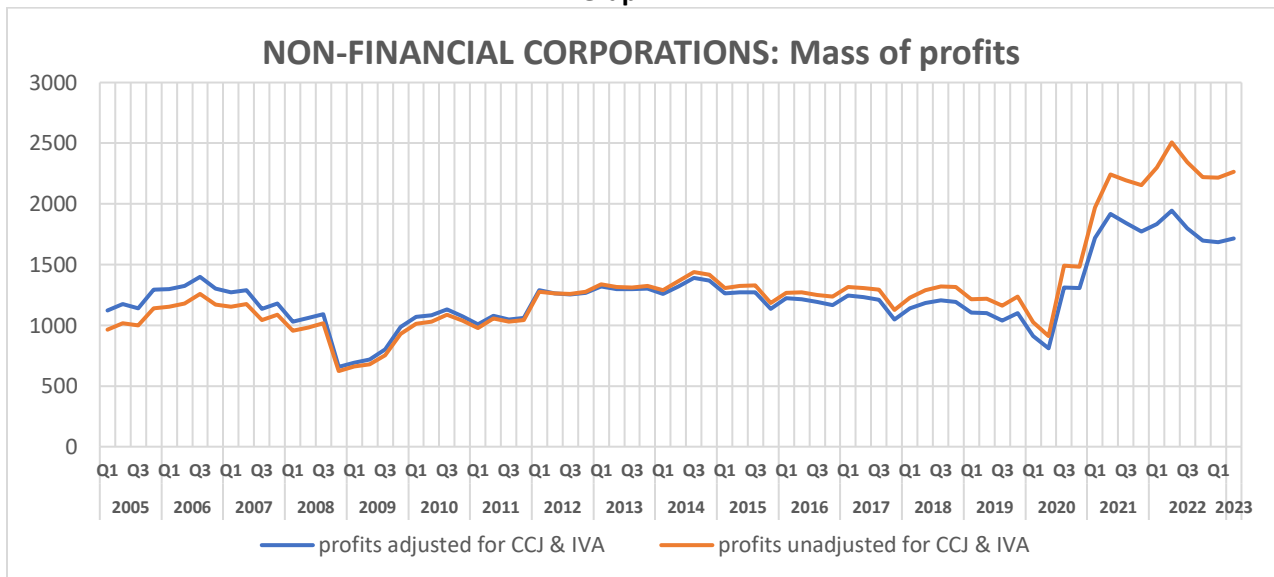


## US SECOND QUARTER RATE OF PROFIT HOLDS UP DESPITE A RISING RATE OF INTEREST AND A FALLING RATE OF SURPLUS VALUE.

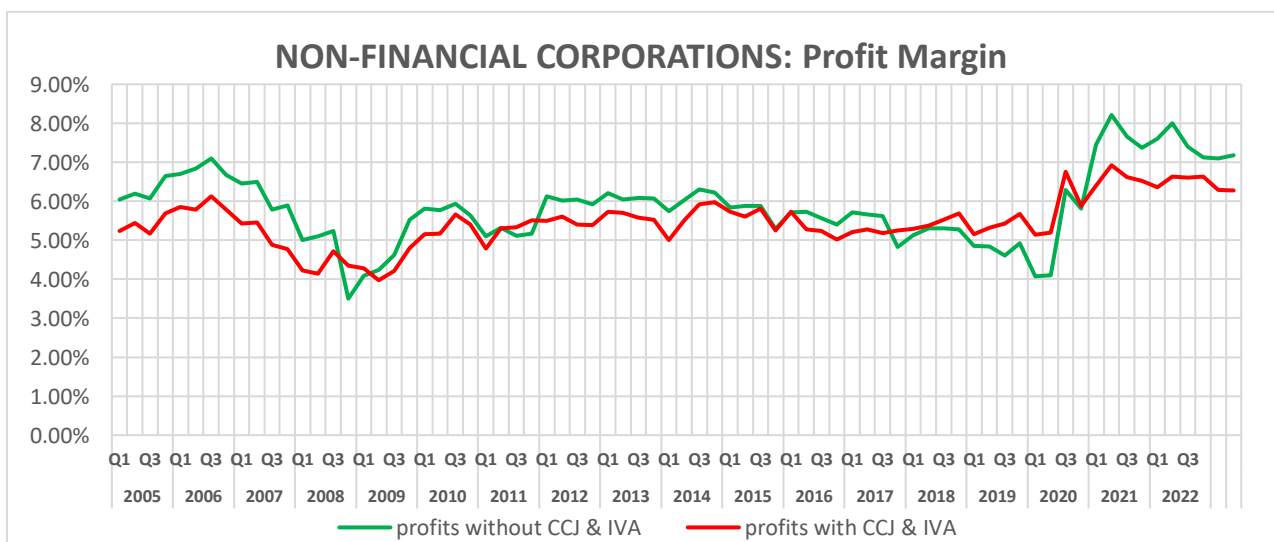
*The BEA released its estimates for corporate profits on the 30<sup>th</sup> of August, which this article reflects on. Most of the profit fall was accounted for by the energy sector as well as large falls in the mass of smaller corporations which have gone undetected, masked by profits in the large corporations.*

Nominal pre-tax profits unadjusted by CCJ & IVA for the non-financial corporate sector rose by 2.1% quarter on quarter but fell by 9.6% year on year. Adjusted for price changes they rose 1.9% month on month and fell by 11.8% yoy. (Nominal profit figures can be found on row 46 of Table 1.14 and adjusted profit figures on row 70 of the attached spreadsheet Table 1.14 for the second quarter.) The trends can be seen in the graph below. These are profits adjusted for price changes as per the deflator found in row 53.

