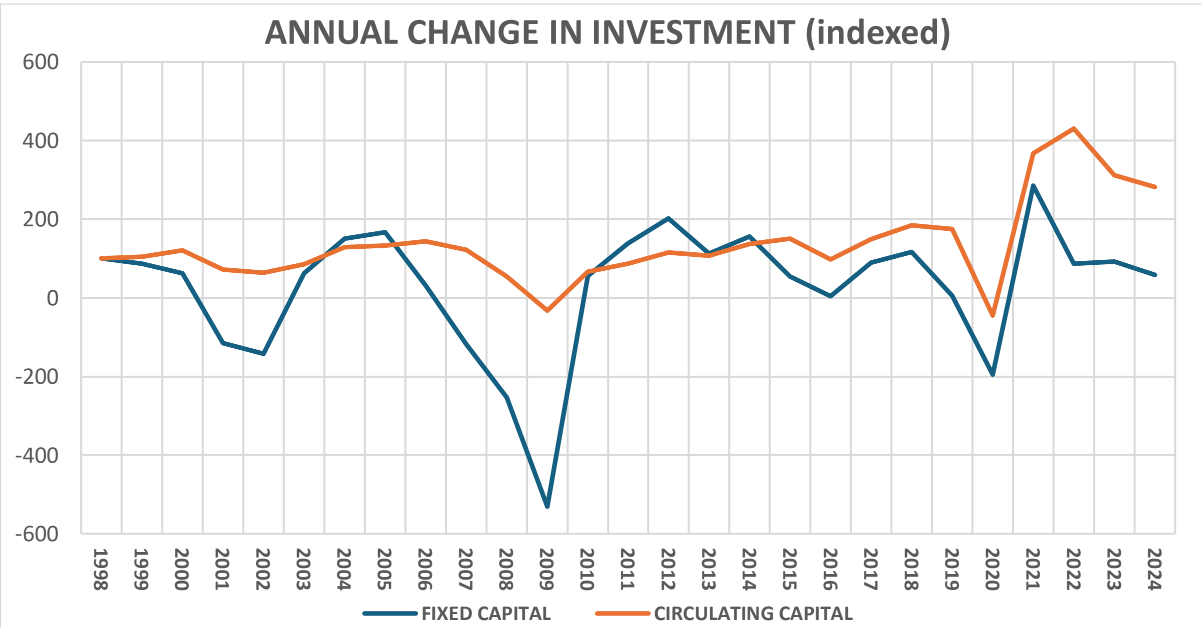
MARKETS ARE MOVED BY CAPITAL EXPENDITURES NOT PERSONAL CONSUMPTION.

Let's begin with the crude figures. In 2024 Gross Output or total sales for the private industry sector amounted to $45.309 trillion. (Refer to the accompanying KLEMS spreadsheet) Final sales or GDP was smaller at $26.0 trillion. The difference was intermediate sales of $19.3 trillion. However, given that owner occupier rents inflate GDP by 8% and I.P. by another 3% (amongst other duplications) the adjusted figures look like this: GDP falls to $23.1 trillion, intermediate sales rise to $19.9 trillion and gross output falls to $41.7 trillion. Fixed investment that year amounted to $3.96 trillion. Together intermediate sales plus fixed investment adds up to 57% of total sales showing even on this crude basis that annual capital expenditures exceed personal consumption.

But this is not the end of the story. Intermediate sales are only one part of circulating capital. The actual formula for annual circulating capital would be intermediate sales plus annual worker compensation of $12.5 trillion yielding $32.4 trillion. When we add them together with fixed investment, it forms 72% of total sales even when using the original figure of $45.309 trillion. Only now can we see how powerful the movement of capital really is. Total capital expenditures, and circulating capital must be continuously reinvested, outweigh personal consumption by roughly two to one.

