

15 Super-Profitable Industries Fuel Canada's Inflation

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Summary

New data from Statistics Canada confirm that corporate profits in Canada have increased dramatically since the COVID pandemic, reaching in 2022 the largest share of GDP in Canadian history. Moreover, those additional profits have been concentrated in a relatively small number of business sectors, which have also been associated with the fastest increases in consumer prices. This confirms that rising profits, not workers' wages and labour costs, are the dominant cause of the recent surge in inflation.

This paper provides details on net income in 15 super-profitable private-sector industries in Canada, comparing the most recent 12-month period to profit levels before the pandemic (in 2019). Combined profits in those 15 sectors grew by 89%, rising by a total of \$143 billion. In contrast, profits in the other 37 business sectors tracked by Statistics Canada *fell* over the same time.

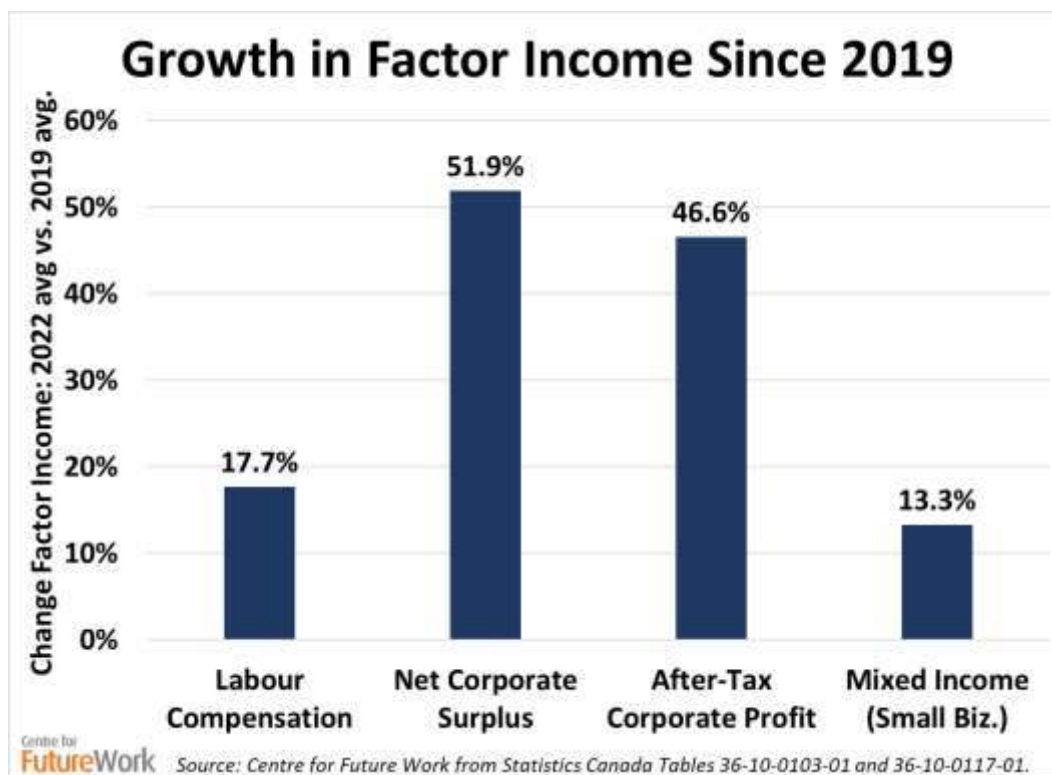
The oil and gas industry experienced by far the largest increase in profits: up by over 1000% since 2019, adding an extra \$38 billion to corporate coffers in the last 12 months. But other key sectors also experienced massive increases in profits: including banking, real estate, mining, building products, motor vehicle dealers, grocery stores, and food manufacturing.

Not coincidentally, the sectors recording the strongest increases in profits were also the source of the fastest price increases experienced in Canada since 2021. Products like gasoline, groceries, mortgage interest, home energy products, and building materials have led the acceleration of inflation – and those higher prices flow directly into the record profits recorded in those 15 sectors. Large price increases for just 8 specific products sold by those super-profitable sectors account for over half of the rise in Canadian prices in the latest 12-month period; without those 8 products, overall Canadian inflation would be one-third lower.

