Enterprises' earnings

At the end of 2018, the margin rate of non-financial corporations (NFCs) should be slightly higher than in 2017, at 32.2%. It had dipped in Q2 2018 (31.5% after 32.0% on average in 2017), due to the deterioration in terms of trade. In H2, these terms are expected to improve, and the margin rate should return to a higher level. Productivity gains are also likely to contribute to this improvement. In 2019, a one-off rise in the margin rate is expected due to the transformation of the competitiveness and employment tax credit (CICE) into an exemption from employer contributions. It should reach 33.5% by mid-2019.

At end 2018, the margin rate is expected to exceed its 2017 level

After remaining stable at 32% on average in 2017 (*Table*), the margin rate fell by 0.5% in Q2 2018 to reach 31.5%. This drop can be attributed to consumer prices being more vigorous than value-added prices – especially due to the rise in oil prices, and to the increase in real wages – whereas productivity gains have been sluggish. The margin rate is likely to increase by 0.3 points in Q3 and then by 0.4 points in Q4, driven by productivity gains and the improvement in the terms of trade, in particular. Consequently, it is expected to stand at 32.2% at the end of the year. It looks set to remain below its average level between 1988 and 2007 (*Graph 1*), largely due to services. With the margin rate standing at a higher level in industry, the decline that began in Q2 2017 is likely to continue at the end of 2018 (*Graph 2*). On average in 2018, the margin rate of non-financial corporations (NFCs) looks set to drop slightly (–0.1 points) due to the slowdown in productivity gains and the increase in oil prices.

The margin rate should increase sharply in H1 2019 due to the conversion of the CICE into a reduction in charges

In 2019, the competitiveness and employment tax credit (CICE) will be transformed into an employer contribution exemption scheme (*Employment sheet Focus*). From 1st January 2019, a 6-point reduction in health insurance contributions will replace the CICE (whose rate is also 6 points), while enterprises will also benefit from the CICE for

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

in % and in points

	2017				2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)	**31.7**	**32.0**	**32.1**	**32**	**32.0**	**31.5**	**31.8**	**32.2**	**33.5**	**33.5**	**32.0**	**31.9**	**33.5**
Variation in margin rate	**0.1**	**0.3**	**0.1**	**–0.1**	**0.0**	**–0.5**	**0.3**	**0.4**	**1.3**	**0.0**	**0.1**	**–0.1**	**1.6**
Contributions to the variation margin rate													
Productivity gains	0.6	0.3	0.3	0.4	–0.1	0.0	0.3	0.1	0.1	0.1	1.1	0.6	0.4
Real wage per capita	–0.1	–0.1	–0.1	–0.1	0.1	–0.1	–0.1	–0.2	–0.4	–0.2	–0.2	–0.2	–0.8
Employer contribution ratio	0.0	0.0	–0.1	0.0	0.0	0.0	0.0	0.0	1.6	0.0	–0.1	–0.1	1.6
Ratio of the value-added price to the consumer price	–0.4	0.1	–0.1	–0.3	–0.3	–0.2	0.1	0.5	0.0	0.0	–0.8	–0.5	0.4
Other factors	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0

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]

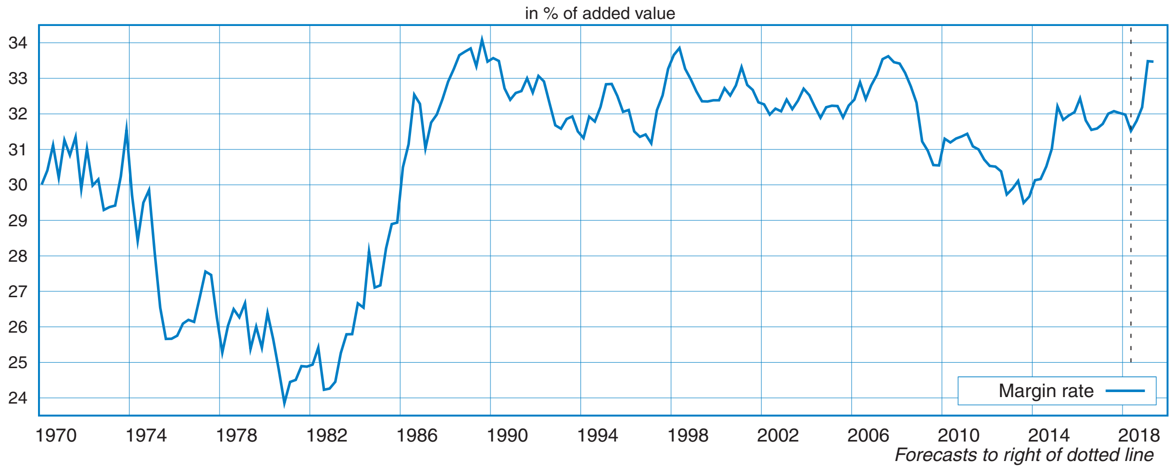
$$TM = \frac{EBE}{VA} \approx 1 - \frac{W.L}{Y.P_{va}} + \text{other factors} = 1 - \frac{L}{Y}\frac{W}{SMPT}\frac{SMPT}{P_c}\frac{P_c}{P_{va}} + \text{other factors}$$

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

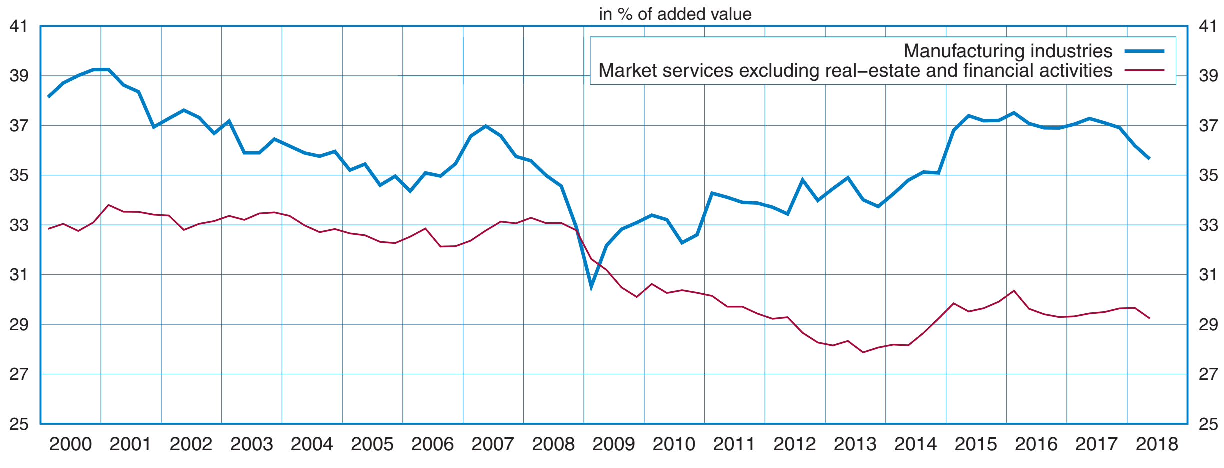
their wages for 2018, paid in 2019. This double transitional payment should give a one-off boost to their margin rate in Q1. The abolition of the CICE for wages in 2019, however, will have a downward impact of the same magnitude on the margin rate of NFCs in Q1 2020. In addition, the terms of trade are expected to make a positive contribution at the beginning of 2019. In other respects, the contribution of real wages is likely to be negative (–0.4 points and then –0.2 per quarter), whereas the improvement in productivity should contribute around +0.1 points per quarter to the margin rate. Consequently, the margin rate of NFCs looks set to increase strongly, to 33.5% by mid-2019. ■

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