Graph 1.



Graph 2.



**Graph 3.**

Year	Q1 (%)	Q3 (%)
2005	43.0	44.5
2006	45.5	46.5
2007	44.5	45.5
2008	41.5	44.0
2009	39.5	40.5
2010	46.5	48.5
2011	45.5	47.5
2012	48.5	49.5
2013	48.5	49.5
2014	45.5	49.5
2015	46.5	46.5
2016	43.5	43.5
2017	43.5	44.0
2018	42.5	43.5
2019	41.5	42.5
2020	27.0	35.0
2021	43.0	43.5
2022	45.0	44.5
2023	42.0	42.0

**RATE OF SURPLUS VALUE**

Year	Q1	Q2	Q3	Q4
2005	170%	180%	175%	170%
2006	185%	180%	180%	190%
2007	175%	170%	175%	170%
2008	175%	175%	185%	160%
2009	155%	145%	150%	160%
2010	180%	185%	195%	185%
2011	200%	205%	205%	205%
2012	205%	205%	200%	205%
2013	205%	200%	200%	190%
2014	205%	205%	180%	180%
2015	180%	175%	170%	165%
2016	165%	165%	165%	165%
2017	165%	160%	160%	160%
2018	160%	165%	165%	155%
2019	155%	155%	155%	155%
2020	100%	130%	140%	155%
2021	160%	165%	165%	160%
2022	175%	165%	155%	155%
2023	155%	155%	155%	155%

22% fall in the annual r.o.s.

2

**Graph 5.**

### NET SURPLUS RATE OF PROFIT

The chart displays the Net Surplus Rate of Profit over a 19-quarter period from 2005 to 2023. The y-axis represents the rate as a percentage, ranging from 0.00% to 14.00% in 2.00% increments. The x-axis shows quarters from Q1 2005 to Q1 2023. The rate starts at approximately 11.6% in Q1 2005, peaks at 12.8% in Q3 2005, and then fluctuates between 10.0% and 12.0% until Q3 2019. A significant sharp decline occurs in Q1 2020, where the rate drops to 6.7%. It then recovers sharply to 10.9% in Q3 2020 and continues to rise, reaching a peak of 11.8% in Q1 2022, before ending at 10.6% in Q1 2023.

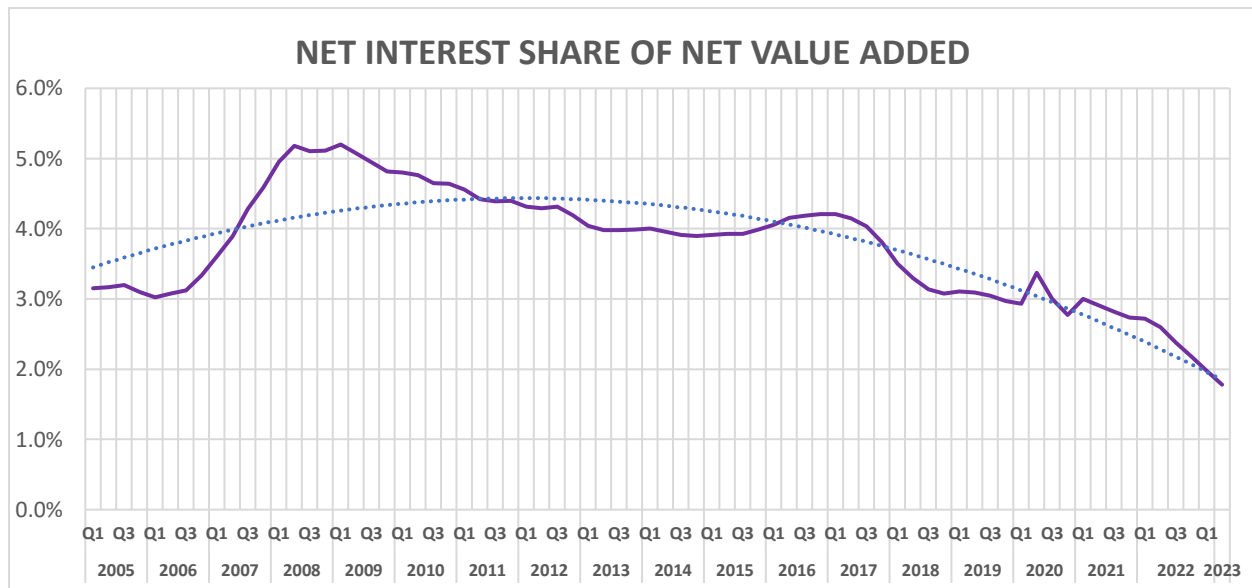
Quarter	Net Surplus Rate of Profit (%)
Q1 2005	11.6
Q3 2005	12.8
Q1 2006	12.2
Q3 2006	12.8
Q1 2007	11.7
Q3 2007	11.9
Q1 2008	10.7
Q3 2008	11.4
Q1 2009	10.4
Q3 2009	9.9
Q1 2010	10.9
Q3 2010	12.0
Q1 2011	11.2
Q3 2011	11.8
Q1 2012	12.1
Q3 2012	11.9
Q1 2013	12.1
Q3 2013	12.2
Q1 2014	11.2
Q3 2014	12.4
Q1 2015	11.7
Q3 2015	11.9
Q1 2016	11.2
Q3 2016	11.2
Q1 2017	11.3
Q3 2017	11.2
Q1 2018	11.0
Q3 2018	11.5
Q1 2019	10.8
Q3 2019	11.1
Q1 2020	6.7
Q3 2020	10.9
Q1 2021	11.1
Q3 2021	11.4
Q1 2022	11.8
Q3 2022	11.0
Q1 2023	10.6

