# Enterprises' earnings

*In 2019, the margin rate of non-financial corporations (NFCs) should reach 32.5%, its highest level since 2008, due mainly to the one-off "double payment" from the competitiveness and employment tax credit (CICE), which has been transformed into an exemption from employer contributions.*

*At the beginning of 2019, although payment of the special bonus for purchasing power hampered the margin rate, it was also able to benefit in Q4 from the reduction in employers' contributions to unemployment insurance. The terms of trade are also expected to be favourable across the year.*

*In 2020, with the end of the "double payment" from the CICE, the margin rate is expected to come down to 31.7% in Q2. The positive effects of productivity gains and terms of trade are also likely to diminish over the forecasting period.*

## An important feature of 2019 was the transitional "double payment" from the CICE

In Q2 2019, the margin rate of NFCs reached 32.7%, a level not seen since 2007 (*Graph 1*). As a result of the transformation of the competitiveness and employment tax credit (CICE) into an exemption from employer contributions at the start of 2019, non-financial corporations benefited from a "double payment": one from the 6-point reduction in sickness contributions, the other linked with the pay-out of the CICE in 2019 based on 2018 wages. This transitional "double payment" has buoyed up the margin rate throughout 2019. In addition, the terms of trade have been favourable, partly offsetting the negative effect on the margin rate of companies paying exceptional bonuses. In Q2, real wages slowed dramatically as a backlash to the exceptional bonus at the beginning of the year. After this their moderate growth should be similar to that of productivity until Q4 2019 (*Graph 2*).

At the end of the year, the margin rate is expected to reach 32.8% (*Table*), with the extension of general reductions in contributions to unemployment insurance contributing +0.3 points to this increase. In industry, where the margin rate is structurally higher than in services, it has exceeded its level from the beginning of 2017 (*Graph 3*). On average in 2019, the margin rate for NFCs, all sectors combined, therefore looks set to rise by +1.3 points.

## The margin rate is expected to fall in H1 2020 with the end of the CICE

In H1 2020, with notably the end of the CICE, the margin rate of NFCs is expected to decline and reach 31.7% in spring.

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

in % and in points

| | Quarterly changes | | | | | | | | | | Annual changes | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2019 | | | | 2020 | | 2018 | 2019 | 2020 ovhg |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Margin rate (in level)** | **31.5** | **30.9** | **31.2** | **31.5** | **32.3** | **32.7** | **32.4** | **32.8** | **31.5** | **31.7** | **31.2** | **32.5** | **31.7** |
| **Variation in margin rate** | **–0.3** | **–0.5** | **0.3** | **0.3** | **0.8** | **0.4** | **–0.3** | **0.4** | **–1.2** | **0.1** | **–0.5** | **1.3** | **–0.9** |
| **Contributions to the variation margin rate** | | | | | | | | | | | | | |
| Productivity gains | –0.2 | –0.1 | 0.1 | 0.2 | 0.0 | –0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 |
| Real wage per capita | 0.2 | –0.2 | 0.0 | –0.3 | –0.6 | 0.5 | –0.3 | –0.1 | –0.1 | 0.0 | –0.2 | –0.6 | –0.2 |
| Employer contribution ratio | 0.0 | 0.0 | 0.0 | 0.1 | 1.1 | –0.1 | 0.1 | 0.3 | 0.0 | 0.0 | –0.1 | 1.2 | 0.3 |
| Ratio of the value-added price to the consumer price | –0.3 | –0.2 | 0.1 | 0.1 | 0.4 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | –0.5 | 0.6 | 0.2 |
| Other factors | 0.1 | 0.0 | 0.0 | 0.1 | –0.1 | 0.0 | –0.1 | 0.0 | –1.2 | 0.0 | 0.0 | –0.1 | –1.2 |

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]

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

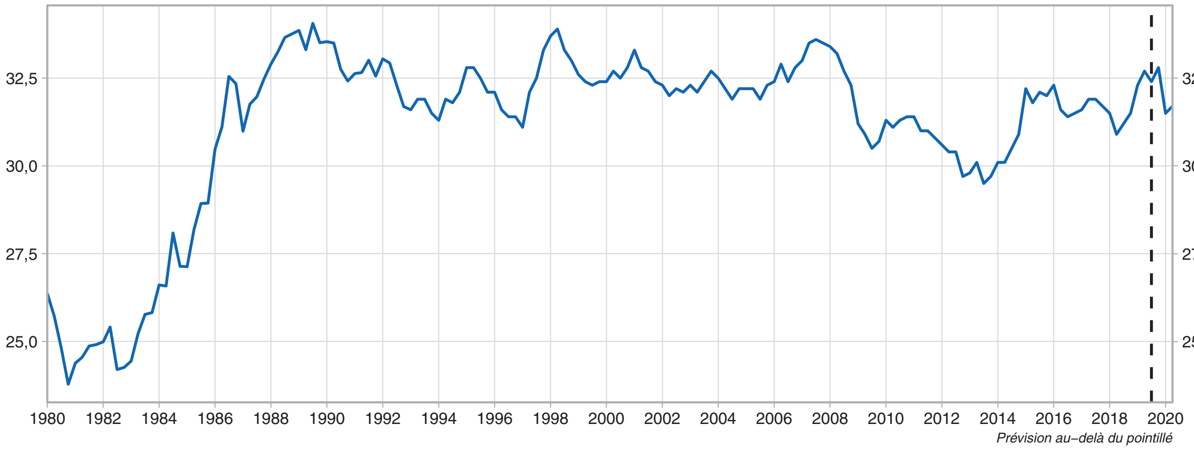
1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsisty to companies, as recommented in the latest version of the European System of Account (SEC 2010).

