



# **SMEs**

## **60<sup>th</sup> BUSINESS**

### **CLIMATE SURVEY**

#### **JANUARY 2015**

**01.**

**SHAPING UP FOR  
RECOVERY...  
IN SPITE OF EVERYTHING?**



**- 4**

**THE BALANCE OF OPINION ON THE TREND  
IN SME BUSINESS ACTIVITY FOR 2014  
WAS DOWN 8 POINTS IN NOVEMBER  
COMPARED TO MAY**



**+13**

**THE BALANCE OF OPINION ON THE TREND  
IN HIGH-EXPORT SME BUSINESS ACTIVITY  
FOR 2014  
WAS UP 12 POINTS IN NOVEMBER  
COMPARED TO NOVEMBER 2013**



**- 30**

**THE BALANCE OF OPINION ON THE CASH  
POSITION AT THE END OF 2014  
WAS UP SLIGHTLY ON 2013 (+4 POINTS)  
BUT STILL AT THE LOW POINT REACHED  
AT THE END OF 2009**



**41%**

**THE PROPORTION OF SMEs EXPECTING  
TO INVEST IN 2015  
REMAINS UNCHANGED FROM  
THE PREVIOUS YEAR**

The SMEs surveyed in November on the trend in their business activity in 2014 downgraded their expectations compared to May.

Yet, 2014 has proved better than 2013, particularly for innovative and exporting SMEs. The same applies to tourism, industry and transport. Construction was the only exception, with a slight further deterioration in its position.

Sentiment nevertheless remains very downbeat. The cash position, in particular, is still considered very precarious.

As a result, the slight improvement in the outlook for business activity in 2015 remains too hesitant and tentative to unleash investment intentions, which are still in a trough.

**NEW**

**ACCESS  
TO DATA**

Industry-specific and regional summaries can be found together with the main data sets at [www.bpifrance-lelab.fr](http://www.bpifrance-lelab.fr)

# A disappointing second half of the year

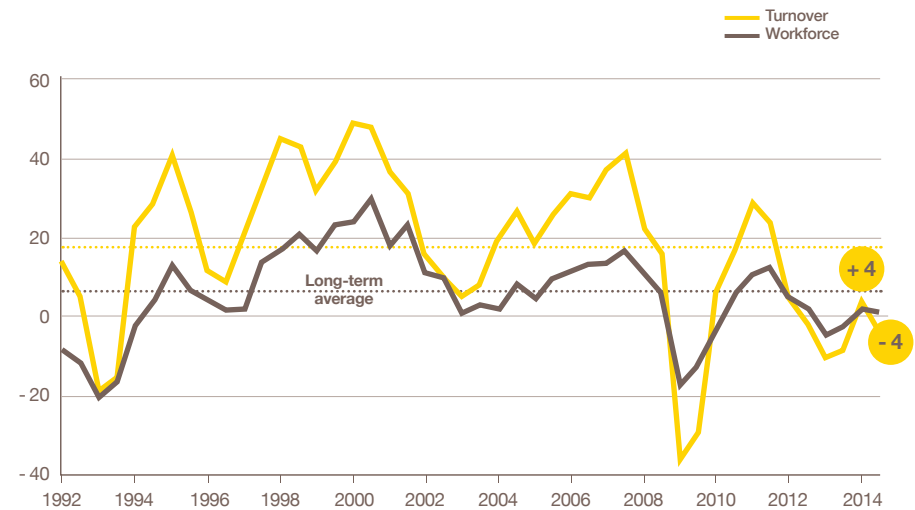
## Business activity expectations for 2014 have downgraded between May and November

According to the November survey, the improvement for 2014 glimpsed by SME leaders in May has in the end proved more modest than expected.

The balance of opinion (see definition in the appendix) on the trend in turnover for the current year was revised to -4, against +4 in May 2014 (graph 1). The downgrade in the 2014 outlook was steepest in commerce, where the balance of opinion was revised by 14 points between May and November.

This change in expectations is the result of falling demand experienced by SMEs in the second half of the year. In industry, the order books shrank in the second half of the year back to their end-2013 level (balance of opinion at -24).

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



Note: the balance of opinion on the trend in business activity for the current year fell from +4 to -4 between the May 2014 and November 2014 surveys.

Source: **Bpifrance Le Lab.**

## A lesser impact on workforce numbers

Similarly, the growth in workforce numbers slowed overall compared to the first half of 2014. But not all sectors were affected, in contrast to the flagging growth in business activity which was felt more generally. In commerce, tourism and services, the workforce numbers indicator actually improved in the second half of the year (graph 2).

