71ST HALF-YEARLY SME
BUSINESS CLIMATE SURVEY

SMES ARE SUFFERING BUT APPEAR WELL-EQUIPPED TO OVERCOME THE CRISIS

JULY 2020

SMEs have suffered a crisis unprecedented in scale, mitigated by the government's financial support for businesses. More than half of SMEs anticipate a gradual return to normal.

Unsurprisingly, SMEs have suffered a huge hit in revenue, unprecedented in scale. The prospects for future recruitment and capital expenditure are obviously poorer given the near-universal drop in turnover, deterioration in financial health, and the highly uncertain general economic situation for the next few quarters.

The main challenge for SMEs was to deal with the sudden and severe consequences of the spring's events. Their feedback was clear: the crisis has considerably worsened their cash cushions, which were on average at very decent levels before the pandemic. It will also adversely affect their profit for the financial year.

However, the vast majority say they are in a position to emerge the other side, and the challenge of survival seems to have been more or less met in the short term. In terms of cash position, around half of SMEs say they have sufficient reserves, and 40% say they have difficulties but are able to overcome them. Serious difficulties are affecting 3% of SMEs.

The use of government's support schemes by businesses (state-guaranteed loans, deferred social security contributions, short-time working, solidarity funds, etc.) has undoubtedly made a major contribution to these figures; 90% of SMEs have used at least one government-backed scheme, viewed as highly apposite (very few SMEs say they are unaware of the measures introduced).

The state-guaranteed loans have been a particularly important support measure to protect against cash flow issues. By mid-June, 51% of SMEs reported they had used one. This popularity probably explains why the SMEs surveyed reported that financing terms were still very accommodating. In mid-June, the cash flow support scheme was still mainly playing the role of a reserve that had not been fully used, and 59% of the SMEs that had applied reported at that point that they could still make use of all or most of the liquidity secured over the next few months.

The support measures put in place for businesses could also explain the limited changes, proportionate to the decline in turnover, made to recruitment plans, which is probably a positive point as regards future recovery. By reporting that they much prefer to defer recruitment and capital expenditure to abandoning them, SMEs also seem more inclined to wait and see due to the highly uncertain current economic environment rather than to apply any drastic changes to their development plans.

This is also reflected in the way SMEs are divided almost equally between those anticipating a swift return to normal levels of business (although the majority do not expect to make up for the losses sustained in the spring) and those expecting a more difficult return. SMEs in tourism and exporting SMEs are the most pessimistic about business recovery, with 83% and 67%, respectively, expecting the return to normal to prove problematic. SMEs in construction are, in contrast, more optimistic about recovery from the crisis, with two-thirds of them expecting turnover to quickly return to a normal level. The level of shareholders' equity also acts as a severe or moderate restriction in tackling recovery for 56% of SMEs, even if equity capital does not at this stage seem to be perceived to be a significantly more serious problem than in the past. Consequently, 22% of SMEs state they are willing to accept outside investment, mainly through new shareholders.

5,556 SMEs (1-250 employees) responded to this survey. Among them, 2,875 SMEs, members of an online panel, agreed to answer specific questions on Covid that had previously been asked in a survey conducted in April in order to serve as a point of comparison.

The responses show a small but definite improvement in all the aspects surveyed. The proportion of SMEs saying that recruitment and capital expenditure plans were postponed or abandoned dropped in those two months by 12 and 14 percentage points respectively. The proportion of SMEs anticipating a quick return to normality was up 11 points, and those with insurmountable cash flow problems down by two-thirds (3% of SMEs in June against 9% in April).

SALIENT POINTS

1 Turnover expectations for 2020 have dropped severely; changes to recruitment plans are more moderate

SMEs have revised their turnover projections to an unprecedented extent this year (balance of opinion at -59 compared with +25 at y/e 2019, a record low). Changes to recruitment plans seem more limited (balance of opinion at -13, above the 2009 low point of -17), possibly connected to the widespread use of the new short-time working scheme.

2 SMEs' cash flows have evidently declined significantly, but the vast majority of SMEs report they are in a position to overcome these financial difficulties

Despite this marked deterioration in their financial situations, a mere 3% of SMEs view their cash flow issues as insurmountable, given the support schemes from which they benefit. 90% of SMEs report they have used at least one of the government-backed schemes to help meet their cash requirements.

3. The state-guaranteed loans have been hugely popular and at this point still constitute an important reserve to meet cash requirements in the coming months

One SME with 1-250 employees out of 2 (51%) applied for a state-guaranteed loan. The proportion does not vary according to size or trade sector, with the exception of tourism. Only 35% of SMEs report having used more than half of their state-guaranteed loan to pay for routine expenditure, compared with 59% having used less than half of their loan at the time of the survey, with 33% reporting “little or no” use.

4 Lower turnover and massive uncertainty having an adverse effect on capital expenditure this year

Businesses are making substantial changes to their investment plans for 2020. However, more SMEs anticipate postponing their plans rather than cancelling them. Weak demand is the main obstacle to capital expenditure, mentioned by 61% of SMEs. Lack of equity is mentioned by 33% of SMEs, lower than the level in 2015-2016. 22% of businesses say they are receptive to outside investment, in the form of new shareholders rather than a fund in the vast majority of cases.

5 Just 50% of SMEs anticipate a swift return to a normal level of business, but overall their confidence has greatly improved since lockdown

Approximately half of SMEs where turnover was adversely affected by the crisis believe that any return to business as usual will be an arduous process after lockdown. The other half predict a quick return to normal levels of business, but most believe that they will not be able to make up the losses sustained during lockdown. On the positive side, SMEs are more confident about the future than in April 2020, date of the last Bpifrance Le Lab quarterly survey, a sign that recovery is definitely underway.

Key figures

-15%

AVERAGE GROWTH IN TURNOVER EXPECTED FOR THE CURRENT YEAR

AFTER +3% ONE YEAR AGO FOR 2019

49%

SHARE OF SMES THAT BELIEVE THEIR CASH RESOURCES ARE SUFFICIENT TO COPE WITH THE CRISIS

39% REPORT CASH FLOW ISSUES, BUT MANAGEABLE

41%

SHARE OF SMES PLANNING CAPEX THIS YEAR

DOWN 9 POINTS OVER ONE YEAR

53%

SHARE OF SMES ANTICIPATING A PROBLEMATIC RETURN TO BUSINESS AS USUAL POST-LOCKDOWN

THIS FIGURE WAS 63% IN APRIL

51%

SHARE OF SMES THAT APPLIED FOR A STATE-GUARANTEED LOAN

A FURTHER 12% PLAN TO DO SO IN THE NEXT FEW MONTHS

59%

SHARE OF SMES THAT, IN MID-JUNE, RECKONED MOST OF THEIR LOAN WAS STILL AVAILABLE FOR USE

CONTENTS

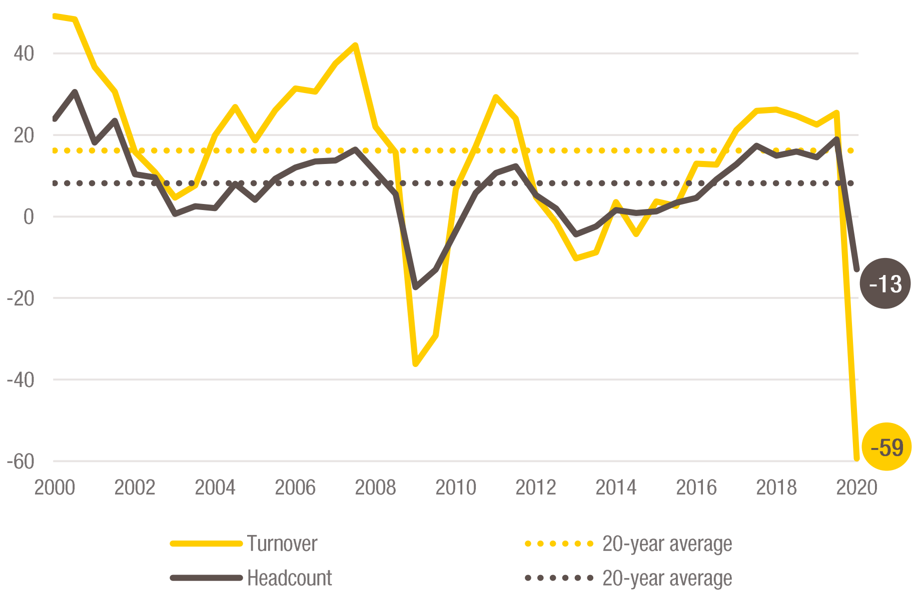
01.

