



# **SMEs**

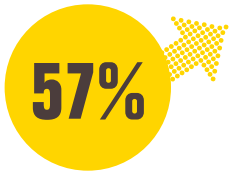
**68<sup>TH</sup> BUSINESS  
CLIMATE SURVEY  
JANUARY 2019**



**01.**



**CONFIDENCE BENDS  
BUT DOES NOT BREAK**



**SHARE OF SMEs THAT INVESTED IN 2018,  
UP 3 POINTS OVER ONE YEAR**



**BALANCE OF OPINION ON THE EXPECTED  
TREND IN SME HEADCOUNT IN 2018,  
STABLE OVER ONE YEAR AT A LEVEL WELL  
ABOVE ITS LONG-TERM AVERAGE**



**SHARE OF SMEs THAT CONSIDER  
THEIR CASH FLOW SITUATION  
NORMAL OR COMFORTABLE**



**SHARE OF SMEs THAT HAVE NOT  
ENCOUNTERED DIFFICULTIES  
IN FINANCING THEIR INVESTMENTS**

## Key points

1. After a particularly upbeat 2017, SME confidence seems to have reached a plateau in 2018. SME growth is consequently expected to slow slightly this year. Industry is doing well with the outlook for business activity improving again over one year, unlike in other sectors.
2. The outlook for hiring remains positive, but companies are still facing significant recruitment difficulties, particularly in the construction sector, where more than half of companies report being affected.
3. SMEs are continuing to benefit from a financial situation that remains healthy, with very positive conditions for access to credit, which probably explains why investment has held up in 2018 and in the outlook for 2019, despite somewhat less favourable turnover expectations.
4. The outlook for 2019 shows that SME optimism has been dampened only slightly by the various uncertainties both globally and nationally. However, the downturn in the indicator for anticipated business levels raises the question of whether the French economy and SME growth have reached a sustainable plateau or rather a turning point before a more significant slowdown.

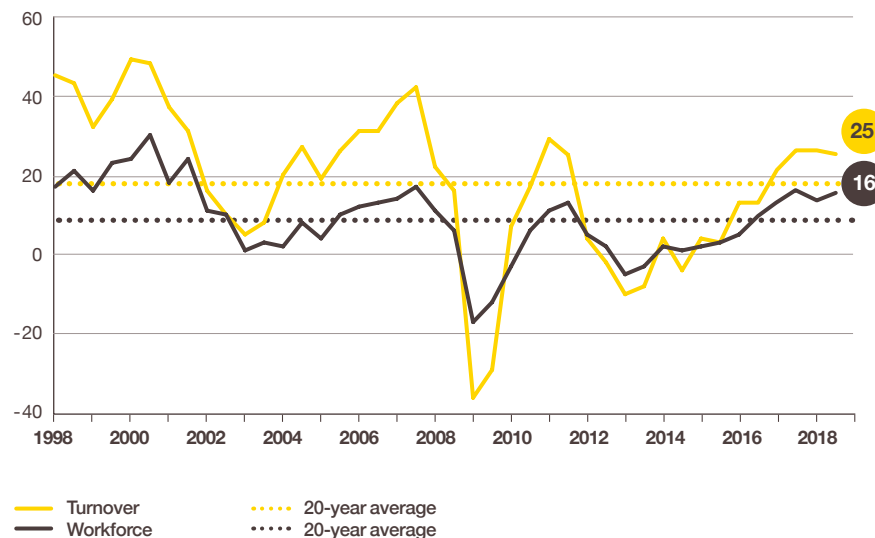
# Business activity and hiring down in 2018

SMEs generally reported a stabilisation in business growth and hiring in 2018. The balance of opinion on the change in turnover for the current year has declined very slightly since May, to stand at +25 points (-1 point, see graph 1), while that for headcount has increased slightly (+1 point, at +16). Both indicators are still significantly above their long-term average (+18 and +9 points respectively).

This trend is consistent with the decline in the business climate as measured by INSEE since the beginning of the year, as well as the slowdown in gross domestic product (GDP) over the first three quarters compared to the same period in 2017.

It should be noted that the survey results take partially into account a “Yellow Vests” effect, since approximately 60% of responses were obtained after the first demonstrations. But the respondent SMEs may not have correctly anticipated the impact on their business at that stage, since the movement continued.

• **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 dropped from +26 to +25 between the May 2018 and November 2018 surveys. It has fallen 1 point in one year.