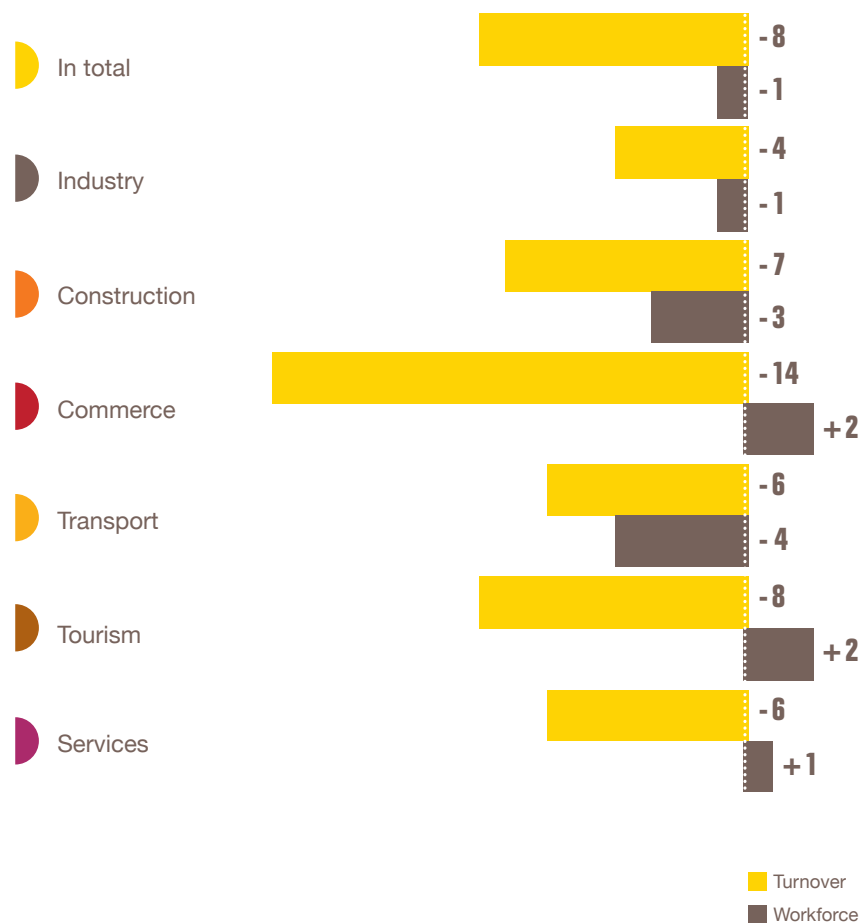
How can this mismatch with business activity be explained? There are two possible explanations, although there is no way of deciding between them.

First, given the greater optimism seen in the first half of the year, hiring may have taken place swiftly, before the setbacks in business activity experienced at the end of the year.

Second, in spite of everything, workforce numbers may have been underpinned by tax measures coming on stream to reduce labour costs. According to a recent estimate, businesses claimed back over €5 billion in CICE competitiveness tax credits in 2014<sup>(1)</sup> based on their total 2013 labour costs (with SMEs representing over 40% of this base). This was a welcome fillip, particularly for the most labour-intensive sectors such as commerce and tourism.



• **GRAPH 2: REVISED INDICATORS FOR THE TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS FOR THE CURRENT YEAR, NOVEMBER 2014/MAY 2014**  
CHANGES IN BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the trend in business activity for the current year slid by 4 points in industry between May 2014 and November 2014.

Source: **Bpifrance Le Lab.**

<sup>(1)</sup> Partial data at September, amounts actually received in 2014, excluding the mechanisms carrying forward to subsequent accounting periods (source: 2014 Report of the CICE competitiveness tax credit monitoring committee).

## But 2014 is still considered a better year than 2013

### 2014 was a better year for innovative and exporting SMEs

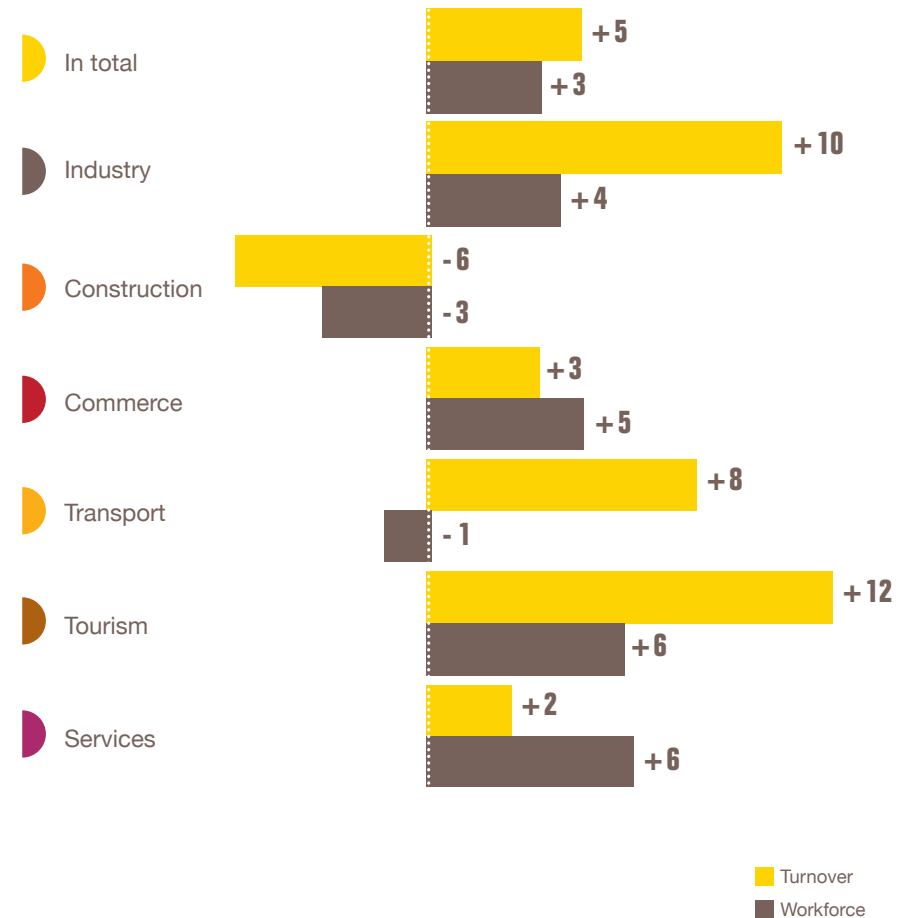
Despite this November downgrade in business activity projections for the year as a whole, the turnover trend indicator turned out to be better in 2014 than in 2013. In particular, exporting SMEs, for which business activity had stagnated in 2013, said their turnover grew in 2014. This was especially true for those conducting over one quarter of their business internationally (12 point upgrade in the balance of opinion on business activity). The same is found in innovative SMEs, which are up 6 points compared to the end of 2013.

