Enterprises' earnings

In 2018, the margin rate of non-financial corporations (NFCs) fell slightly, reaching 31.2% as an annual average after 31.8% in 2017. Productivity gains slowed and terms of trade once again affected enterprises' margin rate.
In 2019, the margin rate looks set to improve significantly and should rise to 32.8%, with a one-off boost from the transformation of the competitiveness and employment tax credit (CICE) into an exemption from employer contributions in Q1.

The margin rate fell slightly in 2018

On average in 2018, the margin rate of NFCs fell slightly, to 31.2% of value added after 31.8% in 2017 (*Graph 1*). Productivity gains only partly made up for the rise in real wages (*Graph 2*) and the continuing deterioration in the terms of trade, especially via the rise in oil prices.

Although stable at the beginning of the year, the margin rate fell by 0.5 points in Q2 2018 to reach 30.9% (Table). This drop is attributable to a relative buoyancy of real wages. The margin rate then increased by +0.2 points in Q3 and by +0.4 points in Q4, due to the effect of productivity gains and improved terms of trade. In industry it was higher, picking up after Q2 (*Graph 3*).

The margin rate should increases strongly in H1 2019 then decline slightly

The margin rate is likely to increase in 2019, reaching 32.8% as an annual average. At the beginning of 2019, the competitiveness and employment tax credit (CICE) was transformed into an exemption from employer contributions. In effect, a 6-point reduction in sickness contributions has replaced the CICE (which also has a rate of 6 points) while enterprises are also benefitting from the CICE for 2018 wages, which is paid out in 2019. This transitional double payment should temporarily buoy up the increase in their margin rate in Q1[1]. In addition, the effect of productivity gains on the margin rate will probably be slightly positive in 2019 as an annual average (+0.3 points). However, the contribution made by

1. In Q1 2020, the absence of CICE for 2019 wages should result in a similar shock downwards on the margin rate of NFCs.

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

in % and in points

	Quarterly changes												Annual changes		
	2017				2018				2019				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Margin rate (in level)	**31.6**	**31.9**	**31.9**	**31.6**	**31.4**	**30.9**	**31.1**	**31.5**	**32.6**	**33.1**	**32.9**	**32.4**	**31.8**	**31.2**	**32.8**
Variation in margin rate	**0.2**	**0.3**	**–0.1**	**–0.2**	**–0.2**	**–0.5**	**0.2**	**0.4**	**1.1**	**0.4**	**–0.2**	**–0.5**	**0.1**	**–0.5**	**1.5**
Contributions to the variation margin rate															
Productivity gains	0.5	0.2	0.2	0.3	–0.1	–0.2	0.1	0.2	0.2	–0.1	0.1	0.1	0.9	0.2	0.3
Real wage per capita	–0.2	–0.2	–0.2	0.0	0.2	–0.1	–0.1	–0.3	–0.6	0.6	–0.1	–0.2	–0.4	–0.2	–0.6
Employer contribution ratio	0.0	0.0	0.0	–0.1	0.0	0.0	0.0	0.1	1.1	0.0	0.0	0.0	0.1	–0.1	1.2
Ratio of the value-added price to the consumer price	–0.3	0.2	0.0	–0.3	–0.3	–0.2	0.1	0.1	0.3	–0.1	0.0	0.0	–0.5	–0.5	0.3
Other factors	0.1	0.0	–0.1	–0.1	0.0	0.0	0.1	0.2	0.1	0.1	–0.1	–0.3	0.1	0.0	0.2

forecast

How to read it: : the margin rate(TM)measure the share of value-added which remunerates capital. Its varation 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]

$$TM=\frac{EBE}{VA}\approx 1-\frac{WL}{YP_{va}}+autres\,facteurs=1-\frac{L}{Y}\frac{W}{SMPT}\frac{SMPT}{P_t}\frac{P_t}{P_{va}}+autres\,facteurs$$

