Corporate Finance Briefing: 
NIPA vs. S&P 500 Profits

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Dr. Edward Yardeni
516-972-7683
eyardeni@yardeni.com

Debbie Johnson
480-664-1333
djohnson@yardeni.com

Please visit our sites at
www.yardeni.com
blog.yardeni.com

thinking outside the box
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Figure 1.

NOMINAL GNP & AFTER-TAX CORPORATE PROFITS
(1960=100, ratio scale)

- 7% Growth Path*
- Nominal GNP
- After-Tax Corporate Profits
  - Reported to IRS
  - From Current Production**

* Compounded monthly to yield 7% annually.
** Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: Bureau of Economic Analysis.

Figure 2.

S&P 500 EARNINGS PER SHARE
(dollars, ratio scale)

- S&P 500 Earnings Per Share*
  - Reported (4-quarter sum)
  - Operating** (4-quarter sum)
  - Forward***

* Growth paths are compounded monthly to yield 5% and 7% annually.
** Excludes write-offs.
*** S&P 500 12-month forward consensus expected operating earnings per share. Time-weighted average of consensus earnings estimates for current and next year.
Source: Standard & Poor’s and I/B/E/S data by Refinitiv.
**Figure 3.**

**NOMINAL GDP & AFTER-TAX CORPORATE PROFITS**

*(1960=100, ratio scale)*

- **7% Growth Path***
- **After-Tax Corporate Profits**
  - Reported to IRS
  - From Current Production**

* Compounded monthly to yield 7% annually.
** Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Source: Bureau of Economic Analysis.

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**Figure 4.**

**S&P 500 FORWARD EARNINGS***

& **7% Growth Trend**

*(ratio scale)*

- S&P 500 Forward Earnings (167.1)
- 7% Trend**

* 52-week forward consensus expected S&P 500 operating earnings per share. Monthly through April 1994, then weekly.
** Compounded monthly to yield 7% annually.

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: I/B/E/S data by Refinitiv.
Figure 5.

CORPORATE PROFITS FROM CURRENT PRODUCTION*
(billion dollars, saar, ratio scale)

Total Profits
- Pre-Tax
- After-Tax

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: Bureau of Economic Analysis.

Figure 6.

CORPORATE PROFITS REPORTED TO IRS*
(billion dollars, saar, ratio scale)

Total Profits
- Pre-Tax
- After-Tax

* Excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: US Department of Commerce, Bureau of Economic Analysis.
**Figure 7.**

CORPORATE PROFITS FROM CURRENT PRODUCTION*  
(yearly percent change)

Total Profits  
- After-Tax (2.8)

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.  
Source: US Department of Commerce, Bureau of Economic Analysis.

**Figure 8.**

CORPORATE PROFITS REPORTED TO IRS*  
(yearly percent change)

Total Profits  
- After-Tax (10.3)

* Excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.  
Source: US Department of Commerce, Bureau of Economic Analysis.
Figure 9.
CORPORATE PROFITS BY INDUSTRY*
(billion dollars, saar)

Pre-Tax By Industry
- Nonfinancial
- Financial
- Net Receipts from the Rest of the World

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: US Department of Commerce, Bureau of Economic Analysis.

Figure 10.
CORPORATE PROFITS BY INDUSTRY*
(as a percent of corporate profits)

Pre-Tax By Industry
- Nonfinancial
- Financial
- Net Receipts from the Rest of the World

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: US Department of Commerce, Bureau of Economic Analysis.
**MEASURES OF PROFITS IN FINANCIAL SECTOR**
(billion dollars)

- Pre-Tax Profits: Financial* (saar)
- S&P 500 Financials 12-month Forward Earnings
- FDIC Commercial Banks: Net Income (annualized, nsa)

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Source: Bureau of Economic Analysis and Federal Deposit Insurance Corporation, Quarterly Banking Profile.

**FINANCIAL PROFITS SHARE OF TOTAL PROFITS**

Financial Profits as a Percent of
- Pre-Tax Corporate Profits
- S&P 500 Forward Earnings*

* Using consensus 12-month forward earnings forecasts.

Source: US Department of Commerce, Bureau of Economic Analysis, and I/B/E/S data by Refinitiv.
Figure 13.
CORPORATE PRE-TAX PROFITS FROM THE REST OF THE WORLD*
(billion dollars, saar)

Rest of World Profits
- Net
- Receipts
- Payments

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: US Department of Commerce, Bureau of Economic Analysis.

Figure 14.
CORPORATE PRE-TAX PROFITS FROM THE REST OF THE WORLD
(as a percent of pre-tax corporate profits*)

Rest of World Profits
- Net (18.7)
- Payments (14.4)
- Receipts (33.1)

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: US Department of Commerce, Bureau of Economic Analysis.
CORPORATE PRE-TAX PROFITS RECEIPTS FROM REST OF WORLD vs. GLOBAL INDUSTRIAL PRODUCTION
(yearly percent change)

Receipts*
OECD Industrial Production

CORPORATE PRE-TAX PROFITS RECEIPTS FROM REST OF WORLD vs. US MERCHANDISE EXPORTS
(yearly percent change)

CORPORATE PRE-TAX PROFITS RECEIPTS FROM REST OF WORLD vs. TRADE WEIGHTED DOLLAR
(yearly percent change)

* Including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: Bureau of Economic Analysis and Board of Governors of the Federal Reserve System, Census Bureau and OECD.
Profits (NIPA vs. S&P)

Figure 16.

