



SMEs

**66TH BUSINESS
CLIMATE SURVEY**

JANUARY 2018



01.

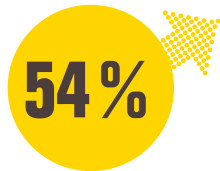


**GOOD NEWS
ALL ROUND**



-7

IN THE BALANCE OF OPINION ON THE CASH POSITION FOR THE LAST 6 MONTHS, AT ITS BEST SINCE 2007



54%

IN THE SHARE OF SMEs THAT INVESTED IN 2017, UP 3 POINTS OVER 1 YEAR



+31

IN THE BALANCE OF OPINION ON THE EXPECTED TREND IN SME BUSINESS ACTIVITY IN 2018, TAKING IT ALMOST TO ITS PRE-CRISIS LEVEL AND ABOVE ITS LONG-TERM AVERAGE



+15

IN THE BALANCE OF OPINION ON THE EXPECTED TREND IN ORDER BOOKS AT THE BEGINNING OF 2018, UP 10 POINTS OVER 1 YEAR AND ABOVE ITS NOVEMBER 2007 LEVEL

Key points

1. The acceleration in business activity observed over the past 3 years has been confirmed once again. Growth in SME turnover, although still below its pre-crisis level, has returned to its previous peak of 2011.
2. Hiring in SMEs is becoming increasingly dynamic, returning to its pre-crisis rate. The flipside is however the re-emergence of recruitment difficulties, which have even risen above 2007 levels in industry and tourism.
3. The financial position is now healthier, and cash flows are as strong as before the crisis. Lending terms remain optimal, with interest rates still at rock bottom.
4. More than half of SMEs incurred capital expenditures in 2017. Capex have remained buoyant, as in 2016.
5. The economic upturn is expected to continue into the coming months. The outlook for 2018 is positive for all parameters: business activity, jobs, cash balance and investment.

Business activity and hiring gathered pace in 2017

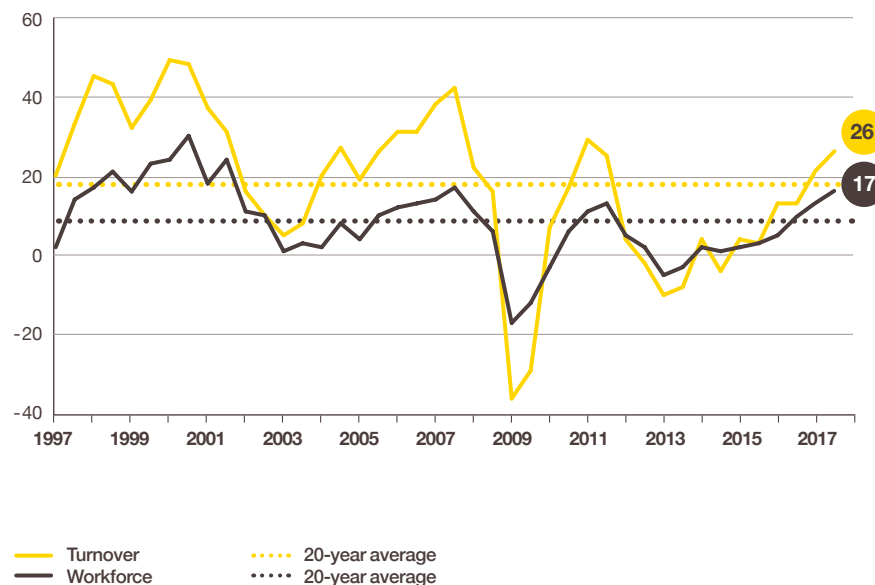
SME activity continued to grow throughout 2017 and hiring continued to accelerate.

This means that SMEs made a big contribution to the vibrant business climate observed by INSEE throughout the year. However, levels have not yet reached those observed at the previous cycle peak in 2007 (graph 1).

The balance of opinion on the trend in business activity has gained 13 points in 1 year, reaching +26, while the figure for employment has improved by 8 points at +17.

These 2 indicators have overcome their 20-year average to stand at their best levels since the end of 2011 (graph 1), and in the case of hiring have even reached pre-crisis levels.

GRAPH 1: TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS FOR 2017
BALANCE OF OPINION (AS A %)



Note: the net balance of opinion on the trend in business activity for 2017 rose from +21 to +26 between the May and November surveys. It has risen 13 points in 1 year.

Source: **Bpifrance Le Lab**

Optimism about business activity is underpinned by ever fuller order books. The balance of opinion indicator on the order book position stands at +10, up 12 points over 6 months, and up 19 points over the year. In the short term, they are expected to increase at the same rate (the balance of opinion on the 6-month outlook stands at +15, as in May last year). They are expected to improve even more in industry, nearly recovering their pre-crisis momentum.