Aggregate business profits have surged during the pandemic to their highest share of Canadian GDP ever. Profits grew three times faster than wages since 2019 – yet Bank of Canada officials continue to focus on an “overheated” labour market and rising wages as the source of inflationary pressures. Worse yet, Bank of Canada policy aims to suppress wages through higher unemployment (achieved via higher interest rates), while ignoring the role of profits in driving price inflation. Better appreciation of the role of record profits in pushing up inflation would inform a more balanced policy response.

The Surge in Profits Since COVID

Corporate profits initially declined when COVID first hit Canada, as entire sectors of the economy were shut down to protect public health. Profits in the first half of 2020 fell by half compared to year-earlier levels. However, profits quickly regained that lost ground, and then went further to set all-time records. Corporate profits were first helped by generous government subsidies to businesses, part of emergency COVID policies implemented by the federal government and most provinces. The quick rebound in output and employment in Canada (with the national economy regaining pre-COVID employment and output levels by autumn 2021) also helped profits recover. More recently, however, companies have profited handsomely from the dramatic increase in price inflation since global economic re-opening. Supply shortages and disruptions, consumer uncertainty and pent-up demand, and concentrated corporate pricing power have all allowed companies to increase prices faster than their own input costs. This has pushed profits to all-time highs relative to overall GDP. In short, accelerating inflation and unprecedented profits are two sides of the same coin.



Compared to 2019 (the last full year before the pandemic), average profits during the first 9 months of 2022 have increased by about half. Two common measures of aggregate profits are the net corporate surplus on production (reported in quarterly GDP statistics), and after-tax corporate profits (reported in Statistics Canada's quarterly sector accounts data). The rise in after-tax profit was slightly slower: up 47% so far in 2022, compared to a 52% increase in net corporate surplus. As a share of GDP, after-tax corporate profits so far in 2022 have equalled

17.4% of national GDP – higher than any previous year in history. Prior to the COVID pandemic, the highest profit share ever recorded in Canada was in 2005, when after-tax profits equaled 15.7% of GDP. Over the long term, the average profit share from 1960 through 2020 was just under 10% of GDP. So current profits are extremely high by historical standards.

By either measure, corporate profits have increased about three times faster than wages since the pandemic struck. Net income for unincorporated businesses has increased slower than any other form of factor income, rising just 13% since 2019. Despite the very fast increase in corporate profits, the Bank of Canada has focused on rising wages – supposedly indicating an “overheated” labour market and an unduly low unemployment rate – as the cause of current inflation, rather than considering the role of profits in driving higher prices.

New Profits Concentrated in 15 Sectors

To consider more closely the impact of corporate profits on inflation, this paper analysed corporate profits (net income) in 52 different sectors of Canada’s economy, including both non-financial (39) and financial industries (13). Profits data are attained from Statistics Canada’s quarterly reports on corporate income statements and balance sheets.¹ Profits earned over the latest four quarters of reporting (from the last quarter of 2021 through the third quarter of 2022) were compared to profits earned in 2019 – the last full year before the pandemic struck. By choosing a 12-month period in both cases, the impact of seasonal fluctuations on profits is neutralized.² Our starting point for the comparison, 2019, was a relatively normal year for Canada’s economy. In May that year the unemployment rate reached its lowest point (5.4%) in the history of Canada’s modern labour force survey, real GDP growth was running at a respectable 2% annual rate, and after-tax profits were close to 15% of GDP (relatively high by historic standards). So as a benchmark for comparing current profitability, 2019 constitutes a relatively healthy and representative starting point.

This disaggregated analysis shows that the record-breaking surge in corporate profitability since the pandemic has been concentrated in a limited number of super-profitable sectors.

Moreover, those sectors are the same industries which have been the source of the fastest increases in consumer prices during this period.