### Relief rally in tourism, improvement in industry and transport

By sector, the most noticeable improvements are in industry (10 point upgrade in the balance of opinion on business activity), tourism (up 12 points on November 2013) and transport (up 8 points). As regards workforce numbers, the indicator recovered most sharply in 2014 in commerce, in tourism and services. It would seem that in these sectors the setbacks in business activity in the second half had little effect on their performance for the year (graph 3).

According to SME leaders surveyed in November, 2014 turned out to be not as bad as 2013 overall. However, we need to distinguish between the “relief rally” effect linked with the extremely depressed position in the previous year (tourism) and something reflecting an ongoing improvement in economic health, albeit still precarious, toward its pre-crisis position (transport and industry, see insert 1).

• GRAPH 3: AVERAGE OPINION ON TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS, 2014/2013 VARIATION  
CHANGES IN BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the trend in business activity for the current year rose by 10 points in industry between November 2013 and November 2014.

Source: **Bpifrance Le Lab.**

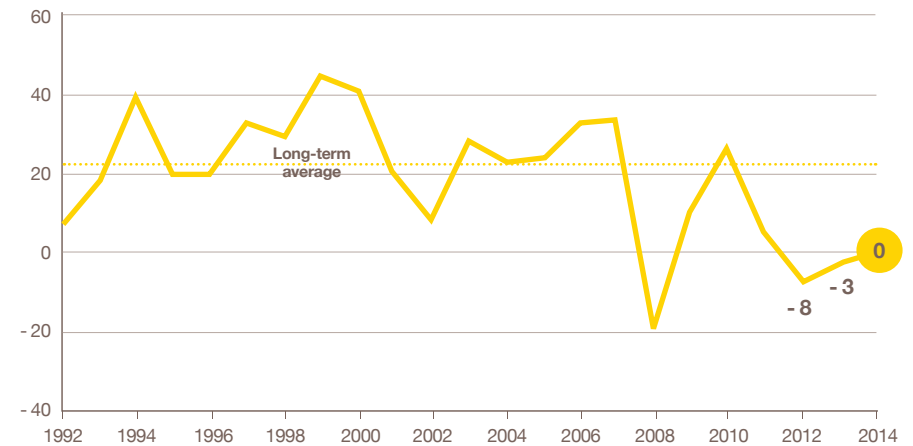
## Slightly better expectations for 2015

In the slipstream of a 2014 that was better than 2013, SMEs are expecting further, though modest, improvement in 2015. The downgrade in average sentiment for business activity in the second half of 2014 has therefore not dampened expectations of a recovery in 2015. The business activity indicator for the following year has improved to 0 against -3 in November 2013 and -8 in November 2012 (graph 4).

### Exporting SMEs, services SMEs and micro-businesses are the most confident about 2015

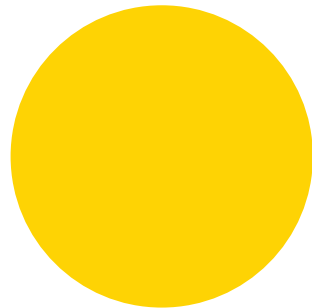
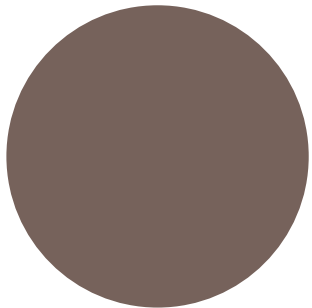
There is a clear improvement in high-export SMEs (a 6 point improvement in the predictive indicator compared to 2013). Services SMEs are also a little more confident than at the end of 2013, with an improvement of +5 points in the indicator. The same applies to SMEs with less than 10 employees (micro-businesses, +5 points). Construction SMEs, however, are still deeply pessimistic (Insert 2).

• **GRAPH 4: EXPECTATIONS FOR THE TREND IN BUSINESS ACTIVITY FOR THE FOLLOWING YEAR**  
BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the trend in business activity for the following year has improved to stand at 0 in November 2014 against -3 in November 2013.

Source: **Bpifrance Le Lab.**



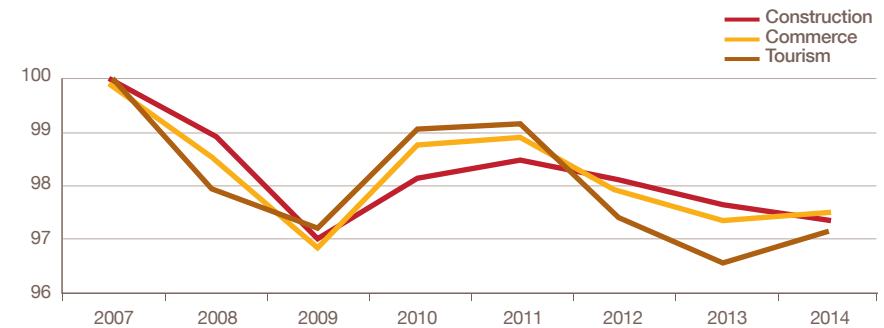
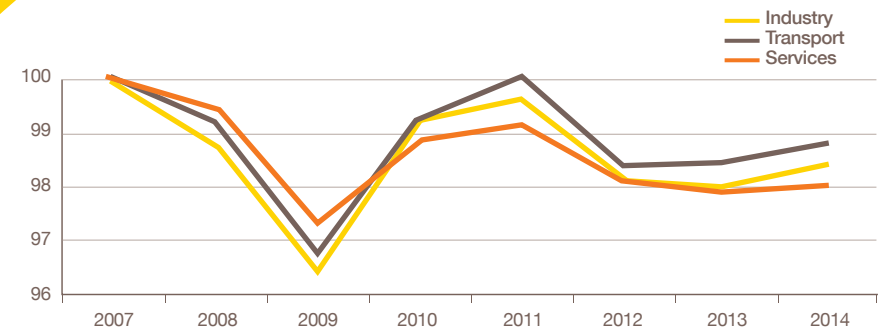
## Business activity trend: where do SMEs stand by comparison to the pre-crisis situation?

