

Inflation Revelation: How Outsized Corporate Profits Drive Rising Costs

As Their Cost of Doing Business Comes Down, Corporations Pad Their Bottom Lines on the Backs of Consumers

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Inflation has come down significantly from its peak over the past year, yet prices remain high for American consumers. From housing and groceries to car insurance and electric bills, families are still feeling the squeeze. In the wake of the pandemic, virtually every company in every industry faced rising costs to make products and stock shelves. Labor costs rose sharply, the cost of transporting goods across the country hit record highs, and raw materials became costly or impossible to get. Corporations were quick to pass rising costs – and a little extra – on to consumers, fueling rapid inflation.

As supply chain snarls have receded and the economy has stabilized, businesses continue to pad their bottom lines, rather than passing these savings on to consumers.

Corporate Profits Are Driving More Than Half of Inflation

Some economists and pundits have sought to discredit the link between inflation and corporate profiteering. A Washington Post columnist recently [claimed](#) that blaming inflation on corporate profiteering is like saying, “it’s raining because water is falling from the sky.” But this isn’t true. Prices are simply the sum of costs and corporate profits.

While rising costs of inputs can drive up what Americans pay at the gas pump or the grocery store, corporate profits can just as easily.

As corporations have lamented supply chain woes and higher labor costs over the past two years, their profits have skyrocketed, fueling inflation and exacerbating a longstanding affordability crisis.

Some economists [suggested](#) that markup growth in 2021 was primarily driven by corporations raising prices in anticipation of future cost increases. However, corporate profit margins have remained high – and even grown – as labor costs have stabilized, nonlabor input costs have come down, and supply chain snarls have eased.

While labor and nonlabor input costs have played a role in price increases, **corporate profits drove 53 percent of inflation during the second and third quarters of 2023** and more than one-third since the start of the pandemic. Comparatively, over the 40 years prior to the pandemic, they drove just 11 percent of price growth.

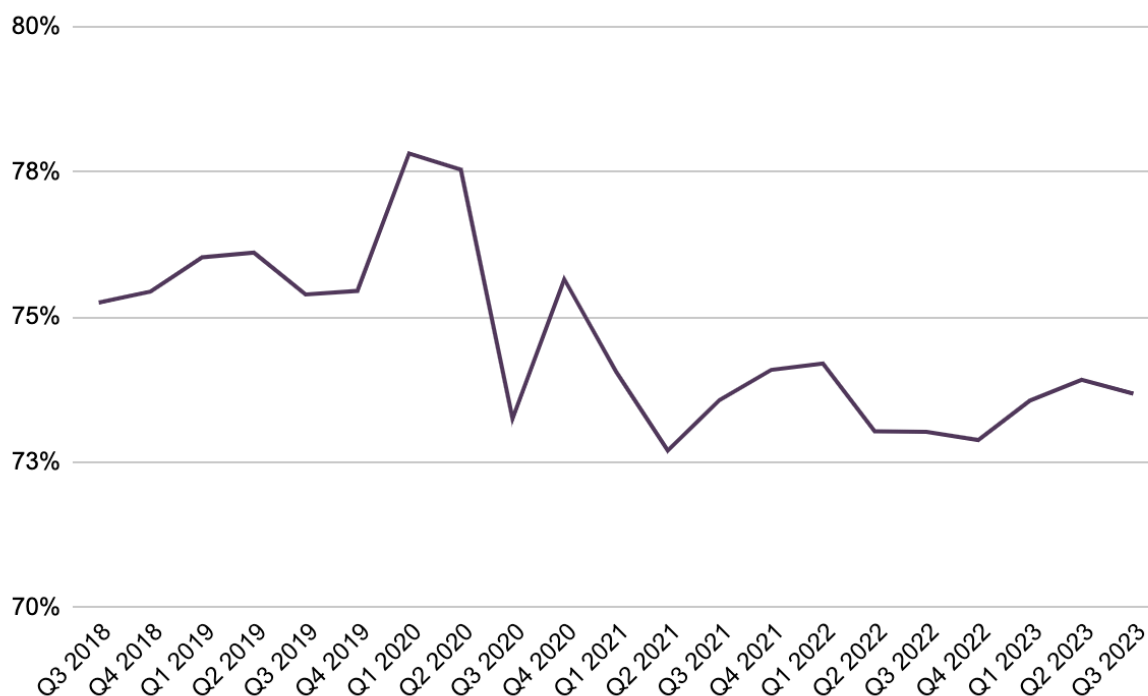
Table 1. Contributions to Price Increases

	Since 2019	Since 2020	Since 2021	Q2-Q3 2023	Q3 2023
Labor contribution	54%	45%	53%	73%	50%
Nonlabor contribution	12%	25%	25%	-27%	-33%
Profits contribution	34%	30%	21%	53%	83%

Source: Bureau of Economic Analysis, National Income and Products Accounts, Table 1.15, Author's Calculations

Corporate profits as a share of national income has skyrocketed by 29 percent since the start of the pandemic. While our economy has returned to or surpassed its pre-pandemic levels on many indicators, **workers' share of corporate income has still not recovered.**

Figure 1. Labor's share of income has declined even as corporate profits hover around record highs.