Source: **Bpifrance Le Lab**

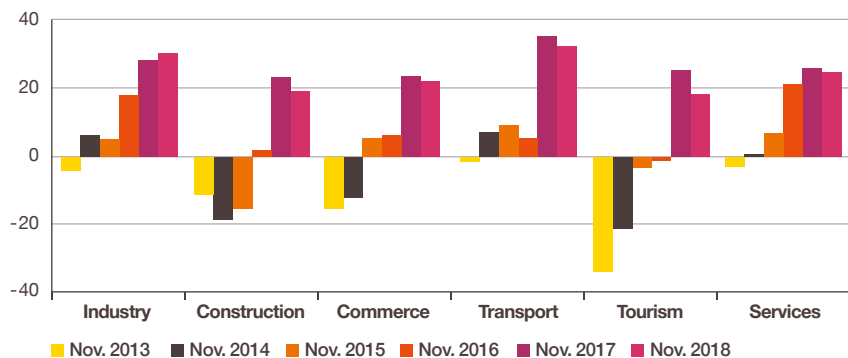
However, the very slight decline in the outlook for business activity masks disparities between sectors (graph 2):

- Industry is proving resilient, reflected by an increase in the balance of opinion on business activity over one year (up 2 points to +30), and is even doing quite well since it is the only sector to have increased over the year. ;
- conversely, the business activity indicator fell to a greater or lesser extent over one year in the other sectors, with a slight decline in commerce (down 1 point to +22) and services (down 1 point to +25), and a sharp decline in construction (down 4 points to +19), transport (down 3 points to +32) and especially tourism (down 7 points to +18). It should be noted that the optimism of SMEs in the latter two sectors was strongly affected in the spring by transport strikes and the rise in oil prices.

High-export, medium-export and innovative SMEs, and SMEs with 10 or more employees still foresee an above-average rise in their turnover. Exporters are holding up best, with a balance of opinion on business activity that has risen 2 points over one year for high-export SMEs and 6 points for medium-export SMEs. The outlook is down slightly for innovative SMEs over one year (+34, down 4 points over one year), despite optimism in absolute terms.

This slight fall-off in the optimism of business owners is due in particular to slightly less well-filled order books, both current and future. The balance of opinion indicator on their position for the last 6 months stands at +9, marking a 3-point decline over 6 months. A change similar to that seen in the predictor for the coming 6 months. Both indicators remain on a positive trend, however, standing significantly above their long-term average.

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



Source: **Bpifrance Le Lab**

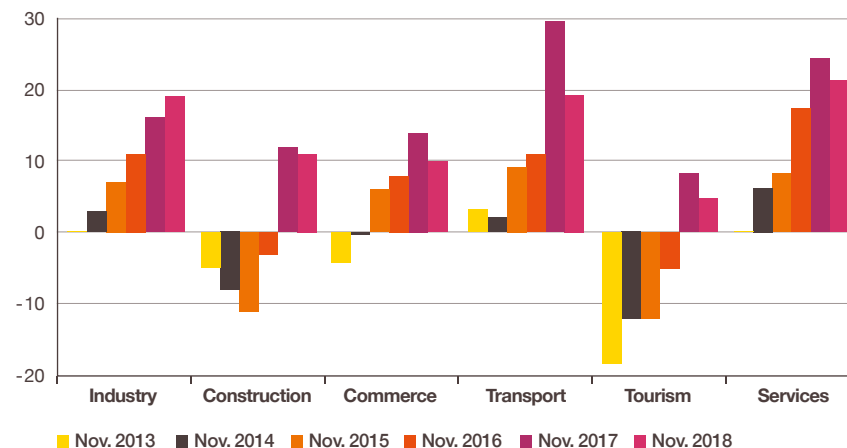
Faced with this slight decline in anticipated business levels, business owners are generally maintaining a stable pace of recruitment. Standing at +15, the balance of opinion on changes in employment has risen by 1 point compared to May 2018 and lost 1 point over one year. It therefore remains well above its long-term average (+9), showing evidence of sustained hiring.

As in the case of business activity, changes in hiring differ from sector to sector (graph 3):

- once again, industry is proving more optimistic, with an increase in the balance of opinion on employment over one year (up 3 points to +19). This is the only sector that has improved since November 2017;
- on the other hand, the recruitment indicator has fallen more or less sharply in all other sectors over one year. The decrease is at its greatest in the transport sector (down 10 points at +19).

This overall stabilisation of employment is shared across all sizes of SMEs, whether exporters or not. It should be noted that while the proportion of innovative SMEs anticipating an increase in hiring is much higher than that of non-innovative SMEs, they have reported a slowdown in their hiring, unlike non-innovative SMEs. But the general trend is much the same for all companies, regardless of how present they may be abroad.

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



Source: **Bpifrance Le Lab**

In this context of still upbeat labour demand, recruitment difficulties remain a concern for a significant proportion of SMEs: 43% against 38% at the end of 2017. Construction is the sector most affected by this obstacle, with 51% of its SMEs mentioning it. Commerce, on the other hand, seems the least affected (37% of SMEs).

