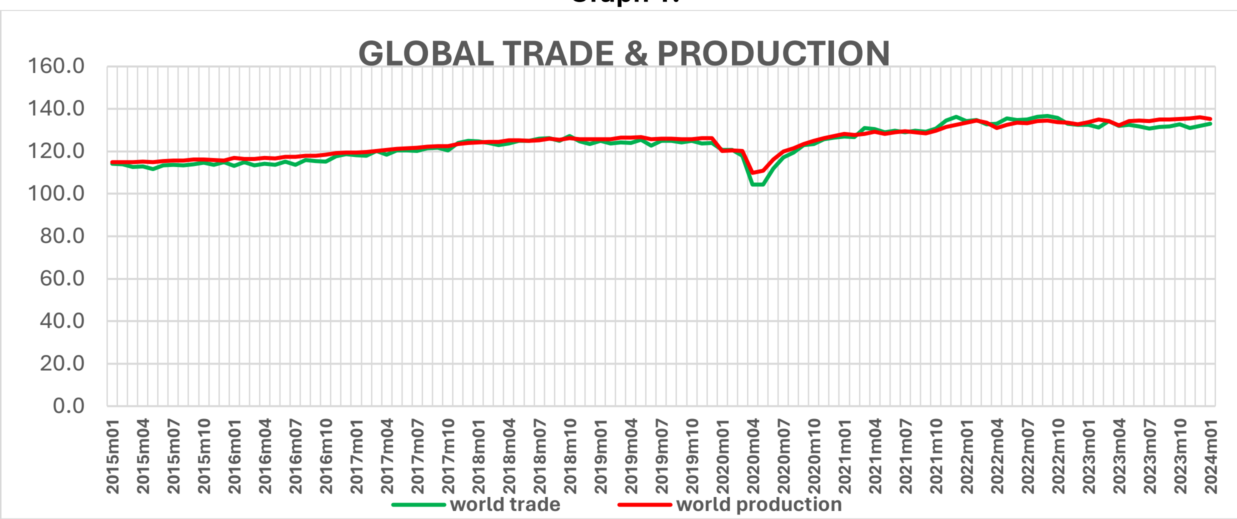
PUTTING THE OFFICIAL US ECONOMIC DATA ON TRIAL.
Preliminary First Quarter Analysis

This article has a different format. In it I present a number of exhibits drawn from the quarterly presentations by leading corporations providing their annual or quarterly growth rates and compare these to the official data released by the BEA and Census Bureau. They differ. This has been happening ever since the economic marathon against China which I believe influenced the accuracy of the US data.

I will begin as I usually do at this time of the month with a look at the world economy to set context. According to the CPB World Trade Monitor January 2024, the quarterly data which they describe as *momentum* is as follows. Trade growth was at a standstill while production was barely higher.

- *World trade momentum was 0.0% (non-annualized; 0.4% in December, initial estimate 0.5%).*
- *World industrial production momentum was 0.4% (non-annualized; 0.6% in December, initial estimate 0.5%).*

Graph 1.



US GDP in Q1 2024

Below is an Exhibit derived from the BEA releases dated 25th April. It is important to note that the figures in the table are not annualized. In other words they are not based on the difference between the preceding quarter and the current quarter multiplied by four quarters. I find this method, intended to provide a trend, to be both disconcerting and inaccurate because quarters differ for a number of reasons, primarily because the planet is titled on its axis. A better measure which is adopted in Exhibit 1, measures the first quarter of 2024 against the first quarter of 2023. This has the benefit of comparing like quarters and it gives the progress over the year as well. Additionally, it allows this data to be compared with Corporate releases which again are not annualized.

To obtain my figures I used NIPA Table 1.1.5 for nominal GDP and NIPA Table 1.1.4 for the price index to reduce value to volume. The results are different to the official volume and value figures provided by the BEA which posits an annualized GDP deflator of 1.7% for Q4 2024 and 3.2% for Q1 2024, and an annualized nominal GDP growth of 5.1% and 4.8% respectively.

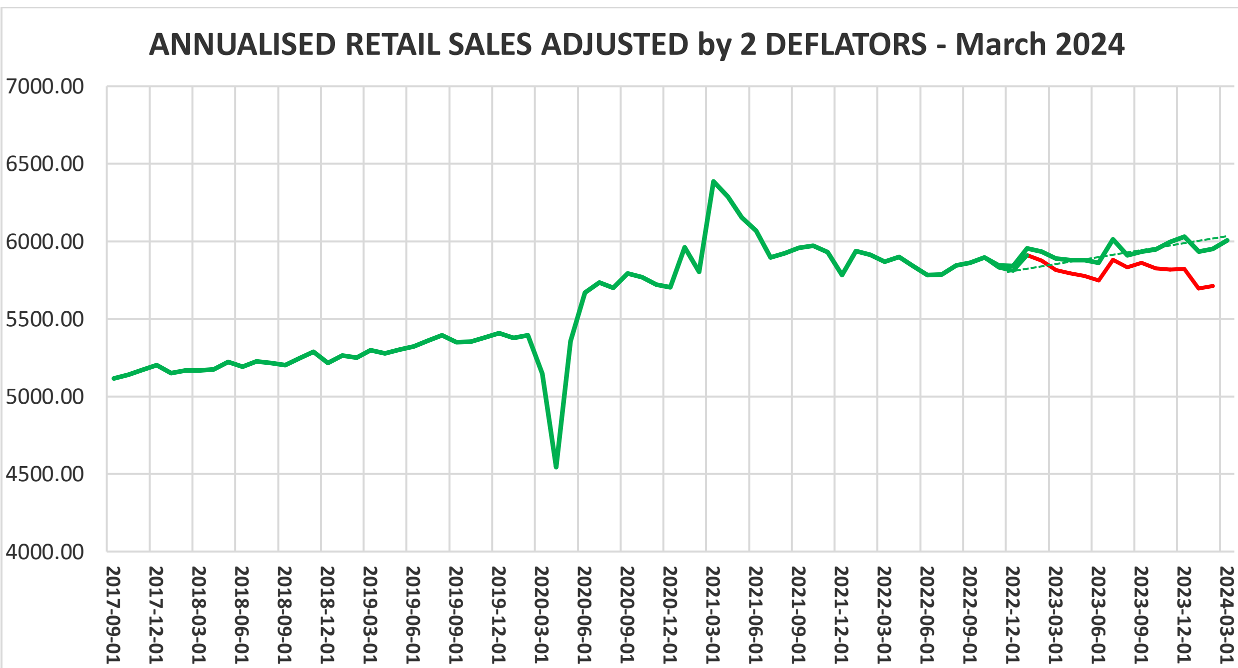
Exhibit 1.

