



64TH SME CLIMATE SURVEY


JANUARY 2017



01.



**A POSITIVE PICTURE
IN 2016, FAVOURABLE
OUTLOOK FOR 2017**



+9

**IN THE BALANCE OF OPINION ON THE TREND
IN EMPLOYMENT IN 2016,
UP 6 POINTS OVER 1 YEAR**



+5

**IN THE BALANCE OF OPINION ON THE TREND
IN THE VOLUME OF INVESTMENT,
UP BY 5 POINTS AND POSITIVE
FOR THE FIRST TIME SINCE 2011**



-15

**IN THE BALANCE OF OPINION ON THE CASH
POSITION FOR THE LAST 6 MONTHS,
ON THE RISE AGAIN,
AND BACK TO PRE-2008-CRISIS LEVELS**



+22

**IN THE BALANCE OF OPINION
ON THE EXPECTED TREND IN BUSINESS
ACTIVITY IN 2017,
THE BEST EXPECTATION FOR THE FOLLOWING
YEAR SINCE END-2010 (+27)**

Key points

1. A noticeable improvement in business activity in 2016 in most sectors. Tourism had a challenging year.
2. SMEs increased their workforce, regardless of their size, and innovative and exporting characteristics.
3. The cash situation continued to improve, and is once again as accommodating as it was in pre-crisis times.
4. Investment by SMEs was very dynamic in 2016. Intentions for 2017 are still cautious.

The resurgence in demand is driving business activity and fostering job creation

When surveyed in November, SMEs confirmed that the improvement in business activity they expected in May had continued throughout 2016. The growth in employee numbers, which was still modest in the first few months of the year, speeded up in the second half to exceed its long-term average trend (graph 1).

In 2016, business activity improved sharply in industry (+13 points in 1 year) and in services (+15 points). Transport saw a more modest improvement of +4 points. Construction is over the worst (balance of opinion at +2, gaining +17 points over 1 year), while tourism is stabilising but has had a tough year (balance of opinion at -1, up 2 points over 1 year).

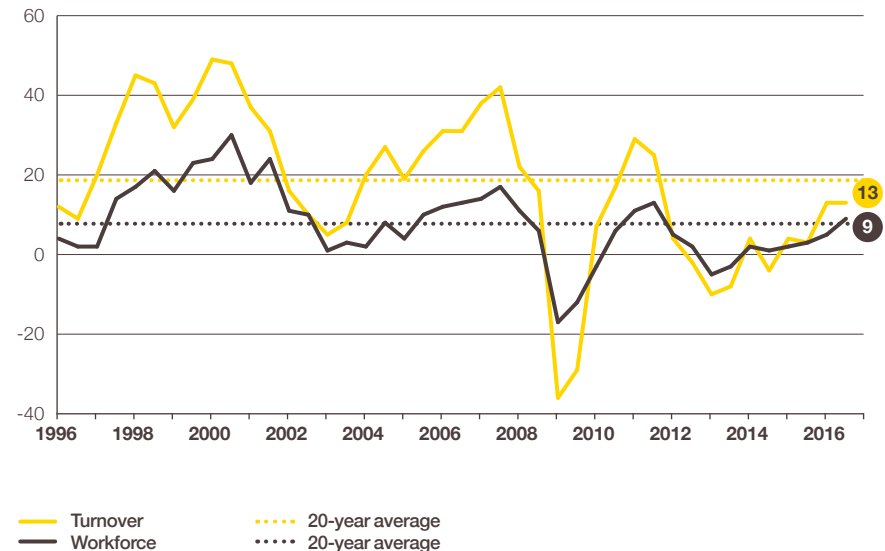
Business activity has improved in all businesses regardless of their size, but more rapidly in SMEs (+11 points) than in micro-businesses (+8 points).

Innovating SMEs are still reporting a better than average improvement in business activity, although non-innovators have seen a substantial improvement too (+11 points). By contrast, high-export SMEs, although still very dynamic, saw a slight decline in growth in 2016 (balance of opinion down 3 points over 1 year) in a challenging global economic climate.

The improvement in business activity is underpinned by a further rise in new orders, the figure for which stands at -9, its highest since the end of 2011. It is up 4 points compared to May 2016, and 9 points over 12 months.