**Graph 6.**

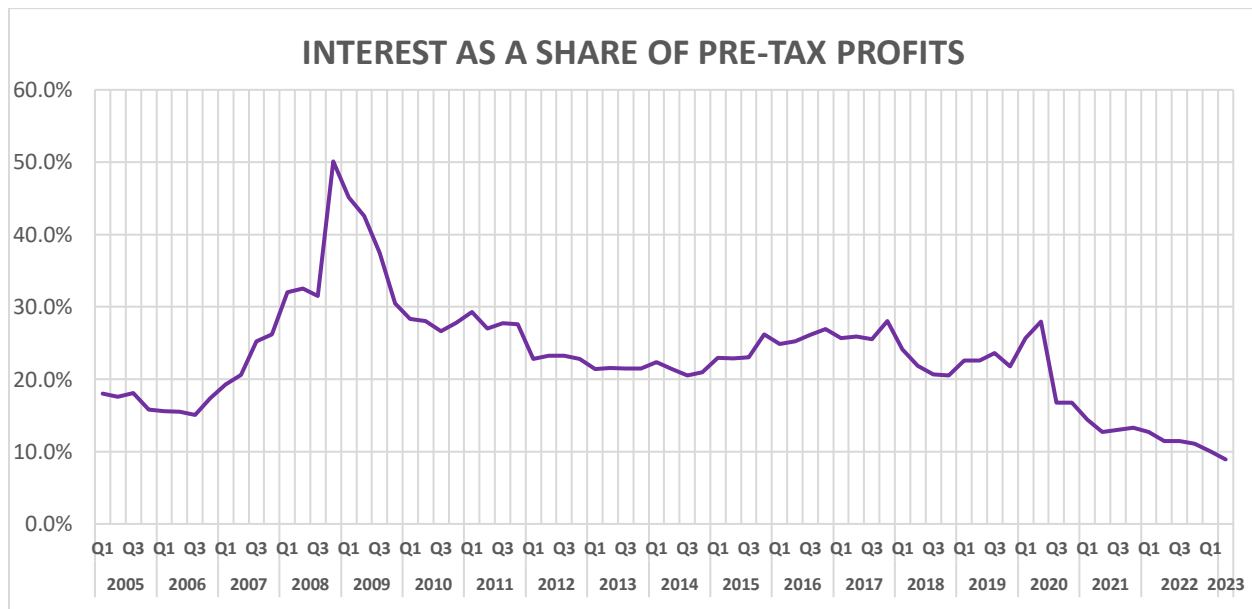
### NON-FINANCIAL CORPORATIONS: Rates of Profit

Quarter	profits adjusted for CCJ & IVA (%)	profits without CCJ & IVA (%)
Q1 2005	6.8	5.9
Q3 2005	7.1	6.2
Q1 2006	7.9	6.8
Q3 2006	8.2	7.1
Q1 2007	7.3	6.1
Q3 2007	6.7	5.5
Q1 2008	5.7	4.8
Q3 2008	6.0	5.4
Q1 2009	3.8	4.2
Q3 2009	4.2	3.9
Q1 2010	5.8	5.2
Q3 2010	6.1	5.5
Q1 2011	6.4	6.0
Q3 2011	5.8	5.2
Q1 2012	6.9	6.3
Q3 2012	6.8	6.1
Q1 2013	6.9	6.4
Q3 2013	6.8	6.2
Q1 2014	6.5	5.6
Q3 2014	7.0	6.7
Q1 2015	6.4	6.2
Q3 2015	6.4	5.7
Q1 2016	6.0	5.5
Q3 2016	5.8	5.4
Q1 2017	5.9	5.5
Q3 2017	5.2	5.3
Q1 2018	5.6	5.6
Q3 2018	5.6	5.6
Q1 2019	5.1	5.3
Q3 2019	4.9	5.0
Q1 2020	3.9	4.8
Q3 2020	6.5	6.5
Q1 2021	7.5	7.1
Q3 2021	7.8	6.8
Q1 2022	8.5	7.0
Q3 2022	7.2	6.8
Q1 2023	7.1	6.2

Graph 7.



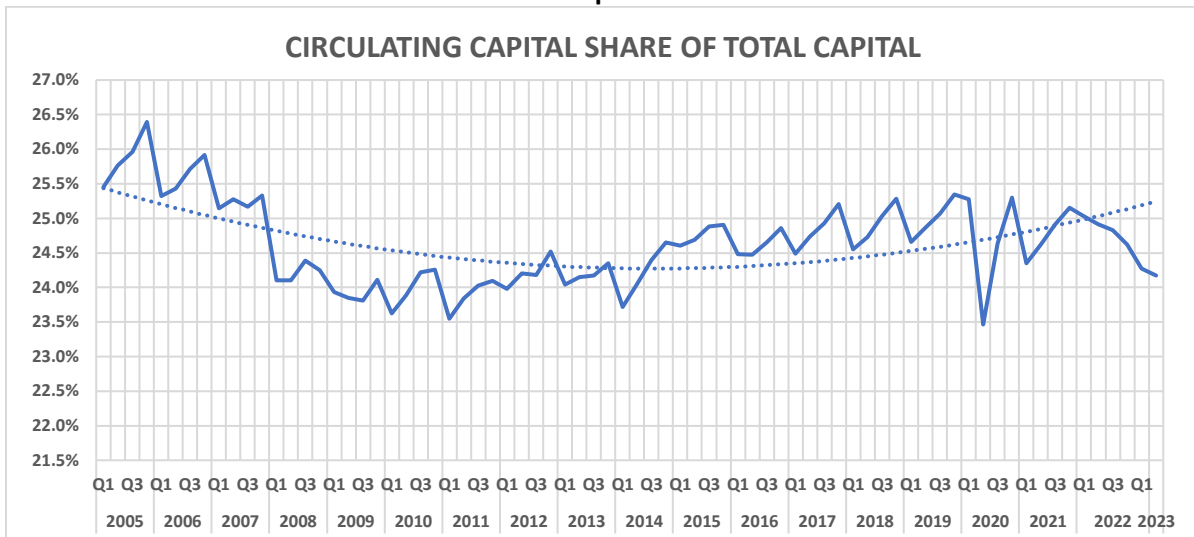
Graph 8.



