

**CONSUMER DEBT, CORPORATE PROFITS AND
STOCK MARKET VALUE – FROM 1950 TO
PRESENT DAY**

Martin Squibbs

**The Humanist Community of Silicon Valley
Sunday Forum May 11th 2014**

Agenda

- An Understanding of Money and what it really measures
- The Principle : Consumer Debt leads to Corp Profits
- A Simple Economic Model of the last 35 years
- A look at the actual numbers US Economic Numbers since 1951
- Humanity's Two Huge 21st Century Bubbles

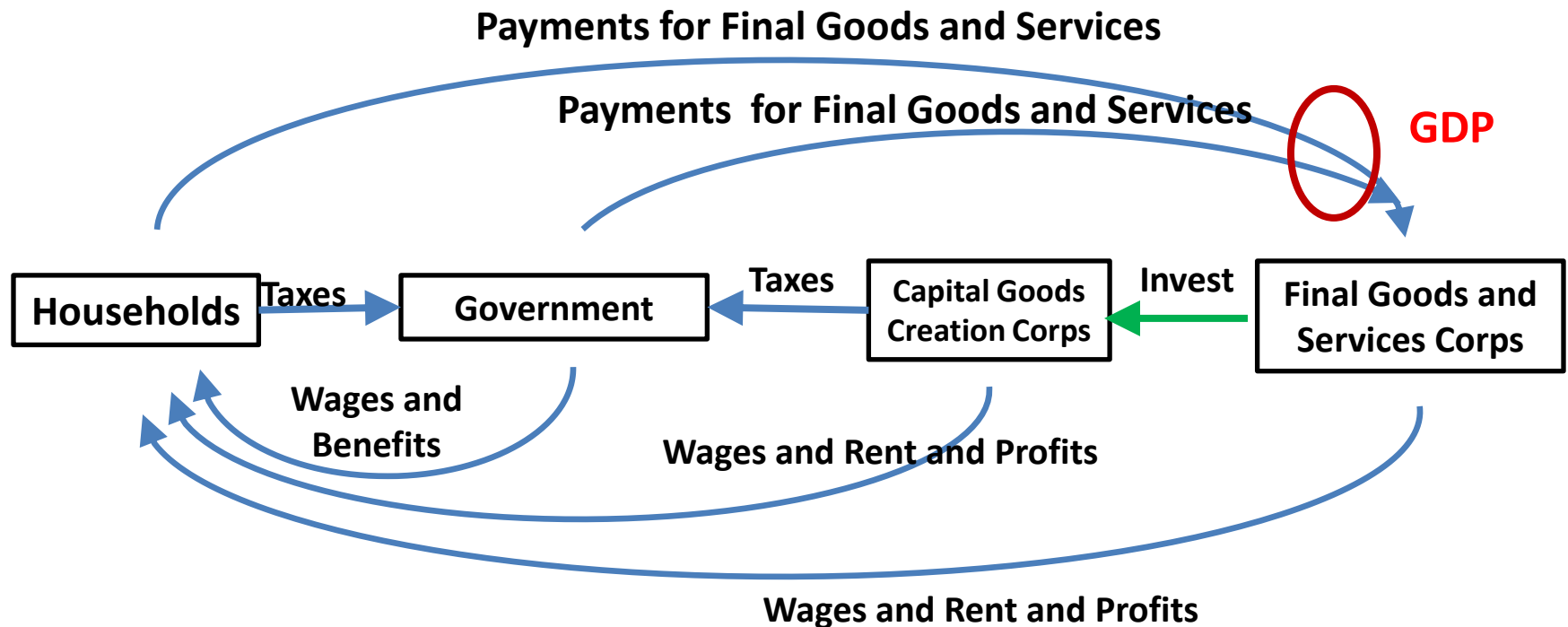
Definitions of Economic Terms

- Value = emotional reward of a Product or Service (Received Now)
- Work = Human Effort involved to provide Product or Service (Done Now)
- Capital = Physical Enablers of Products and Services (Existing Now)
- Money = a Measure of Value Received and Work
- Equity/Wealth = Monetary Measure of Capital

The Principle : Consumer Debt leads to Corp Profits

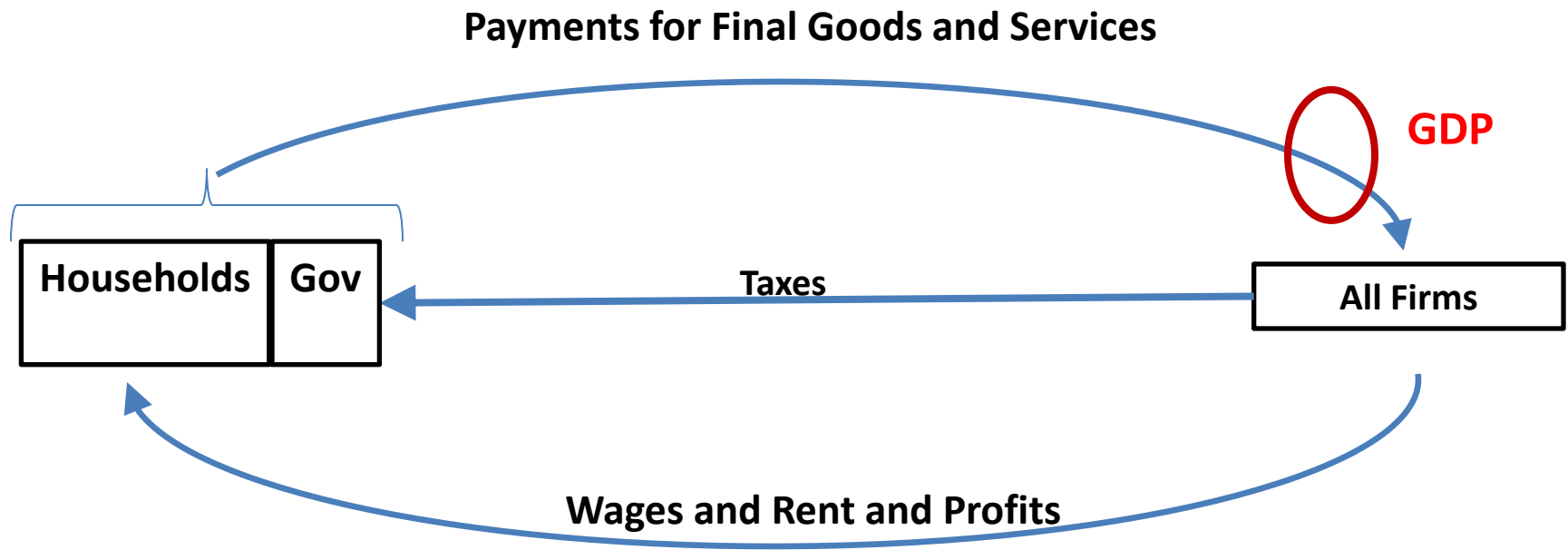
Principle – Consumer Debt Leads to Corporate Profits

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time



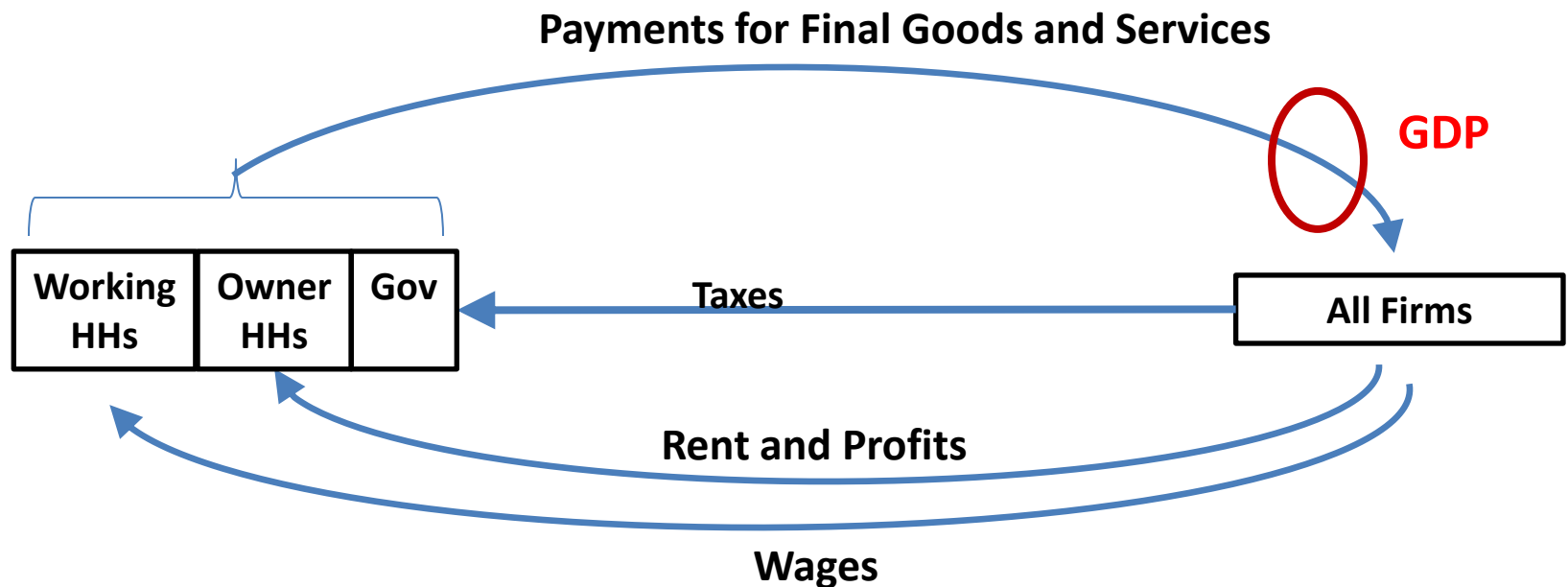
Principle – Consumer Debt Leads to Corporate Profits

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time



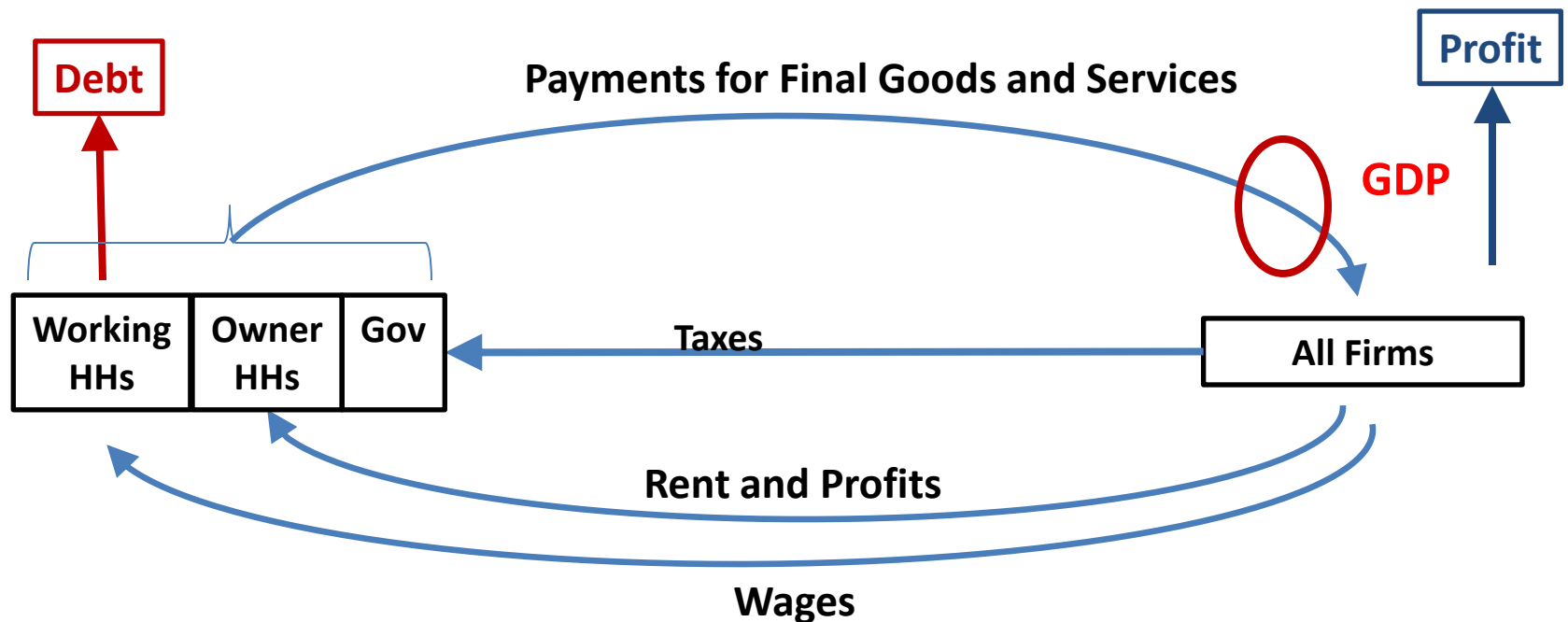
Principle – Consumer Debt Leads to Corporate Profits