From 2019 to the latest 12-month period, aggregate corporate after-tax profits grew by 30% across the whole corporate sector.³ Profit growth was slightly faster for non-financial companies (30.1%) than in the financial sector (28.4%). However, more than 100% of that increase in corporate profit during that period was accounted for by just 15 super-profitable sectors, from among the broader set of 52 industries. Together those 15 sectors saw after-tax

¹ See Statistics Canada Tables 33-10-0225-01 and 33-10-0227-01.

² These detailed quarterly corporate financial reports are not seasonally adjusted.

³ This figure differs from the data reported in the figure above for two reasons: it refers to a different time period (the most recent four quarters, rather than a seasonally adjusted average for the first 9 months of 2021), and the Statistics Canada corporate finance data are not fully compatible with the aggregate profit data from GDP reports.

profits rise by 89% (or \$143 billion). Across the other 37 sectors, nominal after-tax profits *declined* during this period: by a cumulative total of over \$30 billion. This confirms that the surge in corporate profit since the pandemic has been concentrated in a few industries – which, not coincidentally, have also been the source of especially rapid increases in prices.

| Table 1 Growth in Profit, 15 Super-Profitable Sectors | | | | |
|--|--|-------------|--|-------------|
| Sector | Change Annual Net Income Since 2019 (\$b) | Rank | Change Annual Net Income Since 2019 (%) | Rank |
| Oil & Gas Extraction & Service | \$38.0 | 1 | 1011% | 1 |
| Banks & Deposit Institutions | \$17.3 | 2 | 60% | 17 |
| Misc. Financial Intermediation | \$13.7 | 3 | 31% | 24 |
| Real Estate | \$12.4 | 4 | 35% | 23 |
| Mining | \$11.3 | 5 | 695% | 2 |
| Wood & Paper Products | \$9.5 | 6 | 552% | 3 |
| Primary Metal Mfctg. | \$7.1 | 7 | 148% | 7 |
| Other Retail | \$6.0 | 8 | 132% | 11 |
| Motor Vehicle Dealers | \$5.4 | 9 | 210% | 5 |
| Insurance Companies | \$4.8 | 10 | 111% | 15 |
| Petroleum Refining | \$4.7 | 11 | 40% | 22 |
| Building Materials Wholesale | \$4.2 | 12 | 117% | 14 |
| Machinery & Equipment Wholesale | \$3.2 | 13 | 53% | 19 |
| Food & Beverage Retail | \$2.8 | 14 | 120% | 12 |
| Food Manufacturing | \$2.4 | 15 | 47% | 21 |
| | | | | |
| Top 15 Sectors | \$142.9 | | 89.2% | |
| All Non-Financial Industries | \$79.2 | | 30.1% | |
| All Financial Industries | \$32.2 | | 28.4% | |
| All Industries | \$111.4 | | 29.6% | |
| Source: Author's calculations from Statistics Canada Tables 33-10-0225-01 and 33-10-0227-01. Compares 2019 annual net income to latest four quarters (4Q2021 to 3Q2022). | | | | |

A secondary source of price inflation arising from petroleum products is visible in the petroleum refining sector.⁴ Its profits surged by 40% between 2019 and the most recent 12-month period, increasing by \$4.7 billion. So surging prices for petroleum products paid by Canadians are partly reflected in wider refinery profit margins, but mostly in the much larger bottom-line profits recorded by the petroleum extraction industry.

Two financial sectors recorded the second and third largest increases in profit since 2019, with after-tax profits rising by a combined total of over \$30 billion between them in this period. Banks and other depository institutions saw their profits surge by \$17 billion (up 60%), and a category of financial firms called 'other financial intermediaries'⁵ saw profits rise by \$13 billion (or 31%). Recent increases in interest rates, intended to reduce inflation, have caused a rapid increase in debt service costs on mortgages and other forms of lending. Ironically, this actually increases inflation (with higher debt charges more than offsetting the decline in property prices also experienced in recent months). The mortgage interest cost component of the CPI has grown 11.4% in the last year. A third financial sector, the insurance industry, also recorded a strong increase in profits: net income more than doubled, rising by almost \$5 billion, driven up by both higher property valuations and rising premium rates.

