



SMEs

**63RD BUSINESS
CLIMATE SURVEY**

JULY 2016

01.

**THE RECOVERY
GATHERED PACE IN
THE FIRST HALF OF
THE YEAR. IN MAY,
SMEs WERE STILL
OPTIMISTIC ABOUT
THE END OF THE YEAR**



+13

**IN THE BALANCE OF OPINION
ON THE EXPECTED TREND IN SME BUSINESS
ACTIVITY IN 2016,
AGAINST +4 IN MAY 2015**



-18

**IN THE BALANCE OF OPINION ON THE CASH
POSITION FOR THE LAST 6 MONTHS,
ALMOST AT PRE-CRISIS LEVELS**



47%

**THE PROPORTION OF SMEs INVESTING SINCE
THE START OF 2016, OR EXPECTING TO DO SO
BEFORE THE END OF THE YEAR,
UP 2 POINTS OVER 1 YEAR**



+6

**IN THE BALANCE OF OPINION
ON THE EXPECTED CHANGE IN NEW ORDERS,
UP 3 POINTS OVER 6 MONTHS**

Key points

1. During the first half of the year, business activity grew at a rate unparalleled for 5 years, buoyed up by an 18-month increase in order books in all sectors except Construction, where they are in the process of stabilising.
2. A financial position that is continuing to steadily improve, with the cash situation back, or nearly back, to the levels seen in the first half of 2008. However, cash positions are still rather tenuous in Construction and particularly in Tourism.
3. The credit tap has been turned on: access to short-term and long-term lending is at its easiest since the start of the decade.
4. Capex projections are better than in May 2015, but still somewhat tentative. A clear upswing in Services and Transport, but stability expected in Industry.
5. The improvement should continue in the second half of the year even if the climate of uncertainty may have been reinforced with the materialisation of the risk of Brexit: the expected growth in order books is at its best since 2011. The cash situation is expected to ease further and profitability for 2016 is expected to increase.

The sharp upswing in business activity in the first half of the year kicks off an improvement on the jobs front

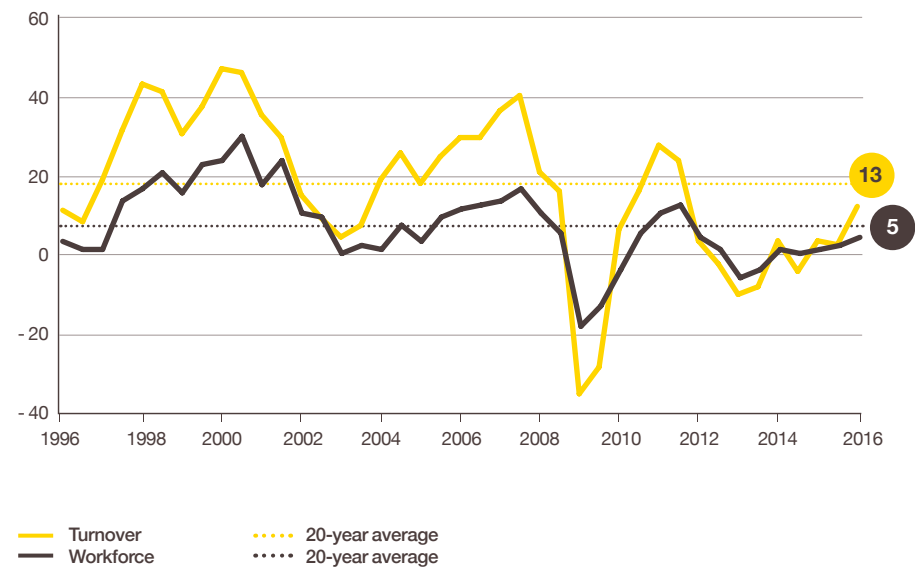
When surveyed in May, SMEs reported an increase in their businesses at a rate unequalled since 2011. Net job creation increased as a result, although at a still modest rate.

Over 1 year, the balance of opinion on the trend in business activity gained 9 points to stand at +13, while the figure for employment improved by 3 points to stand at +5. These business activity and employment trend indicators are therefore nearing their long-term average (graph 1).

