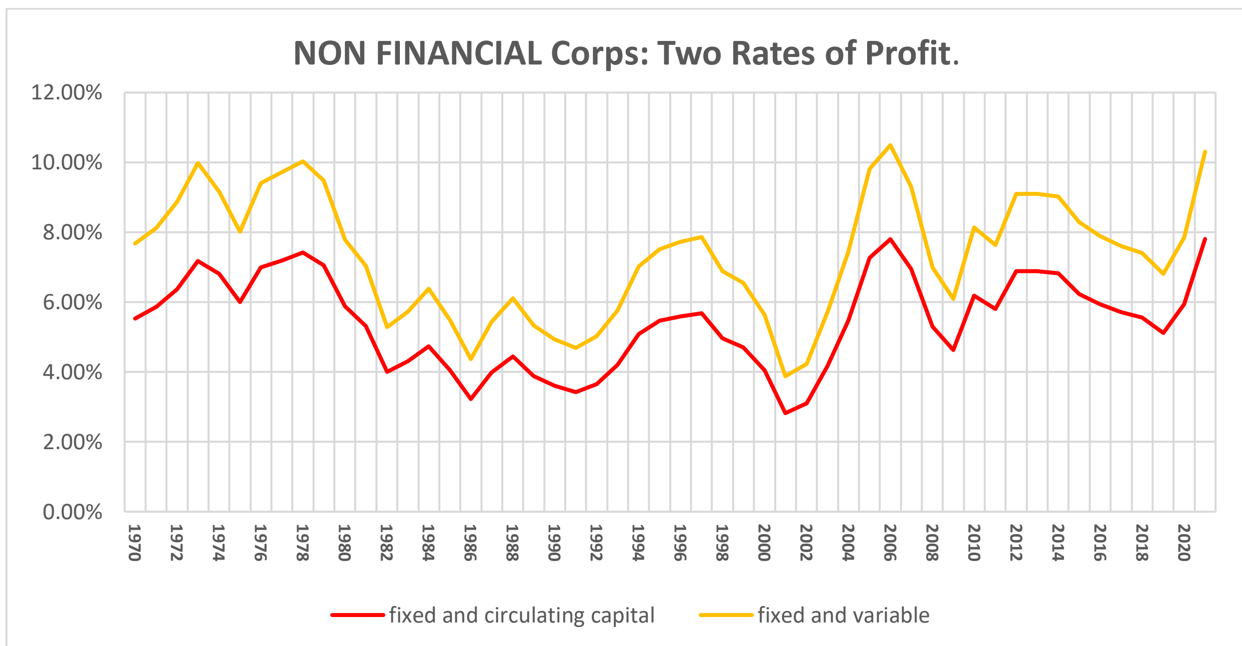
US LONG TERM RATE OF PROFIT AND QUARTERLY RATE UP TO Q3 2022.

The BEA recently released the Fixed Asset Tables for 2021 enabling annual rates of profit to be prepared to include 2021 for the first time. In addition, this week the BEA released corporate profits covering Q3, allowing the quarterly rate of profit to be extrapolated up to September.

For the data used in these graphs please open the accompanying spreadsheets '*Table 1.14 Annual 1970 – 2021'* and '*Table 1.14 up to Q3 2022 preliminary'*. In all cases the numerator in the rate of profit is taken as *Profits before tax (without IVA and CCAdj)* found on line 47. The denominator is either fixed capital with circulating capital or with variable capital. The first graph covers the 50 years from 1970.

