




SMEs

**65TH BUSINESS
CLIMATE SURVEY**

JULY 2017



01.



**A MORE ROBUST
AND BROADLY-BASED
RECOVERY**



+21

**BALANCE OF OPINION ON THE EXPECTED
TREND IN SME BUSINESS ACTIVITY IN 2017,
ITS HIGHEST SINCE 2011 AND ONCE AGAIN
ABOVE ITS LONG-TERM AVERAGE**



+15

**BALANCE OF OPINION ON THE EXPECTED
TREND IN ORDER BOOKS
UP 10 POINTS OVER SIX MONTHS**



-9

**BALANCE OF OPINION ON THE CASH POSITION
FOR THE LAST SIX MONTHS,
AT ITS BEST SINCE 2007**



50%

**PROPORTION OF SMES INVESTING
SINCE THE START OF THE YEAR, OR EXPECTING
TO DO SO BEFORE THE END OF 2017,
UP 3 POINTS OVER ONE YEAR**

Key points

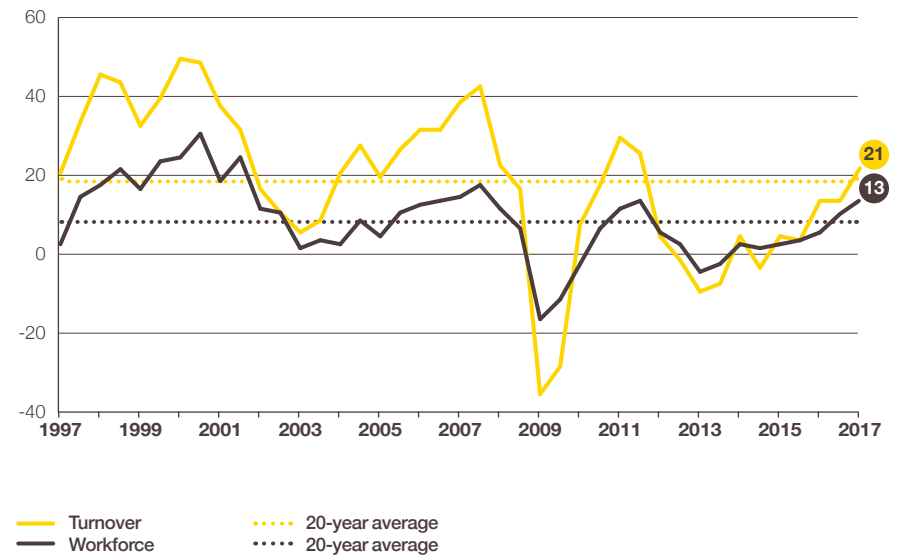
1. The rate of growth in business activity has speeded up over the last five half-year periods, rising above its long-term rate for the first time since 2011. Construction and tourism SMEs are starting to catch up, particularly with a sharp improvement in confirmed and expected orders.
2. SMEs are hiring at an ever-increasing rate, and are once again close to pre-crisis rates. The flipside of this, however, is a more stressed labour market and the re-emergence of recruitment difficulties.
3. The financial position is now healthier, with cash flow as easy as before the crisis and profitability estimated to be at its best since 2008. Lending terms are optimal, with interest rates still at rock bottom.
4. Half of all SMEs plan to invest in 2017, and growth in investment is expected to be at its highest since 2011.
5. The outlook for both the short and medium term is therefore positive for all parameters: business activity, jobs, cash, profitability and investment.

Business activity and hiring gathered pace in the first half of 2017

In the wake of the 2016 recovery, SME business activity continued to improve in the first few months of 2017, and hiring also gained traction.

The balance of opinion on the trend in business activity gained 8 points between November 2016 and May 2017 to stand at +21, while the figure for employment improved by 4 points to stand at +13. These two indicators rose above their long-term average to stand at their best since the end of 2011 (graph 1) and, for hiring, even since the beginning of the crisis.