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time



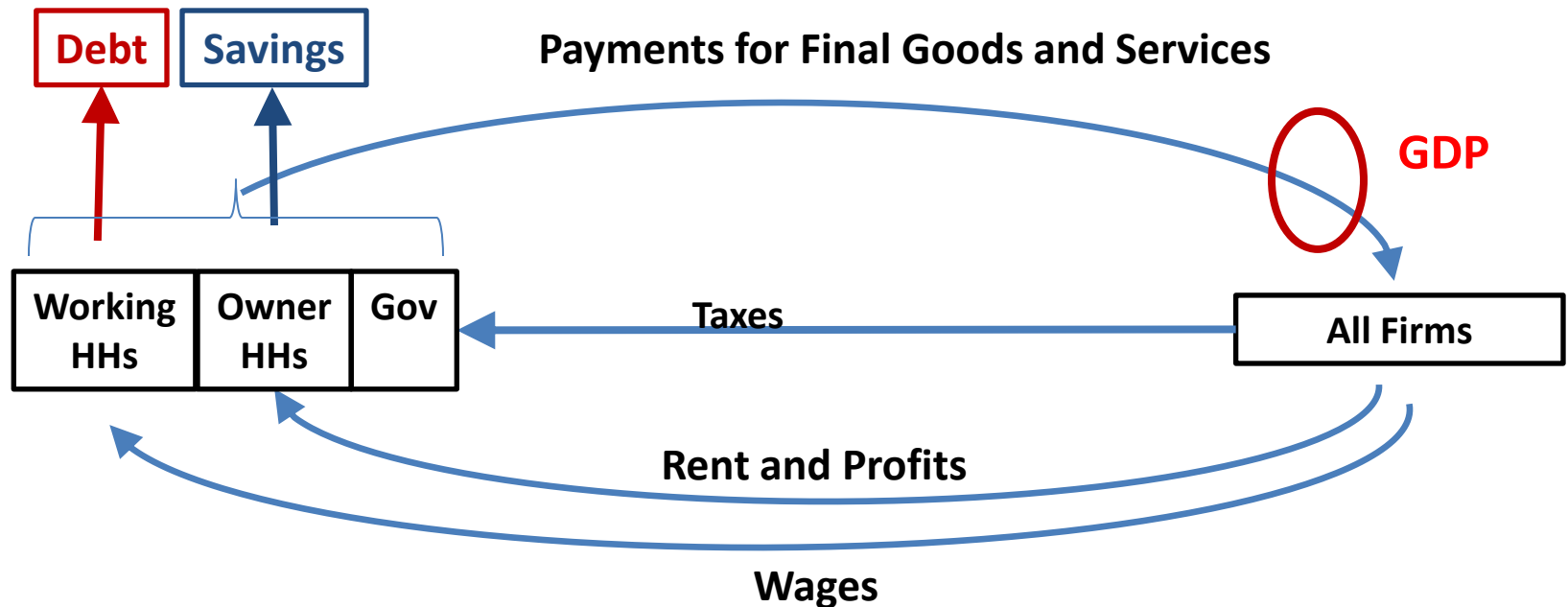
Principle – Consumer Debt Leads to Corporate Profits

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time



Principle – Consumer Debt Leads to Corporate Profits

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time

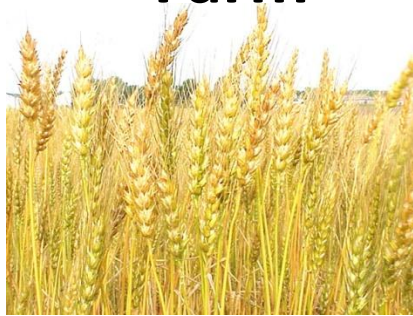


A Simple Economic Model of the last 35 years

Developing a Simple Balanced Economy

Developing a Simple Balanced Economy

Farm



800 lbs wheat



Jane

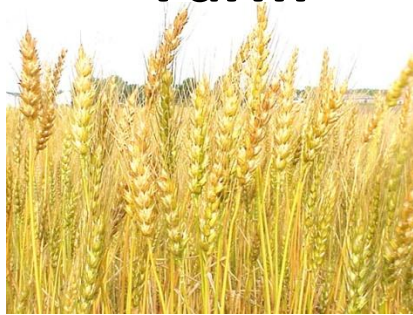
200 days

Bob

200 days

Developing a Simple Balanced Economy

Farm



800 lbs wheat

**Annual Salary
= 200 WDs**

**Annual Salary
= 200 WDs**



Jane



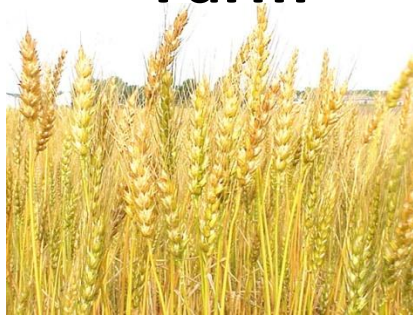
Bob

200 days

200 days

Developing a Simple Balanced Economy

Farm



800 lbs wheat

200 WDs

200 WDs



Jane



Bob

Developing a Simple Balanced Economy

Adding Capital

Farm



800 lbs wheat

Plough



200 WDs

200 WDs



Jane



Bob

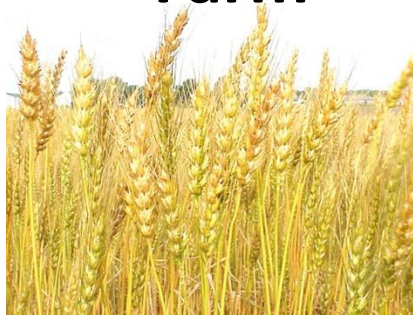


Clever Cloggs

Developing a Simple Balanced Economy

Adding Capital

Farm



2000 lbs wheat

Plough



200 WDs



200 WDs

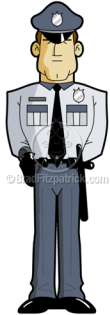
200 WDs



Developing a Simple Balanced Economy

Adding Entertainment and Law

200 WDs



Policeman

Farm



2000 lbs wheat

Plough



200 WDs



Singer

200 WDs



200 WDs

200 WDs



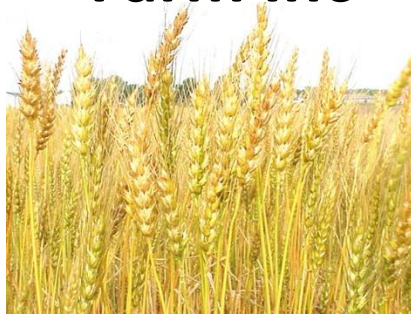
A 1 Year GDP Analysis of our Simple Economy

Gross domestic product (**GDP**) is the market value of all final goods and services produced within a country in a year, or other given period of time

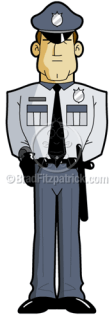
Developing a Simple Economy

A GDP Analysis of our Simple Economy

Farm Inc



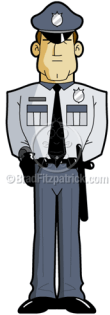
Plough Inc



Developing a Simple Economy

A GDP Analysis of our Simple Economy

Government



Gov Worker

Farm Inc



Plough Inc



Entertain Inc



Entertainer



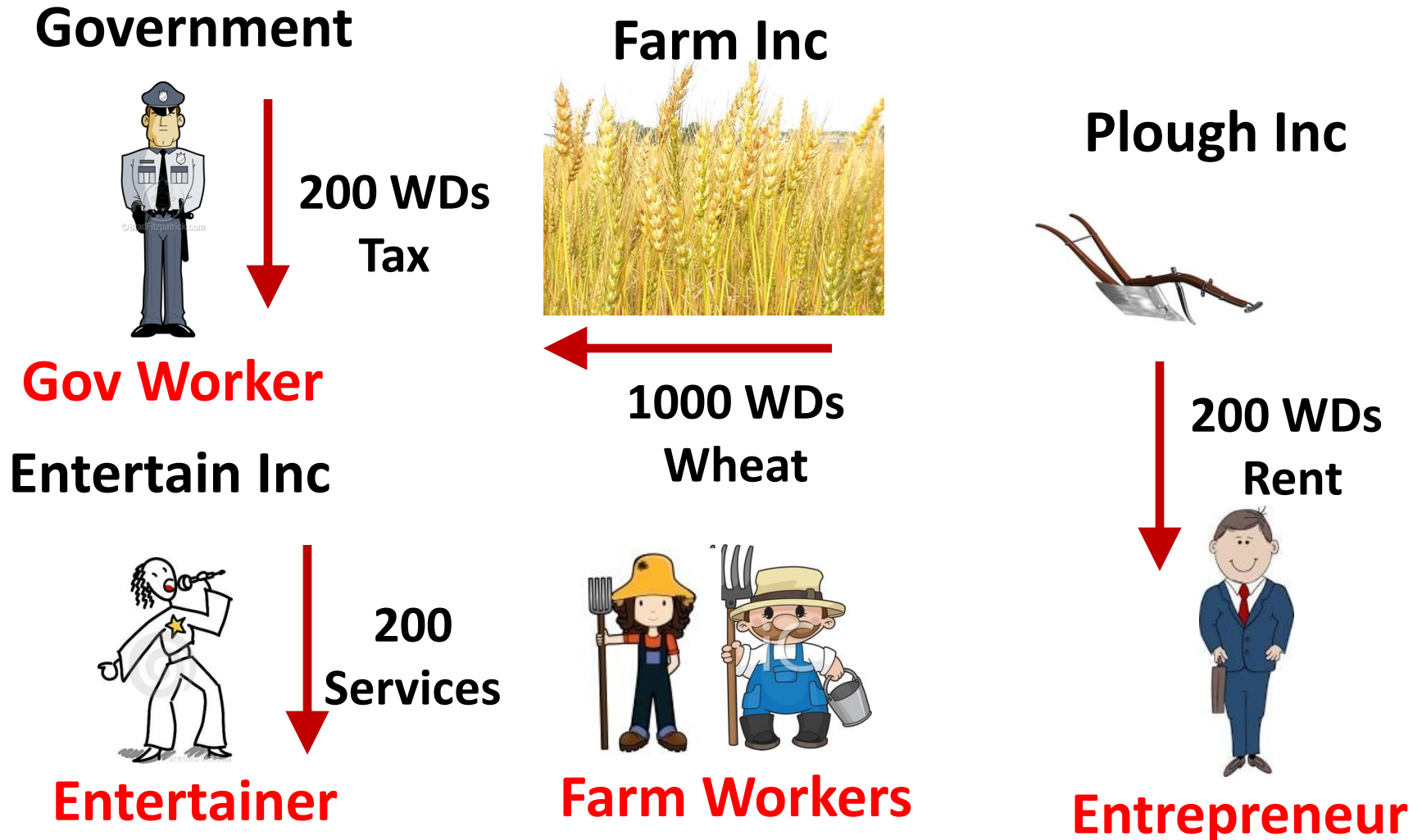
Farm Workers



Entrepreneur

Developing a Simple Economy

A GDP Analysis of our Simple Economy



Developing a Simple Economy

A GDP Analysis of our Simple Economy

- **Income**

- 1000 Wheat
- 200 Entertainment Services
- 200 Taxes Received
- 200 Rent (Profit)

- **Expenses**

- 800 Wages
- 200 Taxes Paid
- 200 Entertainment Received
- 200 Plough Rental
- 200 Dividends

- **Summary**

- **GDP = 1600 WDs**
- Farming = 62.5%
- Industry = 12.5%
- Entertainment = 12.5%
- Government = 12.5%

A Look at 4 Economic Scenarios

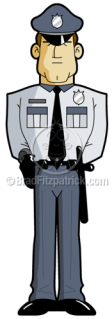
- An Economy
 - in Balance
 - With Growing Household Debt (16 Years)
 - With Growing Government Debt (8 Years)
 - With De-leveraging (32 Years)
 - Back in balance
- 56 year debt and de-leveraging Cycle
- Review Stock market Value in each stage

Note – not including interest payments or inflation

An Analysis of Stock Market Value in Each Scenario

Balanced State

Government



200 WDs

Farm Inc



Plough Inc

200 WDs Profit



Entertain Inc



200 WDs



200 WDs

200 WDs



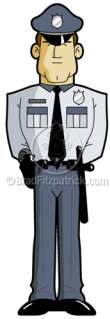
200 WDs Dividends

Balanced State

- Expected return = 7% ie $P/E = 15$
- Plough Inc making 200 WDs
- **Plough Inc Value = 3000 WDs**