The development of employment in 2016 within the various categories of SME is closely correlated with the business activity one. In sector terms, the figure was most positive in business-to-business services (+17 after +11 in 2015) and business-to-consumer services (+16 after -1). The situation is still gloomy in construction (-3) and tourism (-5), despite a clear slowdown in the pace of job losses (the balance of opinion on the trend in employment rose by +8 and +7 points respectively over 1 year).

GRAPH 1: TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS FOR THE CURRENT YEAR
BALANCE OF OPINION (AS A %)



Note: the net balance of opinion on the trend in business activity for the current year remained stable at +13 between the May 2016 and November 2016 surveys, but rose by 10 points over 1 year.

Source: **Bpifrance Le Lab**

Business activity is shaping up well for 2017

SMEs are still optimistic about 2017, with the business activity predictor standing at +22, above its long-term average of +18, and up 5 points over 1 year (graph 2). These are the best expectations for business activity since the end of 2010.

From the sector point of view, SMEs operating in tourism and in construction, which continued to struggle in 2016, show a real resurgence in optimism about 2017 (the balance of opinion on the trend in business activity stands at +19 after -1 a year ago and +8 after -2 respectively). The figures for industry and services are still pointing in the right direction, although only a modest improvement is expected at this stage.

The prospects are also brighter for exporting SMEs, after a somewhat complicated 2016 on foreign markets. As always, innovators have well-above-average growth expectations. Their business activity predictors stands at +40 and +42 respectively.

• **GRAPH 2: EXPECTATIONS FOR THE TREND IN BUSINESS ACTIVITY FOR THE FOLLOWING YEAR**
BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the expected trend in business activity for the following year has improved by 5 points over 1 year to stand at +22 in November 2016.

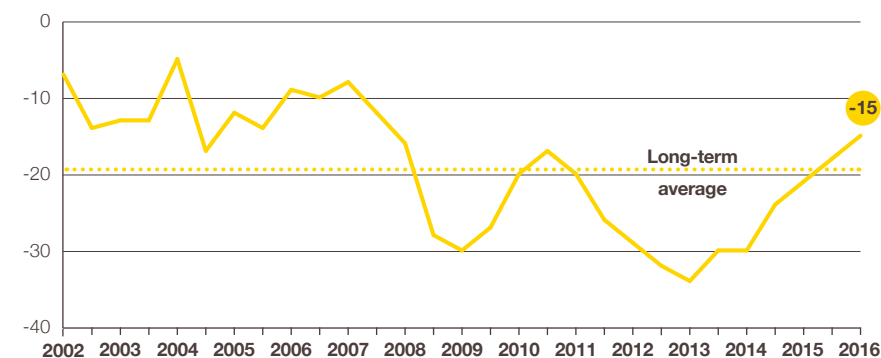
Source: **Bpifrance Le Lab**

Continued improvement in the financial position

The cash position of SMEs is still improving from its mid-2013 low. The indicator rose another 3 points over the last 6 months to stand at -15, which is higher than its long-term average of -19.1, and the highest since mid-2008 (graph 3).

Cash flow is considered easiest in the transport sector (-6), in business-to-business services (-8), in industry (-13) and in wholesale (-13). Although they are still a cause for concern, cash positions in tourism (-31) and construction (-24) have improved substantially (+8 and +9 points over 6 months).

• **GRAPH 3: AVERAGE OPINION ON THE CASH FLOW SITUATION**
BALANCE OF OPINION (AS A %)



Note: in November 2016, 15% more SMEs said cash flow was difficult rather than easy.

