

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

Yardeni Research, Inc.

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*thinking outside the box*

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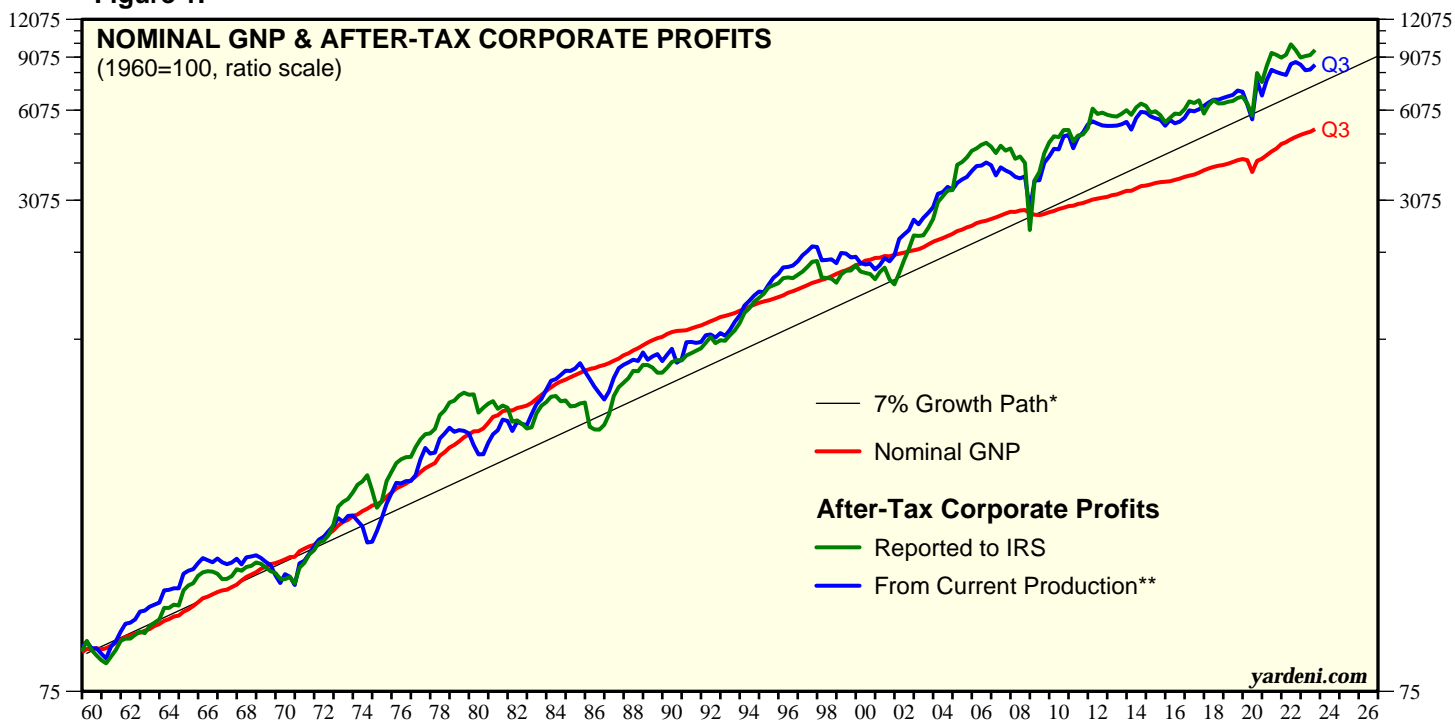
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# Profits

Figure 1.

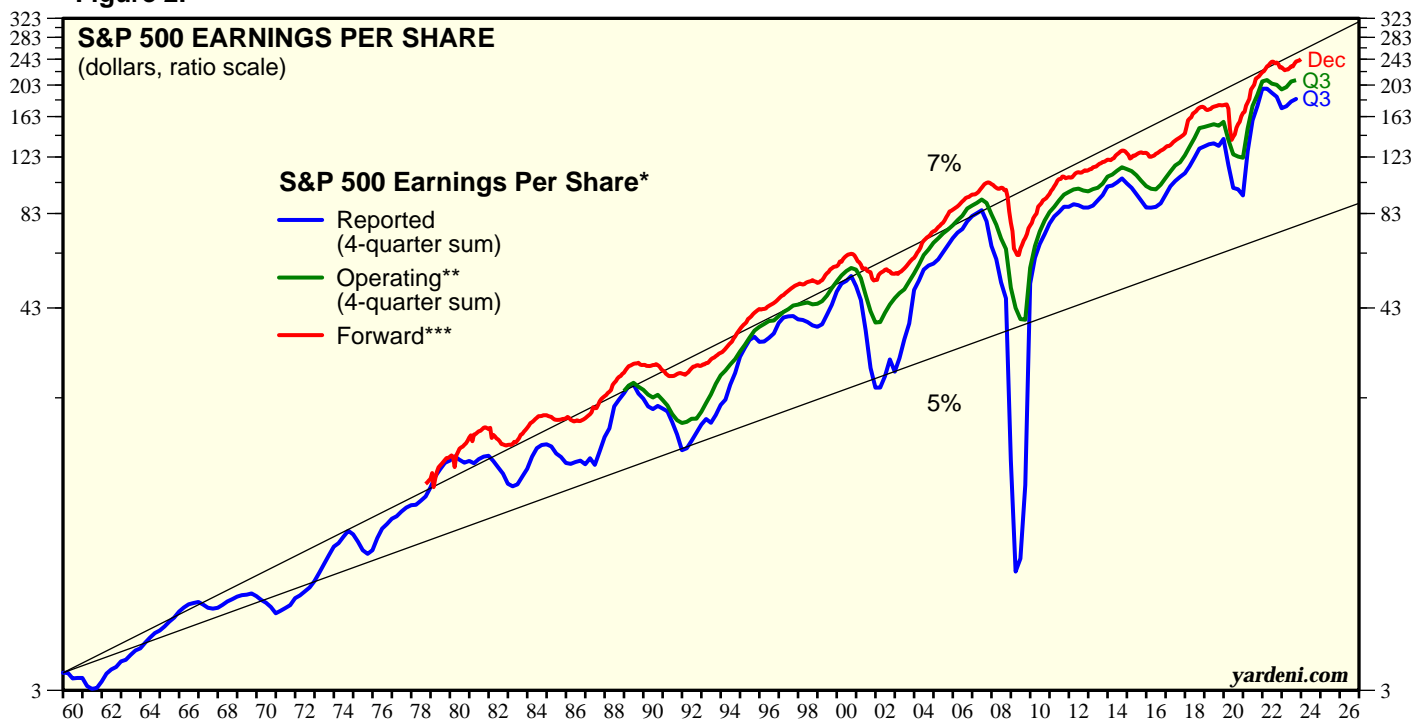


\* Compounded monthly to yield 7% annually.

\*\* 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.



\* Growth paths are compounded monthly to yield 5% and 7% annually.

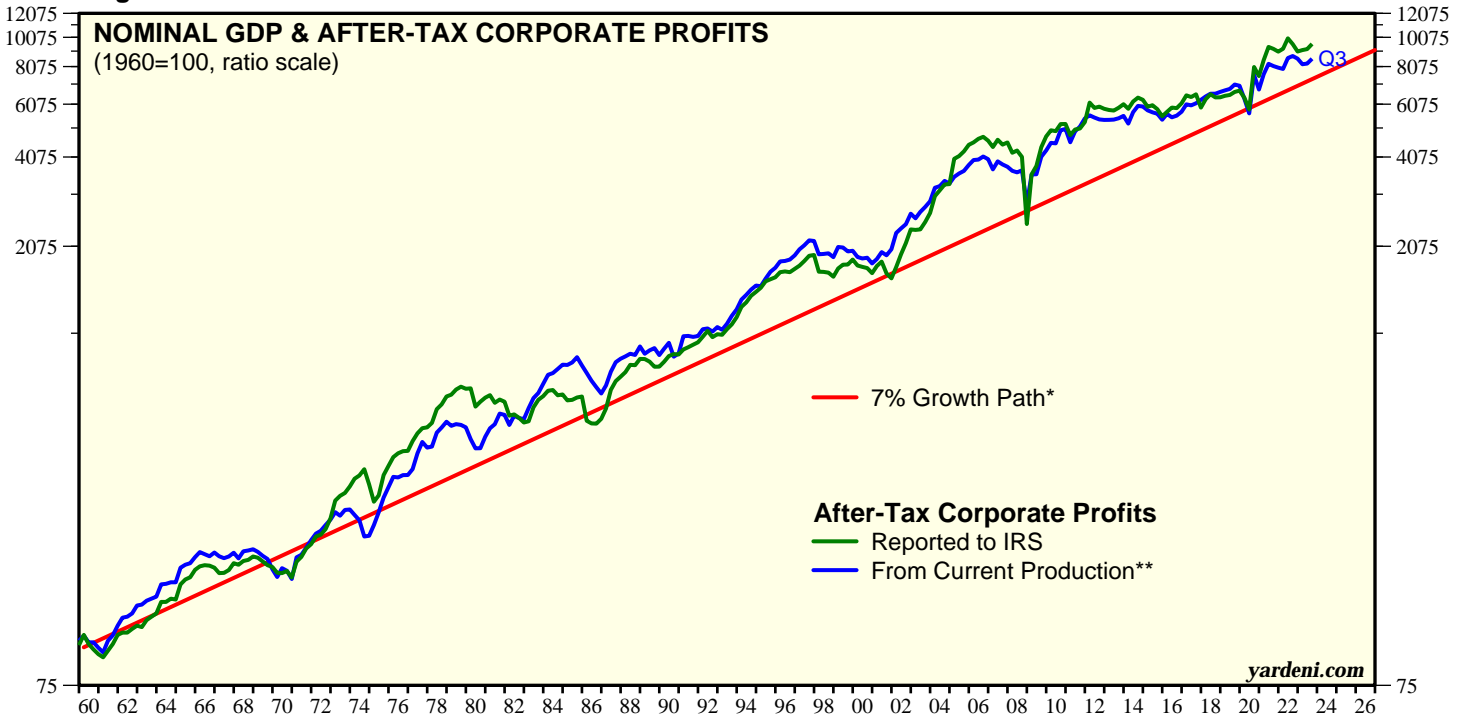
\*\* Excludes write-offs.

\*\*\* 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.

# Profits

Figure 3.

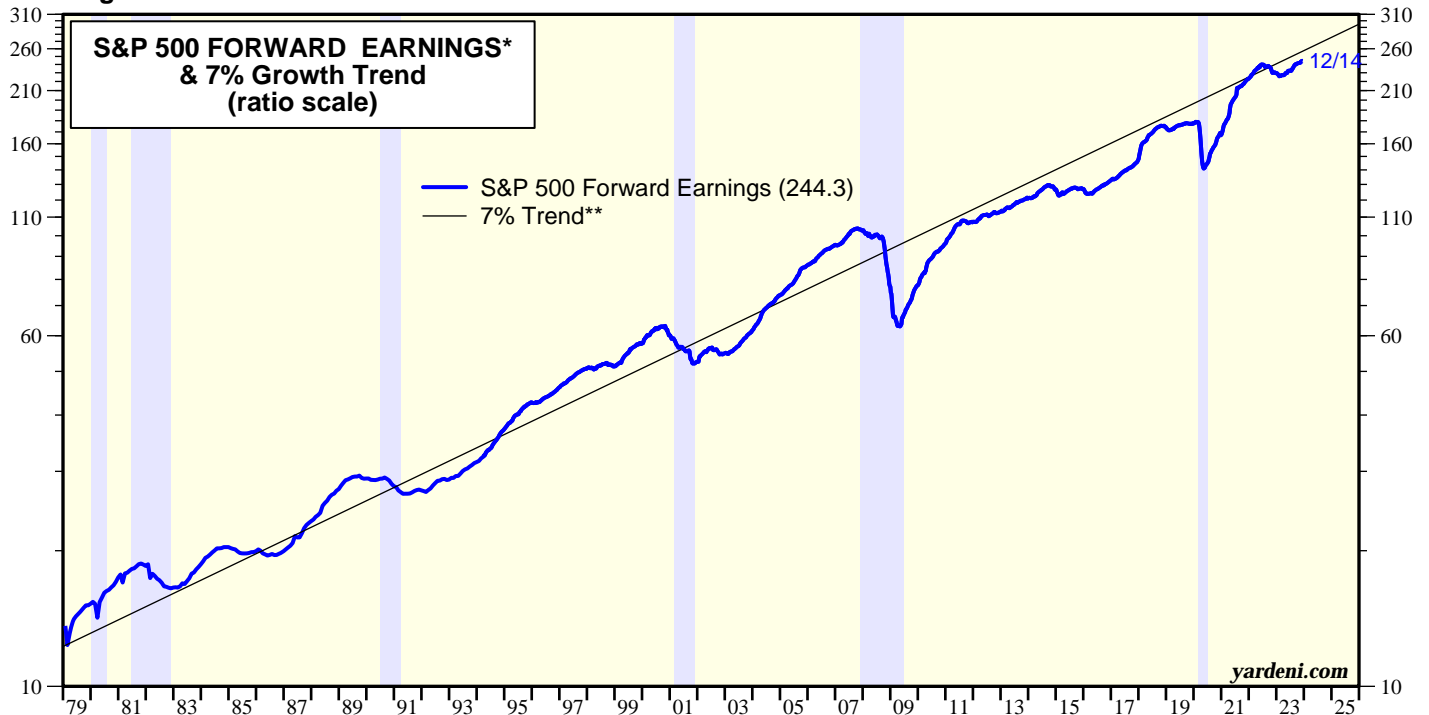


\* Compounded monthly to yield 7% annually.

