Figure 1.12. United States: Equity Market Fundamentals

U.S. equity valuations are rising beyond historical averages.

1. S&P 500 Price-to-Earnings Ratio

- Shiller P/E
- 1-year trailing P/E
- 1-year forward P/E

Growth in earnings accounts for only about half of the rise in U.S. equity prices.

2. Decomposition of Equity Performance
(Percent contribution from December 2012 through July 2014)

Earnings have been boosted by rising profit margins...

3. Decomposition of S&P 500 Earnings per Share Growth
(Percent, on a 12-month trailing basis)

...which are at peak levels, but sales growth is anemic.

4. S&P 500 Sales per Share Growth and Profit Margin
(Percent, on a 12-month trailing basis)

Corporates are turning to M&A activity to boost sales and earnings, while capital expenditures growth has been modest.

5. M&A and Capital Expenditures by U.S. Companies

Corporations have to increase sales further to meet earnings expectations.

6. S&P 500 Earning per Share and Sales per Share Growth
(Percent, on a 12-month trailing basis)

Sources: Haver Analytics; I/B/E/S; J.P. Morgan Chase & Co.; and IMF staff estimates.
Note: Based on a standard three-stage dividend discount model.

Sources: Standard & Poor’s; and IMF staff calculations.
Note: Long-term averages are from 1954 for Shiller and 1-year trailing P/E, and from 1985 for 1-year forward P/E. P/E = price-to-earnings.

Sources: Standard & Poor’s; and IMF staff calculations.

Sources: Dealogic; Federal Reserve; and IMF staff calculations.

Sources: Standard & Poor’s Blue Chip Survey; and IMF staff estimates.
Note: Projected earnings per share growth is based on market expectations compiled by S&P. Projected sales per share growth is derived from expected GDP growth from Blue Chip Survey.