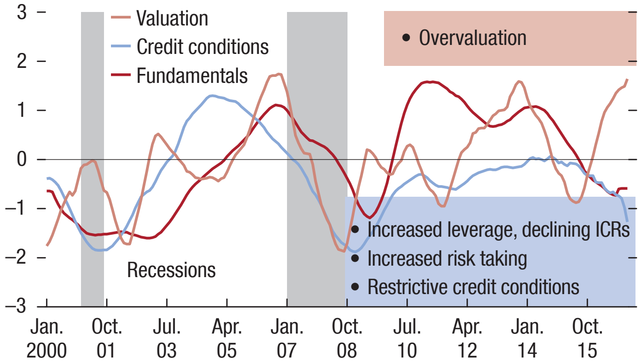
Figure 1.9. Corporate Leverage and the Credit Cycle

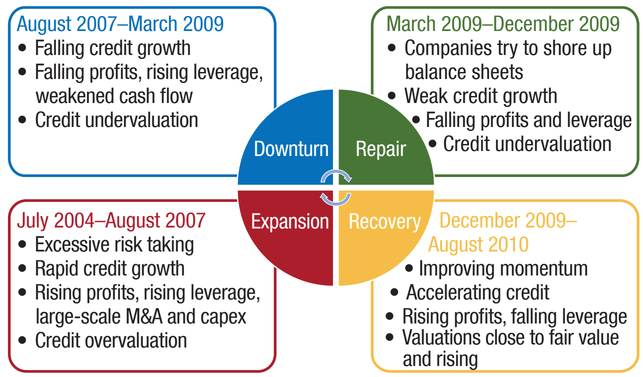
Deteriorating balance sheet fundamentals and credit conditions ...

1. Asset Valuations, Balance Sheet Fundamentals, and Credit Conditions (Unweighted average in percentile rank, normalized to zero)



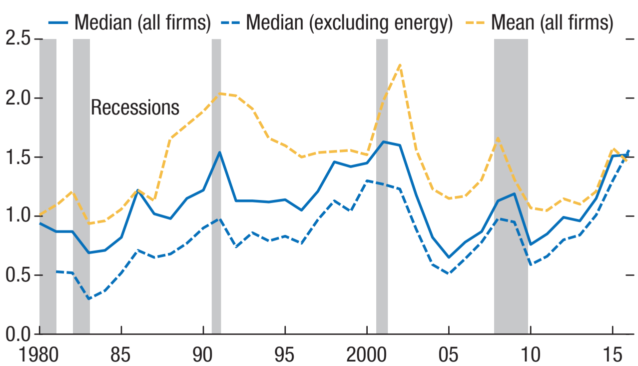
... signal a late stage of expansion in the credit cycle.

2. Stages of a Stylized Credit Cycle



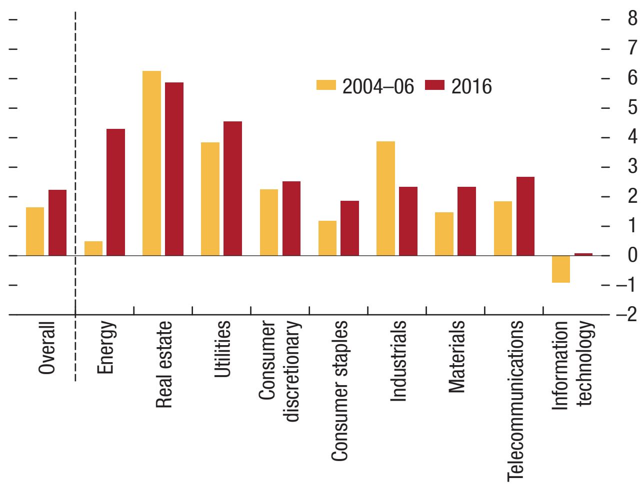
Median corporate leverage among big firms has grown steadily and is close to a historical peak.

3. Net Leverage of S&P 500 Companies (Ratio of net debt to EBITDA)



Eight out of ten sectors witness an increase in leverage across a broad set of firms.

4. Net Leverage by Sector (Ratio of net debt to EBITDA)



Sources: Bloomberg L.P.; National Bureau of Economic Research; S&P Capital IQ; Thomson Reuters Datastream; and IMF staff estimates.
Note: 2016 estimates refer to the first three quarters of the year, wherever full-year estimates are not available. Panel 1, Valuation = distress ratio, deviation in high-yield bond spreads from fair value. Fundamentals = capital expenditures, interest coverage, leverage, liquidity, profit margins. Credit conditions = bank credit, lending conditions, net bond issuance. Above zero represents an improvement in credit fundamentals (for example, high valuations, supportive credit conditions, rising profits, ample liquidity). Below zero represents a deterioration (for example, excessive risk taking, reduced access to credit, high leverage, diminishing profits, falling valuations) in fundamentals, credit conditions, and valuation. Shaded areas indicate economic recessions. Capex = capital expenditure; EBITDA = earnings before interest, taxes, depreciation, and amortization; ICR = interest coverage ratio; M&A = mergers and acquisitions; S&P = Standard & Poor's.