Unite Investigates: Corporate profiteering and the cost of living crisis

commissioned by Sharon Graham

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1 Forward by Sharon Graham, Unite General Secretary

This report is the first in what I hope will be a series of contributions made by Unite's Profiteering Commission. Our aim is simple: to uncover who has really profited from the Covid 19 pandemic and the inflationary pressures that have followed.

It should not be controversial to suggest that those who have profited from crisis should pay for it. And yet so many commentators repeat the mantra that, with notable exceptions, it is workers who must carry the burden. Whether that be that through higher taxes or cuts to their living standards through 'wage restraint'.

But when we look deeper at the data available, it becomes very clear that many corporations in many sectors of the economy, not just energy, have benefited greatly from the crisis. Surely, then, it is they who must bear the responsibility?

Surely those who can pay should do so?

This report makes clear that many firms in Britain are doing better now than before Covid. It shows that it is their profits, not increased wages, that are helping to drive 'second round' inflation.

Instead of running away with easy conclusions, it is time to take stock. Why is the public being asked to pay for price gouging? Are we really saying that – aside from a one-off windfall tax on a few energy firms – the corporations that have profited have no responsibility to pay decent wages and tax to fund the services our society relies on?

Our analysis and conclusions should not be particularly radical. Yet all too often it can seem that way. Our political class is far too timid and beholden to short-term and parochial concerns to offer a real alternative.

So it is left to the trade unions to keep the hope alive that another world is indeed possible. That we don't have to just take what we are given.

2 Key findings

The UK is facing a “cost of living crisis” as working people’s incomes fail to keep up with soaring inflation. This is often presented in the media as something out of our control: prices are going up and there is nothing we can do about it. But analysis of data from company accounts and the Office for National Statistics suggests that this is to a large degree a profiteering crisis: both our wages, and what they can buy, are being squeezed by companies pursuing runaway profits.

While the likes of the Governor of the Bank of England call on workers to show “wage restraint”, our analysis confirms what most people already know: wages are falling behind inflation. Recent high inflation was initially sparked by supply chain shocks. But there are strong signs that “price gouging” – where businesses hike their prices above supply costs – is now pushing “second round” inflation.

So while the pandemic, energy demand and the invasion of Ukraine have undoubtedly caused ruptures in company’s supply chains, any “inflation spiral” is being pushed by profits.

This report investigates this crisis of inflation profiteering, with the following key findings:

- Profit margins for the UK’s biggest listed companies (FTSE 350) were 73% higher than pre-pandemic levels in 2019.
- UK-wide company profits jumped 11.74% in the six months from October 2021 to March 2022, according to the most recent ONS data.
- In the same period, labour income only rose 2.61%; and fell by 0.8% after accounting for inflation.
- This recent profit jump is responsible for 58.7% of inflation in the last half year – as opposed to just 8.3% due to labour costs.
- The UK appears to be following the pattern of inflation profiteering noted in the US, albeit some months behind the curve.
- This isn’t just about oil companies or a few “bad apples”. Even excluding energy firms, FTSE 350 company profits increased by 42% between 2019 and 2021.

3 How is corporate profiteering contributing to the cost of living crisis?

3.1 Companies "gouging" prices can cause inflation to "spiral"

The governor of the Bank of England continues to blame workers for a potential "inflation spiral", calling on workers to show wage restraint.[1] The evidence suggests there is indeed an inflation "spiral" starting up. However, it's not being caused by wages, but by company profits.

Before we dive into the data, let's start with a quick look at just what "second round" or "spiralling" inflation involves. It is easiest to think of what is happening in terms of successive waves of price rises:

- **First wave: supply shock inflation**

Most economists agree the current high inflation was mainly started by "supply shocks".[2] Very roughly, one of the main stories is this: as the pandemic ended, consumer demand rose quickly as people wanted to go out and buy goods and services again. But global supply chains were snagged up – e.g., planes still not flying, ports operating below normal capacity, HGV drivers quarantined. One indicator of this was shipping freight costs were nearly ten times higher than before the pandemic.[3]

Then, on top of already rising energy prices, the Ukraine war cut off a part of the global oil and gas supply, sending fuel prices through the roof.[4] (Russia and Ukraine are also major producers of important commodities from wheat and vegetable oil to titanium, so there were also jumps in their costs.[5])

So the first drivers of inflation are key inputs such as transport and fuel, which affect supply costs to companies across a whole range of industries.

For example, in an April survey of business managers by the British Chambers of Commerce, 92% of businesses said they were facing "pressure" to raise prices due to increasing raw material costs, and 56% said other inputs including mainly fuel and transport costs.[6]

- **Second wave: price gouging and the "inflation spiral"**

The next question is: how do these companies "pass on" their cost increases?

Let's take a rough hypothetical example. Suppose a supermarket sells a bottle of sunflower oil for £2 in 2020. Now the invasion of Ukraine cut off a part of the supply of sunflower oil at source, pushing up costs by 10p. Shipping problems and the HGV driver shortage add another 10p, and the jump in fuel costs another 10p. So overall, the supermarket's supply costs have gone up 30p.