The growth in turnover was mainly driven by a catch-up in micro-businesses and small SMEs (fewer than 50 employees). The rebound is particularly marked in construction (the indicator is up 21 points over 1 year, at +23 after +2 at the end of 2016), in tourism (up +26 points over 1 year, at +25 after -1) and in commerce (up +16 points, at +22 after +6). These sectors were in decline at the end of 2016 (graph 2).

Overall, growth in turnover in 2017 improved compared to 2016 regardless of size, of whether the business was innovative, of the extent of its export business and of its business sector. Only the business-to-consumer services sector stalled, with the balance of opinion on the trend in business activity losing 9 points in 1 year to stand at +11 at the end of 2017. Innovating SMEs are still reporting a better than average growth in their turnover (balance of opinion at +38 against +26 for SMEs as a whole).

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

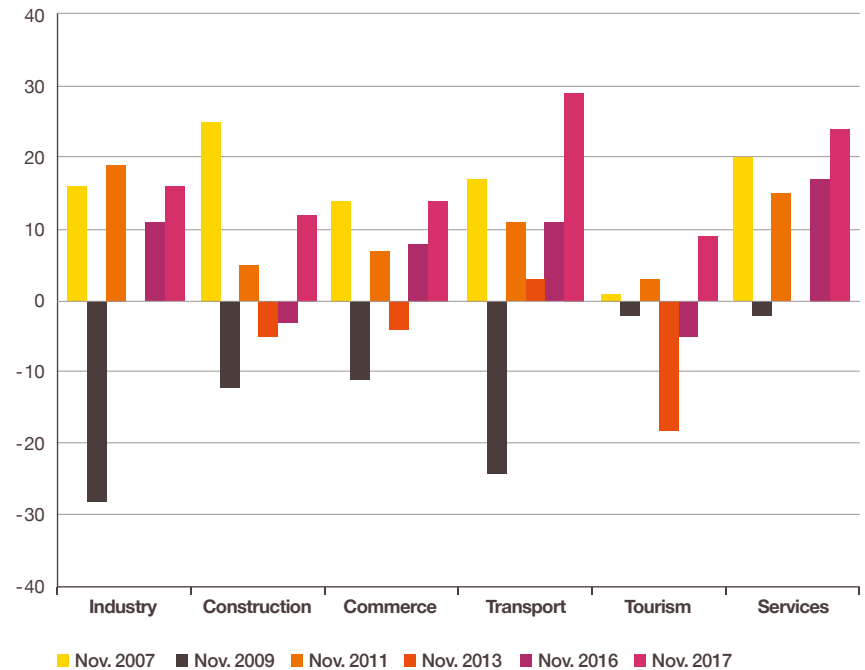


Source: Bpifrance Le Lab

There is also a widespread rise in hiring, regardless of business sector, size and the innovative nature of the SME.

Hiring has picked up sharply in tourism and construction, sectors in which SMEs were still struggling last year (graph 3).

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



Source: Bpifrance Le Lab

Given this increase in labour demand, more and more businesses are experiencing serious recruitment difficulties: 38% against 31% at the end of 2016. Recruitment difficulties are at their greatest in industry (41%), and in transport and tourism (44%). Constraints are well above the level experienced in 2007 despite a tighter labour market.

Business activity is looking good for 2018

SMEs remain optimistic about 2018 and expect the upturn to continue. The business activity predictor stands at +31, above its long-term average of +18, and almost at its pre-crisis level of +33. It has risen 9 points over 1 year (graph 4).

Virtually all business sectors expect growth in turnover to pick up next year. Only SMEs doing business in tourism do not anticipate an acceleration, following the upturn recorded in 2017.

