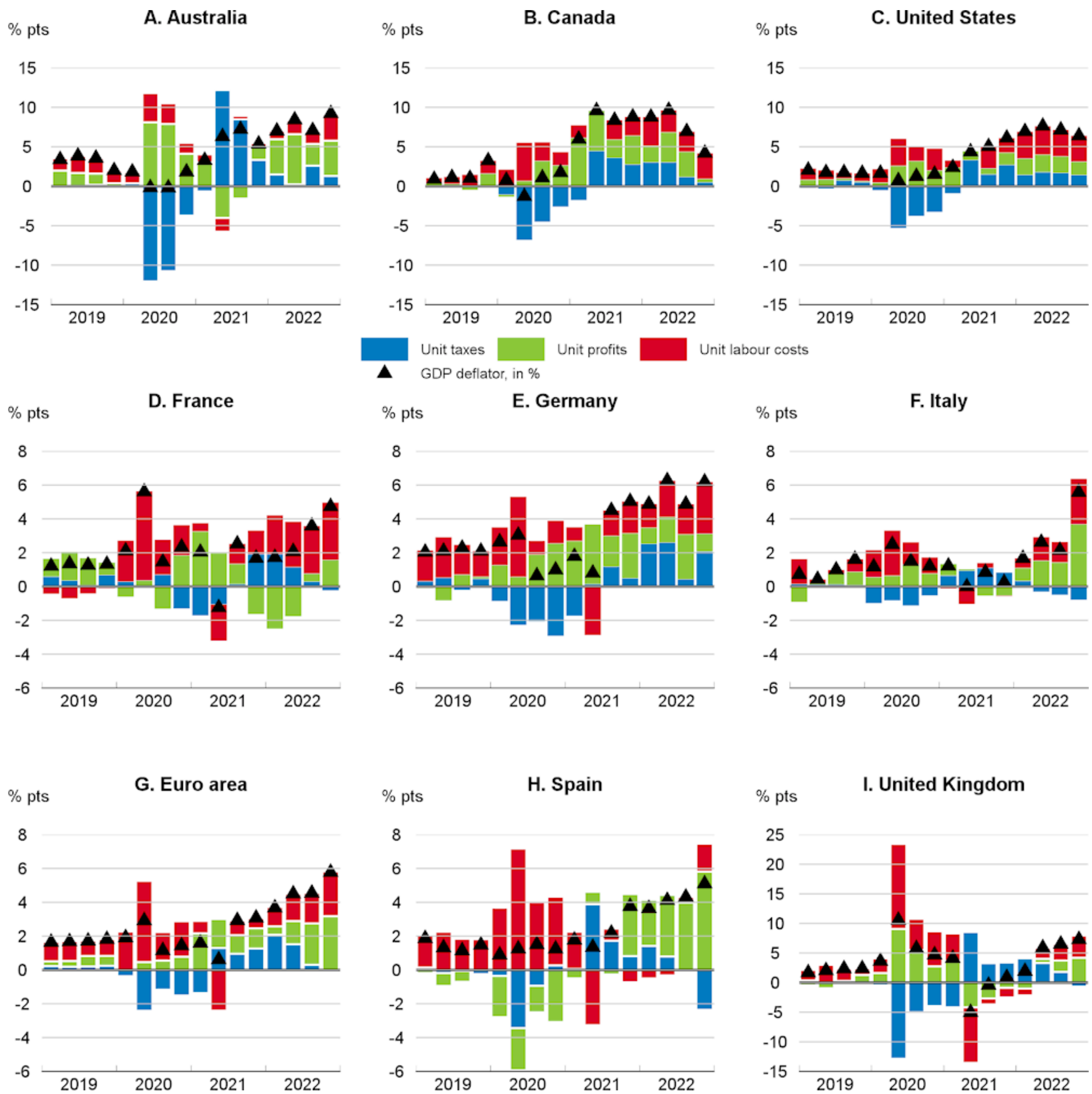


Note: GDP inflation is the rate of change in the GDP deflator at market prices. A small statistical discrepancy between the sum of the components and the GDP deflator is not show Unit taxes correspond to taxes on production net of subsidies per unit of real GDP; unit profits to gross operating surplus per unit of real GDP; and unit labour costs to compensatic employees per unit of real GDP. The published gross operating surplus data include mixed income, which incorporates the income of the self-employed. The calculations in this figu adjust the published gross operating surplus data by allocating part of self-employment incomes to unit labour costs, based on the assumption that the self-employed receive on average the same compensation per head as employees, following Schwellnus et al. (2018).