Profits in the real estate sector also expanded strongly since COVID, inflated by the surge in property sales and house prices that occurred during the pandemic (largely thanks to ultra-low interest rates). Real estate profits grew \$12.4 billion, or 35%, from 2019 through to the latest 12-month period.

The non-petroleum mining sector saw its profits rise seven-fold between 2019 and the latest 12-month period. Mining profits (excluding oil and gas) rose by \$11.3 billion, or 695%. Sky-high global prices for several mineral and industrial commodities propelled this outsized increase in the mining sector's profits. While consumers do not buy these products directly (and hence they are not directly reflected in the consumer price index), they nevertheless contributed to higher inflation via supply chains which use these minerals as inputs.

Similarly, other sub-sectors also reaped super-strong profits as a result of the spike in global commodities prices that occurred during the pandemic. These include primary metal manufacturing (such as mining-related processing and smelting activities like nickel, aluminum, and iron ore): profits surged by 148%, or over \$7 billion. Higher prices for these metals are also ultimately reflected in higher prices for an infinite array of consumer products made from primary metal inputs.

⁴ Statistics Canada defines this sector as 'petroleum and coal product manufacturing,' but it consists mostly of petroleum refining.

⁵ This category includes trusts, investment companies, holding companies, venture capital firms, and other financial trading firms.

Similarly, profits in wood product and paper manufacturing exploded (by over 550%), as a result of enormous price increases for lumber and wood products during the pandemic. A shift in consumer demand toward building products (as millions of housebound consumers spent spare income on home renovations), combined with a boom in residential construction, led to this surge in prices. Profits in wood and paper product manufacturing grew by almost \$10 billion. Wholesale distributors of building materials, and machinery and equipment used in construction projects, also rode the coattails of this boom – soaring by a combined total of \$7.5 billion.

A range of retail sectors also profited mightily from COVID-related disruptions in supply chains and shifts in consumer spending. Profits in motor vehicle dealers more than tripled (rising by over \$5 billion); dealers took advantage of shortages in international vehicle supply (resulting from global manufacturing lockdowns and transportation disruptions) to sharply increase vehicle prices for consumers. A catch-all category called ‘other retail’⁶ more than doubled its profits, with net income swelling by \$6 billion (or 132%).

Ironically, the last two sectors listed on Table 1 have perhaps received more attention regarding the role of their profits in higher inflation than any of the other industries profiled. Profits in the food retail sector grew by 120% from 2019 through to the latest 12-month period, swelling by \$2.8 billion. Food manufacturers also pocketed \$2.4 billion in additional profits – a 47% jump in net income. Together, food manufacturers and retailers enjoyed \$5.2 billion in additional profit as food prices soared – causing financial distress, and widespread anger, for Canadian food consumers.

The role of higher profits for supermarket chains (and throughout the food supply chain) is now the subject of parallel investigations by the federal Parliament and by the Competition Bureau. Table 1 confirms that food retailers and manufacturers have indeed experienced dramatic increases in profits since the pandemic, which certainly partially explains the painful run-up in food prices in Canada. Other factors also contributing to higher food prices include supply disruptions, transportation issues, and global weather and climate events. However, the overall finding of Table 1 clearly suggests that public and policy concern over excess profits and their impact on inflation needs to be broadened to include other super-profitable sectors, as well – including petroleum producers, financial institutions, the housing industry, and some more specialized products (such as building supplies and primary metal products). Outsized food and grocery profits have clearly contributed to rapid rises in food prices. Profit-taking in other key sectors has had even larger impacts on overall Canadian inflation.

⁶ This Statistics Canada category includes all retailing *other* than motor vehicles; food and beverage stores; and clothing, sports and general merchandise.

