



POWER AND PROFITEERING: HOW CERTAIN INDUSTRIES HIKED PRICES AND DROVE INFLATION

STAFF REPORT
November 2022

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
I. SETTING THE SCENE: CONSUMERS IN THE UNITED STATES AND ABROAD HAVE FACED RISING INFLATION SINCE THE REOPENING OF THE ECONOMY IN EARLY 2021	5
II. UNDER THE COVER OF RISING INFLATION, COMPANIES IN CONCENTRATED SECTORS HAVE RAISED PRICES EXCESSIVELY, RESULTING IN RECORD PROFITS AND PROFIT MARGINS.....	6
A. Market Conditions Have Provided the Foundation for Excess Corporate Price Hikes	6
<i>1. Decades of Rising Corporate Concentration Has Provided Corporations the Means to Increase Prices Excessively</i>	<i>6</i>
<i>2. Global Geopolitical Events Including the Coronavirus Pandemic and Putin’s Illegal War in Ukraine Sparked Inflation and Provided an Opportunity for Certain Companies to Increase Prices</i>	<i>7</i>
B. Companies in Concentrated Industries Are Currently Seeing Record Profits and Profit Margins.....	8
III. CERTAIN CORPORATIONS’ STATEMENTS DEMONSTRATE THEIR INTENTION TO RAISE PRICES AS HIGH AS CONSUMERS WILL ALLOW AND KEEP THEM HIGH.....	11
IV. EXCESSIVE PRICE HIKES HAVE CONTRIBUTED TO INFLATION TO THE DETRIMENT OF AMERICAN CONSUMERS	13
V. CONCLUSION	15
ANNEX: ANALYSIS OF COMPANY-LEVEL FINANCIAL DATA	17

EXECUTIVE SUMMARY

The Subcommittee on Economic and Consumer Policy is examining the causes of inflation that has impacted people in the United States and around the world, including the key role played by companies that have hiked prices and increased profits at the expense of American consumers.

On September 22, 2022, the Subcommittee held a hearing titled “Power and Profiteering: How Certain Industries Hiked Prices, Fleeced Consumers, and Drove Inflation,” which examined evidence of the inflationary effects of corporate pricing decisions. This staff report further examines economic evidence about the significant impact that excess corporate price hikes have had on consumer prices.

Recent economic studies and this Subcommittee’s analysis of corporate financial information demonstrate that certain corporate pricing decisions have played a key role in driving inflation, along with supply chain disruptions caused by Russia’s unjustified and illegal war in Ukraine and other factors. In certain concentrated industries, corporations were able to use their market power to raise prices far above any increases in their underlying costs attributable to existing inflation. While this is not the case in every industry, strong evidence demonstrates that excess price hikes by certain corporations are contributing to the current inflation facing the United States.

The Subcommittee’s examination includes the following key findings:

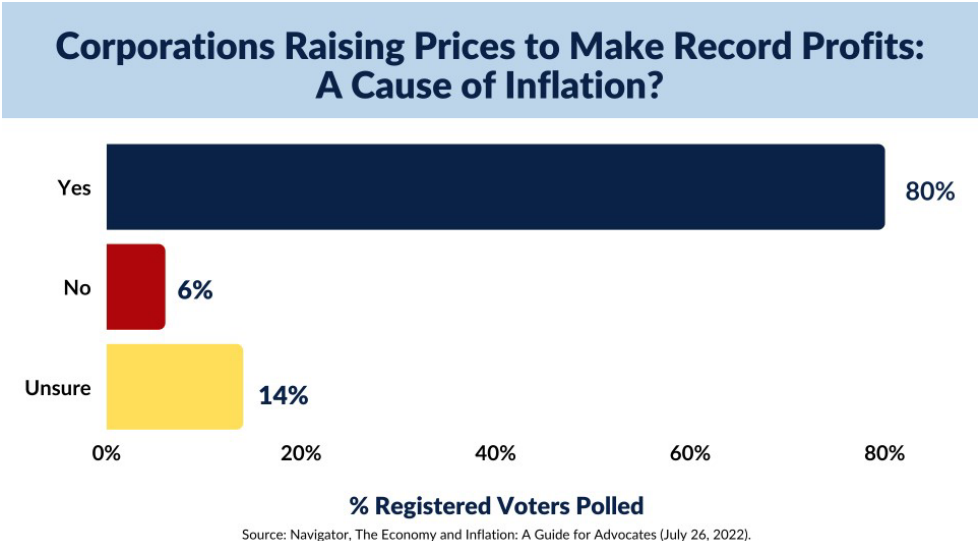
- **Consumer prices began to rise in early 2021 due in part to a strong pandemic recovery and supply chain disruptions.** Prices began to rise in the United States in early 2021 as the economy started to fully reopen due to the widespread availability of coronavirus vaccines and the lifting of pandemic restrictions. Supply chain disruptions—especially following Vladimir Putin’s illegal invasion of Ukraine—account for further inflation, but these factors do not account for all recent price increases.
- **Certain corporations are using the cover of inflation to raise prices excessively, resulting in record profits and profit margins.** Beginning in 2021, certain corporations began enjoying record profits and profit margins—and continue to do so today. The Subcommittee’s analysis of financial information from a sampling of the largest corporations in several industries shows massive increases in profits between 2019 and 2021:
 - Three of the five largest companies in the **shipping** industry saw profits rise by 29,965%;
 - The two largest public companies in the **rental car** industry enjoyed a profit increase of 597%;

- Four of the largest public companies in the **meat processing** industry saw profits go up by 134%; and
- Four of the ten largest public companies by market cap in the **oil and gas** industry had profits rise by 62%.

Over the same period, profit margins increased by 201% among the companies analyzed in the shipping industry, by 262% among the companies analyzed in the rental car industry, and by 53% among the companies analyzed in the meat processing industry.