\*\* 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 4.



\* 52-week forward consensus expected S&P 500 operating earnings per share. Monthly through April 1994, then weekly.

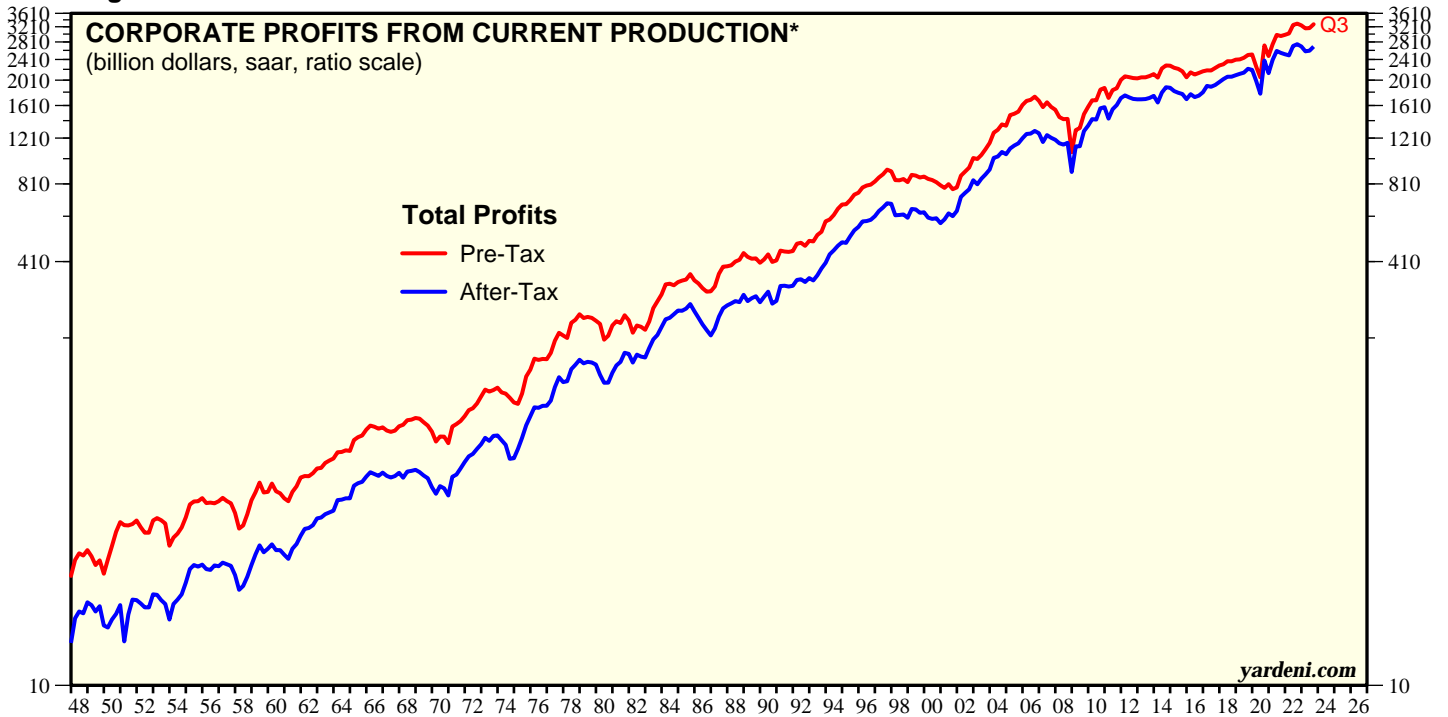
\*\* Compounded monthly to yield 7% annually.

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

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

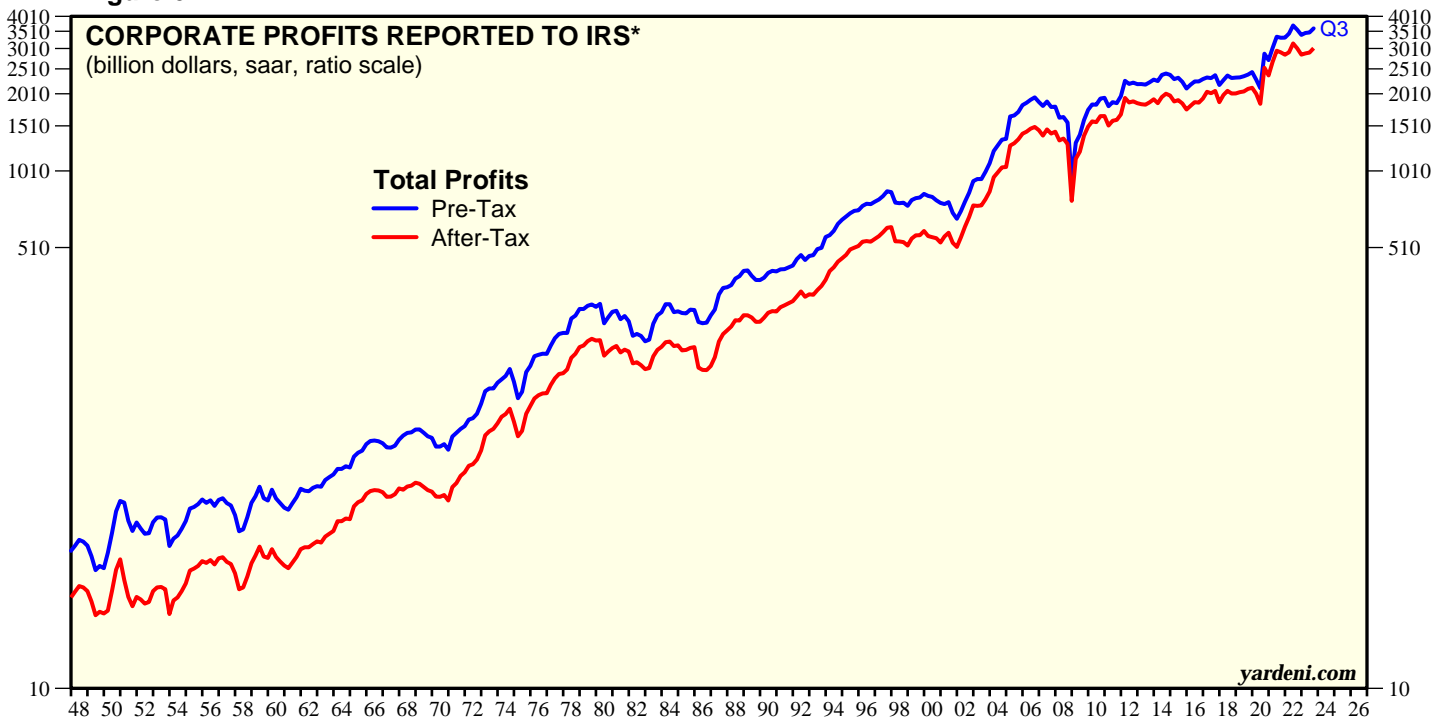
# Profits (NIPA)

Figure 5.



\* 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.

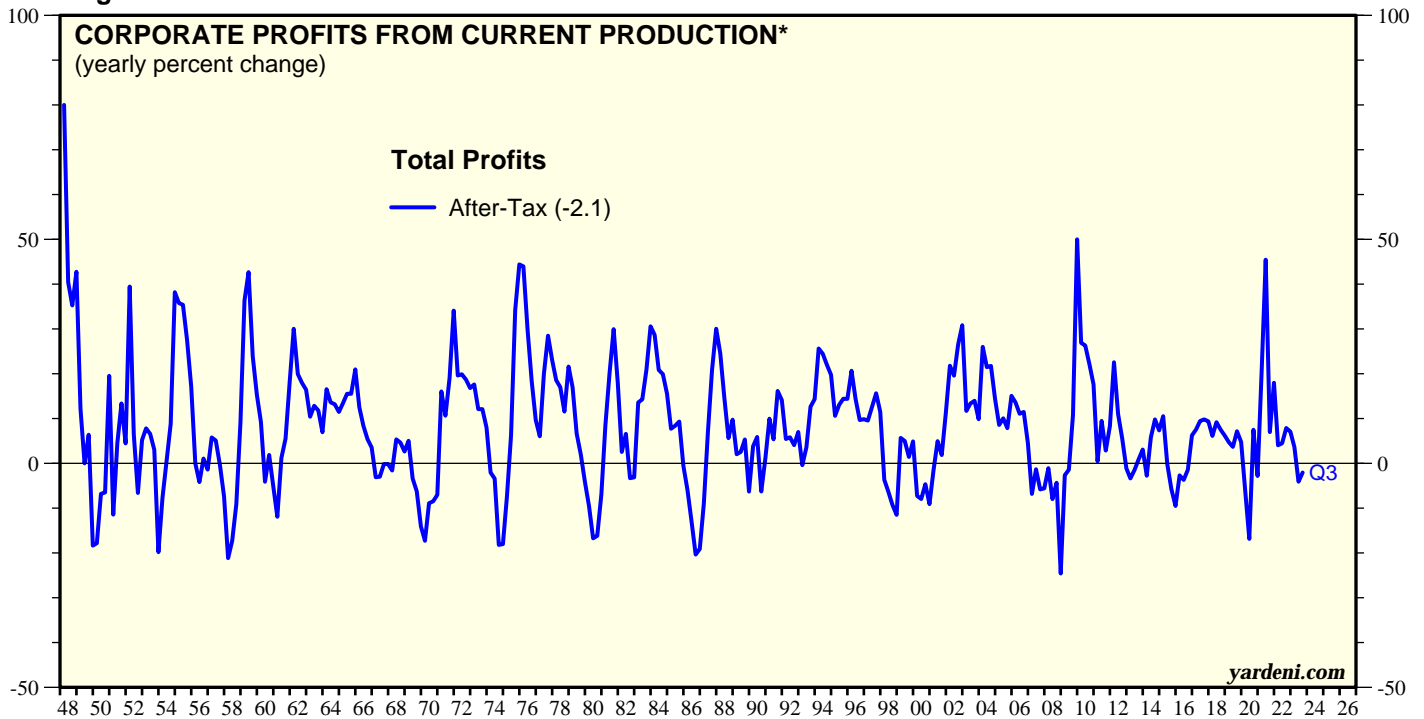
Figure 6.



\* 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.

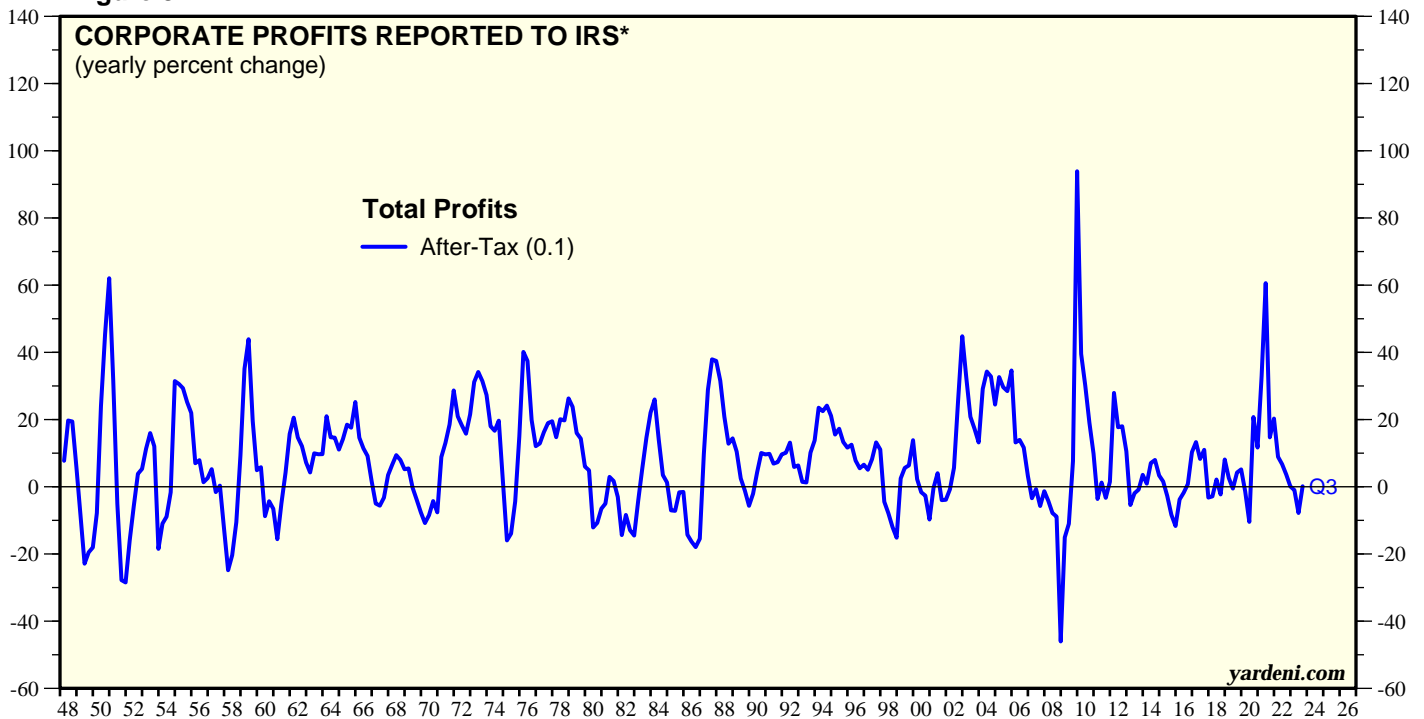
# Profits (NIPA)

Figure 7.