With Growing Household Debt after 16 years

Government



200 WDs

Farm Inc



Plough Inc

300 WDs Profits



Entertain Inc



100 WDs

Year 16 Debt = 1600 WDs



200 WDs



200 WDs



300 WDs Dividends

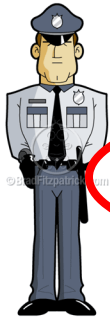
Year 16 Credit= 1600 WDs

With Growing Household Debt

- Expected return = 7% ie $P/E = 15$
- Plough Inc making 300 WDs
- **Plough Inc Value = 4500 WDs**

With Growing Government Debt after 8 year (Year 24)

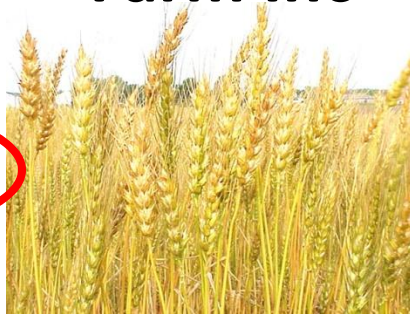
Government



200 WDs

Year 24 Gov IOU
1600 WDs

Farm Inc



Plough Inc

400 WDs Profits



Entertain Inc



0 WDs

200 WDs
Transfer
Payments



200 WDs



200 WDs



400 WDs Dividends

Year 24 Credit= 1600 WDs

Year 24 Bonds = 1600 WDs

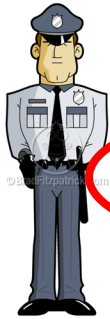
Year 24 Debt = 1600 WDs

With Growing Government Debt

- Expected return = 7% ie $P/E = 15$
- Plough Inc making 400 WDs
- **Plough Inc Value = 6000 WDs**

With Reducing HH and Gov Debt after 32 Years (Year 56)

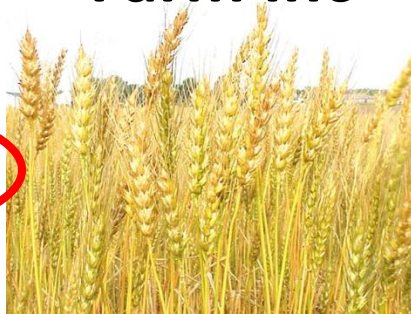
Government



Year 56 Gov IOU
0 WDs

250 WDs

Farm Inc



Plough Inc

100 WDs Profits



Entertain Inc



250 WDs



200 WDs

200 WDs



100 WDs Dividends

Year 56 Credit= 0 WDs

Year 56 Bonds = 0 WDs

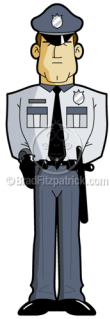
Year 56 Debt = 0 WDs

With Reducing Household and Government Debt

- Expected return = 7% ie $P/E = 15$
- Plough Inc making 100 WDs
- **Plough Inc Value = 1500 WDs**

Back to balance – Year 57 Onwards

Government



200 WDs

Farm Inc



Plough Inc



Entertain Inc



200 WDs



200 WDs

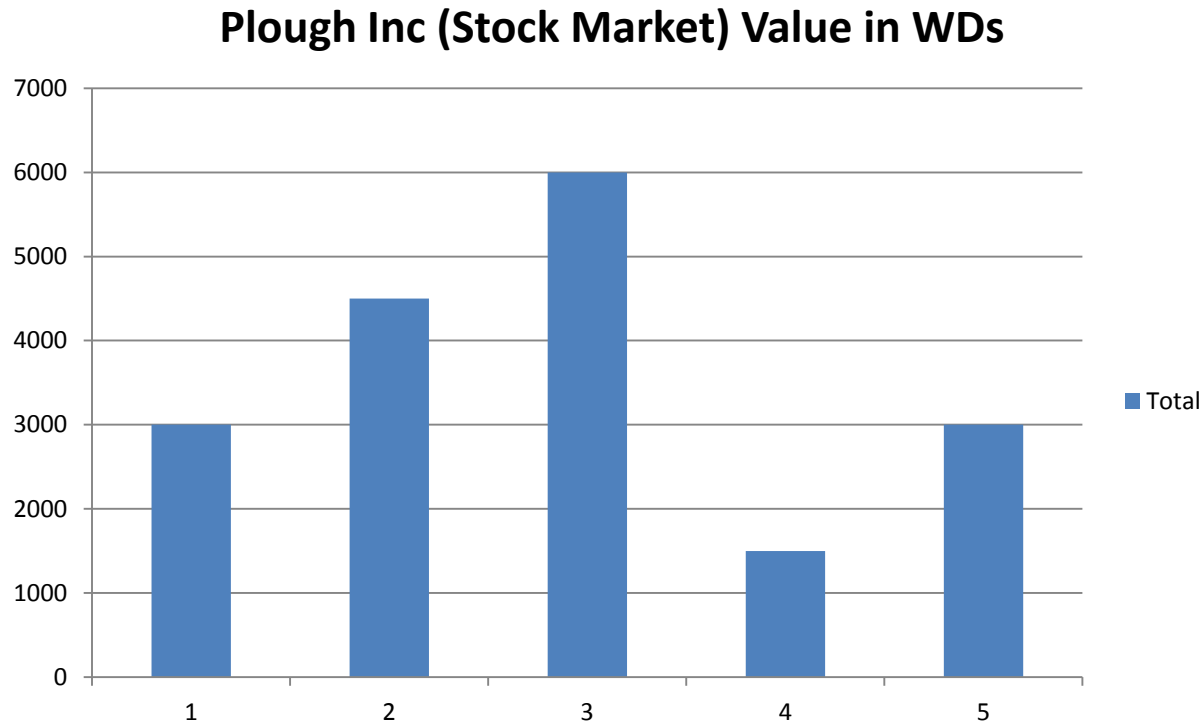


200 WDs



200 WDs

Summary of Plough Inc Stock Market Value



1 – Balance

2 – Growing Household Debt (16 years)

3 – Growing Government Debt (8 Years)

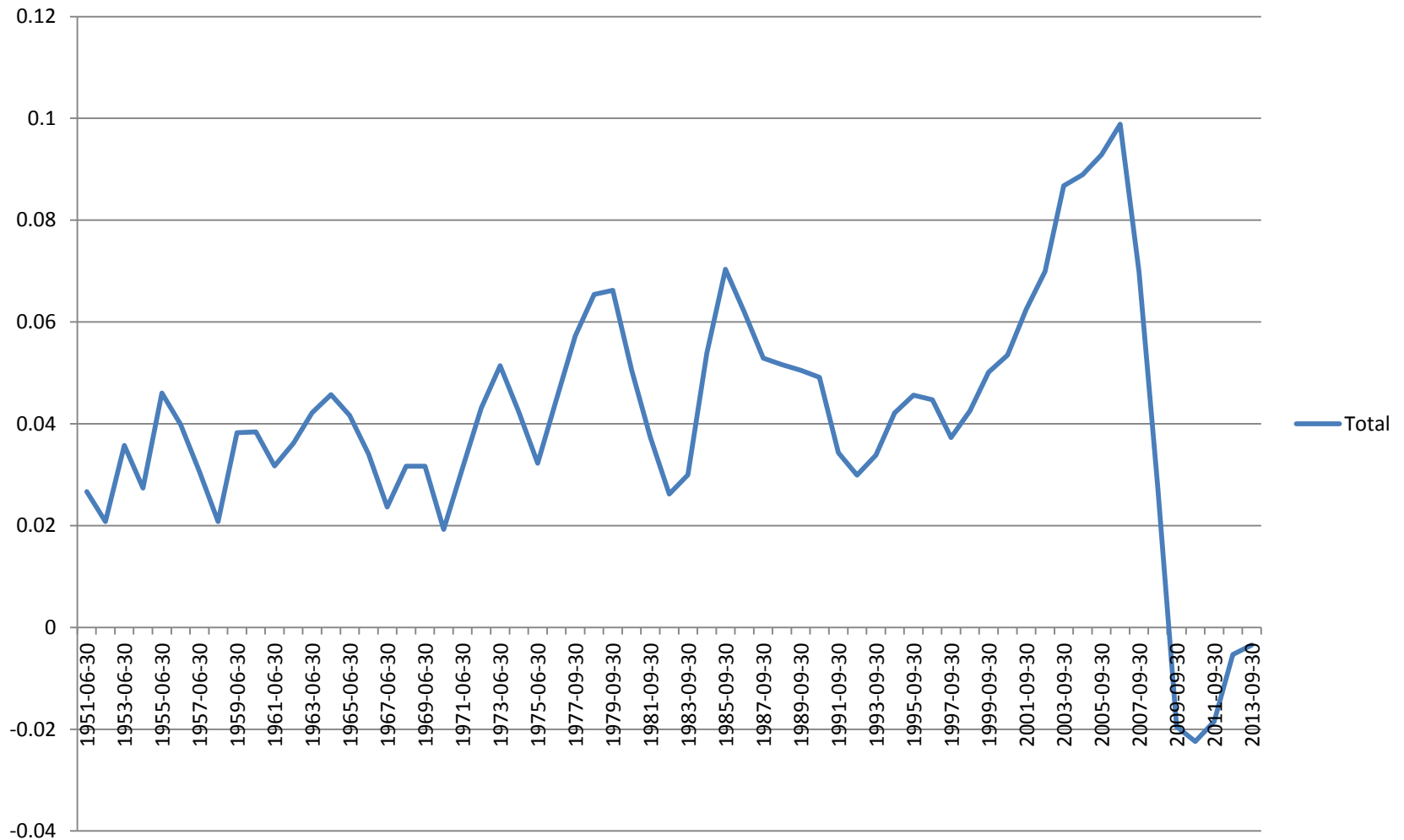
4 – Deleveraging (32 years)