REVENUE AND EMPLOYMENT

A decline in turnover and hiring in 2020

Chief executives have slashed their turnover forecasts for this year and, to a lesser extent, scaled back their recruitment plans.

• GRAPH 1: CHANGES IN TURNOVER AND HEADCOUNT FOR THE CURRENT YEAR
BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the change in turnover for the current year fell from +25 to -59 between the November 2019 and May 2020 surveys.
Scope: total (N=5,556)

Source: **Bpifrance Le Lab**

The public health crisis and lockdown measures introduced to contain the epidemic, in France and elsewhere, resulted in an unprecedented economic crisis. Small business owners accordingly anticipate a substantial decrease in turnover this year.

- The balance of opinion regarding changes in turnover for the current year shows a record fall of 84 points, to -59, its lowest point since the survey began and a far lower level than the previous low recorded during the financial crisis (-36 in 2009). This finding shows to the scale and suddenness of the economic shock.
- SMEs predict a 15% drop in turnover in 2020 on average. Only 9% of managers expect an increase in business this year. 68% expect their turnover to fall, while 23% expect it to hold steady.

Consistent with the decrease in turnover, business owners expect to reduce their headcount. The correction to jobs appears less severe than the fall in revenue, possibly a result of the short-time working scheme introduced during lockdown.

- The balance of opinion indicator lost 28 points in one year to -13, close to but higher than the record low of -17 reached in 2009.

Overall, the survey results are consistent with the change in the INSEE (French statistical office) business climate survey indicator, which dropped from March to reach a low of 53 in April, the lowest point since the series began. The June surveys reported a definite upturn in activity, but turnover is still suffering. INSEE forecasts a record drop in GDP of the order of 17% in Q2 2020, after a 5.3% decrease in Q1, and points out that GDP could shrink by 9% this year (see INSEE's Competition update of 8 July). The Banque de France anticipates a 10.3% decrease in GDP this year under its central scenario (see Macroeconomic projections – June 2020, Banque de France).

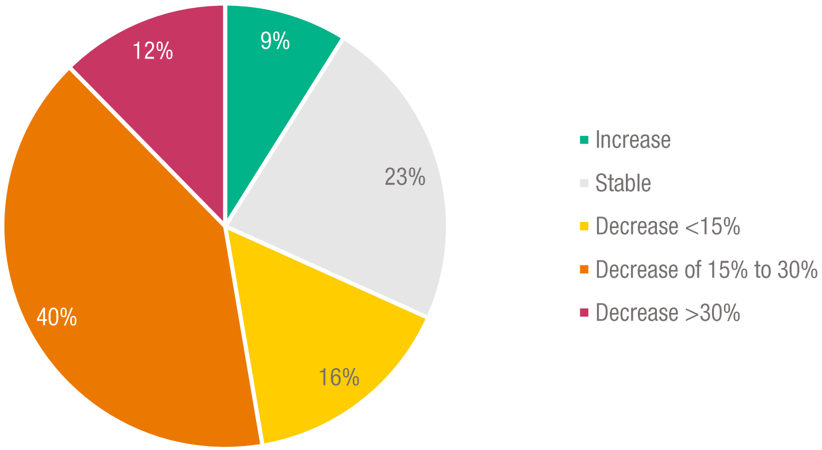
Turnover
An impact of unprecedented scale, in particular in the tourism sector

More than half of SMEs predict a drop in turnover of over 15% this year. SMEs in the tourism sector are by far the worst hit by the crisis.

The impact of the economic crisis caused by Coronavirus and the restrictions imposed to deal with the epidemic is unprecedented in scale.

- 68% of business owners anticipate a decrease in turnover this year. More specifically, 16% foresee a moderate reduction in turnover, of under 15%. The impact appears harder for the majority of SMEs; 40% of executives anticipate lost turnover this year of between 15% and 30%, and 12% forecast losses in excess of 30%. These figures reflect the severity of the short-term impact on SMEs' business.
- The activity downturn seems to be less pronounced for micro-enterprises than for SMEs with more than 10 employees. Furthermore, those businesses that are both innovative and exporters report they will fare better than other SMEs.

• GRAPH 2: CHANGE IN TURNOVER EXPECTED THIS YEAR



Scope: Total (N=5,556)
Source: **Bpifrance Le Lab**

Significant differences between regions and sectors.

- SMEs in tourism are by far the worst affected, as the impact of lockdown was very severe in the sector, and lifting of lockdown restrictions is taking place more slowly in tourism businesses. They predict a 39% drop in turnover this year on average.

  See also the upcoming focus by sector

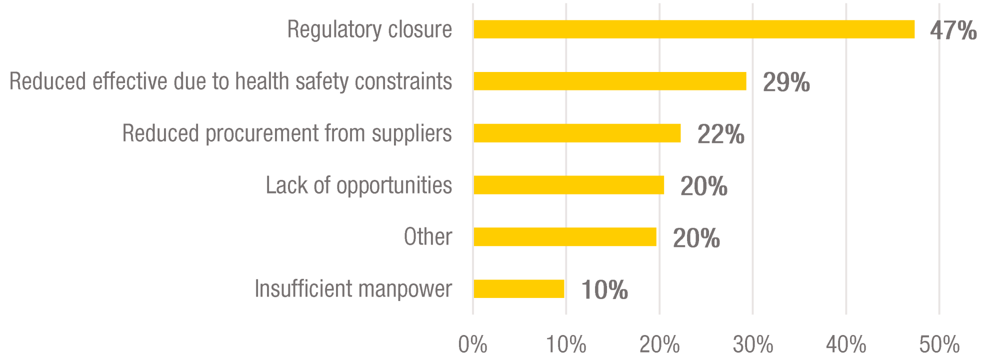
- SMEs' turnover was most affected in Ile-de-France, which was also particularly badly hit by the epidemic, and in Provence-Alpes-Côte d'Azur, a very popular tourist region.

  See also the upcoming focus by region

Enforced business shutdowns and the public health measures put in place post-lockdown are the main explanations for this decline in turnover.

- Almost half (47%*) of the loss in SMEs' revenue caused by the crisis can be attributed to the enforced halt to their business activities. This proportion climbs to 90% in tourism.
- The second leading reason, mentioned by 29% of business owners, is the difficulty experienced by SMEs to produce output to meet demand with the same efficiency as before, given the health protection measures to be followed. This is particularly the case for SMEs in the industry sector, where 46% report they are affected. It is also more of an obstacle for exporting SMEs and innovative SMEs.
- Some 20% of business owners attribute the drop in turnover to the lack of sales outlets and reduced procurement options from suppliers. These reasons are mentioned particularly by SME executives in construction (approximately 40% of them for each of the two reasons).