	nominal	nominal	volume	volume	Deflator
GDP	5.9%	5.5%	3.1%	3.0%	2.8% vs 2.5%
Personal consumption	5.6%	5.0%	2.3%	1.9%	3.3% vs 3.1%
Goods	3.4%	1.7%	3.4%	1.6%	0.0% vs 0.1%
Services	6.7%	6.7%	2.6%	1.2%	4.1% vs 5.5%
	Q4 2023	Q1 2024	Q4 2023	Q1 2024	

We note that while nominal growth above was higher in Q4 2023, volume growth turns out to be more or less equal in all sectors due to the higher GDP deflator in Q4 2024. On the other hand personal consumption is lower, and interestingly, the volume growth in the much vaunted service sector is lower than for goods due to higher deflators in this sector compared to the goods sector. One economy, two divergent views, but an economy which when measured this way has not slowed down.

All of this is corroborated by the volume of retail sales (goods) up to March 2024 in Exhibit 2 below. The red graph uses the deflator found in NIPA Table 1.14 which is more accurate. It shows that retail sales have been flat to falling for the last two years. The green graph on the other hand uses the official deflators found in FRED Tables CUSR0000SAN and CUSR0000SAD weighted for the balance of sales between durable and non-durable goods. I will update the red graph as soon as the BEA releases deflators for Table 1.14.

Exhibit 2.



Measuring the economy through the lens of the Earnings Reports

We will begin with the auto industry. US light vehicle sales are up 4.8% in Q1 due to Toyota but average prices fell 3.9% according to J D Powers. This is one of the few goods sectors where volumes are up. This however does not apply to the three main US Producers - General Motors, Fords and Tesla.

Exhibit 3. (General Motors)

	Industry	GM	Share	Industry	GM	Share
North America						
United States	3,860	594	15.4 %	3,682	603	16.4 %
Other	892	115	12.9 %	793	103	13.0 %
Total North America	4,752	709	14.9 %	4,475	707	15.8 %
Asia/Pacific, Middle East **and** Africa						
China(a)	5,617	441	7.9 %	5,103	462	9.1 %
Other	5,500	113	2.0 %	5,543	108	1.9 %

Source: General Motors Investor Relations

The same is true for Ford. "*Ford's revenue for the 2024 first quarter was $42.8 billion, up 3% year-over-year even as vehicle shipments declined slightly.*"

And Tesla was the big disappointment with falls in the USA and sharper falls in China. It is clear that US corporations, including Apple are now being impacted by Chinese competition. (Unfortunately Tesla does not provide country by country sales.

Exhibit 4. (Tesla)

OPERATIONAL SUMMARY
(Unaudited)

	Q1-2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024	YoY
Model 3/Y production	421,371	460,211	416,800	476,777	412,376	-2%
Other models production	19,437	19,489	13,688	18,212	20,995	8%
Total production	**440,808**	**479,700**	**430,488**	**494,989**	**433,371**	**-2%**
Model 3/Y deliveries	412,180	446,915	419,074	461,538	369,783	-10%
Other models deliveries	10,695	19,225	15,985	22,969	17,027	59%
Total deliveries	**422,875**	**466,140**	**435,059**	**484,507**	**386,810**	**-9%**
of which subject to operating lease accounting	22,357	21,883	17,423	10,563	8,365	-63%

Source: Tesla Investor Relations

The next industry looked at is the wireless industry. Here there is a small volume fall with Verizon's gain of 0.2% overtaken by AT&Ts fall of 1.6%. The rise in nominal revenue for the car industry of 0.9% was below the figure of 1.7% for goods overall, while the nominal revenue fall of 0.3% for these two wireless companies was even further below the overall increase in the service sector of 6.7% in Q1.

Exhibit 5. (Verizon)

Unaudited	3/31/24	3/31/23	% Change
Connections ('000):			
Wireless retail postpaid	93,905	92,192	1.9
Wireless retail prepaid	20,904	22,331	(6.4)
Total wireless retail	114,809	114,523	0.2

(dollars in millions)

Unaudited	3 Mos. Ended 3/31/24	3 Mos. Ended 3/31/23	% Change
Operating Revenues			
Service	$ 18,998	$ 18,456	2.9
Wireless equipment	4,490	4,878	(8.0)
Other	1,569	1,523	3.0
Total Operating Revenues	25,057	24,857	0.8

(Source: Verizon Corporation investor relations)

Exhibit 6. (AT&T)

Segment and Business Unit Results

Communications Segment					
Dollars in millions	First Quarter				Percent
Unaudited		2024		2023	Change
Operating Reve[nues]	$	**28,857**	$	29,152	(1.0%)
Operating Income		**6,745**		6,743	---%
Operating Income Margin		**23.4%**		23.1%	30 BP

Deduct Latin American growth and growth falls to -1.6%

(Source: AT&T investor relations)

