ANALYSING U.S. PROFITABILITY IN Q4 2023 AND REVIEWING 2023.

This article provides the rate of profit for the fourth quarter of 2023 based on the release of data by the BEA on the 28th of March. But it begins with a review of the economics and politics that drove capitalism in 2023 and currently in order to examine the dominant trends in the economy.

The mantra from the FED and Wall Street, really a duet, is that the labour market is tight and the economy is resilient. All of this, despite interest rates being positive for the first time (adjusted for inflation). Let us commence with examining the proposition that the labour market is tight.

The MISH TALK website a right-wing libertarian website, is noted for its investigation of employment data. As Mish reminds us: *"Each year, CES-National estimates are benchmarked to the most recent Quarterly Census of Employment and Wage (QCEW) data, based on Unemployment Insurance records, along with a small amount of employment data that is not covered by QCEW."* (These estimates are prepared by the Philadelphia FED.) As a result of the more comprehensive quarterly survey he finds that the growth in employment during 2023 was overstated by 800,000 jobs equal to 30% of the headline 2023 job figure gains. Adjusting for this inflation of 800,000, the growth in the headline figure then correlates with the aggregate hours worked which rose by 1% throughout 2023.

However, this is only part of the picture. Alongside the growth in jobs is the loss of jobs. By assessing the nature of the job gains against the nature of job losses, we add quality to quantity. And the fact is that the quality of job losses is greater than the job gains, as many job losses has occurred amongst higher paid office workers.

A.I. or better still, LLM programmes have already taken their toll. 210,000 software coders have lost their jobs due to coding now being done by LLMs. *The final total of layoffs for 2023 ended up being 262,735, according to Layoffs.fyi. "Tech layoffs conducted in 2023 were 59% higher than 2022's total, according to the data in the tracker. And 2024 is off to a rough start despite not reaching the peak of last year's first quarter cutbacks."* As of March the 21st, 50,841 workers were laid off, a running total of over 200,000 p.a.. Additionally, 60,000 bank jobs were eliminated in 2023. The President's Council of Economic Advisers has just published their report concluding that 10% of all jobs will be destroyed in the near future.

There are two consequences that flow from this. Firstly, the US, politically and socially, is already fragile and fractious. The voting system is even more parlous with the two candidates standing in November held in contempt by either side. By attacking better paid jobs, LLMs will be corroding the centre of US society, it will be attacking the seam that binds *rule by consent* together. It is unlikely the US political system will be able to survive this cull of jobs with millions turned into the precariat, something the panting investors on Wall Street tantalized by rising profit margins have not been taken into account. Greed distorts reality and hides risk.

Secondly, the actual and anticipated loss of better paid jobs will inevitably lead to a fall in demand. Culling a workers earning $50,000 dollars requires up to three workers earning $25,000 dollars or less being hired to compensate for the loss of their spending power. This can be seen in the shift in spending habits. The greatest weakness in spending is found in the upper and lower part of the market. This observation can be found in the reports by the luxury good makers lamenting the loss of demand for their entry priced products.

How strong was and is the economy?

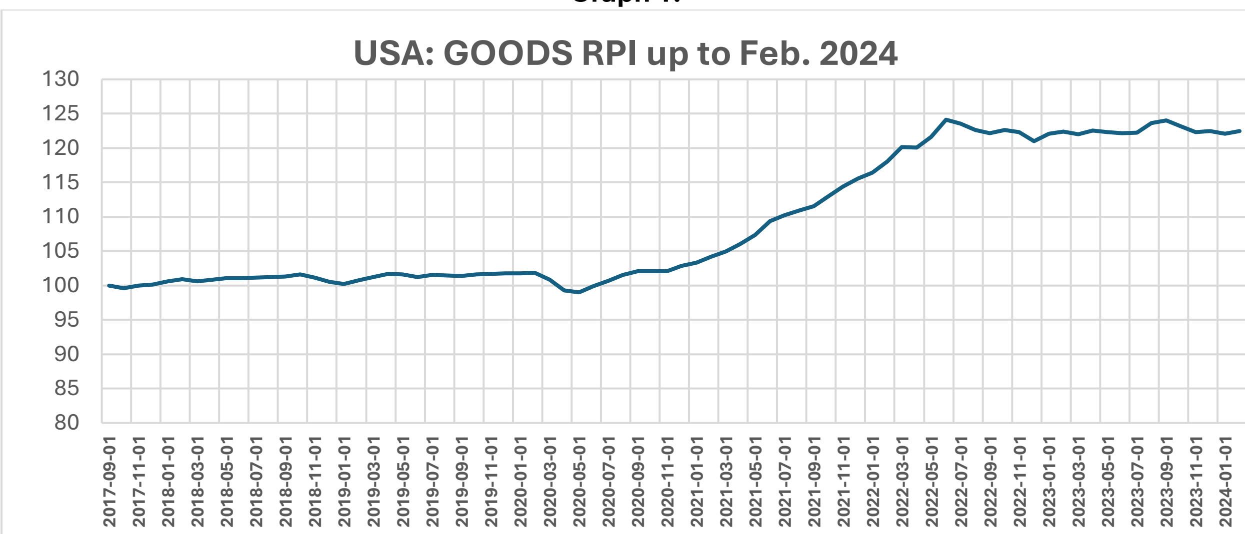
According to the BEA the economy grew in real terms by 2.5% in 2023. These were the drivers.

Table 1. Contributions to growth in GDP

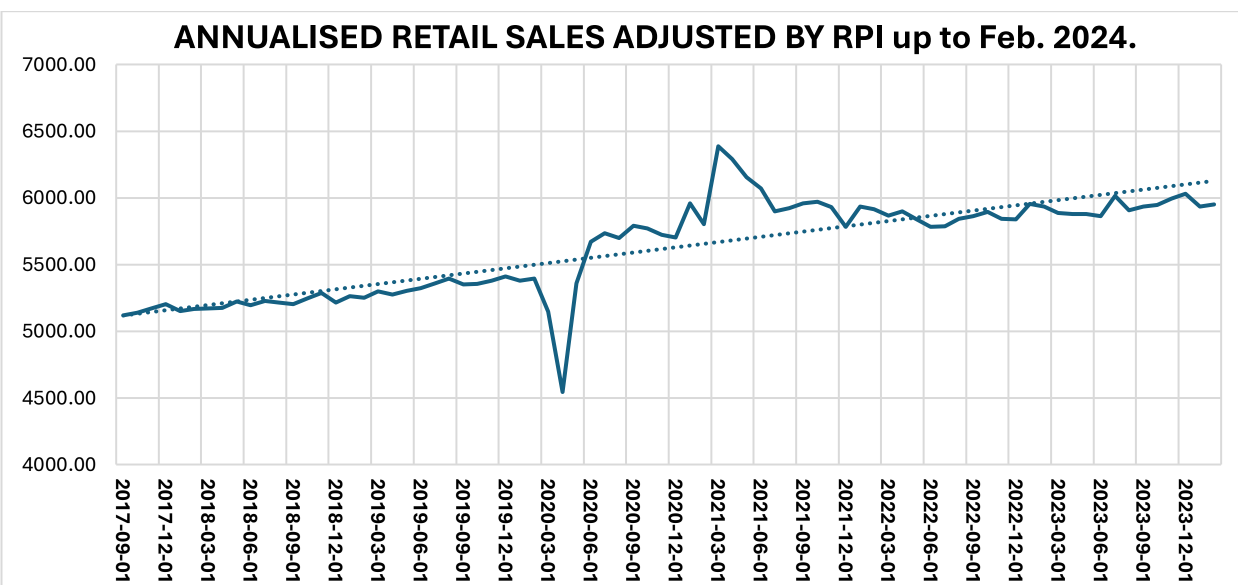
	Dollars	Percentages
GOODS	+107 billion	19.3%
SERVICES	+226.4 billion	40.3%
INVESTMENT	-50.6 billion	-9.1%
NET EXPORTS	+123.8 billion	22.3%
GOVT SPENDING	+148 billion	26.7%
TOTAL	**+555 billion**	**100%**

As we can see above personal consumption provided 60% of the 2.5% growth or 1.5% of total growth, but as we are about to see, this is likely to be overstated. Below I present a number of exhibits beginning with retail sales.