The retailer can respond in several ways. It could raise its price to just the amount needed to cover its increased costs, £2.30. It could "absorb" some of the costs, holding prices below that. Or it could raise its prices even higher than necessary to cover current costs – what is sometimes called "price gouging".

If companies raise their prices by more than they need just to cover their cost increases, they will get a boost in profit. But this can then create a second … or, third, fourth, etc. … wave of inflation as companies along the supply chain follow suit. This, indeed, is the dreaded "inflationary spiral".

There is already plenty of anecdotal evidence of price gouging, including from corporate leaders. For example, on 28 April Sainsburys reports a record profit of £730 million. The supermarket insisted it wasn't price gouging, but accused its competitors – some of whom are reporting even higher profits – of doing so. Chief Executive Simon Roberts said*: "We are inflating behind the market, our direct competitors are inflating ahead of the market."*[7]

In the US, profit-driven inflation is a hot political topic, unlike in the UK (we look at evidence from the US in Section 2.5). In the next sections we look at data from the UK economy as a while and the biggest companies in it, which suggest that profiteering is indeed starting to drive inflation in the UK too.

3.2 Profit margins for the UK's biggest listed companies jumped 73% in 2021 compared with the year before the COVID-19 pandemic

Profits for the UK's biggest companies have shot up in the last year – even as the rest of us are hit by the cost of living crisis. Profit margins of FTSE 350 companies in 2021 were 73% higher than pre-pandemic levels in 2019.

We analysed the profits of the FTSE 350 index – the 350 biggest companies listed on the London Stock Exchange. These are the household names and big employers that drive the economy: from supermarket chains like Tesco and Sainsbury, to oil giants like BP and Shell, plus many more in between.

Of these 350 companies, we looked at 240 which were not investment trusts, and for which we could access figures for the whole of 2021. We compared their 2021 figures with those for 2019 – the last year before the global pandemic. (Comparing with 2020 doesn't give a fair insight, as COVID-19 delivered a major blow across industries' turnovers and profits that year.)[8]

On average, the big companies in the sample posted an average turnover of £5.3 billion in 2021. With the pandemic still hitting sales last year, that was down on the £6.2 billion average turnover in 2019.[9]

But even though sales were down, profits had rocketed up. The average company net profit (after tax and all costs) in 2021 was £480 million, up from £326 million in 2019. That's a jump of 47% in profits.[10]

The jump looks even bigger when you bear in mind that sales were actually down. If we look at profit margins – the amount companies make as a proportion of sales – those leapt even more dramatically. The overall profit margin of the companies was 9.1% in 2021 – up from 5.3% in 2019. That is: the profit margin jumped 73% higher than before the pandemic.[11]

Biggest UK listed companies, average turnover and profit data 2019-2021*[12]

	2019	2020	2021
Turnover	£6,213m	£4,990m	£5,288m
Net Profit	£326m	£30m	£480m
Profit Margin	5.3%	0.6%	9.1%

* based on results from 240 FTSE 350 companies that have reported profits for 2021 and 2019. Note the increase in profit margin between 2021 and 2019 comes to 73% using unrounded figures.

3.21 Even excluding energy firms, profits of the UK's biggest listed companies increased by 42%

Some of the biggest companies in the FTSE 350 are oil, gas and other energy companies, and their bumper profits have been widely reported. But even if we take energy companies out of these figures, profit figures remain high. The average profit of the 230 non-energy FTSE 350 companies, excluding investment trusts, that have filed 2021 results increased to £385m in 2021, up from £271m in 2019. That's an increase of 42%. The jump in average profit margin is also a significant increase: 52% up, from a margin of 6.5% in 2019 to 9.9% in 2021.[13]

Biggest UK listed non-energy companies, average turnover and profit data 2019-2021*[14]

	2019	2020	2021
Turnover	4,146m	3,843m	3,887m
Net Profit	271m	169m	385m
Profit Margin	6.5%	4.4%	9.9%

* based on results from 230 FTSE 350 companies which have reported profits for 2021 and 2019

3.22 Average executive pay increased to £2.59 million in 2021, up £70,000 from 2019

Corporate executives have benefited from these rising profits. In 2021 the average FTSE 350 company boss (the highest paid director) got paid £2.59 million. That's up from £2.52 million in 2019. This amounts to an increase of 3%.[15]

Highest paid directors of biggest UK listed companies, average remuneration 2019-2021[16]

	2019	2020	2021
Average highest paid director remuneration	£2.52m	£2.01m	£2.59m

* based on results from 206 FTSE 350 companies with director remuneration available for 2021 and 2019

3.3 Across the UK economy, company profits have increased by 11.74% in 6 months while wages have been squeezed

In the last section we looked at data on the profits of the UK's biggest listed companies. In this section we look at data for the economy overall, published by the Office for National Statistics. This data includes figures from many smaller companies, who often won't have the same power as the FTSE giants to push up their prices.