Like the intermediate-sized enterprises surveyed in March⁽¹⁾, SMEs also seem to be benefiting from the upturn on the French and European markets. The balance of opinion on business activity for businesses not trading internationally has recovered by 11 points to +10, while the balance of opinion on businesses with moderate international operations has risen by 6 points, to +23.

This trend is expected to continue in 2017, with business activity continuing to grow, particularly in SMEs with over 100 employees. Employment, too, is expected to benefit from this favourable climate, with a steady increase in hiring.

• **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 rose from +2 to +13 between the November 2015 and May 2016 surveys.

Source: **Bpifrance Le Lab**

⁽¹⁾ See "La conjoncture des ETI : enquête annuelle 2016", **Bpifrance Le Lab**-DGE, June 2016.

Order books are becoming fuller for the third half-year in a row, with the balance of opinion indicator rising by 11 points over 1 year to -13, its highest since the end of 2011.

Businesses fall into 2 distinct groups in the unfolding recovery (graph 2):

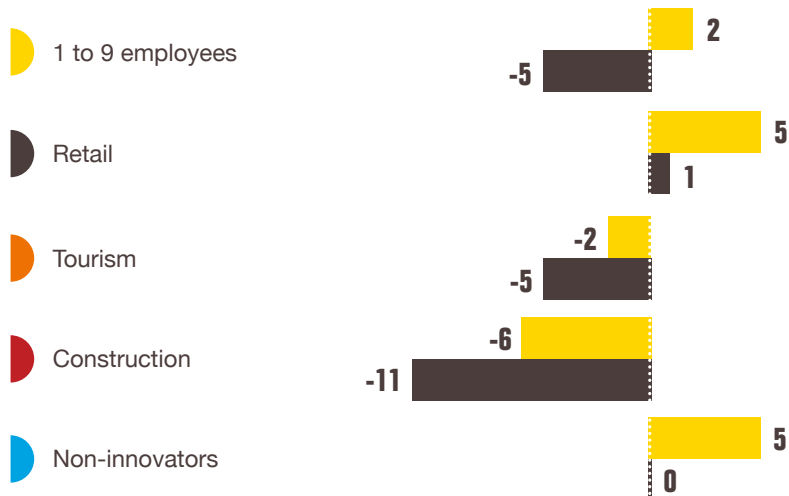
- "growing" SMEs, for which business activity and hiring is on the increase;
- those still "lagging", for which business activity and employment is stagnating or still dwindling. The latter are steadily catching up, however.

The first group comprises SMEs employing at least 10 employees, and particularly those with 100 to fewer than 250 employees, along with exporter and innovative businesses. In sector terms, they include Business-to-business services, Business-to-consumer services, Industry, Wholesale, and Transport.

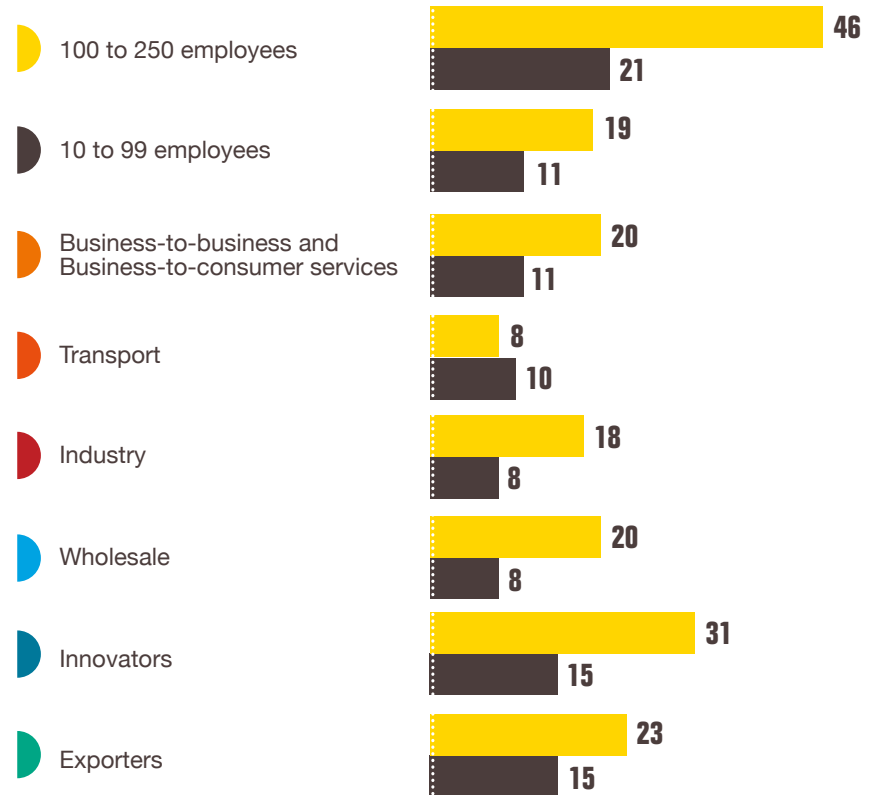
The second group comprises micro-businesses and non-innovative businesses. From the sector point of view, it includes Construction SMEs (the indicators for which are less downbeat than before), Tourism and Retail.