- **Corporate statements confirm that certain corporations are seeking record profits.** Statements from corporate executives in certain industries show they are exploiting news about inflation to raise prices even more than necessary to cover costs. For example:
 - “[A] little bit of inflation is always good in our business.” (Kroger, June 18, 2021)
 - “[W]e’re actually pricing to recover all of those inflationary impacts, just as we’ve done in the past. So you’ve seen us move retail prices up. As inflation has moved up mid-single digits, our pricing has moved. ... And as I’ve said before, inflation has been a little bit of our friend in terms of what we see in terms of retail pricing. [F]ollowing periods of higher inflation, our industry has historically not reduced pricing to reflect lower ultimate cost.” (Autozone, May 25, 2022)
 - “[O]ur total pricing actions are forecasted to more than offset raw material and delivery cost increases. We are closely monitoring supply costs and other inflation, and we’re prepared to implement further increases as necessary. ... [W]e don’t reduce prices on the back end of these increases [in underlying costs].” (HB Fuller, June 23, 2022)
- **Recent economic studies make clear that record corporate markups, profits, and profit margins contributed to—and continue to contribute to—ongoing inflation.** Studies by the Economic Policy Institute and Roosevelt Institute demonstrate that profits contributed more to price growth in the United States from mid-2020 through the end of 2021 than at any other point from 1979 to the present—and continue to contribute markedly today. This is especially true in highly concentrated industries.
- **The American people—echoing the economic data and statements from corporate leaders—recognize that corporate pricing decisions are**

contributing to inflation. A recent poll found that 80% of registered voters view corporations “raising prices to make record profits” as a cause of inflation:



This staff report examines these findings in greater detail. **Section I** discusses the global geopolitical and economic context that initially gave rise to recent increases in inflation. **Section II** explores how corporations, especially those in certain concentrated sectors, have raised prices to record high levels under the cover of already-existing inflation, making record profits and widening their profit margins in the process. **Section III** highlights certain corporations’ public statements demonstrating their intent to raise prices under the cover of inflation more than necessary to offset increased costs—and to keep them high even as their costs decrease. **Section IV** analyzes recent prominent studies and hearing testimony showing that excessive price hikes have contributed to inflation and allowed it to remain high to the detriment of American consumers, especially traditionally marginalized communities.

I. SETTING THE SCENE: CONSUMERS IN THE UNITED STATES AND ABROAD HAVE FACED RISING INFLATION SINCE THE REOPENING OF THE ECONOMY IN EARLY 2021

Inflation in the United States reached a high of 9.1% earlier this year and continues to hover around 8.2%.¹ Traditional supply-and-demand factors exacerbated by external shocks—including the coronavirus pandemic and the recent war in Ukraine—have contributed to rising inflation.

On the demand side, American households accumulated \$2.5 trillion in cumulative excess savings compared to pre-pandemic trends between March 2020 and January 2022 due to reduced spending during the coronavirus pandemic health-and-safety closures and federal support.² When the economy began to open more fully in the spring of 2021 after the mass rollout of coronavirus vaccines, consumers channeled their savings into more robust spending on goods, thereby increasing demand.³

On the supply side, a weakened global supply chain induced, in part, by pandemic-related company shutdowns, has struggled to keep pace with strong consumer demand for goods. The ongoing war in Ukraine has contributed to this trend. Prominent economists have estimated that the supply chain disruptions resulting from the pandemic and the war in Ukraine account for a majority of U.S. inflation.⁴

These factors, however, do not provide a complete explanation for the higher prices American consumers have experienced over the past two years. Excess corporate price hikes are another factor, and one that has not received enough attention. Americans overwhelmingly recognize this. In a poll that Navigator Research released in July 2022, 80% of Americans from across the political spectrum identified corporations “raising prices to make record profits” as a cause of inflation.⁵

¹ Bureau of Labor Statistics, *Consumer Price Index—September 2022* (Oct. 13, 2022) (online at www.bls.gov/news.release/pdf/cpi.pdf); *US Inflation Hit 40-Year High in June, Driven by Record Gas Prices*, CNN (July 13, 2022) (online at www.cnn.com/2022/07/13/economy/cpi-inflation-june/index.html).

² Mitchell Barnes et al., *Bolstered Balance Sheets: Assessing Household Finances Since 2019*, Brookings (Mar. 22, 2022) (online at www.brookings.edu/research/bolstered-balance-sheets-assessing-household-finances-since-2019/).

³ Institute for New Economic Thinking, *Inflation in the Time of Corona and War* (May 30, 2022) (online at www.ineteconomics.org/uploads/papers/WP_185-Storm-Inflation.pdf).

⁴ See, e.g., Mark Zandi, *Opinion: Inflation Is Painfully High, but It Should Ease Soon*, CNN Business (June 9, 2022) (online at www.cnn.com/2022/06/09/perspectives/economy-inflation-pandemic-russia-ukraine/index.html).

⁵ Navigator Research, *Four in Five Americans View Corporate Greed as Causing Inflation* (July 26, 2022) (online at <https://navigatorresearch.org/four-in-five-americans-view-corporate-greed-as-causing-inflation/>).

II. UNDER THE COVER OF RISING INFLATION, COMPANIES IN CONCENTRATED SECTORS HAVE RAISED PRICES EXCESSIVELY, RESULTING IN RECORD PROFITS AND PROFIT MARGINS

The Subcommittee's analysis demonstrates that certain corporations—especially those in concentrated industries—have used their market power and the cover of pre-existing inflation to raise prices above and beyond the amount necessary to cover any increased costs, resulting in the highest profit margins the United States has seen in the last 70 years.