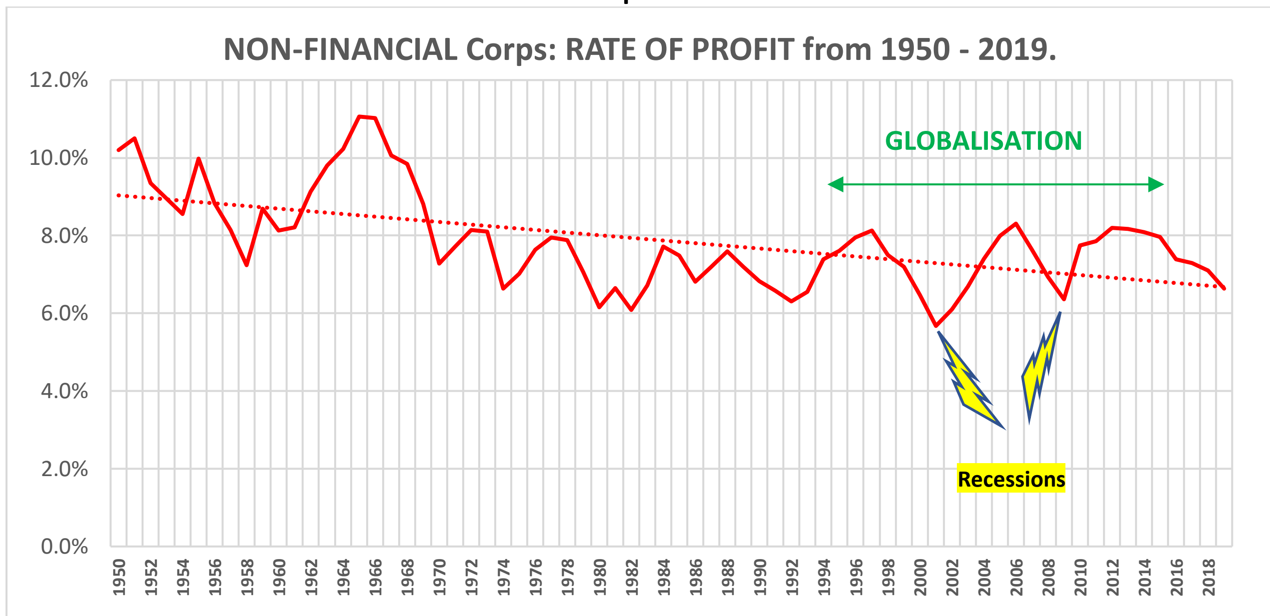
Graph 1.



I have deliberately excluded inventory when considering variable capital. Together inventory and fixed capital complete constant capital. But there is a problem as soon as we introduce variable capital because of the overlap. The value of inventory which is valued at cost includes wages expended on its production, therefore an element of variable capital. Some Marxist theorists use inventory when calculating the rate of profit, most times without workers compensation and sometimes with. The effect of combining inventory with variable capital is to overstate the denominator and therefore understate the rate of profit. The beauty with circulating capital is there is no overlap. The inputs that form circulating capital are at selling prices which includes all the wages expended on producing them. The other advantage of circulating capital is that the nature of inputs has changed. Over the last three decades there has been a great deal of outsourcing such as accounting services, cleaning, catering, payroll and so on not forgetting software licenses renewable annually. This has led to an increase in employment outside the firm and a decrease in in-house employment. (It's part of the socialization of production.) Thus circulating capital better captures the entirety of capitalists' working capital, therefore a more accurate rate of profit.