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



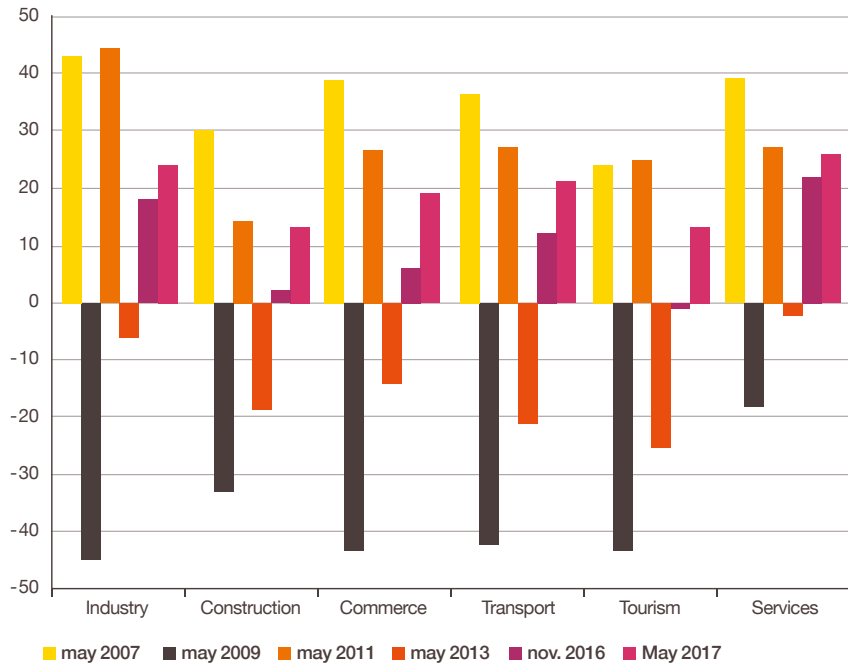
Note: The net balance of opinion on the trend in business activity for the current year rose from +13 to +21 between the November 2016 and May 2017 surveys.

Source: **Bpifrance Le Lab**

Optimism about business activity is underpinned by ever fuller order books. The balance of opinion indicator improved by 7 points in six months, at -2, bringing it to its highest since mid-2011 (-1) and close to its pre-crisis level (+5 in May 2008).

Business activity is on the same upward trend regardless of the size, of the innovative nature or otherwise of the business, of the extent of its export business and of its business sector (graph 2). The rebound is particularly marked in construction (the indicator is up 11 points over six months), in tourism (up 14 points over six months) and in commerce (up 13 points), sectors that were lagging behind at the end of last year. Against a background of improving world trade, SMEs that export to a significant extent have bounced back sharply, with the projected business activity indicator rising from +18 to +32, after a slowdown at the end of 2016.

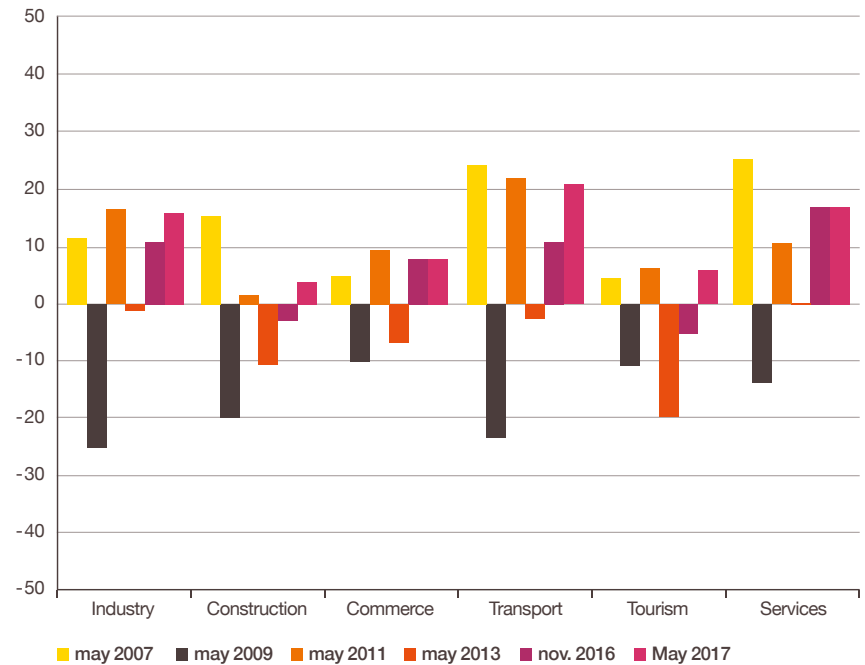
• **GRAPH 2: TRENDS IN BUSINESS ACTIVITY FOR THE CURRENT YEAR BY BUSINESS SECTOR**
BALANCE OF OPINION (AS A %)



Source: **Bpifrance Le Lab**

Turning to employment, workforce numbers have risen to a greater or lesser extent, depending on business sector: the services and commerce sectors are continuing to grow steadily, while growth is accelerating in the other sectors (graph 3).