In the case of *PepsiCo* there was an actual fall in volumes while average prices rose by 2.5%

Exhibit 7. (PepsiCo)

Summary First-Quarter 2024 Performance

	Revenue				Volume[a]	
		Percentage Point Impact			% Change	
	GAAP Reported % Change	Foreign Exchange Translation	Acquisitions and Divestitures	Organic % Change	Convenient Foods	Beverages
Frito-Lay North America	2	—	—	2	(2)	
Quaker Foods North America [b]	(24)	—	—	(24)	(22)	
PepsiCo Beverages North America	1	—	—	1		(5)
Latin America	16	(8)	—	8	(0.5)	2
Europe	3	7	—	10	2	7
Africa, Middle East and South Asia	2	4	—	7	4.5	2
Asia Pacific, Australia and New Zealand and China Region	6	5	—	11	12	—
Total	**2**	**0.5**	**—**	**3**	**(0.5)**	**—**

(Source: PepsiCo investor relations)

A similar picture emerges for Tyson Foods which increased its sales by 0.4%. On March the 20th General Mills reported: "*Net sales of $5.1 billion were down 1 percent in the third quarter and organic net sales were also down 1 percent…*" The same applies to Kellogg's: "*For the year 2023, price/mix increased 12.6% and volume was down (9.8)%.*" Again the same applied to Kraft Heinz whose annual sales in 2023 measured in Dollars was down 1%. Honestly, why spend all that advertising and marketing money on digital espionage when it is economic circumstances not personal habits which dictate.

Exhibit 8. (General Mills)

Components of Fiscal 2024 Reported Net Sales Growth

Third Quarter	Volume	Price/Mix	Foreign Exchange	Reported Net Sales
North America Retail	(2) pts	3 pts	--	Flat
Pet	(5) pts	2 pts	--	(3)%
North America Foodservice	--	--	--	1%
International	(4) pts	--	--	(3)%
Total	(2) pts	2 pts	--	(1)%
Nine Months				
North America Retail	(4) pts	5 pts	--	Flat
Pet	(7) pts	5 pts	--	(2)%
North America Foodservice	2 pts	1 pt	--	3%
International	(4) pts	5 pts	1 pt	3%
Total	(3) pts	3 pts	--	1%

The USDA also used to report [a weekly series of agricultural sales](). Unfortunately it ended in mid-2023 but for the year up to that date, total sales fell by 3% in volume terms.

Household Sector

Next the household goods sector where two companies dominate. Although figures for North America were not obtained, both corporations had zero volume growth.

Exhibit 9. (Procter & Gamble)

	Three Months Ended March 31, 2024						
Net Sales Drivers [1]	Volume	Organic Volume	Foreign Exchange	Price	Mix	Other [2]	Net Sales
Beauty	1 %	1 %	(3)%	4 %	(1)%	1 %	2 %
Grooming	2 %	2 %	(7)%	10 %	(1)%	(1)%	3 %
Health Care	(4)%	(4)%	(1)%	4 %	3 %	— %	2 %
Fabric & Home Care	1 %	1 %	(1)%	2 %	— %	— %	2 %
Baby, Feminine & Family Care	(3)%	(3)%	(2)%	2 %	1 %	— %	(2)%
Total Company	— %	— %	(2)%	3 %	— %	— %	1 %

(Source: Procter & Gamble investor relations)

Kimberly-Clark also reported 0% growth in volumes: *"In North America, organic sales increased 3 percent versus last year, driven by 2 percent growth in Personal Care and 6 percent growth in Consumer Tissue, partially offset by a decline of 1 percent in K-C Professional."*

Next the two biggest names in clothing, Nike, and T J Maxx. In North America the nominal value of sales by Nike rose by 3% and fell by 1% year on year. In the case of T J Maxx comparable sales within the USA were as follows: "*First Quarter and Full Year Fiscal 2025 Outlook For the first quarter of Fiscal 2025, the Company is planning consolidated comparable store sales to be up 2% to 3%, For full year Fiscal 2025, the Company is planning consolidated comparable store sales to be up 2% to 3%."* (First quarter fiscal 2025 covers half of the first quarter of 2024.)

Exhibit 10.

NIKE, Inc.
DIVISIONAL REVENUES
(Unaudited)

(Dollars in millions)	THREE MONTHS ENDED 2/29/2024	THREE MONTHS ENDED 2/28/2023	% Change	% Change Excluding Currency Changes[1]	NINE MONTHS ENDED 2/29/2024	NINE MONTHS ENDED 2/28/2023	% Change	% Change Excluding Currency Changes[1]
North America								
Footwear	$ 3,460	$ 3,322	4%	4%	$ 10,950	$ 11,090	-1%	-1%
Apparel	1,408	1,419	-1%	-1%	4,555	4,598	-1%	-1%
Equipment	202	172	17%	18%	613	565	8%	9%
Total	5,070	4,913	3%	3%	16,118	16,253	-1%	-1%

(Source: Nike investor relations)

A similar picture is found with Foot Locker: *Total sales inclusive of the 53rd week increased by 2.0%, to $2,380 million, as compared with sales of $2,334 million in the fourth quarter of 2022. Excluding the effect* *of foreign exchange rate fluctuations, total sales for the fourth quarter increased by 1.5%.* The increase in revenue for Nordstrom was also 2%. Thus we may draw the conclusion when viewing four of the largest clothing firms that their annual revenue rise was around 2%.

Freight & Packaging.

The best indirect measure for the state of the economy must be packaging and freight. Both serve not only the goods sector but the service sector as well. The results from the two largest box and board manufacturers, *International Paper* and *Westrock* both show falls in their volume of sales. In the case of *International Paper,* whose sales are concentrated in the USA, its packaging volumes fell by 7.5%.

