

## Enterprises' earnings

After reaching a historic high in 2021, the margin rate of non-financial corporations (NFC) slipped back in 2022, mainly due to the end of the support measures associated with the health crisis. It stood at 32.0% of value added, or a level close to its average for 2018<sup>1</sup> (31.5%). On average across all NFCs, the substantial increases in input costs during 2022 did not affect change in the margin rate: on average, companies passed on these increases in costs *via* their production prices (► **Box**), i.e. in industry, for example, “factory-gate” prices. However, this change at the aggregated level of NFCs may mask considerable sectoral variations.<sup>2</sup>

In H1 2023, the margin rate of NFCs is expected to increase sharply. The improvement in companies' profitability is likely to result mainly in a decline in real wages –with the after-effects notably of large value sharing bonuses (PPV) paid out towards the end of 2022– but also in a further reduction in taxes on production (reduction in the corporate value added contribution). However, prices of intermediate consumptions –especially the price of energy inputs as a result of recent renegotiations of gas and electricity contracts<sup>3</sup> – are likely to increase a little more quickly than production prices: the price of value added is therefore expected to deteriorate slightly relative to consumer prices, which could affect companies' margin rate. All in all, at the end of Q2 2023, the margin rate is expected to stand at 33.5%, two points above its 2018 average. ●

<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 during the health crisis.

<sup>2</sup> “Recent trends in margin rates: wide disparities between branches in a context of general price increases”, *Economic Outlook*, December 2022.

<sup>3</sup> “Companies coping with rising energy prices: contrasting situations and reactions”, *Economic Outlook*, December 2022.

### ► 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					
<b>Margin rate</b>	36.4	35.9	32.5	32.2	31.7	32.1	31.9	32.4	33.2	33.5	33.4	31.8	34.2	32.0	33.5
<b>Variation in margin rate*</b>	1.8	-0.5	-3.4	-0.2	-0.6	0.4	-0.2	0.5	0.8	0.3	1.9	-1.7	2.4	-2.2	1.4
<b>Contributions to variation in margin rate:</b>															
productivity gains	-0.3	0.3	1.1	-0.5	-0.5	0.0	-0.2	-0.2	0.0	0.1	0.8	-5.4	2.4	-0.4	-0.1
real cost of labour per capita	0.2	0.3	-2.4	0.5	-0.4	0.9	1.0	0.2	0.8	0.2	0.9	3.3	-2.5	0.1	1.9
ratio of price of value added to consumer prices	-0.1	0.0	0.0	0.0	0.5	0.0	-1.0	0.4	-0.4	-0.1	0.7	0.7	0.5	0.1	-0.7
other factors (including subsidies and taxes on production)	2.0	-1.0	-2.1	-0.2	-0.1	-0.4	0.0	0.1	0.4	0.0	-0.4	-0.3	2.0	-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 ( $P_{va}/P_c$ ), which have a positive effect;
- changes in the real cost of labour ( $W/P_c$ , 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:

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

Source: INSEE.

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

(in % of value added)



Source: INSEE.

### In 2022, on average in the non-agricultural market branches, the increase in the cost of inputs was generally passed on to production prices

During 2022 and on average across the non-agricultural market branches, the margin rate grew quarter on quarter (► Figure 1). However, this average change masks some much more pronounced movements at sectoral level. This is the case in the agrifood industries where the margin rate increased sharply during 2022: from its very degraded level at the end of 2021, it managed to gain about 15 points to overtake its 2018 level by the end of 2022. As an annual average in this branch, the margin rate in 2022 stood at its 2018 level, whereas it was well below this level (-4.3 points) in 2021.

The sharp rise in the margin rate of agrifood industries in 2022 can be analysed through the change in production price in the branch (i.e. in the “factory-gate” price) and in the contributions of its different components (unit cost of inputs, unit wage cost, unit gross operating surplus, i.e. the “profit” on each unit produced, etc.). This analysis is based on the detailed results from the quarterly accounts for Q4 2022, but may need to be revised when new information is included with the publication of the quarterly and annual versions of the accounts.