• GRAPH 2: CHARACTERISTICS OF THE 2 CATEGORIES OF SME
BALANCE OF OPINION (AS A %)

SMEs STILL "LAGGING"



"GROWING" SMEs



■ Activity ■ Employment

Source: **Bpifrance Le Lab**

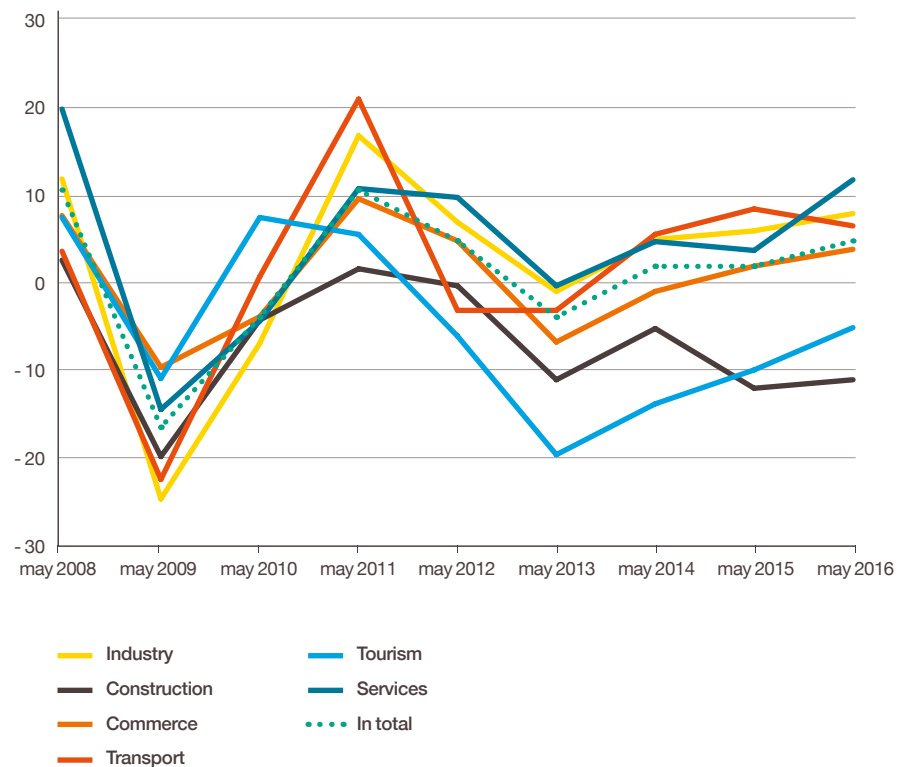
Hiring is starting to improve, but still unevenly

During the first few months of 2016, 21% of SMEs increased their employee numbers, while 16% reduced them. This gives a positive trend figure for employment of +5, a 3 point improvement on 2015.

SME employment trends vary considerably between business sectors. The sharpest turnaround is found in Services (indicator at +12, 8 points up on 2015), its highest level since 2008. The upturn is more modest in Industry (+8) and Commerce (+4).