A. Market Conditions Have Provided the Foundation for Excess Corporate Price Hikes

1. *Decades of Rising Corporate Concentration Has Provided Corporations the Means to Increase Prices Excessively*

As many distinguished economists have recognized, corporate concentration has increased significantly over the past 40 years.⁶ More than 75% of U.S. industries have become more concentrated over the previous two decades, with one study concluding that U.S. industry concentration has increased by roughly 50% since 2005.⁷ As Nobel Laureate Joseph Stiglitz observed last year, “The concentration of market power has increased enormously in the last 35 years.”⁸ At the Subcommittee's September 2022 hearing, former Secretary of Labor Robert Reich testified: “Since the 1980s, two-thirds of all American industries have become more concentrated. ... [J]ust four companies control 85 percent of meat and poultry processing and four giants control 70 percent of grain. One corporation sets the price for most of the Nation's seed corn. Two firms dominate consumer staples.”⁹ As Dr. Rakeen Mabud, Chief Economist at Groundwork Collaborative, explained during the hearing, this consolidation has provided corporations with the opportunity to make pricing decisions and capture significant market share with little to no pushback.¹⁰

⁶ Joseph Stiglitz Says It's Time to Rewire the U.S. Economy: “We Shouldn't Let a Good Crisis Go to Waste,” CNBC (Sept. 3, 2021) (online at www.cnbc.com/2021/09/03/joseph-stiglitz-says-its-time-to-rewire-the-us-economy-we-shouldnt-let-a-good-crisis-go-to-waste.html); Robert Reich, *How Corporations Are Using Inflation to Take Your Money* (May 31, 2022) (online at <https://robertreich.org/post/685804888044765184>).

⁷ Gustavo Grullon et al., *Are US Industries Becoming More Concentrated?*, Review of Finance (Apr. 23, 2019) (online at <https://academic.oup.com/rof/article/23/4/697/5477414?login=false>); Falk Brauning et al., *Cost-Price Relationships in a Concentrated Economy*, Federal Reserve Bank of Boston (May 23, 2022) (online at www.bostonfed.org/publications/current-policy-perspectives/2022/cost-price-relationships-in-a-concentrated-economy.aspx).

⁸ Joseph Stiglitz Says It's Time to Rewire the U.S. Economy: “We Shouldn't Let a Good Crisis Go to Waste,” CNBC (Sept. 3, 2021) (online at www.cnbc.com/2021/09/03/joseph-stiglitz-says-its-time-to-rewire-the-us-economy-we-shouldnt-let-a-good-crisis-go-to-waste.html).

⁹ Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation*, at Page 7 (Sept. 22, 2022) (online at <https://docs.house.gov/meetings/GO/GO05/20220922/115145/HHRG-117-GO05-Transcript-20220922.pdf>).

¹⁰ *Id.* at Page 12.

2. *Global Geopolitical Events Including the Coronavirus Pandemic and Putin’s Illegal War in Ukraine Sparked Inflation and Provided an Opportunity for Certain Companies to Increase Prices*

Dr. Mabud testified during the hearing:

When prices go up generally, companies are able to raise prices without the consumers understanding how much of that price increase is coming from factors that are happening in the economy and how much of that price increase is coming from [the corporations] just gilding the lily.¹¹

When inflation began to rise with the reopening of the economy in 2021, corporations with outsized market power appear to have used the presence of that inflation—and the fluctuating prices faced by consumers—to raise prices over and above their costs. Put differently, corporations—especially those in highly concentrated industries—had the opportunity to increase prices, often excessively.¹² As Dr. Mabud explained, when only a handful of corporations make up the majority of an industry, “they have an enormous amount of pricing power because of the market share that they hold, and consumers [pay] really high prices at the checkout counter as a result.”¹³ Z. John Zhang, a marketing professor at the Wharton School at the University of Pennsylvania, has also observed this pandemic-era opportunity for corporations to raise prices: “In the inflationary environment, everybody knows that prices are increasing. Obviously that’s a great opportunity for every firm to realign their prices as much as they can. You’re not going to have an opportunity again like this for a long time.”¹⁴

Recent studies of corporate financial data provide quantitative evidence that companies have used pandemic-era conditions to raise their markups (i.e., prices over and above costs) to the highest levels in nearly 70 years.¹⁵ There has never been a greater divergence between companies’ costs and the prices they charge consumers as there was in 2021.¹⁶ Firms with the highest markups before the pandemic—a sign of market power—also had the highest price

¹¹ Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation* (Sept. 22, 2022) (online at <https://oversight.house.gov/legislation/hearings/power-and-profiteering-how-certain-industries-hiked-prices-fleeced-consumers>).

¹² Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation*, at Page 12 (Sept. 22, 2022) (online at <https://docs.house.gov/meetings/GO/GO05/20220922/115145/HHRG-117-GO05-Transcript-20220922.pdf>).

¹³ *Id.* at Page 16.

¹⁴ *Is “Greedflation” Rewriting Economics, or Do Old Rules Still Apply?*, New York Times (June 3, 2022) (online at www.nytimes.com/2022/06/03/business/economy/price-gouging-inflation.html).

¹⁵ Mike Konczal and Niko Lusiani, *Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups*, Roosevelt Institute (June 21, 2022) (online at <https://rooseveltinstitute.org/publications/prices-profits-and-power/>).

