Enterprises’ earnings

The margin rate of non-financial corporations (NFC) has picked up slightly since the start of 2022 after a sharp decline in 2021, reaching 31.8% of value added in Q3 after 31.2% in Q1. This increase is mainly the result of a decline in real wages, partly offset by the deterioration in the ratio of the price of value added to consumer prices.

In Q4 2022, the margin rate of NFCs looks set to fall back once again, to reach 31.1% of value added. This decline in the margin rate is likely to be linked mainly to the drop in productivity, the result of the expected contraction in activity combined with an expected rise in employment. The price of value added compared to consumer prices is likely to continue its decline –with prices of intermediate consumptions, especially energy inputs, expected to continue to rise more quickly than production prices– but it is likely that this shift will be offset by the further decline forecast in real wages.

As an average across 2022, the margin rate is thus expected to rise to 31.4% of value added, a sharp decline compared to its 2021 level (34.2%), when notably it was supported by recovery plan measures and the Solidarity Fund, but nevertheless close to its 2018 average[1] (31.5%). However, maintaining the margin rate at the aggregated level masks substantial sectoral variations (► **Focus** on recent changes in margin rates): the profitability of the energy and transport services branches is expected to increase significantly; conversely, the margin rate is likely to decline in industry excluding energy and, to a lesser extent, in services (excluding transport).

In H1 2023, the margin rate of NFCs looks set to rebound, in the wake of the expected rebound in activity, and should settle slightly above 32%. The improvement in corporate profitability should be due mainly to the downturn in real wages, but also to a further drop in early 2023 in taxes on production (reduction in corporate value added contributions). ●

1 2018 can be considered as a suitable reference year for margin rate. From 2019 to 2021, margin rate experienced some upheavals due to the simultaneous accounting, in 2019, of the Competitiveness and Employment Tax Credit (CICE) and the reduction in social contributions, then subsequently during the health crisis.

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

margin rate in %, variation and contributions in points

	2021				2022				2023		2019	2020	2021	2022	2023 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2					
Margin rate	**36.4**	**36.0**	**32.5**	**32.0**	**31.2**	**31.5**	**31.8**	**31.1**	**32.0**	**32.2**	**33.4**	**31.8**	**34.2**	**31.4**	**32.2**
Variation in margin rate*	**2.0**	**-0.3**	**-3.6**	**-0.5**	**-0.8**	**0.4**	**0.3**	**-0.6**	**0.8**	**0.2**	**1.9**	**-1.6**	**2.4**	**-2.8**	**0.8**
Contributions to variation in margin rate:															
productivity gains	-0.3	0.2	1.0	-0.4	-0.3	0.0	-0.1	-0.4	-0.1	0.1	0.8	-5.4	2.4	-0.2	-0.3
real cost of labour per capita	0.2	0.4	-2.4	0.2	-0.3	0.7	1.0	0.4	0.8	0.0	0.9	3.3	-2.5	-0.1	1.8
ratio of price of value added to consumer prices	0.0	0.1	0.0	-0.2	0.0	-0.2	-0.6	-0.5	-0.5	-0.1	0.7	0.7	0.5	-0.7	-1.3
other factors (including subsidies and taxes on production)	2.0	-1.1	-2.2	-0.1	-0.2	-0.2	0.0	-0.1	0.6	0.2	-0.4	-0.3	2.0	-1.8	0.6

■ Forecast
* The variation shown here is a difference calculated before rounding.
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:

$$TM=\frac{GOS}{VA}\approx 1-\frac{WL}{Y\,P_{VA}}+other\ factors=1-\frac{L}{Y}\frac{W}{P_C}\frac{P_C}{P_{VA}}+other\ factors$$

Source: INSEE

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

in % of value added

Source: INSEE