

# Enterprises' earnings

The margin rate of non-financial corporations (NFC) reached unprecedented levels in H1 2021 (35.7% of value added), especially in some market services where activity was constrained by the health restrictions (accommodation-catering, transport, etc.), and the decline in gross operating surplus was limited by the introduction of support measures (Solidarity Fund, short-time working, help with payment of contributions, etc.).

In Q3, the margin rate fell back significantly, to 32.9% of value added, with the rebound in economic activity accompanied by a reduction in the take-up of short-time working and a gradual decline in other support mechanisms (subsidies). This decline is expected to continue, more moderately, between Q4 2021 and Q2 2022, with subsidies gradually returning to their 2019 level, apart from the Competitiveness and Employment Tax Credit (CICE). Productivity should nevertheless sustain the margin rate, with the value added of NFCs more dynamic than employment. Real wages are unlikely to see more than a limited increase with little effect on the margin rate. Regarding the terms of trade, they are expected to impact the margin rate at the end of 2021, as in previous quarters: the price of intermediate consumptions for NFCs is likely to continue to increase more rapidly than their production prices, with the result that the price of value added will be less dynamic than the consumer price. Then in H1 2022, the price of intermediate consumptions is expected to slow, yet companies will probably continue to pass on their recent increases to their production prices. The price of the value added of NFCs is then expected to move more in tandem with consumer prices, which should balance out the terms of trade and virtually cancel out their contribution to the margin rate.

As an annual average over 2021, the margin rate is expected to stand at 34.2%. Thus compared to 2020, it should be up by 2.5 points, supported by the ramping up of the Solidarity Fund from December 2020, the reduction in taxes on production at the start of the year, and a stronger rebound in value added than that in remunerations paid (the reverse of what happened in 2020). By the end of H1 2022, the margin rate is expected to be 32.2%, slightly above its average level for 2018 (31.6%). ●

## ► 1. Decomposition of margin rate of non-financial corporations (NFC)

margin rate and variation in %, contributions in points

	2020				2021				2022		2019	2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
<b>Margin rate</b>	30.3	30.9	31.1	34.3	35.6	35.7	32.9	32.6	32.4	32.2	33.4	31.7	34.2	32.2
<b>Variation in margin rate</b>	-2.8	0.6	0.2	3.2	1.3	0.1	-2.8	-0.4	-0.2	-0.2	1.8	-1.7	2.5	-2.0
<b>Contributions to variation in margin rate:</b>														
productivity gains	-4.3	-8.6	12.1	-1.0	0.2	0.7	1.3	0.3	0.2	0.3	0.7	-6.2	3.9	1.5
real cost of labour per capita	2.4	7.8	-11.3	1.3	0.0	0.1	-2.2	0.0	-0.1	-0.1	0.9	3.6	-3.2	-1.2
ratio of price of value added to consumer prices	0.3	1.1	-0.6	0.7	-0.2	-0.2	-0.5	-0.3	0.0	-0.1	0.6	1.1	-0.1	-0.6
other factors (including subsidies and taxes on production)	-1.2	0.2	0.0	2.2	1.2	-0.5	-1.4	-0.4	-0.4	-0.3	-0.4	-0.3	1.8	-1.6

■ Forecast

Note: the margin rate (*MR*) measures the share of value added that remunerates the capital.

This variation can be broken down additionally into:

- changes in productivity ( $Y/L$ ), where  $Y$  is value added and  $L$  is employment, and in the ratio of the price of value added to consumer prices, or terms of trade ( $P_{va}/P_c$ ), which have a positive effect;
- changes in the real cost of labour ( $W/P_c$ , where  $W$  represents the cost of labour per capita), which have a negative effect on the margin rate.
- other factors: these are mainly taxes on production net of subsidies, including the Solidarity Fund.