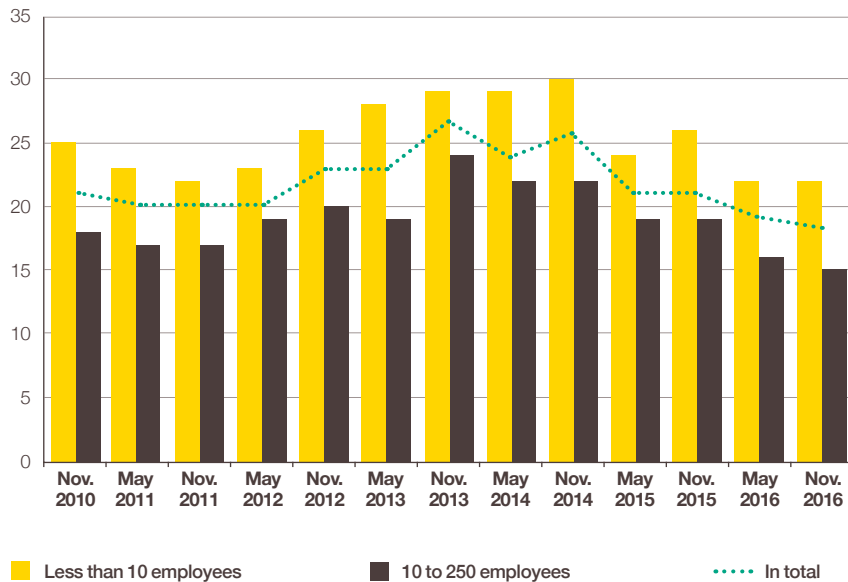
Source: **Bpifrance Le Lab**

Access to short-term lending eased once again in the second half of 2016, with only 18% of SMEs saying they had difficulty in obtaining short-term financial facilities. This is the lowest proportion ever recorded since the end of 2010, which is when this question entered the survey.

Compared to May 2016, the gap has increased slightly between micro-businesses (the same at 22%) and SMEs with between 10 and 250 employees (15% down by 1%) (graph 4).

Difficulty in accessing short-term credit remains close to average at 18% in all business sectors, except in tourism (33% versus 35% at end-2015).

• **GRAPH 4: ACCESS TO SHORT-TERM CREDIT FAIRLY OR VERY DIFFICULT (AS A %)**



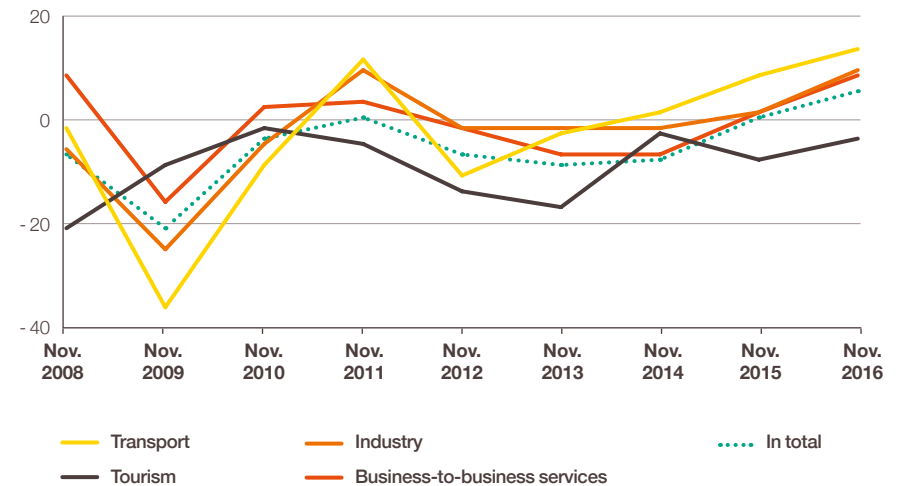
Source: **Bpifrance Le Lab**

A significant rise in investment in 2016

Investment saw its first real rise since the 2008 crisis.

In 2016, 51% of SMEs have invested, against 50% in 2015 and 48% in 2014. The indicator for the annual trend in the volume of investment, in other words all amounts invested throughout the year, is positive for the first time since 2011 at +5 (graph 5).

• **GRAPH 5: AVERAGE OPINION ON THE TREND IN INVESTMENT IN THE CURRENT YEAR**
NOVEMBER ANSWERS - BALANCE OF OPINION (AS A %)



Note: of the 51% of SMEs that said they invested in 2016, 27% said the volume of investment was up compared to 2015 and 22% said it was down, giving a balance of opinion indicator of +5.

Source: **Bpifrance Le Lab**

From a sectoral perspective, the growth in investment is the steepest in industry (+9 after +1), in business-to-business services (+8 after +1) and in the transport sector (+13 after +8 in 2015).