\* 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.

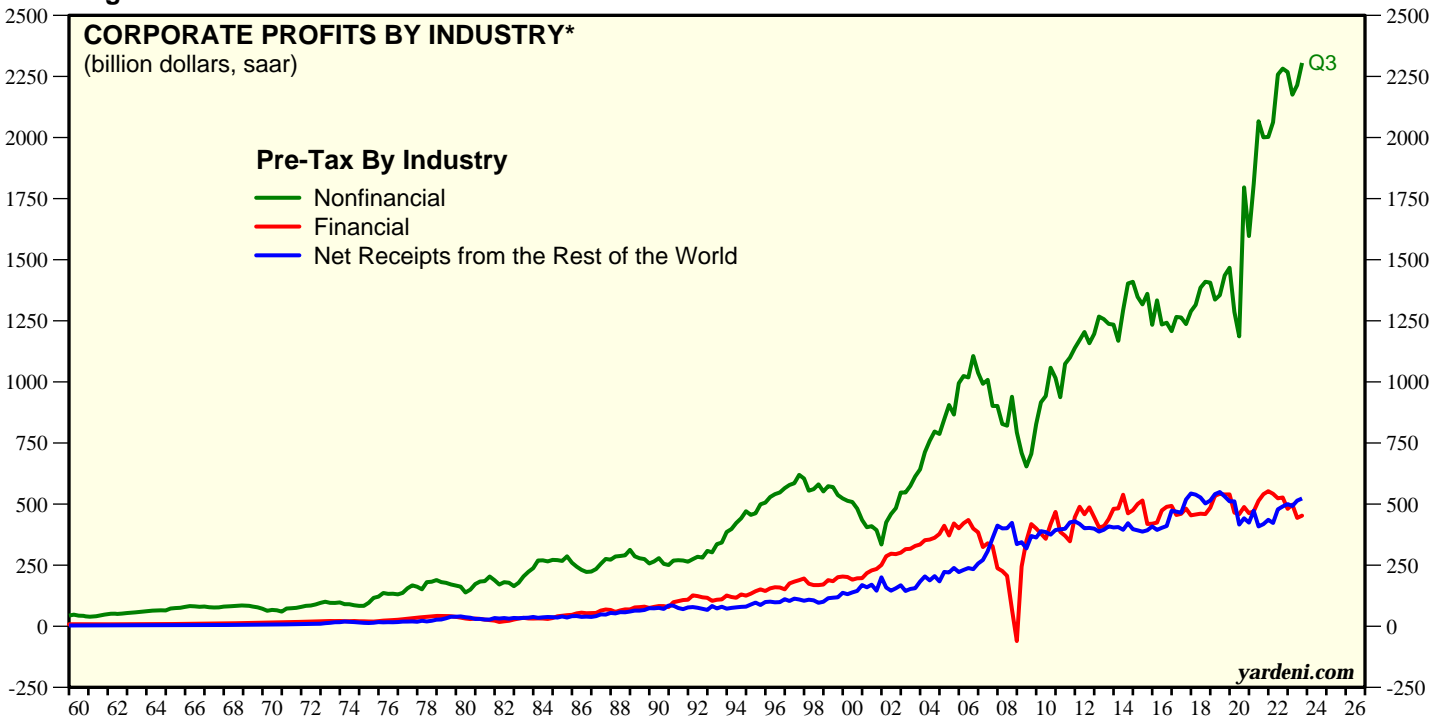
Figure 8.



\* 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.

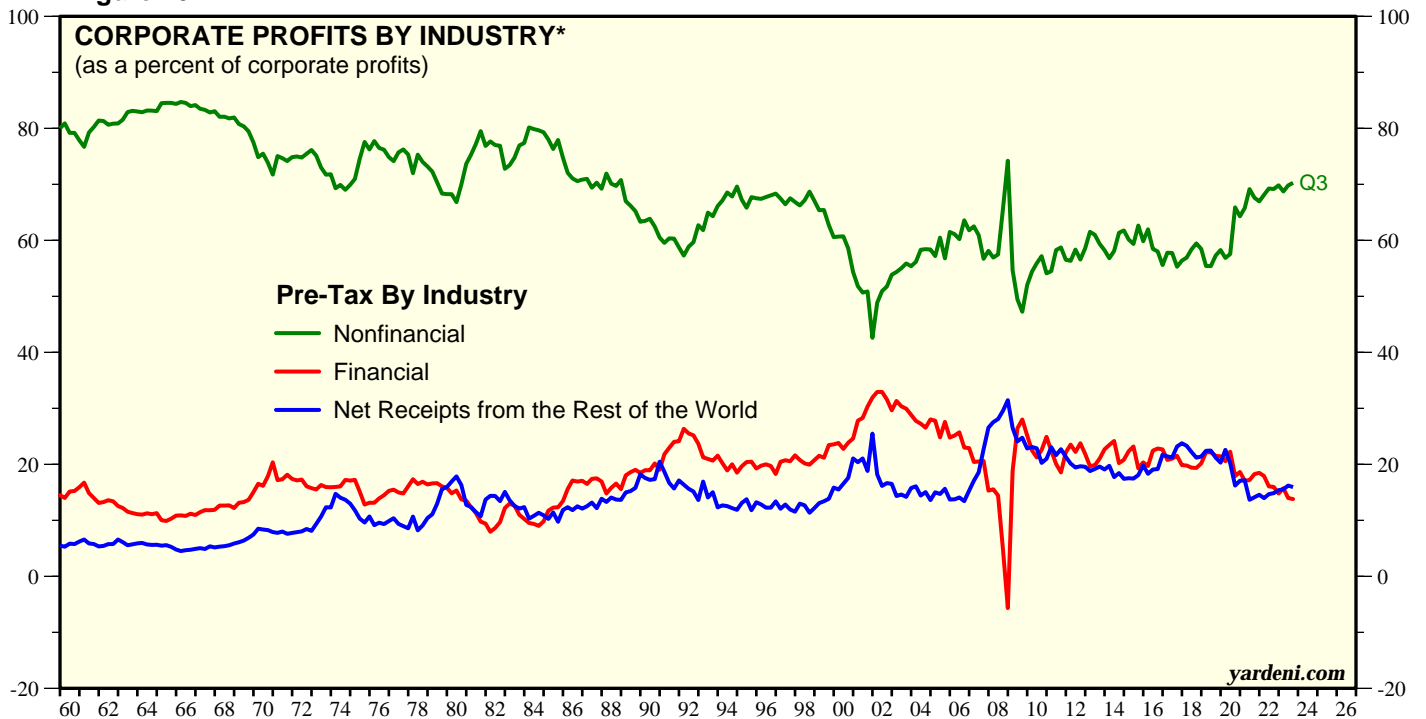
# Profits (NIPA)

Figure 9.



\* 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.

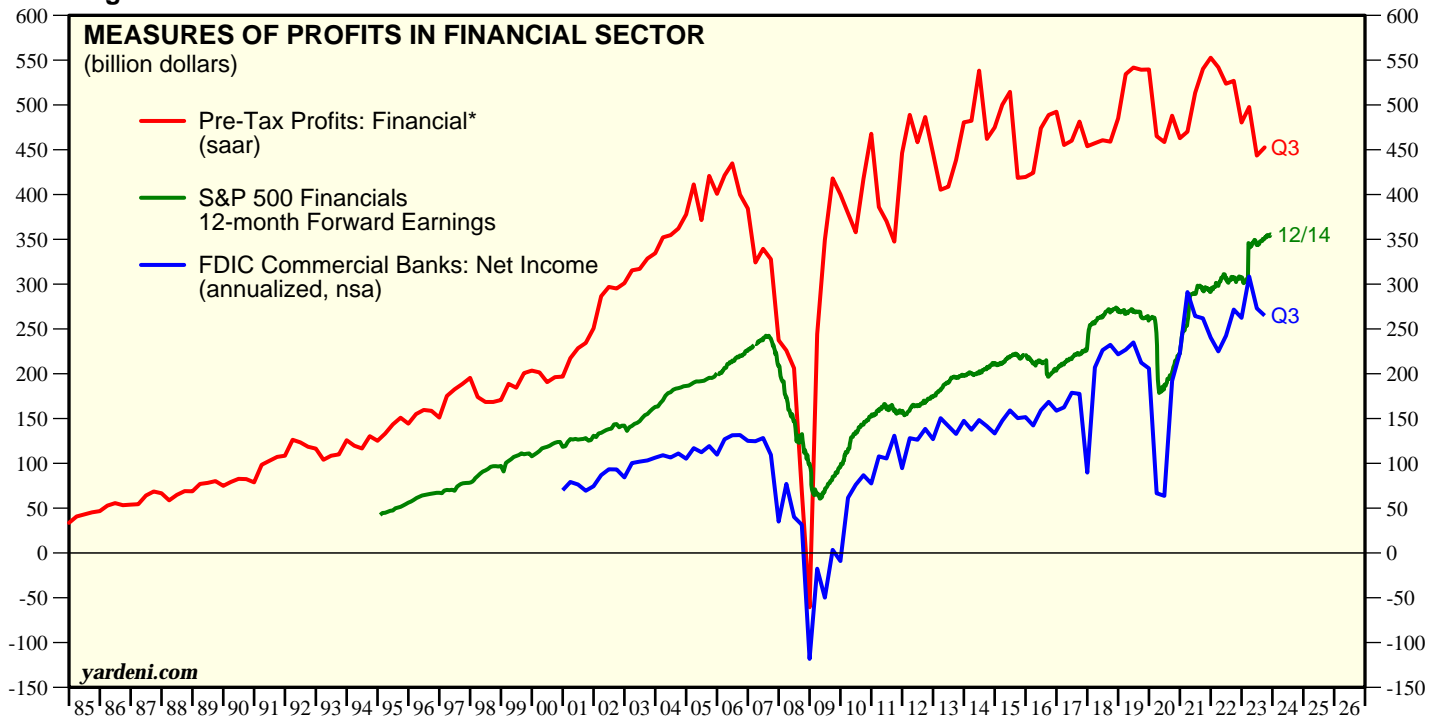
Figure 10.



\* 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.

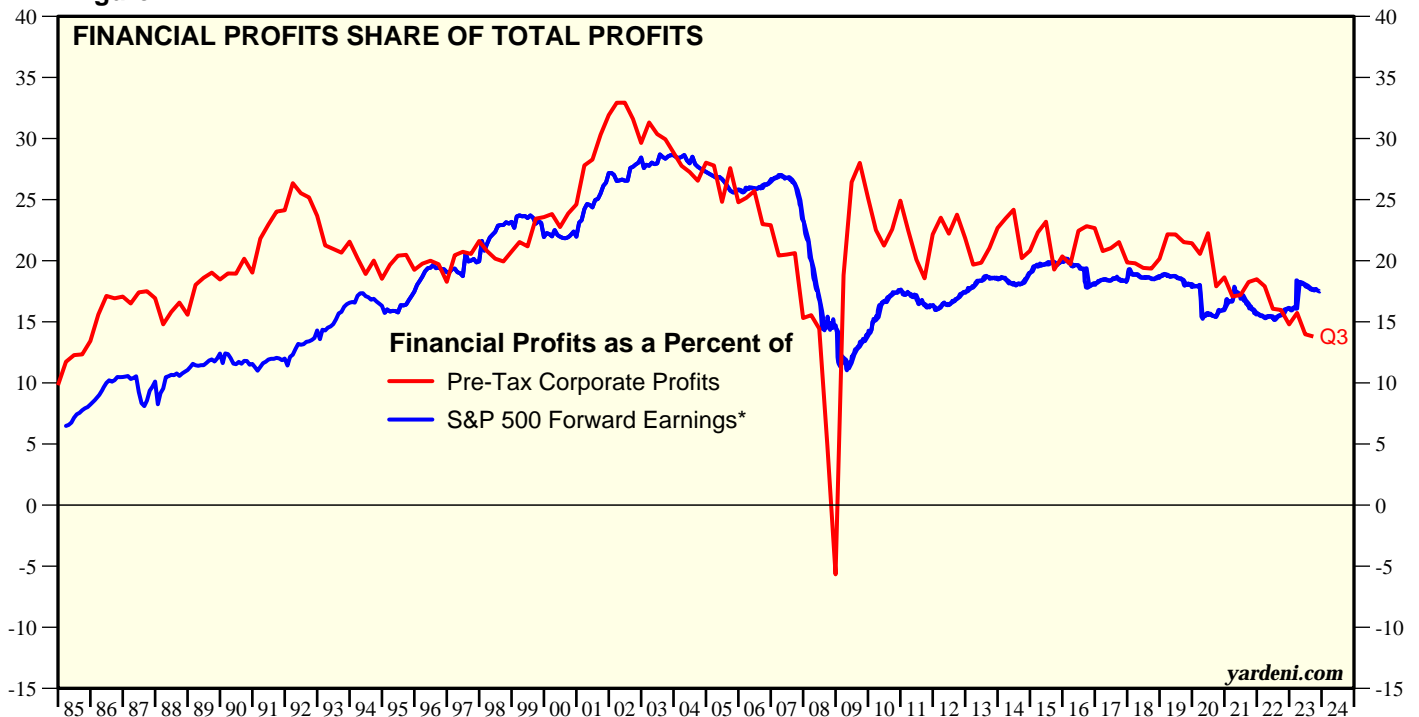
# Profits (NIPA)

Figure 11.