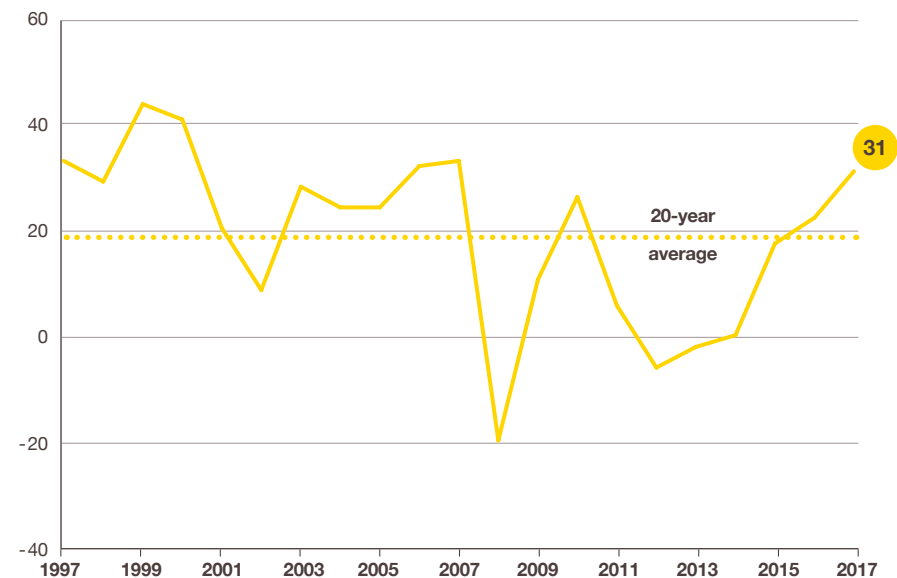
Exporting SMEs are also confident about the future and, as always, innovative companies have well-above-average growth expectations (balance of opinion standing at +49).

Driven by this dynamic, hiring should accelerate in 2018. The employment predictor has risen 7 points over 1 year to stand at +21.

Workforce is expected to grow in all business sectors, particularly in construction, where the indicator has risen by 18 points over 1 year (balance of opinion of +20).

A growing workforce is expected regardless of business size and innovation and export propensity. Although, the most optimistic companies are those with 10 employees or more, and those that innovate and export.

• **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 expected trend in business activity for the following year has improved by 9 points over 1 year to stand at +31 in November 2017.

Source: **Bpifrance Le Lab**

The financial position is once again greatly improving...

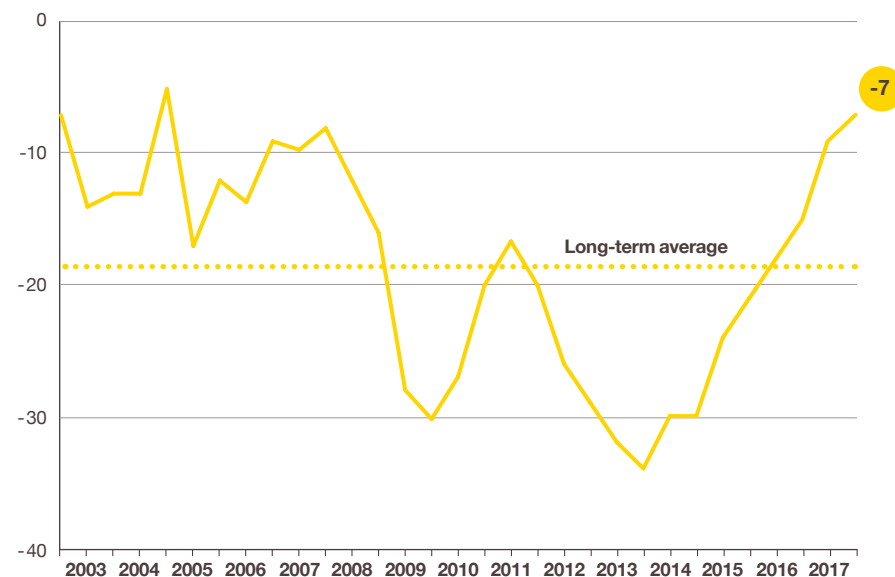
The cash position of SMEs has improved again over the last 6 months. The indicator has risen 8 points over 1 year. With a balance of opinion standing at -7, the average opinion of SMEs on the cash flow situation stands above its long-term average (-18.3) and its pre-crisis level of -8 in November 2007 (graph 5).

Cash flow is considered easiest in services (with an indicator at +2) and in wholesale (-1). The figures are reverting to normal in tourism (-16, up 13 points over 6 months) and are easing in construction (-19, up 3 points over 6 months).

The opinion of SMEs on their cash position is back at its pre-crisis level or even slightly above regardless of size, both in micro-businesses (balance of opinion at -6, against -12 last May and in November 2007) and in businesses with between 10 and 249 employees (-7, at the same level as last May and November 2007).

Apart from tourist industry SMEs, which fear upsurge cash flow problems, this improvement is expected to continue in the short term for SMEs as a whole.

• **GRAPH 5: AVERAGE OPINION ON THE CASH FLOW SITUATION**
BALANCE OF OPINION (AS A %)



Note: in November 2017, 7% more SMEs said cash flow was difficult rather than easy.