Exhibit 11. (International Paper)

SALES VOLUMES BY PRODUCT (a)

In thousands of short tons (except as noted)	**2023**	2022	2021
Industrial Packaging			
Corrugated Packaging (b)	**9,428**	10,202	10,787
Containerboard	**2,604**	2,642	2,893
Recycling	**2,152**	2,190	2,223
Saturated Kraft	**160**	188	186
Gypsum/Release Kraft	**237**	251	234
Europe, Middle East & Africa ("EMEA") Packaging (b)	**1,282**	1,376	1,546
Industrial Packaging	**15,863**	16,849	17,869
Global Cellulose Fibers *(in thousands of metric tons)* (c)	**2,681**	2,893	2,970

(Source: International Paper)

This was confirmed by the second biggest corrugated manufacturer Westrock: "*Net sales of $20.3 billion for fiscal 2023 decreased $946.5 million, or 4.5%, compared to $21.3 billion in fiscal 2022. This decrease was primarily due to lower volumes and the unfavourable impact of foreign currency which were partially offset by increased sales due to the Mexico Acquisition…*"

The same applies to freight movements. The two biggest independent parcel carriers, UPS, and FedEx both saw volume falls.

Exhibit 12.

FedEx Express Segment
Annual Operating Statistics
FY 2021 – FY 2024

	FY 2021	FY 2022	FY 2023	Q3 YTD FY 2024
AVG DAILY VOLUME / POUNDS				
Average Daily Package Volume (000s):				
U.S. Overnight Box	1,427	1,421	1,259	1,230
U.S. Overnight Envelope	505	506	465	433
Total U.S. Overnight	1,932	1,927	1,724	1,663
U.S. Deferred	1,351	1,262	1,063	1,027
Total U.S. Packages	3,283	3,189	2,787	2,690

Source: FEDEX Investor Relations

Exhibit 13. (UPS)

Average Daily Package Volume (in thousands):				
U.S. Domestic Package:				
Next Day Air	1,590	1,737	(147)	(8.5)%
Deferred	1,047	1,139	(92)	(8.1)%
Ground	15,438	15,796	(358)	(2.3)%
Total U.S. Domestic Package	18,075	18,672	(597)	(3.2)%

Source: UPS investor relations

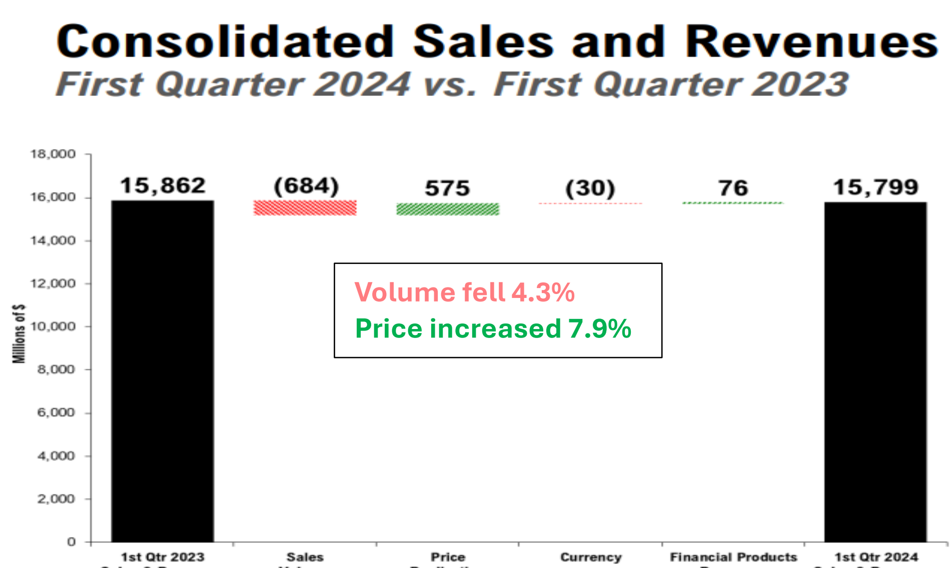
Exhibit 14. (Total US parcel deliveries 2023 unchanged)

- The Postal Service handled 6.6 billion parcels, a nearly 1% decrease from 2022.
- Amazon handled 5.6 billion parcels, up 15.7% from 2022.
- UPS handled 4.6 billion parcels, down 10.3% from 2022.
- FedEx handled 3.9 billion parcels, down 6.1% from 2022.
- The "others" category handled 600 million parcels, a 28.5% increase from 2022.

Source: Pitney Bowes

The same can be said for the dedicated Trucking companies. J B Hunt Trucking is the largest pure trucking company in the United States and its loads and stops fell by 11.5% between Quarter 1 2024 and Quarter 2 2023. XPO Logistics next in line but half the size of J B Hunt did show an increase in tonnage. Turning to the railroad corporations. The largest railroad corporation is BNSF, and it had a poor year though things improved in the fourth quarter: "*Total revenues for the fourth quarter and full year 2023 decreased 6% and 8%, respectively, compared with the same periods in 2022. The full year decrease was primarily due to a 6% decrease in unit volumes and a 1% decrease in average revenue per car / unit.*" The same applies to Union Pacific Railroads. Its volume fell by 1% in Q1 2024 compared to Q1 in 2024: "*Freight revenue excluding fuel surcharge revenue grew 4% as revenue carloads declined 1%.*" This is likely to be repeated with its competitors.