5 - Return to Balance

US Macro Economic History 1951-2013

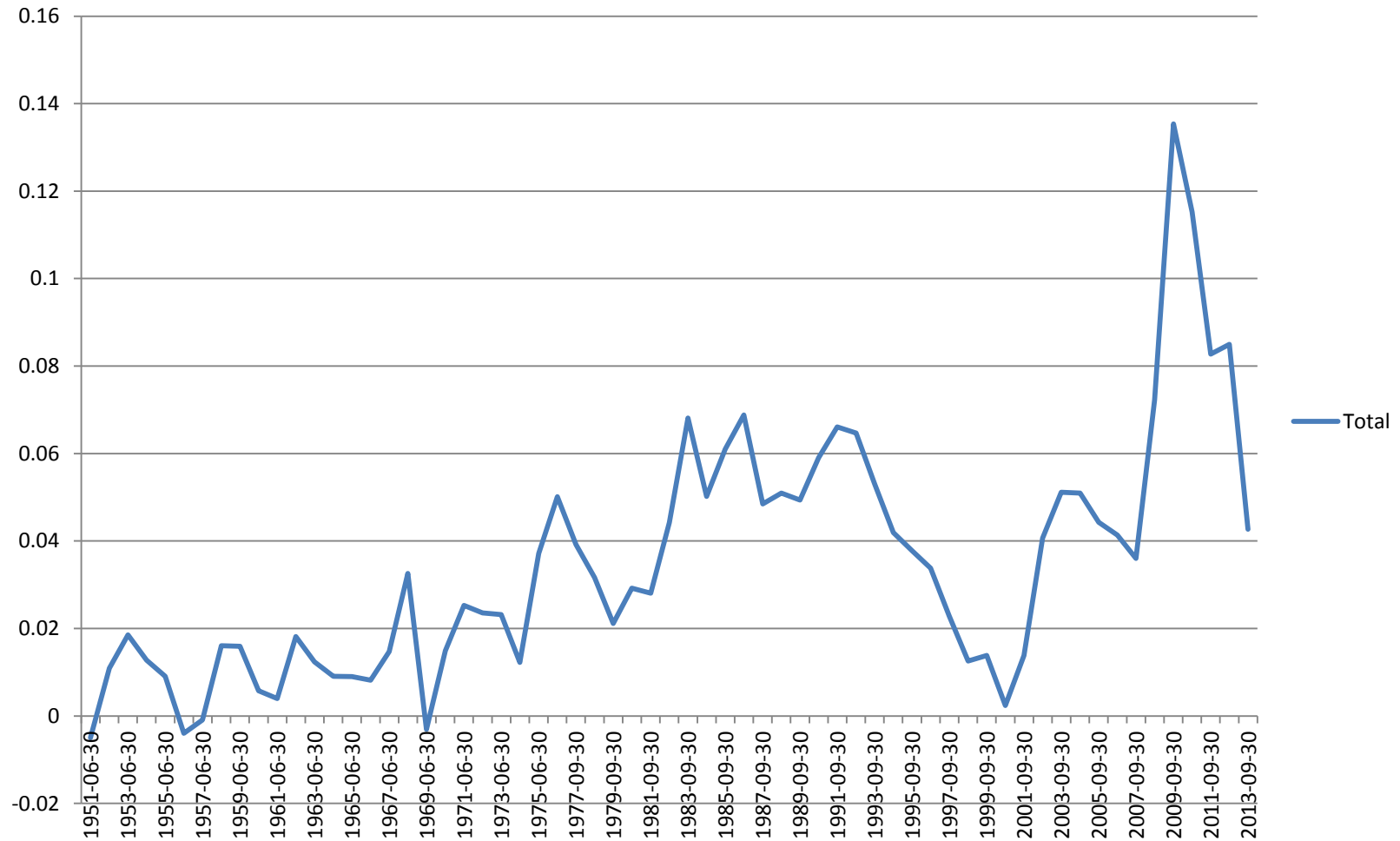
Household Debt % GDP

1951 - 2013



Government Debt % GDP

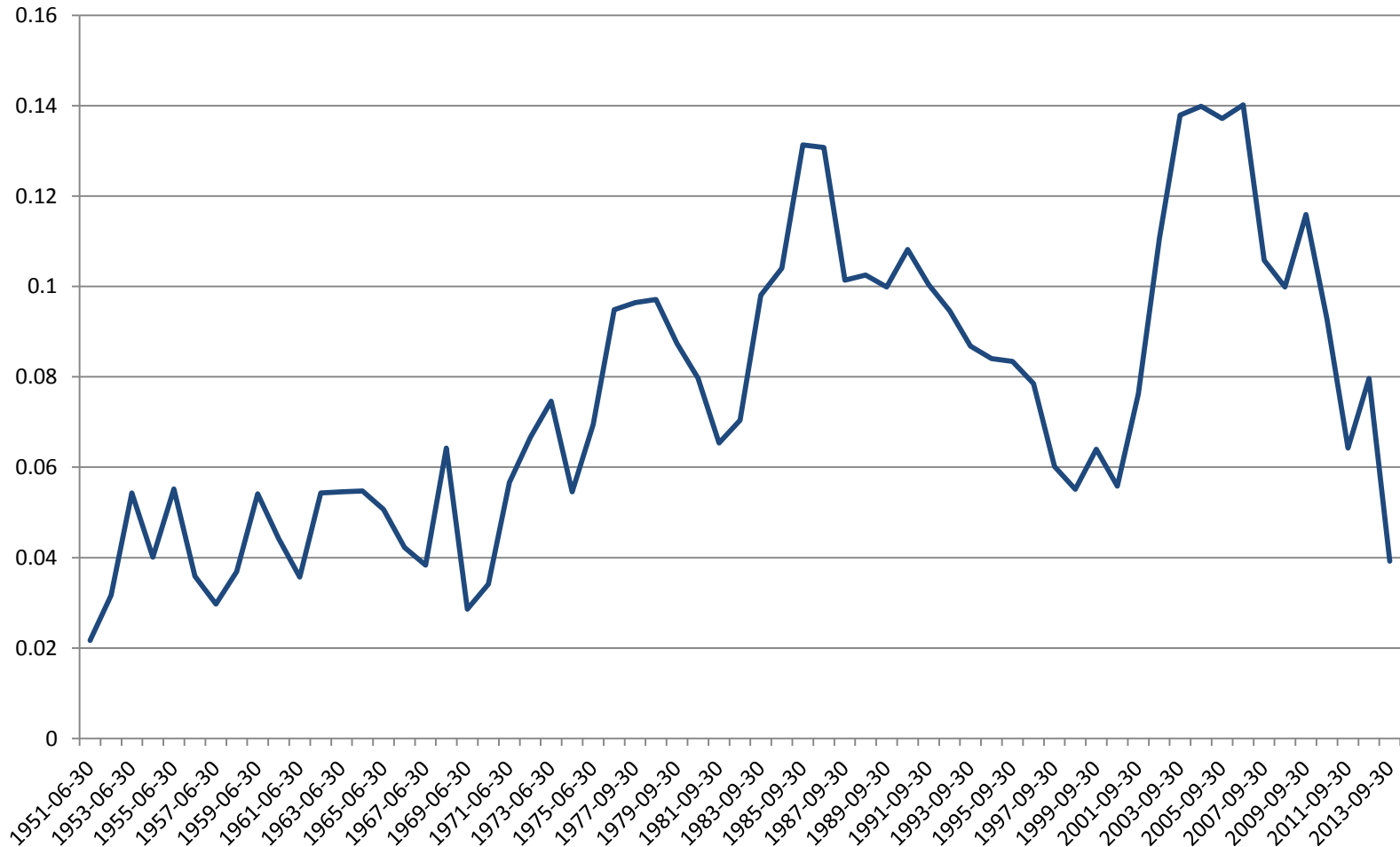
1951 - 2013



Government + Household Debt % GDP

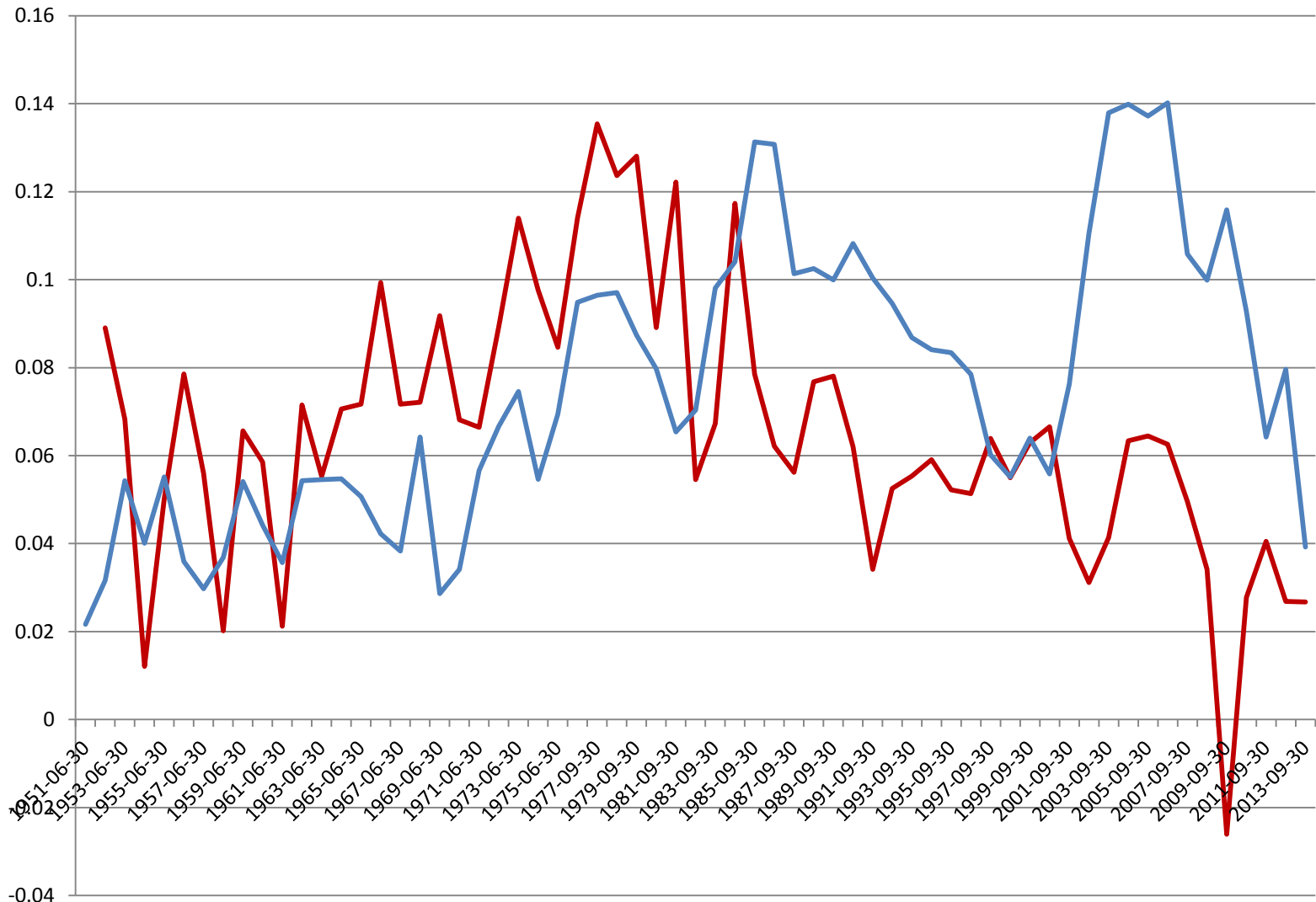
1951 - 2013

Total



Gov + HH Debt % GDP versus GDP Change

1951 - 2013

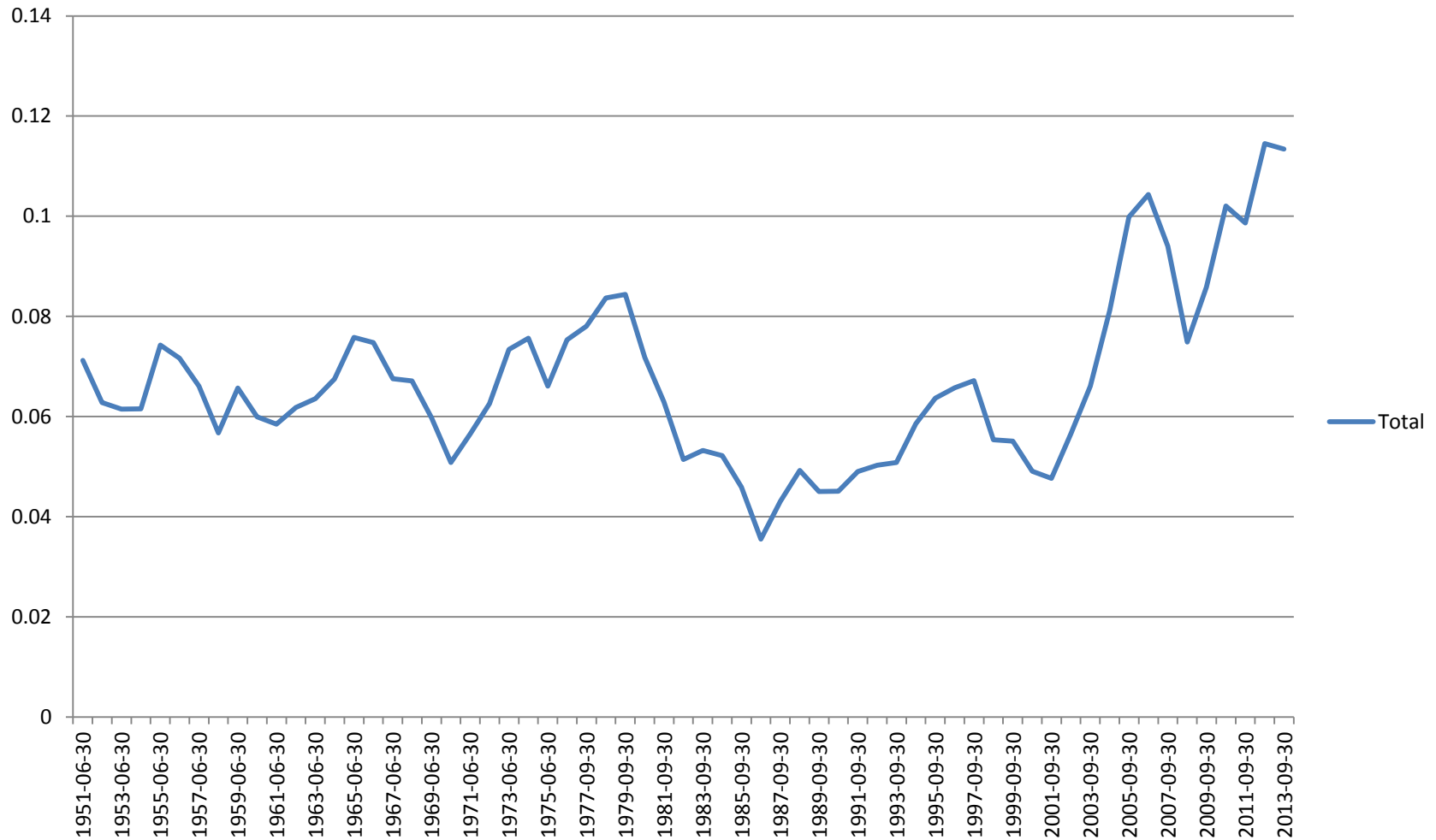


May 11th 2014

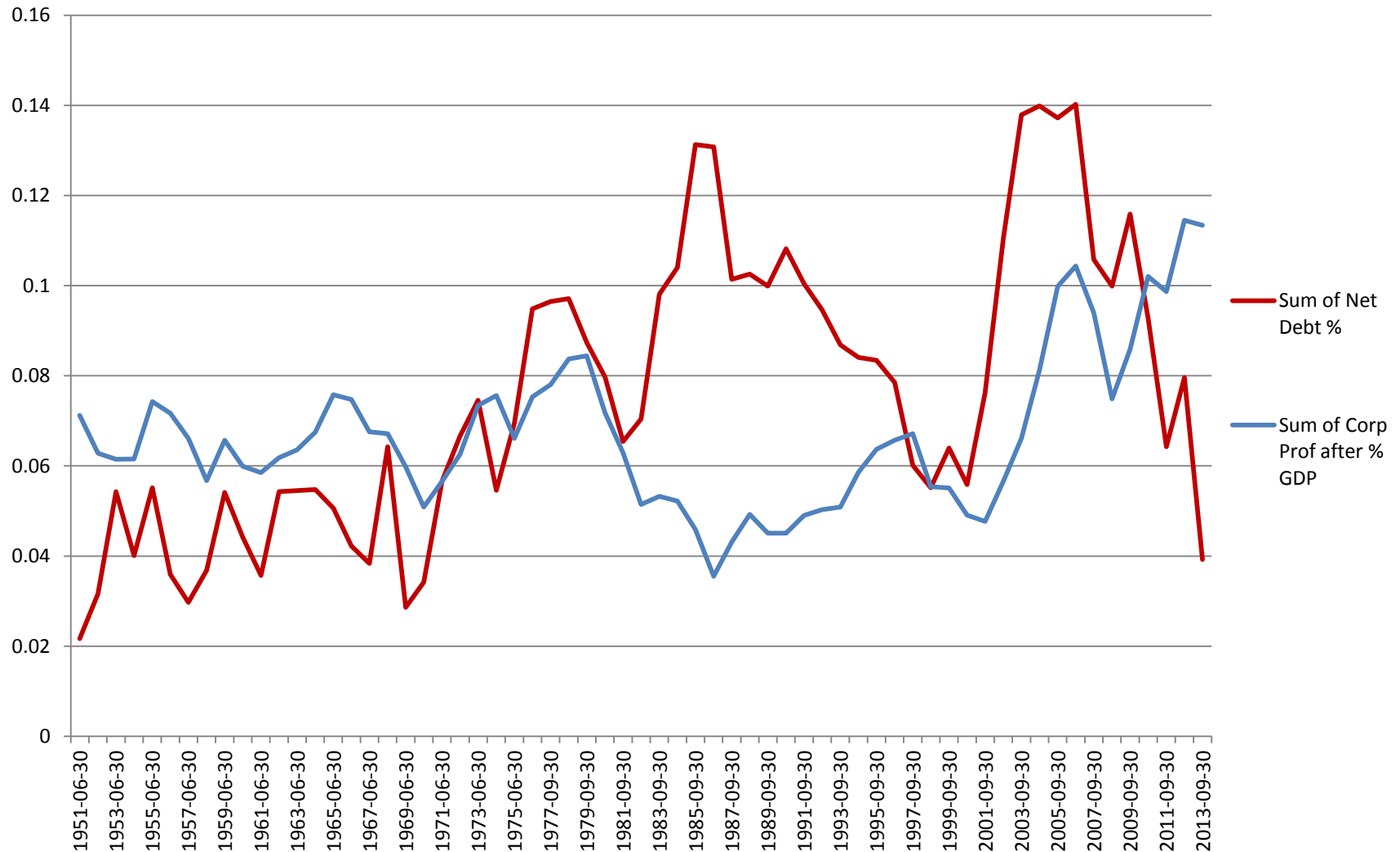
Martin Squibbs

Corp Profits After Tax % GDP

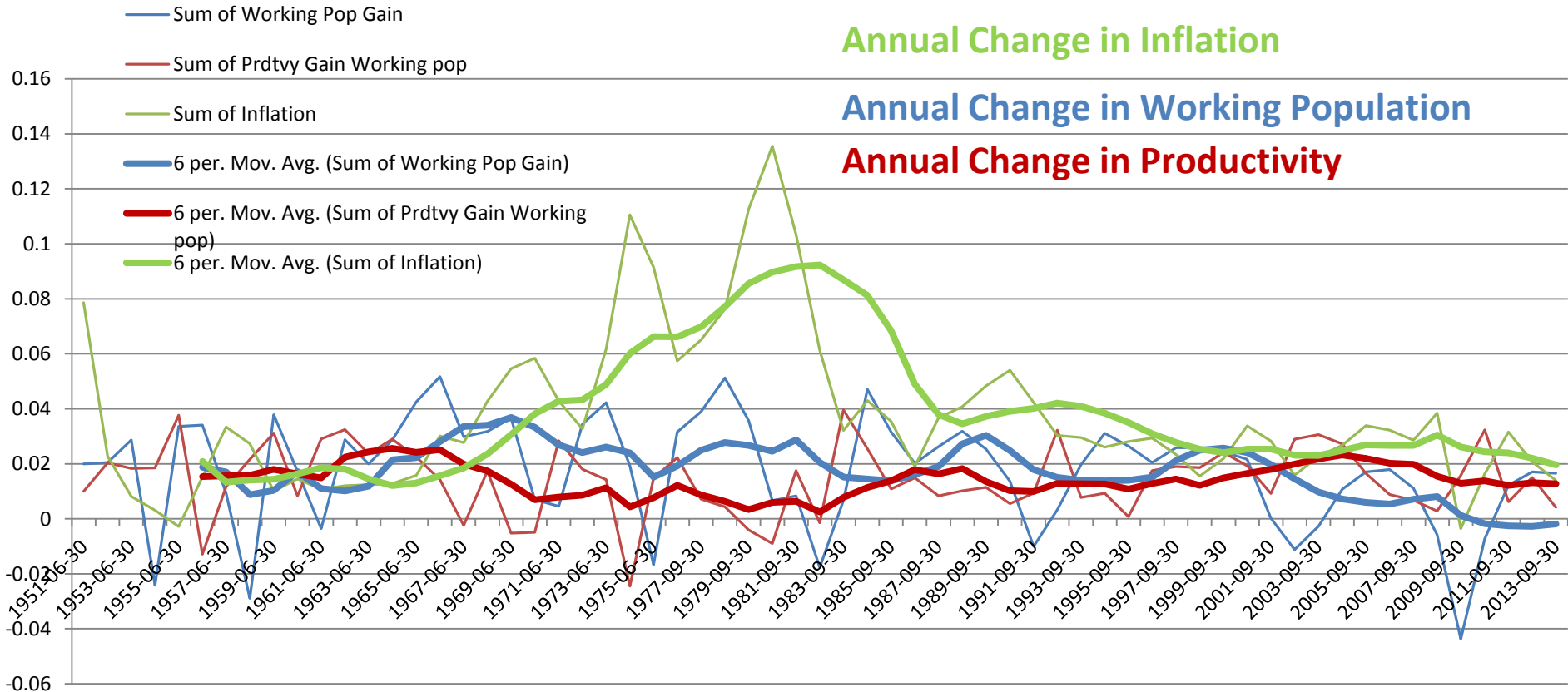
1951 - 2013



Corp Profits After Tax and Gov+HH Debt % GDP 1951 - 2013



Inflation, Working Population and Productivity Changes 1951-2013



Inflation – dropping since early 80's - highly leveraged consumers make increase difficult
 Working population – growth dropping since 70's and likely to now shrink
 Productivity – with increasing raw materials and foreign worker costs, unlikely to increase