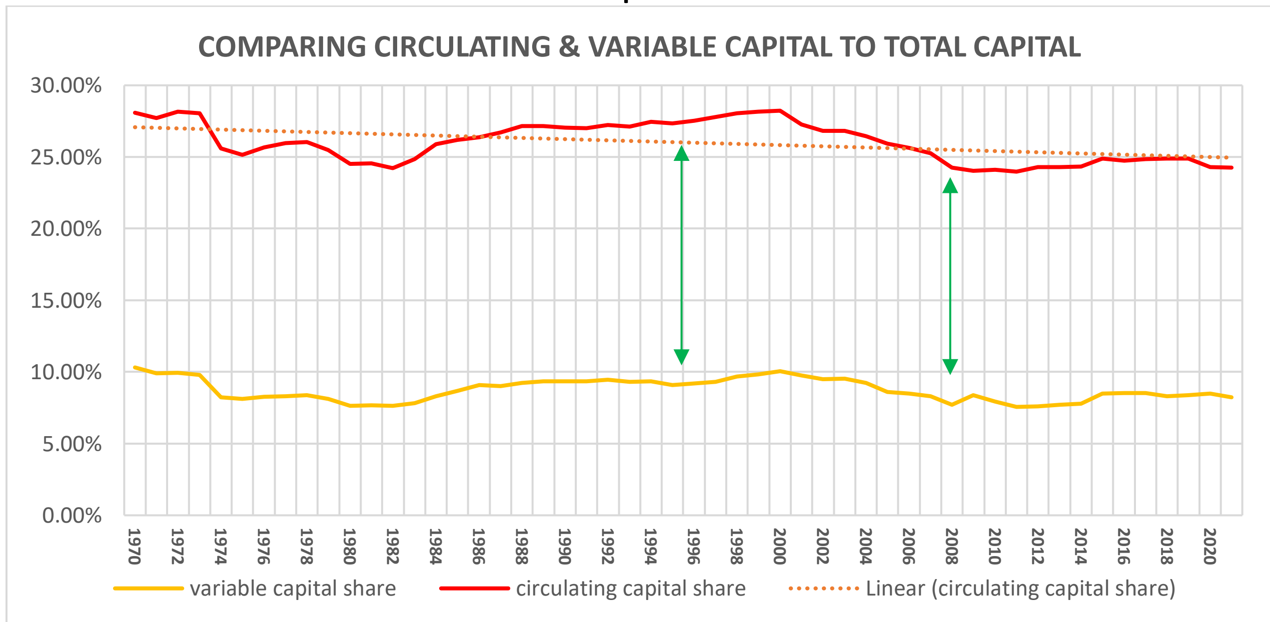
I have also included a graph for the rate of profit based on fixed and circulating capital extending back to 1950 which I had prepared for an earlier article. The reason for doing so will be explained further along.

Graph 2.



Before explaining the trends found in the above two graphs I would like to introduce Graph 3 which shows the changing relationship between circulating or variable capital, to fixed capital.

Graph 3.



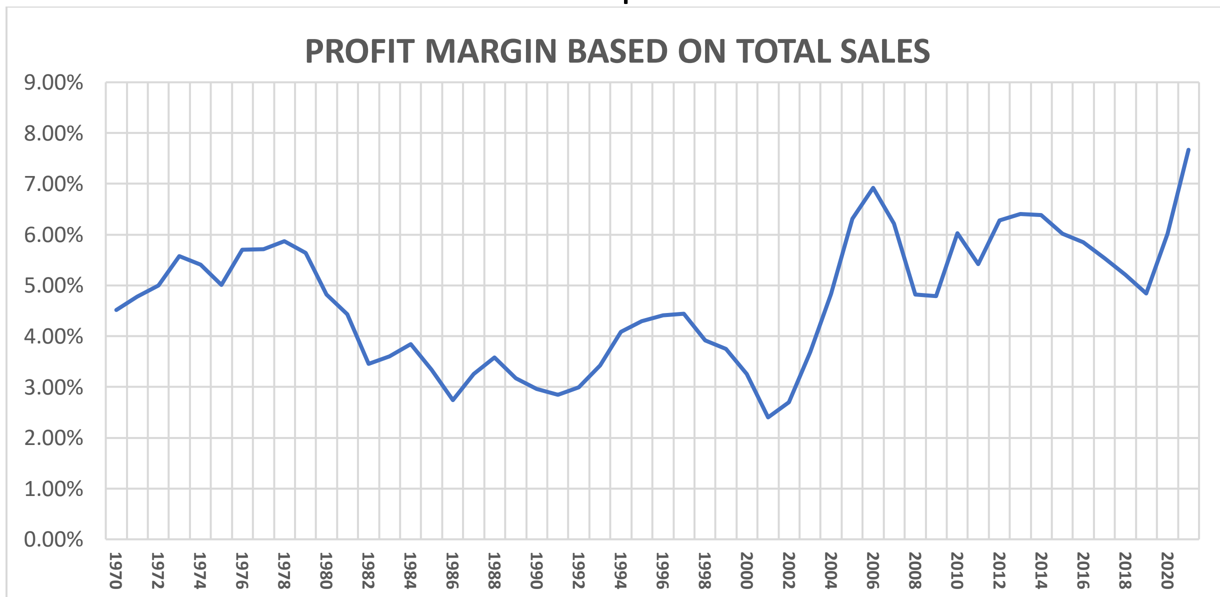
Using the *rate of return* based solely on fixed capital, as favoured by some Marxists, they find the 1996 profit peak to be the 2nd highest since the War, not the 2006 peak as above. The reason for this swop has to do with the relative change in circulating or variable capital. As can be seen in Graph 3 there is a visible reduction in both circulating capital or variable capital (marked with the green arrows). Any relative reduction in these two forms of capital reduces the absolute amount of **total capital** raising the rate of profit. Now my critics have said that including circulating capital never changes the profit trend, therefore it can be ignored, but in this case we would not have noticed how high the 2006 peak was.