\* 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.

Figure 12.

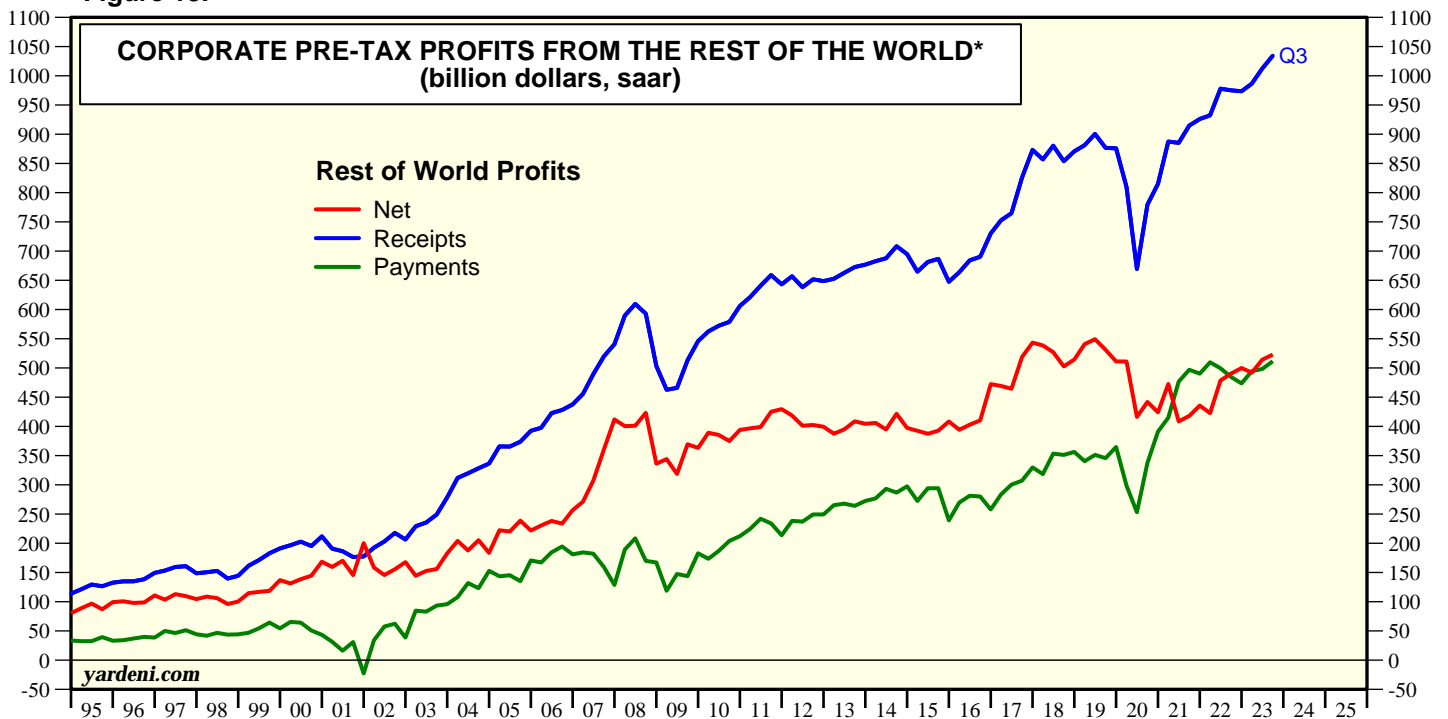


\* Using consensus 12-month forward earnings forecasts.  
Source: US Department of Commerce, Bureau of Economic Analysis, and I/B/E/S data by Refinitiv.



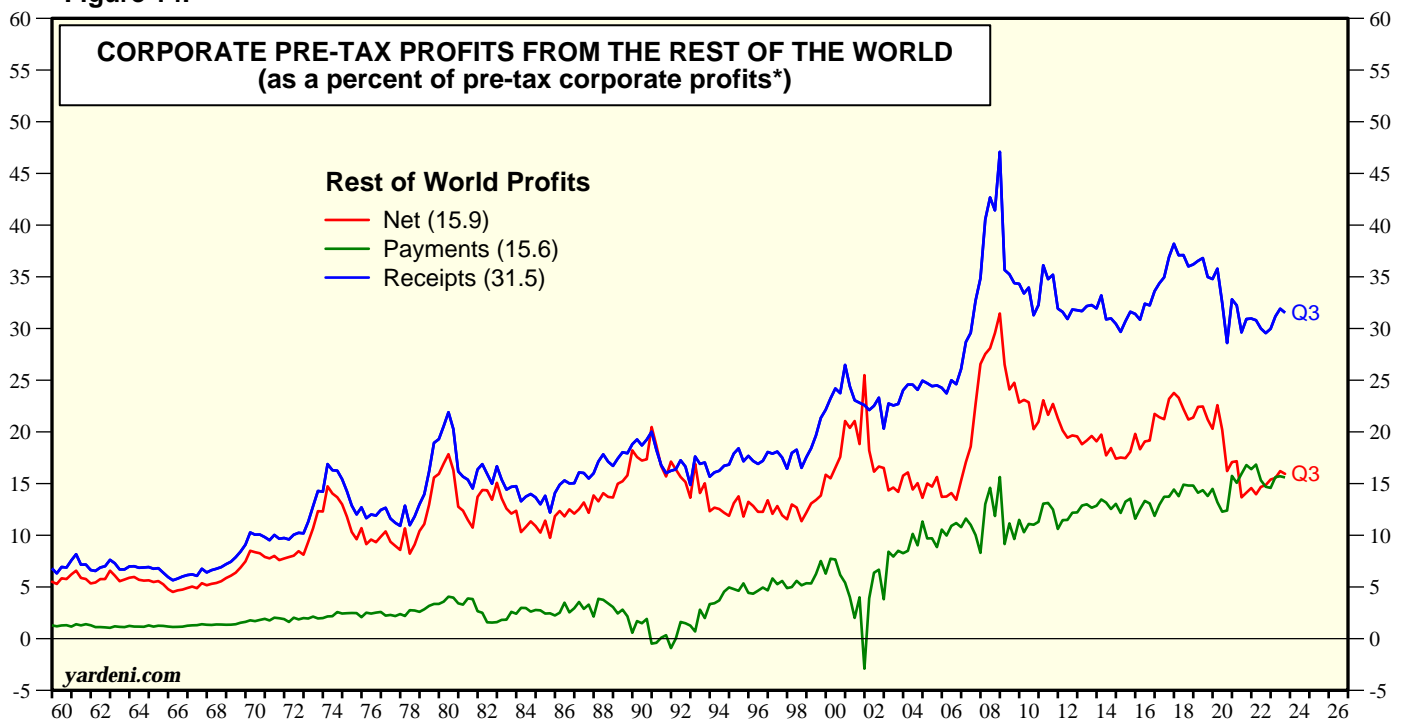
# Profits (NIPA)

Figure 13.



\* 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.

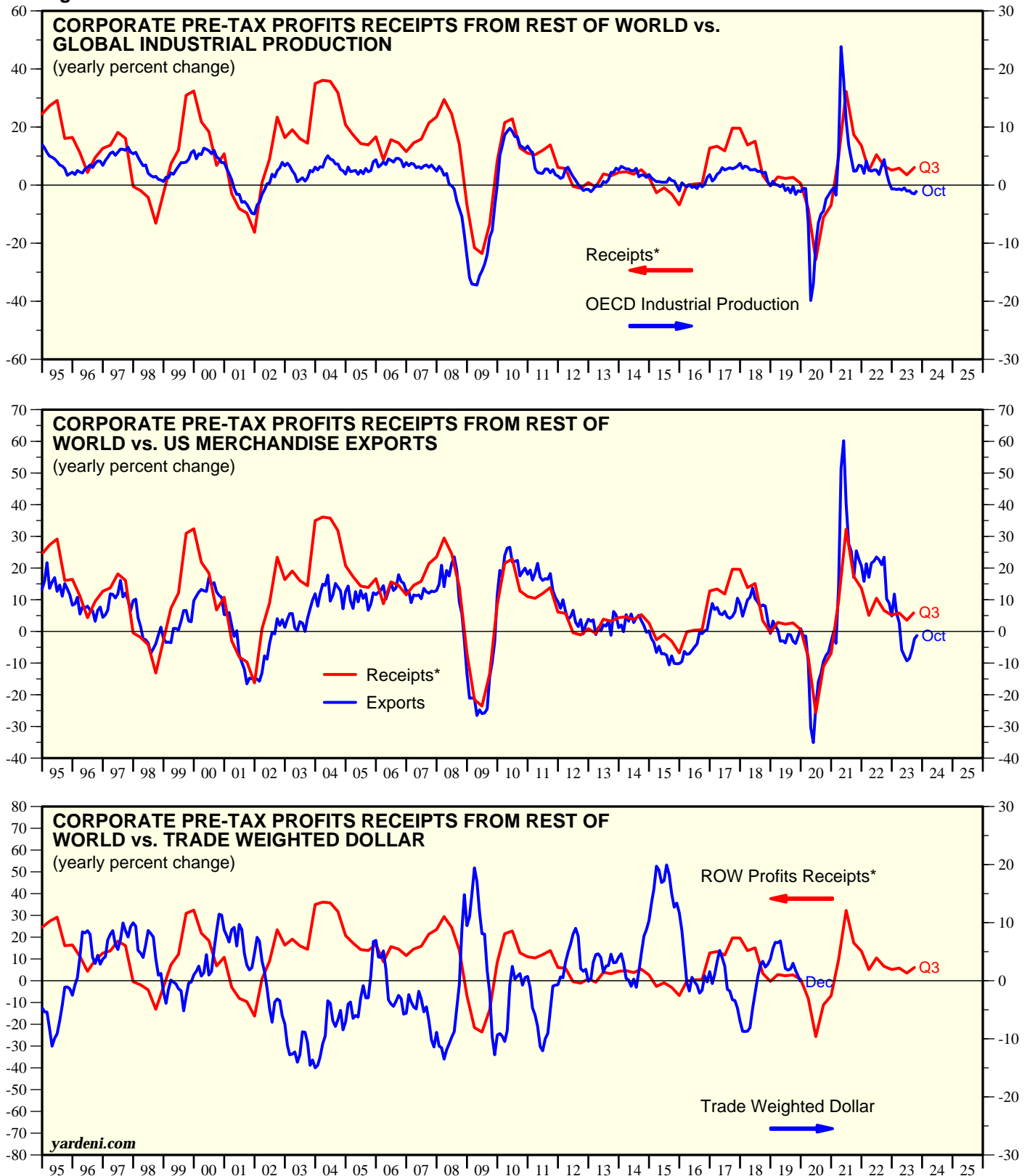
Figure 14.



\* 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.