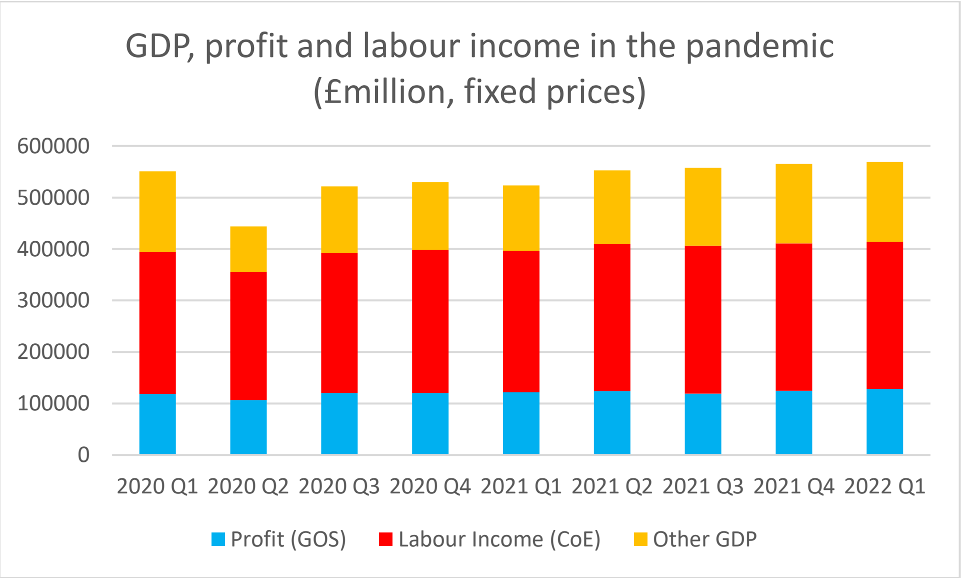
But even so, we see a similar pattern. Starting towards the end of 2021, company profits across the economy have not just recovered from the pandemic, but are racing ahead of wages.

The Office for National Statistics (ONS) publishes quarter-year updates that include details of:

- **National income**: GDP, the total income produced in the UK economy.
- **Labour income**: "Compensation of Employees" (CoE) – the income that goes to workers, including wages and other benefits.
- **Profits**: "Gross Operating Surplus" (GOS) – the income kept as profit by companies after paying workers and other major supply costs. We should note that this is a broader measure of profit than the "net profit" figures used above, from company accounts, as it still includes some taxes, depreciation and other expenditure. Nevertheless, it shows how profits are changing over time.

Here we analyse the most recent ONS data published on 12 May 2022 (including ONS estimated data for the most recent quarter).[17] The table and chart below show what happened to GDP, labour income (CoE) and profits (GOS) through the pandemic.

The figures begin as COVID-19 hits at the start of 2020. What you see is that the economy (GDP – here in real terms after accounting for inflation) collapses in quarter 2 (March-June 2020), then slowly recovers:[18]



GDP, profit and labour income quarterly figures, 2020-2022[19]

	Real GDP (£ billion)	Labour income (CoE) (£ billion)	Profits (GOS) (£ billion)
Q1 2020	**550.9**	**275.5**	**118.7**
Q2 2020	**443.7**	**248.2**	**106.4**
Q3 2020	**521.9**	**271.5**	**120.7**
Q4 2020	**529.6**	**278.3**	**120.0**
Q1 2021	**523.7**	**275.1**	**121.4**
Q2 2021	**552.7**	**285.8**	**124.0**
Q3 2021	**557.6**	**287.8**	**118.9**
Q4 2021	**565.0**	**286.2**	**124.9**
Q1 2022	**569.1**	**285.5**	**128.4**

When the pandemic hit, GDP dropped 13% from the first to second quarters of 2020. The figure was even starker in real terms (adjusting for inflation): a 19.5% fall in quarterly GDP. Labour income and profits also dropped with GDP. [20]

In the two years since then, GDP has recovered, and so have labour income and profits. But some have recovered more than others.

Comparing the first quarter of 2022 with the same period two years before, GDP has climbed back up 4.82%. Although when we factor in rising inflation, "real" quarterly GDP has actually grown just 1.63% on two years before. [21]

In the same two-year comparison, labour income rose 1.79% in real terms. But quarterly profits have definitely done best – rising 4.02% in real terms over the same period. [22]

But what's striking is that the bulk of this profit gain has come in just the last two quarters of data. There has been a dramatic rise in profit from the start of October 2021 to the end of March 2022. In these six months profit (GOS) jumped 11.74%. In the same six months, labour income (COE) also rose – but only by 2.61%.

Those are nominal figures. If we adjust for inflation, we see that in real terms profit jumped 8.03%. But labour income fell in real terms: overall, workers were 0.8% worse off once we account for inflation.[23]

3.31 Wages have declined in real terms in the last 3 months

This fact is further hit home by another set of ONS data on employees' pay rates.[24] At first sight, wages appear to be rising: growth in average total pay of employees (including bonuses) was 7.0% in January to March 2022. "Regular" pay excluding bonuses) was 4.2%.