## The outlook for 2019 has taken a downturn but remains solid

Despite a dip in the outlook for business activity, SMEs are still relatively optimistic about 2019 and anticipate that activity will continue to grow. The business activity predictor stands at +24, down 2 points compared to May and down 7 points over one year, but it remains well above its long-term average (+19, graph 4).

Business owners are less optimistic in all sectors over one year, with transport being the most affected.

Despite a downturn, innovative SMEs (balance of opinion at +44 compared with +49 last year) and high-export SMEs (+42 compared with +44) are the most confident about the future. Therefore, exporting companies in particular seem only slightly daunted by the current trade tensions, the main protagonists being of course the United States and China.

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



Note: the balance of opinion on the expected trend in business activity for the following year has fallen by 7 points over 1 year to stand at +24 in November 2018.

Source: **Bpifrance Le Lab**

This slightly lower optimism among business owners has not yet affected recruitment expectations, as the headcount predictor has remained stable over one year (the balance of opinion stands at 22, which is 11 points above the long-term average for end-year expectations).

The outlook is mixed by sector. Over one year, headcount is expected to decrease in construction, services and transport, but grow in industry, commerce and tourism.

The most optimistic companies are those with 10 employees or more, and those that innovate and export.

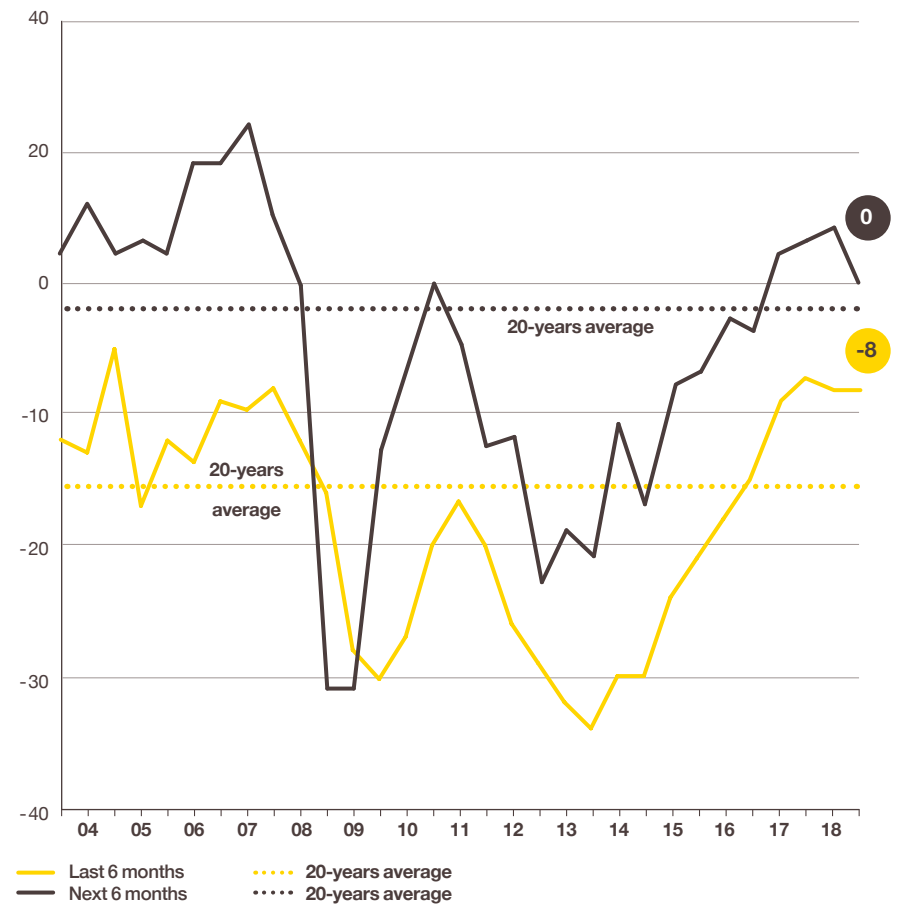
# A financial situation that is still holding up very nicely, but is expected to be a little more turbulent over the next 6 months

Over one year, the cash flow situation of SMEs has held almost steady and at a high level (graph 5). With a balance of opinion standing at -8 (down 1 point over one year), identical to its pre-crisis level (November 2007), the average opinion of SMEs on the cash flow situation is still well above its long-term average (-16).

Cash flow in construction and especially in industry (balance of opinion up 4 points at -5) has eased over one year, unlike that in other sectors where cash flow has tightened, particularly in commerce (balance of opinion down 6 points at -12).

Over the next 6 months, however, SMEs generally anticipate a deterioration in their cash flow situation (balance of opinion down 4 points over 6 months at 0). This trend can be seen in all sectors, except in industry, where the cash flow outlook is stable.