Exhibit 15. (Caterpillar)



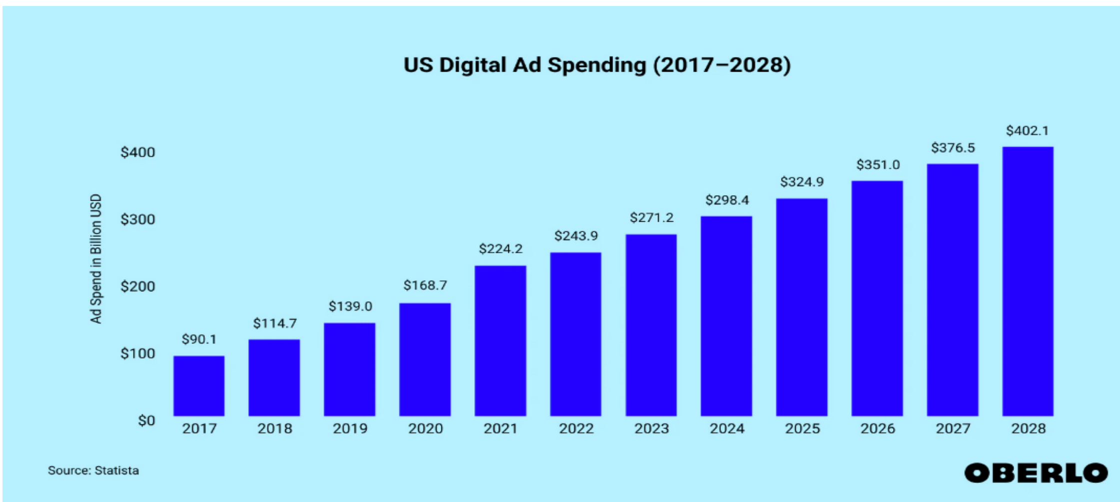
(Source: Caterpillar Investor Relations.)

I will look at one final corporation involved in material production before moving on to examine immaterial production. The BEA highlighted the growth in construction as a driver for Q1 GDP. However, if Caterpillar (above), the bellwether for the industry is to be believed, the quarter was much more muted. Its volumes contracted. (Wouldn't it be nice if all corporations used this kind of information graphic as part of their presentation.)

Immaterial production or better still surplus value transfer.

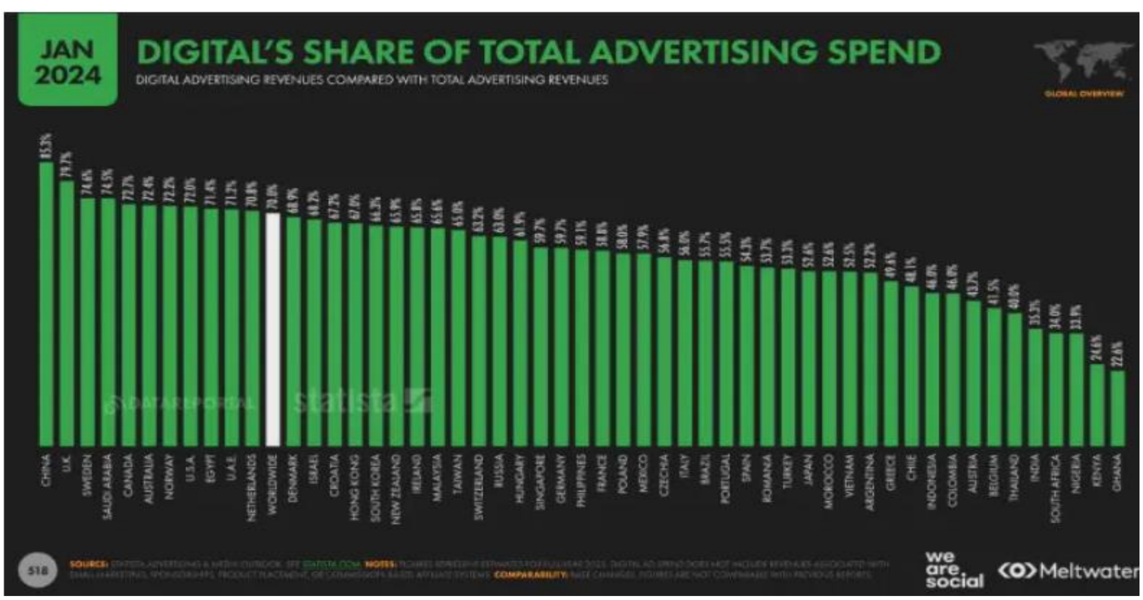
I refer of course to *Meta* and *Alphabet* in particular. But first let us analyze the Digital Advertising sector which they pillage. This sector is expected to grow in the US by 10% or $27 billion and globally by 10.7% or by $56 billion. Here are some interesting exhibits why Wall Street is so infatuated with companies that benefit from digital advertising.

Exhibit 16.



(Source: Oberlo)

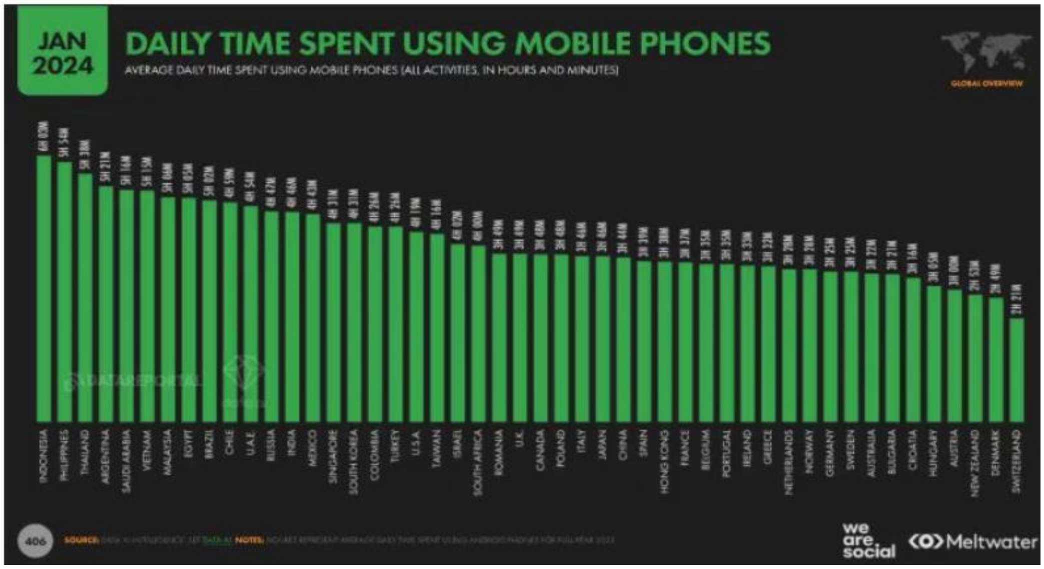
Exhibit 17.



