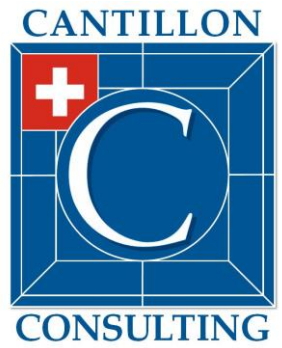


# Money, Macro & Markets

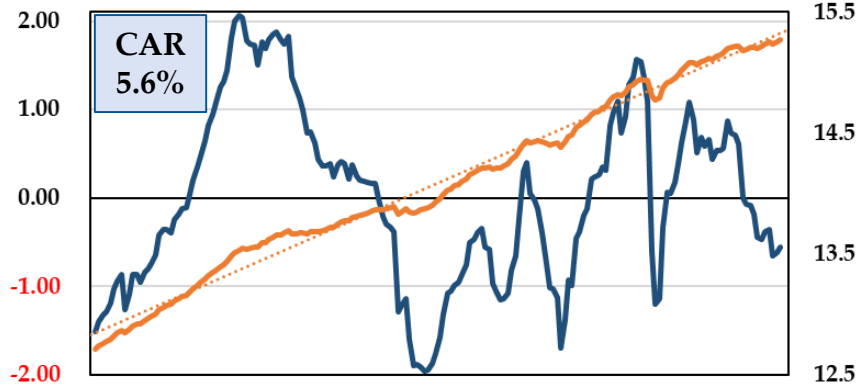
Tuesday, September 19th

Sean Corrigan

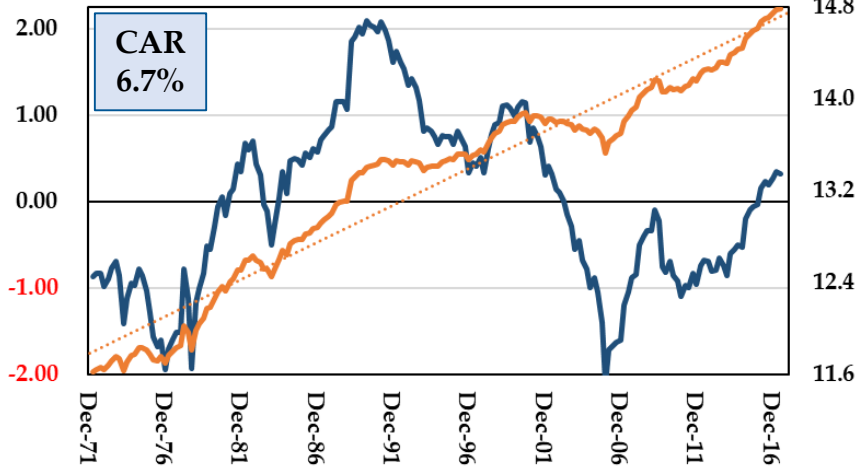


## USA: Gearing up for Trouble

**US Manufacturing Equity: Source - QFR**



**US Manufacturing Net Debt: Source - QFR**



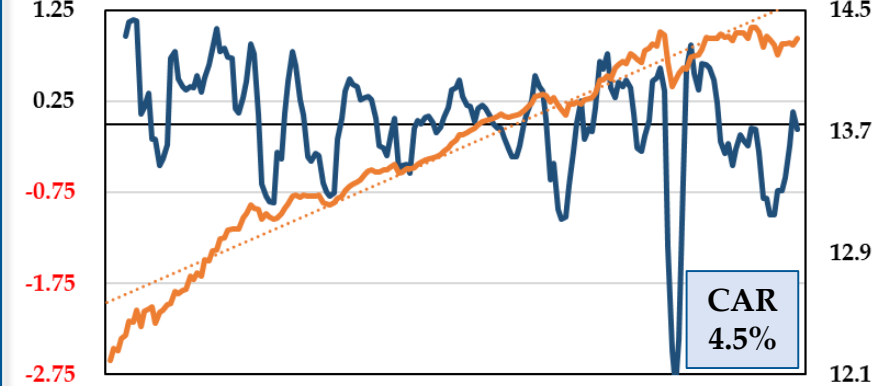
— Residual (lhs) — In Value (rhs)

For the typical manufacturing company, debt service is hardly onerous at present, thanks to the persistence of Depression Era levels of interest rates, long and short.