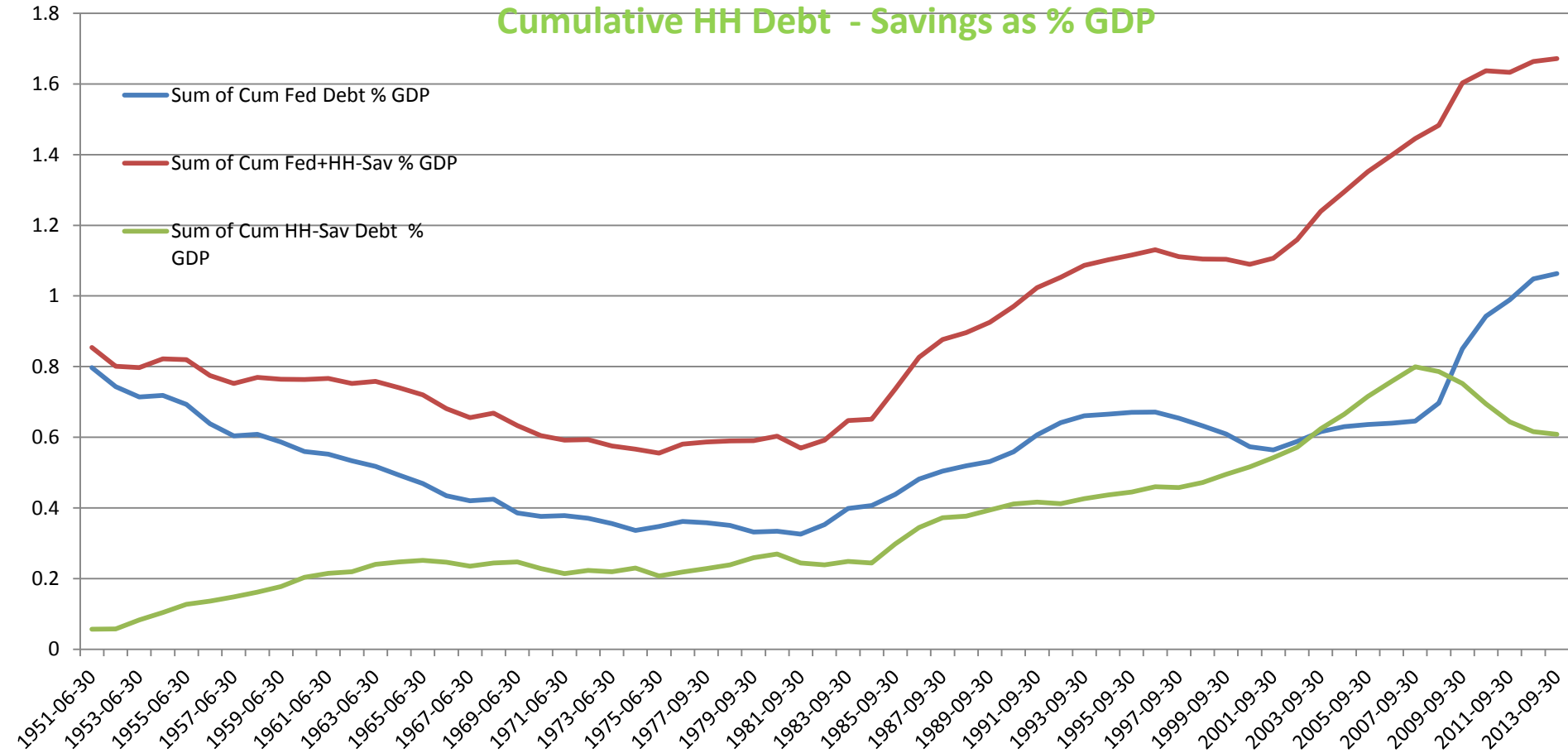
Cumulative HH and Gov Debt Totals

1951-2013

Cumulative Gov Debt + HH Debt - Savings as % GDP

Cumulative Gov Debt as % GDP

Cumulative HH Debt - Savings as % GDP

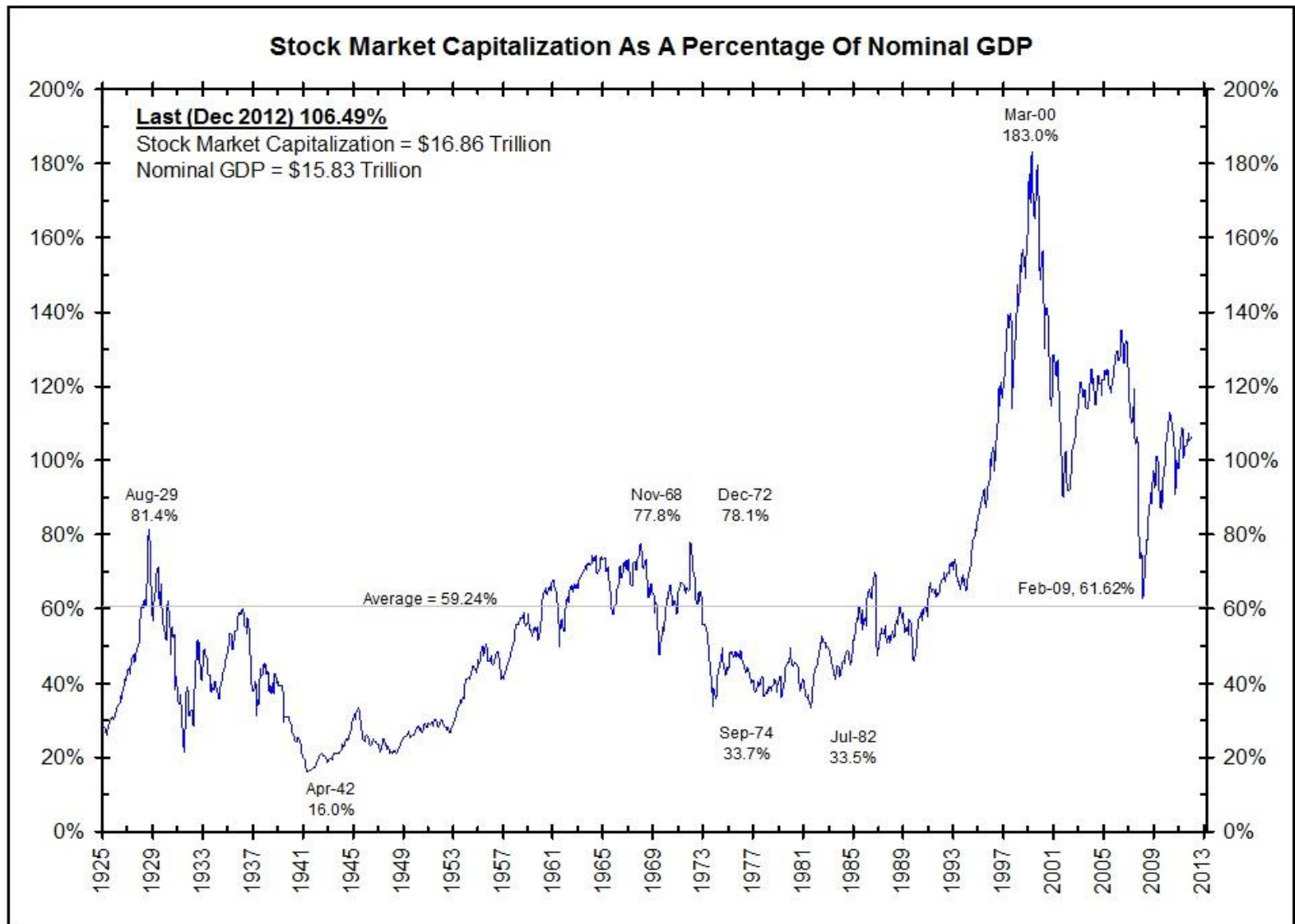


A Comparison of Gov+HH (Consumer) Debt and Corporate Profits since 1980

Growth in Gov Debt 1980 to 2013	\$15.9T
Growth in Household Debt 1980 to 2013	\$11.7T
Growth in HH + Gov Debt 1980 to 2013	= <u>\$27.6T</u>
Total Sum of Corporate Profits after Tax 1980 to 2013	= <u>\$22.0T</u>

We might therefore suppose that the overwhelming source of corporate profits, and thus stock market value, for the last 30 years, has been due to growing debt.