(Source: BYYD)

Based on the Digital 2024 Global Overview Report, [the average American currently spends 7 hours and 3 minutes online per day](). That is nearly half their awake time excluding eating. The US digital advertising market is 50% of the global market of $580 billion. Its also worth pointing out that digital advertising spend in the USA per dollar of sales is double the rest of the world and I thought US businessmen were clever.

Exhibit 18.



This is reflected in Meta's recent earnings release. We see in Exhibit 18 the rise in Meta's income of 27% driven by advertising revenue as seen in Exhibit 19. As a free to use site, Meta doesn't derive value from its own workers by converting the labour they expend into value through sale, but instead derives its income from workers in other industries and corporations who advertise with Meta. Thus Meta's revenue is transferred value from the likes of Procter & Gamble (the world's largest advertiser) where this transfer is registered as a cost in their profit and loss accounts under the heading 'advertising and marketing'.

Exhibit 19. (Meta)

First Quarter 2024 Financial Highlights

	Three Months Ended March 31,		
In millions, except percentages and per share amounts	2024	2023	% Change
Revenue	$ 36,455	$ 28,645	27 %
Costs and expenses	22,637	21,418	6 %
Income from operations	$ 13,818	$ 7,227	91 %
Operating margin	38 %	25 %	
Provision for income taxes	$ 1,814	$ 1,598	14 %
Effective tax rate	13 %	22 %	
Net income	$ 12,369	$ 5,709	117 %
Diluted earnings per share (EPS)	$ 4.71	$ 2.20	114 %

Exhibit 20. (Meta breakdown of revenue sources)

Segment Information
(In millions)
(Unaudited)

Meta derives 97.8% of its Revenue from advertising

	Three Months Ended March 31,			
	2024		2023	
Revenue:				
Advertising	$	35,635	$	28,101
Other revenue		380		205
Family of Apps		36,015		28,306
Reality Labs		440		339
Total revenue	$	36,455	$	28,645
Income (loss) from operations:				
Family of Apps	$	17,664	$	11,219
Reality Labs		(3,846)		(3,992)
Total income from operations	$	13,818	$	7,227

The same applies to Google. It derives 81% of its revenue from Advertising. The only difference between it and Meta is that Alphabet hosts a cloud division selling computing services to clients. Together the increase in advertising when annualized for both Meta and Google works out at $64.988 billion or bigger than the $58.0 billion increase expected from global digital spending this year. Is this sustainable or merely a question of creative accounting. (It is worth noting that Google's A.I. development is still loss making.)

Exhibit 21. (Alphabet)

Revenues, Traffic Acquisition Costs (TAC), and Number of Employees

	Quarter Ended March 31,			
	2023		2024	
Google Search & other	$	40,359	$	46,156
YouTube ads		6,693		8,090
Google Network		7,496		7,413
Google advertising		54,548		61,659
Google subscriptions, platforms, and devices		7,413		8,739
Google Services total		61,961		70,398
Google Cloud		7,454		9,574
Other Bets		288		495
Hedging gains (losses)		84		72
Total revenues	$	69,787	$	80,539
Total TAC	$	11,721	$	12,946

As I said earlier, the transfer of value from the rest of the economy as well as the international economy is immense. This transfer boosts profits in the Magnificent Seven but at the expense of the rest of the economy where its loss reduces their net income. This can be seen in a recent FactSet publication. *"In aggregate, these five 'Magnificent ' companies are expected to report year-over-year earnings growth of 64.3% for the first quarter. Excluding these five companies, the blended (combines actual and estimated results) earnings decline for the remaining 495 companies in the S&P 500 would be -6.0% for Q1 2024. Overall, the blended earnings growth rate for the entire S&P 500 for Q1 2024 is 0.5%.* The 'Fabulous Five' are NVIDIA, Amazon.com, Meta Platforms, Alphabet, and Microsoft

However, there is a divide amongst internet companies. The *free to use* or *click* corporations who benefit from advertising are thriving but those who have to sell their product are not. Take Comcast for example, its volumes are down 1% while its revenue rise is below inflation.

Exhibit 22. (Comcast)

($ in millions, except per share data)		1st Quarter	
Consolidated Results	2024	2023	Change
Revenue	$30,058	$29,691	1.2%
Net Income Attributable to Comcast	$3,857	$3,834	0.6%

(in thousands)			Net Additions / (Losses) 1st Quarter	
	1Q24	1Q23	2024	2023
Customer Relationships				
Domestic Residential Connectivity & Platforms Customer Relationships	31,555	31,826	(94)	(34)
International Residential Connectivity & Platforms Customer Relationships	17,782	18,051	(65)	111
Business Services Connectivity Customer Relationships	2,634	2,630	(7)	5
Total Connectivity & Platforms Customer Relationships	**51,971**	**52,507**	**(166)**	**82**

The same applies to the other giant, Disney, excluding its theme parks its most recent report indicates that its entertainment division saw a volume decline.

Discussion: A two tier economy.