By contrast, the situation is still rather gloomy in Construction (-11) and Tourism (-5). In Tourism, however, the situation has been improving steadily since its 2013 low of -20.

SME HEADCOUNT TRENDS SINCE THE START OF THE YEAR BY BUSINESS SECTOR BALANCE OF OPINION (AS A %)



Note: in May 2016, 20% of Transport SMEs said they had increased their employee numbers since the end of 2015, whereas 13% said they had reduced them, giving an employment trend indicator of +7.

Source: **Bpifrance Le Lab**

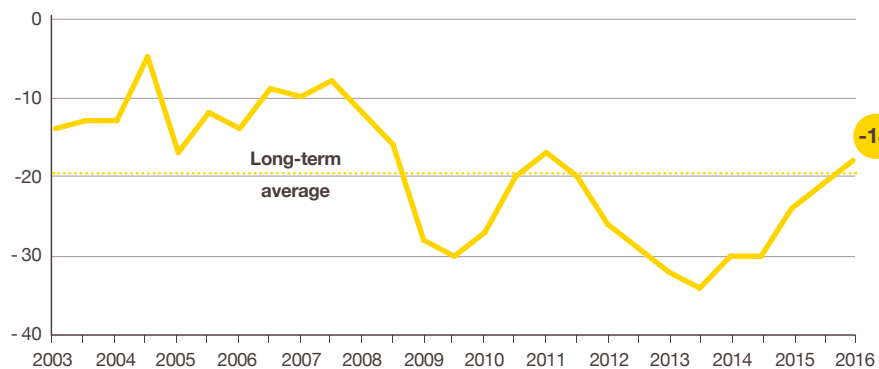
The financial position is once again improving...

The cash situation for SMEs is at its best since 2011. The cash indicator has improved by 3 points compared to November 2015 to stand at -18, putting it 2 points above its long-term average, and almost at its pre-crisis level (graph 3).

Cash flow is considered easiest in Business-to-business services with an indicator standing at -11, in Wholesale (-14) and in Industry (-15). Cash flow is estimated to be tightest in Tourism (-39) and Construction (-33).

On average, micro-businesses find cash flow tighter (-22) than do SMEs, while businesses with between 100 and fewer than 250 employees find it much easier (-3).

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



Note: in May 2016, 18% more SMEs said that cash flow was difficult rather than that cash flow was easy.

Source: **Bpifrance Le Lab**

Moreover, there has been a marked improvement over 1 year in the opinion on the profitability of the previous financial year. The balance of opinion indicator stands at its highest since May 2012 in Industry (-1), Services (-1) and Commerce (+1) and has remained stable over 1 year in Transport (-5, after -4). However, views on profitability are still very negative in Construction (-19 after -24 in May 2015) and in Tourism (-18 after -20).

The figure is also better in innovative SMEs (+1 after -7 in May 2015) than in non-innovative SMEs (-7 after -11), and in exporting SMEs (+2 after -4) than in non-exporting SMEs (-7 after -12).

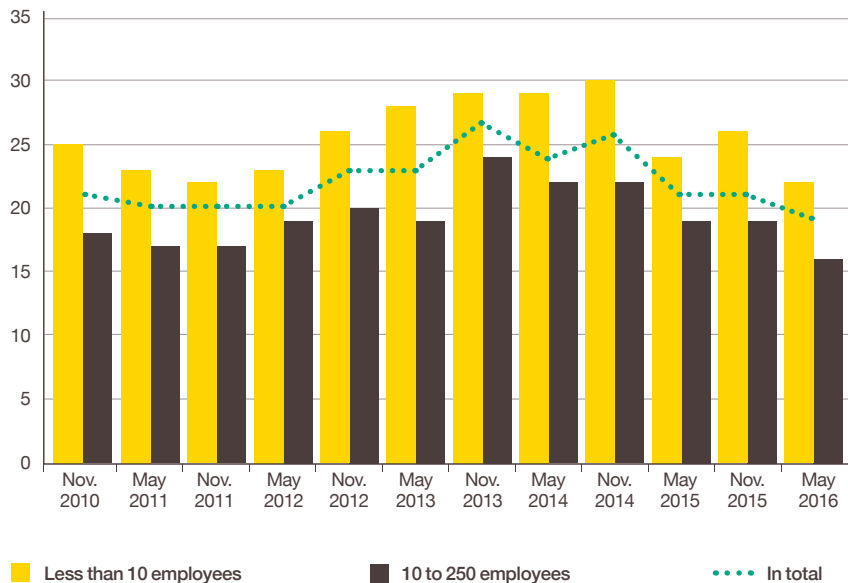
Expectations for the profitability trend for the current financial year are positive for the first time since May 2011, with the indicator standing at +3 (after -3 in May 2015 for financial year 2015). Expectations are at their most positive in Services (+10 after -2), Industry (+8 after +4), and Commerce (+1 after -5).