The likely reason is that the larger corporations remain cash rich and by investing their excess cash in short term T-bonds and other money market instruments the interest they earned has more than offset the interest paid by smaller cash strapped corporations.

Another factor is that circulating capital as a share of fixed capital has declined. This can be seen in the cost of sales data found in the financial releases of the corporations. The cost of sales either fell or rose more slowly than selling prices. This is confirmed by the [PPI which has fallen](#) year on year. Further, any additional labour costs and the growth of employment were insufficient to raise the relative share of circulating capital. And of course, because the rise in circulating capital was more subdued it restrained the rise in total capital over which the rate of profit is measured.

Graph 9.



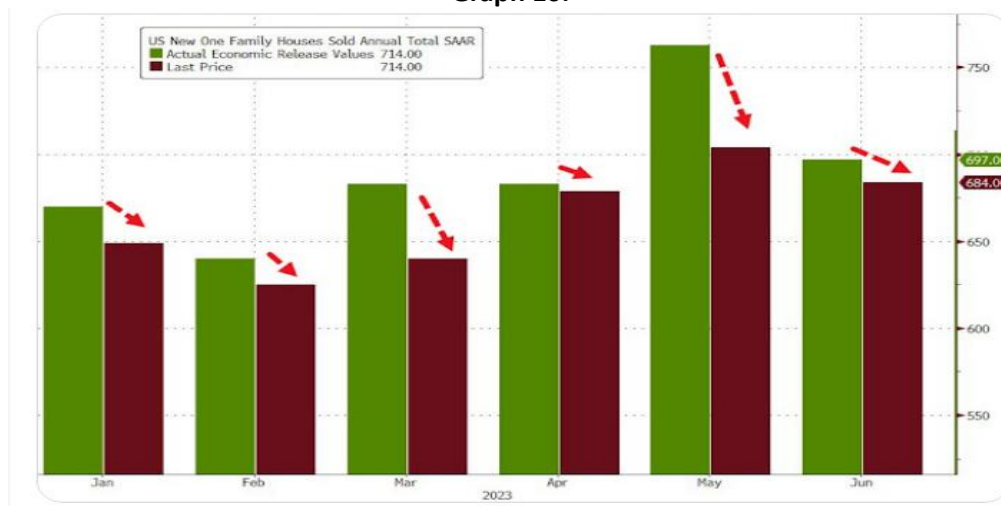
The share of circulating capital is now back to its post 2008 levels.

### Discussion.

Readers of this website will know I have been calling out the estimates provided by the US Department of Commerce and Census Bureau as being inflated. Seems they heard my pain. Over the last 10 days many previous estimates have been marked down. This is particularly true for the labour market. The scale of the downward revisions makes a nonsense of the growing labour market hypothesis, and while it delighted the stock market, it showed that economists and analysts have been blind sighted. On Wednesday the JOLTS figure came out. This is an important indicator for the labour market. The prediction was for a figure of 9.5 million, instead the figure came in at 8.8 million. These downward revisions bring the estimates for payroll growth or lack of it, more in line with the figure provided by IRS data on payroll taxes, again something I have been pointing out.

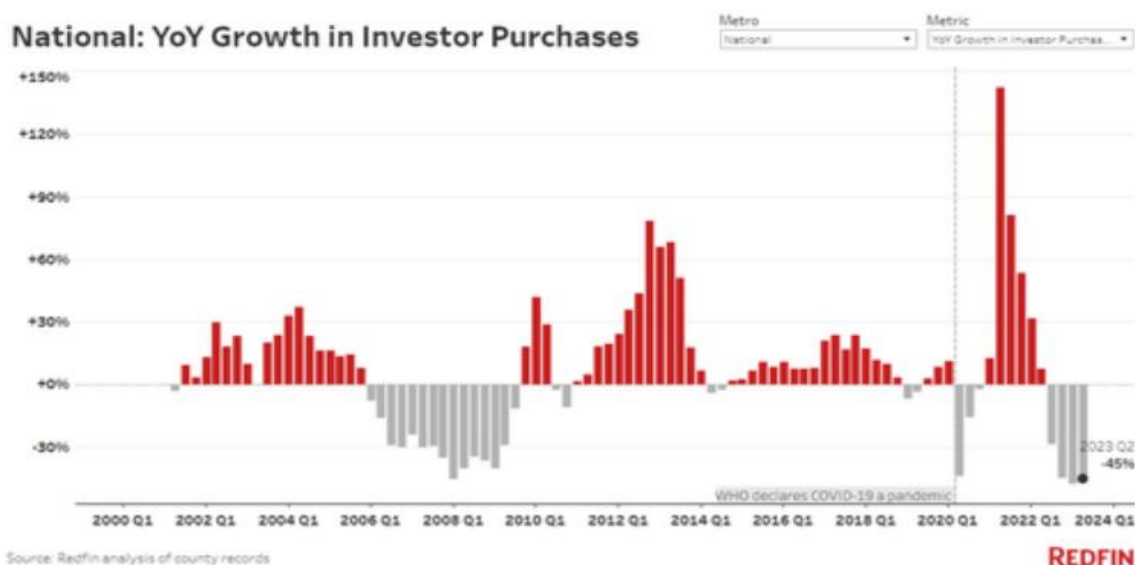
But it is not only in the sphere of employment that the data has been inflated. It now appears the housing estimates too require deflating.