This breakdown can be synthesised in the equation:

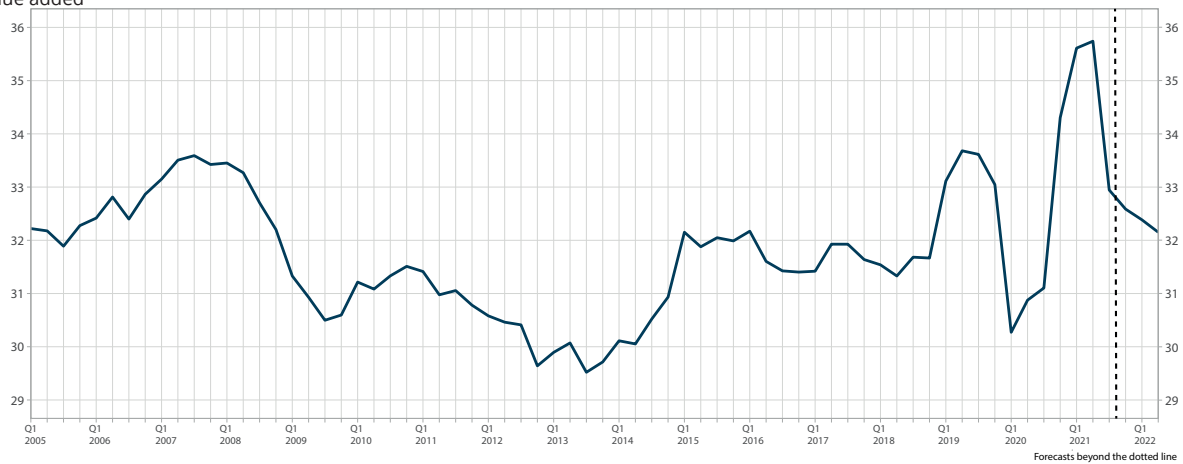
$$TM = \frac{EBE}{VA} \approx 1 - \frac{WL}{Y P_{va}} + \text{autres facteurs} = 1 - \frac{L}{Y} \frac{W}{P_c} \frac{P_c}{P_{va}} + \text{autres facteurs}$$

Source: INSEE

# French economic outlook

## ► 2. Margin rate of non-financial corporations (NFC)

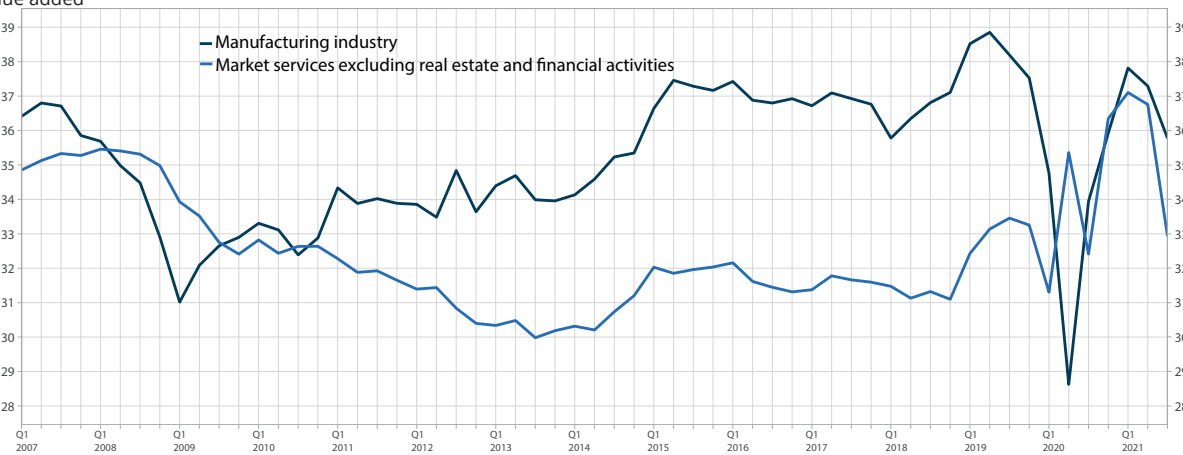
in % of value added



Source: INSEE

## ► 3. Margin rate in industry and services

in % of value added



Note: the margin rates calculated here are for all institutional sectors combined. However, a very large majority of the branches considered are composed of non-financial enterprises (NFE), i.e. non-financial corporations and sole proprietorships.

Source: INSEE