But again, when we account for rampant inflation, these gains all but disappear.

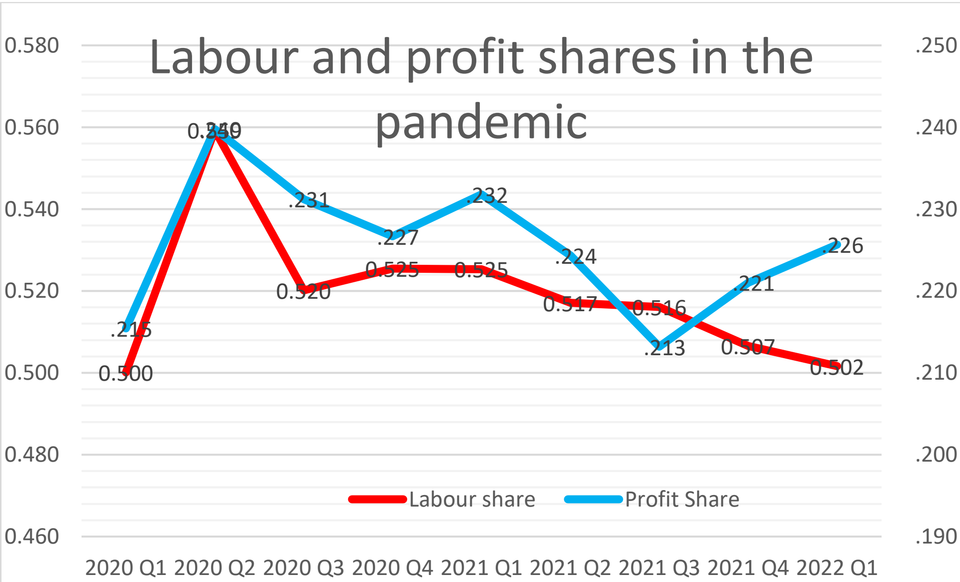
In real terms, between January to March 2022 pay grew just 1.4% -- including bonuses. "Regular" pay not including bonuses **fell** by 1.2%.[25]

This tells the lie to the line that wages are driving inflation.

3.32 Corporate profits have also risen as a share of GDP in the last 6 months, while labour's share has declined

The next chart shows the same pandemic income data as above at but in terms of the shares of labour and profit. Here the share of labour means how much workers get overall (CoE) as a proportion of national income (GDP). The profit share means the proportion of profits (GOS) in national income.

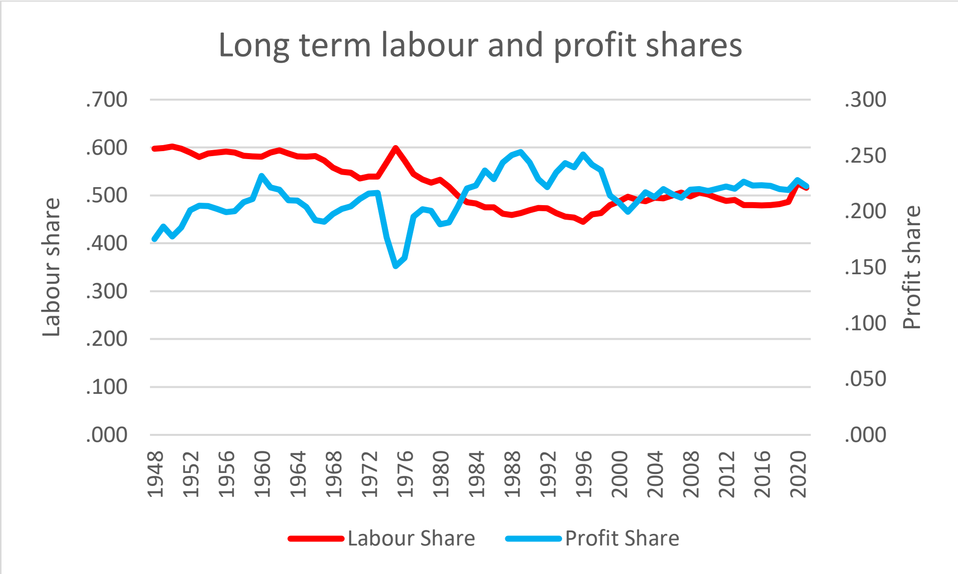
In the chart below we see how both labour and profit shares jumped up at the start of the pandemic. This wasn't because either earned more money – both fell, but other factors not included on this chart (e.g., tax income) dropped even more.[26]



After that both labour and profit shares gradually fall again in the next quarters. By the most recent date we have figures for, the end of March 2022, the labour share is pretty much back where it started, at just over 50%.

But something else has happened to profits. The graph above shows clearly how they shot up again in the last two quarters.