# Profits (NIPA)

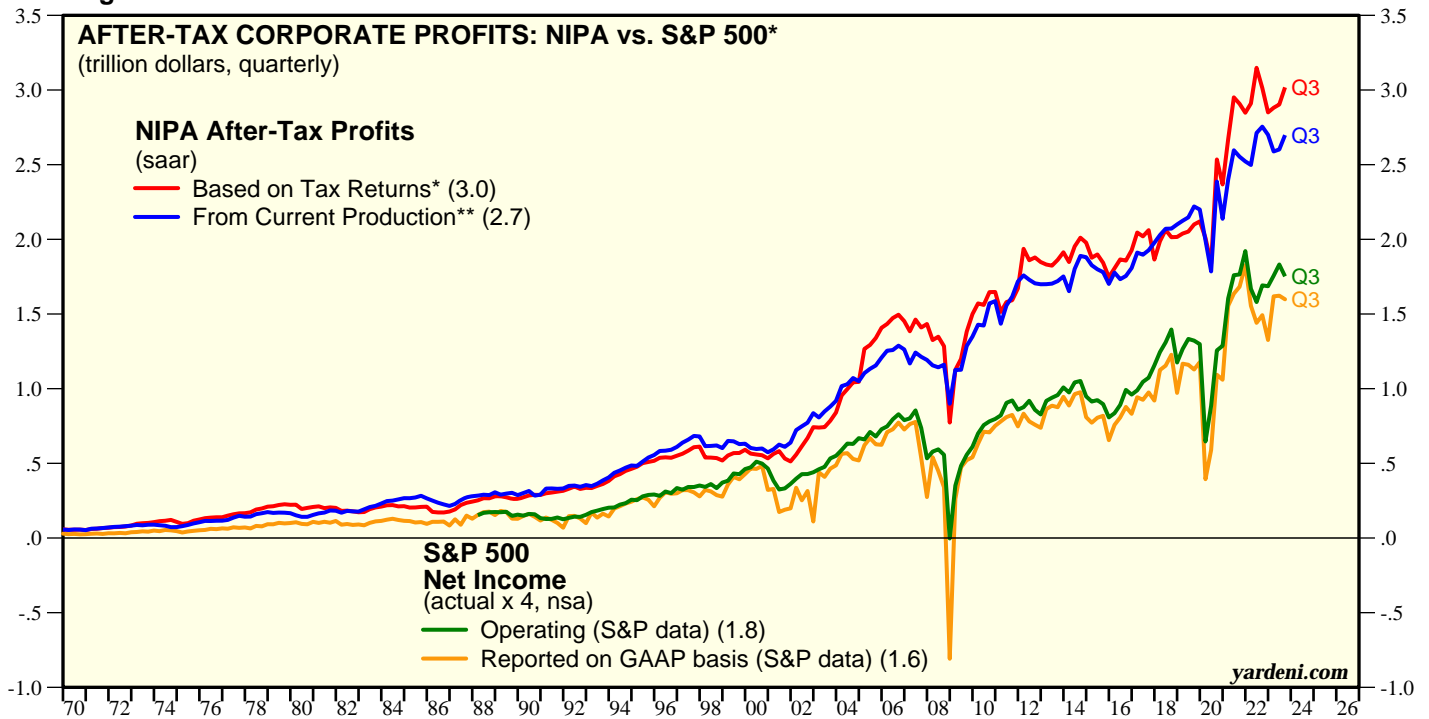
Figure 15.



\* 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.

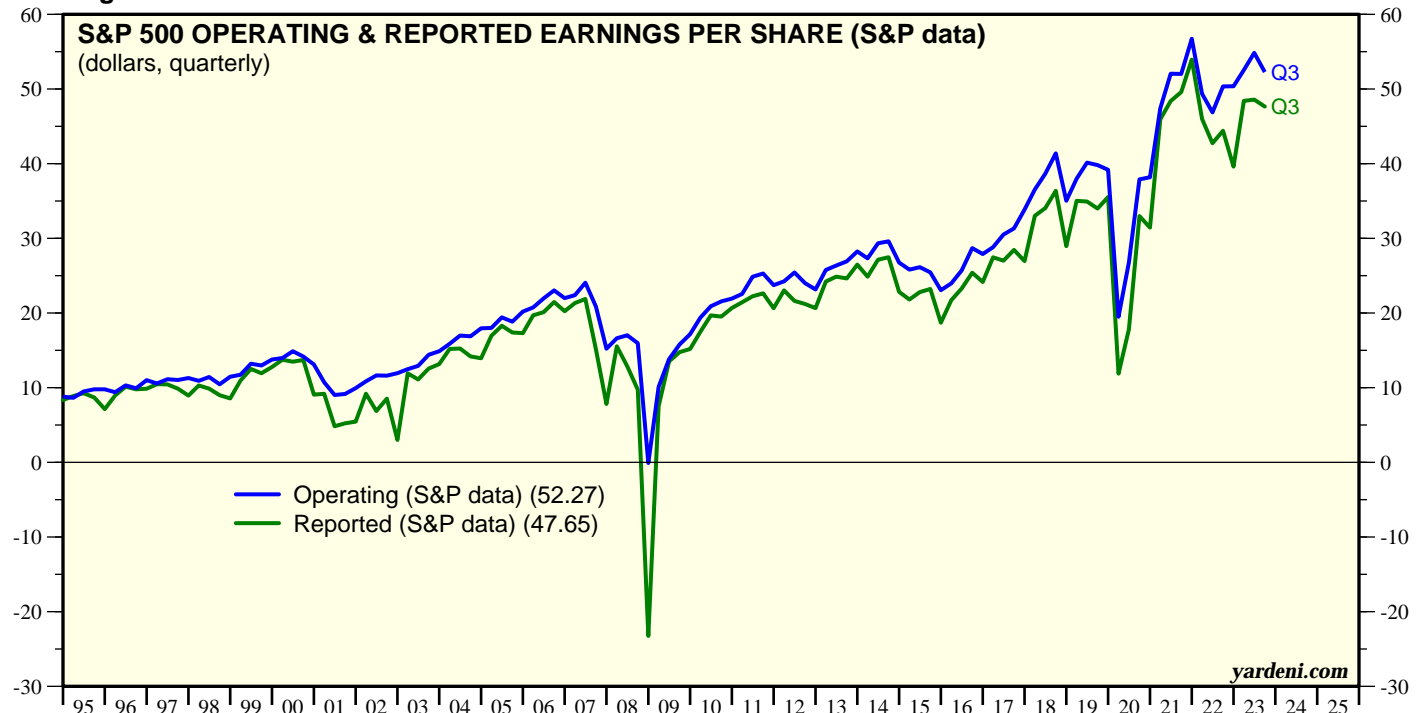


\* Excluding IVA & CCadj.

\*\* 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.

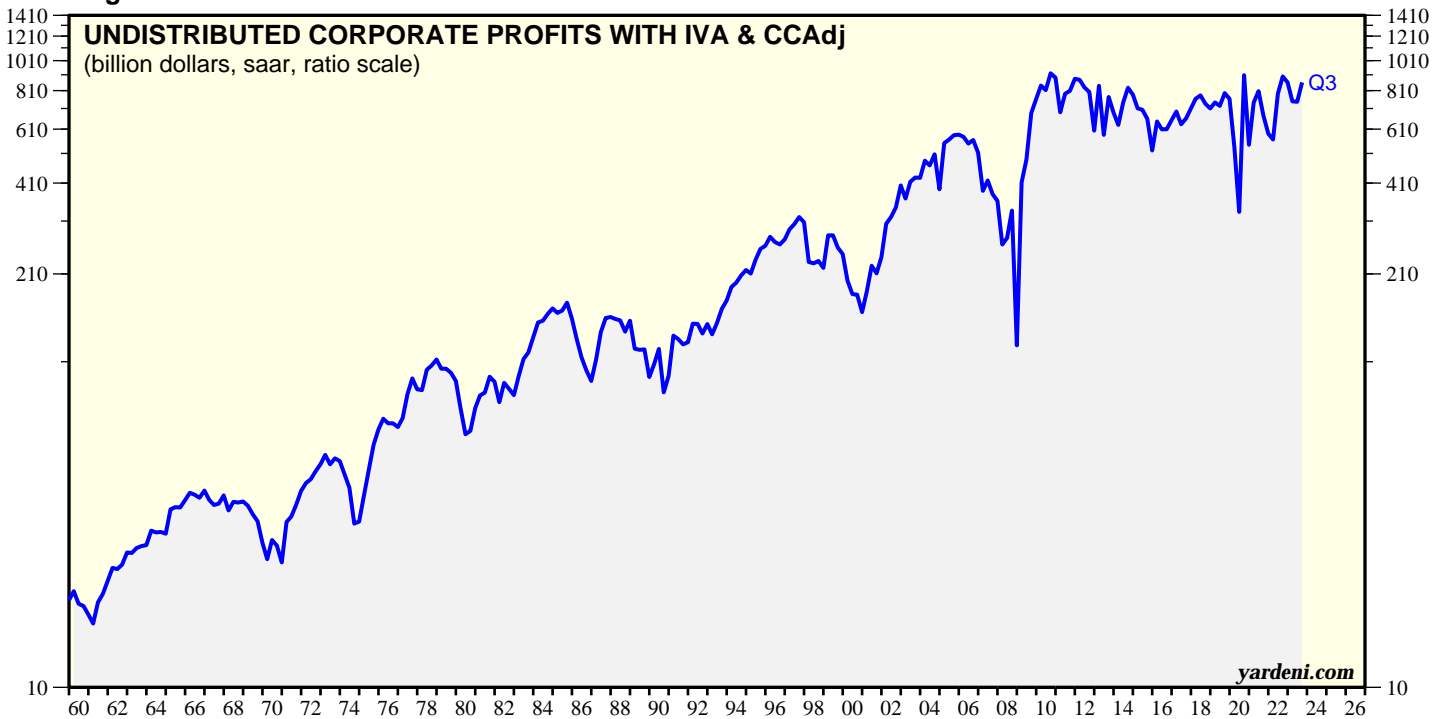
Figure 17.



Source: Standard & Poor's.

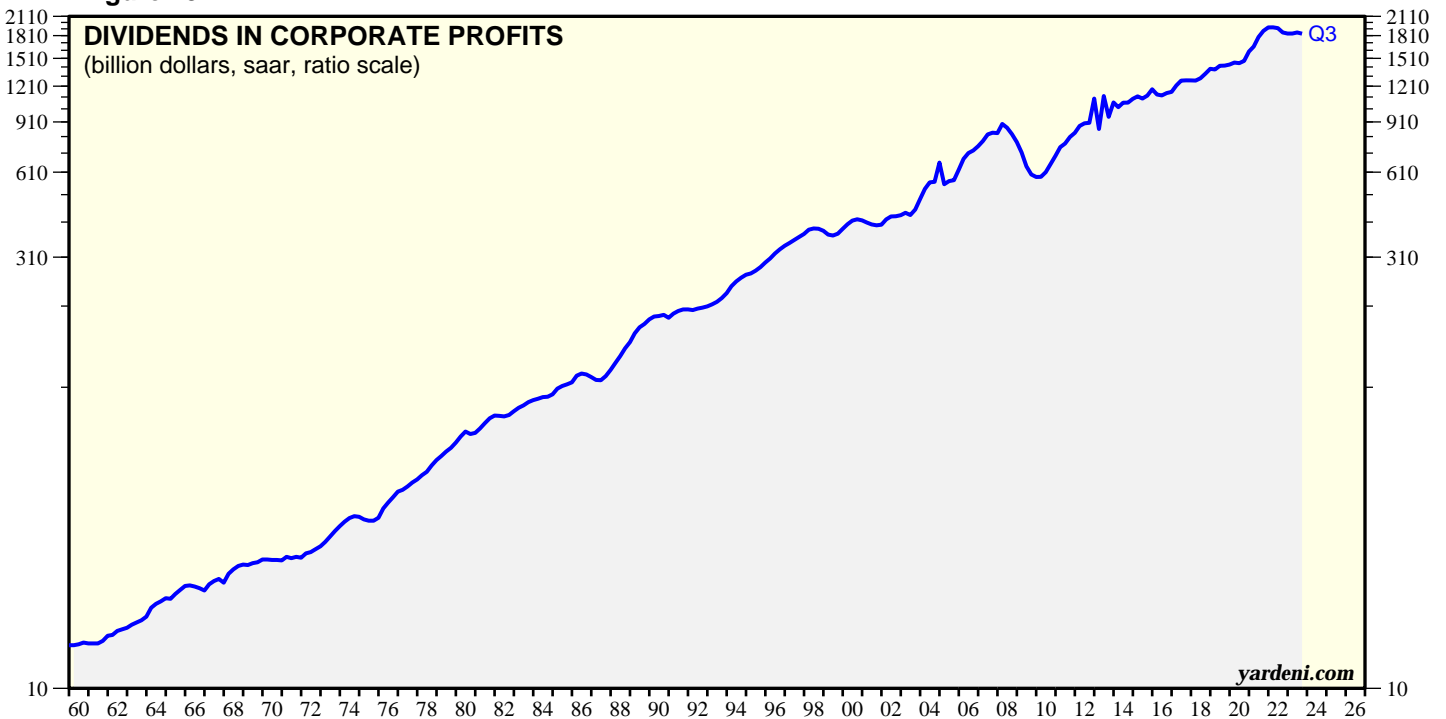
# Retained Earnings & Dividends

Figure 18.



Source: Bureau of Economic Analysis.

