

ACTU INQUIRY INTO PRICE GOUGING AND UNFAIR PRICING PRACTICES

- Recommendations of the report are focused on measures to increase competition.
 - This includes a more powerful ACCC in general, more cartel enforcement, stricter merger restrictions, powers to split companies, making the charging of ‘excessive prices’ an offence and banning non-compete clauses in employment contracts.
 - A number of industry specific recommendations are for issues to be reviewed by Treasury’s Competition Review, a 2-year review announced in Aug 2023. (The Government also commissioned a review of the Food and Grocery Code of Conduct to report June 2024).
- The report is motivated by a discussion of the costs of high inflation as well as (i) a view that the *level* of prices is too high in some industries, and (ii) that higher corporate profits have been the central driver of recent high *inflation*. The report cites a 1½ ppt increase in the non-mining profit share over 2019 to 2022. The report also refers to large increases in profits in dollar terms within the wholesale trade, manufacturing and transport sectors.
 - The RBA has assessed corporate profit margins and the profit share of income as relatively stable outside the mining sector (See briefing 1g ‘Profit Margins and Inflation’), suggesting profit have grown at a similar pace to input costs. Excluding mining, the GVA deflator has risen by 5.1 per cent over the past year, of which 3.5 ppts was due to labour and 1.2 ppts was due to profits.
 - (Similarly, last October at Senate Estimates, Treasury stated that there had not been evidence that changes in mark-ups or corporate profiteering had been the *main* driver of inflation, although they acknowledged that corporations in some areas had made substantial profits from high commodity prices.)
 - That said, the RBA has also noted a slight increase in the non-mining profit share since 2019 depending on the measurement approach (see Table 1).
 - A rising profit share is not causal evidence that profits are driving inflation. Strong demand explains both increased profits and high inflation.
- The report notes that both demand and supply have played a role in inflation since COVID, but suggests demand has not been particularly strong, pointing to weak per capita consumption and real wage outcomes.
 - The RBA’s assessment is that supply factors accounted for ½ to ⅔ of the increase in inflation 2021-2023. As supply factors have faded over 2023, strong demand relative to potential output remains the key source of inflationary pressure.

Table 1: Labour and Profit Shares of Income (ex mining, ex fin corps)*

	Labour	Profits (ex GMI)
Approximate growth in factor income from 2018/19 to 2022/23	~30 per cent	~40 per cent
Approximate factor share at 2018/19	~57 per cent	~13½ per cent
Approximate factor share at 2022/23	~57½ per cent	~15 per cent
Approximate change in factor share 2018/19 to 2022/23	~½ ppt	~1½ ppt

* Shares don’t sum to 100% due to exclusions of: GMI and GOS of public corps, government, dwellings
Sources: ABS; RBA