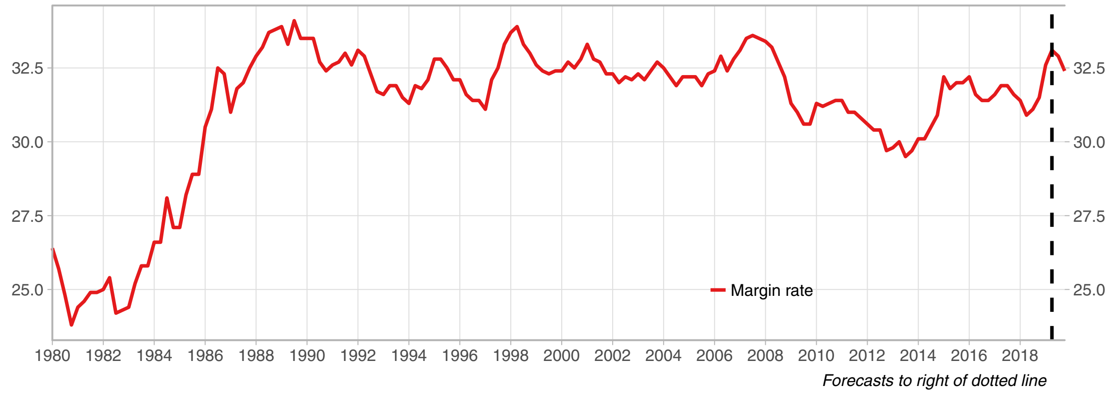
1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsisty to companies, as recommented in the latest version of the European System of Account (SEC 2010).

Source: INSEE

real wages is negative in Q1 (–0.6 points), due to the payment of the special bonus for purchasing power (Wages sheet). In Q2, the backlash for real wages is expected to contribute positively to the margin rate. It is then likely to decrease slightly by the end of the year. ■

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

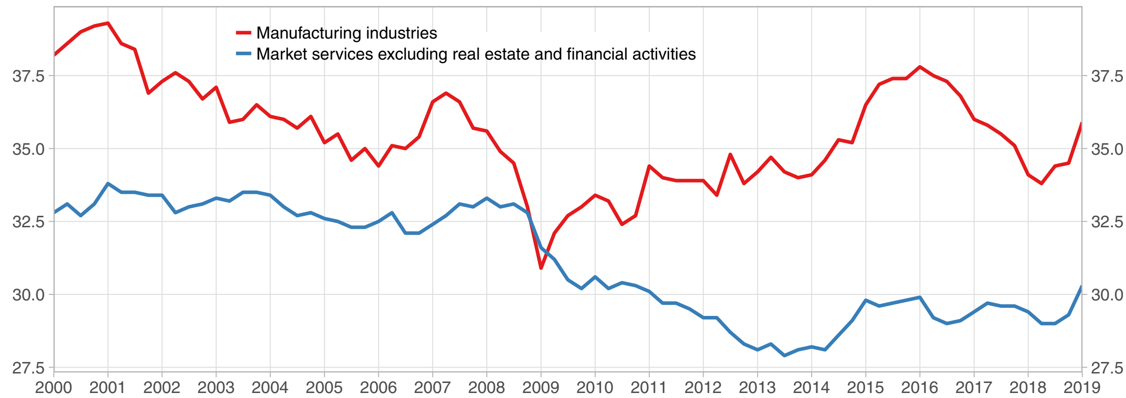
as a % of value added



Source: INSEE

2 -Productivity and real wages

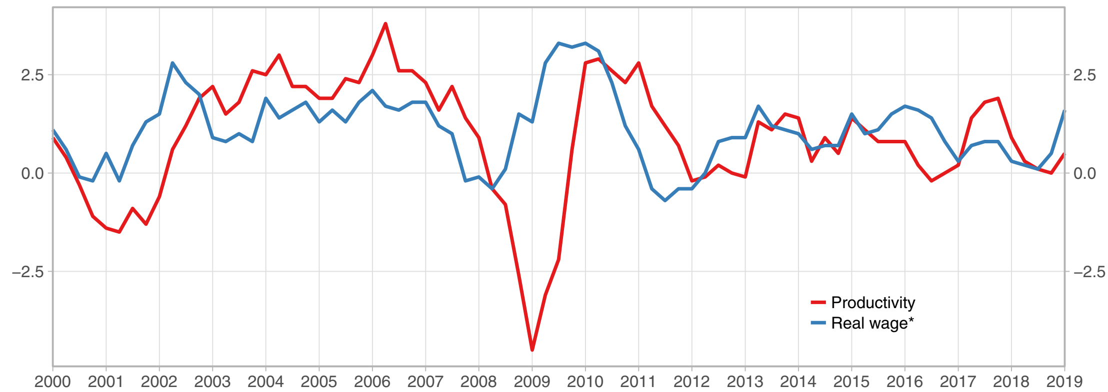
year-on-year changes in %



Source: INSEE
* Productivity: value added (in volume) of NFCs in relation to paid employment of NFCs
** Real wage: average wage per capita in relation to household consumption prices

3 - Margin rate in industry and services

year-on-year changes in %



Source: INSEE