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



Note: in November 2018, the share of SMEs saying cash flow was difficult was 8 points higher than the share saying cash flow was easy.

Source: Bpifrance Le Lab

# Still very favourable terms for access to credit

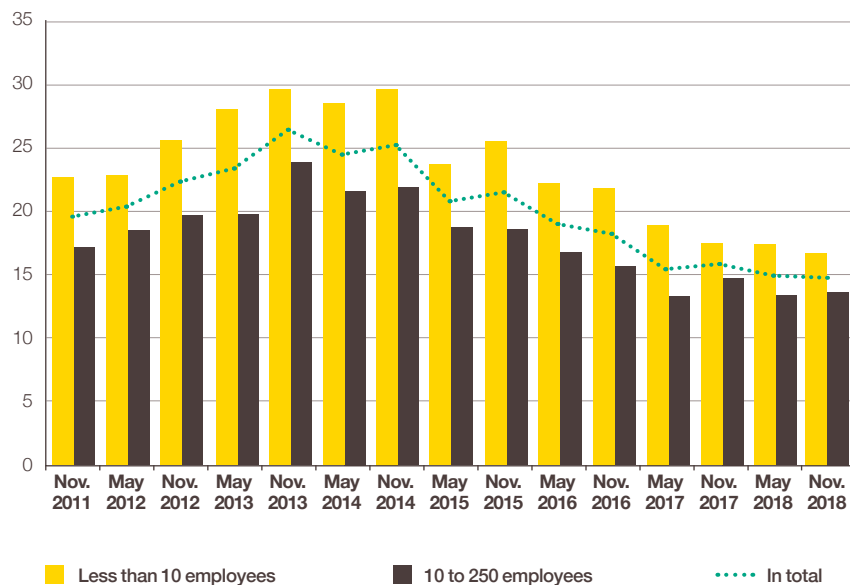
**SME access to short-term credit** during the second half of 2018 remained easy according to the survey. Only 15% of SMEs said they had run into difficulties in obtaining the desired short-term finance, a stable proportion over 6 months and down 1 point over one year, reaching its lowest since the question was introduced in 2010.

Access to short-term credit is easy for both micro-enterprises (difficulties encountered by only 17% of them) and for SMEs with between 10 and 249 employees (14%, graph 6).

Difficulties in accessing short-term credit remain well above average in tourism (27%), while the proportion of companies struggling to obtain cash credit lies between 13% and 16% in the other sectors.

Access to credit for capex also remains easy for SMEs, despite a very slight increase in the proportion experiencing difficulties in obtaining it (8%, up 1 point since May). Here again, difficulties are encountered more frequently in tourism (17%).

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



Source: **Bpifrance Le Lab**

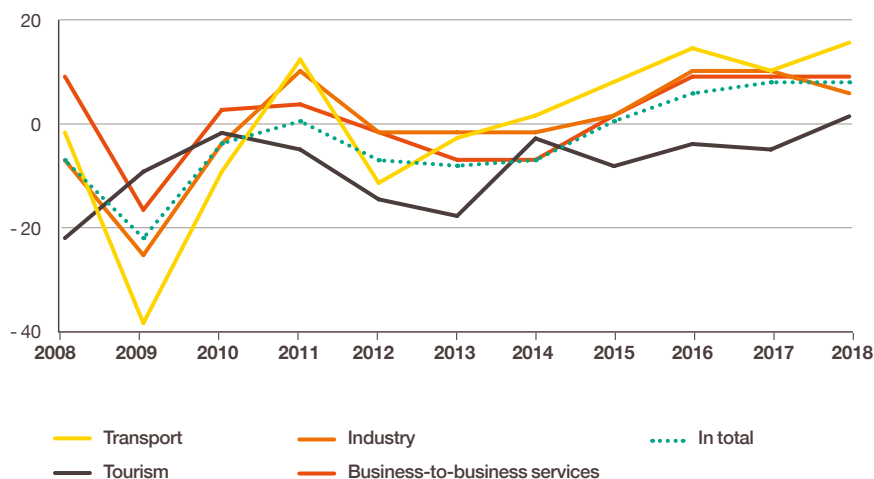


# Strong investment in 2018

In November 2018, 57% of SMEs said they had invested or planned to invest by the end of the year, which is 3 points up on the previous year. The indicator for the annual trend in the volume of capital expenditure, in other words all amounts invested throughout the year, is stable over one year at +7 (graph 7).

Capex is considered to have risen sharply in 2018 in public works (indicator up 7 points over one year at +1), tourism (up 6 points over one year at +1) and transport (up 5 points at +14). The improvement is less marked for commerce (wholesale and retail) and consumer goods. Capex appears to have remained stable in business-to-consumer services and to have fallen very slightly in building and intermediate goods. On the other hand, SMEs report a sharp slowdown in investment in capital goods (indicator down 10 points over one year at +4).