The opinion of SME leaders regarding the trend in their business activity has deteriorated considerably since the onset of the crisis in 2008. Aside from the recent developments in 2014, what do business leaders think about the rate of growth of their businesses compared to 2007?

Unsurprisingly, an analysis of changes in the balance of opinion over the last six years shows that, overall, and regardless of their size, business sector and propensity for export or innovation, SMEs are not back to their pre-crisis rate of growth.

At the end of 2014, some SMEs are, however, more or less close to it. Activity growth of SMEs in transport and industry was in this respect the closest to pre-crisis levels. In contrast, tourism and construction seem to be lagging the pack, but with a differing momentum of late – there has been an upturn in optimism on business activity in tourism in 2014. Large SMEs (over 100 employees) and exporting SMEs also seem furthest out in front in the frail recovery that has been appearing to take hold since the end of 2013.

### • AVERAGE OPINION ON THE TREND IN BUSINESS ACTIVITY IN 2014 DIFFERENCE FROM NOVEMBER 2007 CHANGES IN BALANCE OF OPINION, BASIS 100 = 2007, REDUCED<sup>(1)</sup>



Note: the deterioration in the balance of opinion since 2007 on the trend in business activity for the current year has been less marked for transport SMEs and sharper for tourism SMEs.

Source: **Bpifrance Le Lab.**

<sup>(1)</sup> Adjusted for series variance.



## Construction, a sector in deep trouble

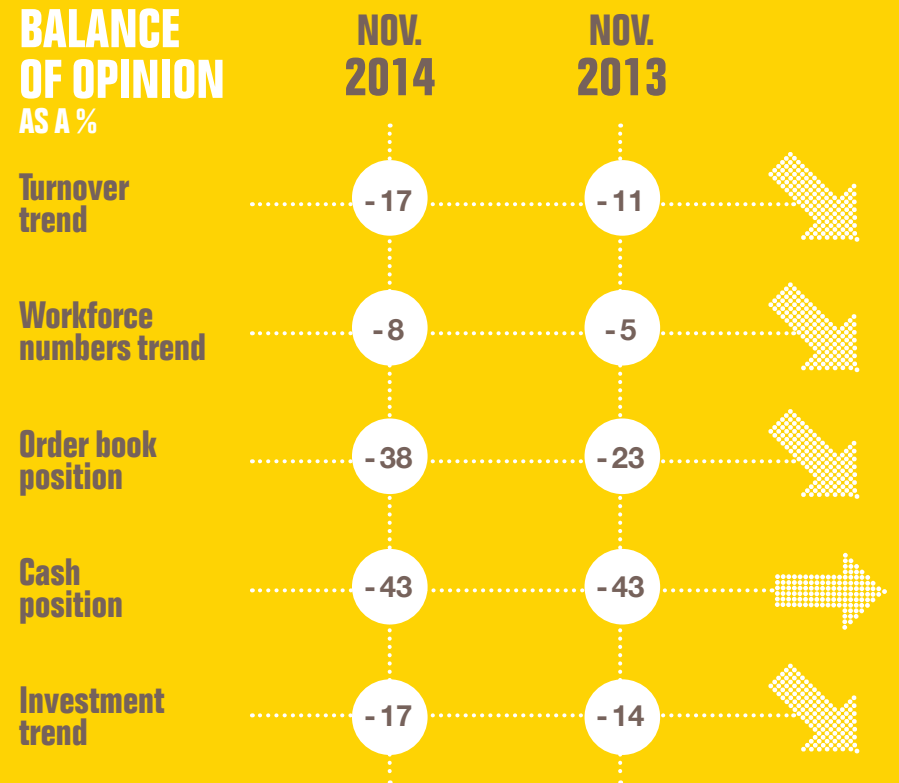
The tentative improvement in business activity and workforce numbers observed in 2014 nevertheless leaves one sector out in the cold: construction (building and public works).

This sector has suffered a double blow. First, a drop in residential investment by households, which has been falling for almost three years according to INSEE figures, and second a fall in public sector investment, especially by local authorities (post-electoral cyclical drop).

The construction industry is therefore the only sector in the survey to report a deterioration in its business activity trend in 2014 compared to 2013. This is reflected in a fall in workforce numbers, rock bottom order books and a financial situation that is still deteriorating. Order books are, in fact, thought to be at a record low, lower than the previous lowest point reached in 2009.

This deterioration puts a damper on the outlook for the start of 2015, and shuts construction SMEs out of the uptrend that can be glimpsed in other sectors.

### • CONSTRUCTION SMEs, CHANGE IN INDICATORS BETWEEN END 2013 AND END 2014



Source: Bpifrance Le Lab.

# Is the recovery strong enough to spark renewed investment?

## A spurt in transport and tourism in 2014

Investment is a major decision for SMEs, and for the smallest SMEs it is expenditure that is not made every year. Movements in SME expenditure should therefore be appraised by reference to two criteria: first, by the decision on whether or not to incur capital expenditure during the year; and second, by the amount incurred. The proportion of SMEs stating they had invested in 2014 is unchanged from 2013, at 48%<sup>(1)</sup>.

Behind this overall figure lurks a disparity in trend according to size: fewer businesses with under 10 employees invested than one year before (35%, down from 37%), in contrast to businesses with over 10 employees (59% in 2014, up from 58%). There was a big rebound in transport (68%, the highest since 2005<sup>(2)</sup>) and to a lesser extent in tourism (52% after bottoming at 48% in 2013). Investment slipped back in services (41%, down from 46% in 2013) and in construction (a new low at 46%). These tendencies are reflected in the trend in expenditure for 2014, which picked up sharply in transport and tourism (graph 5).