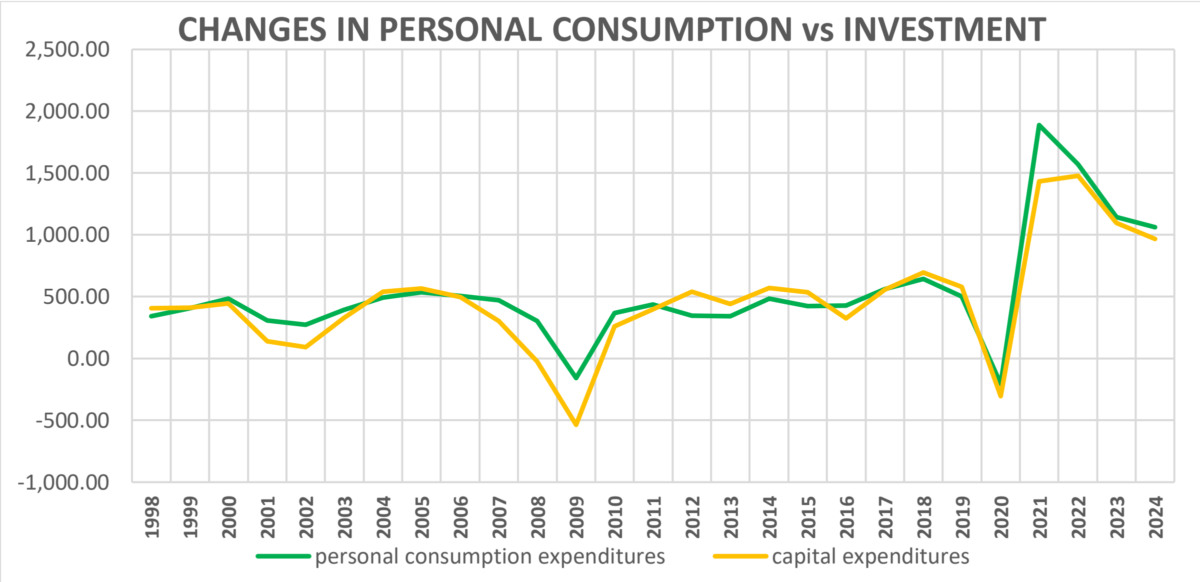
It is not only the magnitude but the movement which is decisive. As we shall see it is the movement of circulating capital which is the prime mover of markets. But first we have to account why circulating capital oscillates. This can be seen in the graph below. Circulating capital and its magnitude depends on fixed capital not the other way round. We note how fixed capital falls before circulating capital does. Only fixed capital is responsive to changes in the composition of capital. And when the composition rises, and it does so unevenly depending on the industry, it bears down on the sectorial rate of profit depressing it. This leads to a sectorial fall in investment prior to it becoming a general fall. This uneven fall results in a reduction in demand which in turn affects circulating capital whose rhythm is identified by the capitalist class as the Kitchin cycle.

Graph 1.



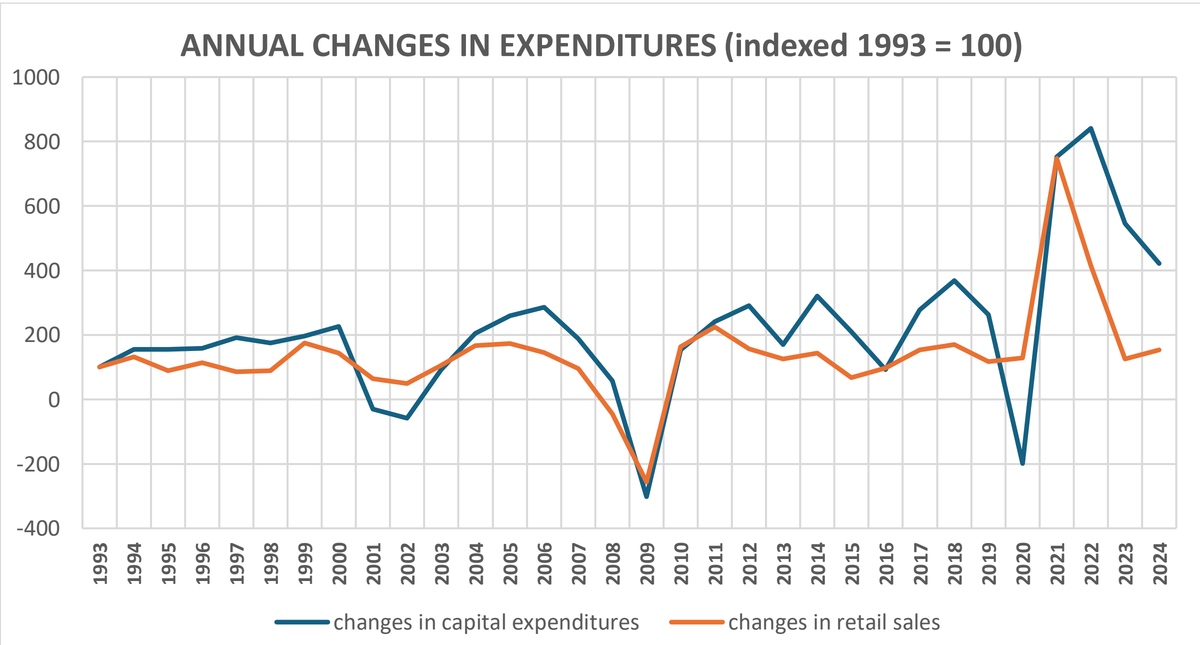
We can now compare changes to expenditures of capital and unproductive consumption. Graph 2 combines both circulating and fixed capital outlays then compares it to personal consumption. We note that at the end of the business (industrial) cycle investment falls earlier, faster and further than does personal consumption. Bear in mind that in relative terms, investment carries twice the weight of personal consumption as discussed above.

Graph 2.