Graph 10.



The housing market, which appeared to buck the trend in interest rates, is turning out to be less resilient than assumed by the experts. And it does not only extend to the purchase of new homes which are difficult to flip by investors, but extends to existing homes where flipping and investor interest is most concentrated, including many being Airbnb intended purchases. Here investor interest has collapsed on the same scale as in 2008. As I said the housing crisis is brewing and will mature towards the end of the year.

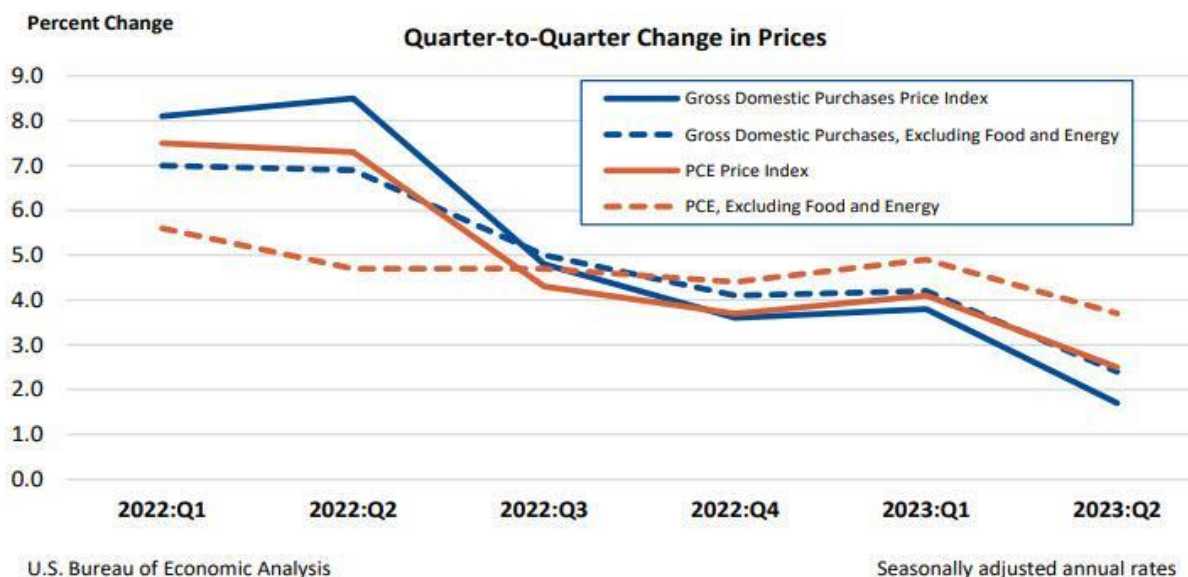
Graph 11.



(Source: [Redfin](https://www.redfin.com/))

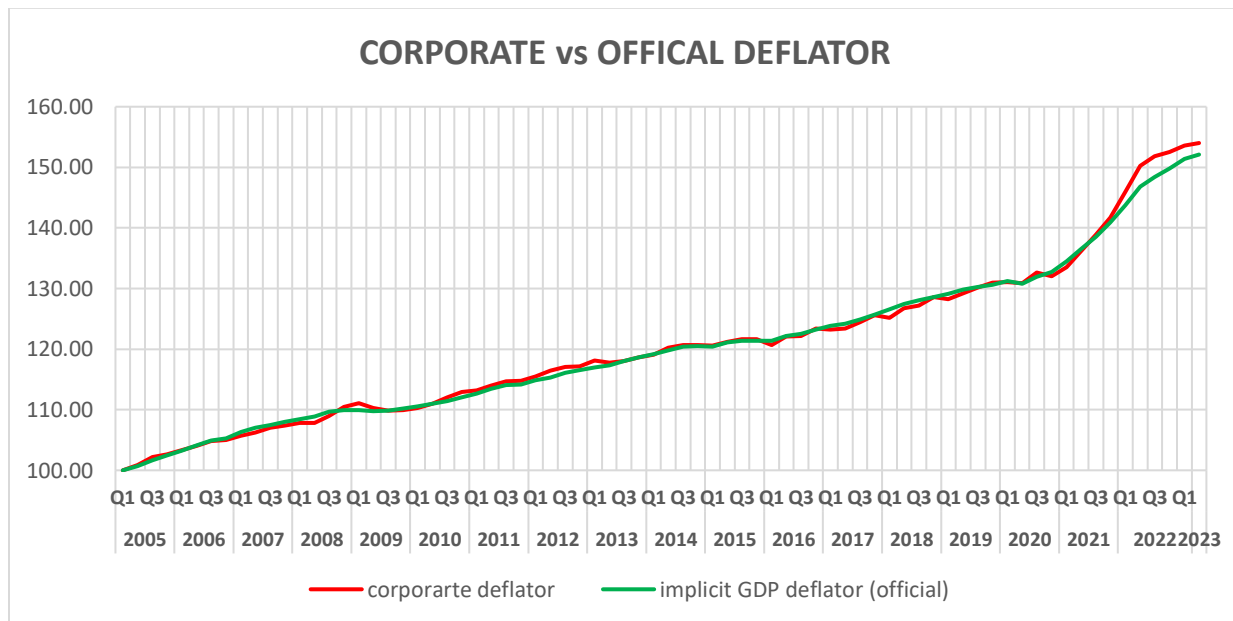
Of course the big one is GDP. How accurate is this estimate? Well that depends largely on the deflator being used. Below is an interesting example of the range of deflators where the deviation can be 1%.