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



Note: in November 2018, 28% of SMEs said their capex volumes were up compared to 2017 and 21% said they were down, giving a balance of opinion indicator of +7.

Source: **Bpifrance Le Lab**

Otherwise, we can see that the more a business innovates and/or exports, the greater its capital expenditure is; the indicator stands at +17 for innovative and exporting SMEs compared to +4 for non-innovative and non-exporting SMEs. By size, while the indicator is improving among micro-enterprises (up 3 points in one year at +3), it is still lower than that for SMEs with over 10 employees, which is nevertheless slightly down (at +9 after +11).

The investment financing structure has changed little over one year. On average, the proportion that was self-financed rose slightly (38% compared to 37% last November), consistent with the still promising financial situation and results of these companies. The rest was financed mainly using bank loans, essentially medium-term loans (53% through equipment leasing and 2 to 7-year bank loans; 6% through real-estate leasing and bank loans of 8 years or longer).

Over one year, there has been a relative decrease in expenditure on real estate (28% after 33%), mainly in favour of movable property (material, vehicles and other equipment) (63%, +6 points).

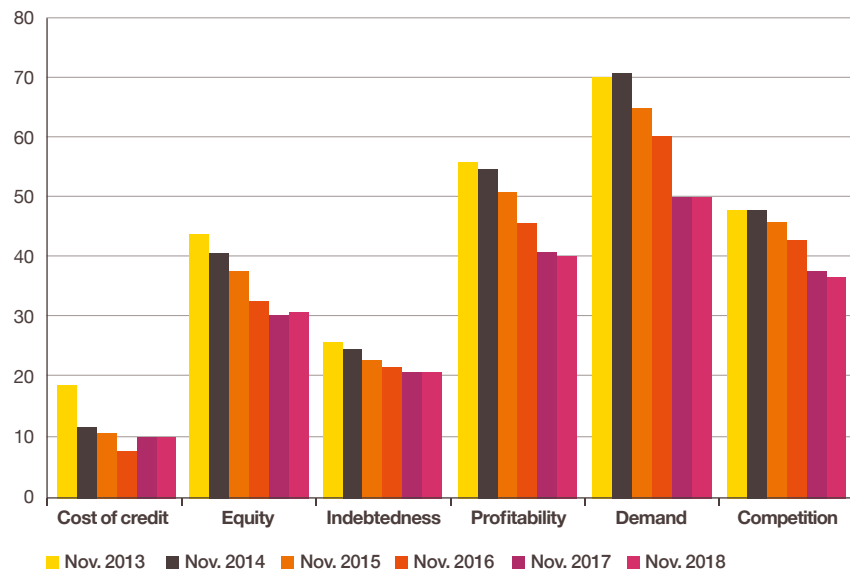
## There are fewer and fewer brakes on capital expenditure

Between November 2017 and November 2018, obstacles to investment cited by SMEs remained overall at an all-time low. They have changed little over one year (graph 8).

The main brake cited by 50% of business owners remains weak demand, which is stable compared to November 2017 but 10 points below the level reached two years ago. Inadequate profitability is mentioned by only 40% of managers, marking a 1-point decrease compared to the end of 2017 and reflecting the good financial health of businesses, a trend similar to that for competition, cited by 37% of respondents.

The cost of credit is cited a little more but remains very much in the minority (only 10% of SMEs mention it).