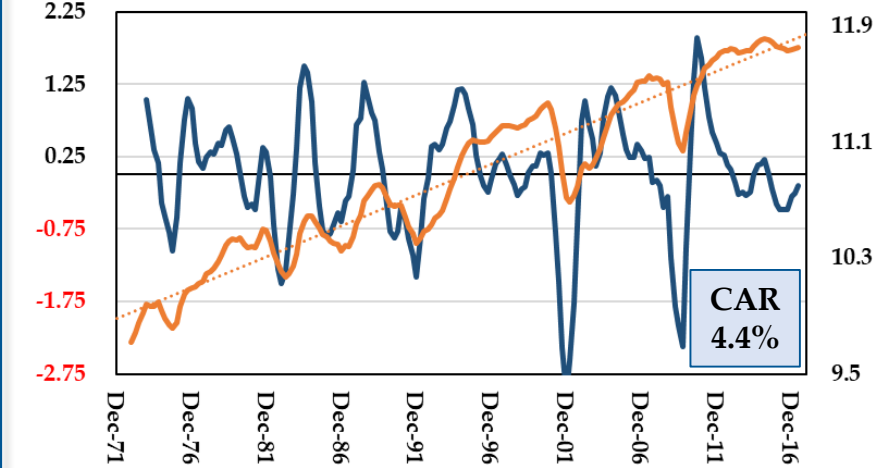
However, it is surely a matter of some concern that, though having recovered from last year's 'hidden' recession, both revenues and operating income have barely attained their trend levels of the entire floating-rate era.

This means that they are each growing more slowly than the above-trend pace of debt addition – that latter increase obviously exacerbated by the urge to replace equity (another line item increasing at a sub-par rate as a consequence) with ever more borrowed money.

