

Macro Roundup Article

Headline: [The Market Is Up — Narrowly](#)

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Author(s)	Robert Armstrong
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Tweet: [@rbtrmstrng](#) examines Andrew Smithers' view that profits are reverting to long-term means. This analysis projects that profit margins for all companies are likely to fall from 26.1% in 2022 to 22.0%.

Summary: Andrew Smithers makes the simple point that it only makes sense to talk about corporate profit margins being too high or too low if profit levels revert to a stable mean. And interpreted in one straightforward way, they do. This is corporate profits as a proportion of total economic output. It makes sense, broadly, that competition would force profit into a stable equilibrium relative to output, and data from the US national accounts does seem to suggest that this ratio varies around a stable mean. There is not (as far as I know of) a good economic account of why profit as a percentage of sales — the more usual sense of “margins” — should revert to a stable mean.

Primary Topic: Financial Markets

Topics: Factoid, Financial Markets, GDP, Op-Ed/Blog Post

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