• GRAPH 3: MAIN REASONS FOR THE DROP IN TURNOVER



Scope: Online panel, SMEs anticipating an adverse effect from the crisis on their full-year turnover in 2020 (N=2,506)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

Employment

Significant changes to employment plans, but less so than during the last crisis

In response to declining turnover, SMEs are changing their recruitment plans. The correction to employment plans appears however to be smaller than that affecting turnover, and less than that reported in 2009.

SMEs are clearly reviewing their employment projections this year, particularly in tourism and industry.

- These changes of plan are reportedly by far the most substantial in tourism, the sector where turnover is also worst hit by the crisis. Recruitment plans have also been radically cut in the industry sector. The reductions in future hiring plans appear to be smaller, albeit not insignificant, in construction. Recruitment issues remain high, although decreasing (77% of business owners affected, compared with 66% on average in all sectors combined).

See also the upcoming focus by sector

- SMEs with more than 10 employees and exporter SMEs also anticipate greater reductions in their headcount than micro-enterprises and SMEs that concentrate on the domestic market.

The expected correction in recruitment plans is on a smaller scale than 2009.

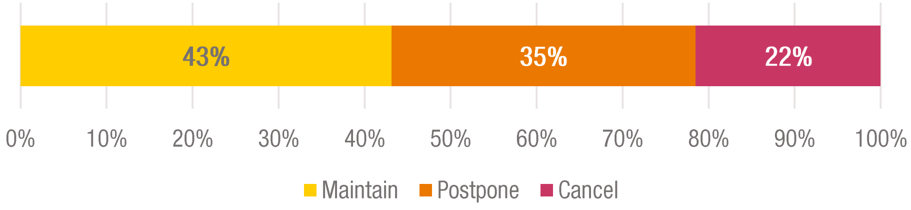
- The balance of opinion on employment for the current year remains higher than its low point in 2009 (13 now, versus -17 in May 2009) and the correction would appear to be smaller than that for turnover, more so than during previous crisis periods. The balance of opinion on turnover is distinctly below its previous low point (see page 7).
- This smaller correction on employment plans could be partly attributable to the substantial use made by SMEs of the short-time working scheme (79% of SMEs surveyed about their use of the government's support measures stated that they had put at least one employee on short-time working*, see also page 11), while half of SMEs expected a swift return to normal revenue levels (see page 20).

*Online panel, see Methodology section

Revised recruitment plans are largely a matter of deferral rather than cancellation.

- Of those SMEs that had made plans to recruit staff before the crisis started, 43% expect to still go ahead*. In contrast, 35% of them expect to defer their plans, and 22% to abandon them as a result of the crisis. Recruitment plans for the year could partly be revised in the light of a stronger recovery than anticipated, which seems to have already been observed between April and June (see page 21).

- **GRAPH 4: INTENTIONS REGARDING RECRUITMENT PLANS**
  AS A %



Scope: Online panel, SMEs that had made recruitment plans (N=2,038)
Source: **Bpifrance Le Lab**

According to the French Ministry of Employment's statistic unit, DARES, a total of 27,000 job cuts have been planned altogether under redundancy plans since 1 March, twice as many as over the same period in 2019 (see Dashboard – Labour market situation during the public health crisis on 7 July 2020). Unemployment could be around 10% of the active population in 2020 according to the Banque de France (see Macroeconomic projections – June 2020, Banque de France), after 8.4% in 2019 (ILO, all France).

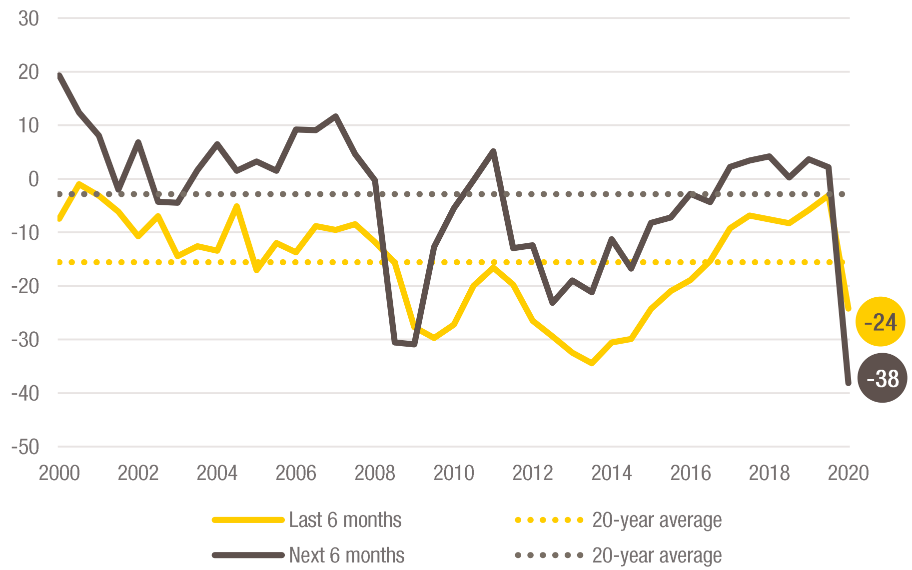
*Online panel, see Methodology section

02. FINANCIAL SITUATION, ACCESS TO CREDIT AND CAPITAL EXPENDITURE

Government support schemes highly popular with SMEs in view of the huge deterioration in their cash flow

SMEs' cash position has evidently deteriorated significantly and appears likely to worsen further over the short term. To meet their cash requirements, huge numbers of SMEs have made use of the government's support schemes.

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



Note: In November 2019, the share of SMEs saying cash flow was difficult over the last 6 months was 24 points higher than the share saying cash flow was easy.
Scope: total (N=5,556)

Source: **Bpifrance Le Lab**

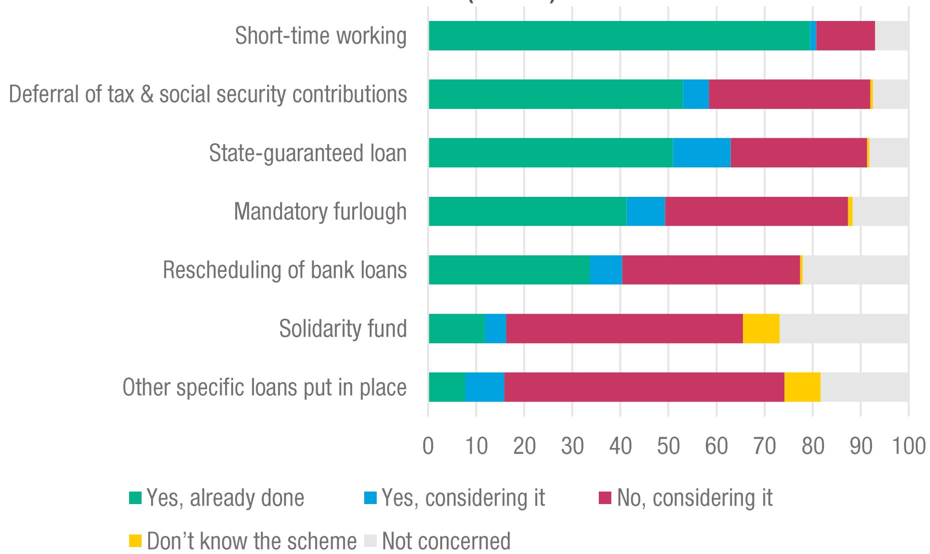
SMEs have reported a significant deterioration in their cash flow situations over the last 6 months, likely to continue in the short term.