**US Manufacturing Revenues: Source - QFR**

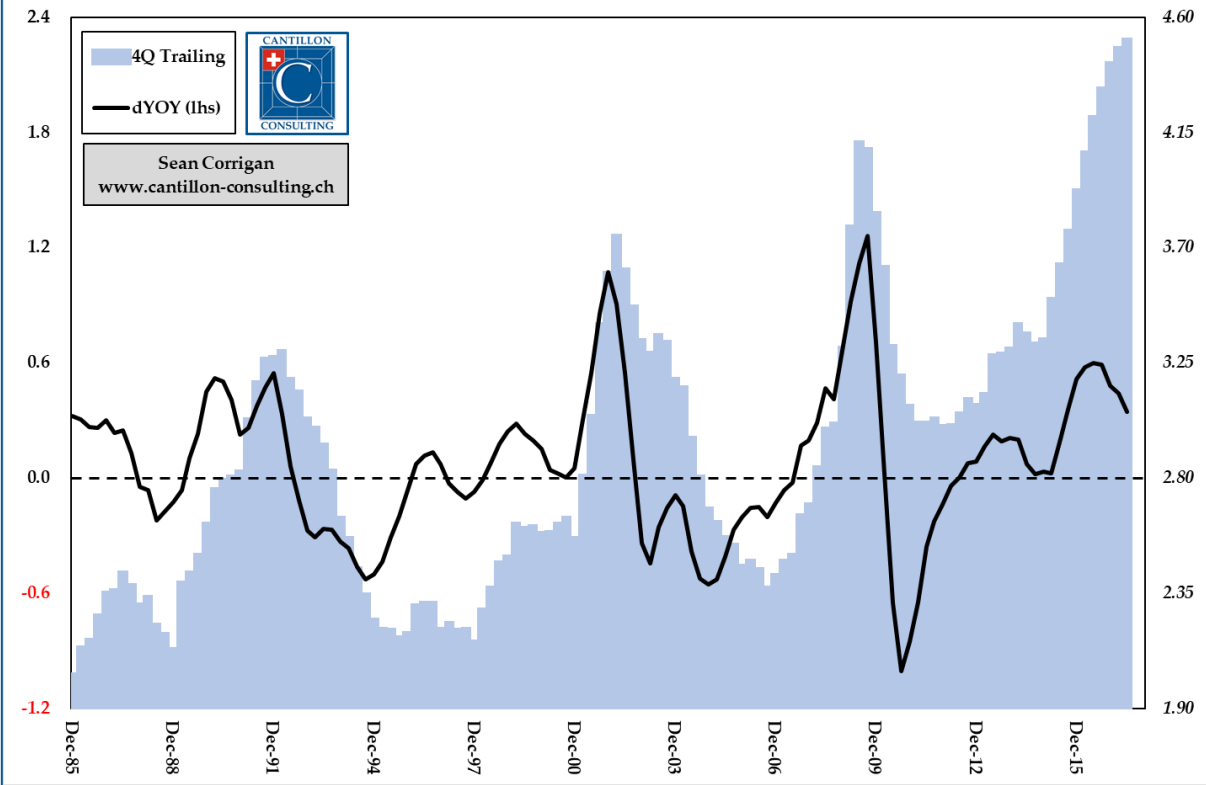


**US Mfg Operating Income: Source - QFR**



— Residual YOY (lhs) — In Value (rhs)

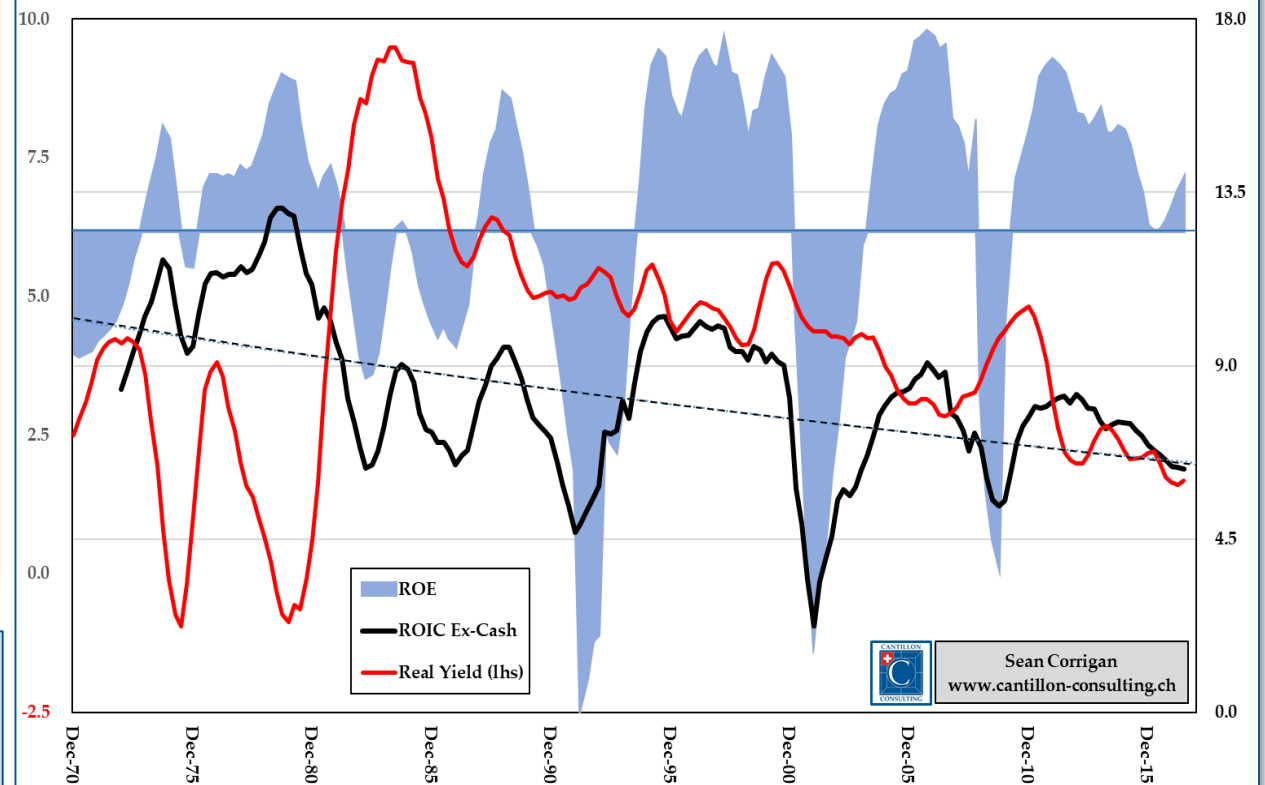
US Manufacturing Corps, Debt/EBITDA & YOY: Source - Census