**AFTER-TAX CORPORATE PROFITS: NIPA vs. S&P 500***
(billion dollars, quarterly)

NIPA After-Tax Profits
(saar)
- Red: Based on Tax Returns*
- Blue: From Current Production**

S&P 500 Net Income
(actual x 4, nsa)
- Green: Operating (S&P data)
- Orange: Reported on GAAP basis (S&P data)

* Excluding IVA & CCadj.
** Including IVA & CCadj. These two adjustments restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.
Source: Bureau of Economic Analysis and Standard & Poor’s.

Figure 17.

**S&P 500 OPERATING & REPORTED EARNINGS PER SHARE (S&P data)**
(dollars, quarterly)
- Blue: Operating (S&P data) (38.0)
- Green: Reported (S&P data) (33.1)

Source: Standard & Poor’s.
**Figure 18.**

**UNDISTRIBUTED CORPORATE PROFITS WITH IVA & CCAdj**
(billion dollars, saar, ratio scale)

Source: Bureau of Economic Analysis.

**Figure 19.**

**DIVIDENDS IN CORPORATE PROFITS**
(billion dollars, saar, ratio scale)

Source: Bureau of Economic Analysis.
Figure 20.

**CORPORATE CASH FLOW**
(billion dollars, saar ratio scale)

- Corporate Cash Flow* (2619.6)
- Economic Depreciation** (1946.1)
- Tax-Reported Depreciation*** (1929.8)

* After-tax undistributed corporate profits with IVA plus capital consumption allowance (i.e., tax-reported depreciation), which is equal to consumption of fixed capital (i.e., economic depreciation) plus the capital consumption adjustment (CCAdj).

** Consumption of fixed capital.

*** Capital consumption allowance (i.e., tax-reported depreciation).

Source: Bureau of Economic Analysis.

Figure 21.

**INVENTORY VALUATION ADJUSTMENT**
(billion dollars, saar)

**CAPITAL CONSUMPTION ADJUSTMENT**
(billion dollars, saar)

* Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Source: Bureau of Economic Analysis.
**Figure 22.**

**PRE-TAX CORPORATE PROFITS FROM CURRENT PRODUCTION**

*Includes IVA & CCAdj. These two adjustments restate the historical-cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current-cost measures used in GDP.*

*Note: Shaded areas are recessions according to the National Bureau of Economic Research.*

*Source: US Department of Commerce, Bureau of Economic Analysis.*

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**Figure 23.**

**CORPORATE PROFITS MARGINS IN GDP**

(after-tax profits as a percent of nominal GDP)

*Using Book Profits* (10.0)

*Using Cash-Flow Profits* (9.5)

*Tax-accounting basis as reported to IRS.*

**Book profits including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.*

*Note: Shaded areas are recessions according to the National Bureau of Economic Research.*

*Source: Bureau of Economic Analysis.*
Figure 24.

**PROFIT MARGIN* FROM CURRENT PRODUCTION**
(percentage)

- All Corporations
- Nonfinancial Corporations

* After-tax profits including Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj) divided by Gross Value Added of Corporate Business.

Note: Shaded areas are recessions according to the National Bureau of Economic Research, which determined that a peak in business activity occurred in the U.S. economy in March 2001.

Source: US Department of Commerce, Bureau of Economic Analysis.

Figure 25.

**AFTER-TAX PROFIT MARGIN & CAPACITY UTILIZATION**

After-Tax Nonfinancial Corporate Profit Margin

Capacity Utilization: All Industries

Source: Federal Reserve Board and US Department of Commerce, Bureau of Economic Analysis.
Profit Margin

Figure 26.

AFTER-TAX CORPORATE PROFITS: NIPA BOOK vs S&P 500 REPORTED
(billion dollars, quarterly, ratio scale)

After-Tax Profits
NIPA Book Profits*
S&P 500 Reported
Net Income**

* NIPA book profits series excludes Inventory Valuation Adjustment and Capital Consumption Adjustment. Series is seasonally adjusted and annualized quarterly data.

** S&P 500 aggregate net income on GAAP basis using four-quarter sum.

Source: Bureau of Economic Analysis and Standard & Poor’s.

Figure 27.

S&P 500 AGGREGATE REPORTED NET INCOME (GAAP basis)
(as a percent of NIPA after-tax book profits*)

* S&P 500 aggregate reported net income is on GAAP basis and shown as four-quarter sum. NIPA book profits exclude Inventory Valuation Adjustment and Capital Consumption Adjustment. NIPA series is shown using seasonally adjusted and annualized quarterly data.

Source: Bureau of Economic Analysis and Standard & Poor’s.
Figure 28.

S&P 500 REPORTED PROFIT MARGIN & AFTER-TAX CORPORATE PROFITS MARGIN (without IVA & CCAdj)

- Corporate Profits After Tax* (as a percent of nominal GDP) (10.0)
- S&P 500 Profit Margin: Reported (percent) (9.6)

* After-tax profits as reported to IRS excluding Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj), which restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Note: Shaded areas denote recessions according to the National Bureau of Economic Research. Q4-2008 not shown because of large negative value.

Source: Standard & Poor’s, I/B/E/S data by Refinitiv, and Bureau of Economic Analysis.

Figure 29.

AFTER-TAX CORPORATE PROFIT MARGIN & COSTS

- Compensation of Employees Plus Private Fixed Investment (as a percent of nominal GDP)
- Corporate Profits After Tax* (as a percent of nominal GDP)

* After-tax profits as reported to IRS (without IVA and CCAdj).

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.

Source: Bureau of Economic Analysis.
Figure 30.

COMPENSATION OF EMPLOYEES + PRIVATE NONRESIDENTIAL FIXED INVESTMENT
(as a percent of nominal GDP)

Latest (67.7)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Bureau of Economic Analysis.

Figure 31.

COMPENSATION OF EMPLOYEES
(as a percent of nominal GDP)

Q3

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: US Department of Commerce, Bureau of Economic Analysis.