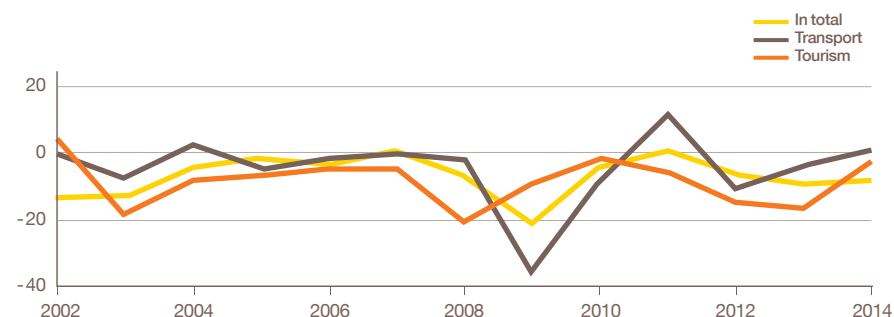
The proportion of tangible and intangible investment in total expenditure increased in 2014 (respectively 62% and 9%, up from 59% and 6% in 2013). The proportion invested in construction was down (29%, down from 35% in 2013; graph 6).

There was a slightly greater use of credit for financing this investment (conventional loans or leasing), representing on average 61% of total funding, with the self-financed proportion falling to 39% (down from 42% in 2013). These reports are in line with the Bank of France figures, which find that lending is up by almost 2% over one year at the end of 2014 (against +1.5% in 2013).

(1) Only investments of > €2,000 are taken into account.

(2) The new Euro 6 standards that came into effect at the beginning of the year boosted the purchase of heavy goods vehicles at the turn of 2014, according to INSEE.

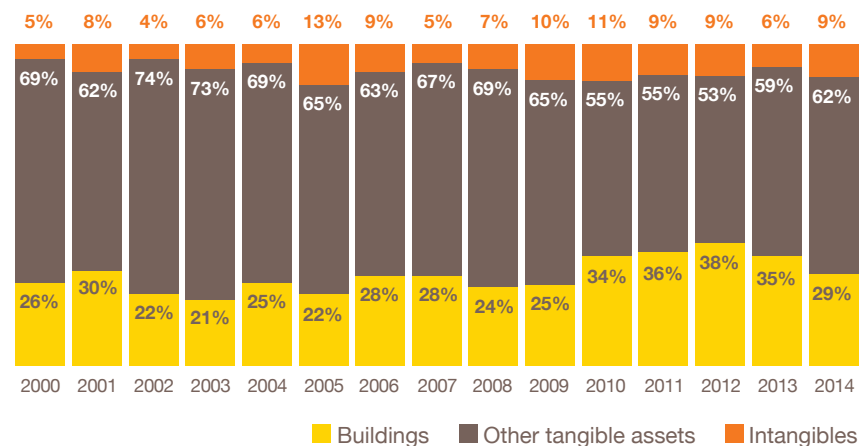
• GRAPH 5: AVERAGE OPINION ON THE TREND IN INVESTMENT IN THE CURRENT YEAR, NOVEMBER SURVEY



Note: the balance of opinion on the trend in investment in tourism for the current year improved from -17 in November 2013 to -3 in November 2014.

Source: Bpifrance Le Lab.

• GRAPH 6: SME INVESTMENT EXPENDITURE IN 2014 BY TYPE



Note: in 2014, 29% of total investment expenditure was in construction, 62% in other tangible assets and 9% in intangibles.

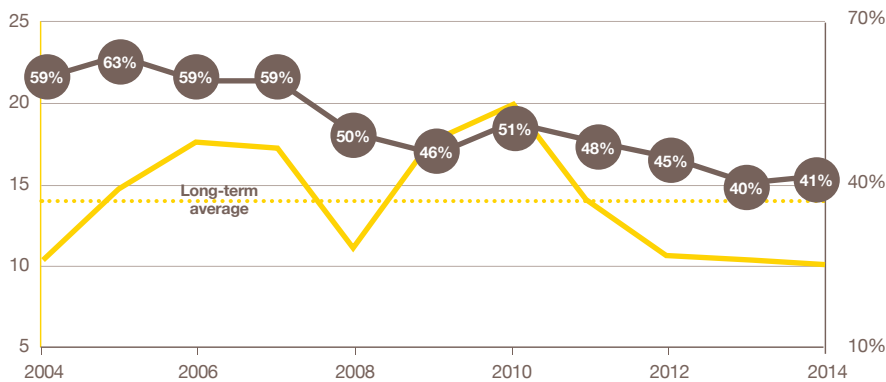
Source: Bpifrance Le Lab.

## But demand is still too low to trigger a spurt in investment expectations in 2015

In spite of an upturn in the investment indicators in 2014, and a slightly more promising outlook for business activity, investment expectations for 2015 are stuck firmly in a trough (graph 7).

Except for the transport and tourism sectors, SMEs seem to be waiting to see what happens, and are being very cautious about the coming year. This is especially true for micro-businesses (fewer than 10 employees), with 28% of them stating they are ready to invest in 2015 against 30% one year previously.