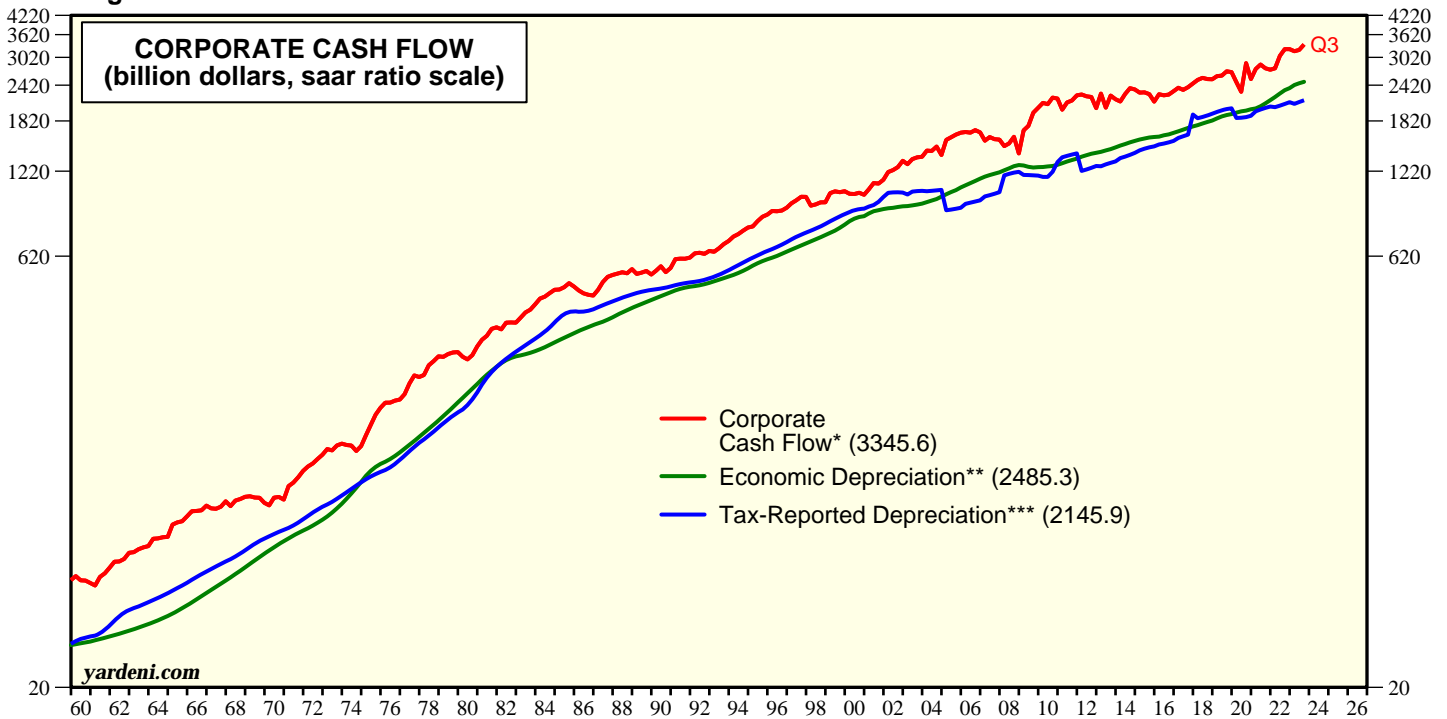
Figure 19.



Source: Bureau of Economic Analysis.

# Cash Flow

Figure 20.



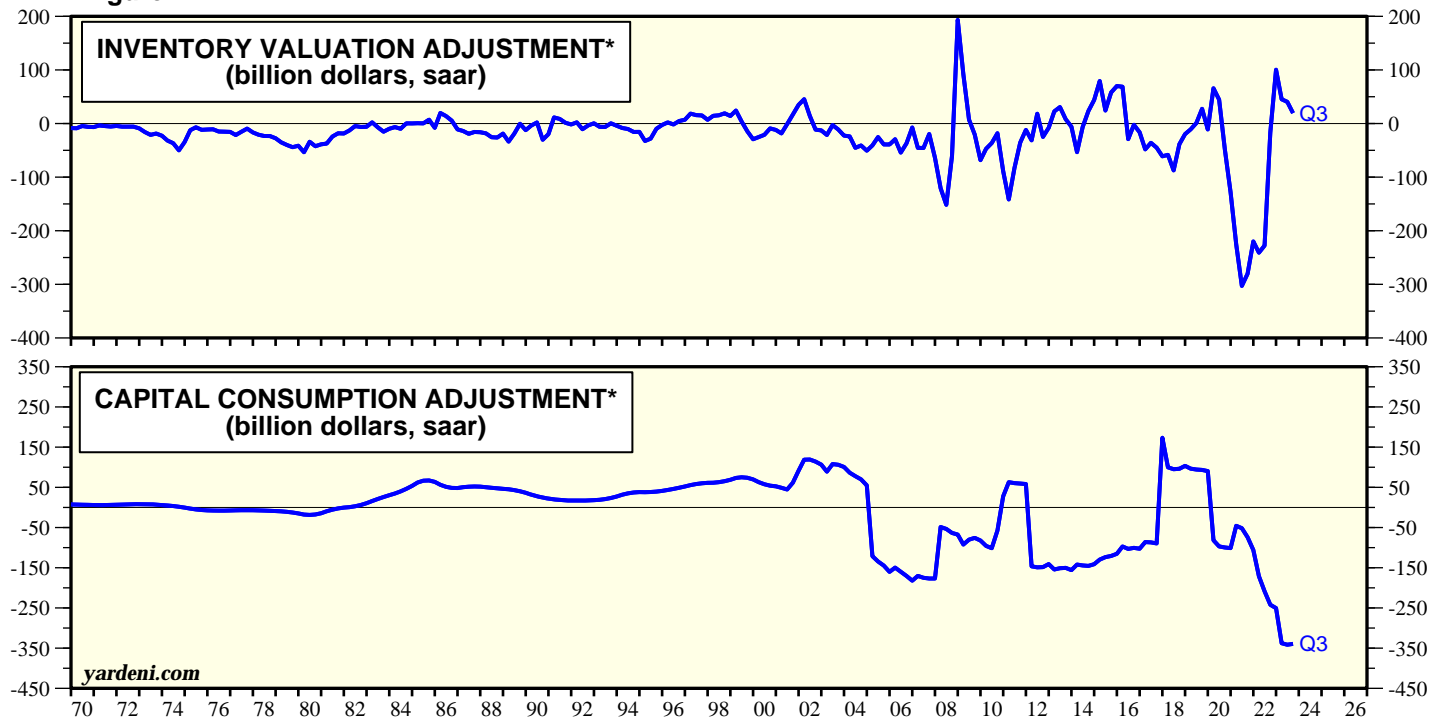
\* After-tax undistributed corporate profits with IVA plus capital consumption allowance (i.e., tax-reported depreciation), which is equal to consumption of fixed capital (i.e., economic depreciation) plus the capital consumption adjustment (CCAdj).

\*\* Consumption of fixed capital.

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

Source: Bureau of Economic Analysis.

Figure 21.

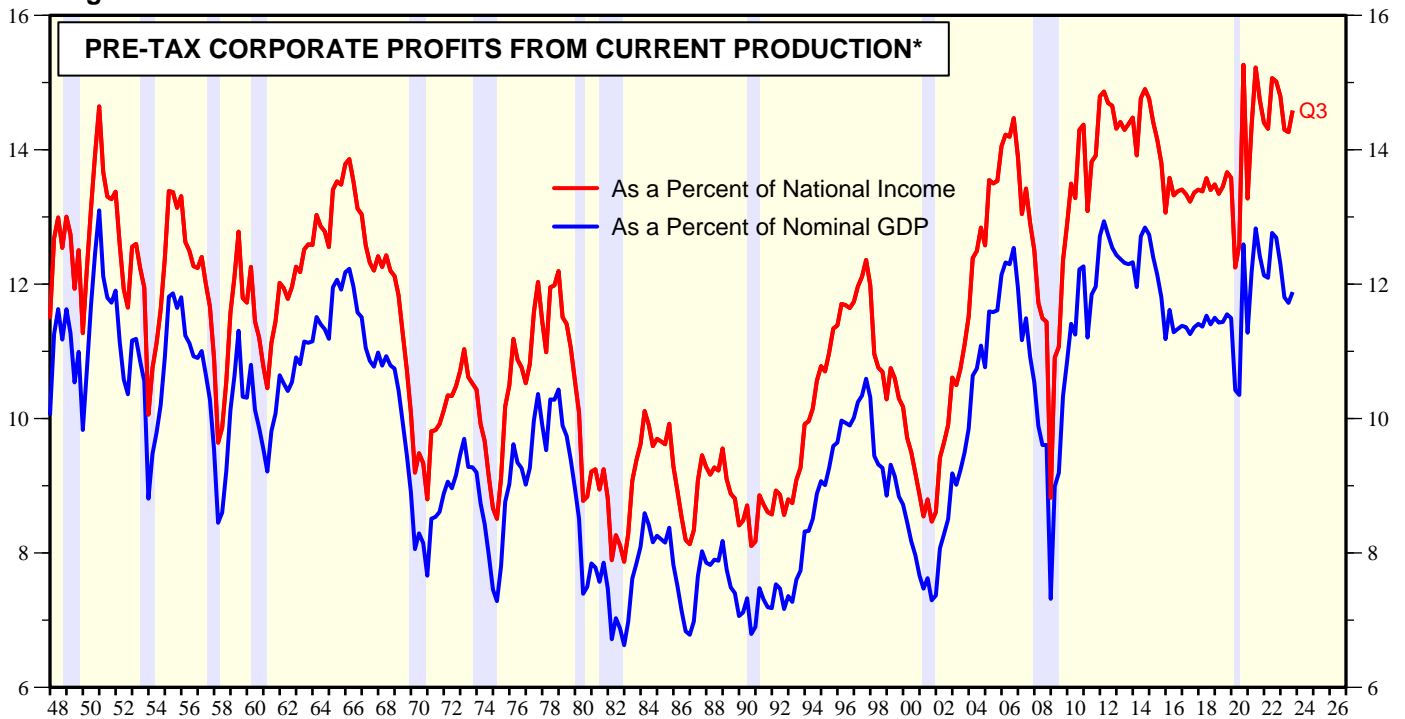


\* Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj) are used to restate the historical cost basis used in profits tax accounting for inventory withdrawals and depreciation to the current cost measures used in GDP.

Source: Bureau of Economic Analysis.

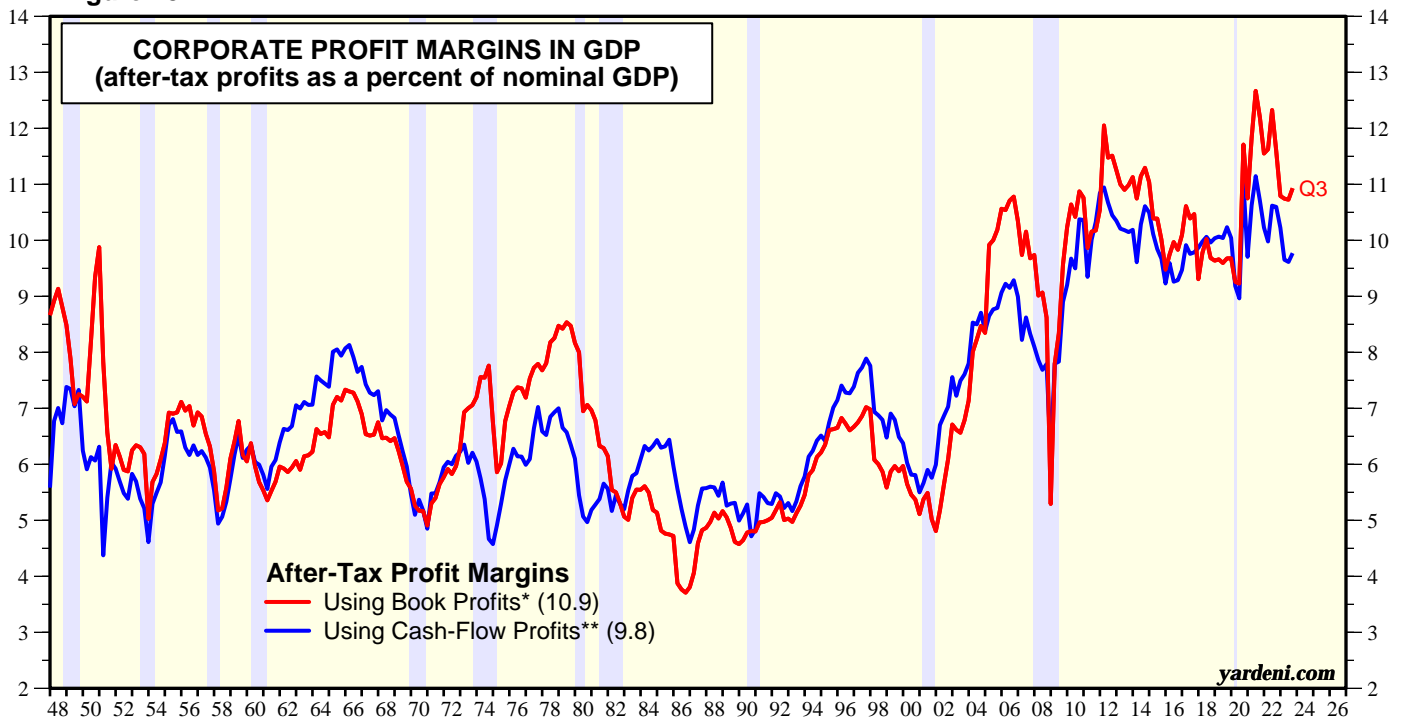
# Profit Margin

Figure 22.



\* 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.