### After being compressed in 2021 as the price of inputs increased, the margin rate of agrifood industries then picked up throughout 2022

In 2021 and even more so in 2022, production prices in the agrifood industries were particularly dynamic (► Figure 2). Until mid-2022, this momentum was mainly the result of the rising prices of inputs –composed mainly, in this branch, of agricultural and agrifood products.

In 2021, in a context of rising agricultural commodity prices, following the end of the health crisis, the increase in the price of inputs in the agrifood industries was only partly passed on to production prices. This resulted in a compression of margin rates: the gross operating surplus (GOS) per unit decreased every quarter in 2021. The margin rate therefore declined continuously in the agrifood industries during 2021.

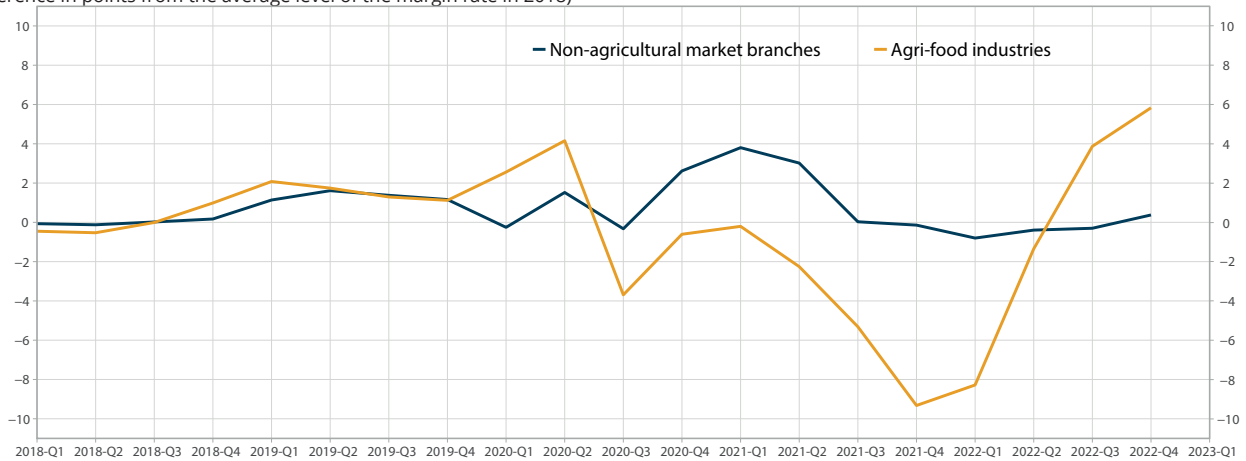
During 2022, the unit cost of inputs continued to rise significantly, although it slowed in the second half of the year, and the GOS per unit picked up gradually. Overall, the buoyancy of production prices in agrifood industries in 2022 was driven as much by the increase in the cost of inputs as by the recovery in margins after they had been compressed the previous year.

These same trends can be found, albeit to a lesser extent, in the non-agricultural market branches as a whole. In 2021, the sharp rise in the unit cost of inputs was only partially passed on to production prices and from Q2 onwards it was accompanied by a drop in the unit GOS of these branches. In 2022, however, the unit GOS picked up: the unit cost of inputs continued to make up the main contribution to change in production prices in the non-agricultural market branches, but the unit GOS also contributed significantly to its momentum, especially at the end of 2022. ●

# French economic outlook

## ► 1. Margin rate in all non-agricultural market branches and in agrifood industries

(difference in points from the average level of the margin rate in 2018)

