

# How widespread has the rise in unit profits been?

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In an earlier post on this blog, the decomposition of GDP inflation (year-on-year increases in the GDP deflator) into contributions from unit profits, unit labour costs and unit net taxes across a range of OECD economies was discussed, drawing on an exercise described in the most recent OECD Economic Outlook (OECD, 2023). While informative, the economy-wide picture of unit profits leaves open the policy-relevant question of whether the increase in profits has been widespread across the economy or concentrated in only a few industries.

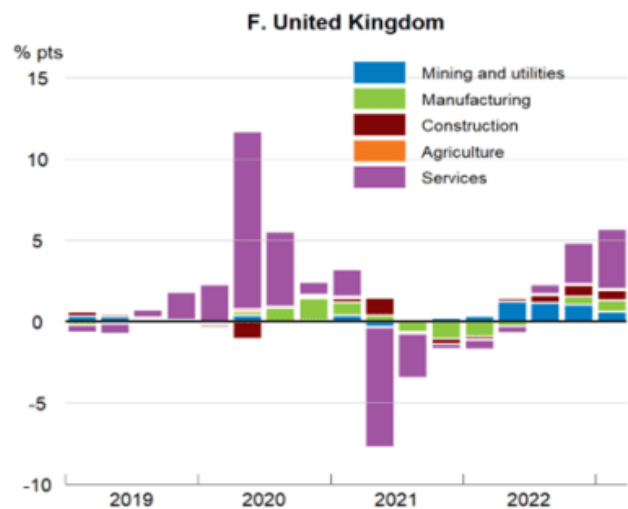
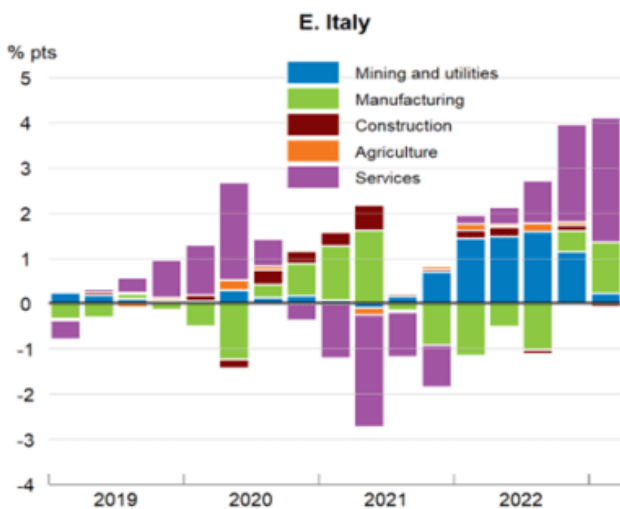
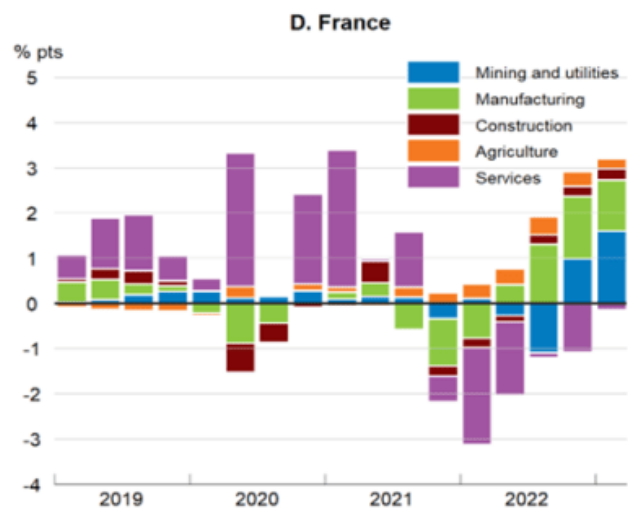
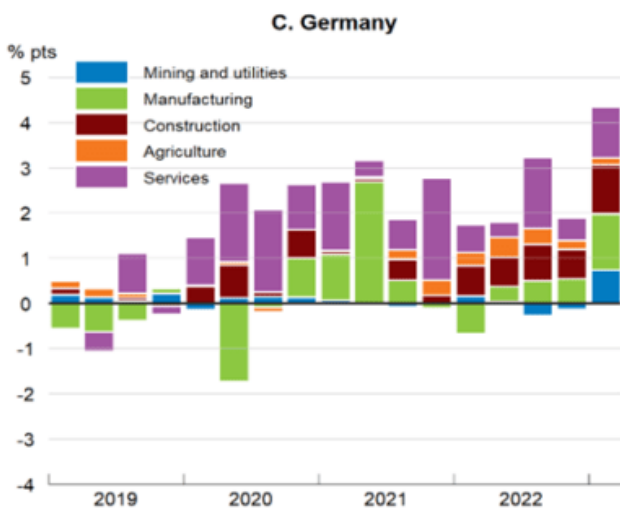
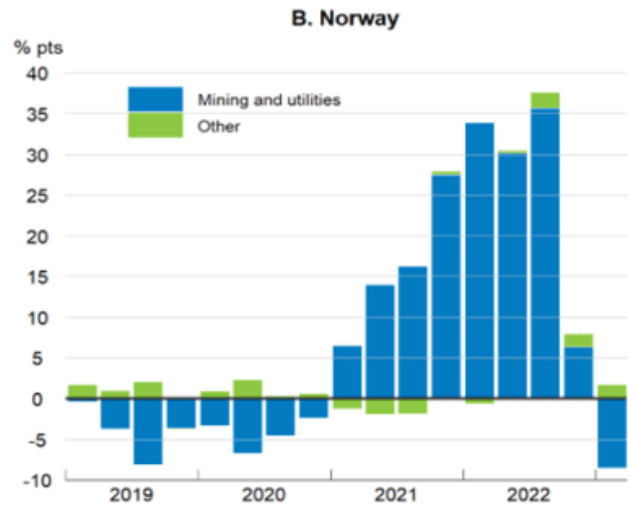
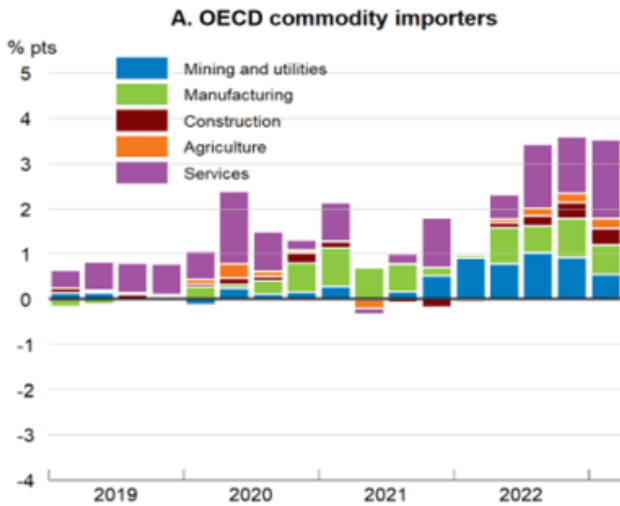
To get insights about where and by how much profit margins may have increased as inflation rose, information is needed on how an economy-wide increase in profits is distributed across firms. One approach is to use firm-level data. The evidence from this work is mixed. Colonna *et al.* (2023) find that margins rose in the United States and in non-tradeable sectors in Germany, and returned to pre-pandemic levels in Italy after an earlier decline. Weber and Wasner (2023), using US firm-level data, argue that rising prices after the first phase of the COVID-19 pandemic were mainly the result of market power and implicit agreements between large firms. In contrast, Glover *et al.* (2023) suggest that the rise of mark-ups in the United States during 2021-22 was due to firms anticipating future cost increases rather than an increase in monopoly power or higher demand. And Bijmens *et al.* (2023) find no evidence of a widespread opportunistic raising of profit margins in 2022 among firms in Belgium.