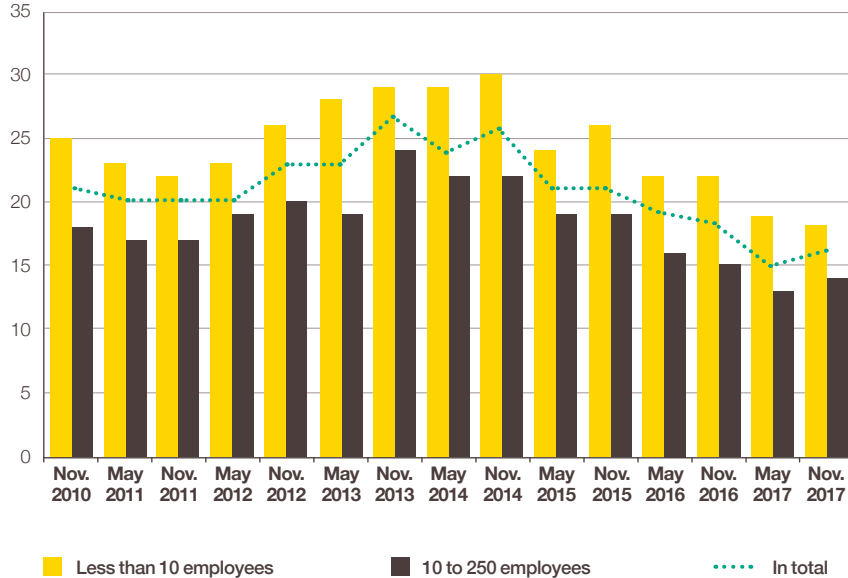
Source: **Bpifrance Le Lab**

...and still very favourable terms for access to credit

SME access to short-term credit during the 2nd half of 2017 remained easy according to the survey. Only 16% of SMEs said they had run into difficulties in obtaining the desired short-term finance. Although this proportion has increased by 1 point over 6 months, it remains less than it was 1 year ago (-2 points) and stands at its lowest level since the question was introduced in 2010.

The improvement was felt not only by micro-businesses (difficulties encountered by 18% of micro-businesses against 22% in November 2016) but also by 10 to 249 employees SMEs (14% against 16%) (graph 6).

• GRAPH 6: ACCESS TO SHORT-TERM CREDIT FAIRLY OR VERY DIFFICULT (AS A %)



Source: **Bpifrance Le Lab**

Despite an improvement, difficulties in accessing short-term lending are still above average in construction (18% after 20% in May 2017 and in November 2016) and in tourism (23%, following 26% and 33% previously). Although still very close to average, constraints were more common in industrial SMEs in the 2nd half of 2017 (17% after 15% in the 1st half). By contrast, difficulties are rarer in wholesale (unchanged at 13%) and business-to-consumer services (11% after 15%).

Access to medium and long-term lending remained at its best in the 2nd half of 2017, with only 7% of SMEs reporting that they had run into difficulties in obtaining finance for capital expenditure. This proportion has remained virtually unchanged since the 1st half of 2016 (8%).

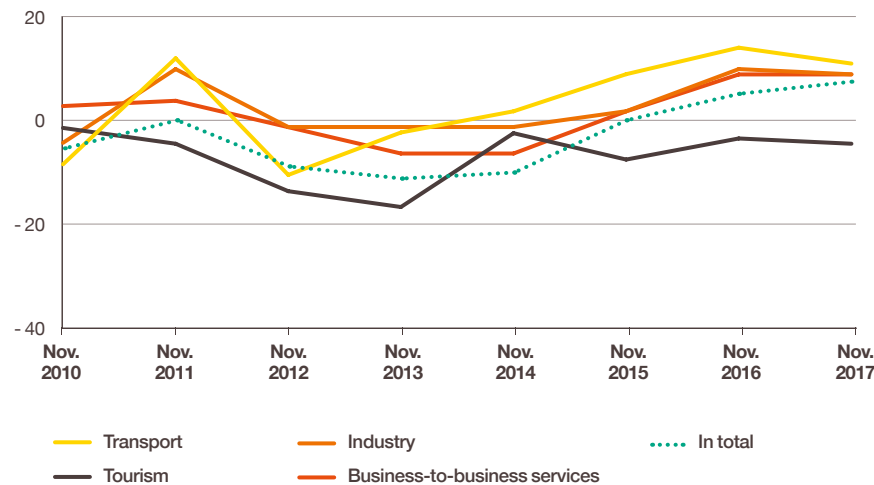
Difficulties are less frequently encountered in transport (6%), wholesale (6%) and business-to-consumer services (5%). Although the situation is improving sharply, they are still frequent in tourism at 14%, against 18% at the end of 2016, one of the best figures observed in this sector since the end of 2011 (12%).

