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How Much Have Record Corporate Profits Contributed to Recent Inflation?

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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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