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SUMMARY*

THE following figures are derived from the reports of a sample of some 700 small and medium-size corporations for the three years 1927-29.

I AVERAGE RATE OF EARNINGS

The average rate of earnings on total net assets as reported for all the corporations in the sample, for the entire period 1927-29, was 8.4 per cent; the average profit rate on stockholders' equity was 9.2 per cent. The average rate of earnings for all corporations was fairly stable from year to year: the rate earned on total net assets rose from 8.2 per cent in 1927 to 8.8 in 1928, and then declined to 8.0 in 1929.

II VARIATION IN EARNING RATES

As measured by both standards, average rate of earnings on total net assets and average rate on stockholders' equity, manufacturing corporations were more profitable than trading corporations; the three-year average rate of earnings on total net assets was 9.2 per cent for manufacturing companies as against 6.3 per cent for trading concerns. For manufacturing 1928 was the best year of the period covered, although there was no great variation between years as meas-

* Mr. Solomon Fabricant of the National Bureau staff was primarily responsible for the preparation of this summary.

ured by either standard. For trading, as measured by earnings on stockholders' equity, 1927 was by far the best year, and by both standards there was a decided falling-off in 1929. Among the main fields less adequately represented in the sample, corporations engaged in construction showed the highest average earning power, 11.4 per cent on net assets for the entire period; concerns engaged in real estate and finance showed the lowest earning power, 4.5 per cent. Service corporations averaged 11.1 per cent on assets; companies in the extractive industries averaged 10.0 per cent. Earning power on stock equity was higher than on total net assets in all fields except extraction and construction.

Within major industrial groups the variations in average earning rates were wide, ranging from 2.8 per cent on net assets for the three years in lumber manufacturing to 14.9 per cent in the processing of miscellaneous food products, and from 3.9 per cent in the distribution of fruits, vegetables, dairy products, etc., to 8.6 per cent earned by cotton and wool merchants. The changes in average earnings from year to year in the subgroups were often erratic, owing in part to the smallness of the samples. The fluctuations were in general more marked in trading than in manufacturing corporations.

The dispersion of earning rates was found to differ from group to group, but in all cases there was a marked clustering about the average. The range was less in the trading field than in manufacturing. The dispersion was greater for earnings on equity than on total net assets. Taking the three-year average for 'all companies' into consideration, the range from 2 to 10 per cent includes over half the companies. There was some change in the degree of variation from year to year, in major divisions as well as in subgroups.

It was found that on the average those concerns with assets between \$50,000 and \$200,000 earned a higher rate of return on total assets during 1927-29 than did smaller or larger corporations. For this medium-size group the return averaged 9.6 per cent for the three years. Within subgroups there were no consistent differences in earning rates between large and small corporations. In the manufacturing field, smaller companies showed higher rates of return than did larger companies in 16 out of 28 subgroups. In the trading field, the situation was the reverse in 10 out of 15 sub-groups.

The earnings on both total stock equity (including preferred stock as well as common stock and surplus) and common stock equity of the companies with preferred stocks were somewhat less than those of companies with common stock only. Further, there is only slight indication that the use of preferred stock increased the rate earned by common, 134 companies with preferred stock outstanding earning more on total stock than the preferred dividend rate, and 122 earning less. However, examination of a longer period and of a larger sample is necessary to measure the effect on the common stock equity of the issue of preferred stock.

III SOURCES OF CAPITAL (OTHER THAN SURPLUS)

Only 13 per cent of all the companies examined had liabilities greater than the stock equity; the average amount of net assets covered by liabilities was under 30 per cent. The ownership ratio for trading corporations was less than that for manufacturing; real estate and financial corporations had the lowest ownership ratio among the major divisions represented. The existence of preferred stock seemed to have no bearing on the amount of liabilities relative to net assets.

As would be expected, the preferred stock issues which represented a relatively small fraction of total assets were found to be more secure as to dividends than those representing a relatively large interest. Of companies financing over 20 per cent of net assets with preferred stocks the larger companies appeared to have the sounder preferred issues. This is indicated by the fact that for these companies 72 per cent of the preferred dividends had been paid, as against 55 per cent in the case of the smaller concerns.

IV DIVIDEND POLICIES AND CORPORATE SAVINGS

Dividend payments on common stock were generally irregular. Of 699 corporations, 256 paid no dividends during 1927-29, 65 paid in one year only, 100 in two years only, and only 278 paid dividends in all three years. This situation prevailed in spite of the fact that most of the corporations had earnings available for distribution. In the three years covered, in fact, only 57 per cent of earnings available for common stock was distributed in the form of dividends. In general, companies with preferred stock paid less on common than did other corporations.

Earned surplus (exclusive of surplus capitalized through stock dividends) accounted, on the average, for over 30 per cent of total stock equity.

V DIFFERENCES IN OTHER OPERATING AND FINANCIAL CHARACTERISTICS

The typical (median) ratio of current assets to current liabilities among manufacturing corporations included in the sample was close to 4:1, while among trading corporations it was about 3:1. In both groups there was considerable variation in this ratio, but rather less among trading than among manufacturing corporations.

Inventories constituted 26 per cent of net book assets of manufacturing corporations, and 29 per cent of assets of trading corporations. The average stock-turnover ratio (as measured by the median figure for sales relative to inventory) varied from 2:1 in lumber manufacturing to 50:1 in ice cream and other dairy products, and from 3:1 in jewelry trading to 28:1 in the marketing of fruits and vegetables.

Operating ratios (ratio of all expenses except interest and taxes to sales) were more concentrated about the average in the trading field than in manufacturing. They were higher in the former, the median figure among trading corporations being about 97 per cent, while among manufacturing corporations the corresponding ratio was around 94 per cent.