To put things in a bigger context, the next chart gives a glimpse of the shares of labour and capital over the long term:[27]



Some basic 'take-away' points from the long-term diagram: for the first couple of decades after World War II – what's sometimes called the period of "post war consensus" – workers got around 55-60%, with the profit share often below 20%. From the mid-60s on, the share of income going to workers started to fall significantly. In the roaring "free market" years between 1981 and 1999, as capital rallied and smashed collective bargaining, it was pushed below 50% of national income.[28]

And that's still about where we are today, with the workers' share of income down around 50%. For the last decade, profits have been hovering between 22-23% of national income – down from their giddy heights in the late '80s, but still well above the long-run average.[29]

In this context, the pandemic recovery looks like part of the same decades-old story: once again, companies are able to increase their profits after a downturn, while workers' wages are kept squeezed to the minimum. So much for "we're all in it together".[30]

3.4 Available evidence suggests a "second wave" of inflation has been driven by these profits since October 2021

So how much is profiteering driving "second wave" inflation?

Here we follow a recent (21 April) analysis for the US economy by economist Josh Bivens of the Washington-based Economic Policy Institute (EPI).[31] Bivens starting point is that, as he puts it:

- *"The price of just about everything [...] can be broken down into the three main components of cost. These include labor costs, nonlabor inputs, and the "mark-up" of profits over the first two components."*

If your loaf of bread is 10% more expensive, who is getting what from that extra money? How much more is going to workers? To other costs such as, e.g., the fuel shipped in to deliver the bread? Or being pocketed as profit?

Bivens' looks at the last year and a half (quarter 2 2020 to quarter 4 2021) of US National Accounting data. Over this period, prices in the non-financial corporate sector went up at an annualised rate of 6.1%. Now if we look at changes in company profits, labour income, and non-labour costs per unit of production, for the same sector in that same period, we can see who got what out of that 6.1% rise.

His headline result is that: *"Strikingly, over half of this increase (53.9%) can be attributed to fatter profit margins, with labor costs contributing less than 8% of this increase."*

Non-labour costs were also up in a big way – equal to 38.3% of the price increase. This would include the "supply chain shocks" that kicked off the recent bout of inflation.

But the fact that the profit contribution is even higher suggests that there is indeed a "second wave" of inflation driven by price gouging. And by the end of 2021 this had become an even bigger factor than the initial supply shock.

So what about the UK? There are some differences in the data available between the US and UK, but we can broadly follow Bivens' approach using the ONS GDP data discussed above. If we look at the same period as Bivens, from the start of the pandemic until the end of 2021, we get a different result: we don't see either profits or labour costs driving inflation. This is consistent with inflation being pushed overwhelmingly by supply chain shocks in the "first wave".

But the picture changes dramatically when we look at what's happened since October 2021. This is when, as we saw above, profits jump again – with an 11.74% rise over two quarters.

ONS figures tell us that, in these six months, overall prices went up 3.45% -- which is an annualised inflation rate of 7.1%.[32]

And, over these last two quarters of data, 58.7% of those price rises went into increased profits. Just 8.3% went to labour income.[33]

Although the data are different, these figures show a striking parallel with Bivens' US numbers – but for a later period. This suggests we may be seeing a similar inflation profiteering phenomenon in the UK, but with a "time lag".

3.5 The UK may be entering an inflationary spiral caused by profiteering similar to that experienced by the US

Our analysis of UK profits and inflation shows a pattern that's already a hot political issue over in the US. Last month (April) the US Senate held a hearing of its Budget Committee on the topic "Corporate profits are soaring as prices rise: Are corporate greed and profiteering fuelling inflation?"[34]

In April, Marketwatch reported that the profit margin of S&P 500 companies (similar to the FTSE 350 index here) had hit 12.18% in the last 12 months of reported figures. That is the highest rate ever seen: only three times before in the years since 1999 had profit margins gone over 10%, with the previous record 10.75% in 2018. And market analysts expect US profit margins to get even higher – reaching 13% in 2022.[35]

A recent (10 May) Forbes article goes further, stating that "2021 was the most profitable year for big corporations since 1950". It hones in on the problem of profiteering in the food industry, where "price increases have been driven by food companies passing their costs onto consumers, subsequently generating windfall profits."[36]

A 139-page March report by Groundwork Collaborative looked in depth at price gouging by US companies. Their evidence includes transcripts from calls with investment analysts where executives of dozens of big name corporations boast about boosting profits through "pricing action". Bosses and markets appear jubilant at how easily they are able to pass on costs to household customers.[37]

"Over and over, the message from corporate America is clear: they aren't just asking consumers to pay for their rising costs; they're going for more."[38]

Some argue that corporate profiteering is a particular problem in the US, but not here. This is perhaps due to the frequent monopoly power of big US companies: they can use their bulk, and lack of competitors, to drive prices higher than companies can get away with elsewhere. Over here, supposedly, markets are more competitive and companies can't get away with "price gouging". (See, e.g., The Economist).[39]

But the figures above suggest that the UK is now seeing a very similar "profit gouging" phenomenon to the US, only with a time lag. In the US, companies starting ramping up inflation earlier in 2020-21. In the UK, the initial inflation pressure was certainly from supply chain shocks. But starting later on in 2021, corporate profiteering has boosted inflation even higher.