¹⁶ *Id.*

increases during the pandemic.¹⁷ The figure below shows changes in price markups from 1955 to 2021 based on an analysis by the Roosevelt Institute:

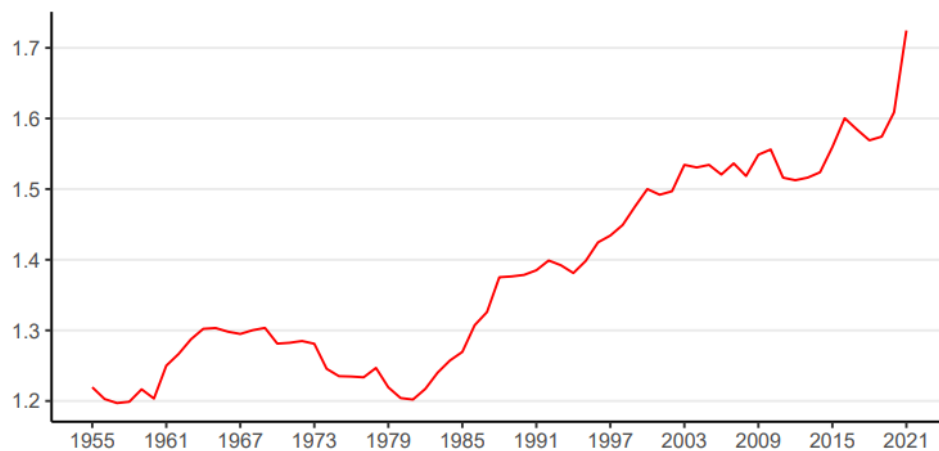


Figure 1: Markups have increased

Source: Mike Konczal & Niko Lusiani, *Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups*, The Roosevelt Institute (June 2022)

Mike Konczal, Director of Macroeconomic Analysis at the Roosevelt Institute, testified before the Subcommittee that his research demonstrated that “high markups from before the pandemic reflected a severe market power problem..., and those companies [in concentrated industries] were able to increase their prices at an even higher pace as a result of the [post-pandemic] reopening.”¹⁸

B. Companies in Concentrated Industries Are Currently Seeing Record Profits and Profit Margins

With prices set so far above costs, some companies—especially those in highly concentrated industries such as ocean shipping, meat processing, energy, and rental cars—have been able to translate these record markups into both record profits and profit margins.

American companies’ operating profit margins before taxes averaged 14.6% from the 1960s to the 1980s, eventually rising to 16.7% during the 2010s.¹⁹ In 2021, pretax profit margins rose 3.2% to 19%—a record annual increase, and more than double the previous record for an annual increase. Net profit margins also reached their highest level on record, jumping to

¹⁷ *Id.*

¹⁸ Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation*, at Page 21 (Sept. 22, 2022) (online at <https://docs.house.gov/meetings/GO/GO05/20220922/115145/HHRG-117-GO05-Transcript-20220922.pdf>).

¹⁹ Mike Konczal and Niko Lusiani, *Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups*, Roosevelt Institute (June 21, 2022) (online at <https://rooseveltinstitute.org/publications/prices-profits-and-power/>).

9.5% in 2021 from an average of 6% in the 2010s and an average of approximately 5.5% from 1960 to 1980.²⁰

This profit dynamic has continued in 2022. The Bureau of Economic Analysis recently reported that corporate profits (excluding companies in the financial industry) during the second quarter of this year, reached the highest level ever recorded.²¹ Likewise, quarterly corporate profit margins over the second quarter of 2022 reached levels not seen since 1950.²²

Data examined by the Subcommittee shows that these economy-wide trends bear out in specific industries and among certain companies.²³ The Annex to this staff report provides an original staff analysis of financial information for a selection of the leading public companies from the ocean shipping, rental car, meat processing, and oil and gas industries. The analysis shows that certain companies have seen their overall profits or profit margins soar in 2021 and into 2022 compared to their pre-pandemic levels, in line with record-high price increases.²⁴

- ***Ocean Shipping.*** The Subcommittee’s analysis demonstrates that three of the five largest ocean shipping companies enjoyed 2021 profits of \$46.6 billion, nearly 300 times greater than in 2019. The companies’ total 2021 revenues increased by 73% over 2019 revenues, even as their operating expenses only increased 18%.²⁵ The companies reported average 2021 profit margins of 43%, a more than 200% increase over 2019 profit margins.²⁶ For the second quarter of 2022, the companies reported average profit margins of 51.9%, a nearly 37% increase over the same quarter last year, and a nearly 279% increase in profit margins over the same quarter in 2019.
- ***Rental Cars.*** The data reviewed demonstrates that the two largest rental car companies with publicly available data enjoyed profits of \$1.7 billion in 2021,

²⁰ *Id.*

²¹ Groundwork Collaborative, *Groundwork’s Chief Economist Reacts to “Astronomical Corporate Profits”* (Aug. 25, 2022) (online at <https://groundworkcollaborative.org/news/groundworks-chief-economist-reacts-to-astronomical-corporate-profits/>).

²² *US Corporate Profits Soar, with Margins at Widest Since 1950*, Bloomberg (Aug. 25, 2022) (online at www.bloomberg.com/news/articles/2022-08-25/us-corporate-profits-soar-taking-margins-to-widest-since-1950).

²³ Data used in this Report and accompanying Annex was compiled based on public information from annual financial reports, regulatory filings, and other documents from each of the named corporations, which represent leading publicly traded companies in their respective industries.

²⁴ For the purposes of this memorandum and Annex, we have compared pre-pandemic 2019 financial statistics to those from 2021 and beyond, when the post-pandemic recovery had begun in earnest. We do not use financial statistics from 2020, which may be artificially depressed due to the effect that pandemic lockdowns had on the economy and, therefore, not representative for comparative purposes.

²⁵ The operating expenses figures references are based on Maersk’s “operating costs,” CMA CGM’s “operating expenses,” and Hapag-Lloyd’s “total operating expenses.”

²⁶ The profit margins referenced are the companies’ EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues.

nearly six times greater than their profits in 2019.²⁷ The companies' total 2021 profit margins increased by nearly 262% compared to 2019.²⁸ In 2021, their rental car prices rose by nearly 31% compared to 2019, even as their 2021 total expenses fell by more than 23% compared to 2019.²⁹ The companies recorded profits of \$1.7 billion in the second quarter of 2022, more than six times greater than the same quarter in 2021, and 16 times greater than the same quarter in 2019. Their rental car prices rose by nearly 50% in the second quarter of 2022 compared to the same quarter in 2019, even as their second quarter total expenses decreased by 29% compared to the same quarter in 2019. For the second quarter of 2022, the companies reported average profit margins of 34.9%, a 330% increase in profit margins compared to the same period in 2019.