...and very favourable terms for access to credit

SME access to short-term credit during the second half of 2016 is at its easiest since 2010, the year in which the question was first included in the survey. Only 19% of companies said they had run into difficulty in obtaining the desired short-term finance. This proportion is 2 points down on the second half of 2015.

The improvement was felt not only by micro-businesses (22% after 26%) but also SMEs with between 10 and fewer than 250 employees (16% against 19%) (graph 4).

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



Source: **Bpifrance Le Lab**

Difficulties in accessing short-term credit are most frequently encountered in Tourism (28% vs 35% in the second half of 2015), Automobile dealing and repair (24% against 31%) and Business-to-consumer services (25% after 30%), although the situation is clearly improving. By contrast, this difficulty is less frequently encountered in Wholesale (14% against 17%) and Industry (17% after 19%).

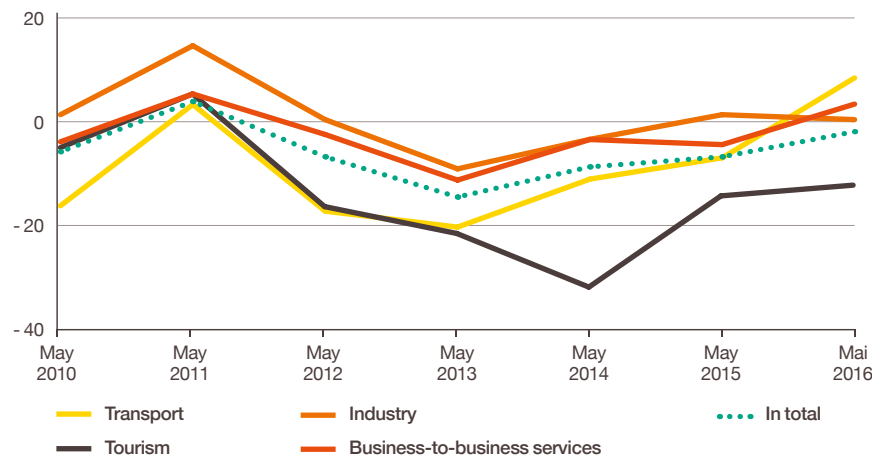
Access to medium-term and long-term credit has also once again become easier over the last 6 months. In May 2016, only 8% of SMEs said they encountered difficulty in obtaining financial facilities for capex, against 10% in 2015 and 11% in 2014. This proportion is the lowest since 2011 (the date on which the question on access to credit for capex was reformulated).

Difficulties are encountered least frequently in Industry (6%, after 10% at the end of 2015) and most frequently, but visibly improving, in Tourism (15%, after 23%).

SMEs are once again slightly increasing their capex projections...

47% of businesses have incurred capital expenditure since the beginning of 2016, or are thinking of doing so by the end of the year. This is 2 points higher than projected in May 2015, and is the highest projection figure since May 2012. Moreover, the projected capex volume indicator for the current year is at its highest since 2011, at -2 (graph 5).

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



Note: 25% of businesses said the volume of capex was up compared to 2015 and 27% said it was down, giving a balance of opinion indicator of -2 for SMEs as a whole.

