

# Enterprises' earnings

After a sharp contraction in H1 2020, the margin rate of non-financial corporations (NFCs) bounced back in Q3 2020. It continued to increase in Q4 2020, rising to 30.4% (after 29.7%) despite the strengthening of health measures. The effect of the decline in activity, which was much less than in the spring, was therefore largely offset by the short-time working scheme and the scaling up of the Solidarity Fund mid-quarter. On average across 2020, the margin rate stood at 29.3%, against 33.2% in 2019. During Q1 2021, the slight increase in the value added of NFCs, the reduction of taxes on production and the use of the new Solidarity Fund throughout the quarter, which will be more targeted on affected companies, should result in a further rise in the margin rate (31.3%).

## After a limited decline in Q4 2020, the value added of NFCs looks set to increase slightly

The value added of NFCs declined by 9.7% in 2020 (► figure 1), due to the temporary shutdown of part of the economy in the spring and the compulsory closure of businesses. However, in Q4, and despite the second lockdown, the value added of NFCs was more resilient than expected (-1.3% as a quarterly variation), in the wake of economic activity overall.

Assuming that the health situation remains generally stable, similar in March to January and February, the value added of NFCs is expected to increase by 1.4% in Q1 2021: sectors that are required to close were already shut down for a large part of Q4 2020, while economic activity in industry is likely to pick up slowly.

## Subsidies are expected to increase further in early 2021, driven by changes in the Solidarity Fund

### ► 1. Breakdown of the margin rate of non-financial corporations

quarterly change, in %

	Quarters changes								Annual changes		
	2019				2020				2021 Q1	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Value added</b>	1.5	0.8	0.5	0.0	-6.8	-17.2	23.3	-1.3	1.4	4.1	-9.7
Subsidies	7.6	1.6	2.3	1.8	-38.7	5.1	-41.4	64.9	18.7	11.9	-42.0
Total resources	1.7	0.8	0.6	0.1	-7.7	-16.7	21.6	-0.5	1.7	4.3	-10.6
Payroll	-1.0	0.3	0.7	0.1	-3.0	-15.0	18.7	-1.0	0.9	0.7	-6.1
Taxes on production	10.9	1.5	0.4	-0.7	-1.8	-5.3	2.8	-2.6	-3.0	15.8	-5.0
Total charges	-0.1	0.4	0.6	0.0	-2.9	-14.2	17.2	-1.1	0.6	1.9	-6.0
<b>Gross operating surplus</b>	5.8	1.6	0.4	0.1	-17.9	-22.9	33.9	1.2	4.4	9.8	-20.4
<b>Margin rate (in %)</b>	33.0	33.3	33.3	33.3	29.4	27.3	29.7	30.4	31.3	33.2	29.3

■ Forecast  
Source: INSEE

The profile over time of subsidies received by NFCs has been severely disrupted since the start of 2020. Until 2019, these subsidies consisted of the competitiveness and employment tax credit (CICE), which disappeared in 2020 when it was transformed into a reduction in employer contributions. This resulted in a significant decline in subsidies in Q1 2020. Subsequently, subsidies increased due to the ramping up of the Solidarity Fund. At first, it provided one-off grants of €1,500 per month to businesses experiencing hardship, but it has since been modified several times and considerably strengthened during the November lockdown to provide more support for larger structures: now, eligible businesses can receive either a grant of up to €10,000, or up to 20% of their 2019 turnover, capped at €200,000 per month. This has resulted in a sharp increase in payments from the Fund, and hence in subsidies received by NFCs in Q4 2020.

In Q1 2021, with the Solidarity Fund extended until mid-2021, NFCs should once again receive more subsidies than in the previous quarter.

## Remunerations paid to employees mirrored the use of the short-time working scheme

Remunerations paid to employees by non-financial corporations fell by 6.1% in 2020. This significant decline reflects the fact that a proportion of employees' salaries was paid by general government, via the short-time working scheme: the quarterly profile of remunerations paid is therefore the reverse of the profile for use of this scheme. In Q4 2020, remunerations paid out fell a little, by 1.0%: the increased use of short-time working in November and December was partly offset by the slight increase in employment on average over the quarter. In Q1 2021, remunerations are expected to increase by 0.9%.