• **GRAPH 3: TRENDS IN EMPLOYMENT FOR THE CURRENT YEAR BY BUSINESS SECTOR**
BALANCE OF OPINION (AS A %)



Source: **Bpifrance Le Lab**

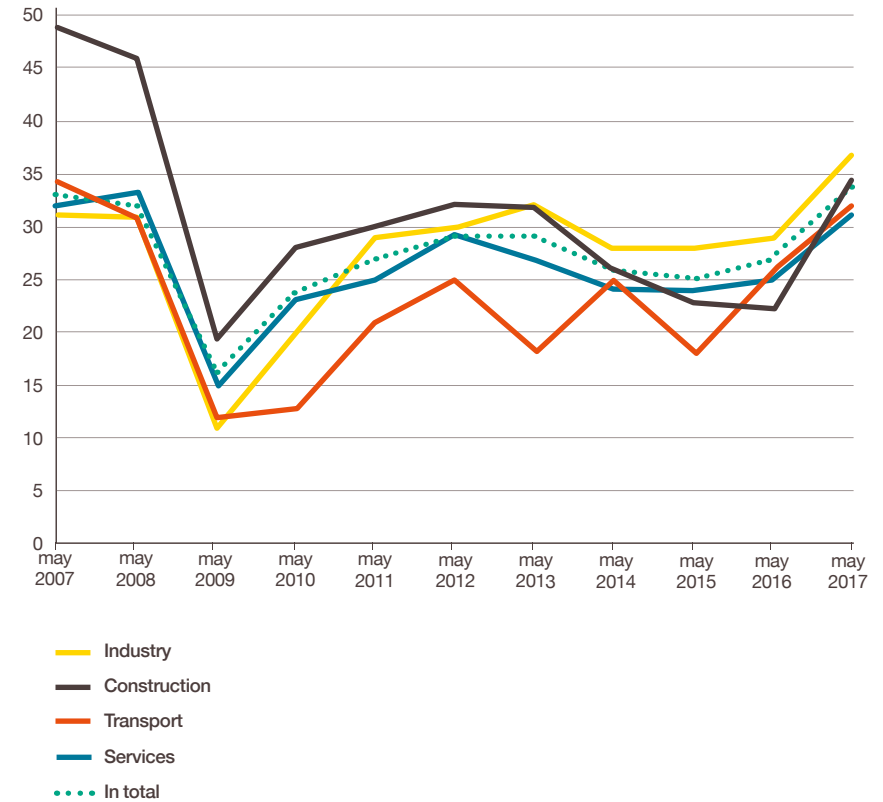
The outlook for 2018 is promising. Business activity is expected to gather pace in all sectors. Workforce numbers are expected to accelerate significantly, except in retail and especially tourism where the rate of hiring is expected to stabilise.

The sustained growth in workforce numbers is giving rise to significant recruitment problems

In May 2017, 34% of SMEs said they encountered serious recruitment difficulties during the last six months, compared with 27% and 31% in May and November 2016 respectively. The current level of difficulties even slightly exceeds the pre-crisis level (33% in May 2007) and is at its highest since the very beginning of the 2000s, just before the dot-com bubble burst.

In terms of sector, this proportion stands at a record high in industry (37%), tourism (38%), commerce and automobile dealing and repair (50%) and also in wholesale (33%). Hiring difficulties are still below their peak, but on a steeply upward trend over one year in construction at 34% (+12 points), transport at 32% (+6 points), business-to-business services at 32% (+6 points), business-to-consumer services at 25% (+5 points) and retail at 27% (+3 points).

