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Headline: Why Have Rate Hikes Not Done Anything?

Article Link: https://theovershoot.co/p/why-have-rate-hikes-not-done-anything

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Tweet: Higher interest rates have led to deleveraging by US nonfinancial corporations, but with profits up 8% in 2023, corporations have continued to invest. @M_C_Klein

Summary: Capital spending [by US nonfinancial corporations] is usually financed by debt. Even as net issuance of bonds and loans by nonfinancial corporations has dropped to zero, real nonresidential capital spending has continued to grow faster than it did before the pandemic. In the aggregate, of course, business investment is self-financing, because buyers book the cost as an asset that can depreciate over time while sellers book revenues immediately. This is why rising investment and rising profits tend to go together. And profits have been booming recently, with pretax domestic nonfinancial corporate profits up by 8% in 2023. This virtuous circle could break if recent investments are not validated via higher sales to consumers—but unless (or until) that happens, corporate America can continue to grow even if higher borrowing costs end up making debt less attractive.

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Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Monetary Policy, Op-Ed/Blog Post, Weekly

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