Stock Market Value as % GDP



Humanity's Two Huge 21st Century Bubbles

The Two Huge Human Bubbles

Reality on Earth/Capital

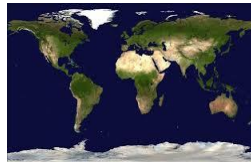
Atmosphere



Oceans



Continents



Life on Earth



Value

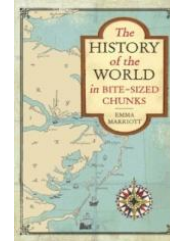


Work

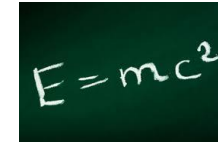


Human Worlds in Mind

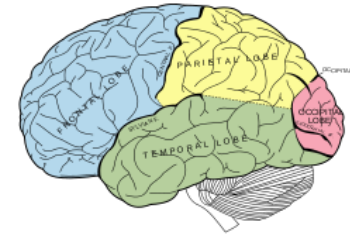
Past



Knowledge



Future



Primary Measurement Systems

Length/Distance

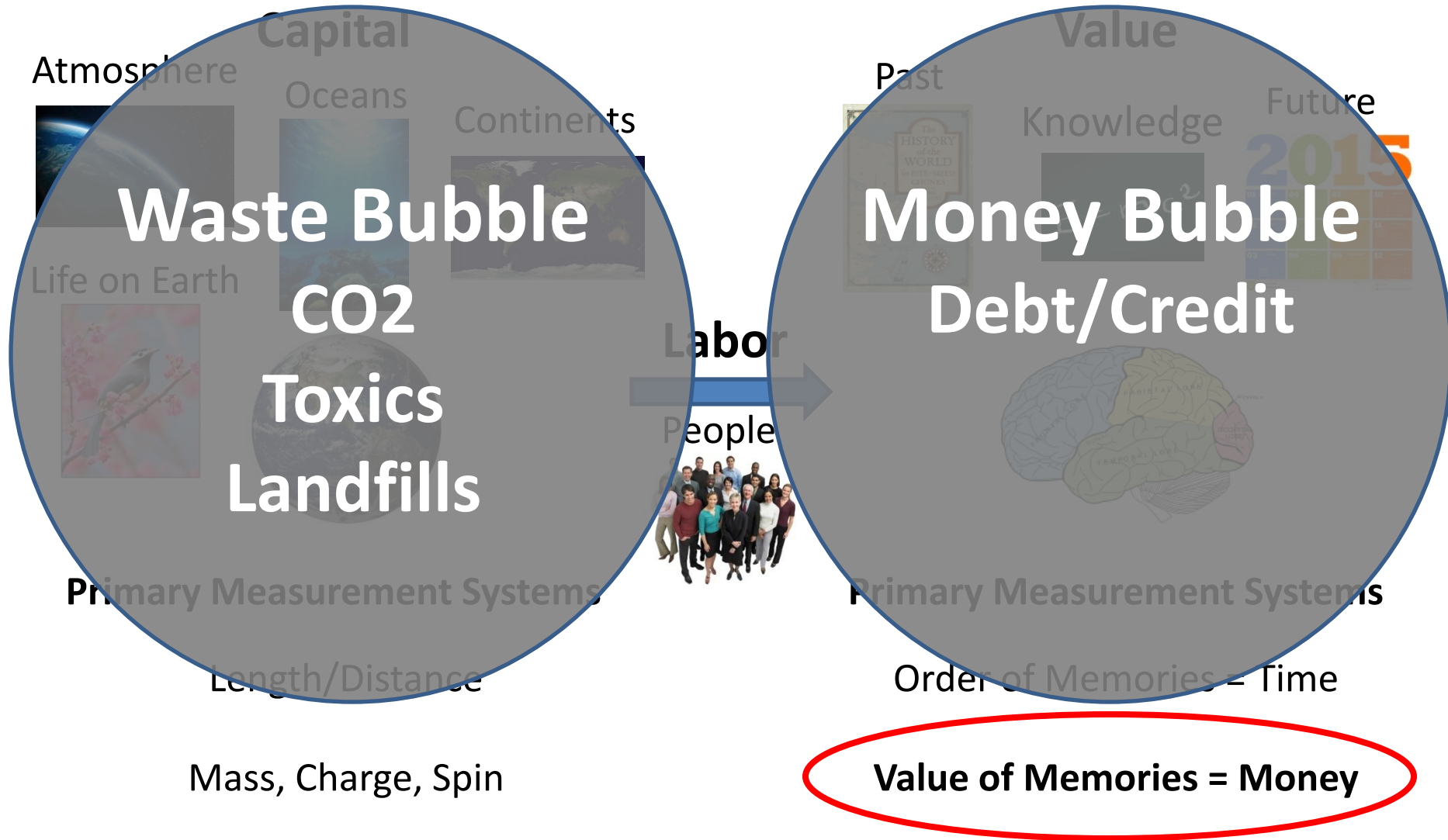
Mass, Charge, Spin

Primary Measurement Systems

Order of Memories = Time

Value and Work = Money

Two Big Human Problems

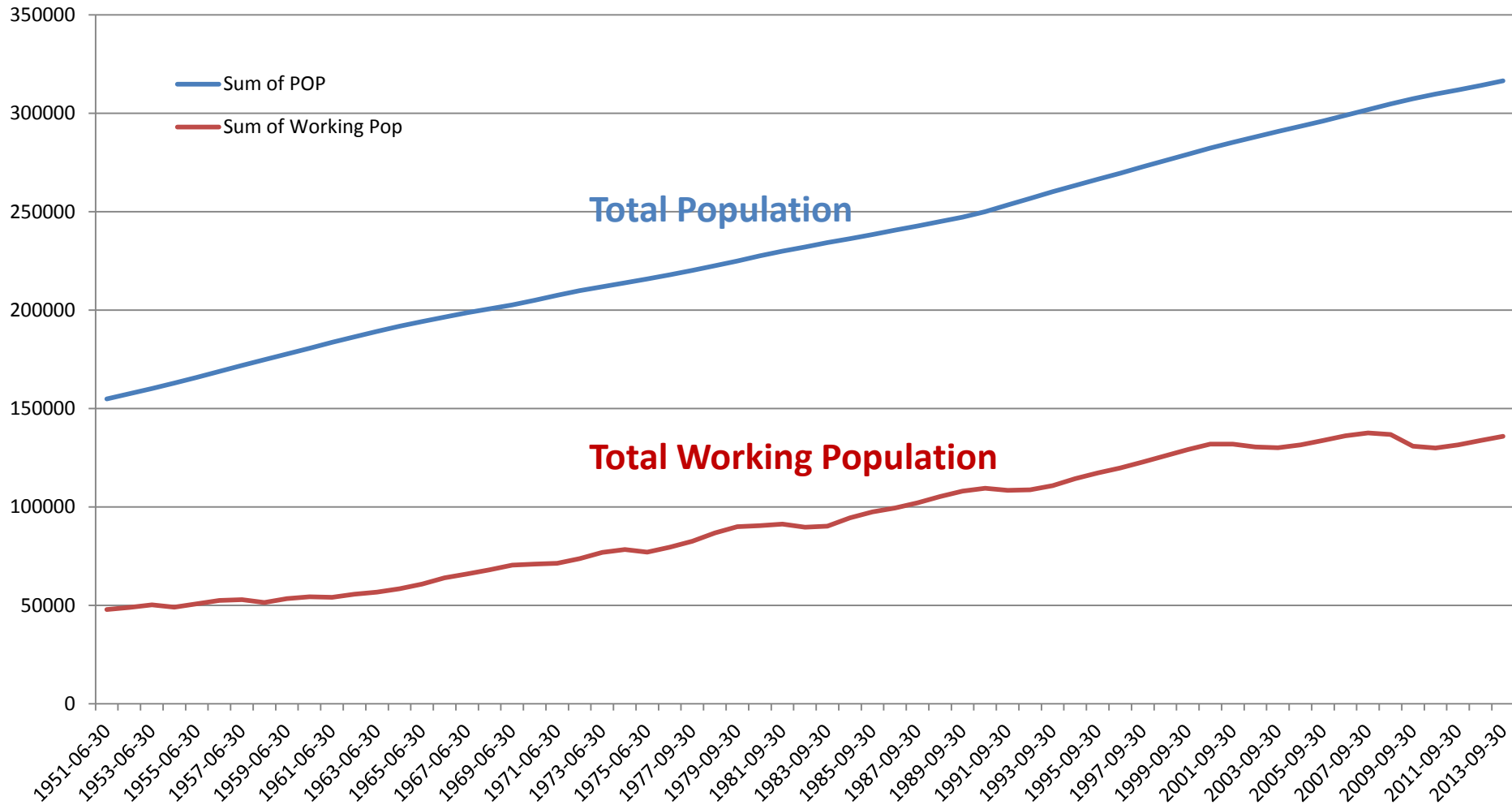


Thank You

Backup Slides

Total Population and Working Population of the US

1951 - 2013

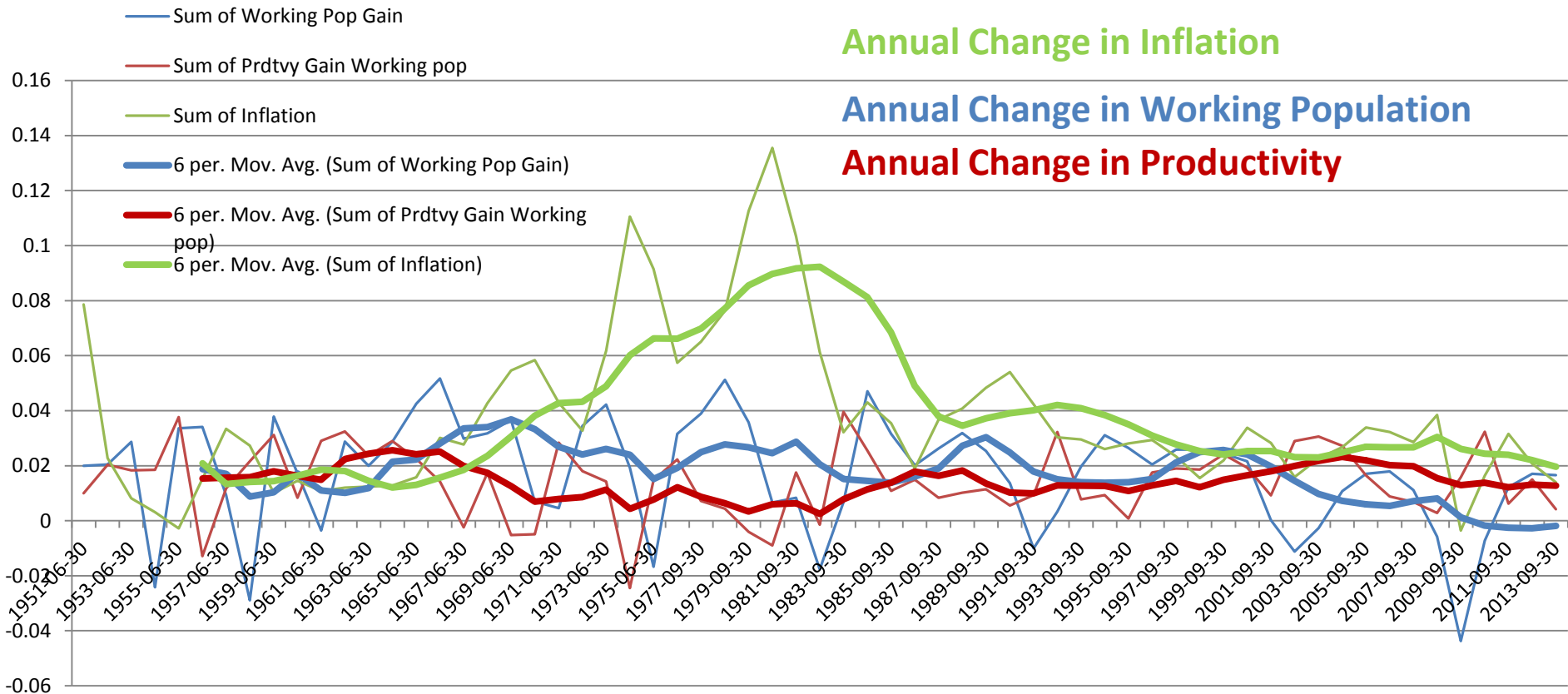


Employment Rate 1990-2013