Investment continued to rise in 2017

In 2017, 54% of SMEs incurred investment, against 51% in 2016 and 50% in 2015.

The indicator for the annual trend in the volume of capital expenditure, in other words all amounts invested throughout the year, is positive for the 2nd year running at +7, and has risen by 2 points in 1 year (graph 7).

• **GRAPH 7: AVERAGE OPINION ON THE INVESTMENT TREND IN THE CURRENT YEAR**
NOVEMBER ANSWERS - BALANCE OF OPINION (AS A %)



Note: in November 2017, 27% of SMEs said the volume of capex was up compared to 2016 and 20% said it was down, giving a balance of opinion indicator of +7.

Source: **Bpifrance Le Lab**

In terms of sector, growth in capital expenditure is steepest in business-to-consumer services (balance of opinion of +15 after -2 in 2016), in industry (+8 after +9) and in transport (indicator of +10 after +13), although expenditures did not increase in these last 2 sectors. Capital expenditures are bouncing back in construction (+6 after -1 and -5).

Furthermore, we can see that the more a business exports or innovates, the greater its capital expenditure (+12 and +13 respectively). It has gathered pace in SMEs with between 10 and 250 employees (+11 after +9), whereas it has stabilised in micro-businesses (indicator of 0 after -1 in 2016).

On average, the proportion of investment that was self-financed rose by 3 points: 40% after 37% in 2016 (40% in 2015), explained partially by the better results and funding capacity of SMEs. The remaining 60% was financed using bank loans, essentially medium-term loans (54% through equipment leasing and 2- to 7-year bank loans; 6% through real-estate leasing and bank loans of 8 years or longer).

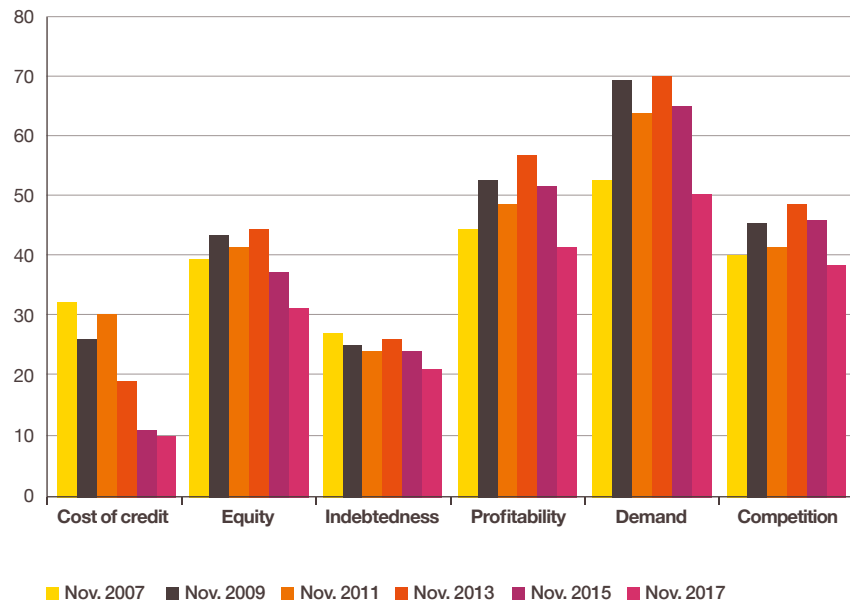
The slight decrease in expenditure on equipment and intangibles in favour of real estate continued in 2017. Expenditure on real estate (land, buildings, existing premises and improvements) represents 1/3 of capex as a whole, up 5 points compared to 2016, mainly at the expense of capital expenditure on movable property (materials, vehicles and other equipments/-4 points).

There are fewer and fewer brakes on investment

The obstacles to investment faced by SMEs are gradually diminishing. They have all reached historically low levels. Weak demand is still the main brake cited by business leaders. However only 50% of respondents mentioned it, which is 10 points down comparing to November 2016.

Inadequate profitability is now mentioned by only 41% of managers, marking a 5-point decrease compared to the end of 2016. It reflects the good financial health of businesses. Even competition is now cited by just 38% of respondents, representing a 5-point decrease over 1 year.