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



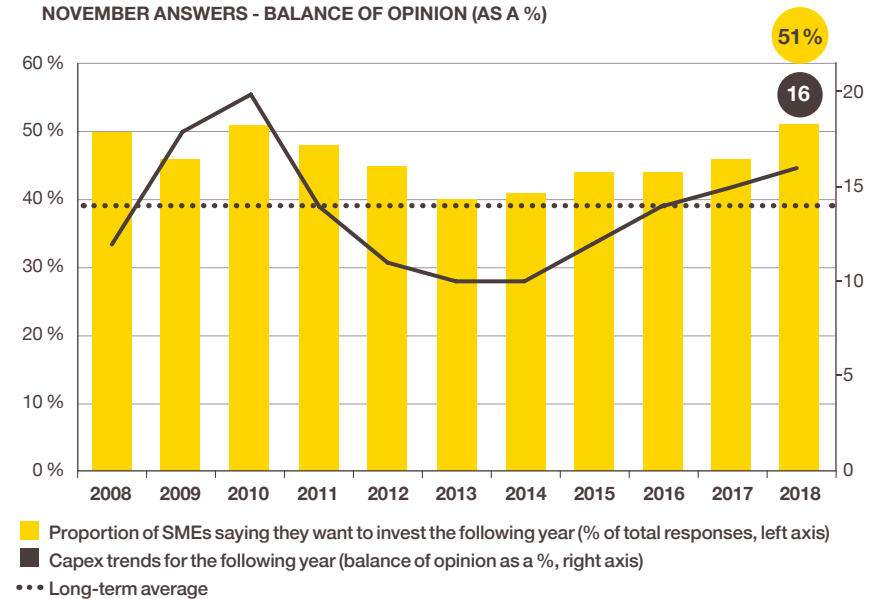
Source: **Bpifrance Le Lab**

## Capex prospects still upbeat for 2019

Despite a downward trend over one year, order books are still looking relatively healthy and financing terms very favourable. In this context, SMEs are expecting another dynamic year in terms of capital expenditure. At the end of 2018, 51% of them were considering investing in the course of the following year, which is 4 points more than at the end of 2017. The capex volume predictor has also continued its 5-year upward trend to stand at +16 (up 1 point over one year), exceeding its long-term average of +14 (graph 9).

This expected slight increase in the volume of capital expenditure is due to the services and industry sectors, which are the most optimistic.

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



Note: in November 2018, 51% of SMEs said they are ready to invest in 2019 (left axis) and 16% more expect capital expenditure to increase rather than decrease compared to 2018 (balance of opinion, right axis).

Source: **Bpifrance Le Lab**

## In conclusion

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### SME optimism is holding up despite uncertainties.

SME activity has remained upbeat this year despite a decline from the peak of 2017. This trend is consistent with that of the French economy, where growth is expected to surpass its potential despite a sharp slowdown (from 2.3% in 2017 to 1.5% this year according to the latest forecasts from the French national statistics office, INSEE).

SMEs seem more pessimistic about the outlook for turnover in 2019. This is because order books continue to be less full on the demand side, and they generally expect a further decline over the next 6 months. On the supply side, recruitment difficulties are an increasingly powerful hindrance to the expansion of the business cycle.

But they do not seem to have given up. On the one hand, recruitment expectations are still holding up for next year. On the other, capital expenditure is expected to be sustained despite the anticipated slowdown in turnover, in a context where financing conditions remain particularly favourable.

The many uncertainties surrounding both the global environment (rising protectionism, Brexit, trade tensions, oil price volatility, the pace of monetary policy normalisation) and the national environment (“Yellow Vests”) have not yet hugely impacted the morale of business owners, who remain relatively confident about the future.

## Regional economic environment: summary

In the second half of 2018, estimates for turnover and jobs remained positive for all regions. All anticipate business growth of at least 2.6%. SMEs in Pays de la Loire, Hauts-de-France, Auvergne Rhône-Alpes, Centre Val de Loire and Île-de-France are the most optimistic and expect an average increase in turnover of more than 5.0%.

Job numbers have also increased everywhere, to a greater or lesser extent depending on the region.

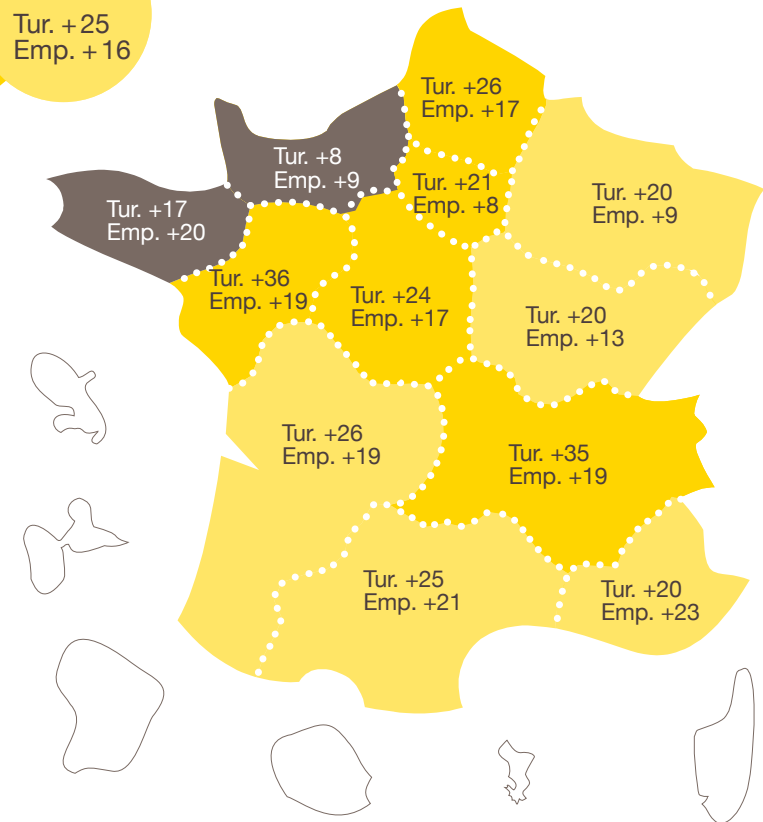
On the other hand, changes in the cash flow position of SMEs differ from region to region. The financial position of companies in Auvergne Rhône-Alpes, Bourgogne-Franche-Comté and Hauts-de-France has improved. However, those in Brittany, the Grand Est and Île-de-France have suffered some pressure on their cash position in recent months, which nonetheless remains satisfactory.