I mentioned above that it was useful to go back to 1950. The further back we go, the higher the proportion of capital that is composed of either variable capital or circulating capital. Therefore the falling trend in the long term rate of profit would be influenced by these proportions resulting in a more gradual fall in this rate. Thus when comparing the rate of return to profit the following is found: the rate of return fell from 16.5% in 1950 to 7% in 2019 a cumulative fall of 9.5% whereas the rate of profit fell from 12% to 5.2% a cumulative fall of only 6.8%. The relative reduction in circulating capital over time leads to a gradual convergence thus in 1950 the two rates diverged by 28% but by 2019 they diverged by 26%.

This illustrates one of the countervailing influences pointed to by Marx which acts on the fall in the rate of profit namely the inverse movements of fixed and variable capital with the former rising relatively and the latter falling relatively thus modifying the increase in total capital. (When we examine sectors such as the manufacturing sector with its higher composition of capital and faster rise in composition, the relative fall in both variable and circulating capital is much more pronounced. Remember, the non-financial corporate sector is home to both industry and commerce, production and services, so the movement here is more subdued because the overall growth in the composition of capital is more gradual.)

Finally, before we move over to quarterly observations below is the profit margin. This margin is based on total sales equal to intermediate sales plus final sales. Most analysists such as Goldman Sachs base their margin purely on final sales. This is wrong as it is measure of only one category of sales, one which does not take into account intermediate sales which are real sales, nor to the relative movement of these sales as they adjust to the phasing of the industrial (business cycle). Also when measured over total sales, the margin is closer to the profit margins found in the last line of Table 1 below.

Graph 4.