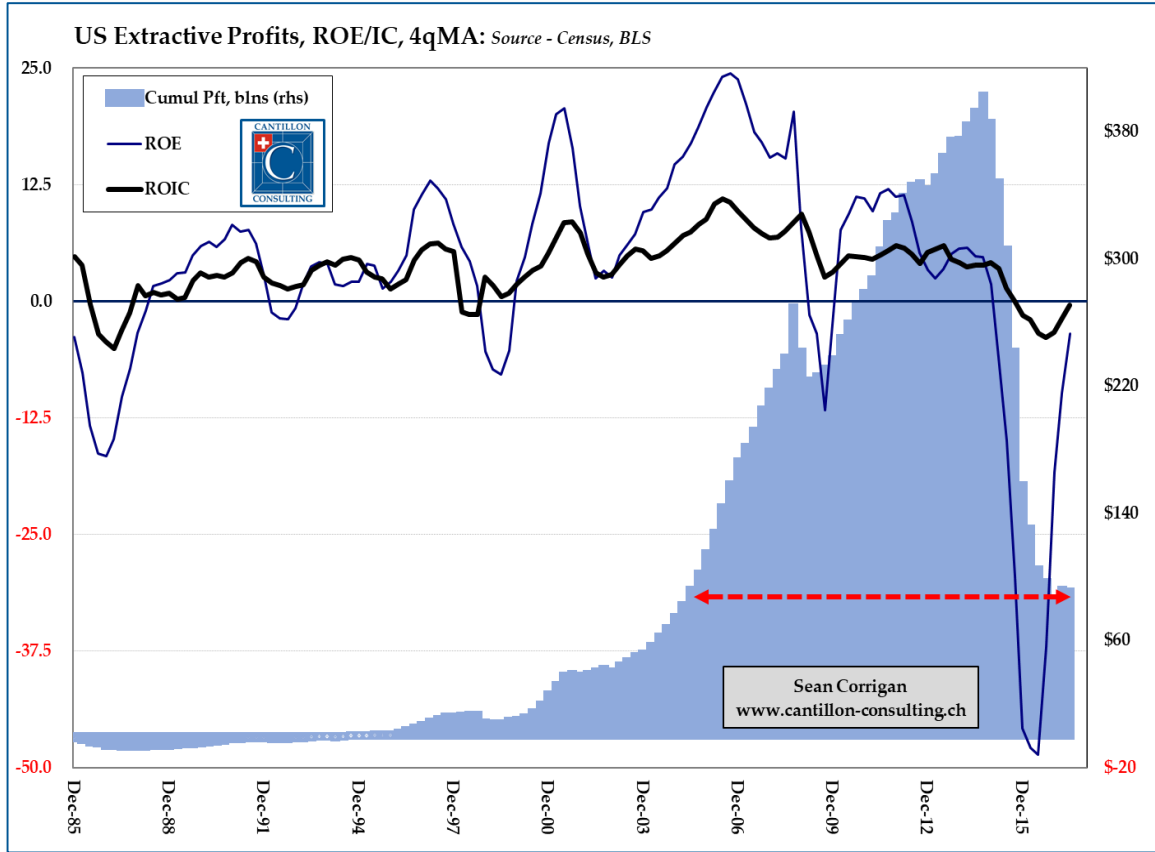


The combination has naturally served to raise already-elevated debt ratios – with Net Debt/EBITDA making new highs in a highly atypical manner since this is not being driven involuntarily by a recession-induced collapse in the *denominator*, but by an entirely discretionary increase in the *numerator*.