The same applies to profitability, with SMEs in Auvergne Rhône-Alpes, Bourgogne-Franche-Comté, Centre Val de Loire, Île-de-France and Nouvelle-Aquitaine considering their profitability in 2018 better than that in 2017, unlike in other regions.

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

## • TREND IN TURNOVER AND WORKFORCE BY REGION BALANCE OF OPINION (AS A %)

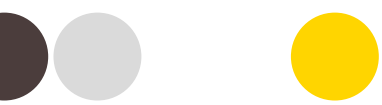
**France:**  
Tur. +25  
Emp. +16



### Average trend in turnover at nominal value

- 2,6% to 3,0%
- 3,1% to 5,0%
- 5,1% to 8,1%
- N.S - Not significant (fewer than 100 responses)

Source: **Bpifrance Le Lab**



## TURNOVER

## WORKFORCE

## INVESTMENT

Avg 2008 to 2017    Nov. 2017    Nov. 2018    Trend/ Nov. 2017

Avg 2008 to 2017    Nov. 2017    Nov. 2018    Trend/ Nov. 2017

Avg 2008 to 2017    Nov. 2017    Nov. 2018    Trend/ Nov. 2017

### YEAR 2018 <sup>(1)</sup>

#### All SMEs

10-250 employees  
Less than 10 employees

Industry  
Construction  
Commerce  
Transport  
Tourism  
Services

<b>+6</b>	<b>+26</b>	<b>+25</b>	
+14	+33	+34	
-4	+15	+8	
+10	+28	+30	
-4	+23	+19	
+3	+23	+22	
+6	+35	+32	
-2	+25	+18	
+11	+26	+25	

<b>+3</b>	<b>+17</b>	<b>+16</b>	
+9	+26	+24	
-5	+5	+2	
+4	+16	+19	
-4	+12	+11	
+2	+14	+10	
+7	+29	+19	
-4	+9	+5	
+8	+24	+21	

<b>-6</b>	<b>+7</b>	<b>+7</b>	
-2	+11	+9	
-10	+0	+3	
-2	+9	+5	
+13	+5	+6	
-8	+4	+7	
-5	+10	+14	
-10	-5	+1	
-3	+9	+8	

### YEAR 2019 <sup>(1)</sup>

#### All SMEs

10-250 employees  
Less than 10 employees

Industry  
Construction  
Commerce  
Transport  
Tourism  
Services

<b>+15</b>	<b>+31</b>	<b>+24</b>	
+22	+38	+31	
+6	+21	+13	
+23	+36	+31	
-5	+22	+12	
+14	+32	+25	
+9	+24	+10	
+5	+18	+15	
+21	+34	+28	

<b>+10</b>	<b>+22</b>	<b>+22</b>	
+14	+27	+27	
+6	+13	+14	
+13	+23	+26	
+1	+20	+17	
+8	+18	+20	
+6	+17	+17	
-3	+0	+3	
+18	+29	+27	

<b>+14</b>	<b>+15</b>	<b>+16</b>	
+14	+16	+17	
+14	+14	+14	
+16	+19	+20	
+8	+13	+12	
+15	+15	+15	
+6	+5	+3	
+14	+14	+13	
+15	+15	+17	

(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:

