Enterprises' earnings

At the end of 2017, the margin rate of non-financial corporations (NFC) should remain stable at the same level as the previous year, i.e. 31.6%. The rate dipped slightly earlier in the year (31.5% in Q1 after 31.8% on average in 2016), in particular due to the fall in oil prices. The margin rate should stabilise at around 31.5% in H2, as productivity gains counterbalance the dynamism of wages and the slight upturn in crude oil prices.
In 2018 the margin rate should pick up to reach 31.8% by mid-year, largely thanks to the increase in the rate of the CICE tax credit.

The margin rate at the end of 2017 should be unchanged from the end of 2016

After rising steadily throughout 2015 (an average of +1.5 points year-on-year), the margin rate virtually stabilised in 2016 at 31.8% (Table). After falling to 31.5% in Q1 2017 as a result of increasing oil prices, it recovered to 31.6% in the spring as the price of Brent crude fell. Over the first half of the year, the acceleration in productivity counterbalanced the one in wages. In Q3 2017, wage increases would appear to have outstripped productivity gains and the margin rate should have shrunk (31.4%). Real wages should come to a standstill in Q4 as a result of the increase in inflation, while productivity should accelerate and help to push the margin rate up. By the end of the year, the rise in oil prices should nevertheless drive the rate down by –0.1 points. All in all, the margin rate is only expected to grow slightly, rallying to 31.6%, exactly the same level of a year ago. It should nonetheless remain below the average seen over the period 1988 - 2007, largely due to the service branches (Graph 1 and Special Analysis p. 39). In industry, the rate should continue to be at its highest level since 2000 (Graph 2).

On average, the margin rates of NFCs are expected to decrease more in 2017 than they did in 2016 (–0.3 points after –0.1 points), following two years of robust increases (+0.5 points in 2014 and +1.5 points in 2015). Real wages should once again outstrip productivity gains, and the increase in oil prices is expected to eat away at margins.

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

in % and in points

	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)	**32.3**	**31.9**	**31.6**	**31.6**	**31.5**	**31.6**	**31.4**	**31.6**	**31.8**	**31.8**	**31.8**	**31.5**	**31.8**
Variation in margin rate	**0.2**	**–0.4**	**–0.2**	**0.0**	**–0.1**	**0.1**	**–0.1**	**0.2**	**0.2**	**0.0**	**–0.1**	**–0.3**	**0.2**
Contributions to the variation margin rate													
Productivity gains	0.2	–0.4	–0.2	0.1	0.2	0.3	0.2	0.4	0.2	0.2	0.0	0.5	0.8
Real wage per capita	–0.4	0.0	–0.1	–0.2	–0.2	–0.4	–0.3	–0.1	–0.1	–0.2	–0.9	–0.8	–0.5
Employer contribution ratio	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.0
Ratio of the value-added price to the consumer price	0.4	–0.2	0.0	0.0	–0.2	0.2	0.0	–0.1	–0.1	0.0	0.6	–0.2	–0.2
Other factors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.1	0.1	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]