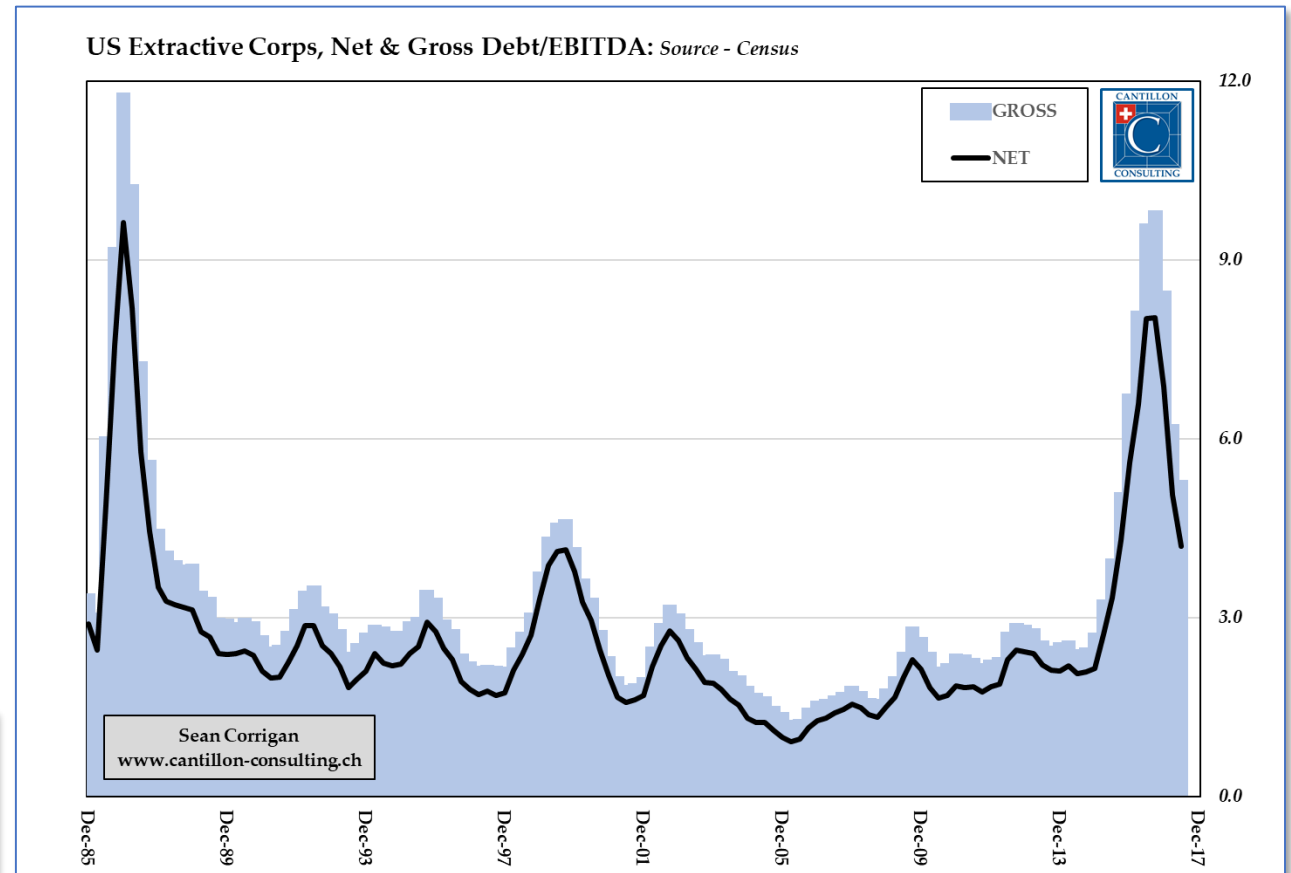
As a result, while returns to equity may look acceptable, those to total capital are clearly on the wane - to the not entirely coincidental accompaniment of overly low bond yields. The central bank Doom Loop - mistaken by some for that mythical beast, 'secular stagnation' - is truly alive & well.