Concentrated Profits and Price Inflation

The correlation between the post-pandemic expansion of profits in these 15 super-profitable Canadian industries, and the simultaneous take-off of inflation, is explored in Table 2. Table 2 identifies 8 specific components of the consumer price index bundle used by Statistics Canada to measure inflation, that are particularly closely associated with the 15 super-profitable sectors discussed above. Together these 8 components account for 29% of the weighting of the total consumer bundle.

| Table 2 | | | | |
|--|--|---|----------------------------|--|
| Inflation Associated With Super-Profitable Sectors | | | | |
| Product | Profit Growth in Relevant Sectors (2019 to last 12 months) | CPI Inflation (year/year to October 2022) | Weight in CPI Basket | Contribution to CPI Rise (% pts) |
| Home Fuel Oil | Oil & Gas (1011%); Petroleum Refining (40%) | 55.86% | 0.32 | 0.18% |
| Home Natural Gas | | 25.27% | 0.78 | 0.20% |
| Gasoline | | 17.76% | 4.28 | 0.76% |
| Mortgage Interest | Banking (60%) | 11.40% | 2.94 | 0.34% |
| Groceries | Food Retail (120%); Food Manufacturing (47%). | 11.04% | 11.14 | 1.23% |
| Home Maintenance | Wood Products (552%); Building Materials Wholesale (117%) | 9.84% | 1.81 | 0.18% |
| Motor Vehicles | Motor Vehicle Dealers (210%) | 7.98% | 6.65 | 0.53% |
| Insurance | Insurance Companies (111%) | 7.62% | 1.37 | 0.10% |
| 8 Items Sub-Total | | 12.00% | 29.29 | 3.51% |
| Other Items | | 4.76% | 70.71 | 3.37% |
| All-Items CPI | | 6.88% | 100 | |
| Source: Author's calculations from Statistics Canada Tables 18-10-0004-01, 33-10-0225-01, and 33-10-0227-01, as described in text. | | | | |

Of course, the price increases associated with very large profits in the 15 sectors listed in Table 1 are also reflected across many other items in the CPI bundle. For example, higher food product prices (arising in part from higher food manufacturing profits) also show up in higher prices for food purchased from restaurants (which grew rapidly over the past year, although not as quickly as grocery prices). Higher petroleum product prices are also reflected in costs for various forms of private and public transportation, not just gasoline prices. So the impact of higher profits in those 15 sectors on overall consumer prices is only partially captured by 8 CPI items reported in Table 2.

Nevertheless, Table 2 strikingly confirms that price increases arising in super-profitable sectors are playing a dominant role in driving Canadian inflation. Higher prices for those 8 items alone account for over half of all the increase in the Canadian CPI over the past year. Prices grew by a weighted average of 12% for those products, versus just 4.76% for all other components in the CPI bundle (which together accounted for 71% of all consumer spending). Without the outsized price increases for those 8 products (driven by rapid increases in profits in their producing industries), inflation in Canada would have been almost one-third lower. Moreover, if other channels for the flow-through of inflation from those 15 super-profitable sectors were also considered, then the overall impact of their surging profits on economy-wide inflation would be even larger.

Conclusions and Policy Implications

The explosion of business profits in Canada since the COVID pandemic and the resulting surge in inflation confirm that not all Canadians have been equally harmed by the disruption, uncertainty, and higher prices associated with this global crisis. Company owners and executives in some super-profitable industries have profited handsomely from accelerating inflation. As a share of national GDP, corporate profits have never been higher than so far 2022. Those profits are the direct result of outsized increases in the prices paid by Canadians for many essential products and services: including energy, housing, food, and financial services. And price increases arising from 15 super-profitable sectors have been the dominant driver of accelerated inflation.

Working and low-income Canadians have been hurt badly by galloping inflation – with average real wages already down over 5% in the last two years (and more real wage declines in store). Worse yet, working Canadians are now being positioned to pay a potentially greater price for this inflation and the record profits behind it. Based on the trajectory of monetary policy, workers will likely soon confront a deliberately engineered economic slowdown, with the Bank

of Canada quickly lifting interest rates to deliberately increase unemployment, reduce wage growth, and eventually restore inflation to its 2% target.⁷

The biggest price increases driving accelerating inflation have arisen from a sub-set of 15 industries which have recorded especially rapid increases in profitability. Beyond those 15 sectors, both profits and inflation have been much more modest. This suggests some critical insights for policy-makers (including the Bank of Canada):