• **GRAPH 7: INVESTMENT TREND EXPECTATIONS FOR THE FOLLOWING YEAR**



— Trend in investment for the following year (balance of opinions, left axis)  
 — Proportion of SMEs saying they want to invest the following year (% of total responses, right axis)

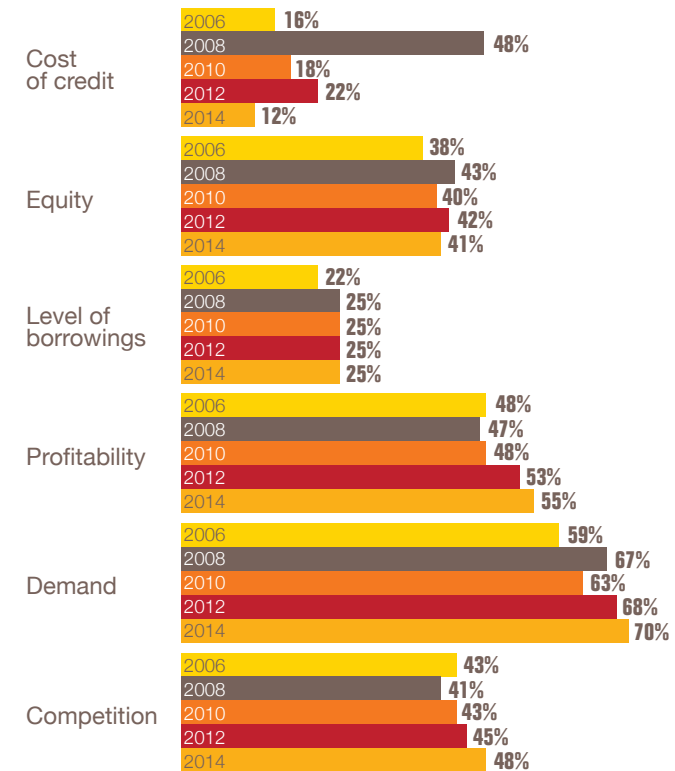
Note: 41% of SMEs say they are ready to invest in 2015, and of these 10% more expect expenditure to increase rather than decrease compared to 2014.

Source: **Bpifrance Le Lab.**

The main constraint is still, as always, the slack demand for SME goods and services. This, together with the setbacks in business activity in the second half of 2014, has prevented investment expectations from being anything other than cautious. Low profitability and fierce competition are the two other major inhibiting factors cited by SMEs (graph 8).

Moreover, the financial position of SMEs is far from being back on a sound footing.

• **GRAPH 8: OPINION ON OBSTACLES TO INVESTMENT PROPORTION OF RESPONDENTS (AS A %)**



Note: in November 2014, 70% of SMEs reported demand as being a major inhibitor of investment, against 59% in 2006.

Source: **Bpifrance Le Lab.**

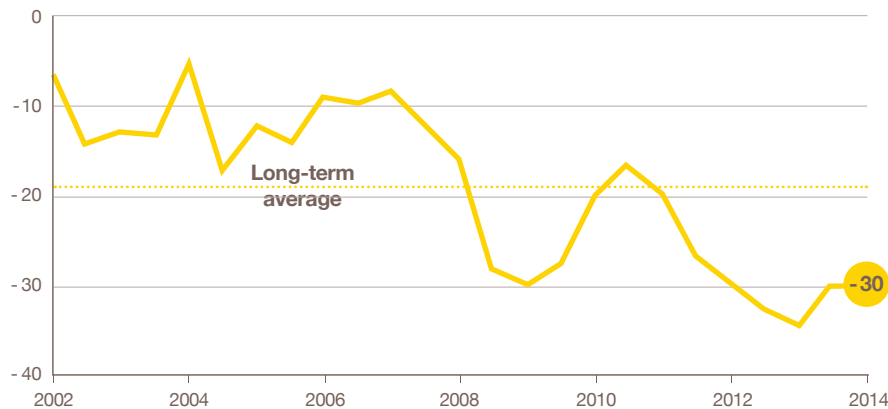
## And the financial position is still very precarious

Judgment on the cash position improved slightly in 2014, with the balance of opinion indicator standing at -30 at end-2014 against -34 at end-2013 (graph 9). The sharpest improvement over one year comes from SMEs in the tourism, commerce, services and transport sectors, which may have benefited from the first effects of the CICE competitiveness tax credit.

While this improvement is welcome, it is nonetheless relative compared to end-2013 when SME cash flow problems were at their worst, with the indicator then hitting a 10-year low at -34. In fact, the situation at the end of 2014 proves very similar to that at the end of 2009.

Indeed, many SMEs are still in an extremely precarious financial position. Business failures stayed at a high level at the end of 2014, with around 59,000 failures per year for SMEs.

• **GRAPH 9: AVERAGE OPINION ON THE CASH POSITION**  
BALANCE OF OPINION (AS A %)



Note: in November 2014, 30% more SMEs said that cash position was difficult rather than easy.

Source: **Bpifrance Le Lab.**

## By way of a conclusion, might some nice surprises be in store in the first half of 2015?

In spite of the slight uptick in optimism shown by SMEs for 2015, on average the view is that the business activity trend will remain extremely weak compared to the indicator's historical average. Managers still find the uncertainties too great to prompt them to invest.

However, over the last few months there has been a sharp drop in the price of oil and a decline in the value of the euro. Both these developments may have a favourable impact on demand for business goods and services, which is the main cause of the current freeze on investment. Might this spur SME managers to upgrade their outlook for hiring and investment? The next survey, scheduled for May 2015, might provide the first answers to these questions.

## Regional economic environment: summary

SME business growth forecasts for 2014 have been downgraded in all regions by comparison to the projections made last May.