- ***Meat Processing.*** The data reviewed demonstrates that four of the largest meat-processing companies with publicly available data recorded profits of \$8.9 billion in 2021, a 134% increase over 2019.³⁰ These companies' 2021 profit margins increased by nearly 53% compared to 2019.³¹ In the second quarter of 2022, the companies reported collective profits of \$2.5 billion, a 19% increase over the same quarter last year, and a 92% increase over the same quarter in 2019.
- ***Oil and Gas.*** The Subcommittee's analysis shows that four of the ten largest oil and gas companies by market cap with publicly available data reported profits of \$70.7 billion in 2021, a nearly 62% increase over 2019 profits.³² These companies reported profits of \$49.5 billion in the second quarter of 2022, a 207% increase over the same quarter last year, and a 261% increase over Q2 2019 profits.

The tables below provide a snapshot of the increases in profits and profit margins (except for oil and gas companies, which do not report profit margins) across these industries based on the Subcommittee's analysis of the financial statements of a selection of the largest publicly

²⁷ The profit figures referenced are Hertz's and Avis's "net income."

²⁸ The profit margins referenced are the companies' EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues.

²⁹ The rental car prices referenced are the companies' average Revenue per Day (RPD) figures. This metric "encompasses the elements in vehicle rental pricing that management has the ability to control." Hertz Global Holdings, Inc., *Press Release: Hertz Reports Second Quarter Results: Revenue of \$2.3 Billion, Net Income of \$940 Million, Adjusted Corporate EBITDA of \$764 Million, Operating Cash Flow of \$708 Million and Adjusted Free Cash Flow of \$484 Million* (July 28, 2022) (online at <https://newsroom.hertz.com/news-releases/news-release-details/hertz-reports-second-quarter-results-revenue-23-billion-net>).

³⁰ The profit figures referenced are based on Tyson's "net income," Marfrig/National Beef's "net profit," JBS's "net income," and Seaboard's "net earnings."

³¹ The profit margins referenced are the companies' EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues.

³² The profit figures referenced are based on Exxon's "net income," Chevron's "net income," BP's "underlying replacement cost profit," and Shell's "adjusted earnings." This Report and Annex use the latter two metrics because they are the most commonly discussed profit metrics in the financial press's coverage of BP and Shell's financial performance.

traded companies in each industry. More detailed tables containing company-specific information are provided in the annex to this staff report.

Table 1: Profits (2019 vs. 2021)

Profits: 2019 vs 2021				
	Ocean Shipping	Rental Cars	Meat Processing	Oil & Gas
2019 Profits	\$155 million	\$244 million	\$3.8 billion	\$43.7 billion
2021 Profits	\$46.6 billion	\$1.7 billion	\$8.9 billion	\$70.7 billion
% Increase	29,965%	597%	134%	62%

Table 2: Profit Margins (2019 vs. 2021)

Profit Margins: 2019 vs 2021			
	Ocean Shipping	Rental Cars	Meat Processing
2019 Profits Margins*	14.3%	7.6%	9.1%
2021 Profits Margins	43%	27.5%	13.9%
% Increase	201%	262%	53%

*Total EBITDA/Revenues

III. CERTAIN CORPORATIONS' STATEMENTS DEMONSTRATE THEIR INTENTION TO RAISE PRICES AS HIGH AS CONSUMERS WILL ALLOW AND KEEP THEM HIGH

Statements by certain corporations further demonstrate that some companies are using the cover of inflation to increase prices and keep them high. At the Committee's September 2022

hearing, Dr. Mabud testified that her organization, Groundwork Collaborative, has been conducting an ongoing study of corporate earnings calls that has demonstrated that “in sector after sector, corporation after corporation, CEOs [chief executive officers] are very forthright that [recent] crises have been really, really good for business.”³³

The following direct statements made by corporate executives during earnings calls confirm that many companies are increasing prices under the cover of inflation and intend to maintain higher prices even when inflationary pressures ease:

- “[A] little bit of inflation is always good in our business.” (Kroger, June 18, 2021)
- “I think we’ve demonstrated a track record of being able to expand margins on the other side of ... these market declines, which we expect to be able to do again.” (Hormel Foods, December 9, 2021)
- “[W]e continue to think that inflation is going to be a big factor for us next year, and we will intend to take a significant amount of pricing. ... [W]e’ll take as much pricing as we think the consumer can absorb.” (Constellation Brands, January 6, 2022)
- “Our pricing actions and strength in the beef segment ... more than offset the higher [costs of goods and services]. ...” (Tyson Foods, February 7, 2022)
- “[W]e’re actually pricing to recover all of those inflationary impacts, just as we’ve done in the past. So you’ve seen us move retail prices up. As inflation has moved up mid-single digits, our pricing has moved. ... And as I’ve said before, inflation has been a little bit of our friend in terms of what we see in terms of retail pricing. [F]ollowing periods of higher inflation, our industry has historically not reduced pricing to reflect lower ultimate cost.” (Autozone, May 25, 2022)
- “[O]ur total pricing actions are forecasted to more than offset raw material and delivery cost increases. We are closely monitoring supply costs and other inflation, and we’re prepared to implement further increases as necessary. ... [W]e don’t reduce prices on the back end of these increases [in underlying costs].” (HB Fuller, June 23, 2022)
- “[W]e felt it was very important to get ahead of the inflationary environment and take as much pricing as we could.” (Colgate-Palmolive Company, October 28, 2022)

³³ Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation*, at Page 12 (Sept. 22, 2022) (online at <https://docs.house.gov/meetings/GO/GO05/20220922/115145/HHRG-117-GO05-Transcript-20220922.pdf>).

