Enterprises’ earnings

In H1 2021, the margin rate of non-financial corporations (NFC) reached unprecedented levels, at 35.2% of value added, especially in some market services where activity had previously been hampered by the health restrictions (accommodation-catering, transport, etc.). In fact, the decline in their gross operating surplus was limited by the support measures put in place (Solidarity Fund, short-time working, help with payment of contributions, etc.). In Q3, the margin rate fell back sharply, to 32.9% of value added: the rebound in economic activity was accompanied by a reduction in the take-up of short-time working and a gradual decline in the other support measures (subsidies). Then in Q4, the margin rate remained virtually stable: the decline in subsidies received during the health crisis continued, but this effect was partly offset by a slight decline in the real cost of labour per capita, as wages had risen less rapidly than prices this quarter.

During Q1 2022, the margin rate is expected to fall back again, although more moderately. Subsidies should gradually return to their 2019 level, excluding the Competitiveness and Employment Tax Credit (CICE), but this trend is likely to be slightly lessened with the targeted return of specific support measures in January and February, in connection with the Omicron wave. As in the previous quarter, productivity is expected to have virtually no effect on margin rate, with the value added of NFCs almost as buoyant as employment. In a context of strong inflation, real wages are likely to decline slightly, thus supporting the margin rate in accounting terms. Regarding the terms of trade, they are likely to impact the margin rate, as at the beginning of 2021: with the new rise in commodity prices, heightened at the end of the quarter by the outbreak of war in Ukraine, the price of intermediate consumptions for NFCs looks set to continue to increase more quickly than their production price, with the result that the price of value added is likely to be less buoyant than the consumer price.

As an annual average over 2021, the margin rate stood at 34.0%. Thus compared to 2020, it picked up by 2.3 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 in remunerations paid (the reverse of what happened in 2020). At the end of Q1 2022, the margin rate is expected to be 32.4%.

► 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				
Margin rate	**30.3**	**31.0**	**31.0**	**34.3**	**35.2**	**35.3**	**32.9**	**32.8**	**32.4**	**33.4**	**31.7**	**34.0**	**32.4**
Variation in margin rate	**–2.9**	**0.7**	**0.0**	**3.3**	**0.9**	**0.2**	**–2.4**	**–0.1**	**–0.4**	**1.8**	**–1.7**	**2.3**	**–1.6**
Contributions to variation in margin rate:													
productivity gains	–4.2	–8.7	12.2	–1.0	0.1	0.6	1.5	0.0	–0.1	0.7	–6.2	3.7	0.8
real cost of labour per capita	2.2	8.1	–11.7	1.5	–0.1	0.2	–2.4	0.2	0.3	0.9	3.6	–3.1	–0.7
ratio of price of value added to consumer prices	0.3	1.1	–0.6	0.6	–0.3	–0.2	–0.1	0.0	–0.3	0.6	1.1	–0.1	–0.4
other factors (including subsidies and taxes on production)	–1.2	0.2	0.1	2.2	1.3	–0.5	–1.4	–0.3	–0.3	–0.4	–0.3	1.8	–1.4

■ 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 *(Pva/Pc)*, which have a positive effect;
- changes in the real cost of labour (*W/Pc*, 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:

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

Source: INSEE

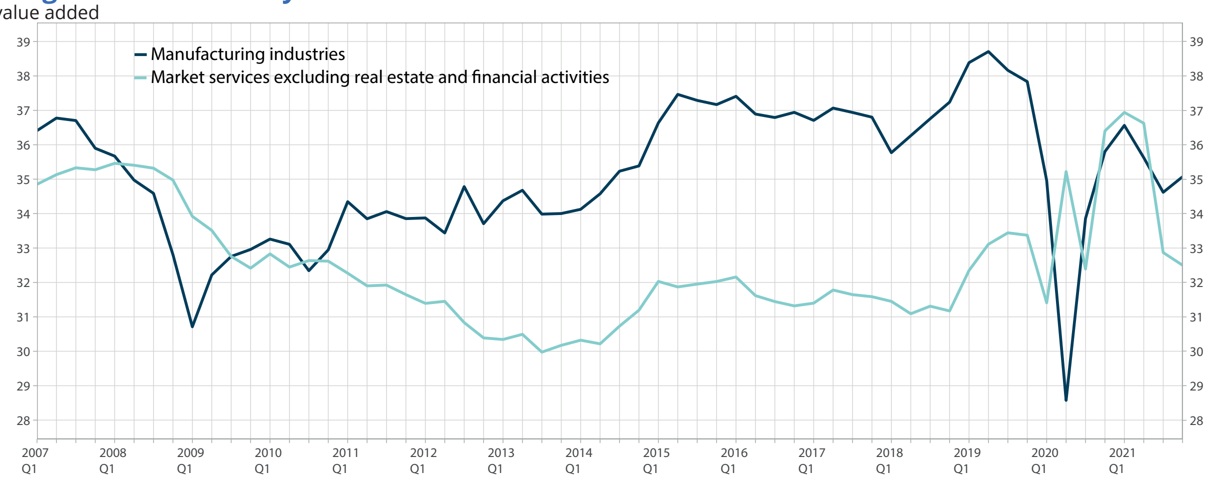
► 2. Margin rate of non-financial corporations (NFC)

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