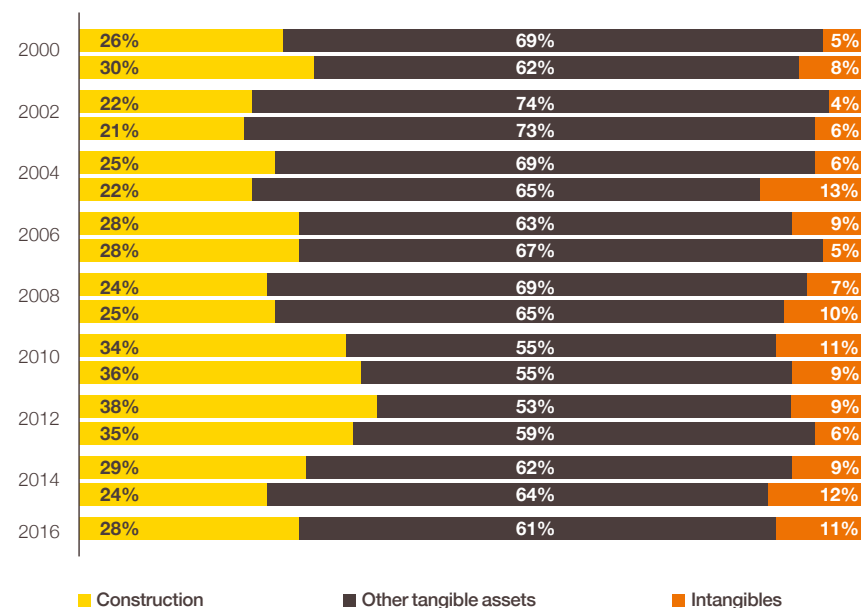
Investment grew slightly slower in wholesale (+6 after +4) and in automobile dealing and repair (+6 after +7). Expenditures on equipment are stabilising in construction (-1 after -5 in 2015) and in business-to-consumer services (-2 after -4). Finally, the fall in investment is slowing in retail (-4 after -7) and in tourism (-4 after -8).

Moreover, we can see that the more a business exports or innovates, the more it invests (respectively +9 and +11). Investment has gathered pace in particular in SMEs with between 10 and 250 employees (+9 after +2), while it is tending to stabilise in micro-businesses (-1 after -4 in 2015).

Slight decrease in expenditure on equipment and intangibles in favour of real estate

Investment in real estate (land, buildings, existing premises and improvements) as a proportion of whole investments grew by 4 points compared to 2015, reaching 28%, while the figure for capital expenditure on movable property (material, vehicles and other equipment) decreased by 3 points to stand at 61% and that for intangibles (goodwill, leaseholds, patents, licences and software) lost 1 point to stand at 11% (graph 6).

• GRAPH 6: SME CAPITAL EXPENDITURE BY TYPE



Note: in 2016, 28% of total capex was in real estate, 61% in other tangible assets and 11% in intangibles.

Source: Bpifrance Le Lab

The financial health of SMEs once again improved in 2016. The terms for accessing credit were particularly favourable with historically low rates and with financial institutions having excess liquidity. On average, the proportion of capital expenditure that was self-financed was limited to 37%, after 40% in 2015 and 42% in 2013.

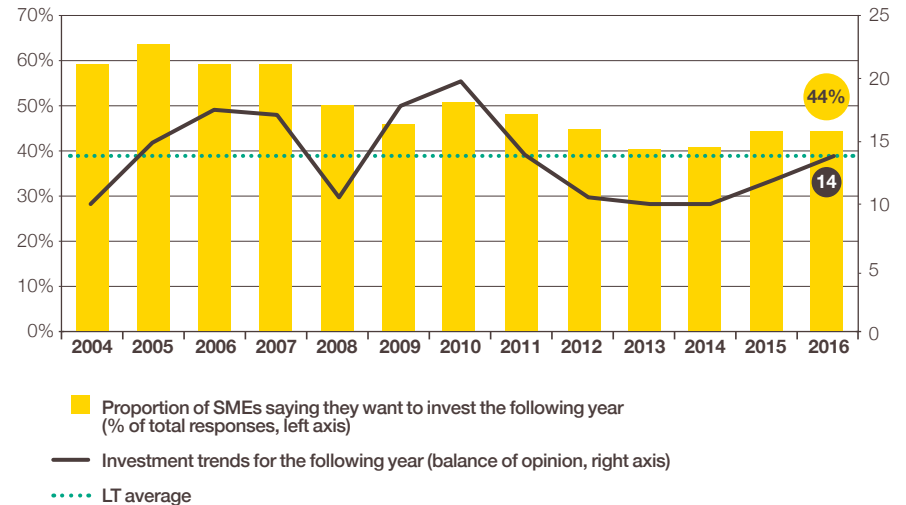
Most of the investments were therefore financed using medium-term facilities (equipment leasing and 2- to 7-year bank loans), representing 56% of funding on average, and to a lesser extent using long-term finance (real-estate leasing and bank loans of 8 years or over), amounting to 7%.