- The balance of opinion indicator lost 18 points in one year to -24, higher than the record low level reached during the financial crisis. Again, unsurprisingly, cash situations are under most pressure in the tourism sector.
- The cash position is worse for exporting SMEs, a few more of which, proportionally, now view their cash flow situation as difficult (38% compared with 22% a year ago, and compared with 34% for non-exporting SMEs).
- It appears the cash situation will remain difficult for the next few months. The indicator for future changes in cash flow has dropped to an all-time low (minus 42 points to -38).

The government's support schemes are extremely popular with SMEs in view of the huge deterioration in their cash flow.

- 90% of SMEs report they have used at least one of the government-backed schemes.
- Businesses also seem to be very well informed about the schemes introduced in response to the crisis, and very few businesses say they are unaware of the various schemes.

• GRAPH 6: USE OF SUPPORT MEASURES (AS A %)



Scope: Online panel (N=2,875)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

At this stage, the cash flow difficulties encountered are manageable

In view of the support schemes from which they benefit, the majority of SMEs view their cash flow issues as manageable.

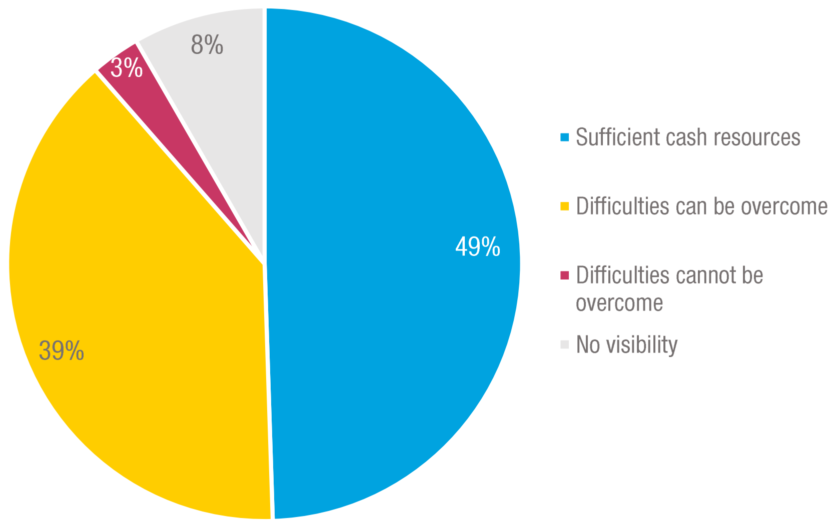
More particularly:

- SMEs report widespread use of the short-time working scheme (79% of those surveyed, see graph 6, page 11). Actual use of the scheme might be lower, however, given that the number of businesses applying for compensation is less than the number that had applied for permission to make use of the short-time working arrangements.
- 51% of SMEs report they have used the state-guaranteed loans scheme. With 12% of businesses still considering availing themselves of such loans, the level of use could yet increase further.
- The option to defer payment of social security contributions and taxes is being used at similar level, with 53% of SMEs surveyed already using the scheme and 5% planning to apply.
- Furlough seems less popular with businesses (41% have used it) than short-time working.
- Only 12% of SMEs surveyed have applied to the solidarity fund. The eligibility criteria are more restrictive than for the other schemes (fewer than 11 employees, 50% decrease in turnover, etc.). The 12% figure represents the level of use by those businesses eligible.
- Lastly, 34% of businesses report they have benefited from renegotiated bank repayment schedules.

Businesses believe that, given their use of the French government's support schemes, they appear to be in a position to overcome the financial difficulties encountered.

- Almost half of SMEs (49%) reckon their cash position is sufficient to see them through the crisis*. 39% consider that the difficulties encountered can be overcome given the support measures used.
- However, 3% of SMEs believe that the cash flow difficulties brought about by the crisis are insurmountable.

- **GRAPH 7: CASH FLOW SITUATION IN VIEW OF THE CRISIS**



Scope: Online panel (N=2,875)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

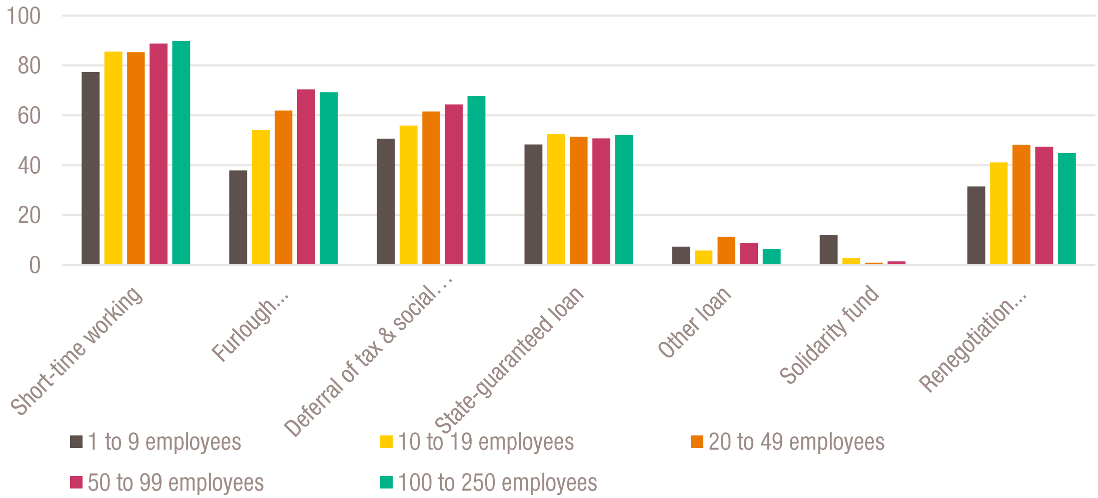
FOCUS

Most SMEs are combining more than one of the support measures

Most respondent SMEs state they have used more than one of the government's support schemes*: 74% have received help under at least two of the schemes, and 49% at least three. 46% of SMEs have received a state-guaranteed loan and introduced short-time working. 35% have received a state-guaranteed loan and deferred their tax or social security contributions. Lastly, 33% of SMEs have reportedly taken out a loan, deferred contributions and used short-time working.

Graph 8: Level of use of the state-guaranteed loans by business size

% of businesses having made use of the schemes



Scope: Online panel (N=2,875)
Source: **Bpifrance Le Lab**

SMEs receiving solidarity funds have made heavy use of the government's support schemes. Of solidarity fund recipients, 97% have made use of at least two of the government schemes, and 88% have availed themselves of at least three: 69% have applied for a state-guaranteed loan, 90% have introduced short-time working and 76% have deferred contributions or taxes.

Use of the government's support schemes increases with the impact felt by the SMEs. Similarly, those SMEs anticipating an arduous recovery process are making more use of the schemes than those foreseeing a swift return to normality.

The number of schemes used increases with the size of the business (see graph 8): 85% of businesses with 100 to 250 employees have made use of two of the government schemes, compared with 71% in the 1-9 employees category. The level of use of the schemes increases with the size of the SME, in particular short-time working, mandatory furlough, and deferred contributions. It decreases as regards the solidarity fund, for reasons of eligibility. However, the level of use of the state-guaranteed loans varies little with business size.

As a result of the harsher impact and with recovery expected to be more difficult, SMEs in the tourism sector have made extensive use of the schemes, especially the less widespread ones (solidarity funds, other loans). In contrast, the commerce (retail & wholesale) sector has reported fairly low levels of use of the various schemes, which appears to reflect that sector's specific situation, in that while some outlets remained closed, those that were open saw turnover increase during lockdown. Furthermore, 14% of respondents from the commerce sector say the Covid-19 crisis is having no effect or a positive effect on their turnover.