Before proceeding a brief detour to examine the recent data from the world's most valuable corporation, Microsoft. Here we find a 17% improvement in revenue and a 23% improvement in income. Later on we will encounter the figure of 19% for the net margin of the Magnificent Seven, but this is somewhat less than the net income margin for these three corporations given that their operating margins range from 38% for Meta to 45% for Microsoft.

Exhibit 23. (Microsoft)

Revenue		
Productivity and Business Processes	**$19,570**	$17,516
Intelligent Cloud	**26,708**	22,081
More Personal Computing	**15,580**	13,260
Total	**$61,858**	$52,857
Operating Income		
Productivity and Business Processes	**$10,143**	$8,639
Intelligent Cloud	**12,513**	9,476
More Personal Computing	**4,925**	4,237
Total	**$27,581**	$22,352

The most recent revenue data for the Magnificent Seven puts their combined revenue at $1.72 trillion in 2023. Their revenue that year grew by 11.77%. This was much higher than the S&P 500 itself which grew at around 2.3% despite the higher inflation found in 2023, and it compares to 5.5% for the period 2013-

2022 or for the nominal GDP growth of >5% in 2023. The total revenue generated by the S&P 500 came to $12.497 billion according to Macrotrends. Thus the "Magnificent Seven's" share of S&P turnover was 13.8% in 2023. As the margin differential between the Magnificent Seven and the rest was 19.% vs 9.8%, their share of profit climbed to 26.8% while their market cap as a share of the total stood at 29% at the end of 2023. Incidentally, The value of their shares rose 111% during the year adding $5.1 trillion to the S&P 500 total.

In terms of the economy as a whole, and considering that 60% of the revenue of the S&P500 is earned in the USA, this represents 35% of the corporate sector (when measured against corporate Gross Output). Thus, with over one in three corporate dollars generated by these S&P 500 corporations, what happens in the S&P 500 does not stay in the S&P.

Now it is important to bear in mind that the Magnificent Seven's revenue is flattered by the transfer of value. If we combine the advertising revenue in Meta and Alphabet's releases (Exhibits 18 & 19) it amounts to $360 billion annualized or 21% of the revenue of the Magnificent Seven. If we add in Amazon that rises to 23% or close to $400 billion. So we can say that one in four dollars of revenue represents value transferred and not produced by the Magnificent Seven.

It can be said that the material sector of the economy, where value is produced, is feeding the immaterial sector. For example, most of the $280 billion in advertising revenue including that enjoyed by Google and Meta comes from the goods producing sector especially the manufacturing sector. If we were to cancel out all these transfers as well as the price discounts they give to feed the distributive sectors - wholesale and retail - the goods producing sector of the economy would suddenly swell to 50% of the economy as measured by value added.

But there is another aspect which has befuddled economists who are not versed in Marx's understanding of value. To make my explanation simpler, let's say that in the free to use or click sector $400 billion worth of labour is expended but not realised through sale. Were it to be monetized the revenue of this sector would be greater by $400 billion, that is $400 billion in transferred value plus $400 billion in newly monetized value through sale. As if by magic, GDP in the economy would rise by this $400 billion. As GDP for Q1 2024 totals $28.285 trillion this is equal to a boost in productivity of 1.4%. The disappointment over the absence of a productivity boost from the High Tech sector can be laid at the door of the free to use corporations whose weight has expanded.

There is thus a sharp divergence between the material and immaterial sectors of the economy. Can it last? After all the rest of the economy is both the provider of revenue as well as a large market for the output of the Magnificent Seven. The answer is no. Especially at a time when liquidity issues are spiraling in the goods sector especially amongst the less profitable and insolvent firms.

Monopolies bear down on the rest of the economy. It weakens that economy by its practices. This is not so much due to stifling innovation as to reducing their ability and incentive to invest because it robs them of profit. Instead we have the phenomenon where these cash rich companies, having sucked up all this surplus value, end up giving it away wastefully, not even unproductively, in the form of share buybacks. Wall Street may be surfing the profit wave generated by these corporations, but beneath those waves' rocks lurk.

This can already be seen by the steady fall in the issuance of Commercial and Industrial (C&I) Loans and by the rise in the number of discounted bills received (Commercial Paper). C&I loans are short term loans intended to bolster liquidity in corporations and their fall signifies not so much a reluctance to borrow as an inability to borrow due to tighter lending standards and the higher interest rates demanded by lenders. On the other hand discounting bills is a sign of desperation as corporations expensively trade their bills for cash. When C&I loans go one way while commercial paper goes the other way this is due to tightening financial conditions associated with a slowdown in the turnover of capital. It is always an ominous indicator.

Exhibit 24.