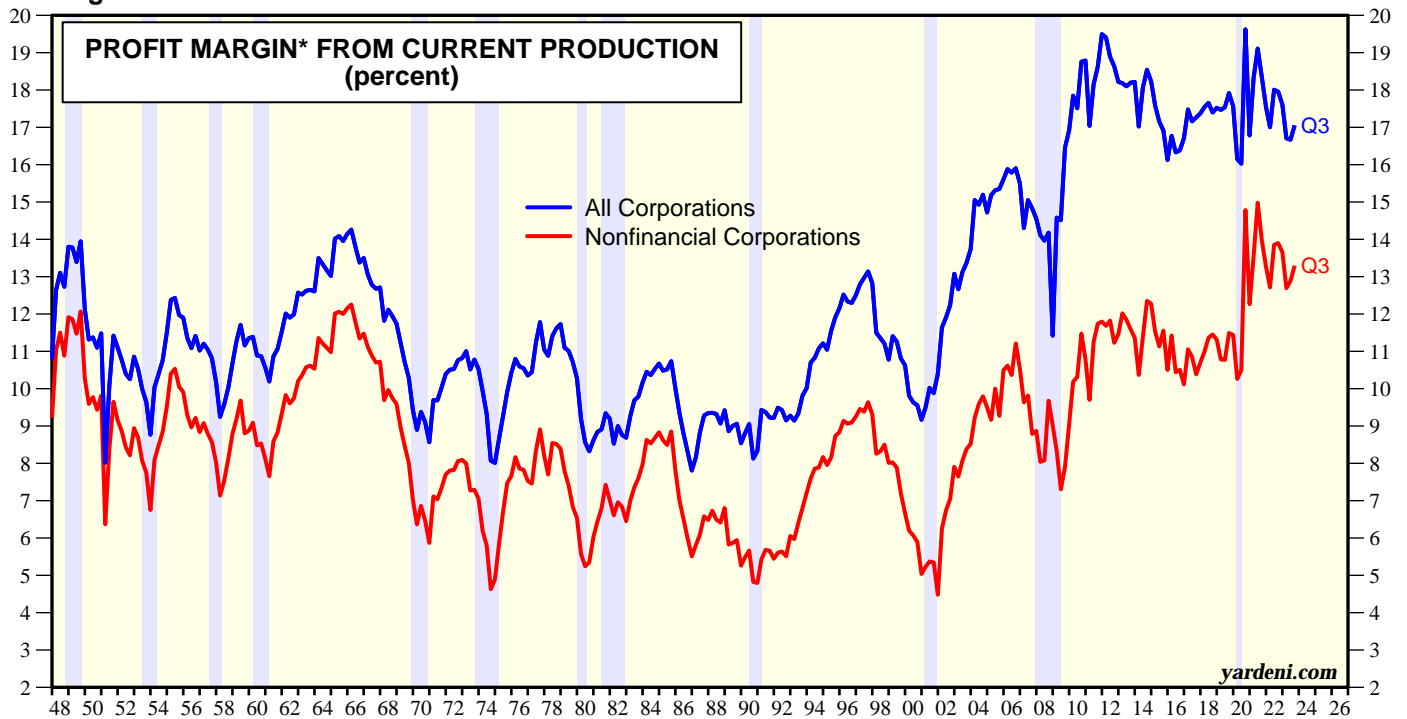
Figure 23.



\* 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.

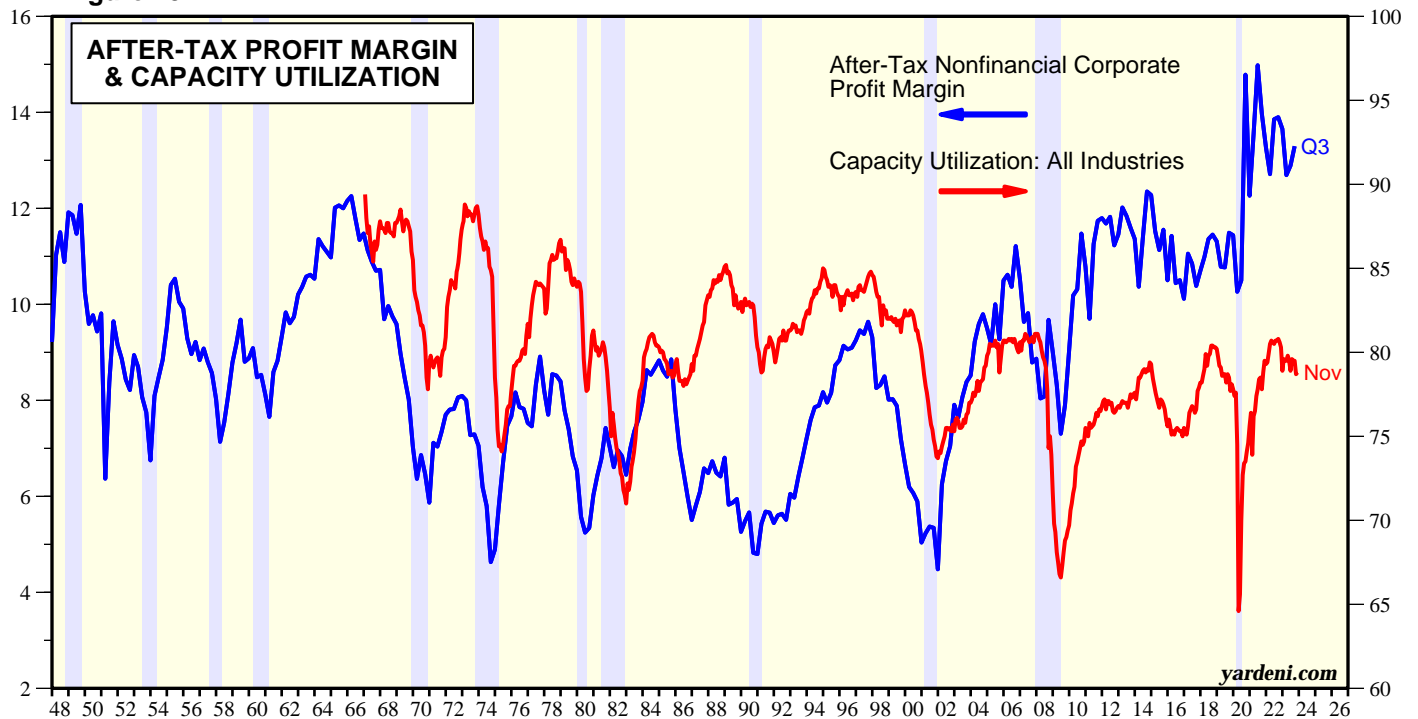
# Profit Margin

Figure 24.



\* 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.

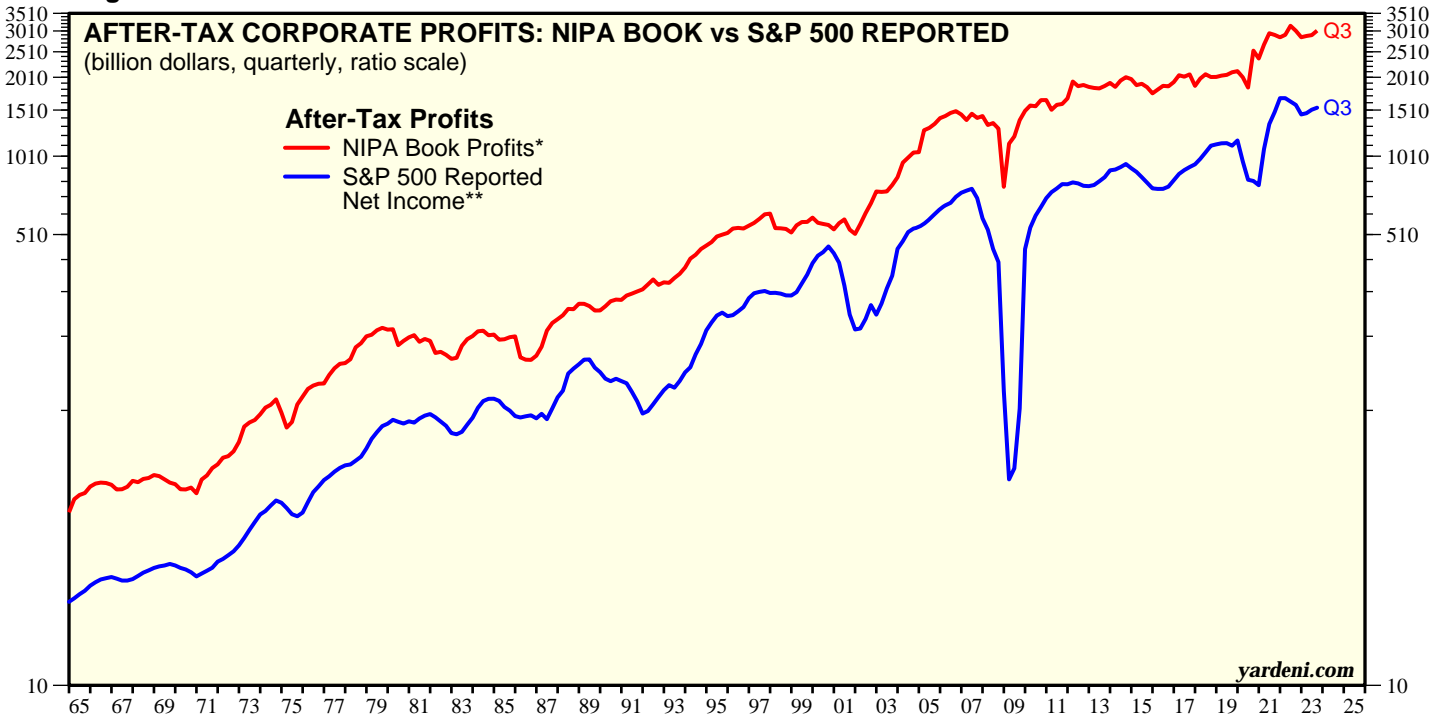
Figure 25.



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

# Profit Margin

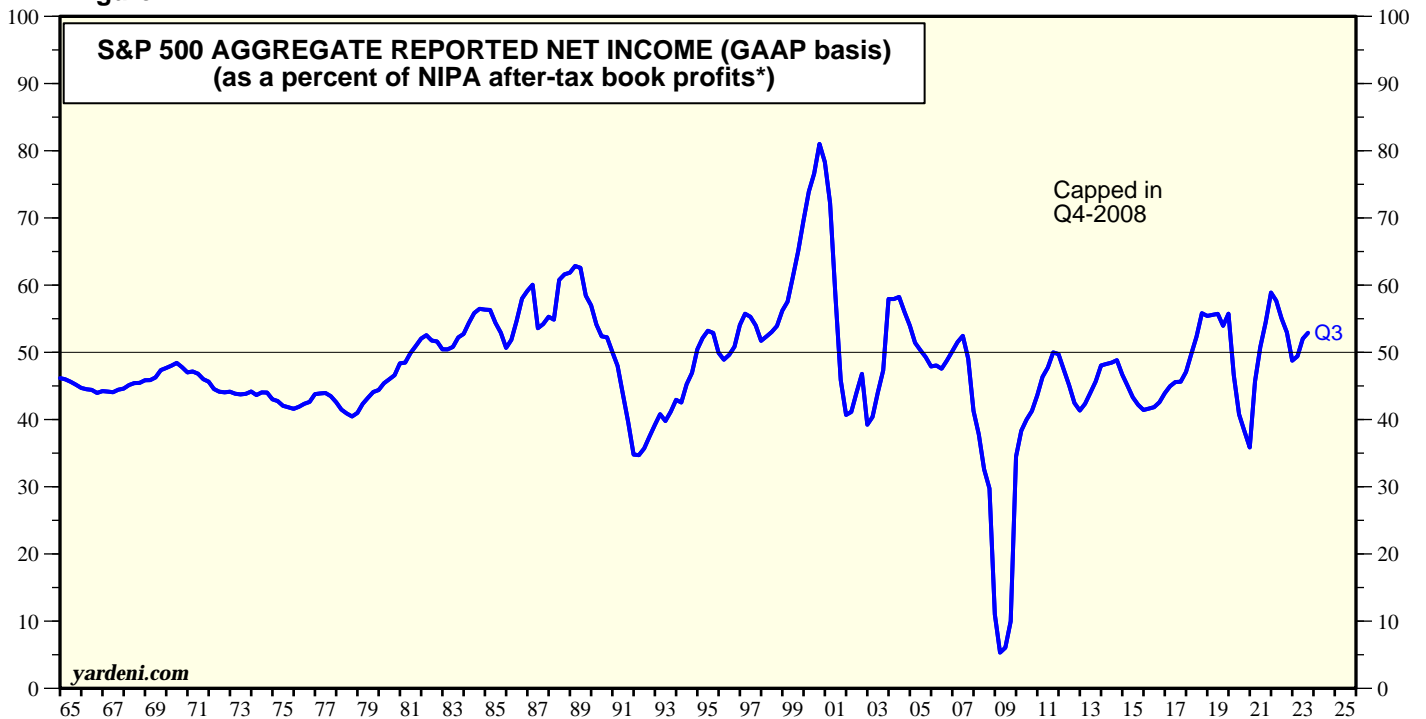
Figure 26.



\* 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.