Graph 12.

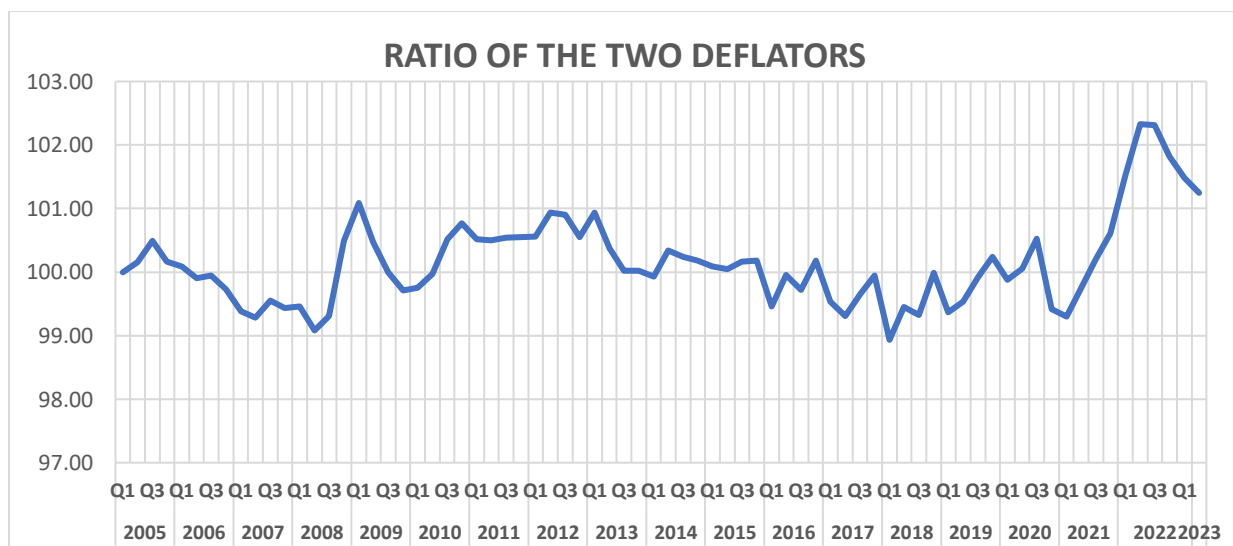


My favourite deflator is the deflator found in NIPA Table 1.14 (attached). There are a number of reasons in favour of this deflator as opposed to the official deflator. Firstly, there are no seasonal adjustments nor weightings. Secondly, the data is drawn directly from the revenue and volume indicators present in the financial reports of these corporations. Below I have compared the corporate deflator to the official deflator provided by the BEA in NIPA Table 1.1.4. We notice the deviation between the two deflators with the advent of the pandemic. Only in Q2 2023 did they begin to converge. The scale of the divergence is best seen in Graph 14.

**Graph 13.**

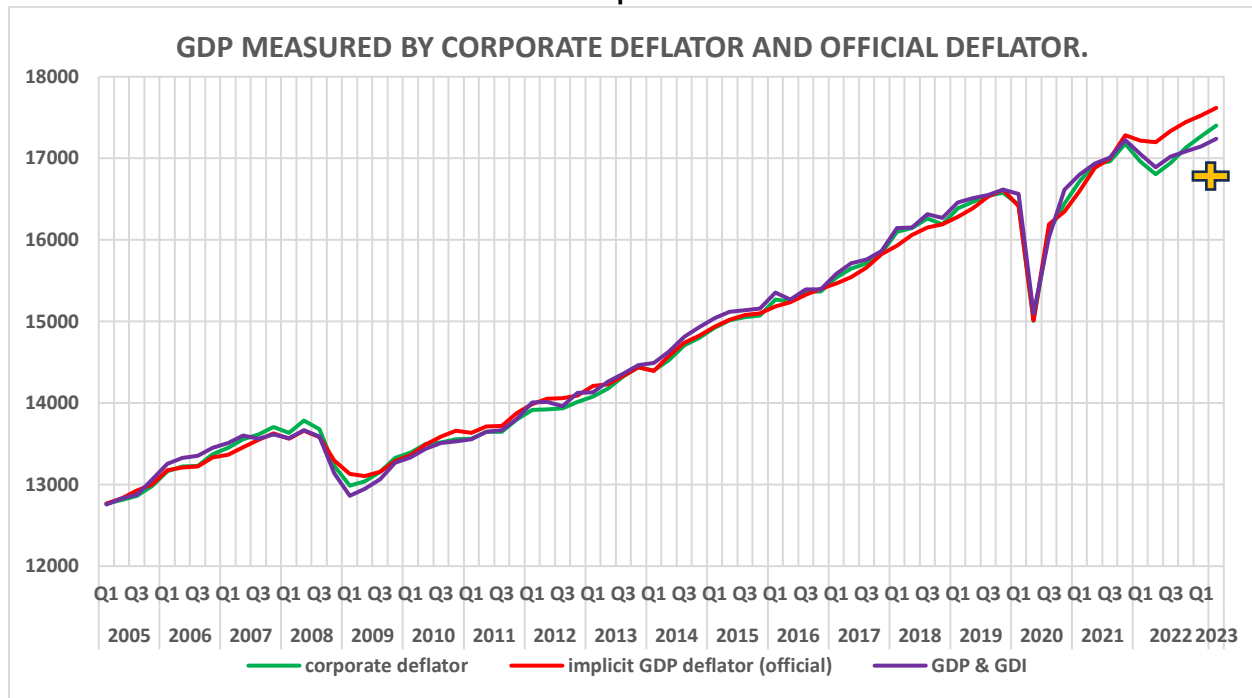


**Graph 14.**



We can now apply these two deflators to GDP to see how real GDP is affected. (We should note that in common with other metrics, this week's 2<sup>nd</sup> release of [GDP figures](#) revised Q2 down from 2.4% to 2.1%.)

