

Macro Roundup Article

Headline: [Why Are Overall Profits Outpacing Financing Costs?](#)

Article Link: <https://www.frbsf.org/research-and-insights/publications/economic-letter/2024/06/why-are-overall-profits-outpacing-financing-costs/>

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Tweet: An analysis from @SFFed finds that capital returns for publicly traded firms have fallen since 1950 while returns for privately held companies have increased. @ASollaci @EconTraina @CarterDavisFin

Summary: Since 1980 the yield on 10-year U.S. Treasury securities, which approximates the interest rate, and the overall return on capital, or profit rate have diverged by more than 10 percentage points. Profit rates for publicly traded firms have fallen by more than a third since 1980, in line with interest rate trends in financial markets. U.S. corporate profit rates have increased overall since the 1980s, alongside a decrease in interest rates. We explain how corporate returns continue to rise despite falling financing costs: while overall data track profits for all corporations, financing costs are based on data for public corporations only. Including private companies in comparisons with financial markets introduces bias because their investments can differ from public corporations and vary over time. By accounting for this bias, we demonstrate that profit rates for public corporations have declined while profit rates for private companies have increased.

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Primary Topic: Financial Markets

Topics: Database, Financial Markets, GDP, Important!, Op-Ed/Blog Post, Weekly

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