* Government support schemes refers to short-time working, furlough, deferral of tax & social security contributions, state-guaranteed loans and the solidarity fund. Renegotiation of repayment schedules is a possibility offered by banks, no doubt encouraged by government comments, but forming part of no official scheme as such.

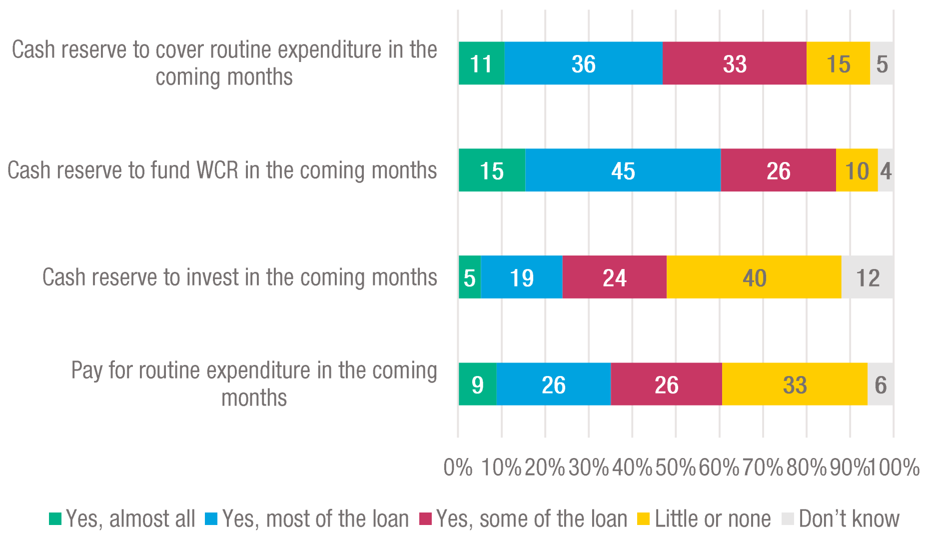
FOCUS

For most recipients, state-guaranteed loans were still largely not used by mid-June

Of those SMEs having taken out a government guaranteed loan (GGL), 33% say they have not yet spent it. The vast majority of these SMEs state they are keeping it as a cash reserve to service their working capital requirement (WCR) over the next few months; a minority to finance capital expenditure.

Graph 9: Planned use of state-guaranteed loans

As a %



Scope: Online panel (N=1,811)
Source: **Bpifrance Le Lab**

Of the businesses that have not spent their GGL, a bigger proportion are the larger SMEs (8% of businesses in this situation have 100-249 employees, but they represent only 4% of the sample). Slightly more are found in industry (32% have spent nothing, versus 29% for respondents as a whole) and slightly less in tourism (4% versus 5%).
Businesses that have spent nothing are slightly more numerous in believing that their cash flow is adequate (60% compared with 54% for all respondents).

An additional 26% of businesses say they have to date spent less than half of their loan. **Overall, at mid-June, these loans could represent all or most of the cash available in the next few months for 59% of SMEs.**

9% of SMEs state they have used almost all of their GGL on routine expenditure, but this figure should be viewed in context:

- 6% (of this 9%) also consider the GGL to form almost all of their cash reserve for the coming months. It is possible that a large proportion of these businesses are in fact using the loan to fund their WCR, that they have therefore disbursed a significant part of the loan, but they have also received (or expect to receive) a significant part of it back by receiving other public-sector aid (e.g. reimbursement of short-time working).
- **Ultimately, just 3% of GGL recipients say they have spent it all and report no other significant use made of the loan.**

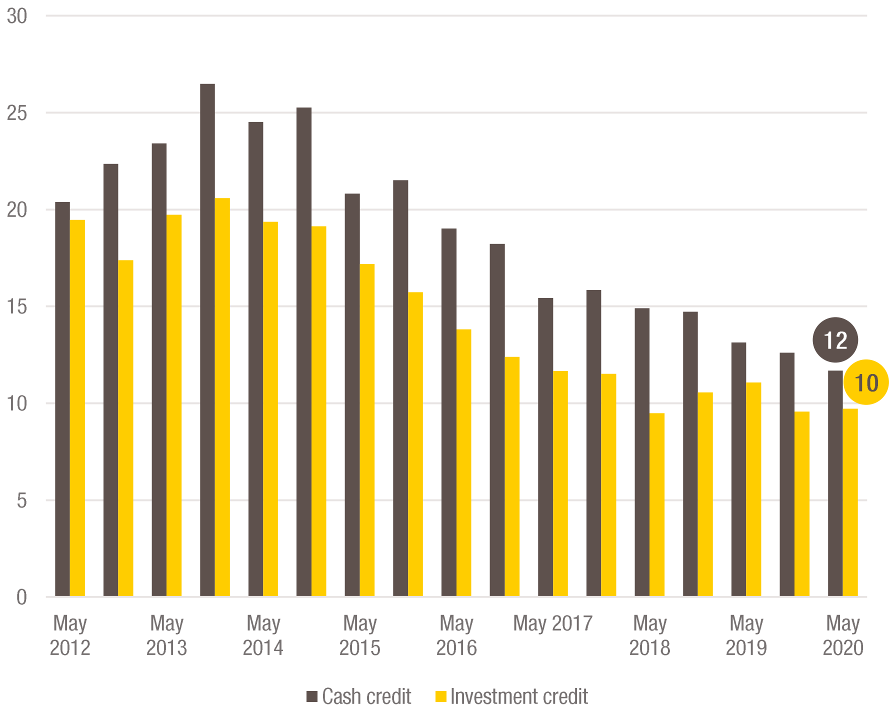
Of the 26% of SMEs reporting they have spent most of the loan, 62% also report at least one other main use made of it. For the same reasons as stated above, this 16% of SMEs that are state-guaranteed loan recipients could have spent only an amount equal to no more than half of their loan. It can thus be concluded that only 10% of SMEs having received a loan have definitely spent most of it.

The SMEs that have already spent their loan are evidently those experiencing the most difficulties. Those businesses reporting they have spent almost all their loan also report a more significant impact on their turnover as a result of the crisis than other respondents, with 43% anticipating a drop in turnover in excess of 30%, compared with 23% of respondents as a whole. Similarly, they anticipate a more arduous recovery, with 68% anticipating a difficult recovery, compared with 50% of respondents as a whole.

Access to credit remains smooth

Despite the huge economic impact, no toughening of conditions for access to cash flow or investment credit facilities has been seen at this stage.

• GRAPH 10: DIFFICULTIES ACCESSING CREDIT
FAIRLY OR VERY DIFFICULT (AS A %)



Source: **Bpifrance Le Lab**

Difficulties accessing cash flow credit facilities, which have declined near-continuously since the end of 2013, continue to decrease.

- Only 12% of SMEs report experiencing difficulties in accessing cash flow credit facilities, a lower proportion than one year ago (13% in May 2019). The significant use made by SMEs of the state-guaranteed loan scheme (see graph 6, page 11) which serves to provide cash to businesses to meet cash flow needs during the crisis, probably explains to a large extent the continued availability of short-term credit facilities under favourable terms despite the adverse circumstances.
- Access to cash flow credit facilities has become less tough for SMEs in the tourism sector in particular, although they still experience more issues than SMEs in other sectors (22% from 26% a year ago), and for SMEs in the construction sector (11% from 16%). This relaxation of short-term financing conditions for tourism businesses could be attributable to the greater use of the state-guaranteed loans made by SMEs in this sector (77% say they have already applied, versus 51% on average for all sectors combined).
- For SMEs experiencing difficulties financing their day-to-day operations, the main reason by far remains an insufficient level of revenue and/or lack of certainty over their outlook, which has risen steeply this year (cited by 56% of SMEs after 43% one year ago).