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



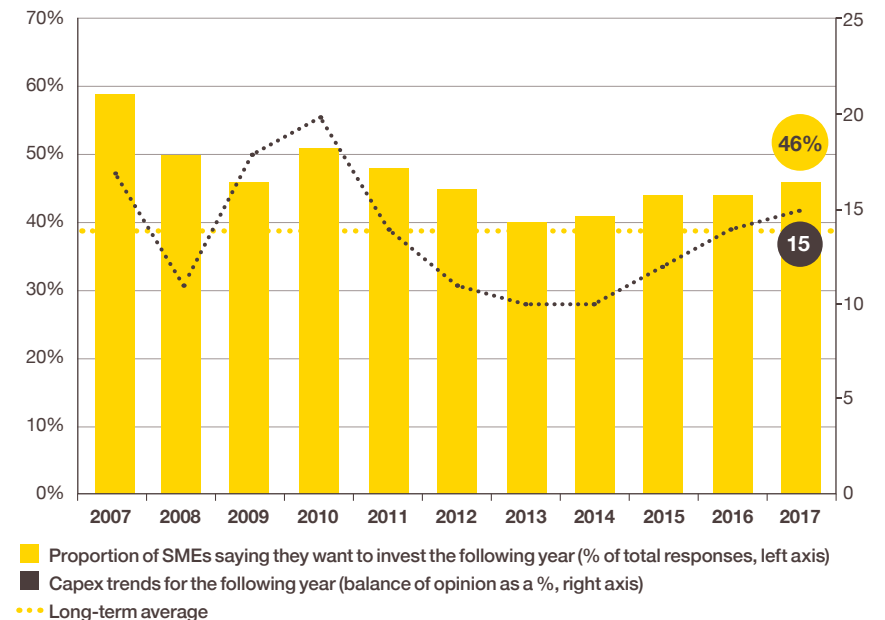
Source: **Bpifrance Le Lab**

A moderate rise in investment expected in 2018

At the end of 2017, order books are still looking healthy and financing terms remain very favourable. In this context, SMEs are expecting another dynamic year in terms of capital expenditure.

At the end of 2017, 46% of businesses were considering investing in the course of the following year, which is 2 points higher than 2016. The capex volume predictor has also increased by 1 point over 1 year to stand at +15, above its long-term average of +14 (graph 9). This expected slight increase in the volume of investment is driven above all by industrial SMEs.

• **GRAPH 9: INVESTMENT TREND EXPECTATIONS FOR THE FOLLOWING YEAR NOVEMBER ANSWERS**
BALANCE OF OPINION (AS A %)



Note: in November 2017, 46% of SMEs said they are ready to invest in 2018 (left axis) and 15% more expect investment to increase rather than decrease compared to 2017 (balance of opinion, right axis).

Source: **Bpifrance Le Lab**

In conclusion

The general upturn reported by SMEs in 2017 is expected to continue in early 2018.

SMEs rode the wave of the thriving French economy in 2017. Their business activity improved for the fourth year in a row, acting as a driver for hiring and capital expenditures. This improvement is visible in almost all sectors, including in building, tourism and commerce, which have at last broken out of their rut.

The outlook for order books remains favourable. Overall, 2018 is shaping up to be quite positive for business activity and employment. The outlook for capital expenditure remains promising, even though most SMEs remain cautious. This all points to a continued bullish cycle for SMEs and a gradual return to pre-crisis dynamism. We still need to keep an eye on the tensions surrounding recruitment, though, as they could restrict the SME investment and growth potential if they persist.

Regional short term environment: summary

The marked upturn of SMEs position is perceptible in all regions.

Growth has returned to a greater or lesser extent, with SMEs in the Grand Est, Auvergne-Rhône-Alpes and Pays de la Loire being the most optimistic. They report an average increase in turnover of more than 4.0%.

Turnover in the other regions is also on the rise, although growth is more modest.