Cautious rise in investment expected in 2017

At the end of 2016, order books are considered as the fullest since 2011 and financing terms remain very favourable. As a result, SMEs expect to slightly increase their investments. As in 2015, 44% of companies think they will invest in the course of the following year, but the predictor for the volume of investment continues to recover at +14, putting it back at its long-term average (graph 7).

This expected slight increase in the volume of capital expenditure is driven by tourism and services SMEs.

• **GRAPH 7: INVESTMENT TREND EXPECTATIONS FOR THE FOLLOWING YEAR**
NOVEMBER ANSWERS - BALANCE OF OPINION (AS A %)



Note: in November 2016, 44% of SMEs say they are ready to invest in 2017 (left axis) and they are 14% more to expect an increase in capital expenditure rather than a decrease compared to 2016 (balance of opinion, right axis).

Source: **Bpifrance Le Lab**

By way of conclusion

The marked upturn in the position of SMEs has been confirmed in 2016 and should continue in 2017.

SMEs regained their form in 2016 and saw their business activity improve for the third year in a row, acting as a driver for hiring and capital expenditure. This improvement can be seen in almost all sectors, with the building sector visibly getting out of the doldrums. However, the tourism industry has faced a challenging year.

At the end of 2016, the outlook for order books seems favourable, albeit with no sharp improvement. Overall, 2017 is shaping up to be quite positive for business activity and jobs, particularly in the sectors still struggling in 2016, such as tourism and construction. The outlook for investment remains promising, even though most SMEs remain cautious.

Regional economic environment: summary

All regions have seen their situation improve in 2016 even though, because of previous difficulties, some of them such as Normandy, Hauts-de-France and the Grand Est region are still lagging.

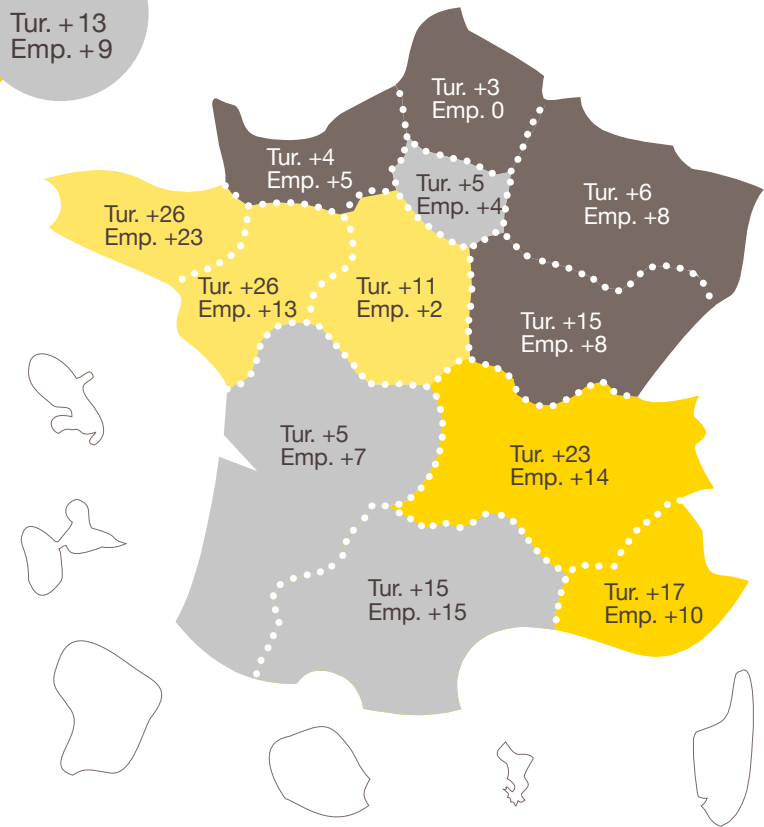
The upturn in their activity levels and financial positions has enabled SMEs to invest and create new jobs or at least keep their workforce stable.