Source: **Bpifrance Le Lab**

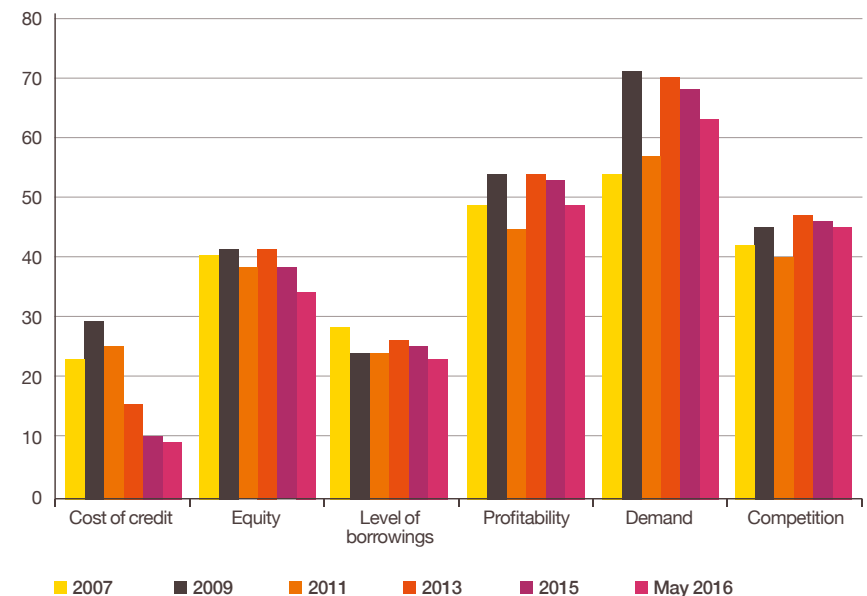
A significant rise in capex is expected in Business-to-business services (+3) and especially in Transport (+8). In both these sectors, the predictor is either back at its 2011 peak or above it. The outlook for Industry is unchanged (indicator at 0). By contrast, capex projections are still negative in other business sectors, particularly in Tourism (-12) and Construction (-15), although they are not deteriorating.

...because demand is perceived as being steadier

Each half-year, SME managers are asked about 6 possible obstacles to capital expenditure (graph 6). Weak demand, which regularly appears as the main obstacle, is seen as less significant than before, being referred to by 63% of business leaders against 65% in November and 68% in May 2015. The order book trend indicator for 6 months ahead is in fact positive for the third half-year in a row at +6, its highest since 2011.

The second obstacle to capital expenditure remains inadequate return, mentioned by 48% of managers. This proportion is also significantly down over 1 year (-4 points). Profitability expectations are in fact at their best since 2011, whilst cash positions, which have been improving regularly since their 2013 lows, are expected to remain stable in the second half of 2016.

• **GRAPH 6: OPINION ON OBSTACLES TO INVESTMENT**
PROPORTION OF RESPONDENTS (AS A %)



Source: **Bpifrance Le Lab**

By way of conclusion

The improvement in the SME situation has been confirmed and has gained traction over the first half of 2016

In mid-2016, all SME indicators confirm the recovery that started to take shape in 2015: business activity, employment and the financial situation continue to improve, as does capex. The greatest improvement was seen in Services, driven by the renewed vibrancy of the domestic market.

Demand is picking up little by little now that terms for accessing credit and the cost of borrowing are particularly favourable for businesses. However, the possible consequences of Brexit and the major uncertainties surrounding the European and global economic and geopolitical situation this spring may compromise the expected recovery.

Regional economic environment: summary

Business activity growth projections for 2016 are positive in all regions except Normandy, where they are still negative although improving slightly.

Five regions are more optimistic than the average: Brittany, Auvergne-Rhône-Alpes, Provence-Alpes-Côte d'Azur, Pays de la Loire, and Languedoc-Roussillon-Midi-Pyrénées.

Of these, SMEs in Provence-Alpes-Côte d'Azur and Brittany expect an average increase in business activity of greater than 2.5%.