Graph 1.



Graph 2.



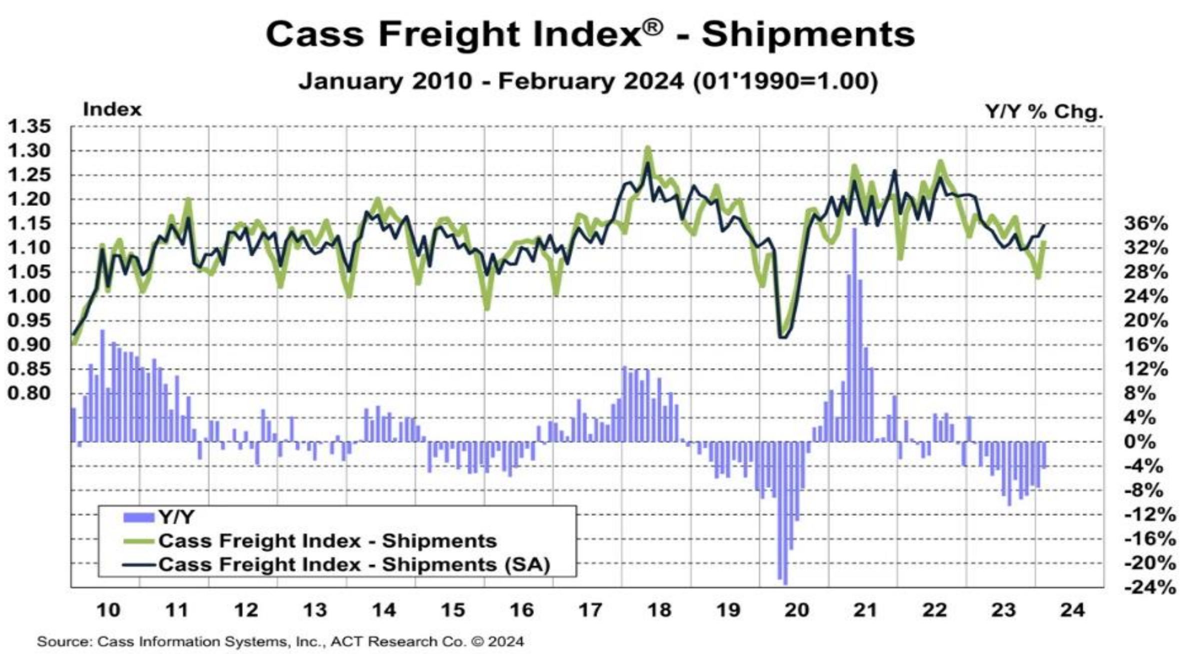
To construct this graph I prepare my own Retail Price Index which excludes service sector inflation, which is included in the normal Consumer Price Index. I use two FRED Tables CUSR0000SAN for non-durable goods and CUSR0000SAD for durable goods. I then adjust each price index by the weight of sales for durable and non-durable goods. As we can see, for twenty months the index has flatlined.

Turning to Graph 2. The Census Bureau provides advanced retail sales. I then adjust these sales by the RPI index in order to get the volume of retail sales. Here there has been a slight rise. When analyzed, volume growth for 2023 compared to 2022 using the same data as in the Graph above, was 0.3%. The equivalent figure cited by the BEA in Table 1.1.6 was just over 2% (line 3). This discrepancy of 1.7% was enough to reduce GDP growth by over 0.3% over the course of 2023. And if that is true for goods sales is just as likely to have occurred with service sector sales.

Critics of China always try and disprove China's GDP data using physical analogs. I suggest they turn their attention to the US instead, where, since the advent of the economic war with China, data has been inflated. My favourite physical metric is freight movements. Below are a number of exhibits.

FedEx recently reported its freight movements for the final quarter of 2023. US volumes were down 4% while weight moved was down 9%. UPS volumes in turn were down 10.5%. Total packages delivered by the big four in the US were the US Postal Service 7.1 billion (-0.2 billion), Amazon 5.9 billion (+0.7 billion), UPS 5.3 billion (-0.5 billion) and FedEx 3.1 billion (0.1 billion) yielding a fall of 0.1 billion or half a percent in the volume of packages delivered between 2023 and 2022. *"... pricing pressures alongside "steady but not spectacular volumes" will weigh on first-quarter numbers, which he cut by 26% to 32% for the TL carriers he follows."* And in the graph below, we see shipments fell by 5% over the course of 2023.

Graph 3.



This is consistent with the *Near Real-Time Spending* issued by the BEA which fell in nominal terms by 1.2% over 2023, and by 1.6% over Jan-Feb this year. Taking the value and volume data together it is hard to conclude that GDP rose in real terms by 2.5% over 2023.

Furthermore I always examine the top 30 consumer facing corporations in the USA, and the net volumes excluding Amazon have been negative. Of interest, when examining the financial reports of these corporations by geography, the majority have stated the weakest market for their international sales was North America. And yet we are led to believe that the US economy is outgrowing the rest of the world.

Finally it is also worth examining corrugated cardboard sales, out of which boxes are made. By mid-2023 sales of the ubiquitous cardboard boxes were down 11%. Here is another mid year report. And finally this report from The Packaging Corporation of America which shows that while the fall moderated, the annual fall in the square feet of cardboard sold was still 4.5%, Once again consistent with freight movements.

Table 2.