Graph 15.



There is and remains a significant gap in the two GDP series. In fact if we calculated the cumulative difference since Q3 2021 when the gap opened up, it amounts to \$1.94 trillion equal to 11% of GDP. (All figures are deflated and not nominal). Even were we to factor for the usual spread found in Graph 14 the gap would still be >5%. Given that in real terms the US economy is now 5.8% bigger than in Q4 2019, when measured by this cumulative loss, it has not recovered at all, which can be confirmed by adding all the plusses and minuses, in short, the falls and rises in GDP over this period whose balance is recorded by the + sign.

The matter is even worse when adding in National Income. National Income and the National Production of that Income should coincide. But recently they too have diverged by an unexpected amount. The gap can be seen between the red and purple graphs. In the case of N.I., and in real terms as deflated by the corporate deflator, the combined figure is only 4.1% bigger in Q2 2023 compared to 5.8% for GDP alone. As such, the cumulative losses during the pandemic clearly exceed the cumulative gains since 2019 meaning the aggregated output of the US economy since 2019 has shrunk.

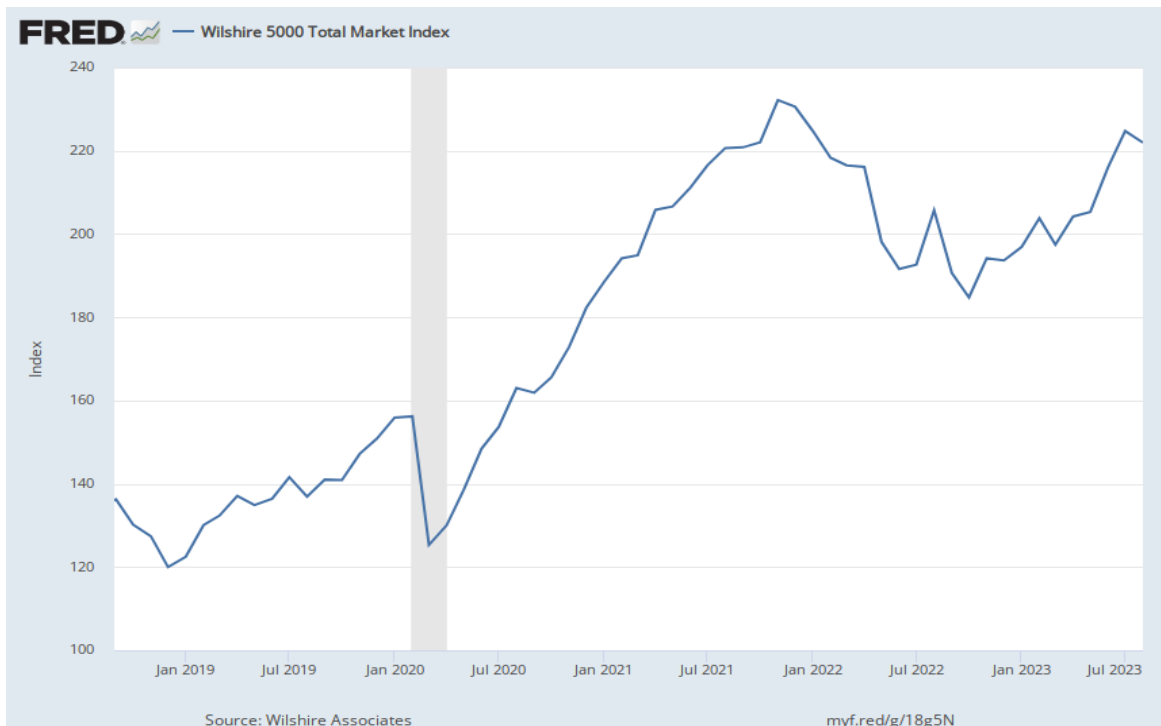
And this has occurred despite the \$5.1 trillion dollars in Fiscal support. Many of these debt-dollars were transformed into circulating revenue and capital via spending and direct subsidies to corporations which together inflated GDP and National Income. Thus the net contraction of the economy is masked by this infusion of fiscal funds, which continues to this day supporting current GDP. Of course this fiscal irresponsibility is unsustainable: the last hurrah of the Dollar as world currency.

As expected this reality has not affected the E.I. for A.I., that is 'investor exuberance' for artificial intelligence. A new horror film where algorithms come to the rescue of capitalism ushering in a new world. It seems that investors are suffering from a particular syndrome of *Long Covid*, namely euphoria, not so much inflamed brains as inflamed expectations. Since the beginning of the pandemic shares as measured by the Wilshire 5000 are up 40% for an economy whose cumulative growth has been non-existent. This is



not an idle observation. Fictitious capital is an upside down pyramid whose point rests on the pedestal formed from surplus value. For a while that pedestal was expanded by Covid funds. But those days are over. Graph 5 says it all. The overall rate of profit is now back to 2019 levels and in all probability the rate will continue to fall. Thus the elevation of the pyramid and its stability must be in question. Will Santa's sled be full of fictitious gifts come the end of the year?