So contrary to the Governor of the Bank of England, wage rises aren't creating an "inflation spiral". To understand that, we need to focus on company profits.

3.6 How do companies get away with inflation profiteering? It's all about power!

In the analysis above we've looked at overall headline figures – profit rates, inflation rates, growth rates. Behind these big economic abstractions lie thousands of decisions made by real people: it is company bosses who decide how much to put up prices.

It's a cliché, if broadly true, that businesses seek to maximise their profits. But they do so facing different conditions. Here are just a few factors that contribute to a company's "market power", or "pricing power", i.e., its ability to decide prices.

- **Market institutions.** Markets are not all the same – markets for different goods have different structures. E.g., oil prices are set globally on a highly organised market that is to a large extent still dominated by the OPEC cartel. If Russian oil supplies are cut off, this doesn't mean that other oil producers step in to fill the gap – they tend to keep supplies fixed, and benefit from selling at increased prices. This is one reason companies like BP and Shell have made massive recent profits.
- **Market size and monopoly power.** In general, where there is just one seller in a market (monopoly), or a few (oligopoly), these have more power to "collude"

in raising prices than in a "competitive" market where other companies could come in to undercut them. E.g., at the other end of the supply chain from oil producers, the big food retailers also have large chunks of the market. This factor may help explain why we saw such a big and early rise in profits of the FTSE 350 companies, as they will typically have more pricing power than smaller companies included in the overall ONS data.

- **The pricing smokescreen: lack of visibility.** As Lindsay Owens of the US based Groundwork Collaborative has argued, companies can benefit from a "smokescreen" hiding their pricing.[40] Groundwork's research from company earnings calls showed how companies in public may present themselves as victims of inflation forced to raise prices; while behind the scenes they celebrate their soaring profits. As pricing is carried out in secret, it is very hard for customers to know what is really going on. The media and politicians may often help create this smokescreen by reporting corporate spin uncritically.

Another crucial issue also concerns power: the power of workers, and also consumers.

When the Bank of England governor blames inflation on wage rises, this is also helping weave the smokescreen that hides companies' pricing power. In reality, market institutions typically give companies a lot more advantages in price-setting than workers enjoy.

For example, to raise the price of sunflower oil a supermarket just has to change a price tag. To raise wages, workers need to organise and bargain with employers.

3.7 The Bank of England knows that profiteering is helping drive inflation – but only calls for wage restraint, not profit restraint

So far, we have only heard the Governor of the Bank of England publicly calling for workers to restrain their wage demands – not for companies to restrain their profits.

Yet the Bank is well aware that corporate profits are helping drive inflation. This was stated most clearly in a speech to Chartered Accountants by the Bank's Chief Economist Huw Pill on 20 May. He identified two main factors driving "second round" inflation beyond supply costs: the "tight labour market", i.e., low unemployment; and companies raising profits by raising prices.

In fact, the Bank of England's Chief Economist himself confirms much of the analysis we have given above. Companies are pushing up their prices to "pass on" costs, so increasing their profit margins; and this is pushing "second round" inflation.

In his own words:

- *"A tight labour market is accompanied by resilience in business confidence. In line with evidence from the Bank's Decision Maker Panel survey, this may reflect business-to-business pricing power within supply chains still suffering from supply disruptions. After all, within a single supply chain, one firm's sourcing problem is another firm's resilient demand. Supporting this view, the Banks' Agents report that a further strengthening of margins is likely, especially in firms that are not directly facing consumer demand."*[41]

Note here: "a further strengthening of margins is likely". The Bank hasn't published detailed figures or forecasts on profit margins (unlike wages) to make this point. But it is seeing them growing – and expects them to grow even further.

The Chief Economist's view is based on the Bank's latest Monetary Policy Report from 5 May.[42] This explains in more detail the Bank's research on those two "second round" factors: the labour market; and business profits.

3.71 Even though it sees high employment pushing inflation, The Bank of England forecasts a national pay cut in 2022

On the labour market, the Bank believes that record low unemployment (the "tight labour market") is pushing up wages. This has an impact on inflation as companies then raise prices to "pass on" wage costs to their customers. But it is important to note: on the Bank's forecasts, wage rises are certainly not keeping up with inflation. That is the Bank forecasts "nominal" pay growth of 5% in the second half of 2022. But it forecasts inflation to be much higher still – rising "to around 10% this year". So in real terms people will suffer pay cuts.[43]

As the Bank's May monetary policy report says:

- "Prices are likely to rise faster than income for many people. That means that the cost of living for many people will rise."
- After accounting for inflation, the Bank's forecasts that "real" post-tax labour income will fall by 3.25% in 2022.[44]

- And it expects "real post-tax household disposable income" to fall by 1.75% in 2022. [45]

The Bank of England is expecting working people to take a national pay cut this year.