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

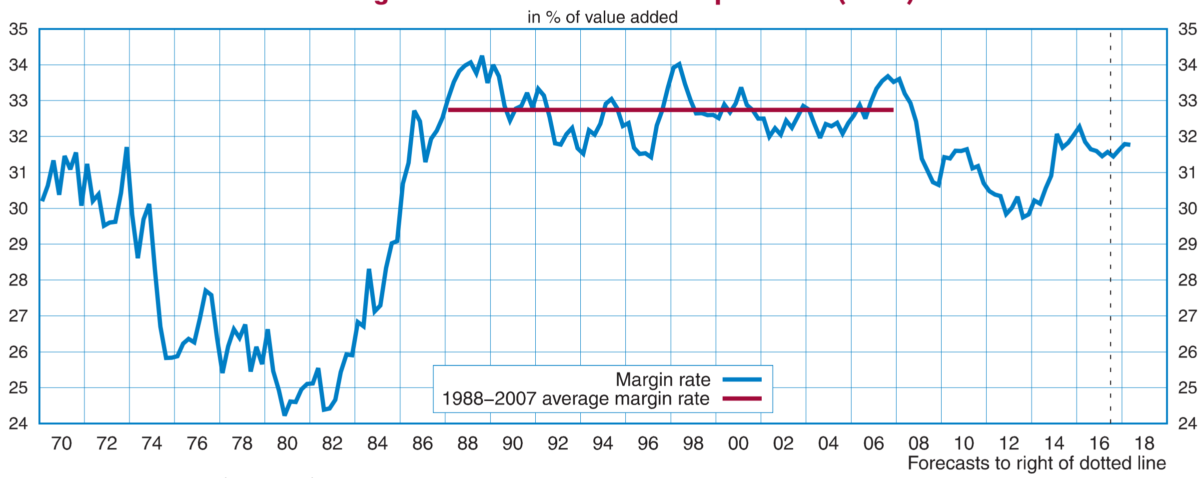
1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsidy to companies, as recommended in the latest version of the European System of Account (ESA 2010).

Source: INSEE

The margin rate is set to increase in H1 2018

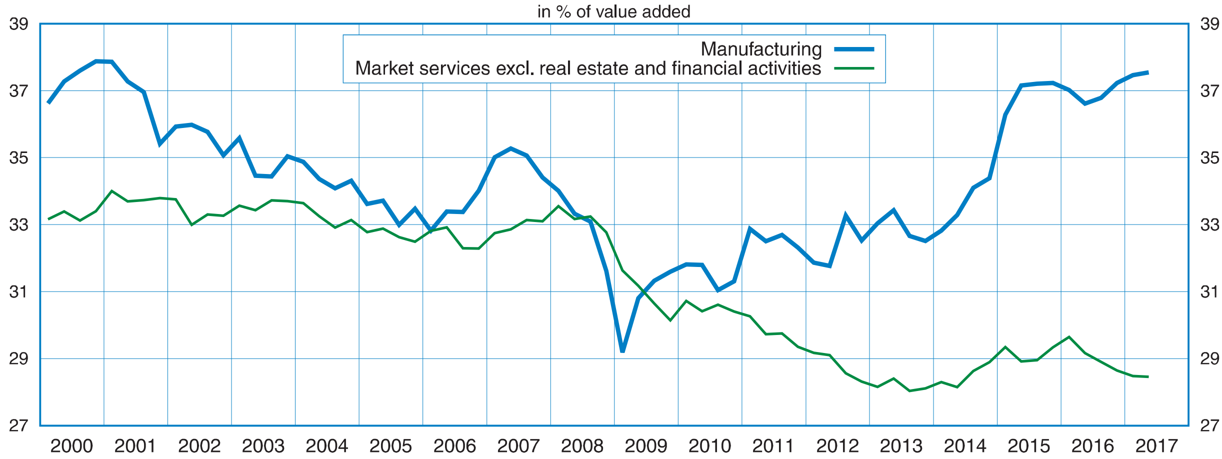
In H1 2018 the margin rate for NFCs should increase anew, reaching 31.8% by mid-year. Productivity gains should contribute 0.2 points to this increase, while real wages are expected to remain sluggish. Conversely, consumer prices should increase more rapidly than value-added prices, as a result of the increase in energy taxes on 1st January followed by taxes on tobacco on 1st March. This is expected to have an impact on the margin rate, contributing –0.1 points in Q1. Finally, the tax credits granted in 2018 under the CICE initiative should increase sharply, with the rate increasing from 6% to 7% of total payroll costs in 2017. This increase will be partially offset by the reduced cost of the hiring premium offered to SMEs, as the closing date for subscriptions to this programme was 30th June 2017. ■

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



Source: INSEE, quarterly national accounts

2 - Margin rate in industry and services



Source: INSEE, quarterly national accounts