Another possible angle is to look at profits by sector. Doing

this for the 13 OECD commodity-importing economies that produce timely data on a comparable basis, and computing unit profit as value added minus labour compensation, suggests that a disproportionate part of the observed increase of unit profits in 2022 came from mining and utilities: that is, mining and quarrying together with electricity, gas and water supply (Figure 1, Panel A). This sector accounts for only about 4% of the average economy but more than 40% of the rise of unit profits in 2022 as a whole in this group of commodity-importing countries. For these countries, this likely corresponds mainly to electricity and gas supply, including renewable electricity producers, who did not suffer from higher costs as fossil fuel prices soared, but benefited from higher retail prices. On the other hand, this effect was far from uniform across countries. Neither Germany nor France (Panels C and D of Figure 1) had a large increase in mining and utilities unit profits until late in 2022 or early 2023, when fossil fuel prices were turning down. In the case of the United Kingdom (Panel F), most of the increase in unit profits' contribution to GDP inflation from negative values in early 2021 to above 5% in the fourth quarter of 2022 corresponded to a swing in unit profits in services, although other sectors, including mining and utilities, also contributed.

**Figure 1. Mining and utilities account for a substantial share in the increase in unit profits**

Contribution of unit profits to year-on-year GDP inflation



Note: Unit profits based on estimated sectoral gross operating surplus in current values. The latter is computed as sectoral output minus sectoral compensation and an estimate of unit taxes (based on the value at the macroeconomic level in percent of GDP applied to sectoral GDP) and reconciled so that

the sum across sectors equals the macroeconomic level. OECD commodity importers correspond to a simple average of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom.

Source: OECD Quarterly National Accounts database; and OECD calculations.

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On a quarterly basis, the contribution of other sectors to the rise of unit profits in the group of commodity-importing countries as a whole gradually increased through 2022 and into the first quarter of 2023, with stronger effects from both services and (through end-2022) manufacturing. Considering the small share of agriculture in the economy (less than 2% for the euro area), the contribution of unit profits in this sector to the overall unit profit contribution to GDP inflation is also notable. Thus, while the increase in unit profits (and thus the contribution to inflation) has been widespread across sectors in commodity-importing OECD economies, and while the details vary significantly across individual countries, the disproportionate rises in mining, utilities and agriculture suggest some strong sector-specific effects.

Among OECD commodity exporters, there is only one country, Norway, with the necessary sector data on a comparable basis, so this is the only source of information on sectoral developments of unit profits for this group of countries. As expected, the bulk of the large increase in unit profits in Norway in 2022 came from mining and utilities (Figure 1, Panel B), with the contribution of unit profits to GDP inflation plummeting from 2022Q4 because of the global fall in energy prices.

Overall, there is evidence from available cross-country sectoral profit data that the surge in energy prices and the

associated increase in the profits of energy and utility providers over 2021-22 played an important role in the widespread rise in the aggregate contribution of unit profits to GDP inflation. The strong rise in international food commodity prices also appears to have helped push up unit profits in agriculture in many countries, although the small size of that sector means that the impact on economy-wide profits was generally limited. The sectoral data indicate, however, that the size, timing and distribution of the increase in unit profits, and thus of their contribution to GDP inflation, varied quite widely across OECD economies – no single story fits all countries.

## References

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