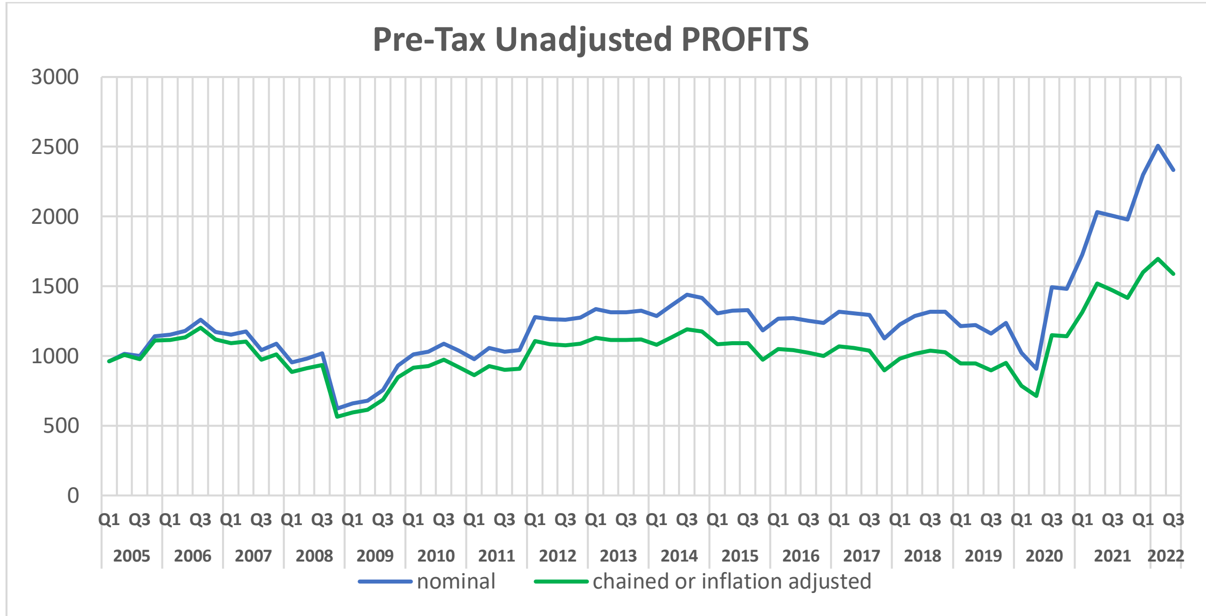


Finally I would prompt the reader not to pay too much attention to the 2021 profit data as it is distorted by the Covid Fund support packages which directly fed into corporate profits via subsidies and indirectly through the price rises they generated on the demand side. Over the two year period April 2020 to April 2021, the equivalent of one year's post tax profits was pumped into these corporations directly by the funds or indirectly through profit gouging made possible by sharp price rises. That explains why it is, that during a pandemic which hammered value production, profit margins soared.

Quarterly profits up to Q3 2022.

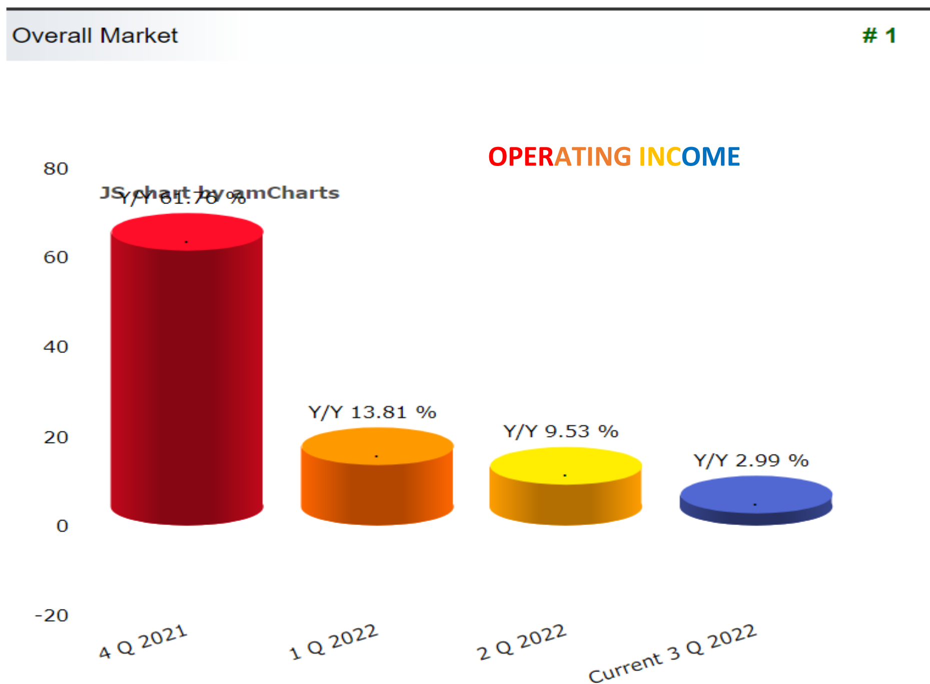
They have now gone into reverse in Q3 in the latest report. The mass of non-financial corporate profits has declined quite sharply quarter on quarter and is up by 6.4% YoY, which is below the rate of inflation.

Graph 5.



I still consider this an overestimate. CSI markets provides a figure of 2.99%.

Graph 6.