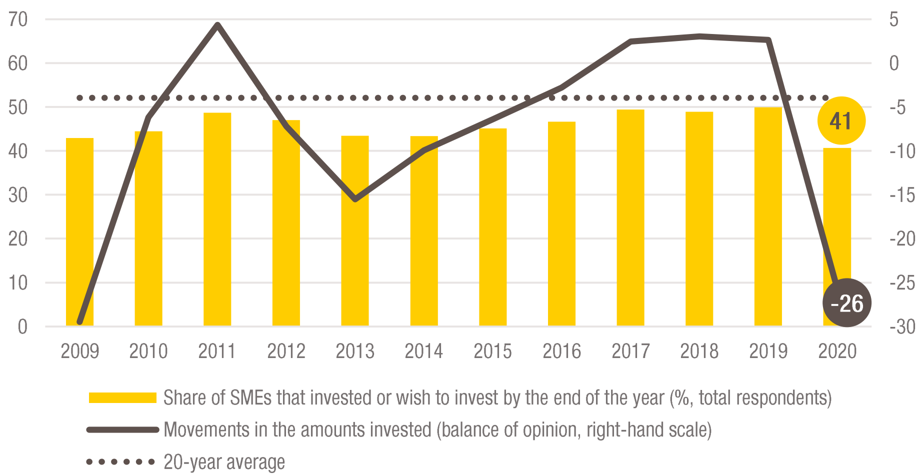
Difficulties in accessing investment credit facilities have remained stable overall for 2 years.

- Only 10% of SMEs experienced difficulty in accessing investment credit facilities, a stable proportion over 6 months and slightly lower than one year ago (11% in May 2019).
- Year-on-year, such difficulties are down in all sectors. Here too, SMEs in the tourism sector encounter far more access issues, although the situation has clearly improved this year (21% from 27% one year ago). Micro-enterprises also report easier access to investment credit facilities (12% experienced difficulties, down from 16% one year ago).
- Firms experiencing difficulties accessing investment credit facilities cite the financial fragility of their business as the main reason, which has risen sharply this year (73% after 63% the previous year).

Definite decrease expected in capital expenditure

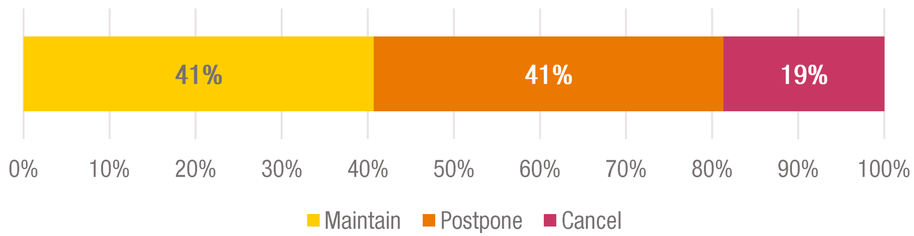
Capex will see a substantial correction this year, suffering from the great uncertainty and financial difficulties. However, SMEs seem to prefer to postpone their plans rather than abandon them completely.

• GRAPH 11: CAPEX TREND IN THE CURRENT YEAR



Scope: Total (N=5,556)
Source: **Bpifrance Le Lab**

• GRAPH 12: INTENTIONS REGARDING CAPITAL EXPENDITURE PLANS
AS A %



Scope: Online panel, SMEs that had made capex plans (N=2,083)
Source: **Bpifrance Le Lab**

41% of SMEs report actual or planned capital investment in 2020, a proportion that is down 9 points compared to the previous year (i.e. for capex in 2019).

The indicator measuring the change in amounts invested has dropped 29 points in one year to -26, just above the all-time low point reached in 2009 (-29).

- Capital expenditure appears to be falling more sharply in the service and tourism sectors (-32 and -35 points respectively), which are the sectors where the decline in turnover is also largest.

In terms of purpose, SMEs report reduced capital expenditure on moveable property in particular and, to a lesser extent, intangibles, these being easier to cut than real estate expenditure. There has thus been a relative increase in expenditure on real estate (43% from 36% one year ago), at the expense of movable property (plant & machinery, vehicles and other equipment at 49% after 54% one year previously) and intangibles (7% from 10%).

The fall in capital expenditure could reflect two different situations, either postponed investment plans, which will be implemented later and help the recovery, **or complete abandonment of such plans,** which would indicate a more serious review of businesses' development plans in response to the impact on revenue.

- Of those SMEs that had made capex plans before the crisis started, 41% expect to still go ahead*. In contrast, 41% of them expect to defer their plans, and 19% to abandon them as a result of the crisis. Of the latter group, cash flow constraints are a factor in the decision to abandon their capital expenditure plans for about half of the SMEs.

Definite decrease expected in capital expenditure this year. It dropped by 10.5% in Q1 of 2020, according to the second GDP estimate published by INSEE. The Banque de France predicts an unprecedented 23% slashing of corporate capital expenditure over the full year under its central scenario (see Macroeconomic projections – June 2020, Banque de France).

*Online panel, see Methodology section

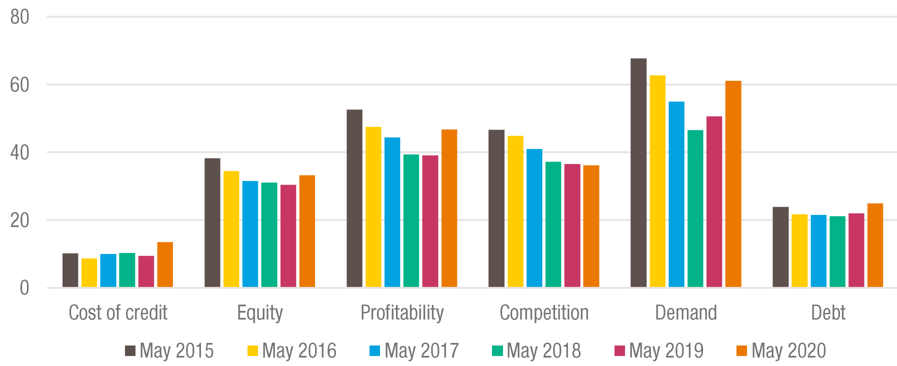
Capital expenditure is suffering from the high level of uncertainty

Businesses' attitude to capital expenditure will be crucial to the recovery. Capex is currently suffering from the highly uncertain economic situation and the poor outlook for demand.

Weak demand is the main obstacle to capital expenditure.

- Weak demand is the main obstacle to capital expenditure, mentioned by 61% of SMEs, up sharply over one year, by 10 points. This also reflects both the current lack of sales outlets and the poor outlook for demand, made worse by the high level of uncertainty.
- The second obstacle mentioned, also showing a steep rise, is reduced profitability (mentioned by 47% of business owners, up 8 points year on year). SMEs' profitability, which had improved in 2019, is reported to have decreased significantly in 2020 (balance of opinion on change in profitability for the current year down by 60 points to -48).
- Balance sheet constraints identified by SMEs remain modest. Of the obstacles identified, excessive liabilities rose only slightly, to a level comparable with May 2015.
- One third of SMEs mention shortage of equity capital as an obstacle to capex, a slightly larger proportion than the previous year (up 3 points) but still below the levels seen in 2015-2016.
- The cost of credit remains a minor obstacle to investment, against a backdrop of still very favourable financing conditions, but is rising (mentioned by 13% of business owners, up 4 points from last year).