PROPORTION OF SMES ENCOUNTERING SEVERE DIFFICULTIES IN HIRING OVER THE LAST SIX MONTHS AS A %



Source: Bpifrance Le Lab

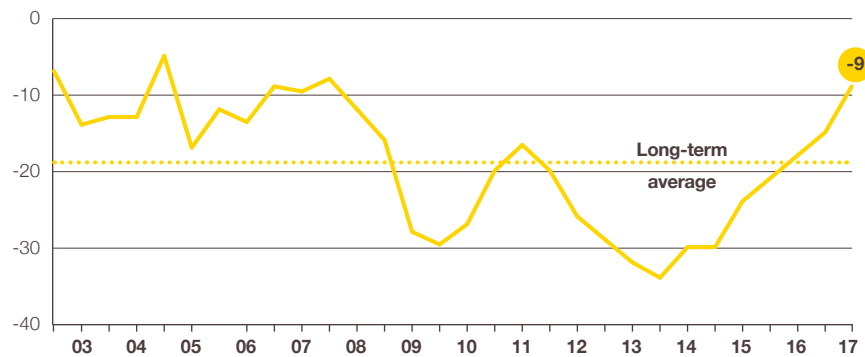
The financial position is once again greatly improving

SMEs are once again finding their **cash position** as easy as before the crisis, with a cash indicator that has improved by 6 points over six months to -9 (graph 4).

Cash flow is considered easiest in business-to-business services (with an indicator at +3) and in wholesale (-5). The figures are reverting to normal in tourism (-29, up 10 points over one year and up 2 points over 10 years) and are easing in construction (-23, up 10 points over one year but still 14 points below their 2007 level).

The cash positions of micro-businesses are back at their pre-crisis level, or even slightly better (-12 against -13 in 2007 and -22 in May 2016). The same applies to businesses with between 10 and 249 employees (-7 compared to -8 in 2007 and -17 in May 2016).

• GRAPH 4: AVERAGE OPINION ON THE CASH FLOW SITUATION BALANCE OF OPINION (AS A %)



Note: in May 2017, 9% more SMEs said cash flow was difficult rather than easy.

Source: **Bpifrance Le Lab**

Profitability estimates for the last financial year in SMEs have improved for the third year in a row, further evidence of the improvement in their financial position. The balance of opinion indicator stands at nil, its highest since 2009. It has now turned positive in commerce (+6), transport (+5) and services (+5). The indicator stayed much the same in industry (-1) and is improving but still negative in construction (-9) and tourism (-11).

Profitability is felt to be better in innovating SMEs (+5) than in non-innovators (-1). The same applies to exporting companies, for which the indicator stands at +9, in contrast to non-exporters with an indicator of -2.

Expectations of the trend in profitability for the current financial year are at their most optimistic since 2011, with the predictor standing at +9, up 6 points over the year.

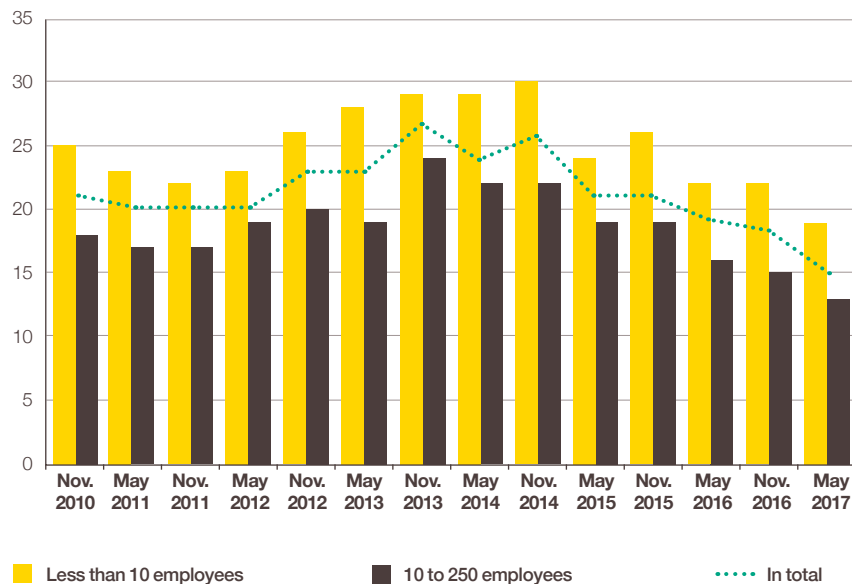
Expectations are at their best in services (+14 after +10), industry (+10 after +8) and above all construction (+11 after -4).

