, sparked by the impact of interest rate hikes and strong inflationary pressures on customer spending, which weighed on activity. Gathering clouds spread across the private sector as services new orders returned to contractionary territory, mirroring the subdued demand conditions seen at their manufacturing counterparts. Excluding the period between March and May 2020, the fall in total output was the steepest seen since the series began nearly 13 years ago.” The extent of the fall can be seen below.

Flash US PMI Composite Output Index at 45.0 (July: 47.7). 27-month low.
Flash US Services Business Activity Index at 44.1 (July: 47.3). 27-month low.
Flash US Manufacturing Output Index at 49.3 (July: 49.5). 26-month low.
Flash US Manufacturing PMI index at 51.3 (July: 52.2). 25-month low

(For information, the Euro area composite flash PMI decreased by 0.7pt to 49.2 in August, slightly above consensus expectations but with material weakness among the components.)

Further evidence of a deepening downturn was to be found on Friday when the [Personal Consumption Expenditures](#) for July were announced. Nominally, whatever that means, they were flat month on month when a rise of 0.4% was expected, though the price index allegedly fell back. Powell will take comfort from this at Jackson Hole. So will the Markets as they remain fixed focused on inflation prospects. Expect that to end soon as the avalanche of bad news crashes through Wall Street. Not so GDPNow which is likely to mark down Q3 GDP to below 1%, and mark, its only July data which is in.

The CHIP Act, from the frying pan into the fire.

Let us be clear. The US has already declared war on China. Economic wars always have a nasty habit of concluding as military wars and the recent CHIP Act takes the world a step closer to this awfulness. The CHIP act was not simply an inducement for Chip Fabricators to relocate to US soil but was intended to drive them out of China. The Act bars any company with a strong presence in China from being the recipient of funds under the Act. *"US President Joe Biden recently signed the CHIPS and Science Act, allocating \$54 billion in subsidies and tax cuts for the semiconductor companies which reshore chip fabrication facilities in the US. The law imposes curbs on such companies from doing business in China. Beijing says the Act is discriminatory and violates international trade rules."* This article is useful because it shows Washington was caught off guard by developments in Chinese Fabrication when it was discovered that SMIC 7nm chips had been quietly embedded in Chinese products for over a year, meaning that China has reduced the chip gap to only one generation. Although China uses DUV to achieve 7nm which means up to four exposures, it still is a notable breakthrough, and in the end price will tell. For more detail on how the Act will attempt to undercut technical developments in China by hobbling foreign producers there, follow this link to [Techwire Asia](#).

In the end everything pivots on the ability of China to produce its own lithography machines both DUV and especially EUV. Just as China surprised by its rapid mastering of 7nm chips so too in the realm of lithography itself. If the [following report](#) which claims that China has cracked the core technologies needed to produce EUV lithography is accurate, it appears China is within 5 years of producing its own indigenous EUV machine. Only one other producer on the planet has cracked this, the most complex piece of engineering on the planet, and that is the Dutch company ASML.

However as China conquers some of the strategic infrastructural issues leading to an indigenous chip industry the US Departments of Commerce and of State seeks to hammer the Chinese vulnerabilities that remain. Two areas have been identified. The technology (both equipment and software) needed to write the pathways on chips which will be etched which China has mastered over the last three years, and "gate-all-round" or [GAA technology](#) which allows the layering of chips with lower resolutions to perform as well as chips with finer resolutions. *"The latest restrictions by the US Department of Commerce's Bureau of Industry and Security (BIS) on August 12, 2022, will potentially have the greatest impact on the trade between China and the US compared to all other actions taken to date," declares a report issued by American consulting firm International Business Strategies (IBS).* And could *"have catastrophic impact worldwide,"* says the IBS report. In addition, the [Commerce Department](#) has just added 7 Chinese entities to its embargoed list including aerospace companies.

The lengths to which the United States is willing to go to wreck the Chinese economy or force it into submission is now clear to see. The various subsidies are designed to create a stand-alone US chip industry, one which can independently supply the needs of US manufacturing. Once this is achieved (and it is a big if given the shallowness of skills in the USA) thereby protecting the USA from any fall-out from the wrecking of Chinese manufacturing, and disregarding the collateral damage to its own companies and the rest of the world, it will seek to deny China access to the necessities on which its industry depends.

And it is not only in realm of chips. Both Germany and the US are aware that China is the new Toyota when it comes to Electric Vehicles. The subsidies won through Congress amounting to \$7,500 for the purchase of an Electric Car, will only be given to vehicles produced in the USA. That not only includes the car itself but the battery which powers it, most of which are produced in China.

In all cases we see that it is the USA which is the aggressor. It explains why they provoked the war in the Ukraine despite a world still reeling from the pandemic and baking under a hotter sun. Time is not on the side of the USA. The USA was willing to nuke Japan, flatten Germany and bankrupt Britain in order to secure its place at the head of the economic table, it will not give up its seat without a fight.

Conclusion.

It is now undeniable that the world is heading deeper into recession. The [CPB World Trade Monitor](#) amongst other global surveys has given up all its gains in June. Though it is likely that inflation has peaked, this is only because demand is collapsing. The Stock Market is still fixed focused on inflation prospects. Investors made dumb by greed have not yet clocked that the reversal in inflation is not a good sign, but an ominous sign for the prospects of the US and Global economy. When they do and the Markets continue their crash, this will add to the economic mayhem as we approach winter.

With a world heating up while economically cooling, with war beckoning and immiseration stalking billions, it is time for the working class to rise to the historical challenge of ridding this planet and its peoples from the yoke of capital. It is not so much that capitalism is not working, it's that it is threatening all of humanity's gains and the prospects for its future.

If there is a specific sign found in this article for the decadence of the system, it has to be the deteriorating quality of data coming out of the statistical bureaus which is troubling if not fraudulent.

Brian Green, 26th August 2022.

(For more graphs do view the spreadsheet)