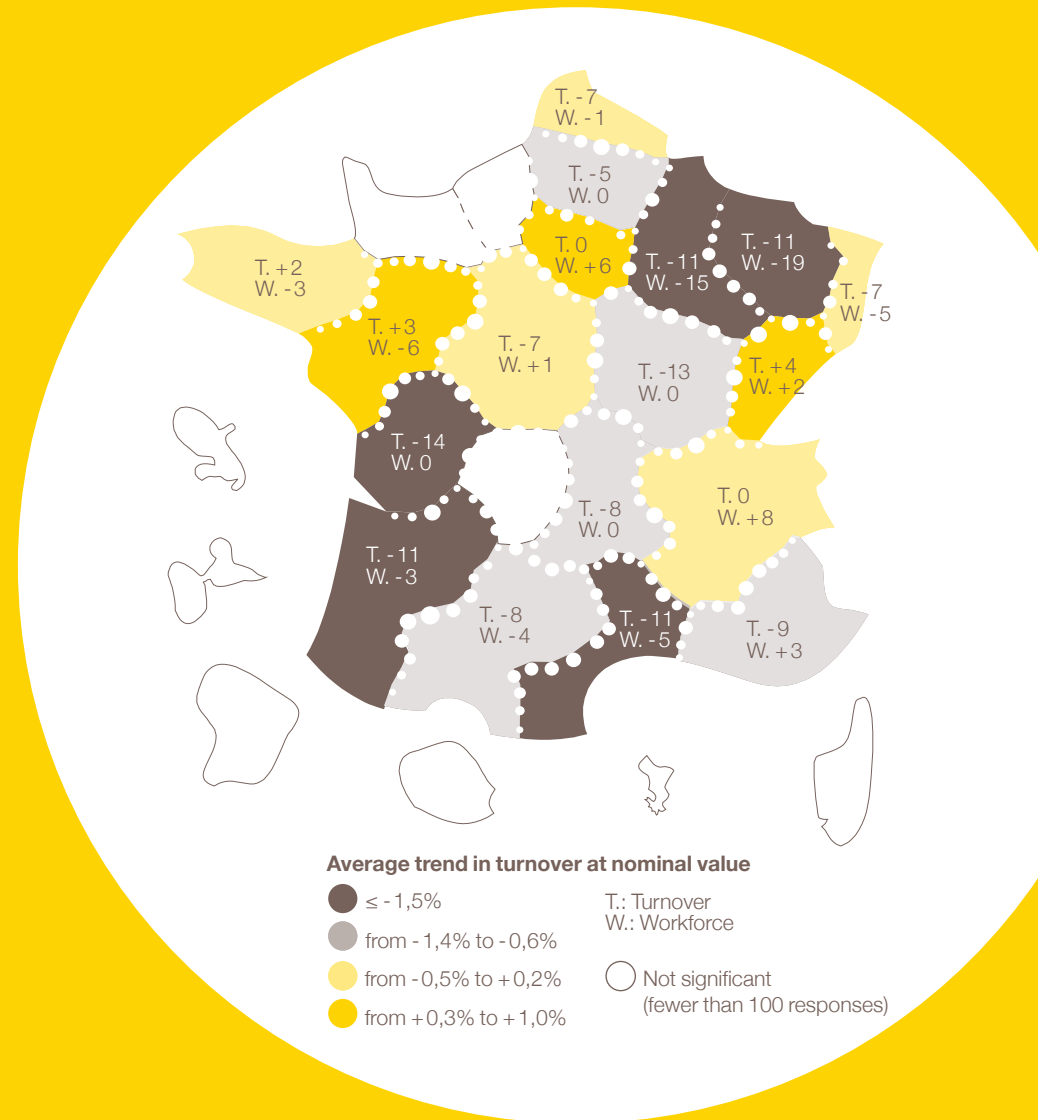
They are nevertheless better than those for 2013, except for the Poitou-Charentes and Midi-Pyrénées regions, where SMEs are seeing a worsening in their position compared to the previous year.

By activity level, business activity is stable on average or even slightly up in five regions: Franche-Comté, Pays de la Loire, Brittany, Rhône-Alpes and Ile-de-France (see map opposite).

The detailed results by region are available as regional summaries at [www.bpifrance-lelab.fr](http://www.bpifrance-lelab.fr).

## MOVEMENTS IN TURNOVER AND WORKFORCE NUMBERS BY REGION

BALANCE OF OPINION (AS A %)



Note: in Alsace, the turnover trend is -7 by balance of opinion, and by nominal value it is between -0.5% and +0.2%. The figure for workforce numbers stands at -5 by balance of opinion.

Source: Bpifrance Le Lab.



**02.**



**RESULTS  
SUMMARY**



## TURNOVER

## WORKFORCE

## INVESTMENT

### PAST BUSINESS ACTIVITY <sup>(1)</sup>

	2004-2013 average	Nov 2013	Nov 2014	Change/2013	2004-2013 average	Nov 2013	Nov 2014	Change/2013	2004-2013 average	Nov 2013	Nov 2014	Change/2013
<b>All SMEs</b>	+13	-8	-4	▲	+5	-3	+1	▲	-6	-9	-8	▲
10-250 employees	+22	-1	+5	▲	+10	+3	+7	▲	-3	-5	-1	▲
under 10 employees	+2	-18	-16	▲	-3	-9	-7	▲	-9	-12	-16	▲
Industry	+17	-4	+6	▲	+3	+0	+4	▲	-3	-2	-2	→
Construction	+8	-11	-17	▲	+5	-5	-8	▲	-10	-14	-17	▲
Commerce	+10	-15	-12	▲	+3	-3	+1	▲	-8	-11	-9	▲
Transport	+14	-1	+7	▲	+5	+3	+2	▲	-5	-4	+1	▲
Tourism	+3	-33	-21	▲	-1	-17	-12	▲	-9	-17	-3	▲
Services	+19	-3	+0	▲	+10	+0	+6	▲	-1	-7	+8	▲