Source: Bureau of Economic Analysis, National Income and Products Accounts Tables 1.14 and 6.16D, Author's Calculations

As White House National Economic Council Director Lael Brainard has [noted](#), "Overall, the labor share of income has declined over the past two years and appears to be at or below pre-pandemic levels. While corporate profits as a share of GDP remain near postwar highs."

Economist Isabella Weber has [pointed](#) out that corporations are [keeping prices high](#) even as post-pandemic and Ukraine War supply chain pressures ease and wage growth slows. Why? Because they can.

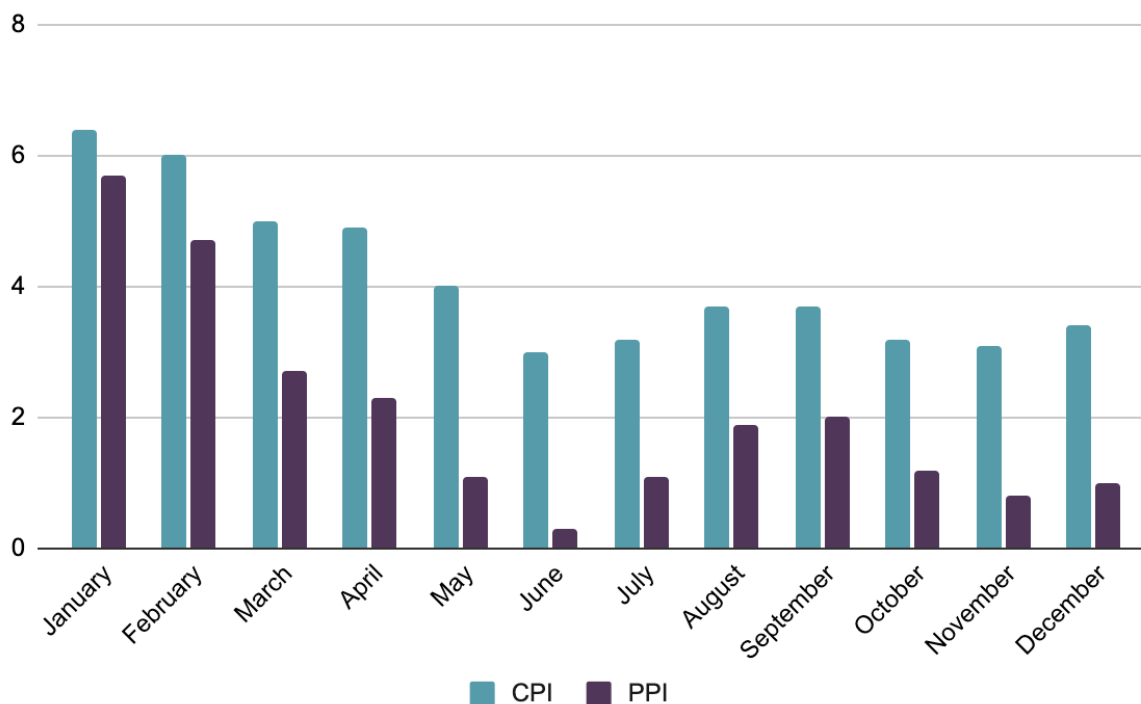
Weber argues that supply shocks allowed corporations to tacitly collude, hike prices, and rake in record profits. This type of inflation, where corporations raise prices to protect – and even increase – their profit margins, allows prices to rise faster than the costs to make goods or provide services. When corporations pursued this opportunistic pricing strategy, they found a lot of space to increase prices, drive up profits, and see very little dropoff in demand.

Though inflation has eased, prices remain tremendously elevated from their pre-pandemic levels. Housing costs, for example, are up 21 percent, and grocery costs have risen by 25 percent.

Consumer Prices are Rising Much Faster Than Corporations' Input Costs

While prices for consumers have risen by [3.4 percent](#) over the past year, input costs for producers have risen by just [1 percent](#). For many commodities and services, producers' prices have actually decreased.

Figure 2. 12-Month Change in Consumer (CPI) and Producer (PPI) Price Indices in 2023.