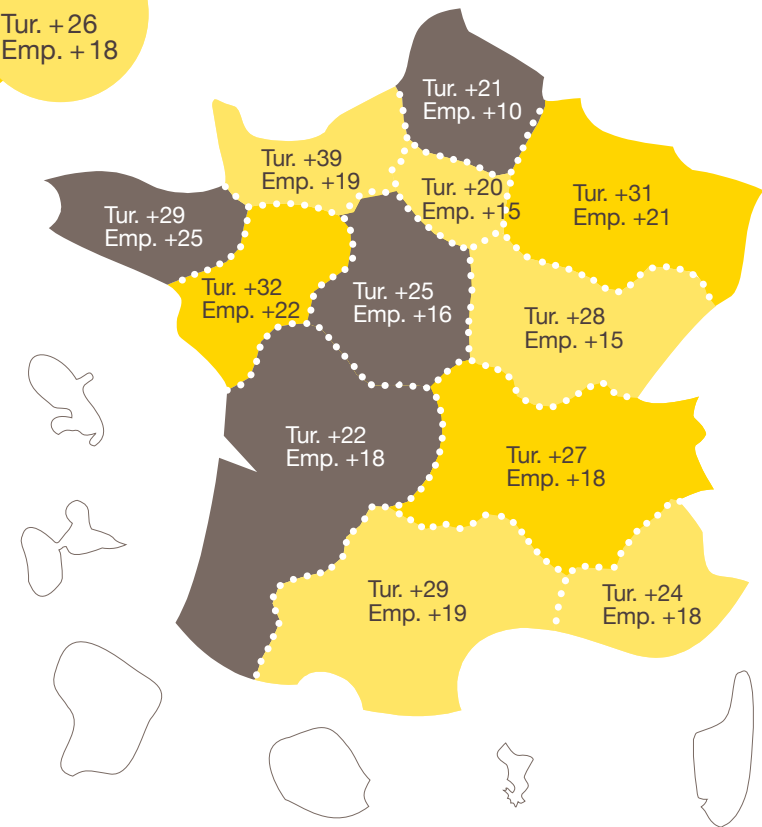
The same applies to the workforce, which has grown to a greater or lesser extent from region to region.

The financial situation has improved everywhere, except in Provence-Alpes-Côte d'Azur and Auvergne-Rhône-Alpes, where SMEs recorded a slight resurgence in cash flow difficulties.

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 %)

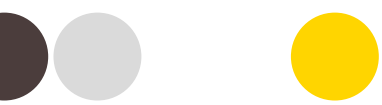
France:
Tur. +26
Emp. +18



Average trend in turnover at nominal value

- 2.4% to 2.9%
- 3.0% to 3.9%
- 4.0% to 4.2%
- N.S - Not significant (fewer than 100 responses)

Source: **Bpifrance Le Lab**



TURNOVER

WORKFORCE

INVESTMENT

Avg 2007 to 2016 Nov. 2016 Nov. 2017 Trend/ Nov. 2016

Avg 2007 to 2016 Nov. 2016 Nov. 2017 Trend/ Nov. 2016

Avg 2007 to 2016 Nov. 2016 Nov. 2017 Trend/ Nov. 2016

YEAR 2017 ⁽¹⁾

All SMEs

10-250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	+7	+13	+26	↗
10-250 employees	+17	+19	+33	↗
Less than 10 employees	-4	+3	+16	↗
Industry	+11	+18	+29	↗
Construction	0	+2	+23	↗
Commerce	+4	+6	+22	↗
Transport	+10	+12	+35	↗
Tourism	-1	-1	+25	↗
Services	+11	+22	+26	↗

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	+4	+9	+17	↗
10-250 employees	+10	+15	+26	↗
Less than 10 employees	-4	+1	+5	↗
Industry	+4	+11	+16	↗
Construction	-1	-3	+12	↗
Commerce	+3	+8	+14	↗
Transport	+4	+11	+29	↗
Tourism	-4	-5	+9	↗
Services	+10	+17	+24	↗

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	-5	+5	+7	↗
10-250 employees	-2	+9	+11	↗
Less than 10 employees	-9	-1	0	↗
Industry	-2	+9	+8	↘
Construction	-11	-1	+6	↗
Commerce	-6	+3	+4	↗
Transport	-3	+13	+10	↘
Tourism	-9	-4	-5	↘
Services	-2	+7	+9	↗

YEAR 2018 ⁽¹⁾

All SMEs

10-250 employees
Less than 10 employees

Industry
Construction
Commerce
Transport
Tourism
Services

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	+9	+22	+31	↗
10-250 employees	+16	+30	+38	↗
Less than 10 employees	+1	+10	+22	↗
Industry	+16	+28	+36	↗
Construction	-12	+8	+22	↗
Commerce	+8	+17	+32	↗
Transport	+4	+11	+24	↗
Tourism	-2	+19	+18	↘
Services	+17	+29	+34	↗

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	+7	+14	+21	↗
10-250 employees	+10	+19	+27	↗
Less than 10 employees	+3	+7	+13	↗
Industry	+10	+19	+22	↗
Construction	-3	+2	+20	↗
Commerce	+4	+9	+18	↗
Transport	+3	+9	+17	↗
Tourism	-3	-2	0	↗
Services	+15	+24	+29	↗

	Avg 2007 to 2016	Nov. 2016	Nov. 2017	Trend/ Nov. 2016
All SMEs	+14	+14	+15	↗
10-250 employees	+13	+14	+16	↗
Less than 10 employees	+14	+13	+14	↗
Industry	+17	+15	+19	↗
Construction	+7	+6	+13	↗
Commerce	+15	+15	+15	↔
Transport	+4	+4	+5	↗
Tourism	+15	+16	+14	↘
Services	+15	+16	+15	↘

(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.