Production and Shipments

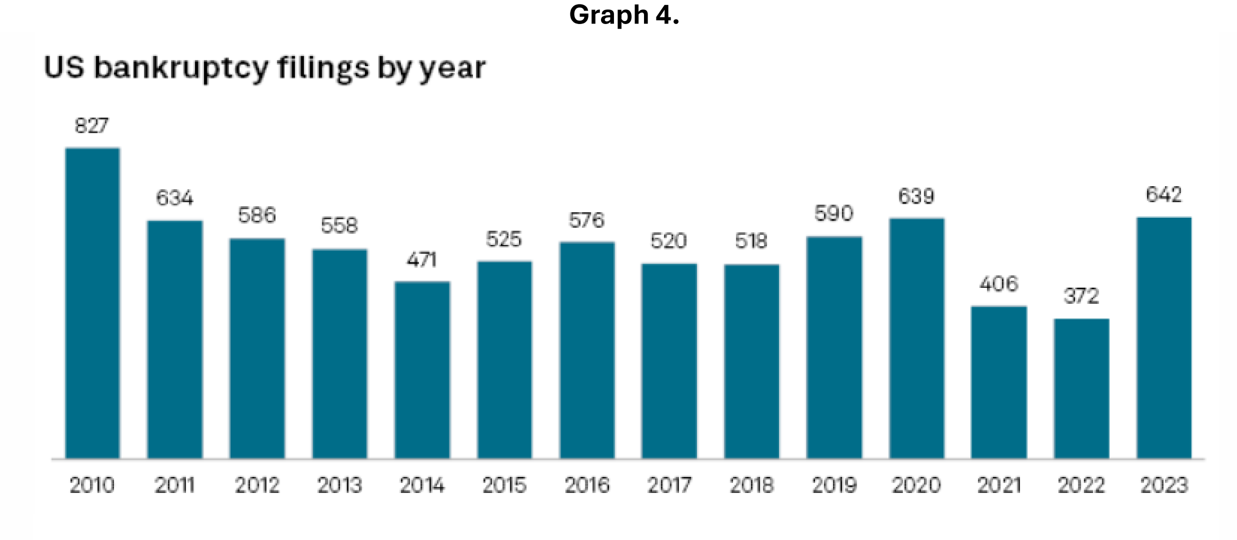
The following table summarizes the Packaging segment's containerboard production and corrugated products shipments and the Paper segment's UFS production.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Containerboard Production (thousand tons)	2023	1,086	1,112	1,118	1,213	4,529
	2022	1,233	1,256	1,116	961	4,566
	2021	1,195	1,193	1,256	1,243	4,887
Corrugated Products Shipments (billion square feet)	2023	14.7	14.9	15.2	15.7	60.5
	2022	16.8	16.5	15.4	14.7	63.4
	2021	16.4	16.5	16.4	16.4	65.7
UFS Production (thousand tons)	2023	126	116	109	121	472
	2022	126	127	123	130	506
	2021	145	149	148	130	572

Bankruptcies and delinquencies.

In 2024 bankruptcies can be expected to rise significantly as many leveraged loans fall due in 2024 -2025. Already bankruptcy filings increased in 2023. According to Reuters and S&P Global, bankruptcies reached a 13 year high in 2023. December was a particularly bad month.

Graph 4.



Of interest is the recent filing of consumer finance company Curo Group which filed for bankruptcy owing $1 billion. However, as we can see below, overall current filings are still below their 2019 levels.

Table 3.

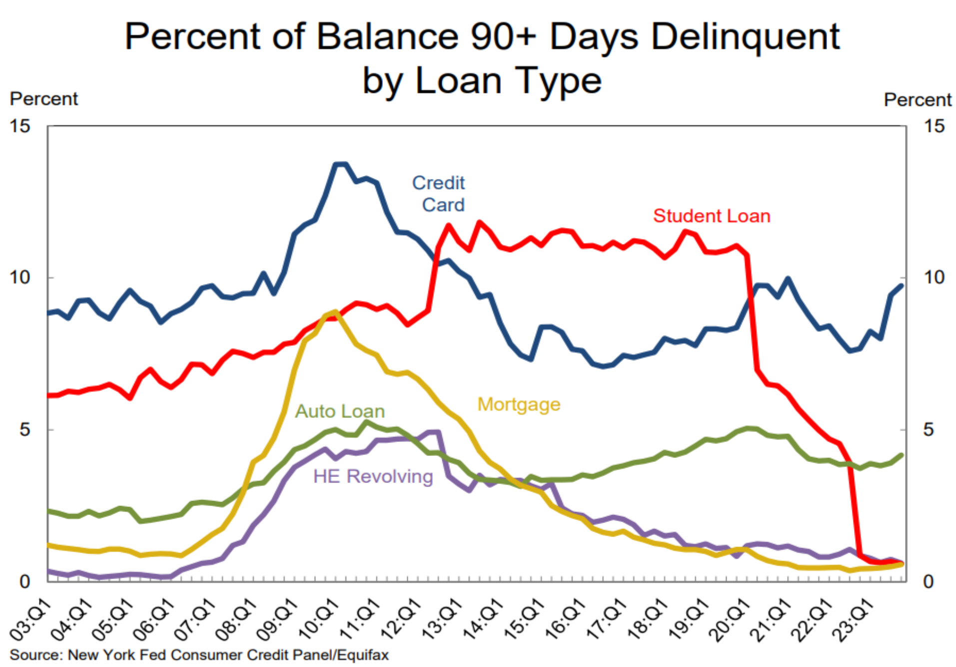
Weekly Bankruptcy Analysis

Bankruptcy Filings • March 11-17, 2024					
Type of Case	Number Filed	Percent Change From Same Week			
	2024	2023	2022	2021	2020
Total	9,845	10.3%	23.5%	10.1%	-38.0%
Chapter 7	6,148	11.6%	23.5%	-6.7%	-42.3%
Chapter 11	119	5.3%	56.6%	25.3%	-22.7%
Chapter 13	3,564	8.1%	22.4%	58.8%	-29.5%
Other Cases*	14	100.0%	75.0%	55.6%	-39.1%

Source: American Bankruptcy Institute

The Financial Times reports that despite 90-day defaults on credit cards rising to 10% equal to $110 billion, card providers shares remain in positive territory and none of the majors have issued any warnings. But this is not unexpected, financial crises begin their crawl in the dark.

Graph 5.

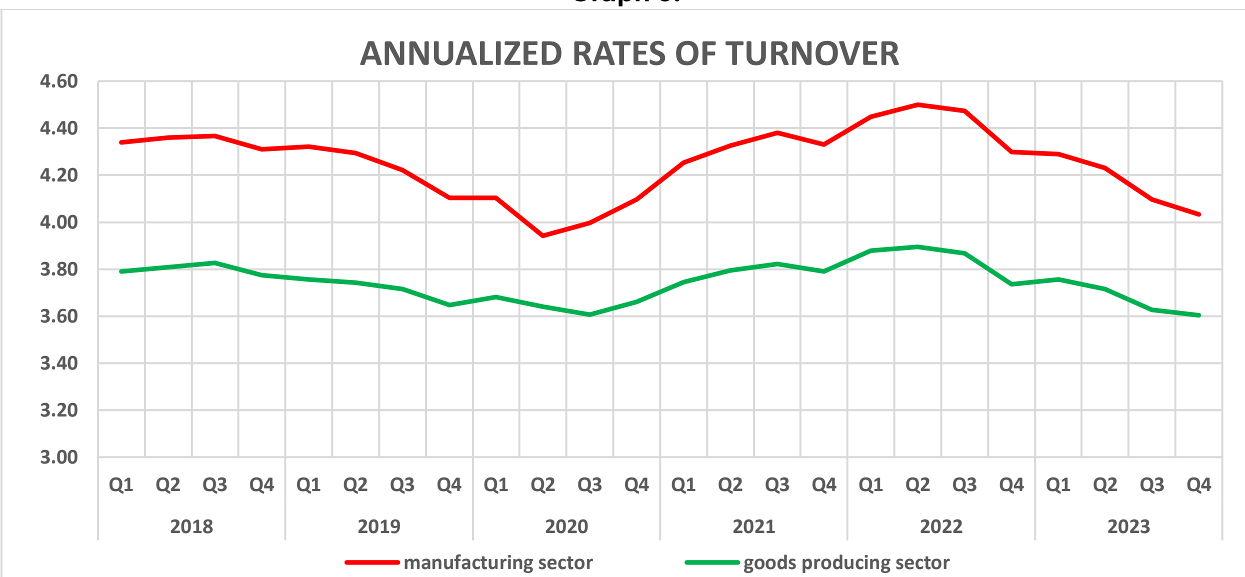


Despite *Nomura's High Yield Bond* report being sanguine about the leveraged loan market, and despite yields continuing to moderate in this sector, we need to be alert to a significant rise in bad debts this year, particularly given a perspective of more moderate rate cuts by the FED than expected.

