Economic Review

How Much Have Record Corporate Profits Contributed to Recent Inflation?

by: Andrew Glover, José Mustre-del-Río and Alice von Ende-Becker

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Firms raised markups during 2021 in anticipation of future cost pressures, contributing substantially to inflation.

Inflation reached a 40-year high in 2021 and continued to climb in 2022. Record corporate profits received significant public attention as a potential explanation for high inflation. Although corporate profits and inflation do not have a direct accounting relationship, inflation is directly affected by growth in the markup, or the ratio between the price a firm charges and the firm's current marginal cost of production. Thus, the sum of the growth in the marginal cost of production and the growth in the markup is the inflation in a firm's price. Markups can change over time for many reasons, including firms' expectations for their marginal costs in the future.

Andrew Glover, José Mustre-del-Río, and Alice von Ende-Becker present evidence that markup growth was a major contributor to inflation in 2021. Specifically, markups grew by 3.4 percent over the year, whereas inflation, as measured by the price index for Personal Consumption Expenditures, was 5.8 percent, suggesting that markups could account for more than half of 2021 inflation. However, the timing and cross-industry patterns of markup growth are more consistent with firms raising prices in anticipation of future cost increases, rather than an increase in monopoly power or higher demand.

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Authors



Andrew Glover

Research and Policy Advisor

Andrew Glover is a research and policy advisor in the economic research department at the Federal Reserve Bank of Kansas City. His research studies labor and credit markets from a macroeconomic perspective. Prior to joining the Federal Reserve of Kansas City, Mr. Glover was an assistant professor of economics at the University of Texas at Austin. He earned his PhD from the University of Minnesota in 2011.



José Mustre-del-Río

Research and Policy Officer

José Mustre-del-Río is a Research and Policy Officer at the Federal Reserve Bank of Kansas City. He joined the Economic Research Department in August 2011. Prior to joining the department, José received B.S. degrees in economics and applied mathematics from Ohio State University, and M.A. and Ph.D. degrees in economics from the University of Rochester. José's main areas of research are in macroeconomics, labor economics and computational economics.