### PROJECTED BUSINESS ACTIVITY <sup>(1)</sup>

	2004-2013 average	Nov 2013	Nov 2014	Change/2013	2004-2013 average	Nov 2013	Nov 2014	Change/2013	2004-2013 average	Nov 2013	Nov 2014	Change/2013
<b>All SMEs</b>	+11	-3	+0	▲	+8	-1	+0	▲	+14	+10	+10	→
10-250 employees	+18	+6	+8	▲	+10	+3	+4	▲	+14	+11	+10	▲
under 10 employees	+3	-14	-9	▲	+5	-4	-4	→	+15	+10	+11	▲
Industry	+18	+13	+14	▲	+10	+7	+7	→	+17	+13	+12	▲
Construction	-5	-28	-29	▲	+3	-12	-18	▲	+9	+7	+4	▲
Commerce	+12	-3	+2	▲	+5	-1	+0	▲	+16	+13	+12	▲
Transport	+9	-7	-10	▲	+6	-5	-7	▲	+1	+0	+7	▲
Tourism	+2	-24	-9	▲	-1	-15	-9	▲	+15	+7	+13	▲
Services	+22	+1	+6	▲	+17	+5	+8	▲	+16	+12	+10	▲

(1) Balance of responses = (Proportion of business expecting an increase - Proportion of businesses expecting a decrease).



## METHODS USED

## Definitions

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

- Indicator of trend = [(x% “up”) – (y% “down”)] x 100
- Indicator of level = [(x% “good/easy”) – (y% “bad/difficult”)] x 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 one 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 one quarter of its business internationally, a “**medium-export**” business between 6% and 25%, and “**non-exporters**” less than 6% (including 0%).

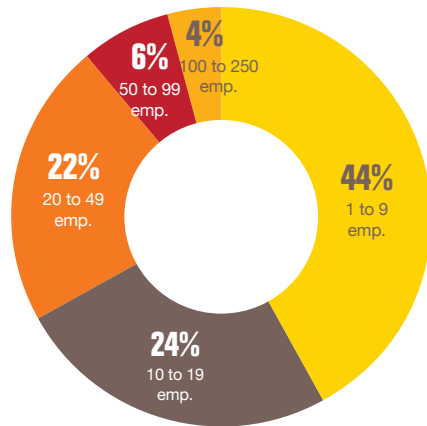


# Sample structure

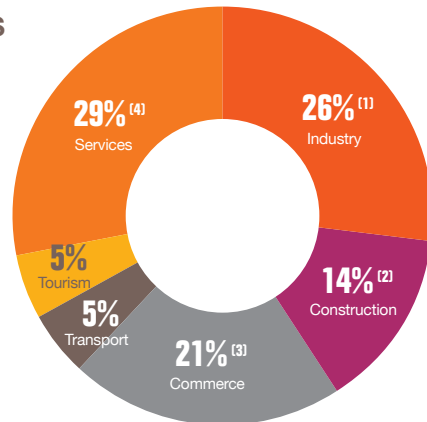
For this 60th half-yearly business climate survey, 29,000 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed at the start of November 2014.

The report is based on the first 4,631 responses judged complete and reliable.

## SIZE



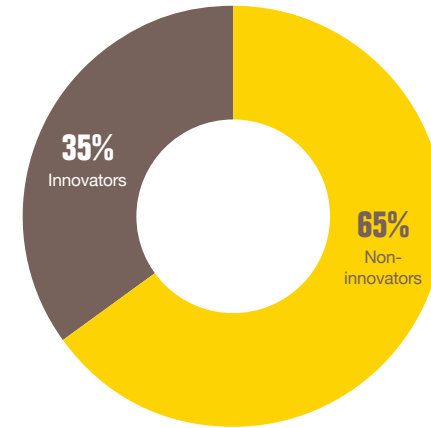
## BUSINESS SECTORS



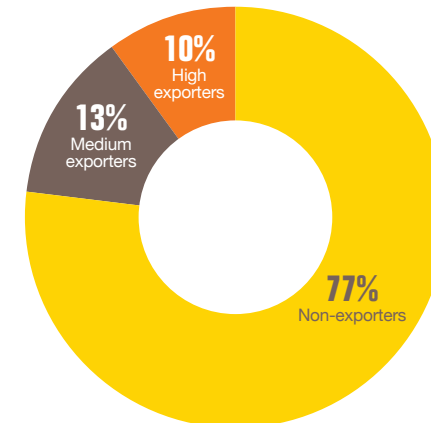
Source: **Bpifrance Le Lab.**

(1) 3% agri-food sector, 12% intermediate goods, 8% capital goods, 3% consumer goods.  
 (2) 12% construction et 2% civil engineering.  
 (3) 2% trade and car repair, 13% wholesale trade and 6% retail trade.  
 (4) 24% business services and 5% services to individuals.

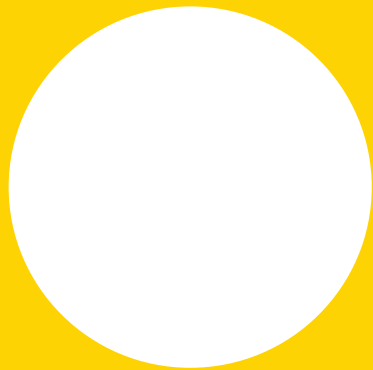
## INNOVATIVE NATURE



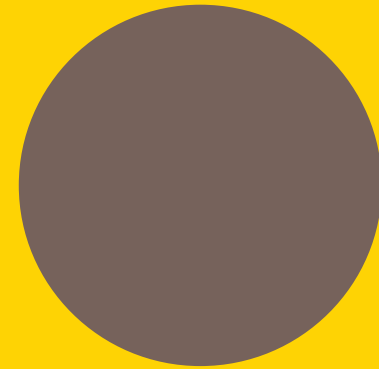
## EXPORT



Source: **Bpifrance Le Lab.**



# **SERVIR** **L'AVENIR**



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