US profitability.

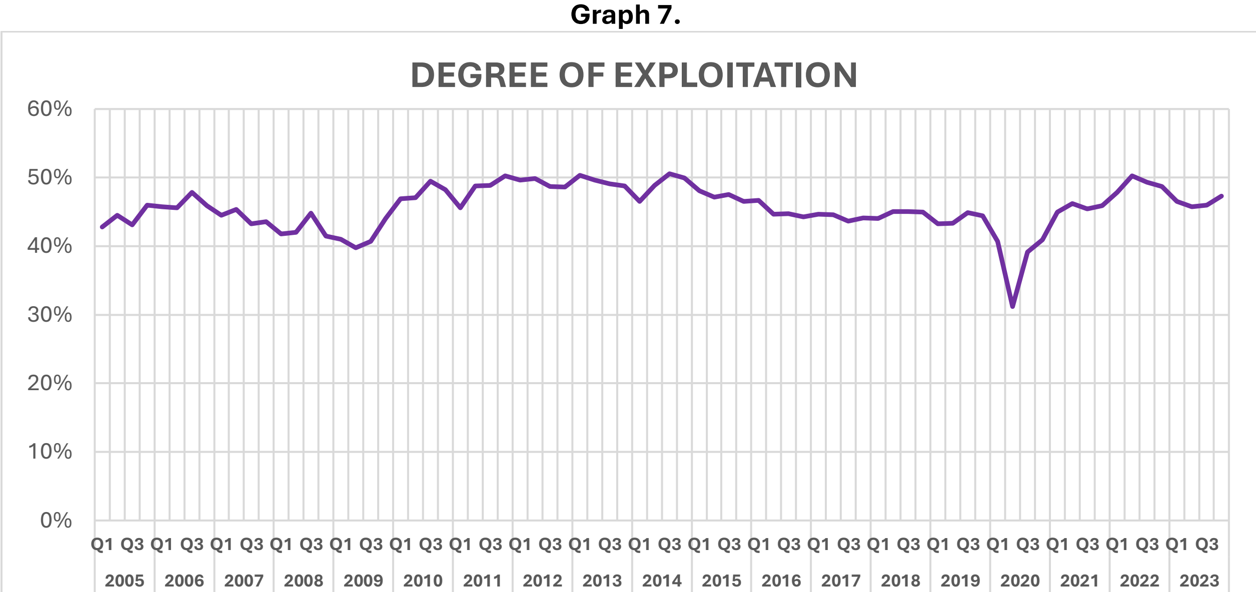
We will begin as always with the rate of turnover as an indicator of market conditions. We note it has continued to decelerate. During the last two quarters this was due to a fall in the price of intermediate goods relative to final sales. This deceleration in turnover therefore had less of an effect on profitability than would be the case normally. More on this later.

Graph 6.



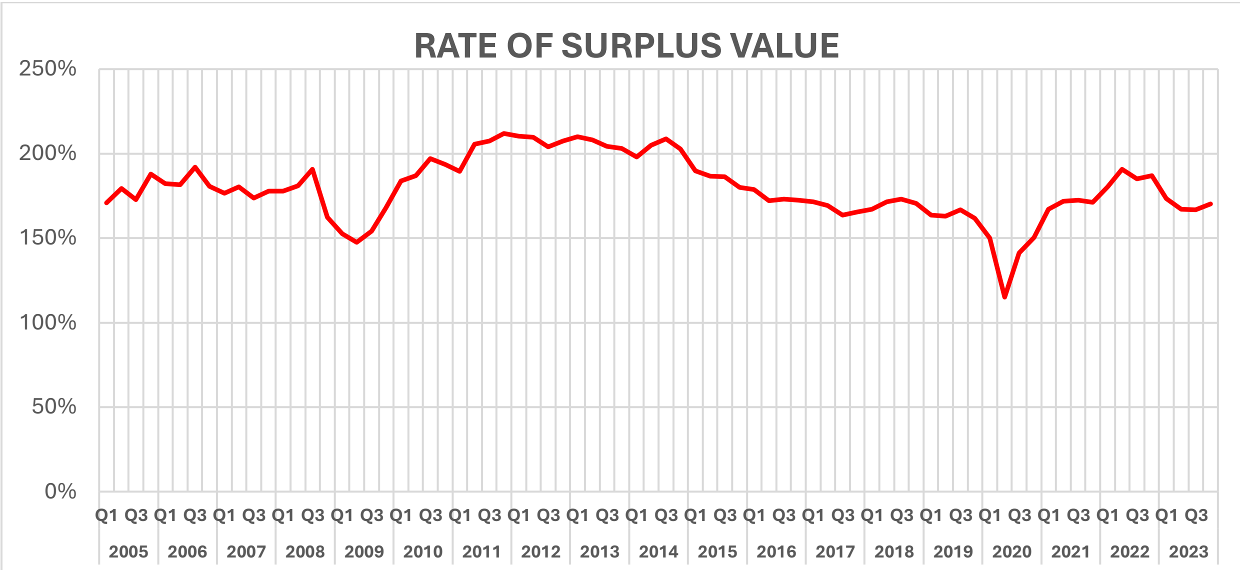
Next we turn to the degree of exploitation, that is the division of the working day, that is the net surplus divided by worker compensation.

Graph 7.



