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

September 11, 2020

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

Joe Abbott
732-497-5306
jabbott@yardeni.com

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

thinking outside the box
Table Of Contents

S&P 500 Operating Profit Margins
Profit Margins 3-5
Margins & Costs 6-8
**Profit Margins**

Figure 1.

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

<table>
<thead>
<tr>
<th>NIPA After-Tax Profits</th>
<th>Based on Tax Returns*</th>
<th>From Current Production**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAAR</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>S&amp;P 500 Net Income</th>
<th>Operating (S&amp;P data)</th>
<th>Reported on GAAP basis (S&amp;P data)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>actual x 4, nsa</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 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 2.

**CORPORATE PROFITS MARGINS IN GDP**
(after-tax profits as a percent of nominal GDP)

- Based on Tax Returns* (7.9)
- Based on Current Production** (8.1)

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

* 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.
Figure 3.

S&P 500 OPERATING PROFIT MARGIN (I/B/E/S data) & AFTER-TAX CORPORATE PROFIT MARGIN (without IVA & CCAdj)

Corporate Profits After Tax* (as a percent of nominal GDP) (blue line)

S&P 500 Operating Profit Margin Using I/B/E/S Earnings** (percent, quarterly, nsa) (red line)

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

* 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.

** Operating Profit Margin derived using revenues from S&P and earnings from I/B/E/S data by Refinitiv.

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

Figure 4.

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

Corporate Profits After Tax* (as a percent of nominal GDP) (7.9)

S&P 500 Profit Margin: Reported (percent) (5.6)

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.
**Profit Margins**

Figure 5.

S&P 500 OPERATING PROFIT MARGIN & AFTER-TAX CORPORATE PROFIT MARGIN
(with IVA & CCAdj)

- Corporate Profits After Tax* (as a percent of nominal GDP) (8.1)
- S&P 500 Profit Margin: Operating (percent) (8.9)

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

* Profits after tax with IVA and CCAdj.

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

Figure 6.

S&P 500 REPORTED PROFIT MARGIN & AFTER-TAX CORPORATE PROFIT MARGIN
(with IVA & CCAdj)

- Corporate Profits After Tax* (as a percent of nominal GDP) (8.1)
- S&P 500 Profit Margin: Reported (percent) (5.6)

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

* Profits after tax with IVA and CCAdj.

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

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

Latest (69.5)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Bureau of Economic Analysis.
Figure 9.

COMPENSATION OF EMPLOYEES (as a percent of nominal GDP)

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

Figure 10.

PRIVATE NONRESIDENTIAL FIXED INVESTMENT (as a percent of nominal GDP)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: US Department of Commerce, Bureau of Economic Analysis.
Figure 11.

UNIT PROFITS OF NONFINANCIAL CORPORATIONS*  
(2005=100, sa, ratio scale)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.  
* Profits divided by real output.  

Figure 12.

PROFIT MARGIN OF NONFINANCIAL CORPORATIONS*  
(2005=100 sa ratio scale)

Note: Shaded areas denote recessions according to the National Bureau of Economic Research.  
* Profits divided by nominal output (real output x implicit price deflator).  