For Brittany, the Pays de la Loire and the Auvergne-Rhône-Alpes and Provence-Alpes-Côte d'Azur regions, the recovery is beginning to take shape.

The detailed results by region are available as regional summaries at www.bpifrance-lelab.fr

TREND IN TURNOVER AND WORKFORCE BY REGION BALANCE OF OPINION AS %

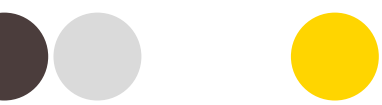
France:
Tur. +13
Emp. +9



Average trend in turnover at nominal value

- -0,4% to 0,9%
- 1,0% to 2,0%
- 2,1% to 3,0%
- 3,1% to 3,7%
- Not significant (fewer than 100 responses)

Source: **Bpifrance Le Lab**



TURNOVER

WORKFORCE

INVESTMENT

Avg 2006 to 2015 Nov. 2015 Nov. 2016 Trend/ Nov. 2015

Avg 2006 to 2015 Nov. 2015 Nov. 2016 Trend/ Nov. 2015

Avg 2006 to 2015 Nov. 2015 Nov. 2016 Trend/ Nov. 2015

YEAR 2016 ⁽¹⁾

	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015
All SMEs	+9	+3	+13		+4	+4	+9		-6	+0	+5	
10-250 employees	+19	+8	+19		+11	+10	+15		-2	+2	+9	
Less than 10 employees	-3	-5	+3		-4	-6	+1		-10	-4	-1	
Industry	+12	+5	+18		+3	+7	+11		-3	+1	+9	
Construction	+3	-15	+2		+2	-11	-3		-12	-5	-1	
Commerce	+7	+5	+6		+3	+6	+8		-7	+1	+3	
Transport	+12	+8	+12		+5	+10	+11		-4	+8	+13	
Tourism	-1	-3	-1		-3	-12	-5		-9	-8	-4	
Services	+13	+7	+22		+10	+8	+17		-3	+0	+7	

YEAR 2017 ⁽¹⁾

	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015	Avg 2006 to 2015	Nov. 2015	Nov. 2016	Trend/ Nov. 2015
All SMEs	+9	+17	+22		+7	+10	+14		+14	+12	+14	
10-250 employees	+16	+24	+30		+10	+13	+19		+14	+12	+13	
Less than 10 employees	+1	+9	+10		+4	+5	+7		+15	+13	+14	
Industry	+16	+25	+28		+10	+11	+19		+17	+15	+15	
Construction	-11	-2	+8		-1	-3	+2		+8	+7	+6	
Commerce	+10	+17	+17		+4	+8	+9		+15	+15	+15	
Transport	+7	+11	+11		+5	+8	+9		+5	+4	+4	
Tourism	-2	-1	+19		-2	-1	-2		+16	+14	+16	
Services	+18	+27	+29		+15	+18	+24		+15	+13	+16	

(1) Balance of opinion = (share of businesses anticipating a rise - share of businesses anticipating a fall).



02.



METHODOLOGY

Definitions

Indicator or balance of opinion is the difference between the percentages of opposing opinions:

- Indicator of trend = $[(x\% \text{ "up"}) - (y\% \text{ "down"})] \times 100$
- Indicator of level = $[(x\% \text{ "good/easy"}) - (y\% \text{ "bad/difficult"})] \times 100$

The percentages of neutral opinions ("same" and "normal"), which take the balances up to 100%, are not taken into account in calculating indicators of this type.

A business is considered "innovative" if it has taken at least 1 of the following 5 steps during the last 3 years:

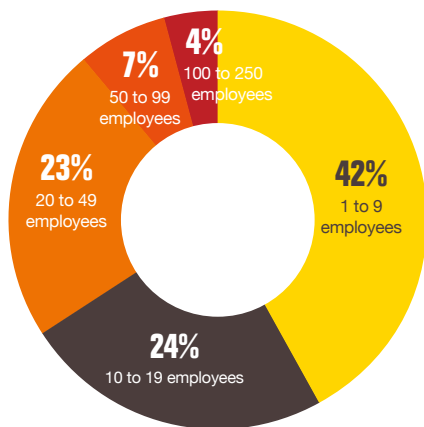
- funded research and development expenditure (in-house or externally) or recruited R&D personnel;
- acquired an operating licence for a process or technology;
- filed a patent, a trademark, a design or a utility model;
- developed a new or significantly improved product or process (service provision) on behalf of a third party;
- marketed a new product, asset or service (other than simply reselling new products bought from other companies and excluding aesthetic changes or changes to the packaging of products already in existence), or has used a new production, marketing or organisational process (or method). Furthermore, no similar product or process should already have been marketed or used by competitors.