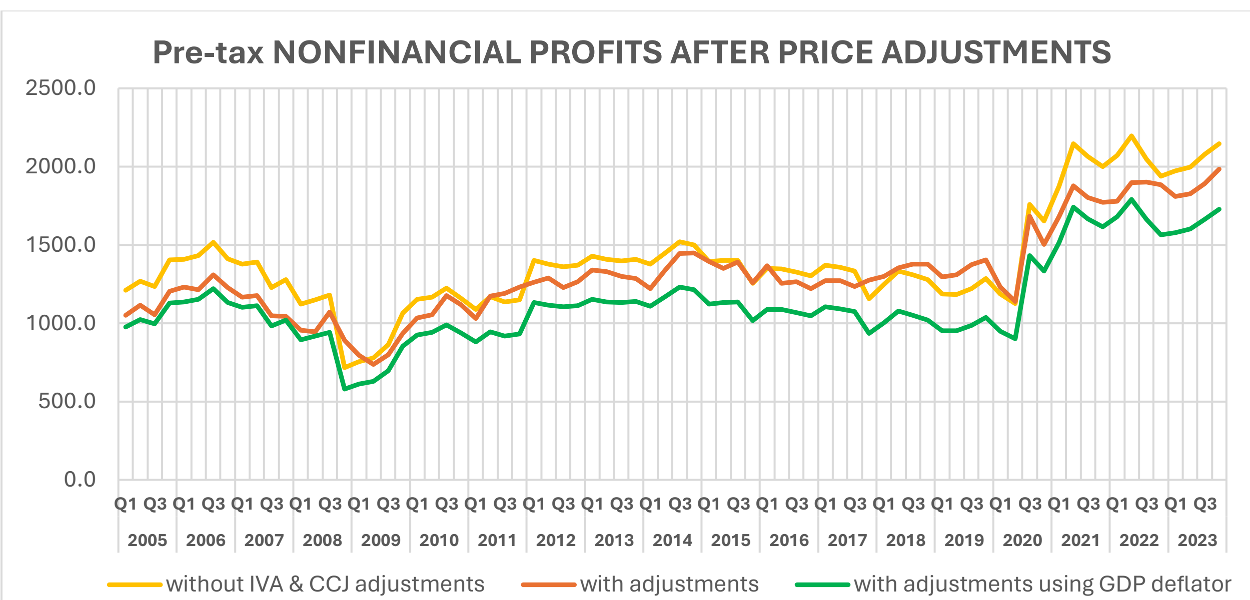
We note in the graph above that the degree of exploitation has risen above the degree found pre-pandemic. And it continued to rise in the fourth quarter despite the fall in inflation below the increase in wages, and despite the residual ripples from covid funds having exhausted itself.

Graph 8.



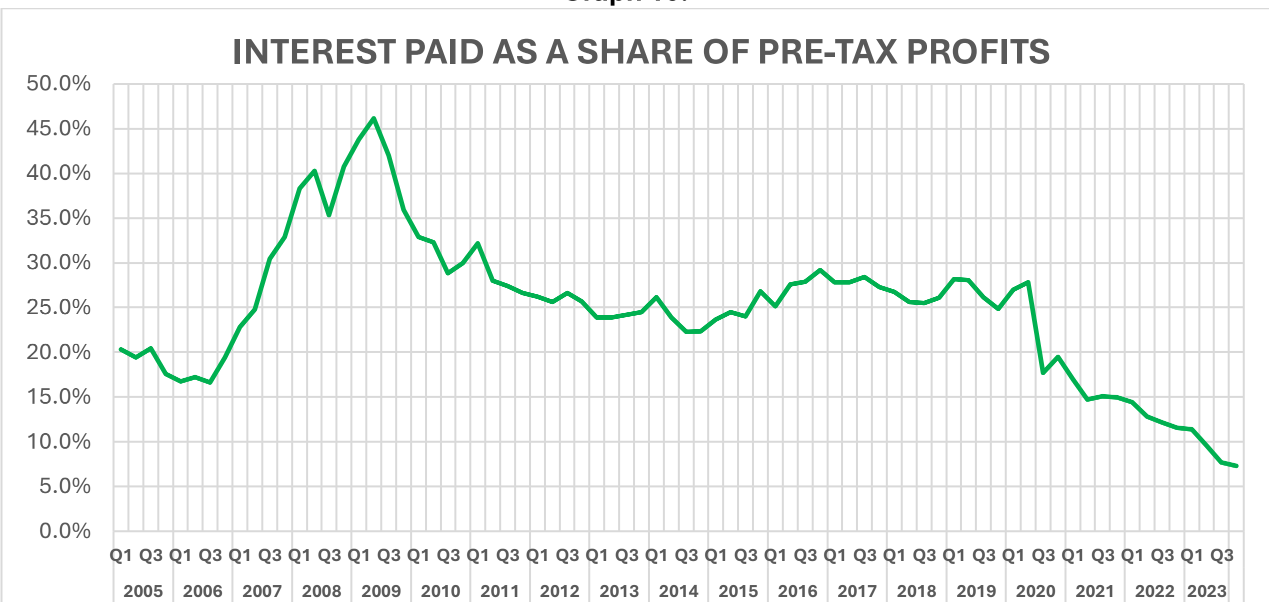
However, despite the rise in the degree of exploitation, decelerating turnovers reduced the rate of surplus value to levels no higher than that found in 2019 or pre-pandemic. So how can we explain the surge in profits seen below. Regardless of which pre-tax profits (enterprise profits) are used, and regardless of which deflator is used, there has been a jump in profits well above the pre-pandemic and even pre 2008 levels?

Graph 9.



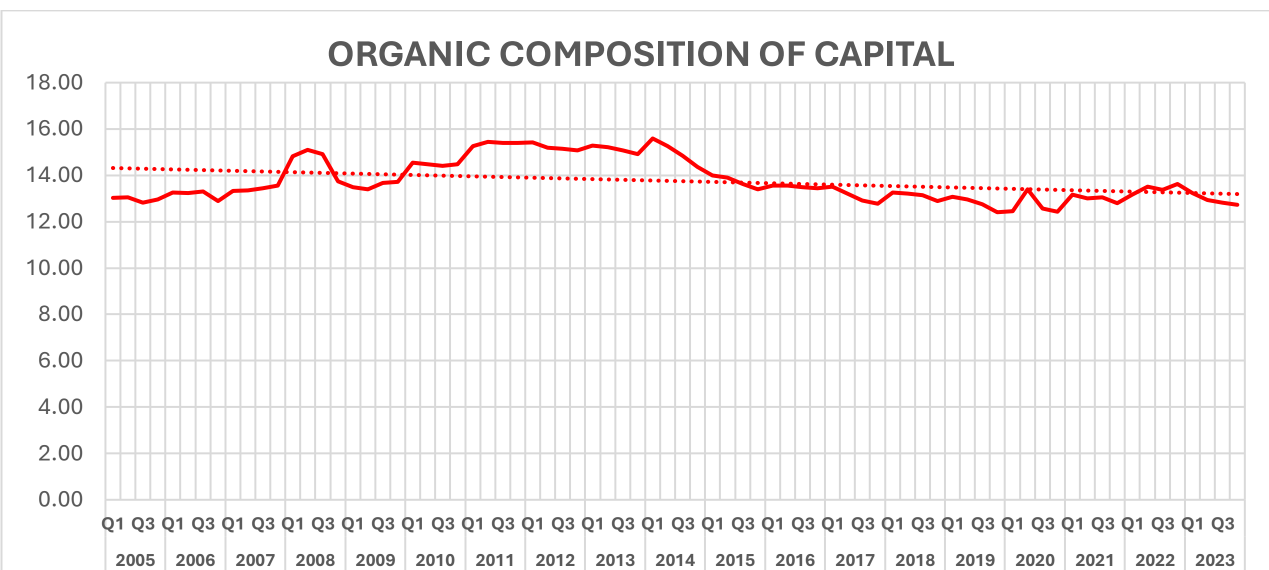
The answer lies in interest paid. Interest paid is a deduction from gross profits thereby reducing enterprise profits (pre-tax profits). The smaller the amount of interest paid; the larger will be the residual enterprise profit. And interest paid has fallen significantly, from a historical band of 20 – 25% down to 10% and lower. This 15% difference results in a 15% rise in enterprise profits. This fall in interest paid, a bit of a poke in the eye to those besotted by financialisation, is due to the deluge of Covid funds which recapitalized many of these corporations and made them less dependent on borrowing. Also the larger corporations became cash rich and with the recent hike in interest rates, especially in money markets, they have received more in interest payments helping offset the interest paid by smaller corporations when borrowing.