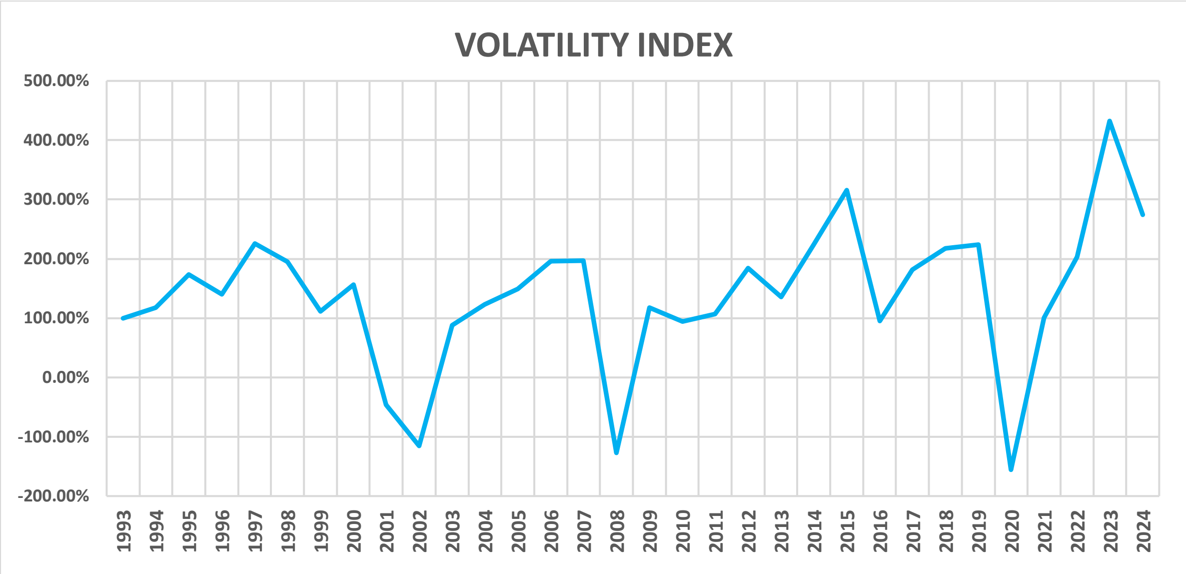
As this series is quite short, I tried to get an extended series. However, I could only find comparable data going up to 1992. The following two graphs relate to the non-financial corporate sector presenting amore accurate picture. As most of this sector's revenues are goods producing, I compared the capital expenditures here to the higher volatility of retail sales. (Service expenditures are more stable.)

Graph 3.



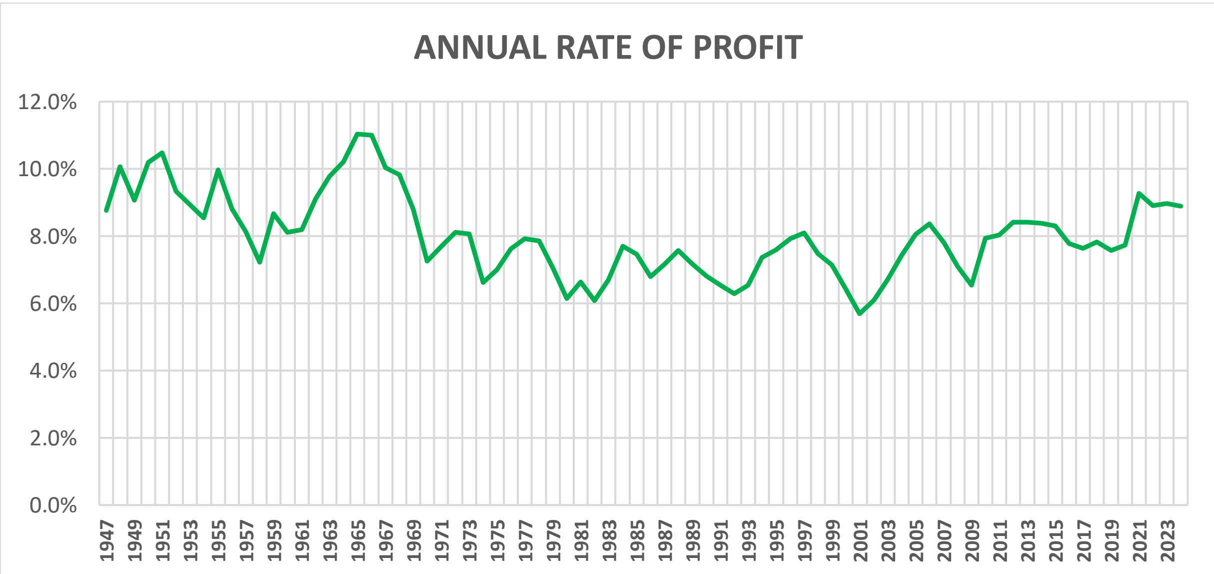
We can see how much more volatile capital expenditures are. Below the volatility of capital expenditures to retail sales are compared by dividing capital expenditures by retail sales. Note how the troughs define the three recessionary periods. (Excluded is what if call the pseudo recession at the end of 2015 where once again there is a trough.)

Graph 4.



So, we can see that when we factor in total sales, and with-it circulating capital the whole consumption picture changes. Now it is investment that dominates instead ofpersonal consumption when only GVA is considered. Additionally, both in terms of timing and volatility it is investment not personal consumption which drives the business cycle.

I thought as a bonus I would include the correct rate of profit from 1947 based on the net surplus divided by fixed and circulating capital in the non-financial corporate sector. (The non-financial sector is the largest sector where duplication is manageable.) Note the current rate of profit.



Brian Green, 14th June 2026.