3.72 The Bank's internal "intelligence" shows companies are passing on price increases "to a greater extent than normal"

The May monetary policy report cites "Agency Intelligence" gathered by the Bank on business intentions, including "a recent survey on pricing and profit margins conducted by the Bank's Agents, covering just under 300 firms".[46]

This survey "intelligence": "suggests firms are increasingly passing through cost pressures to prices". Firms say they will put up their own prices to pass on labour and supply costs to customers. (One notable point in the Bank's analysis is that the firms it spoke to mention "competitive pressure" as only having a "slight" impact on restraining their price rises.) [47]

In fact, the Bank report notes:

- "Companies reported passing on the higher costs to consumer prices to a greater extent than normal."[48]
- And: "According to a survey by the Agents, around half of companies said it was easier than normal to pass on higher costs." [49]

The last point strongly recalls the evidence from the US collected by Groundwork Collaborative (see Section 2.5 above), where companies told their investors they were finding it remarkably easy to pass on costs through price rises. [50]

The report provides some detail on particular sectors:

- "In manufacturing, many companies had passed through higher wage and other input costs to protect margins. In business services, fee inflation picked up further, reflecting pay increases and higher energy costs." [51]
- "In non-food retail, some fashion retailers expected to increase prices by between 5% and 8% this year." [52]
- "In order to protect margins, consumer services contacts expected to raise prices to cover higher energy and wage costs. This was particularly the case for travel and leisure companies. And a number of contacts in hospitality said they

planned to pass through the restoration of Value Added Tax to prices to rebuild margins, despite strong competition in the sector." [53]

3.8 Further research

There is plenty more we can do to investigate exactly how profiteering works, and where it is having the most serious effects. These are just some suggestions for follow-up research:

- **Investigate further:** map supply chains for key goods that are pushing up people's cost of living, so identify where price gouging and profiteering are having the biggest impacts.
- **Investigate further:** analyse how price and profit changes in key sectors and industries relate to market power and other underlying factors.
- **Investigate further:** identify some of the worst profiteering companies, zoom in on their pricing decisions – and how they get away with it.
- **Investigate further:** what role does unionisation and workers' bargaining power play in different sectors and their impacts on the cost of living?

4 What sources does this report use?

4.1 We used FTSE 350 company accounts; GDP, pay and inflation data from the Office for National Statistics; and top employer lists by sector from Unite research

FTSE 350 company accounts

We used company accounts collected by the FAME database to analyse latest turnover and profit figures from 240 companies, minus investment trusts, which are current members of the FTSE 350 index and have published accounts for the whole of 2021. We also analysed pay data for those companies which have reported this.

ONS GDP and pay data

National income data from Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. Note the Quarter 1 2022 (January to March) dataset contains estimated figures which may change. The same dataset also contains historic National Accounts data:

https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables

Pay figures from latest ONS Labour Market monthly release, 17 May 2022. Summary here:

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2022

ONS data on RPI figures

RPI figures are taken from the ONS' Consumer price inflation dataset. RPI detailed figures by division for 15 March 2022. https://www.ons.gov.uk/file?uri=/economy/inflationandpriceindices/datasets/consumerpriceinflation/current/previous/v87/consumerpriceinflationdetailedreferencetables.xls

Unite membership and bargaining data

Unite routinely collects financial, Unite membership and collectively bargaining data for the top companies (by UK turnover) in each sector that the union organises in. We have used the most recent data collected on parent company profits and profit margins, UK turnover, UK workforce, Unite membership and national agreements for parts of the report.

4.2 Acknowledgements

We thank Alexander Guschanski for reading a draft of this report and giving helpful comments.

[1] https://www.independent.co.uk/news/business/news/bank-of-england-pay-rise-andrew-bailey-salary-b2080309.html
[2] There is a lot of writing about this. See, for example: On the US: https://www.pbs.org/newshour/economy/how-the-supply-chain-caused-current-inflation-and-why-it-

might-be-here-to-stayOn Europe: https://blogs.imf.org/2022/02/17/supply-disruptions-add-to-inflation-undermine-recovery-in-europe/

[3] https://www.economicsobservatory.com/what-is-supply-chain-inflation-and-why-is-it-driving-up-consumer-prices-now
[4] https://commonslibrary.parliament.uk/economic-update-ukraine-crisis-adds-to-inflationary-pressures/
[5] https://blogs.lse.ac.uk/politicsandpolicy/ukraine-war-niesr/
On sunflower oil: https://www.theguardian.com/business/2022/apr/05/food-price-rises-ukraine-war-cooking-oil
[6] https://www.britishchambers.org.uk/news/2022/04/inflationary-pressures-reach-uncharted-territory-quarterly-economic-survey-q1-2022
[7] https://www.standard.co.uk/business/sainsbury-tesco-cost-of-living-price-rises-aldi-lidl-inflation-b996798.html
[8] All figures were taken from company accounts as compiled by the FAME database
[9] All figures were taken from company accounts as compiled by the FAME database
[10] All figures were taken from company accounts as compiled by the FAME database
[11] All figures were taken from company accounts as compiled by the FAME database
[12] All figures were taken from company accounts as compiled by the FAME database
[13] All figures were taken from company accounts as compiled by the FAME database
[14] All figures were taken from company accounts as compiled by the FAME database
[15] All figures were taken from company accounts as compiled by the FAME database
[16] All figures were taken from company accounts as compiled by the FAME database
17 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/march2022
18 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
19 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
20 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
21 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
22 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
23 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
[24] Wages data: Summary of Labour Market Estimates 17 May 2022:
https://www.ons.gov.uk/file?uri=%2femploymentandlabourmarket%2fpeopleinwork%2femploymentandemployeetypes%2fdatasets%2fsummaryoflabourmarketstatistics%2fcurrent/a01may2022.xls