Source: Bureau of Labor Statistics, Consumer Price Index, Table 5; Producer Price Indexes, Table A

Input costs for key goods and services have sharply decreased over the past year. For example, nearly [60 percent](#) of the drop in input goods prices was driven by large declines in energy costs, such as jet fuel and diesel fuel. Transportation and warehousing costs, which many corporations have cited as a main driver of price increases, have come down by [nearly 4 percent](#) since peaking in June 2022.

These input costs are critically important for corporations' balance sheets. As costs go down but revenue stays high because of higher sticker prices, corporate profit margins expand on the backs of American consumers.

One prime example of this is the diaper industry, which is highly concentrated – Procter & Gamble Co. (P&G) and Kimberly-Clark Corp. control [70 percent](#) of the domestic market. Diaper prices have increased by more than [30 percent](#) since 2019 from, on average, \$16.50 to nearly \$22. Wood pulp is a major input in diapers and other paper products, like toilet paper and paper towels. Wholesale wood pulp prices soared by [87 percent](#) between January 2021 and January 2023. Yet between January and December 2023, prices declined by [25 percent](#).

Using their pricing power, P&G and Kimberly-Clark have kept diaper prices high for American families, allowing their profit margins to expand considerably. In P&G's [October 2023 earnings call](#), its CFO, Andre Schulten, said that high prices were a big driver of profit margin expansion and 33 percent of their profits in the previous quarter were driven by lower input costs. **During P&G's [July 2023 earnings call](#), the company predicted \$800 million in windfall profits because of declining input costs.** In Kimberly-Clark's [October 2023 earnings call](#), CEO Mike Hsu said the company "finally saw inflection in the cost environment" and admitted that he believes the company has "a lot of opportunity to [expand margins over time] between what [they're] doing on the revenue side and also on the cost side." Despite these large input cost declines, Hsu said he thinks the company has "priced appropriately" and did not anticipate any price deflation.

The diaper industry is just one example of corporations exploiting their pricing power to expand margins as input costs normalize. The same is true for many consumer goods, including new and used cars, groceries, and housing.

Corporations Have Bragged About Their Ability to Raise Prices

Over the past two years, corporations have been explicit about how they've exploited their pricing power, and how they have and will continue to do so even as inflation comes down.

- General Mills [attributed](#) their 16.5 percent increase in profits in FY 2022 to "getting smart about how [they] look at pricing."
- [PepsiCo](#) raised its prices across snacks and beverages by roughly 15 percent during each of 2022Q4 and 2023Q1 as it increased its margin. CFO Hugh Johnson [said](#) they "may, in fact, increase margins during the course of the year" as costs decrease and prices remain elevated.
- The CEO of [Holcim](#), a construction materials manufacturer, said on a recent earnings call, "We are in that inflationary environment already for almost two years now...We have done the pricing in a very proactive way so that our results aren't suffering. On the contrary, they are improving the margins."
- Profit margins for [AutoNation's](#) finance and insurance segment have increased by 7 percent as they continue to hike margins with new fees and increased prices for customers, even while products don't improve.
- Carvana notes that it decreased its non-vehicle retail costs by nearly \$1,000 per car, driving [huge margin increases](#) (30 percent) even as used car costs remain elevated. Used car prices remain elevated and are up nearly 40 percent.

Conclusion

In the wake of the pandemic, consumer demand rebounded and supply chains struggled to keep up as a result of decades of disinvestment and offshoring. Goods became more expensive to make and transport, and tighter labor markets delivered long-overdue wage increases for workers. As businesses' costs went up, they jumped on the opportunity to pass on rising costs to consumers and have continued squeezing American's pocketbooks for more. Now that their costs have stabilized – or, in many cases, come down significantly – it's time for companies to stop gouging consumers.

The Biden administration is taking steps to strengthen global supply chains and onshore manufacturing, crack down on corporate concentration that has enabled corporations to put consumers through the wringer, and eliminate junk fees. President Biden [said last month](#), “To any corporation that has not brought their prices back down — even as inflation has come down, even [as] supply chains have been rebuilt — it's time to stop the price gouging.” The Consumer Financial Protection Bureau, the Federal Trade Commission, and the Department of Justice continue to dust off authorities not touched in decades to rein in corporate profiteering and concentration.

As Congress turns to expiring provisions from the 2017 Trump tax cuts over the next year, they must take a hard look at the corporate tax rate. Our tax code should support a robust and equitable economy, not incentivize profiteering.

The fundamental question we need to ask ourselves is whether we want an economy where corporations can exploit pandemics, supply chain crises, and wars at the expense of American workers and families, or an economy where corporations are put in check, allowing everyone to thrive?