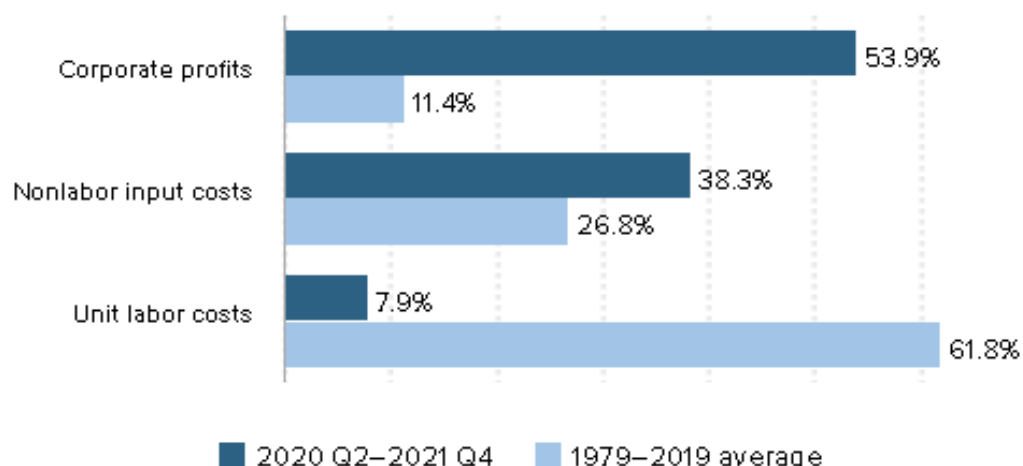
When asked at the hearing about what statements like these mean, Dr. Mabud explained that corporations were indicating that they would “keep prices as high as they possibly can to rake in record profits, as long as they don’t start losing consumers.”³⁴ She underscored that the statements also demonstrate that “[e]ven as prices, input prices, start to come down, [corporations are] keeping prices high because they know that they can.”³⁵

IV. EXCESSIVE PRICE HIKES HAVE CONTRIBUTED TO INFLATION TO THE DETRIMENT OF AMERICAN CONSUMERS

Clear evidence demonstrates that record price hikes, profits, and profit margins not only help drive inflation but also are helping keep it high. Several recent studies support this conclusion.

First, Economist Josh Bivens of the Economic Policy Institute (EPI) has quantified the impact that record-high profits have had on inflation. From 1979 to 2019, profits contributed to only about 11% of price growth in the United States. Yet from the second quarter of 2020 through the fourth quarter of 2021, profits accounted for roughly 54% of the rise in prices.³⁶

Normal and recent contributions to growth in unit prices in the nonfinancial corporate sector



Source: Josh Bivens, *Corporate Profits Have Contributed Disproportionately to Inflation. How Should Policymakers Respond?*, Economic Policy Institute (Apr. 21, 2022) (online at www.epi.org/blog/corporate-profits-have-contributed-disproportionately-to-inflation-how-should-policymakers-respond/).

Even when extending this analysis through the first quarter of 2022—when profits fell slightly, albeit to still-high levels—profits accounted for 38% of price growth, still more than

³⁴ *Id.* at 17.

³⁵ *Id.* at 13.

³⁶ Josh Bivens, *Corporate Profits Have Contributed Disproportionately to Inflation. How Should Policymakers Respond?*, Economic Policy Institute (Apr. 21, 2022) (online at www.epi.org/blog/corporate-profits-have-contributed-disproportionately-to-inflation-how-should-policymakers-respond/).

three times the previous forty-year average.³⁷ The impact of higher profits on inflation has been more than three times as large as the impact of higher wages.³⁸ During the Subcommittee’s hearing, Mr. Konczal confirmed that the findings of the EPI study were consistent with his own research. When asked to identify the “biggest driver of inflation during the pandemic” based on both his and Dr. Bivens’s analyses, Mr. Konczal replied, “[C]orporate profits.”³⁹

Second, as described above, Mr. Konczal and Niko Lusiani found in a Roosevelt Institute study that price increases over and above costs reached record highs in 2021, with companies seeing record profit margins in 2021 and into the second quarter of 2022.⁴⁰ This was the largest gap between corporate prices and marginal costs dating back to 1955.⁴¹ In other words, corporate prices appear to have far exceeded any increase in input costs, providing strong evidence that record corporate profits and profit margins have made a historically significant contribution to current inflation.

These excess corporate price hikes have had a direct and significant impact on American consumers. According to the most recent Consumer Price Index numbers, there have been notable year-over-year price increases in the industries discussed above: 19.8% for energy, 18.8% for motor fuel, and 17.2% for chicken.⁴² The prices of other basic necessities also saw notable jumps: 30.5% for eggs, 16.6% for cereal, 15.2% for milk, 14.7% for bread, and 11.8% for baby food.⁴³ These price increases have also had a disproportionate impact on low-income communities and communities of color, which generally spend a higher portion of their incomes on the goods most impacted by significant price increases, including energy, food, and cars.⁴⁴

³⁷ Institute for New Economic Thinking, *Inflation in the Time of Corona and War* (May 30, 2022) (online at www.ineteconomics.org/uploads/papers/WP_185-Storm-Inflation.pdf).

³⁸ *Id.*

³⁹ Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, *Hearing on Power and Profiteering: How Certain Industries Hikes Prices, Fleeced Consumers, and Drove Inflation*, at Page 20 (Sept. 22, 2022) (online at <https://docs.house.gov/meetings/GO/GO05/20220922/115145/HHRG-117-GO05-Transcript-20220922.pdf>).

