Enterprises' earnings

In 2016, the margin rate of non-financial corporations (NFCs) would appear to have risen slightly, reaching an annual average of 31.7% after 31.4% in 2015 and 30.4% in 2014. For the last two years, enterprises have benefitted from the ramp-up of public policies aimed at bolstering employment – mainly the tax credit for encouraging competitiveness and jobs, the Responsibility and Solidarity Pact and the hiring premium for SMEs. The drop in oil prices also reduced their production costs. Conversely, real wages continued to increase more rapidly than apparent labour productivity, once again taking their toll on the margin rate.

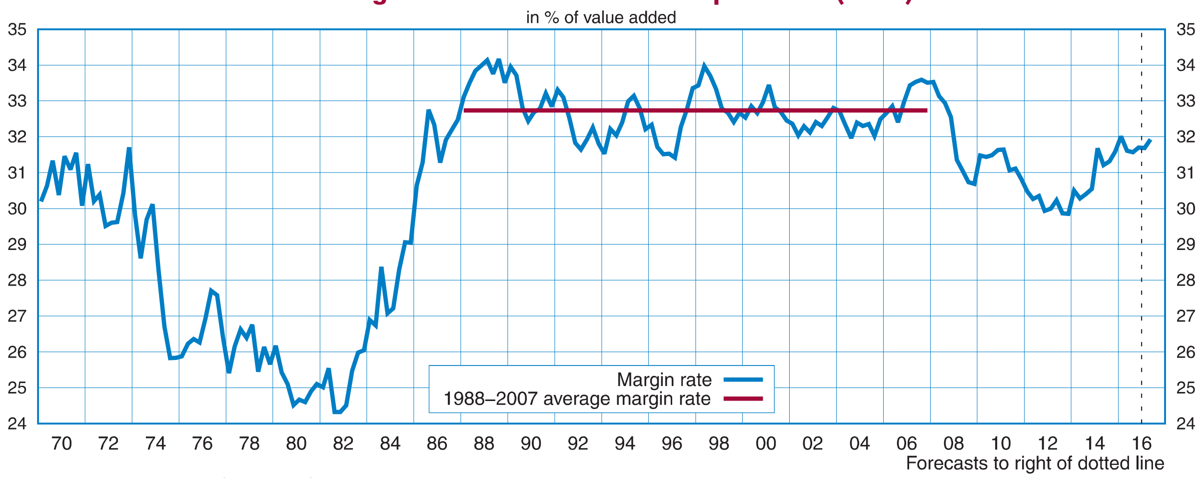
In H1 2017, the margin rate should increase again slightly, to 31.9%, mainly because real wages are set to slow with the upturn in inflation.

The margin rate would appear to have increased a little in 2016

In 2016, the margin rate of non-financial corporations (NFCs) would appear to have risen a little (*Graph 1*), to reach an annual average of 31.7% after 31.4% in 2015 and 30.4% in 2014. In 2016, it was buoyed once again by several measures aimed at stimulating job creation. First, a hiring premium for SMEs was introduced at the beginning of 2016. Next, the second phase of the Responsibility and Solidarity Pact (PRS) was implemented: the lowering of the rate of corporate contributions to family allowances was extended to wages of up to 3.5 times the minimum wage from 1st April 2016. Lastly, the tax credit for encouraging competitiveness and jobs (CICE) continued its ramp-up. All these policies would appear to have contributed to an ex ante increase in the margin rate of 0.3 points, after +0.6 points in 2015 (*Table*). In addition, the terms of trade, which mainly reflect variations in oil prices, improved further in 2016. This factor should therefore have improved the margin rate by 0.7 points, still a little less than in 2015 (+0.8 points). On the other hand, payroll employment appears to have increased almost as fast as value added. Apparent labour productivity therefore appears to have slowed significantly while real wages appear to have remained more buoyant. Cumulatively, productivity gains and real wages are therefore expected to account for –0.7 points in the growth in margin rate (after –0.4 points in 2015).

At the start of 2016, the sub-annual profile of the margin rate was uneven, especially in industry (*Graph 2*), mainly because it followed fluctuations in activity via productivity. In summer 2016, however, it returned to the same level as at the end of 2015 (31.6%) and by the end of 2016 it would appear to have virtually stabilised (31.7%).