• GRAPH 13: OPINION ON OBSTACLES TO INVESTMENT
SIGNIFICANT OR INSURMOUNTABLE, AS A %



Scope: Total (N=5,556)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

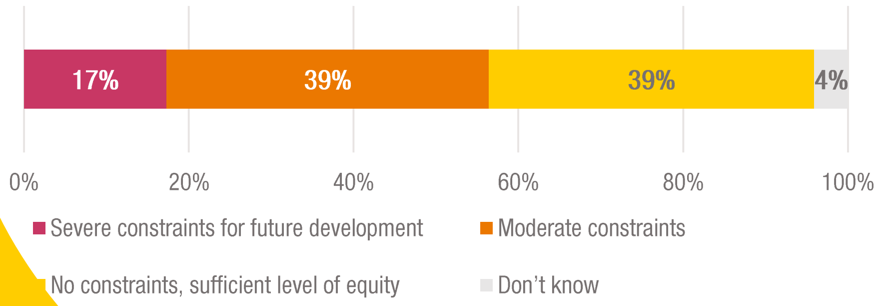
FOCUS

At this stage, accepting outside investment is being considered only by a minority of SMEs.

An analysis of the recurrent issue of obstacles to capital expenditure on page 17 shows that the subject of shareholders' equity is arising more often, but at this stage remains very modest against the backdrop of the current economic crisis. The online panel were asked additional questions intended to ascertain more precisely how SMEs view this issue from a post-crisis perspective.

Graph 14: Constraints imposed on business development by shareholders' equity

As a %



Scope: Online panel (N=2,875)
Source: **Bpifrance Le Lab**

The level of shareholders' equity is a severe restriction in addressing recovery for 17% of SMEs, and a moderate restriction for 39%* (see graph 14). However, equity issues do not seem to have been exacerbated significantly by the public health crisis, since the proportion of SMEs mentioning shareholders' equity as an obstacle to investment (33%) is still far below its 2014 peak (42%).

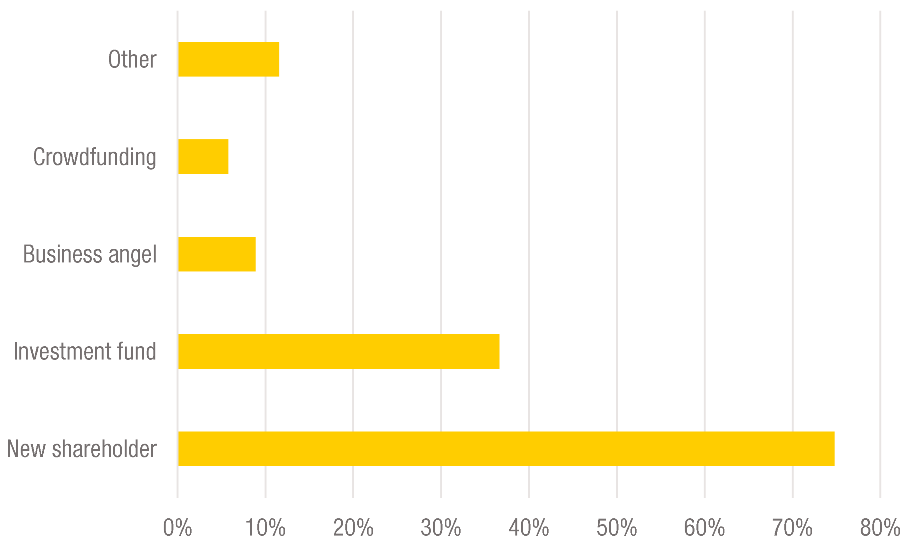
- SMEs in tourism seem to be particularly constrained by their level of shareholders' equity with 38% saying it is a severe restriction, followed by transport businesses at 24%.
- Of micro-enterprises with 1-9 employees, 18% see their equity as a severe constraint, compared with 13% of SMEs with 100-250 employees.

22% of SMEs state they are receptive to outside investment, but the proportion varies depending on the extent that equity constraints are felt to restrict the business' development possibilities. Of businesses reporting severe restrictions imposed by the level of equity, 44% are willing to accept outside investment, whereas only 14% of those believing they have no such restriction are considering it.

The vast majority of businesses considering admitting outside investment would prefer this to take the form of new shareholders (75%, see graph 15). 37% would consider allowing an investment fund to take an equity stake.

Graph 15: Outside investment under consideration

As a %



Scope: Online panel, businesses considering accepting outside investment (N=613)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

03.

OUTLOOK FOR 2021

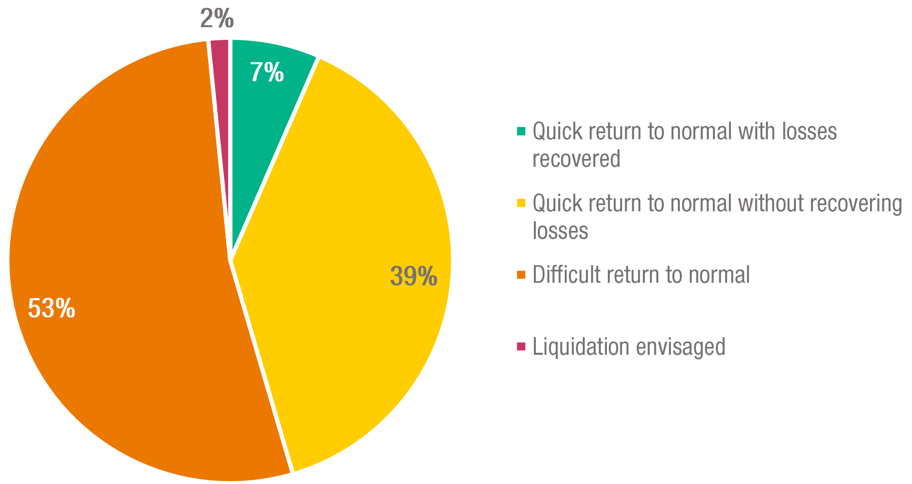
The outlooks for turnover and employment for next year indicate a gradual recovery of activity

Just under half of SMEs anticipate a swift return to a normal level of activity post-lockdown.

At the end of lockdown, half of SMEs are still expecting an arduous return to business as usual, and the other half anticipate a swift return to normality but mainly with little hope of making up the revenue lost during the spring.

- Of those SMEs where turnover was adversely affected by the crisis, 53% of business owners believe that any return to business as usual will be a difficult process once lockdown is lifted*. 2% of business owners are considering winding their business up.
- In contrast, 46% of executives predict a quick return to normal levels of business, but 39% believe that they will not be able to make up the losses sustained during lockdown. Just 7% expect a swift return to normality and losses recovered as well.

• GRAPH 16: TYPE OF RECOVERY EXPECTED POST-LOCKDOWN



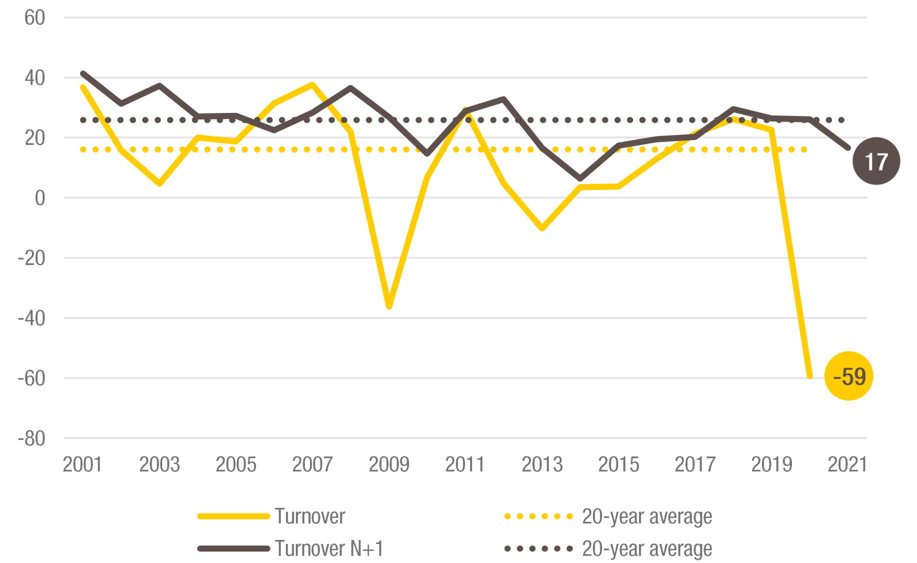
Scope: Online panel, SMEs anticipating an adverse effect from the crisis on their full-year turnover in 2020 (N=2,506)
Source: **Bpifrance Le Lab**

*Online panel, see Methodology section

The indicators regarding the outlooks for turnover and employment for 2021 do not show such a strong correction as the current business indicators, which could signal the start of a return to normality after the hiatus of the spring.