And terms for access to credit that are more favourable than ever

SME access to short-term credit during the first half of 2017 is at its easiest since the survey began. Only 15% of companies said they had run into difficulty in obtaining the desired short-term finance. The proportion fell by 3 points in 6 months and by 4 points over one year.

The improvement was felt not only by micro-businesses (19% after 22% in November 2016) but also SMEs with between 10 and 249 employees (13% against 16%) (graph 5).

• GRAPH 5: ACCESS TO SHORT-TERM CREDIT FAIRLY OR VERY DIFFICULT (AS A %)



Source: Bpifrance Le Lab

Difficulties in accessing short-term lending are still higher than average in construction, where at 20% the situation is similar to November 2016, and in tourism where it has improved sharply to 26%, following 33% previously. By contrast, these difficulties are less frequently encountered in wholesale (13% against 14%) and business-to-business services (13% after 17%).

Access to medium and long-term lending has remained at its best since the first half of 2017, with only 8% of SMEs reporting that they had run into difficulties in obtaining finance for capital expenditure. This proportion has remained steady since the first half of 2016.

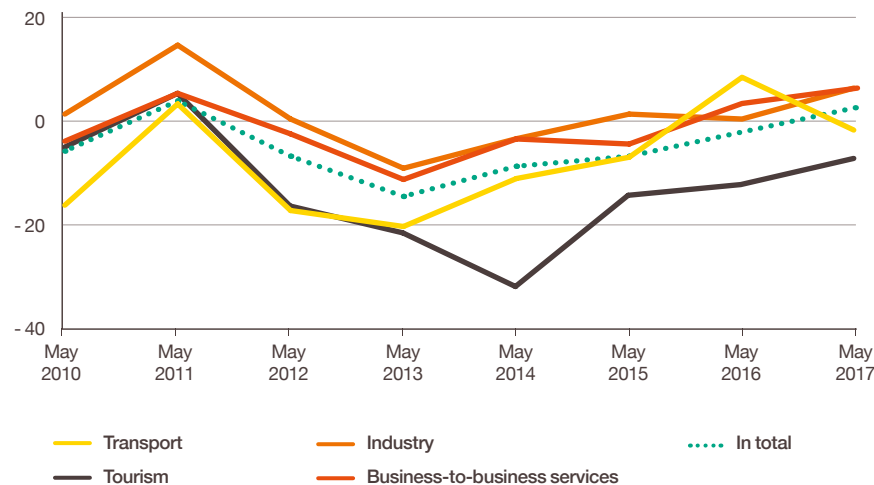
Difficulties are less frequently encountered in transport (5%) and wholesale (5%). Although the situation is improving sharply, they are decreasing in tourism: 13%, after 18% in the previous half year, the best figure for this sector since the end of 2011 (12%).

SME capex expectations are at their best since 2011

In May 2017, 50% of businesses reported that they had incurred investment since the beginning of the year, or were thinking of doing so by the end of the year. This is 3 points higher than projected in May 2016, and the highest proportion since the crisis began in 2008.

Moreover, the projected capex volume indicator for the current year is at its highest since 2011, standing at +2 (graph 6).

• **GRAPH 6: AVERAGE OPINION ON THE TREND IN INVESTMENT IN THE CURRENT YEAR**
MAY ANSWERS - BALANCE OF OPINION (AS A %)



Note: in May 2017, 25% of SMEs said the volume of capex was up compared to 2016 and 23% said it was down, giving a balance of opinion indicator of +2.

Source: **Bpifrance Le Lab**

Investment is expected to rise significantly in business-to-business services and in wholesale, with predictors standing at +6 and +8 respectively, slightly above their previous 2011 highs. Capital expenditure expectations are also very positive in industry at +6, although well below the dynamic days of 2011 (+15).