A **"high-export"** business conducts over 1 quarter of its business internationally, a **"medium-export"** business between 6% and 25%, and **"non-exporters"** less than 6% (including 0%).

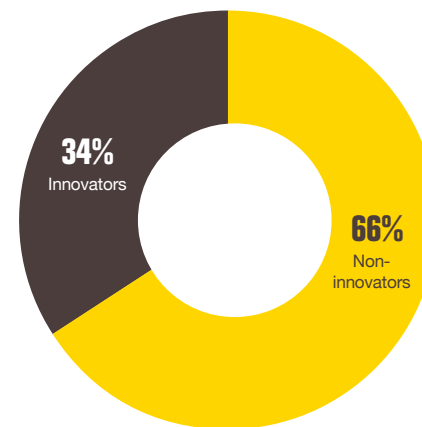
Sample structure

For this 64th half-yearly business climate survey, 29,500 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed at the start of November 2016. The report is based on the first 4,340 responses judged complete and reliable received before the 1st December 2016.

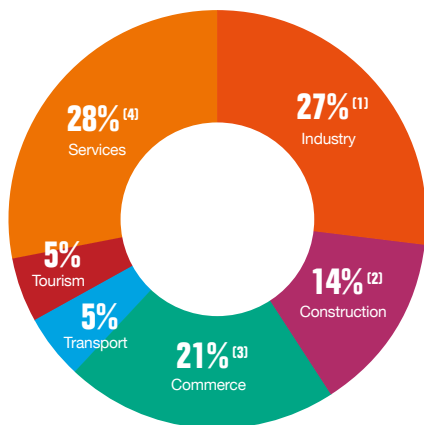
SIZE



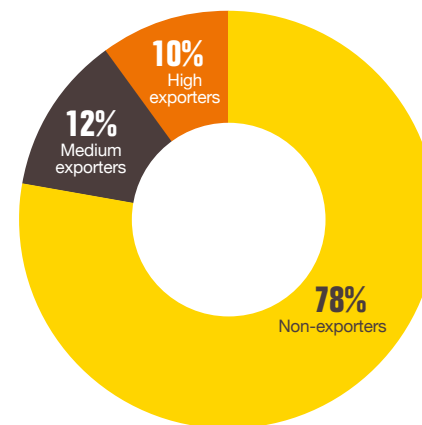
INNOVATIVE NATURE



BUSINESS SECTOR

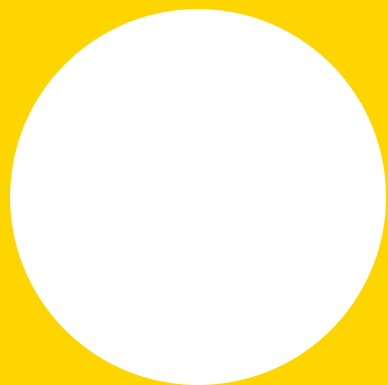


EXPORT

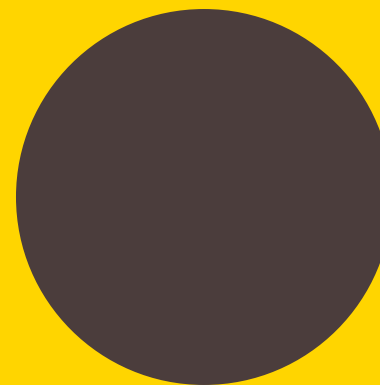


(1) 3% food, 12% intermediate goods, 9% capital goods, 3% consumer goods.
 (2) 12% building, 2% public works.
 (3) 2% automobile dealing and repair, 12% wholesale, 7% retail.
 (4) 23% business-to-business services, 5% business-to-consumer services.

Source: **Bpifrance Le Lab**



SERVIR L'AVENIR



bpifrance-lelab.fr