# French economic outlook

linked with the expected rise in the average wage per capita (► **Box in Household Income Sheet**).

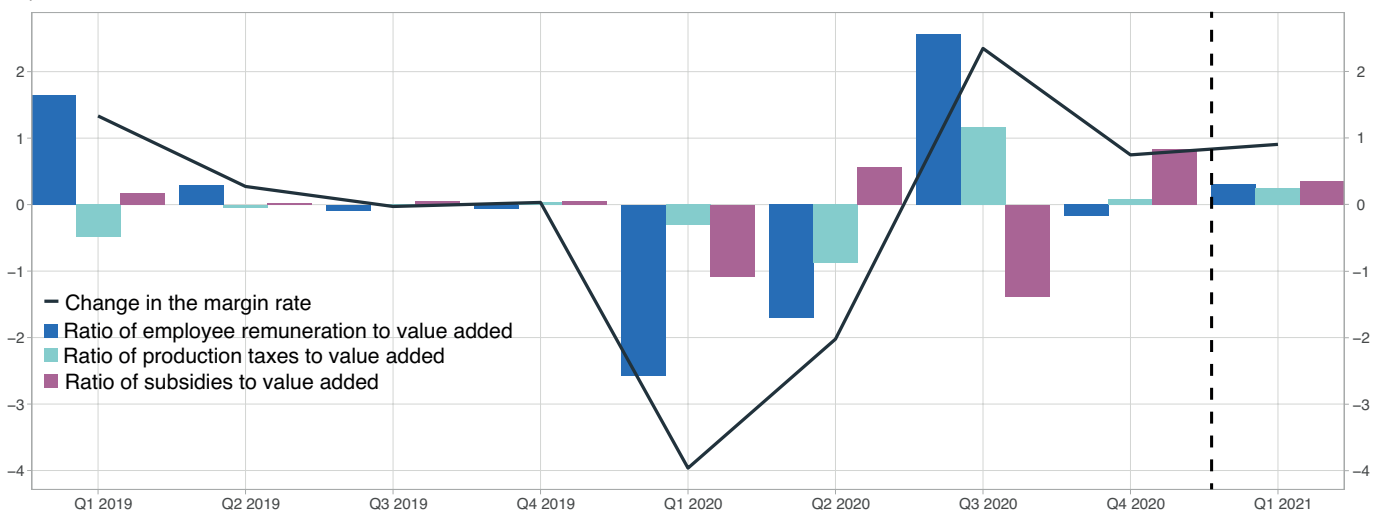
## The margin rate declined sharply in 2020 but rallied in the course of the year and should continue to increase in early 2021

The margin rate in 2019 stood at 33.2%, but increased occasionally, by about one percentage point, due to the “double payment” from the CICE. In 2020, the margin rate of NFCs declined overall as a result of the sharp fall in activity and hence in sales, and stood at 29.3%, however, it started to pick up in Q3 2020. In Q4, the modest drop in value added combined with the scaling up of the

Solidarity Fund and the take-up of the short-time working scheme led to an increase in the margin rate, to 30.4% (► **figure 2**).

In Q1 2021, the margin rate continued to increase, and reached 31.3%: businesses most affected by the restrictive health measures will probably continue to be supported by the reinforced Solidarity Fund, thus limiting their loss of income, while the sectors least affected should see their situation improve slightly. Businesses should also start to benefit from the reduction in taxes on production. This was adopted as part of the stimulus package and involves a €10 billion reduction in taxes on production across a full year. ●

### ► 2. Contributions to the change in margin rate



How to read it: in Q1 2021, the margin rate of non-financial corporations is expected to increase by 0.9 points. The contribution of the ratio  $\frac{\text{Subsidies}}{\text{Value added}}$  is expected to be 0.4 points

Note: - contributions are based on the breakdown

$$\begin{aligned} \text{Margin rate} &= \frac{\text{Gross operating surplus}}{\text{added value}} \\ &= 1 - \frac{\text{Employee remuneration}}{\text{added value}} = \frac{\text{Taxes on production}}{\text{added value}} + \frac{\text{Grants}}{\text{added value}} \end{aligned}$$

- in 2019, contributions associated with the ratio of remunerations for employees to value added included the change in the rate of employer contributions associated with the reform of the CICE.

Source: INSEE