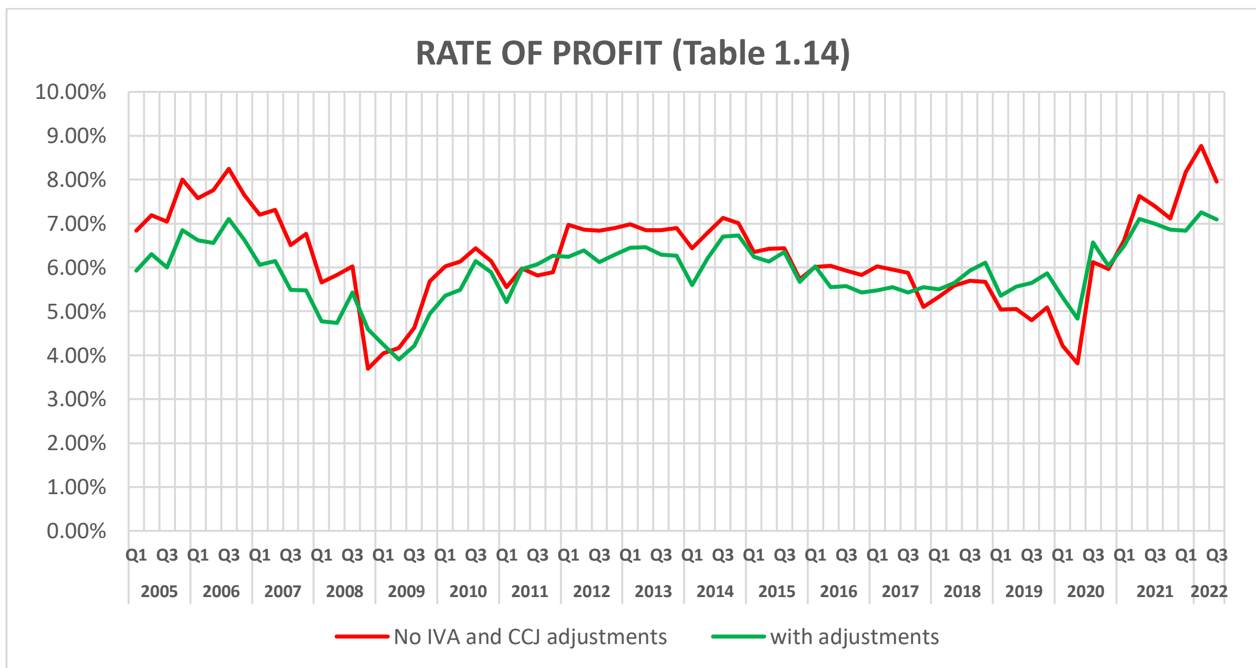
(Source: CSI Markets)

And this is corroborated by the final November release by FactSet: "*The Energy sector is also the largest contributor to earnings growth for the S&P 500 for the third quarter. If this sector were excluded, the index would be reporting a decline in earnings of 5.3% rather than growth in **earnings of 2.2%**.*" Now given that FactSet covers only S&P 500 corporations comprising the largest corporations in the USA, we could expect that 2.2% figure (not adjusted for share buy backs) to be a ceiling not an average, because it is likely that the bulk of smaller corporations are less profitable. I should add, including financial profits, **total corporate profits** increased by 1.9% YoY according to Table 1.14, much closer to FactSet.

In addition in the table below which examines the largest retailers, operating income fell by 11.3% YoY instead of rising. Factor in inflation and that is a real time fall of close to 20%. Retail is not representative of the whole of the non-financial sector, but it is illustrative, because it represents 5% of total profit.

Turning to the rate of profit based on fixed and circulating capital as found in the attached worksheet 'Table 1.14 up to Q3 2022 preliminary' we find a sharp contraction in the rate of profit. This is a result of the rise in nominal total capital and a fall in nominal profits. In fact the fall in the rate of profit (the red graph is the more important) is of the order of 0.8% QoQ or nearly one tenth. (Methodological note. Fixed capital now provided for 2021 was extrapolated into 2022 using the capital consumption data.)

Graph 7.



Nor is this fall in the quarterly mass and rate of profit an aberration. It must be seen as the start of a new and intensifying negative trend. FactSet expects profits to fall this quarter (Q4). The Bank of America has cut its forward guidance on earnings per share as well. And Morgan Stanley seems to be the most somber if not sober of them all. "*Another risk to equities is that consensus 12-month forward earnings expectations currently look too high, having only declined by about 5% from their recent peak*. Interestingly enough, few Wall Street analysts are brave enough to look past mid-year 2023, primarily because the period up to then is so bleak.

Retail sales.

I promised to review the accuracy of the Census Bureau *MARTS* data on US retail sales against the sales reported by the largest retailers in their 3rd Quarter Earnings reports taken from their investor relations websites. The report by the Census Bureau covering retail sales for the 3rd Quarter provides a nominal figure of $1,791,015 million while for the 3rd quarter in 2021 it was $1,641,507 million, an increase of 9.1%. Without motor vehicles it was 9.5% During the same period the CPI for goods (excluding services) was 11.8% implying a fall in real (volume) sales of 2.7%. Now clearly if the nominal increase was less than the reported 9.1% it means that the fall in real sales was greater than 2.7%.

