

# Enterprises' earnings

In Q1 2023, the margin rate of non-financial corporations (NFCs) increased (► **Figure 1**): while the buoyancy of employment in relation to activity helped hold it back, the increase was sustained by the decline in the real cost of labour –since per capita pay was less vigorous than household consumer prices– and by government policy measures, especially the reduction in taxes on production (reduction in the corporate value added contribution) and the payment of aid to energy-intensive companies. However, changes in domestic terms of trade –i.e. the ratio of the price of value added to consumer prices– had virtually no impact on change in the margin rate of NFCs in Q1 2023. Nevertheless, this average finding across all NFCs may mask disparities within the different branches of activity (► **Focus**).

In Q2 2023, the margin rate is expected to fall back slightly, then remain broadly stable in H2, at around 32% of the value added of NFCs (► **Figure 2**). The decline forecast in Q2 is likely to be the result of less aid being paid out to energy-intensive companies and, to a lesser extent, the deterioration in per capita productivity, with employment still more buoyant than activity. However, the real cost of labour, which is predicted to decline further in Q2, is expected to support the margin rate moderately.

In H2 2023, and especially towards the end of the year, the acceleration in per capita wages in a context of slowing consumer prices is likely to hamper change in the margin rate. With the price of value added remaining more buoyant than consumer prices, domestic terms of trade are expected to bolster change in the NFC margin rate, which is then likely to remain virtually stable in Q3 and Q4. As an annual average, the margin rate of NFCs in 2023 is expected to be a little above 32%, up from the 2022 average (31.7%) and half a point above the 2018 average (31.6%), before the health crisis.<sup>1</sup> ●

<sup>1</sup> 2018 can be considered as a suitable reference year for margin rate. From 2019 to 2021, margin rate experienced some upheavals due to the “double” payment of the Competitiveness and Employment Tax Credit (CICE) in 2019 then the health crisis.

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

(margin rate in %, variation and contributions in points)

	2021				2022				2023				2020	2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
<b>Margin rate</b>	36.8	35.1	32.4	31.6	31.3	31.8	31.9	31.9	32.3	32.1	32.0	32.1	32.2	33.9	31.7	32.1
<b>Variation in margin rate*</b>	2.1	-1.7	-2.7	-0.8	-0.4	0.5	0.1	0.0	0.4	-0.2	-0.1	0.1	-1.2	1.7	-2.2	0.4
<b>Contributions to variation in margin rate:</b>																
productivity gains	-0.4	0.1	0.9	-0.4	-0.2	0.1	-0.1	-0.5	-0.4	-0.1	0.0	0.1	-5.7	1.9	-0.1	-0.8
real cost of labour per capita	0.3	-0.5	-1.5	0.1	-0.3	0.6	0.9	-0.2	0.3	0.2	-0.1	-0.5	4.1	-2.7	-0.2	0.7
ratio of price of value added to consumer prices	0.1	-0.1	0.0	-0.3	0.2	0.3	-0.6	0.3	-0.1	0.0	0.0	0.5	0.6	0.5	0.0	0.1
other factors (including subsidies and taxes on production)	2.1	-1.1	-2.1	-0.2	-0.1	-0.4	-0.1	0.3	0.5	-0.3	0.0	0.0	-0.2	1.9	-1.9	0.4

■ 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.

# French economic outlook

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

(in % of value added)



Source: INSEE.