

Macro Roundup Article

Headline: [Big Profits and High Prices: There Is a Connection](#)

Article Link: https://www.wsj.com/economy/corporate-profits-inflation-economy-e66da175?mod=economy_lead_pos1

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Tweet: At 16.4% in Q3 '23, US corporate profit margins have remained elevated relative to the pre-pandemic level of 13.4%. @greg_ip notes prices are up 17%, outpacing both labor and nonlabor costs.

Summary: Between late 2019 and the second quarter of 2022, corporate profit margins shot up to 17% from 13.4%. (These are pretax profits as a share of revenue, minus inputs such as imported parts, and excludes financial companies.) As of the third quarter of 2023, the supply problems had largely been fixed, and profit margins had fallen, but only to 16.4%. Outside the pandemic period, that is the highest since the 1960s. Do higher margins contribute to inflation? Since the end of 2019, prices are up 17%, outpacing both labor and nonlabor costs. The result: Profit grew by 41%. If profits had grown at the same, slower rate as labor costs, that would have translated to a cumulative price increase of only 12.5%, and an average annual inflation rate roughly 1pp lower. Related: Corporate Profits in the Aftermath of COVID-19 and The Curious Incident of the Elevated Profit Margins and The Wealth of Greedflations

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Inflation, Op-Ed/Blog Post

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