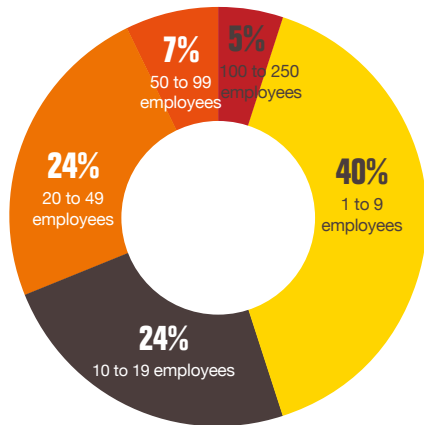
A **"high-export"** business conducts over 1 quarter of its business internationally, a **"medium-export"** business between 6% and 25%, and **"non-exporters"** less than 6% (including 0%).

Sample structure

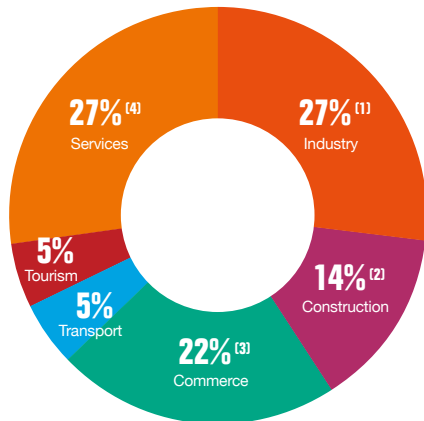
For this 66th half-yearly business climate survey, 29,413 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed at the start of November 2017.

The report is based on the first 4,286 responses judged complete and reliable received before 5 December 2017.

SIZE

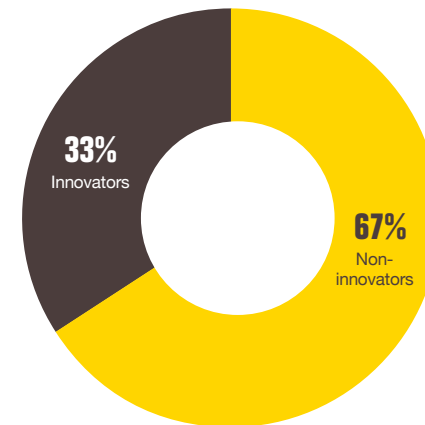


BUSINESS SECTOR

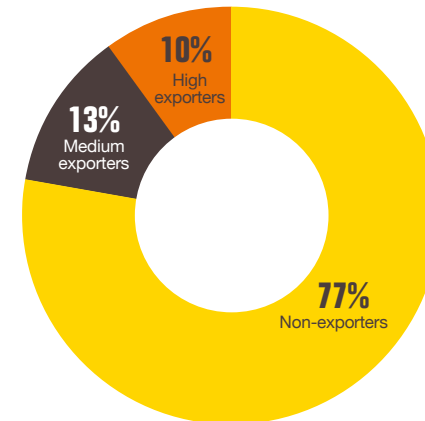


(1) 3% food, 13% intermediate goods, 8% capital goods, 3% consumer goods.
 (2) 12% construction, 2% public works.
 (3) 2% automobile dealing and repair, 13% wholesale, 7% retail.
 (4) 23% business-to-business services, 4% business-to-consumer services.

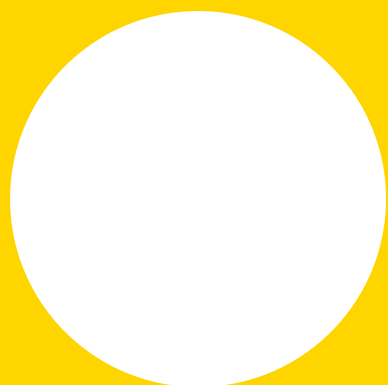
INNOVATIVE NATURE



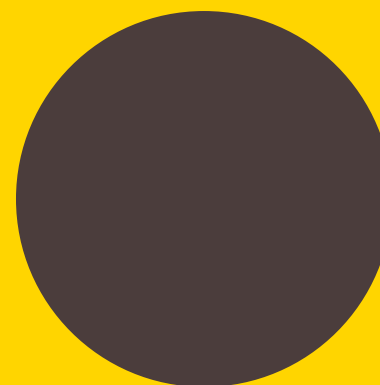
EXPORT



Source: **Bpifrance Le Lab**



SERVIR L'AVENIR



bpifrance-lelab.fr