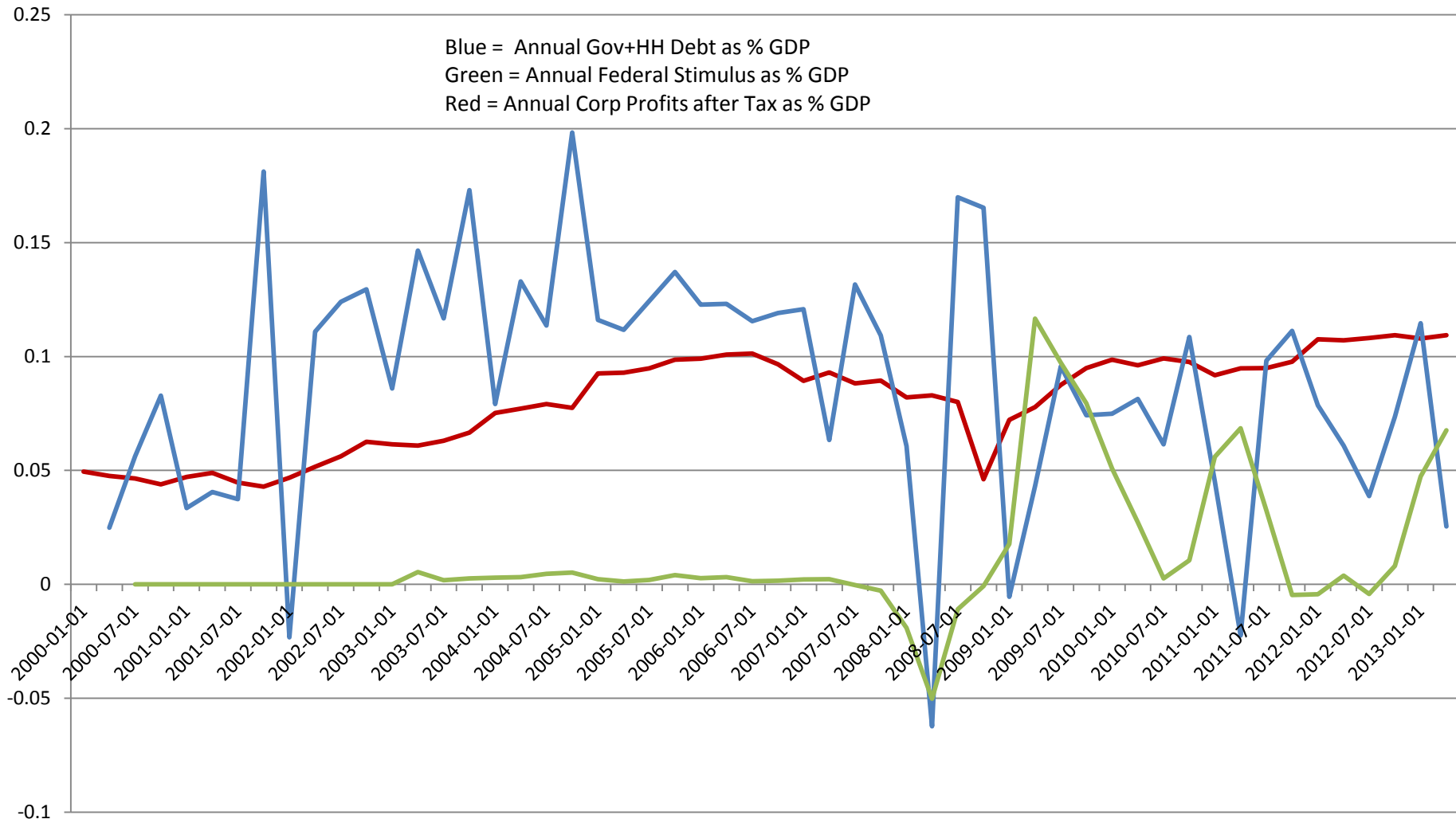
The Sources of GDP Growth and Why GDP growth is Minimal in 2013

1951-2013



Inflation – dropping since early 80's - highly leveraged consumers make increase difficult
Working population – growth dropping since 70's and likely to now shrink
Productivity – with increasing raw materials and foreign worker costs, unlikely to increase

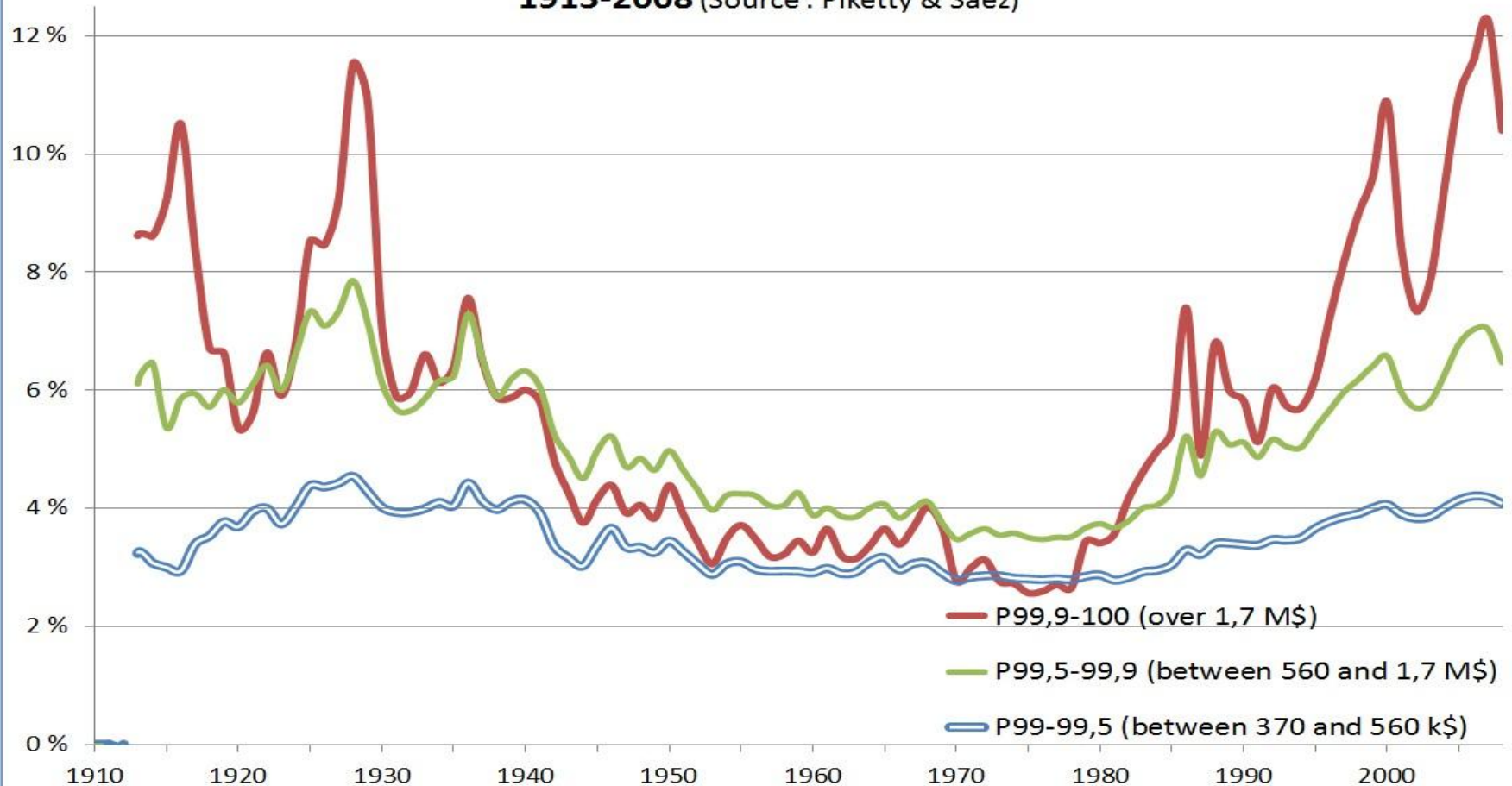
A Closer Look at Total Consumer Debt, Corp Profits and Fed Stimuli 2000-2013



Income Share of Top 1% Earners

Evolution of Fractiles of the Top Percentile Income Share

1913-2008 (Source : Piketty & Saez)



© Olivier Berruyer, www.the-crises.com, december 2010

Profits and Salaries as % GDP

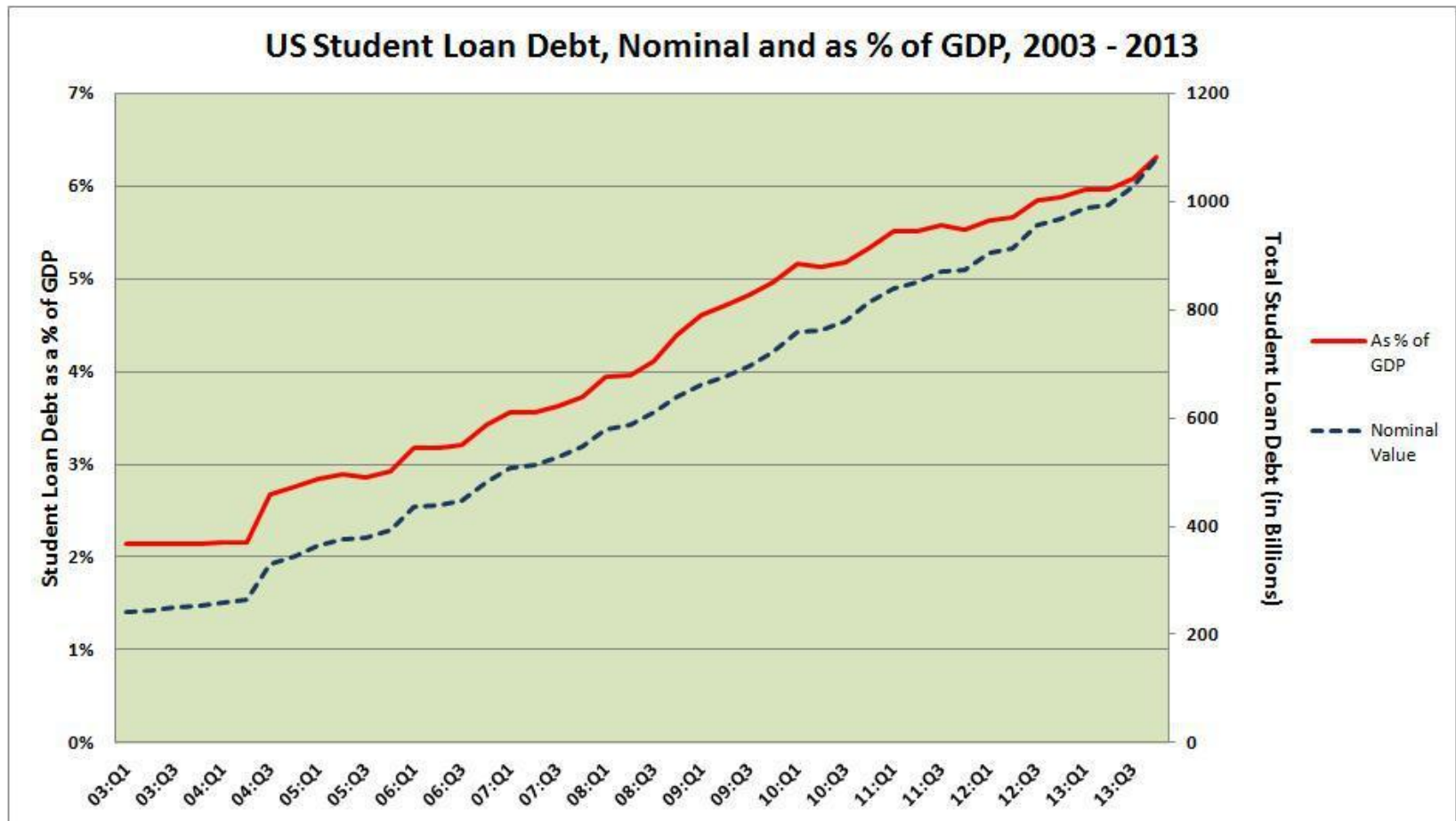
US profits as a share of GDP is at all time highs while wages and salaries are at all time lows?