[25] Wages data: Summary of Labour Market Estimates 17 May 2022:
https://www.ons.gov.uk/file?uri=%2femploymentandlabourmarket%2fpeopleinwork%2femploymentandemployeetypes%2fdatasets%2fsummaryoflabourmarketstatistics%2fcurrent/a01may2022.xls

26 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
27 Office for National Statistics latest quarterly GDP estimates release, 12 May 2022. https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables
[28] See also these ONS calculations on PNFC labour and profit shares quarterly over 1997-2016:
https://www.ons.gov.uk/file?uri=/economy/nationalaccounts/uksectoraccounts/adhocs/006610labourshareofgdpandprivatenonfinancialcorporationgrossoperatingsurpluscorporateprofitabilitycurrentpricesquarter1jantomar1997toquarter3julytosept2016/labourshareofgdpadhoc.xls

[29] For more on historic profit/labour shares trends, with international comparisons, see:
Alexander Guschanski and Ozlem Onaran (2021), "The decline in the wage share: falling bargaining power of labour or technological progress? Industry-level evidence from the OECD", Socio-economic review https://academic.oup.com/ser/advance-article-abstract/doi/10.1093/ser/mwaa031/6179057

[30] On possible economic inequality effects of the pandemic recovery:
Davide Furceri, Prakash Loungani, Jonathan D. Ostry, and Pietro Pizzuto **"**COVID-19 will raise inequality if past pandemics are a guide" https://voxeu.org/article/covid-19-will-raise-inequality-if-past-pandemics-are-guide
On effects of recessions on wage share decline (here in the context of emerging economies and currency crises):
Ozlem Onaran (2009) Wage share, globalization and crisis: the case of the manufacturing industry in Korea, Mexico and Turkey, International Review of Applied Economics https://www.tandfonline.com/doi/abs/10.1080/02692170802700435

[31] https://www.epi.org/blog/corporate-profits-have-contributed-disproportionately-to-inflation-how-should-policymakers-respond/

[32] Note: this inflation rate is the overall price change across GDP – the GDP "implied deflator" in ONS statistics. This is different from the headline rates of RPI or CPI inflation, which measure particular bundles of consumer products. Again see the latest ONS GDP release for deflator calculations:
https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/march2022

[33] That is: profit (GOS) per unit of GDP increased by 58.7% of the total price increase, measured by the GDP deflator. The increase in the unit labour cost equalled only 8.3% of price change in the same period.

[34] https://www.budget.senate.gov/hearings/corporate-profits-are-soaring-as-prices-rise-are-corporate-greed-and-profiteering-fueling-inflation

[35] https://www.marketwatch.com/story/corporate-profit-is-at-a-level-well-beyond-what-we-have-ever-seen-and-its-expected-to-keep-growing-11649802739

[36] https://www.forbes.com/sites/errolschweizer/2022/05/10/how-windfall-profits-have-supercharged-food-inflation/?sh=6711f8e96672

[37] https://groundworkcollaborative.org/wp-content/uploads/2022/03/RESEARCH-Corporate-Profiteering-Findings-22.03.21.pdf

[38] https://groundworkcollaborative.org/news/icymi-groundwork-chief-economist-testifies-at-house-judiciary-subcommittee-hearing-on-corporate-power-and-profiteering/

[39] https://www.economist.com/finance-and-economics/labour-v-capital-in-the-post-lockdown-economy/21807700

[40] https://www.theguardian.com/business/2022/apr/27/inflation-corporate-america-increased-prices-profits

[41] https://www.bankofengland.co.uk/speech/2022/may/huw-pill-speech-during-an-agency-visit-to-wales-hosted-by-acca-cymru-wales

[42] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022

[43] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022

[44] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 see Table 1.C

[45] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 see Table 1.C

[46] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 section 2.3
This is taken from the summary of the survey here: https://www.bankofengland.co.uk/agents-summary/2022/2022-q1

[47] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 section 2.3

[48] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 Box C

[49] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 Box C

[50] https://groundworkcollaborative.org/wp-content/uploads/2022/03/RESEARCH-Corporate-Profiteering-Findings-22.03.21.pdf

[51] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 Box C

[52] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 Box C

[53] https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 Box C