- In aggregate, profits have increased three times faster than wages since 2019, and the absolute impact of record profits on unit costs has been larger than the absolute impact of higher labour compensation. This further undermines the assertion by Bank of Canada leaders that inflation is resulting from an overheated labour market and rising wages. (The facts that nominal wages have grown more slowly than prices throughout the post-pandemic inflationary episode, and that labour's share of GDP has declined since pre-COVID norms, are further counter-evidence to the Bank's claim that current inflation is caused by wages.)
- The concentration of higher profits since the pandemic within a minority of industry groupings also throws into doubt the broader assertion by the Bank of Canada that generalized excess demand (fuelled, in its view, by excess wage growth) is driving higher prices. If general consumer spending power was too strong, we would expect strong sales, rising prices, and rising profits across the whole spectrum of sectors. But this has not occurred. Outside of the 15 super-profitable sectors listed in Table 1, aggregate profits in Canada have *declined* since the pandemic. This suggests that sector-specific factors (such as supply disruptions affecting certain industries, the global oil price shock, and shifts in consumer demand toward certain segments like building products) are more relevant to recent price rises, rather than a generalized condition of overheating.
- Since unprecedented and concentrated increases in corporate profits are so clearly associated with the main drivers of higher inflation, policy-makers should consider other ways to reduce inflationary pressure – rather than subjecting the entire economy to a 'cold bath' of employment-reducing monetary tightening.⁸ These measures could include:
 - Targeted price regulations to limit the extent to which companies can take advantage of supply disruptions and other sector-specific factors to jack up prices (these would seem especially appropriate in the energy and housing sectors).

⁷ See "Restoring labour market balance and price stability," Remarks by Tiff Macklem, 10 November 2022, <https://www.bankofcanada.ca/2022/11/restoring-labour-market-balance-and-price-stability/>, for an explicit statement of the Bank's view that unemployment is too low and must be increased.

⁸ For more discussion of alternative approaches, please see Jim Stanford, *A Cure Worse than the Disease? Toward a More Balanced Understanding of Inflation and What to Do About It* (Vancouver: Centre for Future Work, 2022), <https://centreforfuturework.ca/2022/10/19/orthodox-cure-for-inflation-will-be-worse-than-the-disease/>.

- Excess profit taxes to recapture some of the surplus pocketed by companies and their owners in these super-profitable sectors.
- Offsetting fiscal supports for consumers, financed from excess profit levies, to reduce the impact of inflated prices and resulting profits in these critical industries. If those fiscal supports were delivered prior to customer purchase (in the form of a negative indirect tax, for example), they could reduce the recorded rate of inflation. Even if they were disbursed directly to consumers (in the form of rebates or tax credits), they would nevertheless help to offset the financial distress caused by these key sources of inflation.

Other countries have implemented policies in line with these recommendations, instead of shifting the full burden of adjustment and inflation control onto the backs of working people through higher interest rates and resulting disemployment.⁹ In Canada, however, the right of petroleum companies, housing and real estate players, banks, and supermarket chains to charge whatever the market will bear – and reap unprecedented profits as a result – has been largely unchallenged.¹⁰ We need a more balanced approach to controlling inflation (and the concentrated profits that are both the result and an important cause of it), including where possible by short-circuiting the ability of firms to profit from the disruptions that have been an inevitable result of the unprecedented events of the last three years. Otherwise, the Bank of Canada's existing approach will make working people pay twice – once through higher prices, and then again through a deliberate recession – for inflation that they didn't cause.

⁹ Several European countries (including most recently the EU itself) have implemented price caps for certain energy products to limit the flow-through of higher global oil and gas prices to consumers (and hence into the inflation rate). Many countries have also imposed excess profit taxes on the energy sector, proceeds from which are redistributed via household transfers to offset increased costs for energy consumers.

¹⁰ To be fair, some Canadian policies have reflected the principles noted above, including: provincial rent controls, the excess profit tax imposed by the federal government on large banks and insurance companies, and modest income supports for low-income Canadians (through the expanded GST credit, the Canada Housing Benefit, and the Canada Workers Benefit).