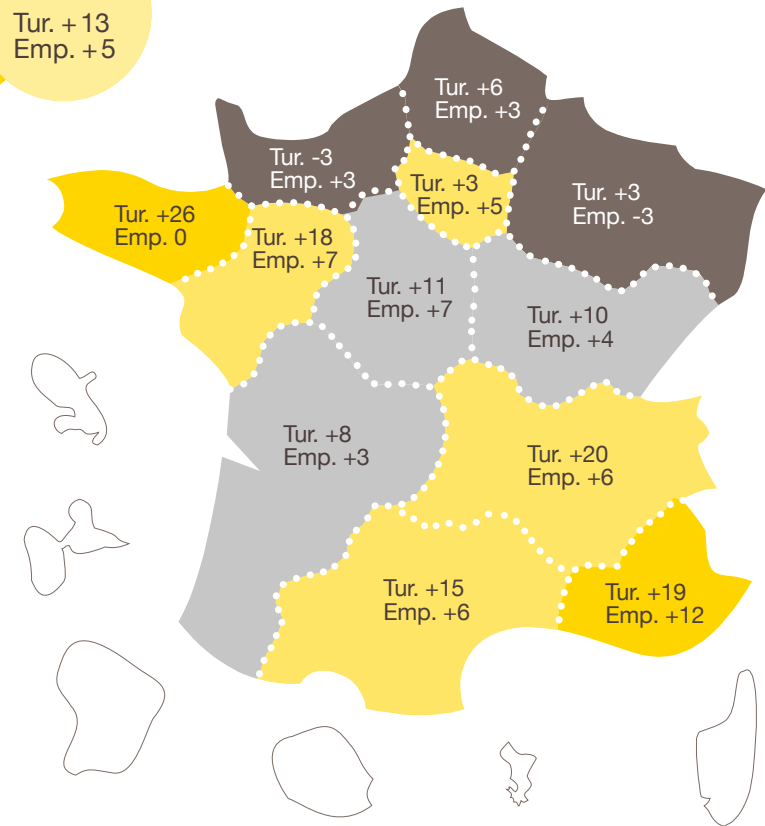
Job numbers have increased to a greater or lesser extent from region to region. There are 2 exceptions: Brittany, where employment has stayed the same, and the Grand-Est region, which is still dominated by SMEs that are reducing their workforces.

The cash position has improved in almost all regions.

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 A %)

France :
Tur. +13
Emp. +5



Average trend in turnover at nominal value

- -0,5% to 0,1%
- 0,2% to 1,0%
- 1,1% to 1,9%
- 2,0% to 3,0%
- NS - Not significant (fewer than 100 responses)

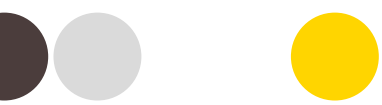
Source: **Bpifrance Le Lab**



02.



RESULTS SUMMARY



TURNOVER

WORKFORCE

INVESTMENT

Avg 2006 to 2015 May 2015 May 2016 Trend/ May 2015

Avg 2006 to 2015 May 2015 May 2016 Trend/ May 2015

Avg 2006 to 2015 May 2015 May 2016 Avg 2006 to 2015

YEAR 2016 ⁽¹⁾

All SMEs

10-250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

Avg 2006 to 2015	May 2015	May 2016	Trend/ May 2015
+9	+4	+13	
+17	+10	+20	
-1	-5	+2	
+15	+11	+18	
-2	-17	-6	
+6	+2	+13	
+9	+3	+7	
+1	-5	-2	
+15	+10	+22	

Avg 2006 to 2015	May 2015	May 2016	Trend/ May 2015
+3	+2	+5	
+8	+8	+11	
-4	-7	-5	
+3	+6	+8	
-1	-12	-11	
+2	+2	+4	
+5	+9	+7	
-4	-10	-5	
+8	+4	+12	

Avg 2006 to 2015	May 2015	May 2016	Avg 2006 to 2015
-6	-7	-2	
-3	-3	+2	
-10	-11	-9	
-1	+1	+0	
-12	-17	-15	
-11	-8	-3	
-13	-7	+8	
-9	-14	-12	
-3	-6	+1	

YEAR 2017 ⁽¹⁾

All SMEs

10-250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

Avg 2006 to 2015	May 2015	May 2016	Trend/ May 2015
+23	+19	+20	
+29	+27	+28	
+15	+9	+8	
+33	+31	+27	
+3	-1	+3	
+22	+18	+17	
+16	+10	+8	
+11	+11	+8	
+28	+23	+28	

Avg 2006 to 2015	May 2015	May 2016	Trend/ May 2015
+14	+10	+14	
+17	+14	+20	
+9	+7	+6	
+17	+17	+17	
+5	-7	+0	
+10	+10	+11	
+11	+7	+6	
-1	-6	+1	
+21	+18	+24	

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



03.