Source: OECD Economic Outlook 113 database; OECD Quarterly National Accounts database; and OECD calculations.

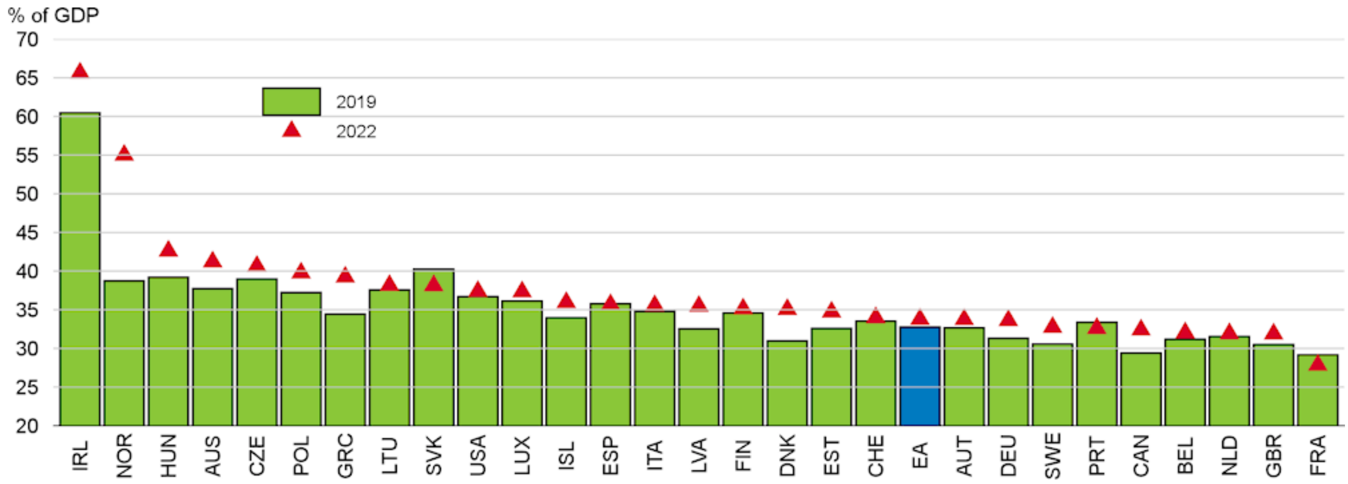
StatLink https://stat.link/hzskal

Evidence on the recent evolution of profit margins is mixed. Colonna et al. (2023) find that margins have risen in the United States and in non-tradeable sectors in Germany, and ret to pre-pandemic levels in Italy after an earlier decline. Weber and Wasner (2023), using firm-level data in the United States, argue that rising prices after COVID-19 were mainly the ı of market power and implicit agreements between large firms. In contrast, Glover et al. (2023), suggest that the rise of mark-ups during 2021-22 was due to firms anticipating futur cost increases rather than an increase in monopoly power or higher demand. A recent review of competition policy and inflation suggests that weaker competition may have contri to the observed rise in cost pass-through and corporate profits (OECD, 2022c).

Indirect evidence that aggregate profitability has risen is provided by the evolution of the share of profits in GDP. In most advanced economies, the ratio of the gross operating surp GDP in 2022 was higher than in 2019 (Figure 1.13), implying that unit profits have risen faster than GDP inflation over this period.

Figure 1.13. The share of gross profits in GDP increased in most countries since 2019

Gross operating surplus



Note: The calculations in this figure adjust the published gross operating surplus data by removing the part of self-employment incomes that is estimated to reflect labour compen rather than profits. This is done using the assumption that the self-employed receive on average the same labour compensation per head as employees, following Schwellnus et al (2018).