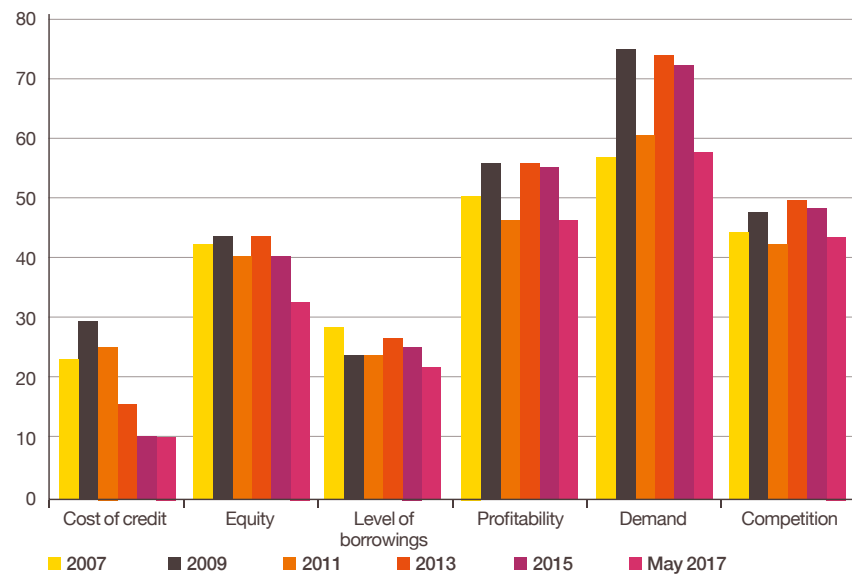
They are nearly steady in construction (indicator at -2), showing a sharp improvement over one year (+13 points), and slowing down to stability in transport (indicator at -2 after +8). Capital expenditure projections for the current year are still rather negative in tourism at -7, but much less so than in May 2016 (-12).

All the brakes on capital expenditure are coming off

Each half-year, SME managers are asked about six possible obstacles to capital expenditure (graph7). Weak demand is the main brake, but with only 55% of respondents mentioning it, it is 10 points down on May 2016, and almost back to pre-crisis levels.

The second obstacle to capital expenditure remains inadequate return, mentioned by 44% of managers. This proportion is also significantly down over one year (- 4 points). Shortage of equity is also having less of an effect on capital expenditure decisions, confirming the sharp recovery in the financial position of SMEs since 2015.

• GRAPH 7: OPINION ON OBSTACLES TO INVESTMENT PROPORTION OF RESPONDENTS (AS A %)



Source: Bpifrance Le Lab

By way of conclusion

All the signals are at green for the first half of 2017, and SMEs are optimistic about the next few months

The financial position of SMEs is now healthier, business activity is accelerating without overheating, and workforces are expanding. However, this is leading to a renewed rise in recruiting difficulties, which are now at a level unprecedented since the start of the 2008 crisis.

The construction and tourism industries, which still did not have enough business in 2016, are well on the road to recovery. Construction, with its long business cycles, is now on an upward trend, while tourism is little by little recovering from the fallout from the 2015-2016 terrorist attacks.

SMEs are now more confident about the robustness of the economic recovery underway not only in France but also in its main European partners. As a result, they are bringing forward their capex plans.

Regional economic environment: summary

In all fields, the first half of the year is looking promising for all regions.

Growth has returned to a greater or lesser extent: SMEs in the Ile-de-France, Occitanie, Auvergne-Rhône-Alpes and Provence-Alpes-Côte d'Azur are the most optimistic. They expect an average increase in turnover of greater than 3.0%.

Those in Bourgogne-France-Comté, Hauts-de-France expect to see a gentler pace of recovery.