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.

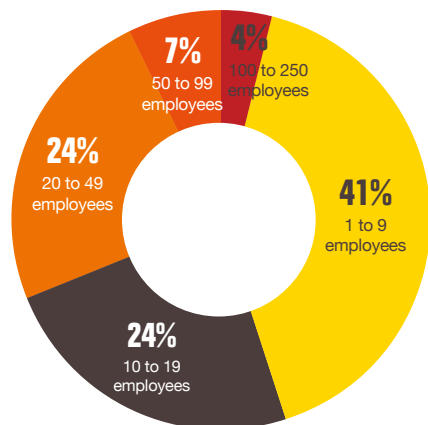
A **"high export"** business conducts over 1 quarter of its business internationally, a **"medium export"** business between 6% and 25%, and **"non exporters"** less than 6% (including 0%).

Sample structure

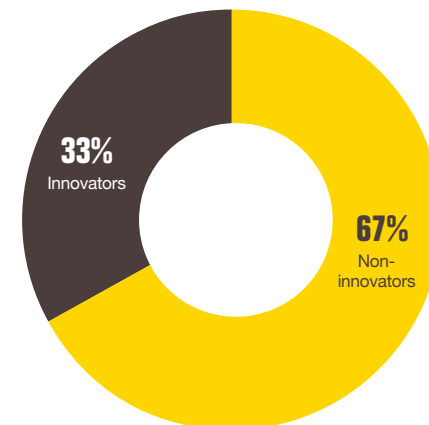
For this 63rd half-yearly business climate survey, 28,851 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed at the start of May 2016.

The report is based on the first 4,420 responses judged complete and reliable received before 7 June 2016.

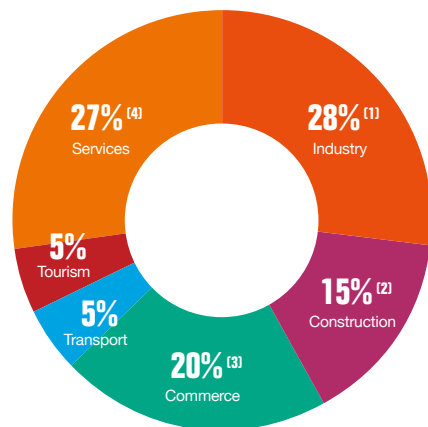
SIZE



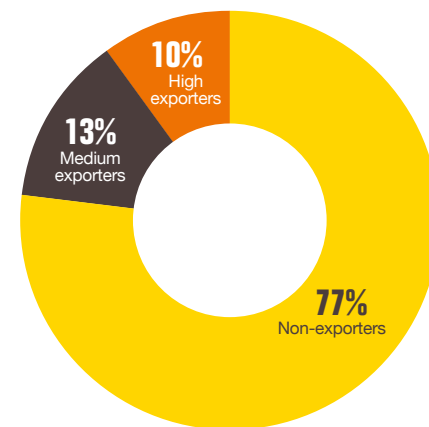
INNOVATIVE NATURE



BUSINESS SECTOR

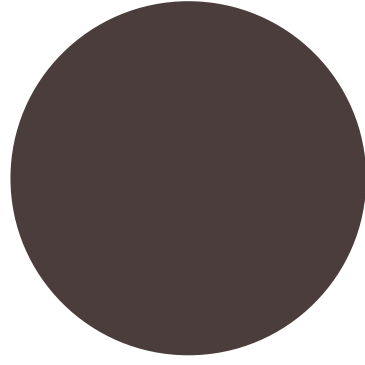


EXPORT



(1) 3% food, 13% intermediate goods, 8% capital goods and 4% consumer goods.
 (2) 13% construction and 2% public works.
 (3) 2% automobile dealing and repair, 12% wholesale and 6% retail.
 (4) 23% business-to-business services and 4% business-to-consumer services.

Source: **Bpifrance Le Lab**



**SERVIR
L'AVENIR**