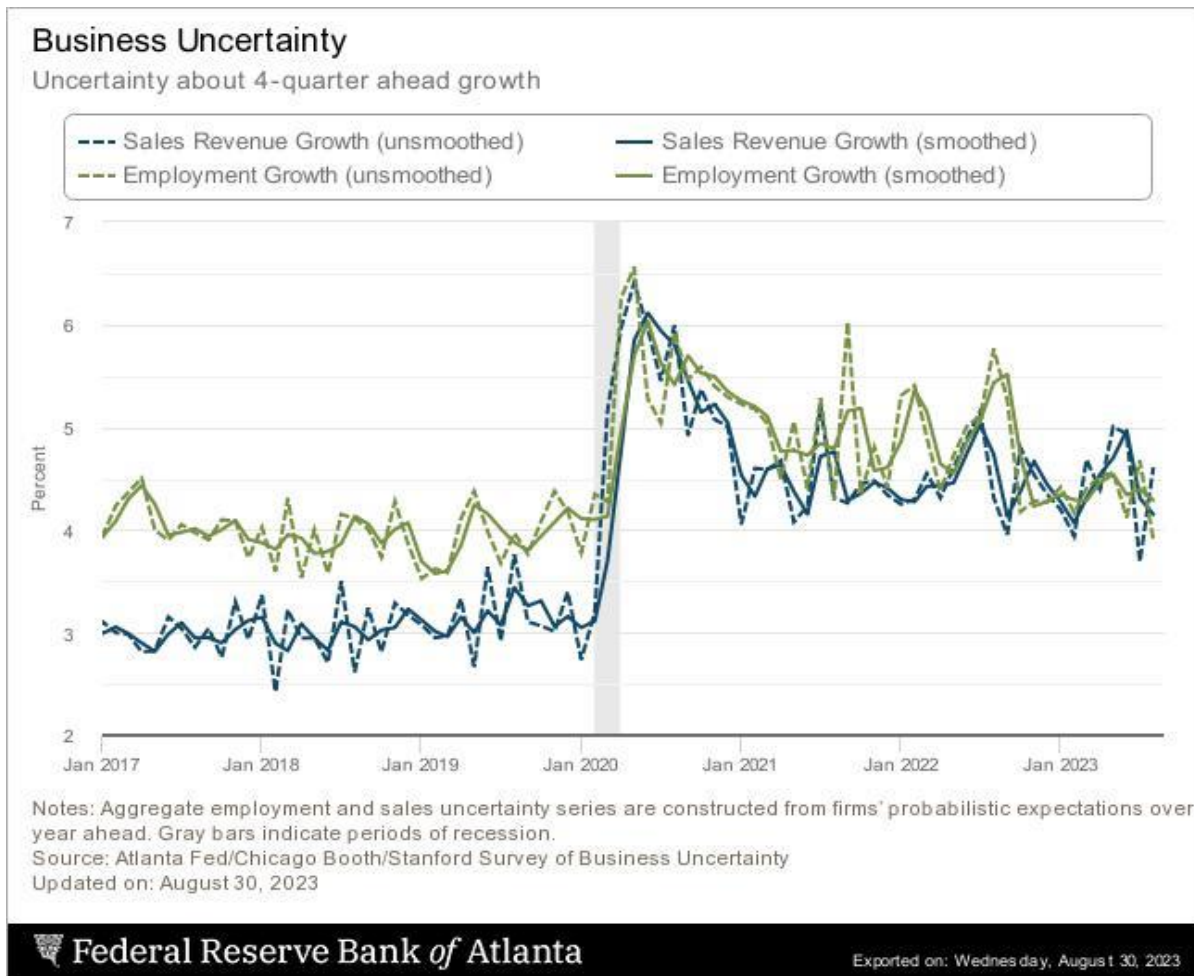
**Graph 16.**



Already the viability of general purpose language learning models such as CHATGPT are in doubt. Newspapers, publishing houses and universities are now actively inserting code preventing these algorithms scraping their information. This being so, all that is left for these algorithms to scrape is the dross found on the internet. And as these programs become infused with dross, they add more dross to the internet which means in turn they scrape even more dross becoming increasingly unreliable in their output. They will become merely an echo in a canyon littered with the insubstantial and the prejudiced, truly garbage in and garbage out. Then of course there are all the pending legal challenges by corporations and individuals angered and concerned by the prior theft of their copyright.

And as I said in the preamble, smaller corporations are hurting, which can be seen in the final graph of this article. Employment growth has subsided and so too has their revenue expectations which are no higher than in 2019 when adjusted for differences in inflation. In the end it will be the smaller corporations that will pull down the larger corporations, rather than the other way round, because the smaller corporations act as a market for the larger corporations and if they employ less, advertise less, spend less on information, and invest less, then markets will contract.

Graph 17.



(Source: [Atlanta FED](#))

At present the view that the economy is weakening faster than expected, and confirmation for that is likely in Friday's jobs report, is leading to expectations that the punitive rate rising cycle by the FED is over. That in turn has halted the recent slide in share prices. Clearly a case of a glass half full rather than half empty, but in time the weakening economy will become the narrative rather than the issue of interest rates.

### Conclusion.

In the war with China, the US appears to be currently doing better. But as I have said this will be short-lived. The world economy is being driven into a deepening slump as profitability wanes and the machinations of US imperialism intensifies disrupting global trade and investment. In the end the strongest counter-vailing factor is the class struggle provided it remains subdued. But can the capitalist class in China, the USA, and elsewhere count on this? Recent developments suggest not.

Brian Green, 31<sup>st</sup> August 2023.