*Source: INSEE*

However, this downturn should be offset in part by payments of the outstanding balance of loans passed from the CICE to certain companies that are still beneficiaries. Additionally, the renewal of the exceptional bonuses paid by companies to some of their employees could contribute negatively to the margin rate at the start of the year, although in a way that is less notable than at the start of 2019 due to the more restrictive conditions. In addition, real wages and hence payroll are expected to be relatively more dynamic than productivity, which can affect the margin rate of NFCs. The terms of trade are no longer expected to sustain the margin rate. ■

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

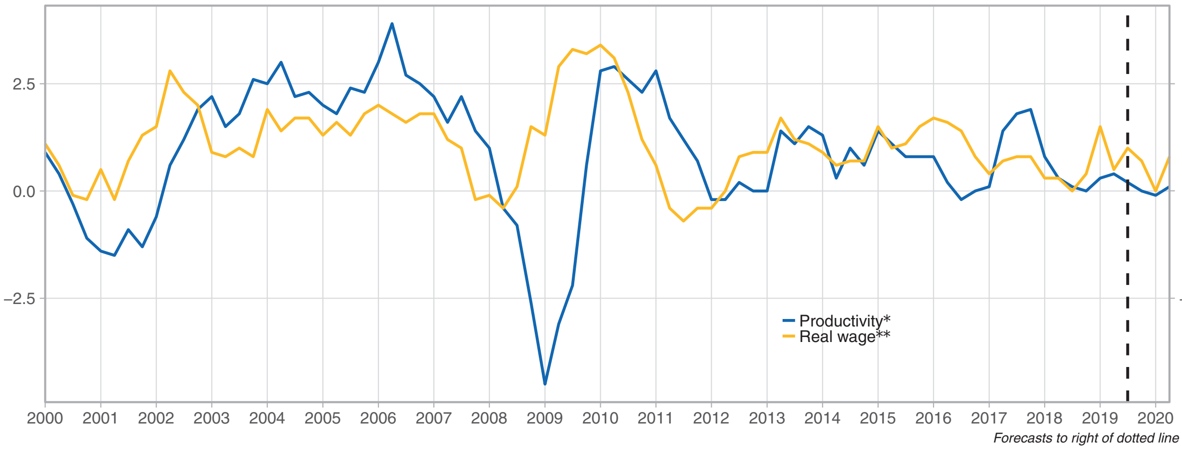
as a % of value added




*Source: INSEE*

**2 -Productivity and real wages**

year-on-year changes in %

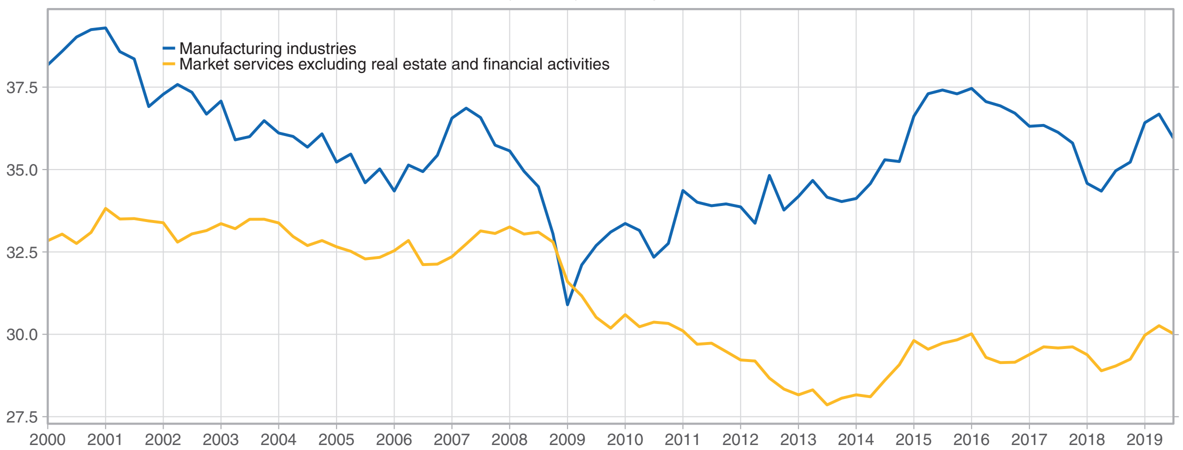



*Source: INSEE*

* 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*