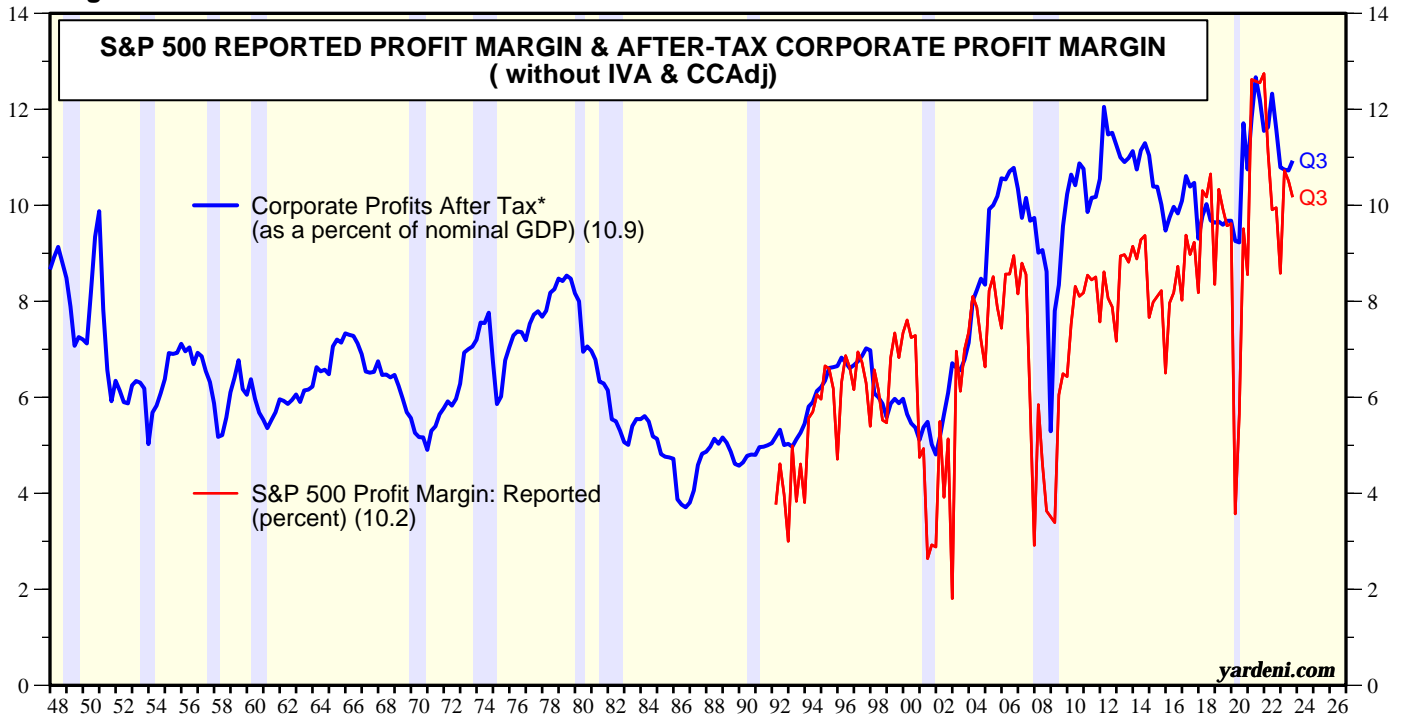


\* S&P 500 aggregate reported net income is on GAAP basis and shown as four-quarter sum. NIPA book profits exclude Inventory Valuation Adjustment and Capital Consumption Adjustment. NIPA series is shown using seasonally adjusted and annualized quarterly data.  
Source: Bureau of Economic Analysis and Standard & Poor's.



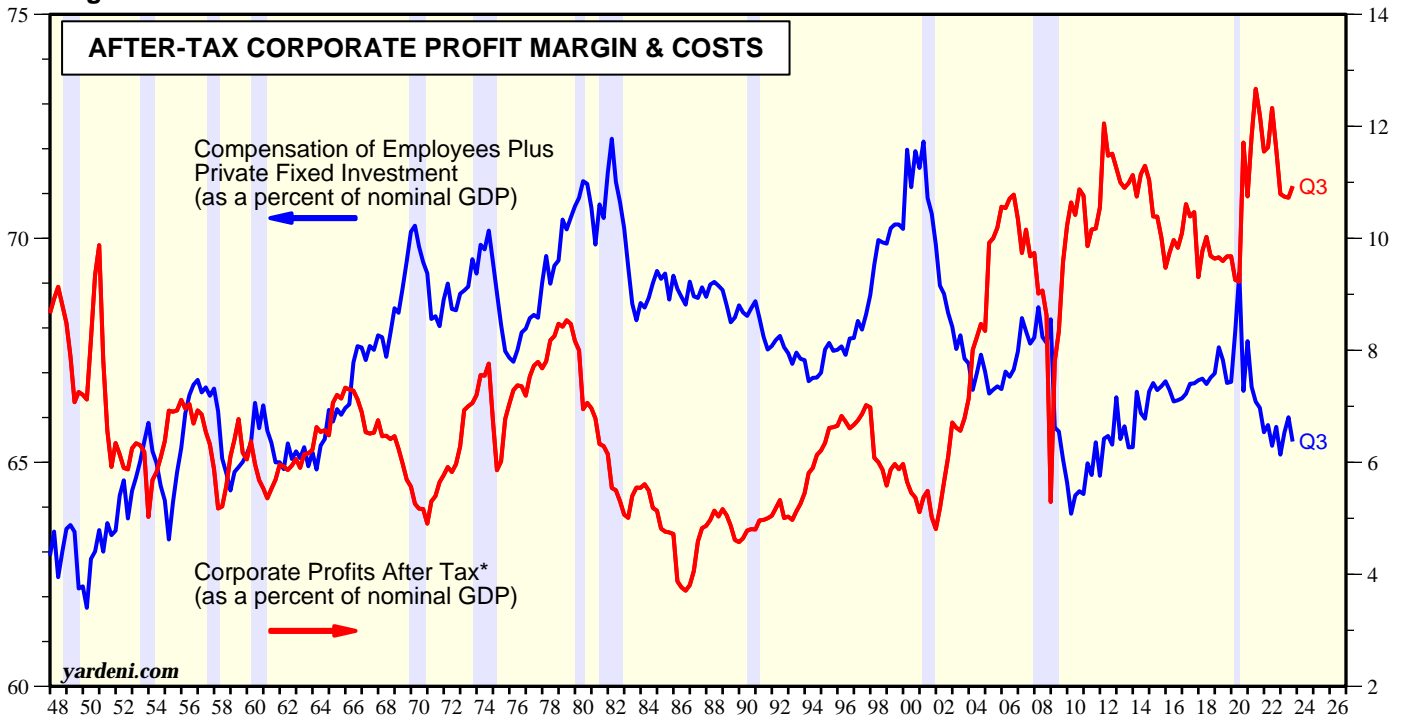
# Profit Margin

Figure 28.



\* 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.

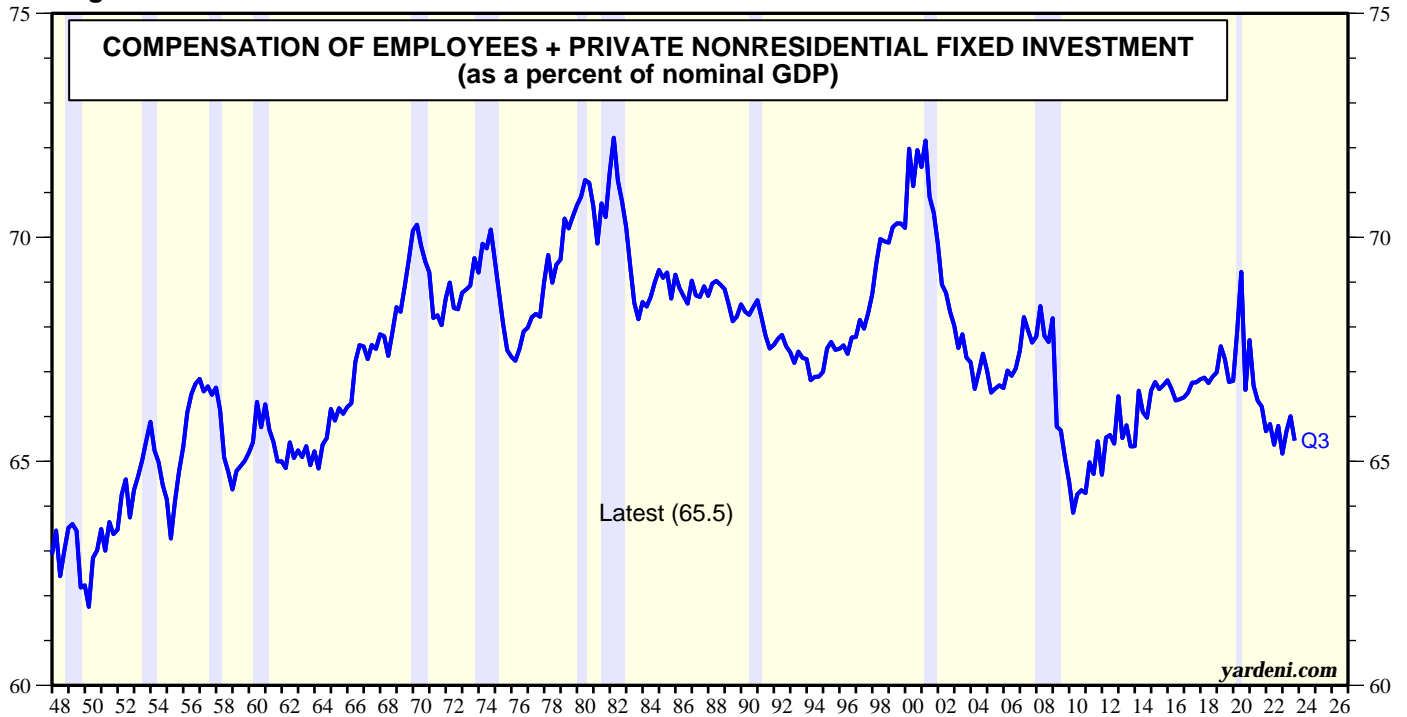
Figure 29.



\* After-tax profits as reported to IRS (without IVA and CCAdj).  
 Note: Shaded areas are recessions according to the National Bureau of Economic Research.  
 Source: Bureau of Economic Analysis.

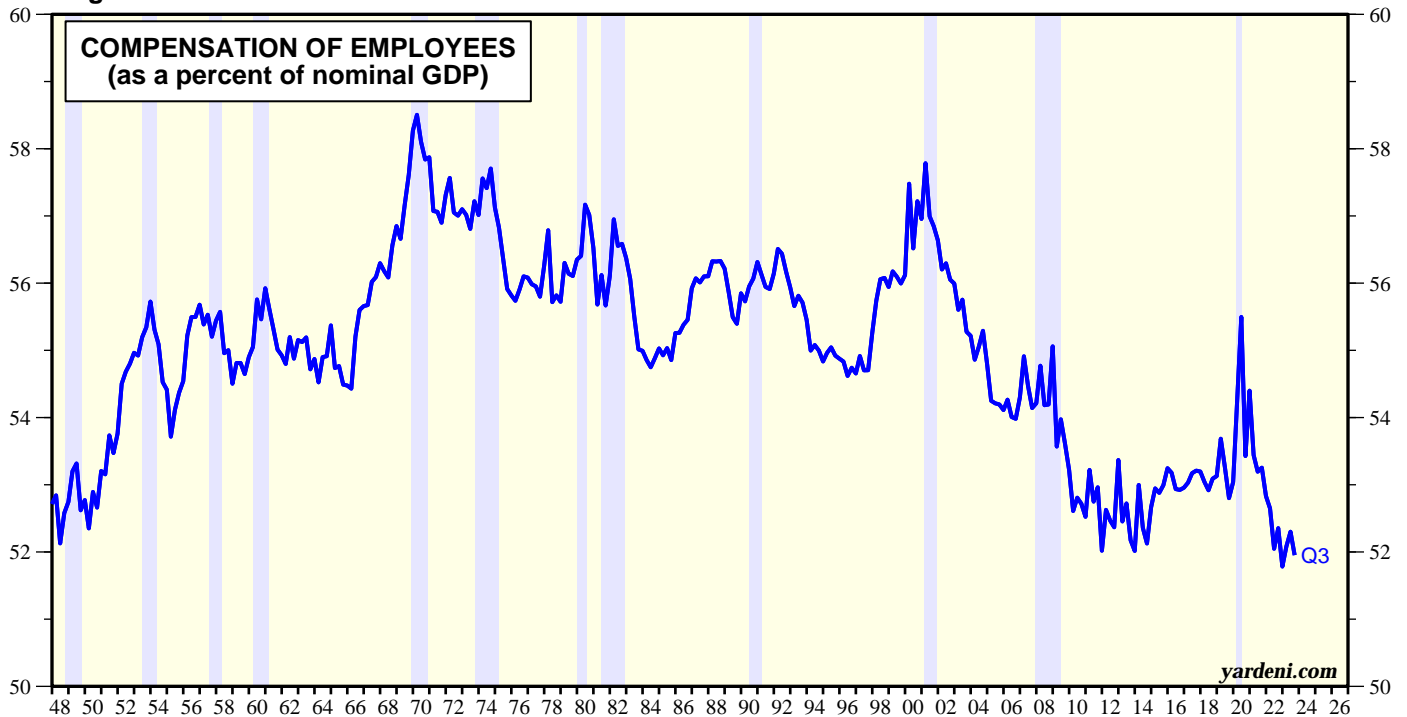
# Profit Margin

Figure 30.



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

Figure 31.



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

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