

# Enterprises' earnings

At the end of 2020, the margin rate of non-financial corporations (NFCs) stood at a particularly high level, at 34.2%: the health restrictions put in place in Q4 2020 maintained their value added at a depressed level compared to pre-crisis, while the short-time working scheme and the reinforced Solidarity Fund supported their gross operating surplus. Q1 2021 was therefore in this respect a continuation of the previous quarter, but the introduction of the reduction in taxes on production resulted in a further rise in the margin rate, which then reached 34.8%.

By the end of 2021, the margin rate is expected to decline slightly, but still remain high. The value added of NFCs looks set to rebound strongly with the easing of restrictions, but the gradual decline in emergency measures is likely to lead to an increase in remunerations paid to employees and a decrease in subsidies received. The margin rate of NFCs is therefore expected to settle at 33.0% in Q4 2021 and 34.0% as an annual average (after 31.7% in 2020).

### In 2021, the value added of non-financial corporations in current euros looks set to return to a similar level to that of 2019

Assuming that there will be no further wave of the epidemic, the value added of NFCs (in current euros) is expected to increase by 9.2% in 2021, after -8.5% in 2020 (► [Figure 1](#)). It should therefore be almost back to its 2019 level. Its quarterly profile would then be more dynamic than that of GDP: after slight growth in Q1 2021 (+0.4%), the value added of NFCs looks set to accelerate until Q3 (+1.1% then +4.8%), with the reopening of

sectors that had been forced to close and the greater upswing in tourist activity, before slowing towards the end of the year.

### Remunerations paid to employees are expected to rebound, with a similar momentum to that of value added

Companies' gross wages saw major fluctuations in the course of 2020, in line with movements in payroll employment but also in the take-up rate of the short-time working schemes: since part of the wages of an employee on short-time working is recorded as benefits paid to this employee by general government, gross payroll paid by the enterprises decreases as the scheme is used more. Remunerations paid by the NFCs therefore decreased by 6.1% in 2020.

In 2021, remunerations paid to employees should follow the rebound in employment in the non-agricultural market branches (► [Employment Sheet](#)) and also be supported by the gradual decline in the take-up rate of short-time working, with a quarterly profile similar overall to that of value added: remunerations are expected to accelerate in Q2 then in Q3, before slowing at the end of the year. All in all, they should increase by 8.0% in 2021.

### Taxes on production are expected to decline significantly in 2021

Since the beginning of the year, NFCs have been helped by a reduction in taxes on production of 10 billion euros per year, voted by the Finance Act of 2021. The effect

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

quarterly change, in %

|                                | Quarters changes |              |             |             |             |             |             |             | Annual changes |              |             |
|--------------------------------|------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|--------------|-------------|
|                                | 2020             |              |             |             | 2021        |             |             |             | 2019           | 2020         | 2021        |
|                                | Q1               | Q2           | Q3          | Q4          | Q1          | Q2          | Q3          | Q4          |                |              |             |
| <b>Value added</b>             | -6.5             | -14.8        | 20.3        | -0.2        | 0.4         | 1.1         | 4.8         | 1.2         | 4.5            | -8.5         | 9.2         |
| Paid                           |                  |              |             |             |             |             |             |             |                |              |             |
| Employee remuneration          | -3.3             | -16.2        | 21.6        | -1.6        | 0.4         | 1.6         | 3.7         | 1.4         | 1.0            | -6.1         | 8.0         |
| Production-related taxes       | -1.1             | -3.7         | 3.6         | -1.3        | -11.9       | 0.5         | 0.2         | 0.0         | 15.8           | -1.4         | -11.7       |
| Received                       |                  |              |             |             |             |             |             |             |                |              |             |
| Subsidies                      | -28.1            | 23.3         | -4.8        | 76.5        | -1.7        | -8.2        | -14.5       | -29.0       | 9.3            | 4.9          | 21.2        |
| <b>Gross operating surplus</b> | <b>-15.6</b>     | <b>-10.9</b> | <b>18.6</b> | <b>10.0</b> | <b>2.2</b>  | <b>-1.0</b> | <b>5.1</b>  | <b>-2.1</b> | <b>10.5</b>    | <b>-13.1</b> | <b>17.1</b> |
| <b>Margin rate (in %)</b>      | <b>30.1</b>      | <b>31.4</b>  | <b>31.0</b> | <b>34.2</b> | <b>34.8</b> | <b>34.1</b> | <b>34.2</b> | <b>33.0</b> | <b>33.4</b>    | <b>31.7</b>  | <b>34.0</b> |

■ Forecast  
Source: INSEE

of the introduction of this measure can be seen in the change in taxes on production in Q1 2021 (-11.9%), and it is expected to support the margin rate of non-financial corporations by around  $\frac{3}{4}$  of a point.

In Q2, taxes on production would appear to have increased slightly because of taxes on workforce, linked to payroll employment in the NFCs, but should then be more or less stable. All in all, taxes linked to production are expected to decline by -11.7% in 2021, after -1.4% in 2020.

## Subsidies are likely to decrease gradually during the year

The level of subsidies paid to NFCs was very high in Q4 2020, with the strengthening of the Solidarity Fund: the amounts awarded increased substantially with more generous conditions for receiving payments for structures with a high turnover, especially NFCs. At the end of 2020, subsidies received by NFCs increased by 76.5%.

In Q1 2021, subsidies decreased slightly (-1.7%), although they were still high given that health restrictions were in force. Support measures therefore continued to operate at a sustained rate.

By the end of 2021, subsidies are expected to decline

progressively. Q2 was affected by a national lockdown in April, but the scale of the economic consequences would appear to be less than in November, and it was followed from the beginning of May by a gradual lifting of restrictions: amounts paid out under emergency schemes would therefore appear to have been, on average, lower than the previous quarter. Subsidies would therefore appear to have declined by 8.2% in Q2, then should continue to fall during H2. As an annual average, subsidies paid to NFCs are expected to be driven by the Q4 2020 “overhang effect”: despite a continuous decline over the quarters, subsidies should still increase by 21.2% in 2021.

## After increasing sharply at the end of 2020 and Q1 2021, the margin rate is expected to decline by the end of the year

As an annual average, the gross operating surplus of NFCs should grow more strongly than their value added in 2021: +17.1% against +9.2%. Thus their margin rate is likely to increase as an annual average over 2021 and should stand at 34.0%, against 31.7% in 2020.

This annual increase is largely the result of an “overhang effect” linked to the high margin rate levels in Q4 2020

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

in points



How to read it: in Q1 2021, the margin rate of non-financial corporations is expected to increase by 0.7 points. The contribution of the ratio  $\frac{\text{Subsidies}}{\text{Value added}}$  would appear 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

## French economic outlook

(34.2%) and Q1 2021 (34.8%). Indeed, at the end of 2020, non-financial corporations managed to maintain their value added (-0.2%) despite the second lockdown, while the take-up of short-time working and the strong increase in subsidies contributed positively to the change in margin rate (► **Figure 2**). In Q1 2021, changes in value added, in remunerations paid and subsidies paid made a slightly negative contribution overall to the margin rate

of NFCs. The fall in taxes on production is therefore the only driving force behind this new quarterly rise in the margin rate.

By the end of 2021, the margin rate is expected to decline twice, in Q2 (34.1%) then in Q4 (33.0%), when subsidies look set to fall back more rapidly than the net value added of remunerations paid to employees. ●