Graph 10.



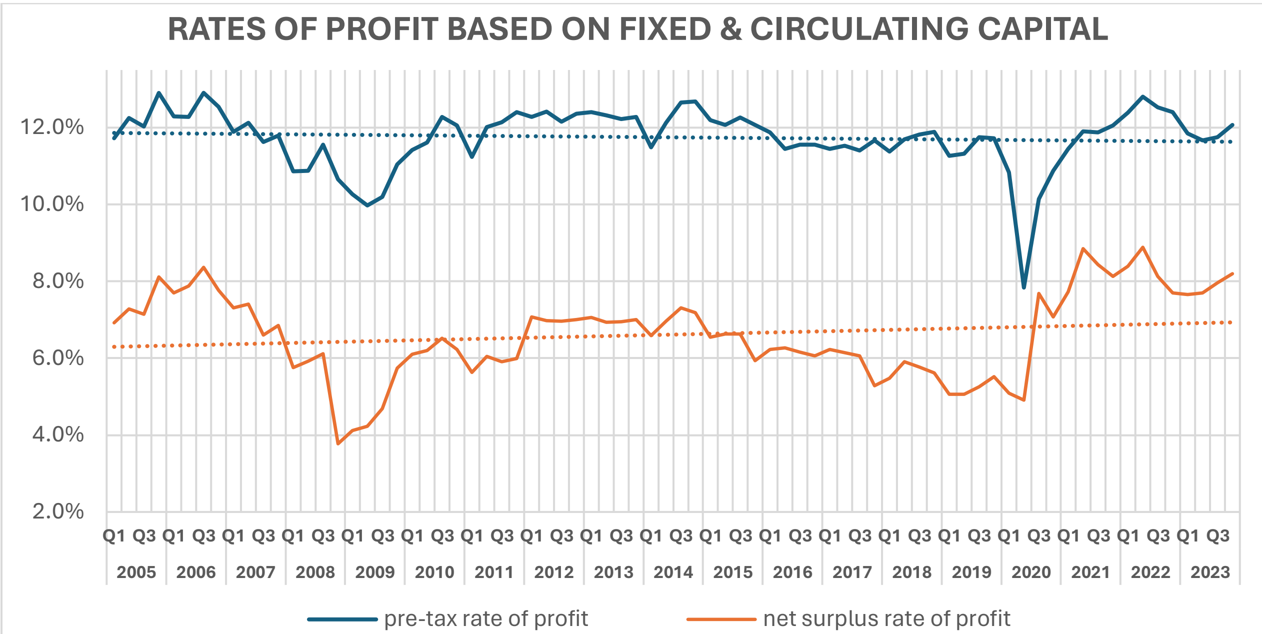
Having examined the profit side we can now turn to the capital side.

Graph 11.



We note that in the period post the financial crisis, the composition of capital has subsided. This is due to weak fixed investment and an increase in the employment of labour to compensate. Whatever the case, flatlining composition is always positive for the rate of profit.

Graph 12.

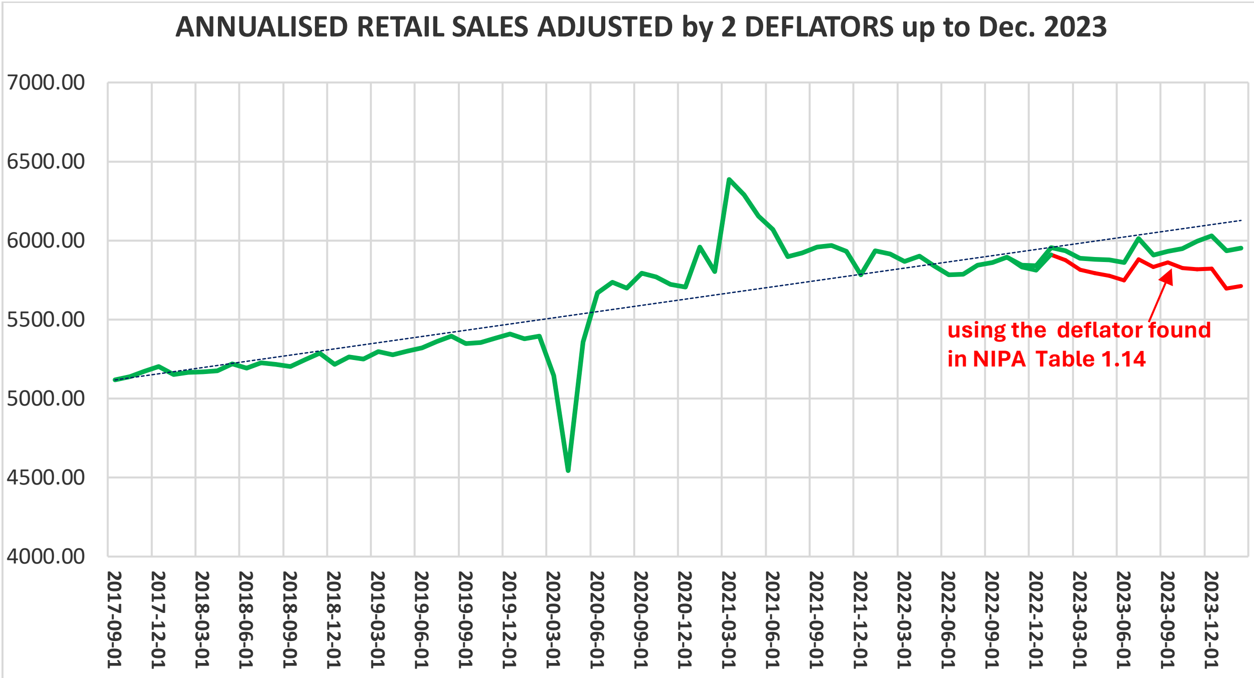


In this graph we can see how interest paid changes the trends in the two rates of profit. The net surplus rate of profit is unaffected by interest paid so the peak in Q2 2022 is no higher than 2014 and 2006. The same cannot be said for the pre-tax enterprise rate of profit. It is half a percentage point higher than in 2006. Furthermore, over the second half of 2023 the rate of profit has risen 0.5% or 0.4% when measured by the net surplus..

I was surprised by this result. I expect a fall based on the scissors effect between inflation falling below wage rises. Non-farm productivity over the course of 2023 rose by only 1.35%, not necessarily greater than the emerging gap between inflation and wages. Measured against 2021, productivity was actually down 0.7% but here again, productivity was distorted by covid funds inflating value added which is the numerator when calculating productivity. The cheeky alternative interpretation once again is that inflation was understated. My analysis of the top 30 corporations showed that their rate of inflation of 3-4% was significantly higher than the official figures. It could be said that the smaller corporations who have less pricing power would have reduced the average. This may be so but the largest corporations monopolise each sector enjoying a market share of >70.

When we use the deflator found in NIPA Table 1.14 and apply it to retail sales we find that the volume of sales is lower than that reported officially and closer to the freight and box data provided above. When doing this instead of the resilient consumer we find the shy consumer because retail sales volume has gone nowhere during 2023.

Graph 13.