All Corporate data below relates to sales and income derived in the USA only, and the figures are in millions of Dollars. All data is obtained from financial reports and links to these reports are found in the retailer column. The share of total retail sales found in the table at just over 25%, makes it a powerful sample.

Table 1.

RETAILER	REVENUE 2021	REVENUE 2022	% GROWTH	PROFIT 2021	PROFIT 2022	% GROWTH
Walmart	115,580	126,114	9.1%	3,989	4,232	6.1%
Amazon	50,900	48,660	-4.6%	900	-400	-44%
Costco	44,128	51,074	15.8%	1,456	1,598	9.8%
Home Depot	36,820	38,872	5.6%	5795	6,148	6.1%
Kroger	31,682	34,638	9.3%	839	954	13.7%
Target	25,290	26,122	3.3%	2,010	1,022	-51%
Lowe's	22,918	23,479	2.4%	2,789	924	-67%
GM	20,554	34,691	69.0%	823	2,783	238%
Fords	24,000	26,300	9.6%	2,400	1,600	-33%
Albertsons	16,506	17,919	8.6%	486	531	9.3%
TJX	12,532	12,166	-2.9%	1,379	1,359	-1.5%
Best Buy	11,011	9,569	-13.1%	760	375	-51%
Macy's	5,440	5,230	-3.9	523	192	-63%
Nike	4,879	5,510	12.9%	1,434	1,377	-4.0%
TOTAL	**$422,240**	**$460,344**	**9.0%**	**$25,583**	**$22695**	**-11.3%**
MARGINS				**6.1%**	**4.9%**	**-19.2%**

The revenue figure is close to the MARTS estimate of 9.1% but only due to the startling performance of General Motors which saw sales grow 69% YoY. Given these are the largest corporations in the USA mopping up sales at the expense of smaller retailers, we can assume a significantly lower growth for these smaller retailers, which in turn should reduce the overall revenue figure to around 8% yielding a volume loss of around 4%. Given that the BEA increased real GDP growth today for the third quarter from 2.7% to 2.9% on the back of consumer spending, the importance of realistic sales estimates is evident.

The same can be seen elsewhere, not only in goods, but in services as well. If we take what is considered to be the thriving sector in Q3 - Arts, Entertainment, and Recreation (see this week's ADP report on growing employment in this sector), we find its annual revenue growth was 17.4%. "*Advance U.S. arts, entertainment, and recreation revenue for the third quarter of 2022, not adjusted for seasonal variation*

or price changes, was $103.5 billion, an increase of 13.3 percent (± 3.2 percent) from the second quarter of 2022 and up 17.4 percent (± 3.0 percent) from the third quarter of 2021. The first quarter of 2022 to second quarter of 2022 percentage change was revised from the preliminary estimate of 15.8 percent (± 2.8 percent) to 16.2 percent (± 3.0 percent)." And yet after visiting the largest US entertainers with a combined quarterly turnover of $54 billion, this is what was revealed: Disney +9% YoY revenue growth, Comcast -2%, Sony -9%, Netflix +10%. None near the 17.4%, some even negative. Maybe it was the bed & breakfast establishments wot did it.

Conclusion.

It is probable that most of the profit damage was done in September. Here, in the profit figures, it is confirmed once again that the global and US slump began in September, marking a systemic turning point. Nothing is more important when determining the future course of the economy, than the rate of profit. This is confirmed by the analysis of job losses in the current ADP report which shows the normalization of the economy, namely, that employment is responding to falling profitability as corporations set out to protect their bottom lines.

It is not my intention to deal with current economic conditions in the US economy. I will only say that these conditions are deteriorating at an accelerating pace, and all that is missing are the still delayed financial repercussions. One point that has to be made is the Democratic Party's response to the pending rail strike. They intend to declare it unlawful. There is nothing like the class struggle to strip the veneer away from this Party revealing its naked bourgeois entrails.

I expect the rate of profit to fall below its 2019 level over the next three quarters.

Brian Green, 30th November 2022.