# Enterprises' earnings

*In 2016, the margin rate of non-financial corporations (NFC) stabilised at 31.9% as an annual average, after rising significantly in 2015. It was buoyed by the fall in energy prices and the ramp-up of the policies intended to increase the employment intensity of growth, in particular the Tax Credit for Encouraging Competitiveness and Jobs, the Responsibility and Solidarity Pact and the hiring premium in SMEs. Conversely, real wages were more dynamic than apparent labour productivity, which took its toll on the margin rate.*

*In 2017, the margin rate should slip slightly, to 31.6%. Growth in real wages and productivity gains should offset each other. The hiring premium and reduction in contributions via the Responsibility and Solidarity Pact should continue to sustain margins. The rise in oil prices, however, is likely to adversely affect the margin rate, even though companies have managed to pass on a part of the rise in their sale prices, notably for exports.*

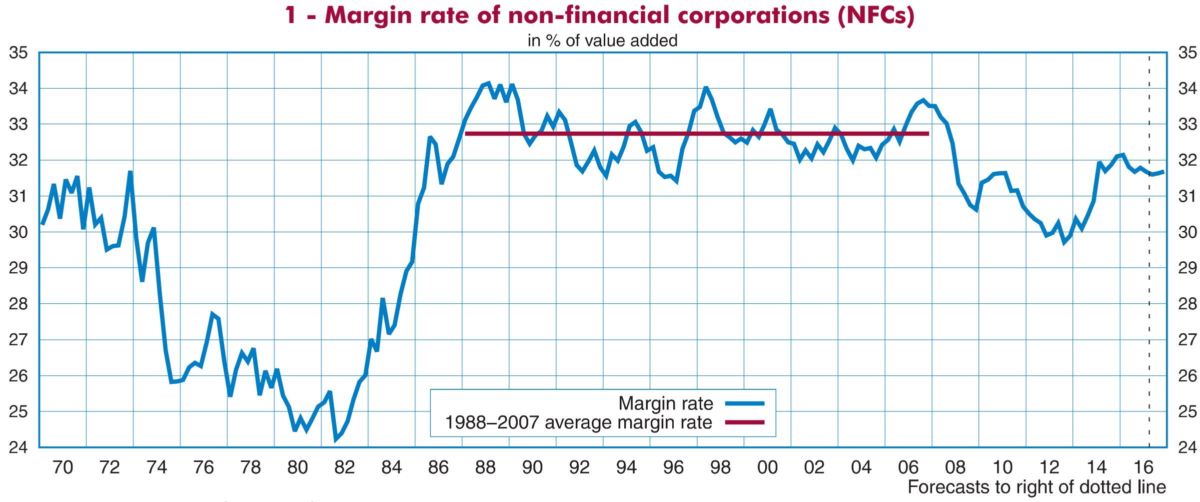
## The margin rate stabilised in 2016

In 2016, the margin rate (*Graph 1*) stabilised at 31.9%, after rising significantly in 2015 (+1.5 points). It was buoyed primarily by more favourable "terms of trade", mainly through a further fall in the price of imported energy. This factor contributed +0.6 points to the change in the margin rate (*Table*). In addition, several measures to increase the job intensity of growth boosted margin rates: the hiring premium in SMEs introduced at the start of the year, the second phase of the Responsibility and Solidarity Pact and, finally, the continued ramp-up of the Tax Credit for Encouraging Competitiveness and Jobs (CICE). All taken together, these measures contributed to increasing the margin rate by +0.2 points (*Table*). However, payroll employment was almost as dynamic as value added, and the apparent productivity of labour therefore progressed only weakly, while real wages accelerated. These two factors combined weighed 0.8 points in the change in the margin rate. The sub-annual profile of the margin rate was a little uneven in early 2016, but almost stabilised thereafter (31.8% at the end of 2016, against 32.1% one year earlier).