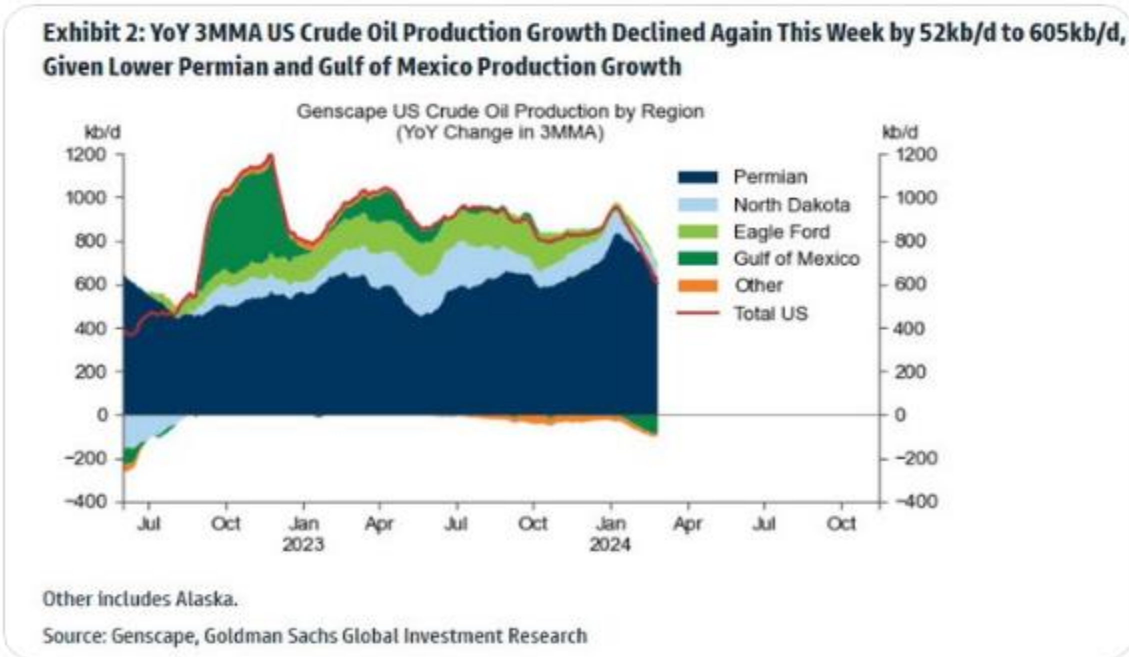


Digging deeper into the profit figures as well as the net surplus, two factors stand out. I have pointed out in previous writings that recently input costs have fallen faster than output costs. This has a bearing on turnover Graph 6. Or to put this in accounting terms the cost of sales have fallen faster than the fall in sales resulting in an expansion of gross margins (gross profit). In the words of the article, sectors of the economy have benefited from disinflation, or more crudely they have not passed price falls onto their customers. This has percolated downwards. The gross margins of companies listed on the Russell 3000, which includes smaller companies, has risen for the first time, increasing to 34% during the fourth quarter.

The second impact has come from the super profits enjoyed by the seven brothers or the magnificent seven, the Tech giants. The net margin for these seven corporations is 19% vs 9.8% for the rest of the economy. And due to their outsourcing, the capital per worker employed is lower. Thus not only do they contribute more profit, but due the capital they employ, they also serve to raise the overall rate of profit. With the exception of Apple, the advent of LLMs (A.I.) has further added to their profits.

However, there is already one black swan floating on a black lake and that is the shale oil and gas industry. Production may have irreversibly peaked in this sector. The half life of a shale well is far shorter than deeper wells due to the need to keep fracturing oil bearing rock, and as time passes, this becomes more costly and complex. The effect on corporate profits could be significant. When the oil price was around $100 dollars and higher, the oil producers were the primary drivers of the surge in profits. This appears to be no longer the case, despite their best efforts to reverse the green transition. Fortunately for US corporate profits and investors, High Tech, has taken over from Low Oil.

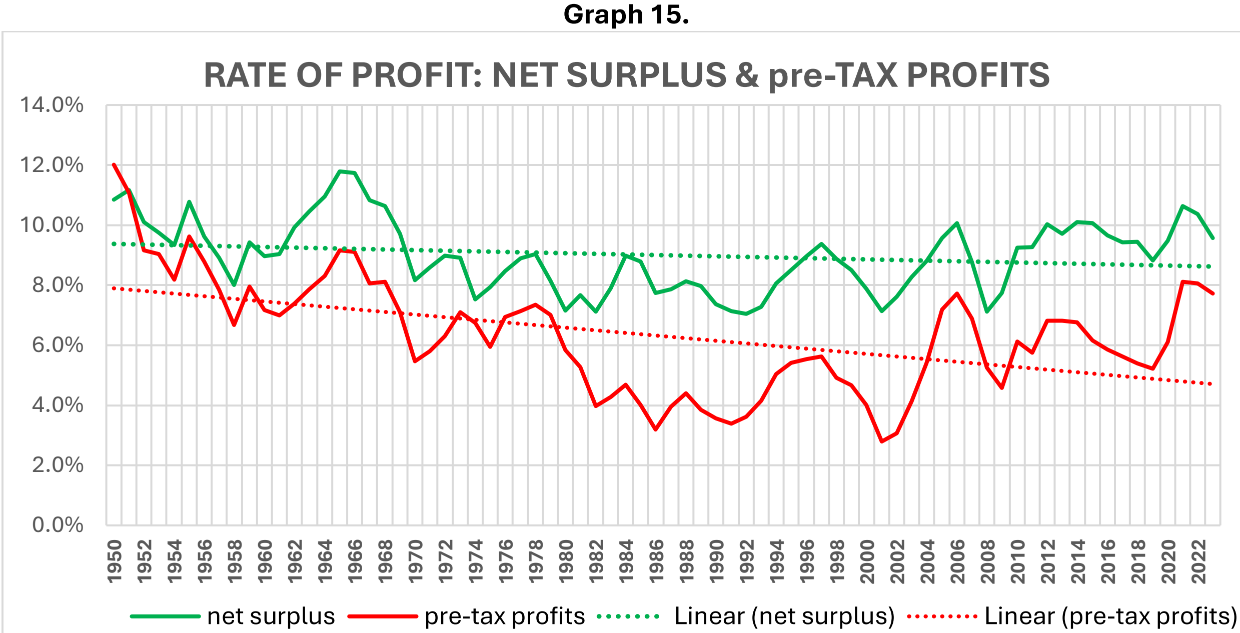
Graph 14.



The longer term rate of profit.

I will finish on this topic with two notable observations. Firstly, over seventy three years, the tendency for the rate of profit to fall, when measured accurately, is undeniable and clear to see. Secondly, we observe by how much covid funds has inflated the rate in 2021-2. Were it not for this purely monetary inflation, the long term trends would be falling more sharply than the fall from 9.5 to 8% (green graph) and from 8% to 4% (red graph). In terms of the incentive to invest, the red graph is the more important.

