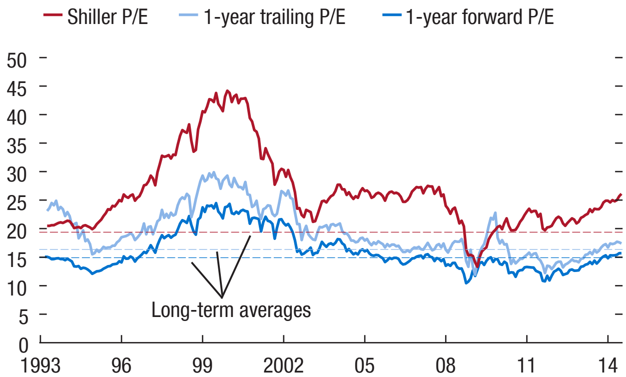
Figure 1.12. United States: Equity Market Fundamentals

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

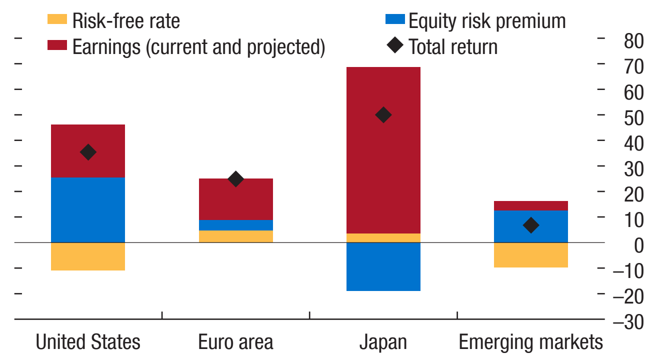
1. S&P 500 Price-to-Earnings Ratio



Sources: Haver Analytics; I/B/E/S; 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.

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

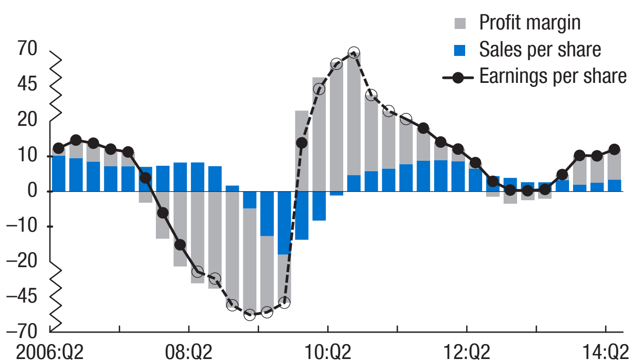
2. Decomposition of Equity Performance
(Percent contribution from December 2012 through July 2014)



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.

Earnings have been boosted by rising profit margins...

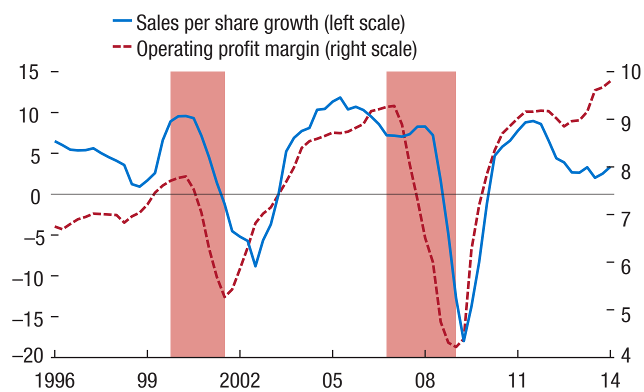
3. Decomposition of S&P 500 Earnings per Share Growth
(Percent, on a 12-month trailing basis)



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

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

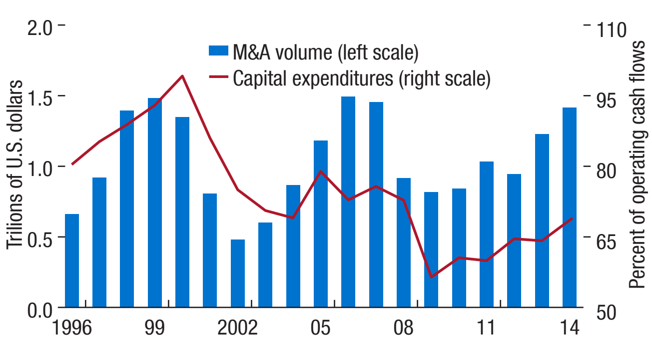
4. S&P 500 Sales per Share Growth and Profit Margin
(Percent, on a 12-month trailing basis)



Sources: Standard & Poor's; and IMF staff calculations.
Note: Pink bars indicate National Bureau of Economic Research recession dates.

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

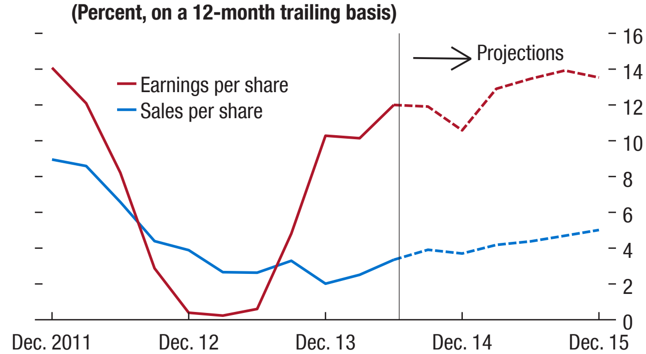
5. M&A and Capital Expenditures by U.S. Companies



Sources: Dealogic; Federal Reserve; and IMF staff calculations.
Note: Capital expenditures as of 2014:Q2. M&A volume for 2014 annualized as of 2014:Q2. M&A = mergers and acquisitions.

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: 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.