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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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.

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I joined the Kansas City Fed after graduating from Trinity University with BA degrees in economics, mathematics, and art history and a minor in medieval and renaissance studies. At the bank, I support Johannes Matschke and Peter McAdam with their research and policy work regarding international macroeconomics, differences in consumption patterns, and financial frictions. Working on these projects provides me with the chance to work with important datasets and assist in relevant research. Additionally, through my collaborations with the economists I am able to strengthen my own knowledge and research capabilities, providing me with valuable skills that will prepare me for future plans. Furthermore, even during a remote work environment, the opportunity to attend presentations by the research staff has proven to be a great resource for further learning and exposure to economic ideas that allow me to explore and develop my own interests.