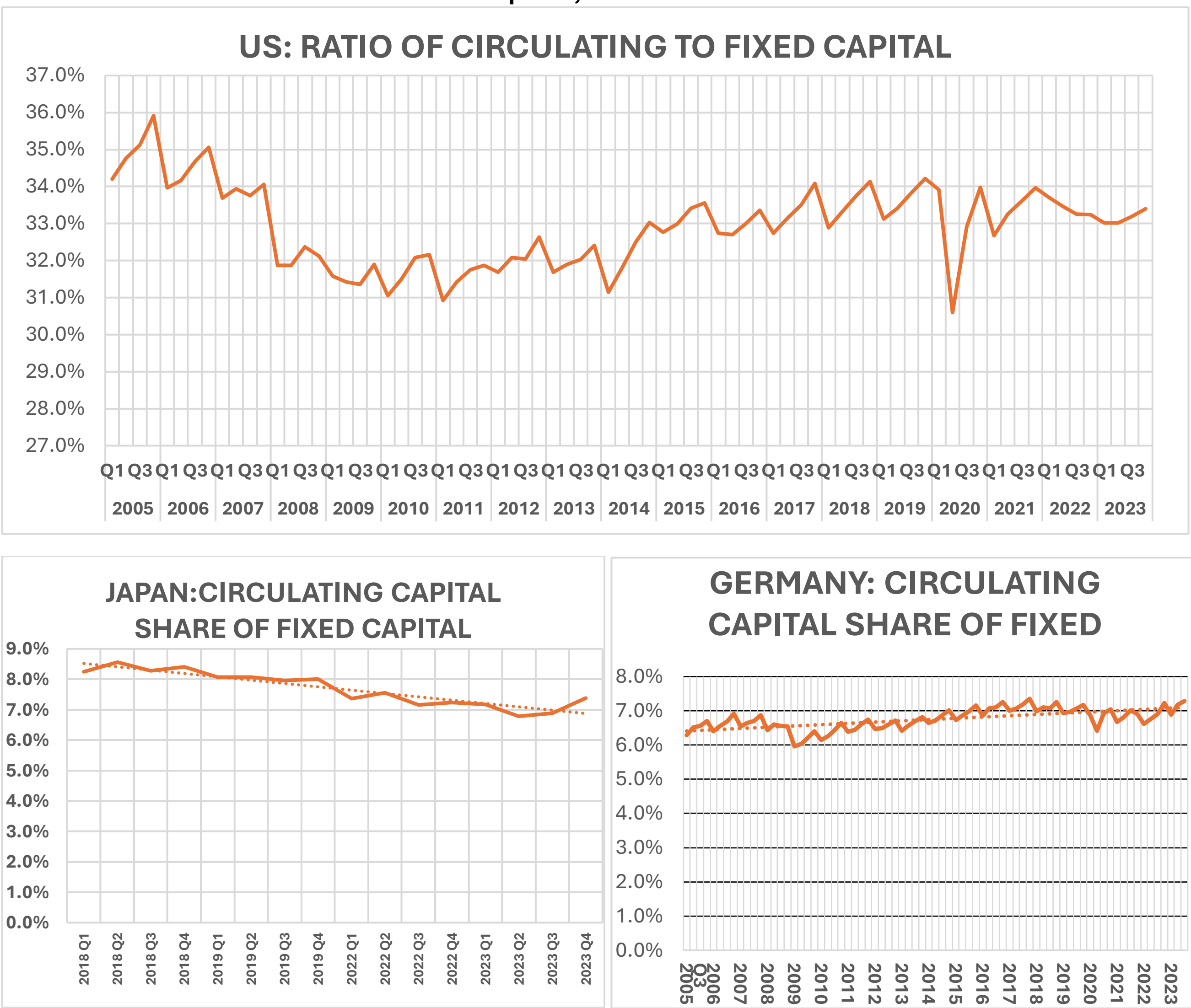
Graph 15.



Without circulating capital there can be no equalization of the rate of profit.

Regular readers will know that I have estimated the rate of profit based on fixed and circulating capital for Japan, Germany and now the USA. Without including circulating capital and therefore it effect on total capital, rates of profit between countries become incommensurable. This is because the amount of circulating capital as a ratio of fixed capital differs so much between countries as these three graphs show.

Graph 16, 17 & 18.



What we see is a US ratio of over 30%, while in Germany and Japan the ratio is below 10%. This reveals the different economic structures with Japan and Germany being more industrialized with differing investments in fixed assets per worker. The US economy as the pre-eminent global economy is able to afford a much larger service economy to serve its bloated capitalist class, and as the service economy is more labour intensive, it increases the amount of circulating capital relative to fixed capital in the USA.

More to the point, the gap in circulating capital between these three countries means that when using only fixed capital, or what is the same thing, the rate of return, we end up with results which are misleading. We find no equalization in the rate of profit. For example when we use the rate of return in the USA as a proxy for the rate of profit, we would be misled into believing the rate of profit in the US is considerably higher than it really is. When adding back circulating capital, its rate of profit is reduced proportionately more, aligning it with average profit rates in the other major countries.

As I put it in my previous article on Japan: "*Compared to the annual German rate of profit which averaged 9.1% over the period 2022-2023 the Japanese gross rate of profit was 8.5%, more or less in the same ballpark, while the pre-tax rate of profit for US corporations averaged 8.1% or 8.9% with interest included. This confirms the operation of one of the most dynamic laws governing capitalist production, one which Marx drew attention to repeatedly, and that is the equalization of the rate of profit. It holds true within nations, and it holds true between developed nations but only when measured accurately.*"

There is one final observation. All the ratios above have a zigzag pattern. Some more ziggy and some less. This proves that circulating capital, being fluid, is much more volatile than fixed capital. And if we recognise, as one should, that investment sets the tempo for production, then it is doubly true that the beat master of this tempo is circulating capital.

Of the notable Marxist scholars, in my opinion, only Michael Roberts has grasped the importance of including circulating capital and turnover, which is why I cannot comprehend why he continues to employ rates of return masquerading as rates of profit. It seems old habits linger on which of course has no place in any science, especially that most noble of sciences, Marxism.

Conclusion.

The rate of profit held up because of the increase in the degree of exploitation in the USA, Japan, and Germany. It held up, and even rose, despite the fall in demand, which is a blow to the under-consumptionists. And it held up despite the recessionary conditions in both Japan and Germany.

What 2023 also provided was a deeper insight into the nature of money. It revealed the sharp distinction between temporary money - credit money - as issued by the banks, and permanent money – as issued by the government in the form of grants and certain forms of fiscal deficit spending. This infusion of state backed money has been enduring, the gift that keeps on giving, and to a large degree it has undermined the attempts by the FED to tighten the money supply through raising interest rates.

The US economy enjoyed strong fiscal support. The deficit for 2023 came in at $1.7 trillion equal to 6.2% of GDP. More importantly it was up $0.363 trillion contributing over a quarter to the growth in real GDP during the course of 2023 (see Table 1 above). It is likely that this level of spending will continue, as the best estimate for the further growth in deficit spending is likely to be in the region of $0.3 trillion.

Clearly this trend in government spending is unsustainable, as is the failure by the ruling class to deal with climate change. For this reason, with the summer of reckoning - with its heat, hurricanes and typhoons - fast approaching, I will not be predicting the future course of the US economy.

(Methodological note: In preparing the US rate of profit I had to estimate the amount of fixed capital. The official figure at the end of 2022 - Fixed Assets Table 4.1 – was adjusted using the capital consumption figures found in NIPA Table 1.14. The rate of turnover used for the corporate sector is the rate found in the goods producing sector.)

Brian Green, 29th March 2023.