US Manufacturing corporation returns: Source - Census



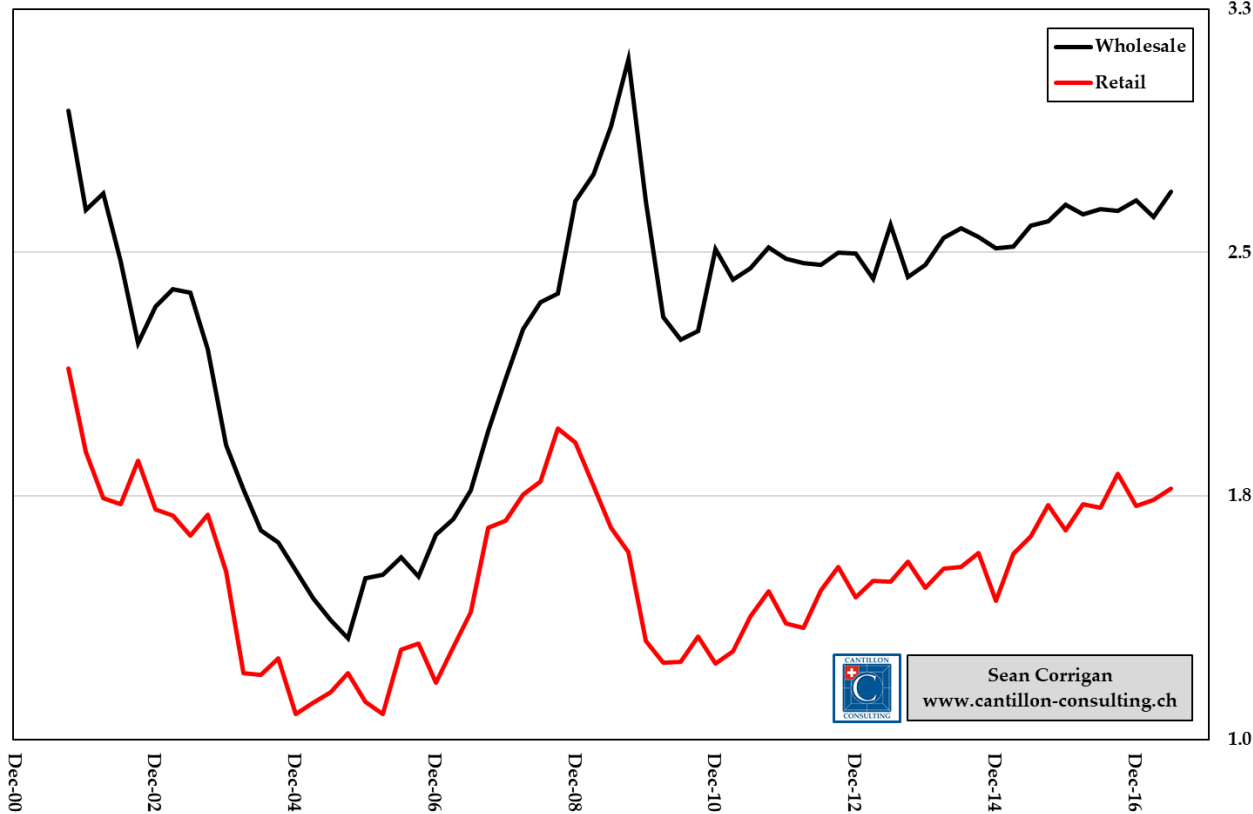


The recovery in the price of commodities – principal among them, that of shale oil – has restored a modicum of respectability to the extractive sector’s scorecard, albeit only after the loss of a decade’s worth of returns. Note, too, that debt ratios are still above those seen during the late-90s oil price collapse, if no longer as bad as those of the mid-80s disaster.



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US Wholesale & Retail Net Debt/EBITDA Ratio: *Source - Census QFR*

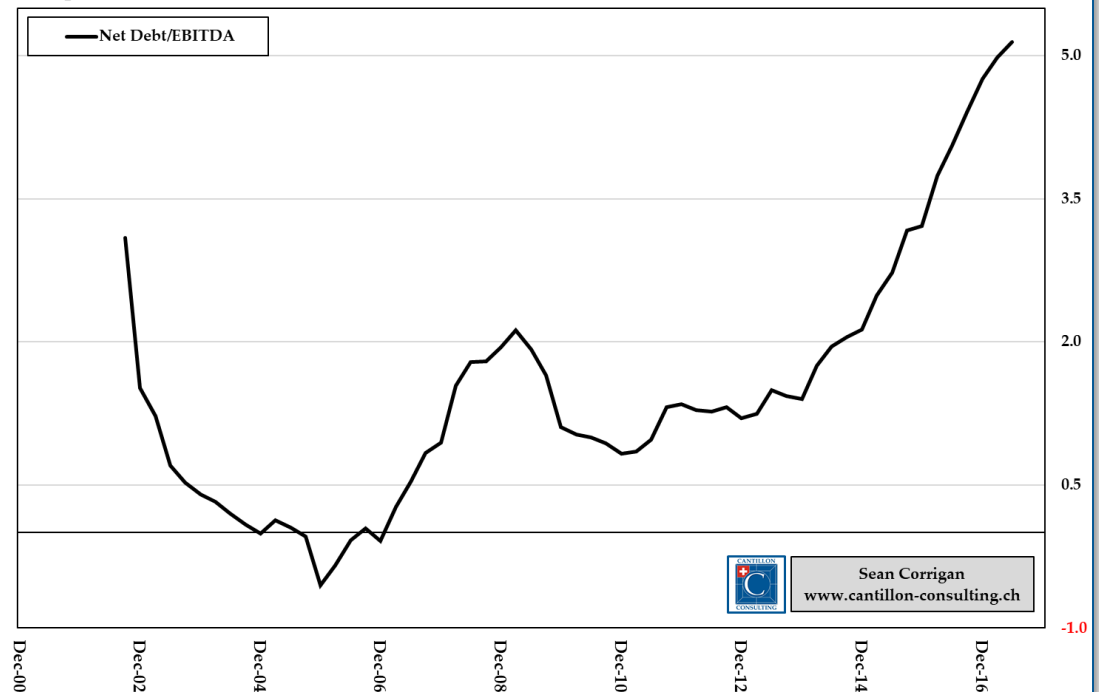


Meanwhile, if not as extreme as in 'higher-order' manufacturing, a similar phenomenon is at work in the wholesale and retail sectors. Rising debt ratios amid a modest expansion are not to be taken lightly here, either.

By way of illustration of how endemic this all is, our last chart shows that even the Industries of Tomorrow are not immune from this affliction.

Moore's Law may have met its match in Miller-Modigliani, Mario & MIT macro

Computer & Electronics Debt Ratio: *Source - Census QFR*



While there are few generalized signs of distress at present, it is all too apparent that many companies will sail into the next set of stormy seas with a good deal of sprung planking, strained bulwarks and some very frayed rigging, indeed.

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