1 - Margin rate of non-financial corporations (NFCs)

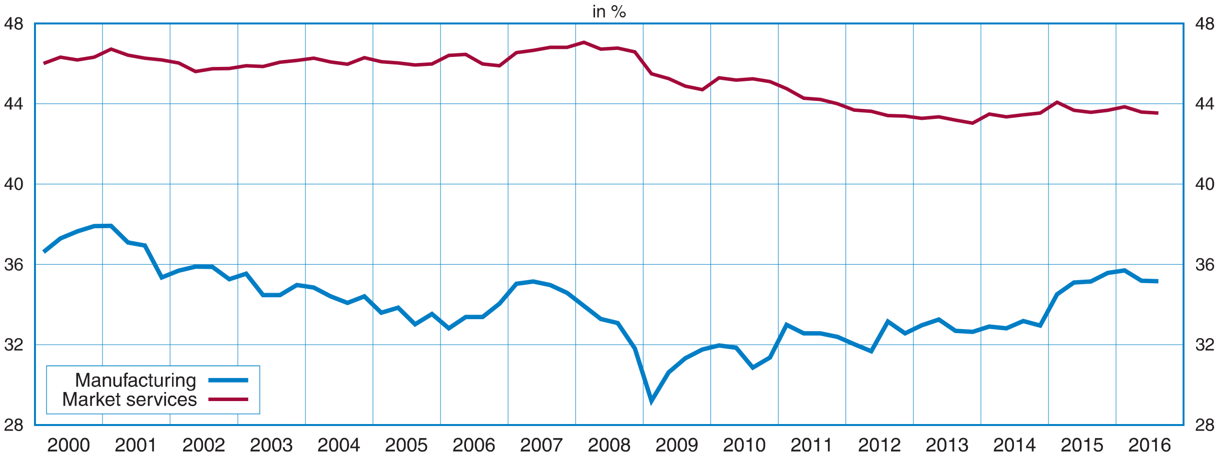


Source: INSEE, quarterly national accounts

The margin rate is likely to increase only slightly in H1 2017

In H1 2017, nominal wages are unlikely to adjust to the upswing in inflation and as a result, real wages should slip back. Conversely, companies are expected to generate some small productivity gains. Cumulatively, these two components should contribute +0.1 points to the increase in margin rate over the half-year. At the same time, the hiring premium for SMEs should ramp up still further and boost the increase in margin rate by +0.1 points over the half-year. This contribution is likely to be offset only partly by the increase in the rate of employers' pension contributions in January. Despite the rise in energy prices, the terms of trade are unlikely to influence corporate margins as companies are expected to raise their producer prices again. All in all, the margin rate is set to rise slightly during H1, reaching 31.9% by mid-2017. ■

2 - Margin rate in industry and in services



Source: INSEE, quarterly national accounts

Breakdown of the margin rate of non-financial corporations (NFCs)

	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)	**31.7**	**31.2**	**31.3**	**31.6**	**32.0**	**31.6**	**31.6**	**31.7**	**31.7**	**31.9**	**31.4**	**31.7**	**31.9**
Variation in margin rate	**1.1**	**–0.5**	**0.1**	**0.3**	**0.4**	**–0.4**	**0.0**	**0.1**	**0.0**	**0.2**	**1.0**	**0.3**	**0.1**
Contributions to the variation margin rate													
Productivity gains	0.5	–0.1	0.1	0.1	0.4	–0.4	–0.1	0.0	–0.1	0.2	0.8	0.2	0.0
Real wage per capita	–0.5	–0.1	–0.3	–0.3	–0.4	0.0	–0.1	0.0	0.1	–0.1	–1.2	–0.9	0.0
Employer contribution ratio	0.3	0.0	–0.1	0.0	–0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Ratio of the value-added price to the consumer price	0.3	–0.2	0.4	0.4	0.4	–0.2	0.0	0.1	–0.1	0.1	0.8	0.7	0.0
Other factors	0.6	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.5	0.3	0.2

Forecast

Note: The margin rate (TM) measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: taxes on production net of operating subsidies, including CICE and the emergency plan for employment:[1]

$$TM=\frac{EBE}{VA}\approx 1-\frac{W.L}{Y.P_{va}}+\text{other factors}=1-\frac{L}{Y}\frac{W}{SMPT}\frac{SMPT}{P_c}\frac{P_c}{P_{va}}+\text{other factors}$$

1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsidy to companies, as recommended in the latest version of the European System of Account (ESA 2010).

Source: INSEE