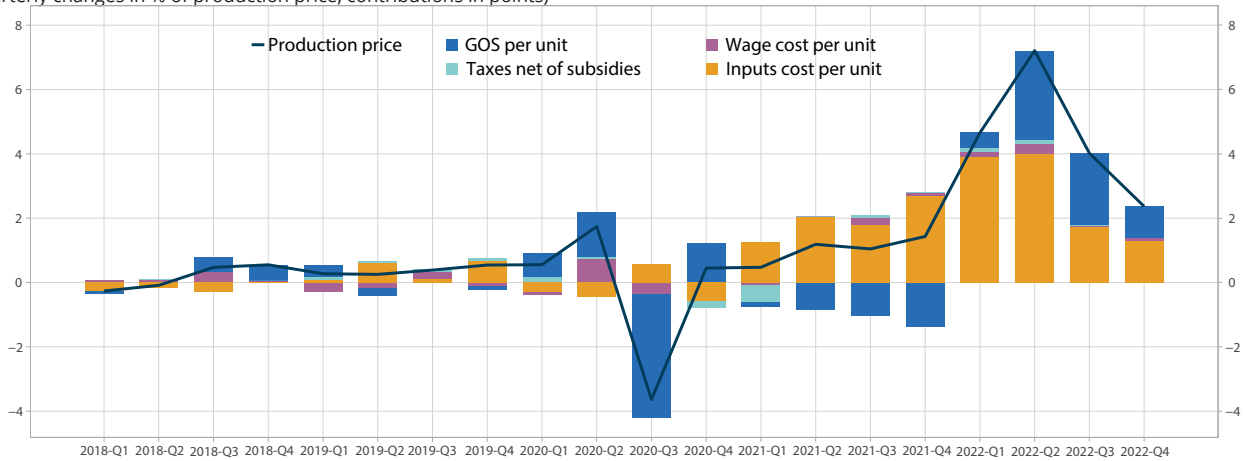


Note: the margin rates represented here cover all institutional sectors of the branches concerned (non-financial corporations, sole proprietors, financial corporations, etc.) and not only non-financial corporations.

Source: quarterly national accounts, INSEE.

## ► 2. Change in production price of agrifood industries by contributions of their components

(quarterly changes in % of production price, contributions in points)

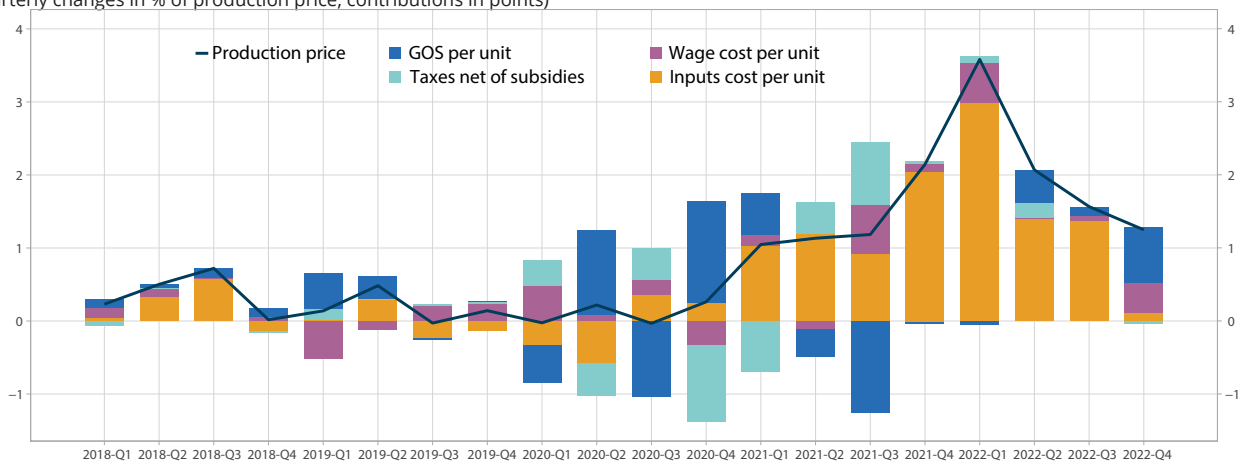


Note: starting from the accounting identity according to which the production in value of a branch represents the sum of its intermediate consumptions, remuneration paid, taxes net of subsidies and its gross operating surplus, the production price of the branch –i.e. the value of each unit produced– can be expressed as the sum of the unit components of production. The change in production price is then broken down according to the contributions of these unit components.

Source: quarterly national accounts, INSEE calculations.

## ► 3. Change in production price of non-agricultural market branches by contributions of their components

(quarterly changes in % of production price, contributions in points)



Note: starting from the accounting identity according to which the production in value of a branch represents the sum of its intermediate consumptions, remuneration paid, taxes net of subsidies and its gross operating surplus, the production price of the branch –i.e. the value of each unit produced– can be expressed as the sum of the unit components of production. The change in production price is then broken down according to the contributions of these unit components.

Source: quarterly national accounts, INSEE calculations.