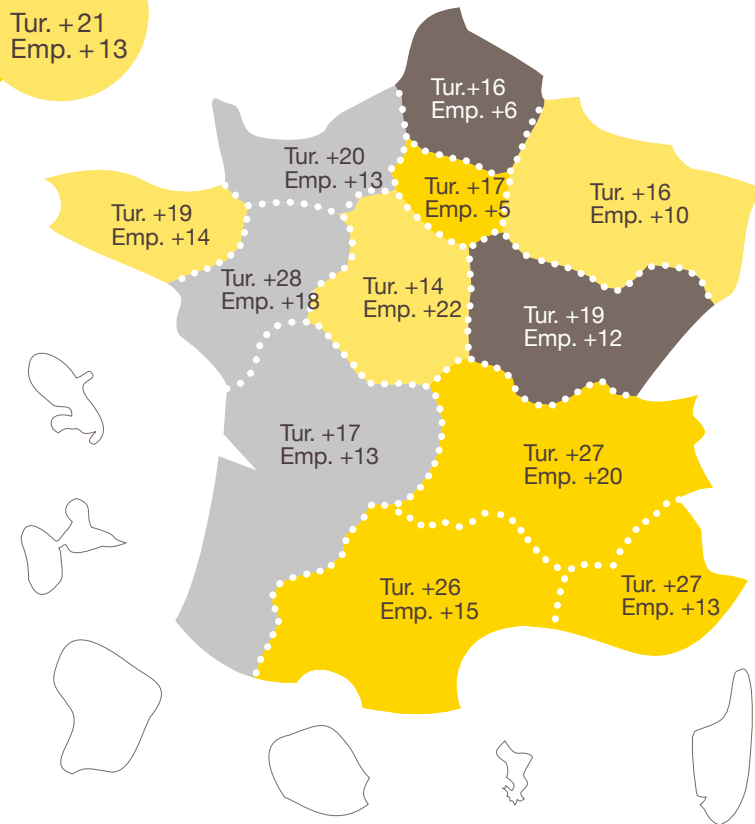
The same applies to job numbers, which have increased to a greater or lesser extent from region to region.

The financial situation is improving everywhere except in Brittany, where SMEs are experiencing fresh cash difficulties and estimate their 2016 profitability to be lower than that for 2015.

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 %)

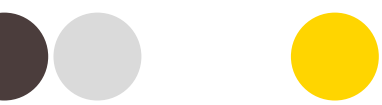
France:
Tur. +21
Emp. +13



Average trend in turnover at nominal value

- 1.1% to 1.5%
- 1.6% to 2.0%
- 2.1% to 2.9%
- 3.0% to 3.6%
- Not significant (fewer than 100 responses)

Source: **Bpifrance Le Lab**



TURNOVER

WORKFORCE

INVESTMENT

YEAR 2017 ⁽¹⁾

All SMEs

10 - 250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	+8	+13	+21	
10 - 250 employees	+15	+20	+30	
Less than 10 employees	-3	+2	+8	
Industry	+13	+18	+24	
Construction	-5	-6	+13	
Commerce	+5	+13	+19	
Transport	+4	+7	+21	
Tourism	-1	-2	+13	
Services	+14	+22	+26	

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	+2	+5	+13	
10 - 250 employees	+8	+11	+20	
Less than 10 employees	-5	-5	+2	
Industry	+3	+8	+16	
Construction	-4	-11	+4	
Commerce	+1	+4	+8	
Transport	+4	+7	+21	
Tourism	-4	-5	+6	
Services	+7	+12	+17	

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	-6	-2	+3	
10 - 250 employees	-3	+2	+5	
Less than 10 employees	-10	-9	-3	
Industry	-1	+0	+6	
Construction	-14	-15	-2	
Commerce	-9	-3	+2	
Transport	-11	+8	-2	
Tourism	-9	-12	-7	
Services	-3	+1	+4	

YEAR 2018 ⁽¹⁾

All SMEs

10 - 250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	+22	+20	+30	
10 - 250 employees	+28	+28	+37	
Less than 10 employees	+13	+8	+18	
Industry	+31	+27	+36	
Construction	+2	+3	+18	
Commerce	+22	+17	+24	
Transport	+15	+8	+28	
Tourism	+11	+8	+24	
Services	+27	+28	+34	

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	+14	+14	+22	
10 - 250 employees	+17	+20	+28	
Less than 10 employees	+9	+6	+14	
Industry	+17	+17	+24	
Construction	+4	+0	+17	
Commerce	+11	+11	+18	
Transport	+10	+6	+22	
Tourism	-0	+1	+1	
Services	+22	+24	+30	

	Avg 2007 à 2016	May 2016	May 2017	Trend/ May 2016
All SMEs	+14	+14	+22	
10 - 250 employees	+17	+20	+28	
Less than 10 employees	+9	+6	+14	
Industry	+17	+17	+24	
Construction	+4	+0	+17	
Commerce	+11	+11	+18	
Transport	+10	+6	+22	
Tourism	-0	+1	+1	
Services	+22	+24	+30	

(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 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.