Source: SQ Cross Asset Research, BEA

US Student Loans as % GDP

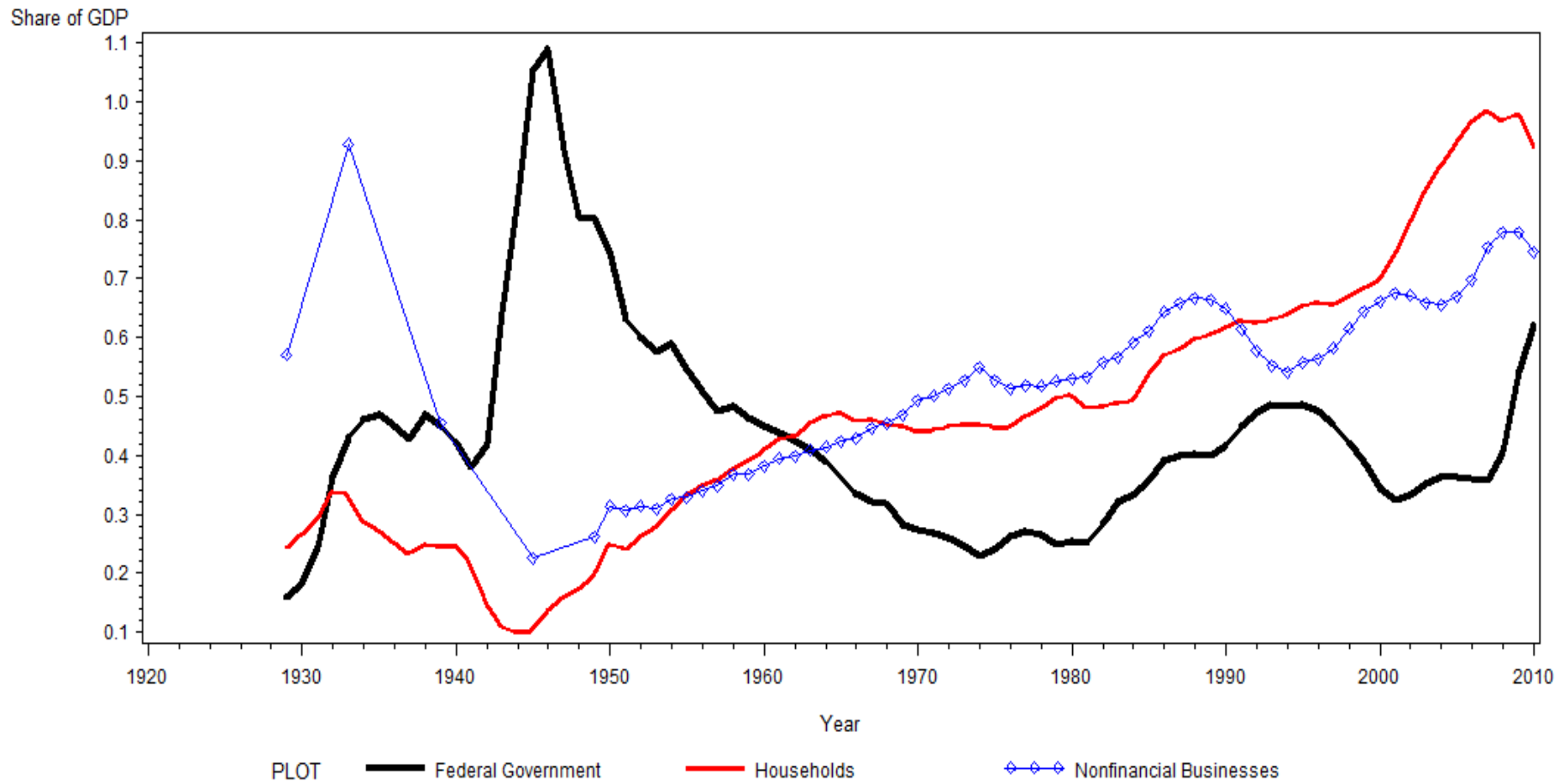
2003-2013



Source: FRBNY Consumer Credit Panel/Equifax

honeycutt
Capital

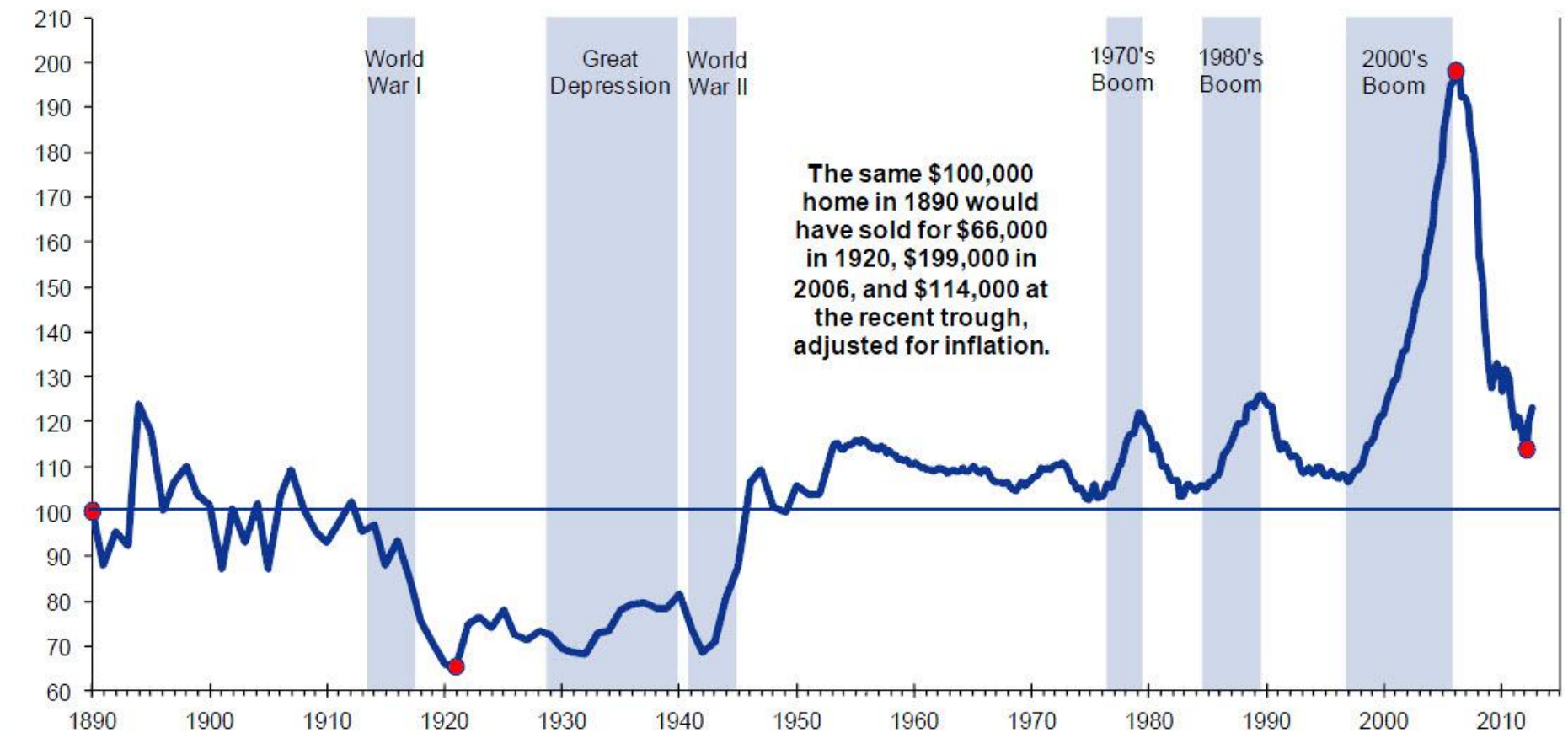
Gov and HH Debt 1920-2010



US House Prices 1890-2012

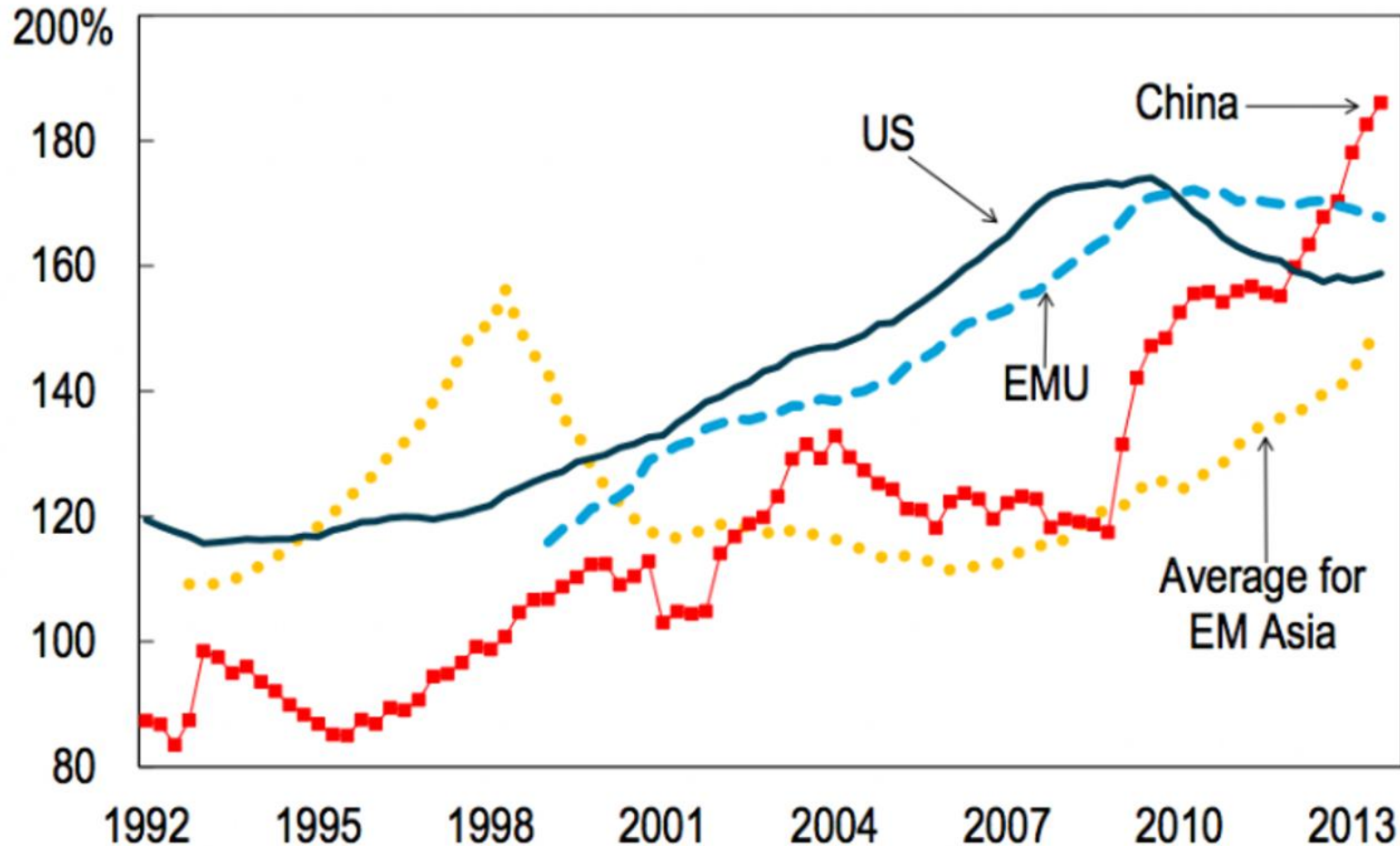
US home values over time

Index of sale prices of standard existing homes, adjusted for inflation; Index 1890 = 100



Source: Robert J. Shiller, *Irrational Exuberance*, 2nd. Edition.

Consumer Debt in Other Regions 1992-2013 as % GDP



Imports and Exports % GDP

1960-2010