⁴⁰ Mike Konczal and Niko Lusiani, *Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups*, Roosevelt Institute (June 21, 2022) (online at <https://rooseveltinstitute.org/publications/prices-profits-and-power/>); *US Corporate Profits Soar, with Margins at Widest Since 1950*, Bloomberg (Aug. 25, 2022) (online at www.bloomberg.com/news/articles/2022-08-25/us-corporate-profits-soar-taking-margins-to-widest-since-1950).

⁴¹ Mike Konczal and Niko Lusiani, *Prices, Profits, and Power: An Analysis of 2021 Firm-Level Markups*, Roosevelt Institute (June 21, 2022) (online at <https://rooseveltinstitute.org/publications/prices-profits-and-power/>).

⁴² Bureau of Labor Statistics, *Consumer Price Index—September 2022* (Oct. 13, 2022) (online at www.bls.gov/news.release/cpi.pdf).

⁴³ *Id.*

⁴⁴ *People of Color and Rural Households Are Getting Hit the Hardest by the Hot Inflation of 2021*, Business Insider (Nov. 24, 2021) (online at www.businessinsider.com/inflation-hurts-black-latino-hispanic-people-of-color-rural-households-2021-11).

Preexisting wealth disparities have left people in these communities with less of a cushion to deal with price increases.⁴⁵

V. CONCLUSION

Many corporations have prioritized excess price hikes, record profits, and widening profit margins at the expense of the American consumer. The Subcommittee's analysis, along with economic studies and the testimony of respected economists and experts at the Subcommittee's hearing, all demonstrate that corporations enjoyed record profits and profit margins during the pandemic—and continue to do so today. Certain corporations are openly taking advantage of the pandemic and its aftermath to increase prices excessively since consumers have little power to object or are not aware of the role that corporate pricing actions play in driving high prices. As described in this staff report, corporate pricing behavior continues to have a tangible impact on inflation.

The federal government can and should play an important role in addressing inflation, including by passing legislation to address excessive price hikes. As former Treasury Secretary Henry Paulson and other former Treasury Secretaries wrote in a statement commending the Inflation Reduction Act, the legislation represents a long-term plan to fight inflation by lowering healthcare and energy costs, creating jobs, spurring economic growth, and requiring corporations to pay their fair share in taxes.⁴⁶ Among other things, the Inflation Reduction Act will:

- *Help Ease Global Inflation.* The law expands on this year's projected \$1.5 trillion decline in the budget deficit with hundreds of billions more in deficit reduction, which 126 leading economists agree will lower inflation and promote stable economic growth.⁴⁷
- *Strengthen Supply Chains.* The law builds new clean energy supply chains by incentivizing domestic production in technologies like solar, wind, carbon capture, and clean hydrogen.⁴⁸

⁴⁵ *Black Communities, Disproportionately Hit by Inflation, Step Up to Help Those Most in Need*, NBC News (May 8, 2022) (online at www.nbcnews.com/news/nbcblk/black-communities-disproportionately-hit-inflation-step-help-need-rcna27701).

⁴⁶ Department of the Treasury, *Press Release: Statement from Former Treasury Secretaries on Inflation Reduction Act* (Aug. 3, 2022) (online at <https://home.treasury.gov/news/press-releases/jy0912>).

⁴⁷ The White House, *BY THE NUMBERS: The Inflation Reduction Act* (Aug. 15, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/15/by-the-numbers-the-inflation-reduction-act/).

⁴⁸ The White House, *FACT SHEET: The Inflation Reduction Act Supports Workers and Families* (Aug. 19, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/19/fact-sheet-the-inflation-reduction-act-supports-workers-and-families/). The CHIPS and Science Act will also ease supply chain bottlenecks and help lower costs for American families through billions of dollars in new investments for domestic semiconductor research, development, and manufacturing. The White House, *FACT SHEET: Chips and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China* (Aug. 9, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/).

- *Lower Prescription Drug Prices.* The Inflation Reduction Act will cut drug prices by phasing in a cap for out-of-pocket costs, establishing a \$35 monthly cap on insulin for Medicare beneficiaries, and allowing Medicare to negotiate prices for high-cost drugs.⁴⁹
- *Lower Energy Costs.* The law offers clean energy and electric vehicle tax credits as well as rebates for energy efficient appliances and is projected to save American families an average of \$500 per year.⁵⁰
- *Amend the Tax Code.* The law cracks down on tax evaders, ensuring that the largest corporations pay their fair share, by instituting a minimum corporate tax rate of 15% and imposing a 1% surcharge on corporate stock buybacks.⁵¹

Corporations must also act responsibly and do their part to create a healthy and sustainable market that works for all American consumers.

⁴⁹ The White House, *FACT SHEET: The Inflation Reduction Act Supports Workers and Families* (Aug. 19, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/19/fact-sheet-the-inflation-reduction-act-supports-workers-and-families/).

⁵⁰ The White House, *BY THE NUMBERS: The Inflation Reduction Act* (Aug. 15, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/15/by-the-numbers-the-inflation-reduction-act/).

⁵¹ *Id.*; The White House, *FACT SHEET: The Inflation Reduction Act Supports Workers and Families* (Aug. 19, 2022) (online at www.whitehouse.gov/briefing-room/statements-releases/2022/08/19/fact-sheet-the-inflation-reduction-act-supports-workers-and-families/).