## The margin rate is likely to slip back slightly in 2017

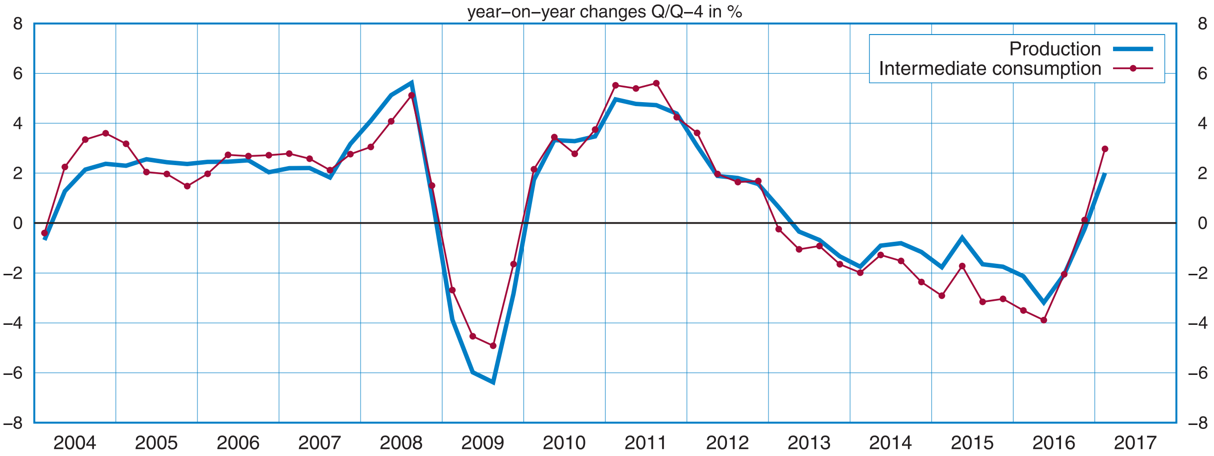
The margin rate is likely to fall a little in 2017. Productivity gains should remain weak, while real wages are set to increase moderately: the total contribution of these two factors to the variation in the margin rate should be zero on average over the year. In addition, the support measures for companies should kick in a little further over the

**1 - Margin rate of non-financial corporations (NFCs)**




*Source: INSEE, quarterly national accounts* year on average, contributing a 0.2-point increase in the margin rate. The increase in the employer retirement pension contribution rate on January 1st is likely to have a very limited impact. Finally, terms of trade are likely to deteriorate a little in 2017, after improving significantly over the previous two years, due to the rise in oil prices since the end of 2016. All companies, most notably exporters, managed to pass on a part of the rise in commodity prices in their sale prices at the end of 2016 and in early 2017 (*Graph 2*), with the result that the negative contribution of terms of trade should be moderate: –0.3 points as an annual average. Ultimately, the margin rate should slip a little in 2017 to an annual average of 31.6%. ■

## 2 - Producer prices and input prices




*Source: INSEE, quarterly national accounts*

## Breakdown of the margin rate of non-financial corporations (NFCs)

*in % and in points*

| | 2015 | | | | 2016 | | | | 2017 | | | | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | | | |
| **Margin rate (in level)** | **31.9** | **31.7** | **31.9** | **32.1** | **32.1** | **31.8** | **31.7** | **31.8** | **31.7** | **31.6** | **31.6** | **31.7** | **31.9** | **31.9** | **31.6** |
| **Variation in margin rate** | **1.1** | **–0.3** | **0.2** | **0.2** | **0.0** | **–0.3** | **–0.1** | **0.1** | **–0.1** | **–0.1** | **0.0** | **0.0** | **1.5** | **–0.1** | **–0.2** |
| **Contributions to the variation margin rate** | | | | | | | | | | | | | | | |
| Productivity gains | 0.2 | –0.2 | 0.1 | 0.0 | 0.3 | –0.3 | –0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.5 | 0.1 | 0.3 |
| Real wage per capita | –0.2 | 0.1 | –0.3 | –0.3 | –0.5 | 0.0 | –0.1 | –0.1 | 0.1 | –0.2 | –0.2 | –0.1 | –0.6 | –0.9 | –0.3 |
| Employer contribution ratio | 0.2 | 0.0 | –0.1 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 |
| Ratio of the value-added price to the consumer price | 0.1 | –0.2 | 0.4 | 0.4 | 0.2 | –0.2 | 0.0 | 0.0 | –0.4 | 0.1 | 0.0 | 0.0 | 0.7 | 0.6 | –0.3 |
| Other factors | 0.7 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.1 |

Forecast

Note: The margin rate (TM) measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: taxes on production net of operating subsidies, including CICE and the emergency plan for employment:[1]

$$TM = \frac{EBE}{VA} \approx 1 - \frac{W.L}{Y.P_{va}} + \text{other factors} = 1 - \frac{L}{Y}\frac{W}{SMPT}\frac{SMPT}{P_c}\frac{P_c}{P_{va}} + \text{other factors}$$

1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsidy to companies, as recommended in the latest version of the European System of Account (ESA 2010).

*Source: INSEE*