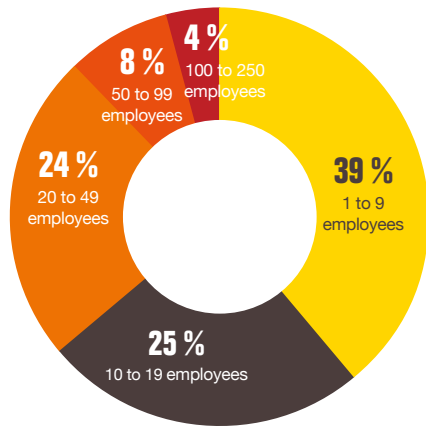
A **"high-export"** business conducts over one quarter of its business internationally, a **"medium-export"** business between 6% and 25%, and **"non-exporters"** less than 6% (including 0%).

Sample structure

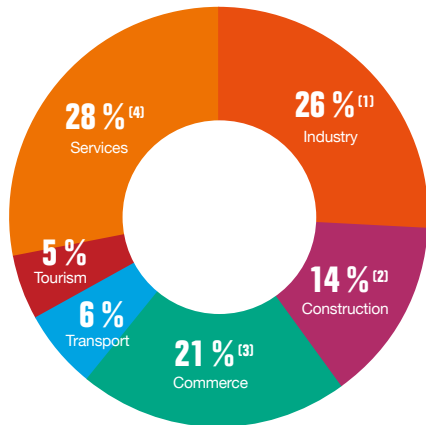
For this 65th half-yearly business climate survey, 29,093 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed at the start of May 2017.

The report is based on the first 4,417 responses judged complete and reliable received before 8 June 2017.

SIZE

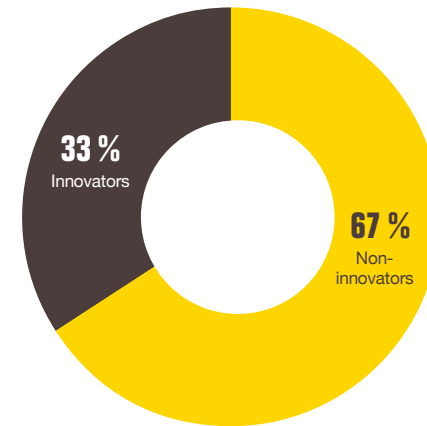


BUSINESS SECTOR

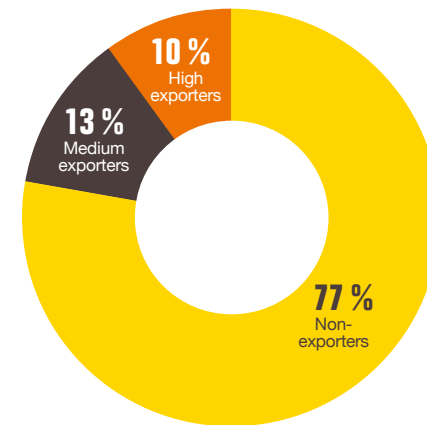


(1) 3% food, 12% intermediate goods, 8% capital goods, 3% consumer goods.
 (2) 12% construction, 2% public works.
 (3) 2% automobile dealing and repair, 12% wholesale, 7% retail.
 (4) 23% business-to-business services, 5% business-to-consumer services.

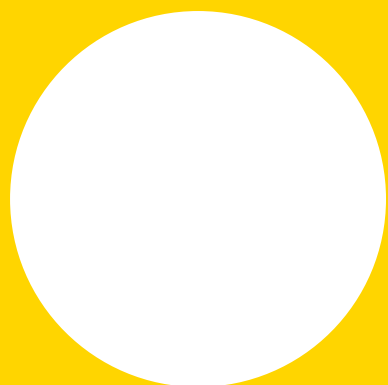
INNOVATIVE NATURE



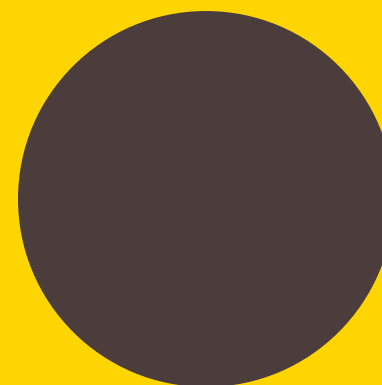
EXPORT



Source: **Bpifrance Le Lab**



SERVIR L'AVENIR



bpifrance-lelab.fr