ANNEX: ANALYSIS OF COMPANY-LEVEL FINANCIAL DATA⁵²

I. Ocean Shipping⁵³

Shipping												
	Operating Costs		Revenues		Profits				Profit Margins			
	2019	2021	2019	2021	2019	2021	Q1 2019	Q1 2022	2019	2021	Q2 2019	Q2 2022
Maersk	\$33.1 billion	\$37.7 billion	\$38.9 billion	\$61.8 billion	-\$44 million	\$18 billion	-\$656 million	\$6.8 billion	14.7%	38.9%	14.1%	47.7%
CMA - CGM	\$26.5 billion	\$32.9 billion	\$30.3 billion	\$56 billion	-\$219 million	\$17.9 billion	-\$53 million	\$7.2 billion	12.4%	41.3%	12.4%	49.2%
Hapag - Lloyd	\$13.3 billion	\$15.2 billion	\$14.1 billion	\$26.3 billion	\$418 million	\$10.7 billion	\$109 million	\$4.7 billion	15.8%	48.7%	14.7%	58.7%

⁵² Data used in this Annex was compiled based on public information from annual financial reports, regulatory filings, and other documents from each of the named corporations, which represent leading publicly traded companies in their respective industries.

⁵³ The operating expenses figures references are based on Maersk's "operating costs," CMA CGM's "operating expenses," and Hapag-Lloyd's "total operating expenses." The profit margins referenced are the companies' EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues.

II. Rental Cars⁵⁴

Rental Cars

	Total Expenses				Revenue per day (per transaction)				Profits				Profit Margins			
	2019	2021	Q2 2019	Q2 2022	2019	2021	Q2 2019	Q2 2022	2019	2021	Q2 2019	Q2 2022	2019	2021	Q2 2019	Q2 2022
Hertz	\$9.8 billion	\$6.7 billion	\$2.5 billion	\$1.2 billion	\$43.73	\$59.90	\$42.54	\$66.66	-\$58 billion	\$366 million	\$38 million	\$940 million	6.6%	29%	8.7%	32.6%
Avis	\$8.9 billion	\$7.6 billion	\$2.3 billion	\$2.2 billion	\$54.63	\$68.55	\$54.12	\$78.19	\$302 million	\$1.3 billion	\$62 million	\$774 million	8.6%	25.9%	7.5%	37.1%

⁵⁴ The profit figures referenced are Hertz's and Avis's "net income." The profit margins referenced are the companies' EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues. The rental car prices referenced are the companies' average revenue per transaction day (RPD) figures. This price metric, which consists of the average daily revenue that the rental car companies make on each rental transaction, "encompasses the elements in vehicle rental pricing that management has the ability to control." Hertz Global Holdings, Inc., *Press Release: Hertz Reports Second Quarter Results: Revenue of \$2.3 Billion, Net Income of \$940 Million, Adjusted Corporate EBITDA of \$764 Million, Operating Cash Flow of \$708 Million and Adjusted Free Cash Flow of \$484 Million* (July 28, 2022) (online at <https://newsroom.hertz.com/news-releases/news-release-details/hertz-reports-second-quarter-results-revenue-23-billion-net>).

III. Meat Processing⁵⁵

Meat Processing

	Costs				Revenues				Profits				Profit Margins	
	2019	2021	Q2 2019	Q2 2022	2019	2021	Q2 2019	Q2 2022	2019	2021	Q2 2019	Q2 2022	2019	2021
Tyson Foods	\$37.9 billion	\$42.2 billion	\$9.6 billion	\$11.9 billion	\$43 million	\$49.5 billion	\$10.9 billion	\$13.5 billion	\$2 billion	\$3.7 billion	\$681 million	\$753 million	9.4%	13%
Marfrig	\$7.7 billion	\$8.8 billion	\$2 billion	\$2.5 billion	\$8.9 billion	\$11.7 billion	\$2.2 billion	\$3 billion	\$55 million	\$806 million	\$22 million	\$865 million	11.1%	22%
JBS	\$43.7 billion	\$52.7 billion	\$10.9 billion	\$15.4 billion	\$51.8 billion	\$64.9 billion	\$13 billion	\$18.7 billion	\$1.5 billion	\$3.8 billion	\$557 million	\$803 million	9.7%	13%
Seaboard	\$6.4 billion	\$8.4 billion	\$1.7 billion	\$2.7 billion	\$6.8 billion	\$9.2 billion	\$1.8 billion	\$3 billion	\$287 million	\$570 million	\$58 million	\$108 million	6.1%	7.5%

⁵⁵ The profit figures referenced are based on Tyson's "net income," Marfrig/National Beef's "net profit," JBS's "net income," and Seaboard's "net earnings." The profit margins referenced are the companies' EBITDA margins: EBITDA (earnings before interest, taxes, depreciation and amortization) divided by revenues. Tyson Foods' fiscal year begins in October. Other companies analyzed use a fiscal year that matches the calendar year. For the purposes of this Annex, Tyson's Q2 2021, Q3 2021, Q4 2021, and Q1 2022 quarterly reports are used to calculate Tyson's 2021 calendar-year financial results. Likewise, this Annex uses Tyson's Q2 2019, Q3 2019, Q4 2019, and Q1 2020 quarterly reports to calculate Tyson's 2019 calendar-year financial results.

IV. Oil and Gas⁵⁶

Oil & Gas				
	Profits			
	2019	2021	Q2 2019	Q2 2022
Exxon	\$14.3 billion	\$23 billion	\$3.1 billion	\$17.9 billion
Chevron	\$2.9 billion	\$15.6 billion	\$4.3 billion	\$11.6 billion
BP	\$10 billion	\$12.8 billion	\$2.8 billion	\$8.5 billion
Shell	\$16.5 billion	\$19.3 billion	\$3.5 billion	\$11.5 billion

⁵⁶ This chart provides data only on profits because various entities report only certain figures, complicating the ability to conduct calculations. BP does not provide total costs figures. Exxon and Chevron do not report EBITDA (although Exxon does report individual EBITDA components), thus complicating the ability to conduct profit margin calculations. The profit figures referenced are based on Exxon's "net income," Chevron's "net income," BP's "underlying replacement cost profit," and Shell's "adjusted earnings." This Annex uses the latter two metrics because they are the most commonly discussed profit metrics in the financial press's coverage of BP and Shell's financial performance.