Enterprises' earnings

At the end of 2017, the margin rate of non-financial corporations (NFC) would appear to have been higher than at the end of 2016, at 32.0% against +31.6%. It remained stable at the beginning of the year then rose from Q2 onwards, mainly because of the fall in the price of Brent. Then in H2, it appears to have increased further, as productivity gains seem to have more than offset the dynamism of wages and the slight upturn in Brent oil prices.
At the start of 2018, the margin rate is expected to remain stable in Q1, as the effect of the increase in the rate of the CICE tax credit is offset by the downward trend in energy prices and wages. It is then likely to slip back to 31.8% by mid-year as a result of the effect of the acceleration in real wages.

The margin rate at the end of 2017 would appear to have been higher than at the end of 2016

On average in 2017, the margin rate of non-financial corporations (NFCs) appears to have remained stable at 31.8%. It weakened slightly in 2016 (–0.1 points), after a strong rebound in 2015 (+1.5 points). Real wages again appear to have been more buoyant than productivity gains and the rise in oil prices is expected to have eaten into margins to some extent.

The margin rate dropped to 31.6% in Q1 2017 due to the rise in oil prices, but then rose to 31.8% in spring with the drop in the price of Brent (*Table*). Overall in H1 2017, the acceleration in productivity more than offset that in wages. In Q3 2017, wage rises compensated for productivity gains and the margin rate remained stable. In Q4, real wages appear to have come to a standstill due to the rise in inflation, whereas productivity appears to have gathered pace, contributing to the increase in the margin rate. At year's end, the increase in oil prices nevertheless seems to have driven the margin rate down by –0.3 points and all in all, the rate appears to have increased only slightly, to 32.0%. It seems to have remained below the average seen between 1988 and 2007 (*Graph 1*), largely due to the service branches. Conversely, in industry, it looks set to have been at its highest level since 2000 (*Graph 2*).

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

in % and in points

	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)	**32.3**	**31.8**	**31.7**	**31.6**	**31.6**	**31.8**	**31.8**	**32.0**	**32.0**	**31.8**	**31.8**	**31.8**	**31.8**
Variation in margin rate	**0.3**	**–0.4**	**–0.1**	**–0.1**	**0.0**	**0.2**	**0.0**	**0.2**	**0.0**	**–0.2**	**–0.1**	**–0.1**	**0.1**
Contributions to the variation margin rate													
Productivity gains	0.3	–0.4	–0.1	0.0	0.3	0.3	0.2	0.4	0.0	0.1	0.0	0.6	0.6
Real wage per capita	–0.4	0.0	–0.1	–0.2	–0.2	–0.3	–0.2	0.0	0.0	–0.3	–0.9	–0.7	–0.4
Employer contribution ratio	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.0
Ratio of the value-added price to the consumer price	0.4	–0.2	0.0	0.0	–0.2	0.2	0.0	–0.3	–0.1	0.1	0.6	–0.2	–0.2
Other factors	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.2	0.0	0.1	0.1	0.1

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]

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

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).

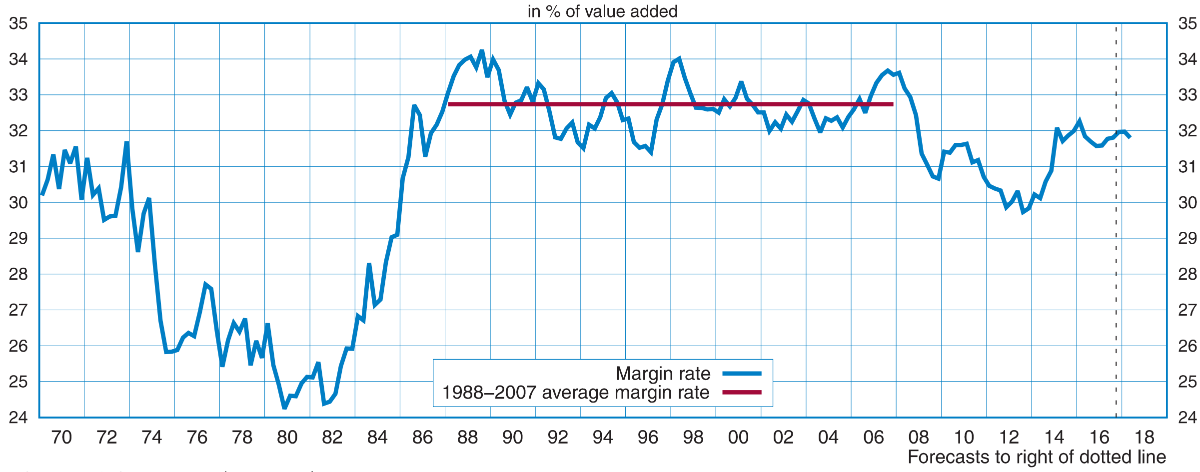
Source: INSEE

The margin rate is likely to fall slightly in H1 2018

In Q1 2018, the margin rate of NFCs should stabilise, at 32.0%, before slipping back in Q2 to reach 31.8% by mid-year. Productivity gains are unlikely to offset the buoyancy of real wages. Meanwhile, consumer prices should rise faster than value-added prices, due to the increase in energy taxes on 1st January followed by the increase in taxes on tobacco on 1st March. In accounting terms, this is expected to have an impact on the margin rate, contributing –0.1 points in Q1.

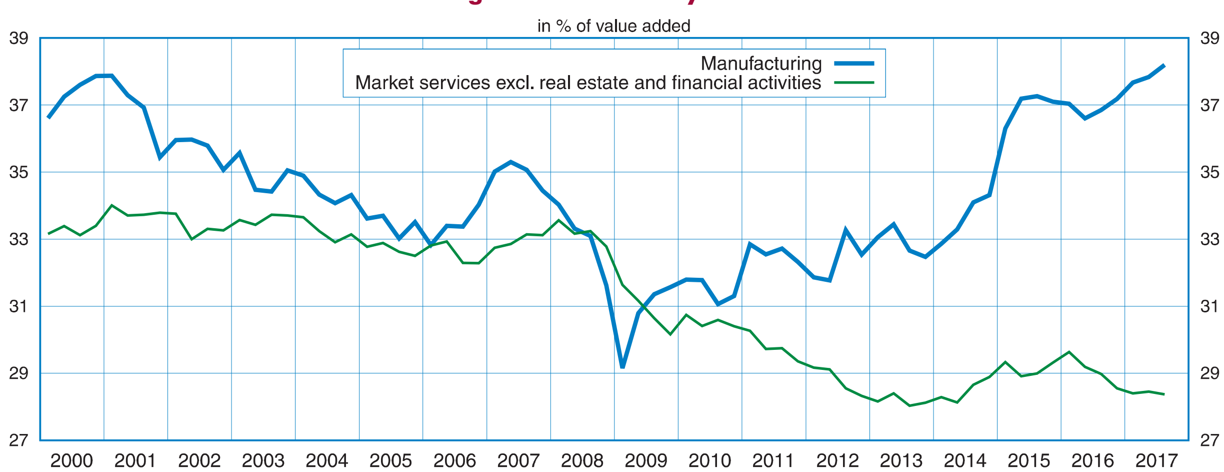
Lastly, the tax credits granted in 2018 under the CICE initiative should increase sharply, since the rate rose from 6% to 7% of total payroll costs in 2017. This rise is likely to be partially offset by the reduction in the amounts of the hiring premium offered to SMEs, as the closing date for applying to the scheme was 30 June 2017. ■

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



Source: INSEE, quarterly national accounts

2 - Margin rate in industry and services



Source: INSEE, quarterly national accounts