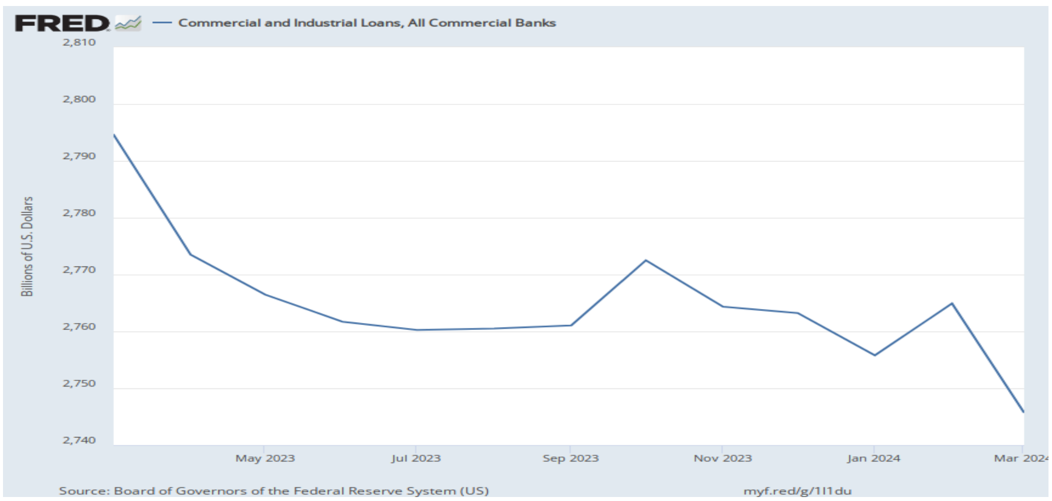
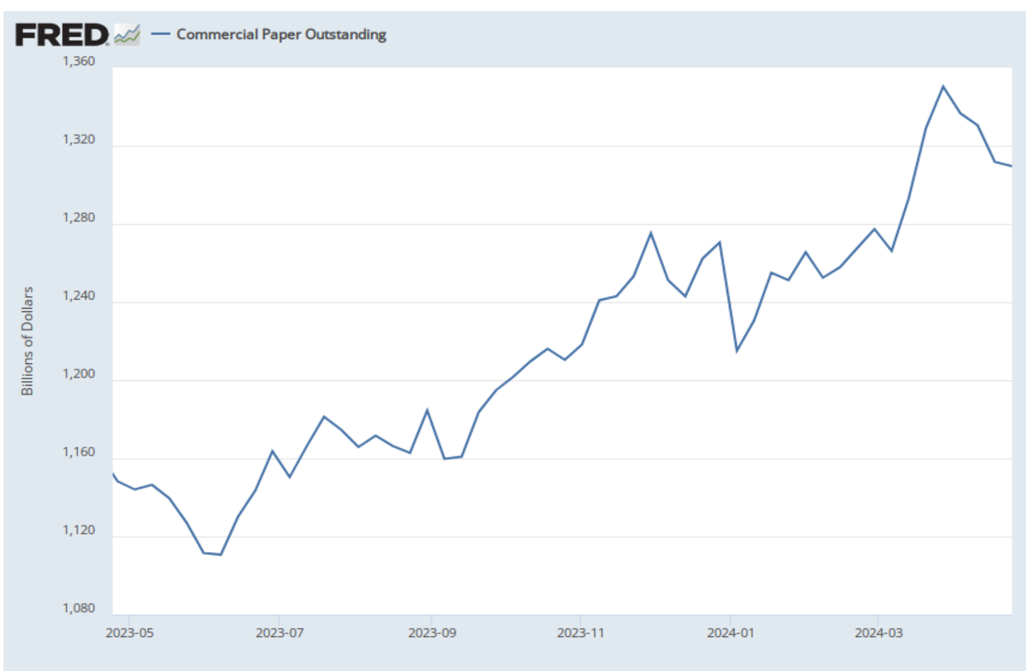


Exhibit 25.



Geopolitical risks.

I will not deal with this issue here because the purpose of this article is to compare the material to the immaterial sectors of the US economy in the light of Q1 corporate reporting. Nevertheless these risks are clearly impacting the US economy and exposing just how hollowed out the goods producing sector is. All I will say is that rather than black swans appearing, black political clouds are multiplying. Mike Johnson the leader of the lower house, did a handbrake turn over Ukraine by agreeing to provide it with $61 billion in military and financial aid when the CIA informed him in no uncertain terms that the Ukraine was on the brink of collapse. However, all this aid will accomplish is to prolong the war by weeks rather than months. On the Zionist front, with US universities in turmoil and dissent growing within the Democratic Party itself, this Party has lost the allegiance of the intelligentsia and the youth. This rupture could be fatal come November. And in the longer term these political developments will have an economic outcome.

Conclusion.

My intention in this article was to assemble sufficient data to demonstrate the disparity that exists between the goods producing sector as a whole and the Magnificent Seven which is likely to reduce to the Fabulous Five as Apple and Tesla vacate, then ultimately down to the Tepid Three – Microsoft, NVIDIA, and Amazon as recession looms.

As yet there is no evidence of the much vaunted A.I. revolution in the accounts of the goods sector. Corporations in this sector do continue to benefit from a reduction in their cost of sales, that is inputs such as materials, power, and components (aka material products). These input prices have fallen faster than output (sales) prices improving their gross margins. But the same is not true for SGA expenses or office expenses found in their Profit and Loss Accounts. These continue to rise faster proportionately than selling prices reducing gross margins. It is in the SGA sphere that one could expect to find the impact of LLMs as these programs are geared to target clerical white collar jobs. There is no general evidence as yet of any reduction in overhead costs due to the introduction of A.I. In any case, summer is here soon, and it is unlikely that the creaking US energy infrastructure will be able to power both air conditioners as well as energy intensive A.I. computing centers. It may very well be the case that it is the goods producing sector which impacts the A.I. sector rather than the other way round as these computing centers hunt for power.

The second intent was to demonstrate that corporate results tended to show an economy much weaker than the official figures suggest. With a stagnant goods sector, the weight of production in the Magnificent Seven is insufficient to move the dial all that much. Rather, its vibrancy obscures what is really a struggling economy overall.

On a final note, with almost half of corporations having reported their results, FactSet has just released its profit and revenue results for the S&P 500. Despite the boost provided by Meta, Alphabet, and Microsoft, Q1 profits have increased by only 3.5% and revenue by 4%, both barely above inflation. This is as good as it is likely to get. The US economy remains a fractured economy facing increasing international competition particularly from China. It is unlikely that even with the help of the various Biden Administration Acts intended to fund an industrial renaissance, this renaissance will occur. And if it does not, this will undermine any gains achieved in the immaterial sphere and ultimately overwhelm it despite the many promises of A.I..

Brian Green, 27th April 2024.