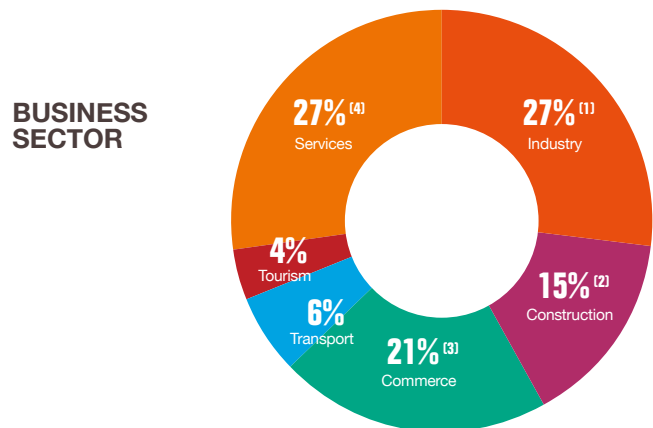
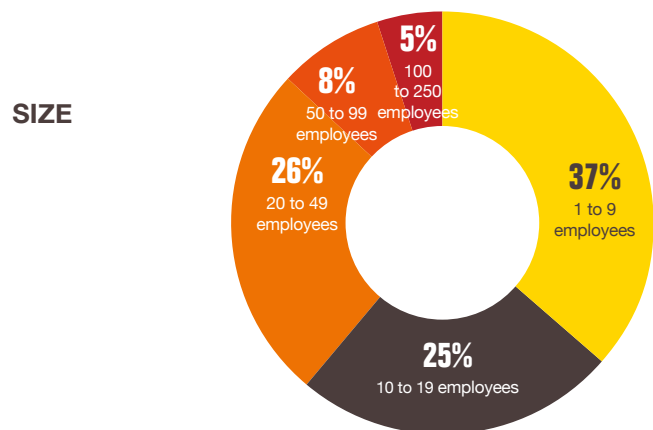
- funded research and development expenditure (in-house or externally) or recruited R&D personnel;
- acquired an operating licence for a process or technology;
- filed a patent, a trademark, a design or a utility model;
- developed a new or significantly improved product or process (service provision) 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%).

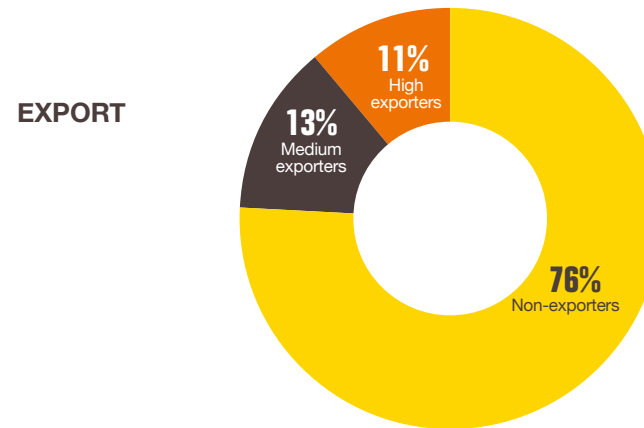
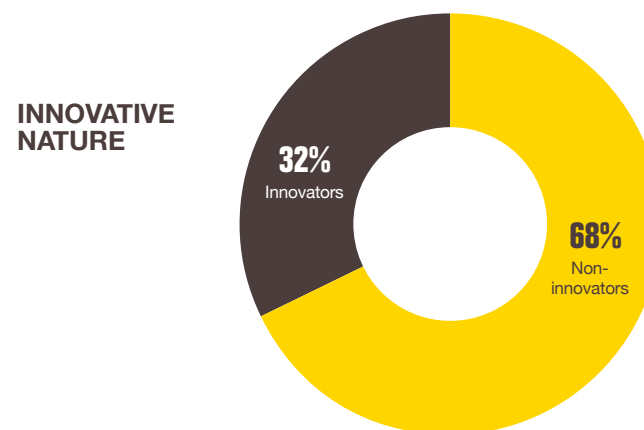
# Sample structure

For this 68<sup>th</sup> half-yearly business climate survey, 36,070 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed between mid-November and early December 2018.

The report is based on the first 3,765 responses judged complete and reliable received before 7 December 2018.

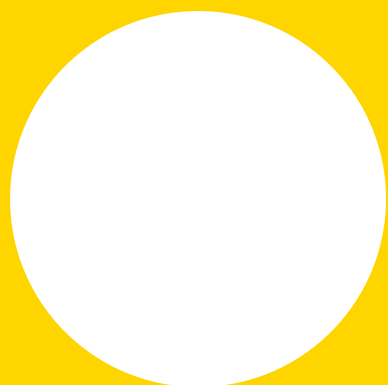


(1) 3% food, 13% intermediate goods, 8% capital goods, 3% consumer goods.  
 (2) 13% construction, 2% public works.  
 (3) 2% automobile dealing and repair, 12% wholesale, 7% retail.  
 (4) 23% business-to-business services, 4% business-to-consumer services.

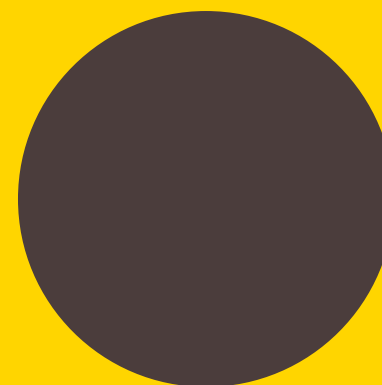


Source: **Bpifrance Le Lab**





# **SERVIR L'AVENIR**



[bpifrance-lelab.fr](http://bpifrance-lelab.fr)