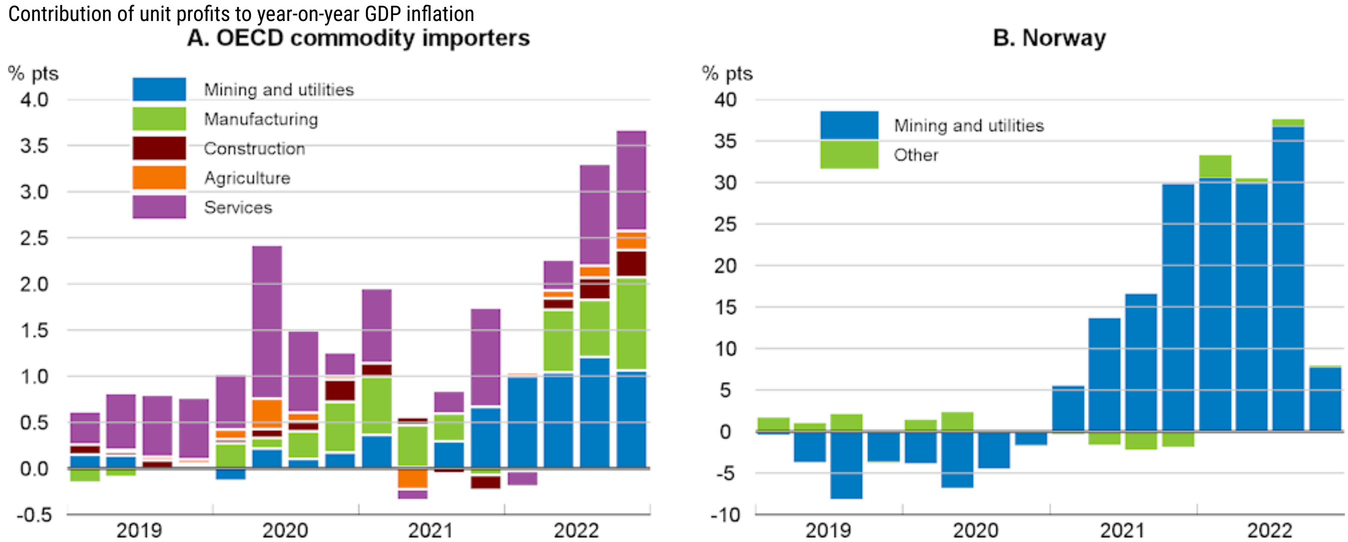
Source: OECD Economic Outlook 113 database; OECD Quarterly National Accounts database; and OECD calculations.

 StatLink https://stat.link/mnvghf

One indication of the extent to which rising aggregate unit profits reflects a broad-based increase in pricing power across sectors is to decompose the change in unit profits by sec Doing this for the 13 OECD commodity-importing economies with an available sectoral breakdown of GDP, and computing unit profit as value added minus labour compensation ar taxes, 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, g and water supply (Figure 1.14, 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. For comm importing countries this likely corresponds mainly to electricity and gas supply, including renewable electricity producers, who did not suffer from higher costs but benefited from h retail prices. On a quarterly basis, the contribution of other sectors to the rise of unit profits gradually increased through 2022, with stronger effects from both manufacturing and services. The relatively small share of agriculture in the economy (less than 2% for the euro area) also masks a relatively large increase of the contribution of unit profits in this sec

Figure 1.14. 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 labour compensation and an esti of unit taxes (based on the value at the macroeconomic level in per cent 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 ar United Kingdom.

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

 StatLink https://stat.link/cahztd

Due to an absence of compensation data by sector for most OECD commodity exporters, only Norway can shed some light on sectoral developments of unit profits for this group c countries. As expected, the bulk of the large increase in unit profits in Norway in 2022 came from mining and utilities (Figure 1.14, Panel B), with the contribution of unit profits to G inflation plummeting in 2022Q4 because of the global fall in energy prices. It is likely that mining similarly accounts for a large share of the rise in unit profits during 2021-22 in oth commodity exporters such as Australia and Canada.

← 1. Diev et al. (2019) use an alternative approach that decomposes core CPI inflation instead of GDP inflation with some additional contributors to inflation (including the terms c trade excluding food and energy) but using the same definition of unit profits and unit labour costs. Haskel (2023) proposes a similar decomposition of headline CPI inflation.