

## EcoBrief

### France: corporate profit margins improve

**Non-financial companies' profit margins increased in the first quarter of 2023 to reach 32.3%, up from 31.9% in the fourth quarter of 2022. French companies continue to benefit from increased pricing power to settle their sale prices.**

The profit margin for French non-financial companies reached 32.3% in the first quarter of 2023 according to INSEE, confirming the increase recorded in the second half of 2022 (31.9% in the third and fourth quarters). This also suggests an improvement in these companies' pricing power, particularly in the food sector, following two periods of negotiations bringing together producers and retailers: ad hoc negotiations were reopened during the year in autumn 2022, followed by the annual negotiations conducted in the first quarter of 2023.

Real wages contributed to improving margins in the first quarter (by 0.4 percentage points), as inflation rose faster than wages for the fourth consecutive quarter. Nevertheless, this positive contribution by wages was fully offset by a deterioration in productivity (for the third quarter in a row).

At the same time, other factors suggest a relative improvement in companies' financial situations, especially the balances of opinion found in INSEE's economic surveys on cash positions. These stabilised at the beginning of the year following the drop in energy prices seen in recent months (-8.6 in the manufacturing industry in April 2023 compared to -10.7 in October 2022; -7.1 compared to -9.4 in construction and -6.9 compared to -5.4 in services).

In the coming months, a deterioration in the business climate (we expect zero growth in the second half of 2023) should weigh on corporate margins. However, the removal (by half in 2023 and half in 2024) of the tax on corporate value added (CVAE) should make it possible to absorb or even counteract this drop. Removing this would place the average profit margin at 32.8% in 2024 according to our forecasts, compared to 31.5% without this fiscal measure (down from 31.7% in 2022). Halving the CVAE in 2023 would make it possible to reach a margin of 32.7%, compared to 32.1% without this fiscal measure.

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