- The revenue predictor is down 9 points to +17, and the headcount predictor has dropped 12 points year on year to +13, indicating the outlook for the coming quarters remains somewhat pessimistic. The prospects for order books are still deemed bleak (balance of opinion down 32 points to -21) especially by exporter SMEs (down 43 points to -24).
- The balances of opinion regarding the revenue predictor, order books and employment are nonetheless higher than those observed in previous downturns (+6, +3 and -35 respectively), while the indicators for current business conditions have plunged to new record lows, thereby signalling that the recovery is already underway.

• GRAPH 17: CHANGE IN TURNOVER FOR THIS YEAR AND THE FOLLOWING YEAR
BALANCE OF OPINION (AS A %)



Note: the balance of opinion on the expected change in turnover for the following year fell 9 points over 1 year to stand at +17 in May 2020 for 2021.
Source: **Bpifrance Le Lab**

SMEs have higher expectations than at April month-end

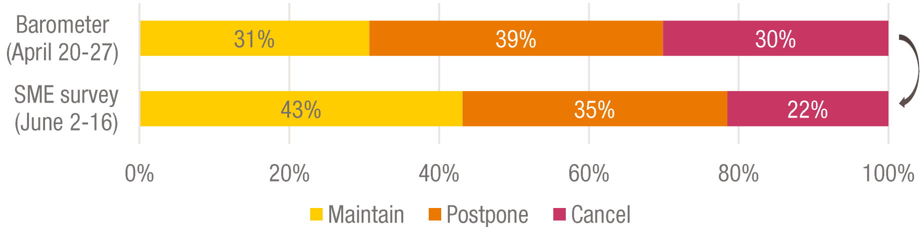
SMEs are more optimistic than in April in terms of their planned recruitment and investment, and their ability to recover post-crisis.

We asked SMEs for their opinion at the end of April as part of the quarterly survey. By comparing the responses (adjusted for size and trade sector) in this quarterly survey with those in the half-yearly survey conducted at the start of June, changes in SMEs expectation can already be seen. On the positive side, SMEs are more confident about the future than in April 2020, a sign that recovery is definitely underway.

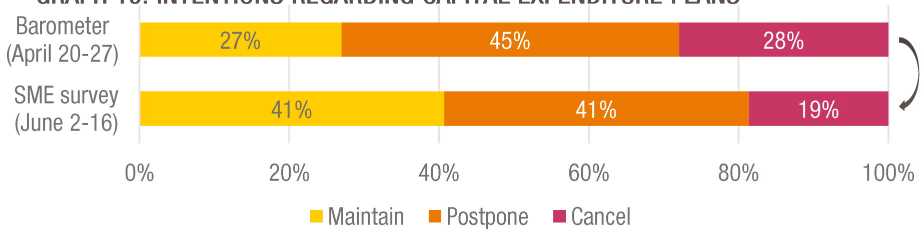
SMEs now intend more recruitment and investment

- Of those SMEs that had made recruitment and/or capex plans before the crisis started, many more now expect to implement those plans than in April*. By the same token, the proportion expecting to abandon such plans is now much smaller.

• GRAPH 18: INTENTIONS REGARDING RECRUITMENT PLANS



• GRAPH 19: INTENTIONS REGARDING CAPITAL EXPENDITURE PLANS



Scope: Online panel, SMEs reporting recruitment/capex plans abandoned (15/16); SMEs anticipating an adverse effect from the crisis on their full-year turnover (18).
Source: May 2020 quarterly survey (adjusted results), 71st half-yearly business climate survey, **Bpifrance Le Lab**

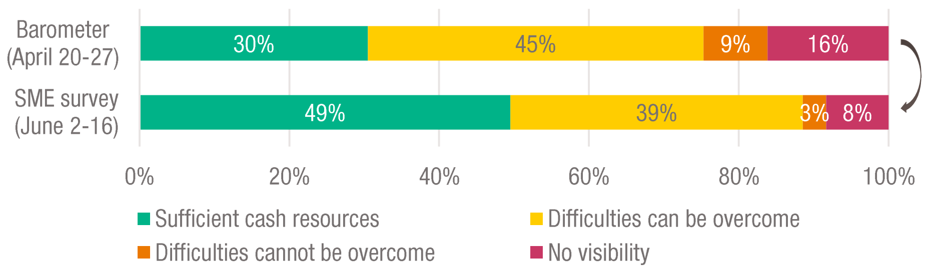
SMEs' financial situations are more conducive to coping with the crisis.

- SMEs feel better equipped to deal with the crisis than they did in April. In June, almost half of SMEs reckon their cash position is sufficient to see them through the crisis, as against 30% at the end of April. The proportion of SMEs believing the difficulties encountered are insurmountable is down from 9% to just 3%.

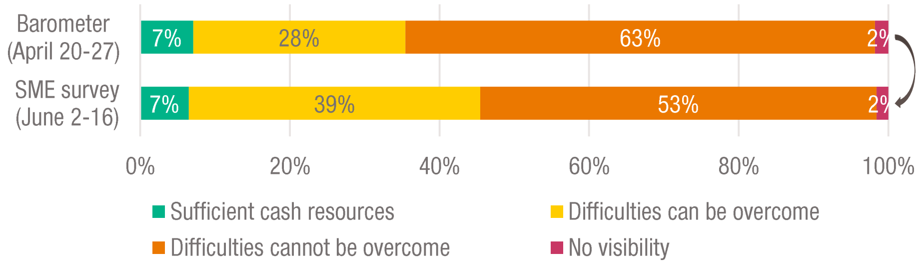
SMEs say they are better placed to bounce back post-lockdown

- SMEs anticipating an arduous return to normal business are still in the majority, but the proportion is distinctly smaller at 53% compared with 63% in April, while those predicting a swift return to normality, albeit without making good their losses, is up to 39% from 28%.

• GRAPH 20: CASH FLOW SITUATION IN VIEW OF THE CRISIS



• GRAPH 21: TYPE OF RECOVERY EXPECTED POST-LOCKDOWN



*Online panel, see Methodology section

Regional economic environment: summary

Every region is experiencing an unprecedented economic crisis, with the average expected fall in turnover between 12% and 18%. SMEs in Ile-de-France, a region particularly badly hit by the epidemic, and Provence-Alpes-Côte d'Azur, a region very popular with tourists, expect an average decline in turnover of 18% and 17% respectively. SMEs in Brittany also foresee significant drops, of 12%, but slightly less severe than in other regions.

Accordingly, SMEs in all regions are planning to reduce headcount. This correction to employment appears to be largest in Ile-de-France and Provence-Alpes-Côte d'Azur, given how turnover has nosedived in both regions.

SMEs' financial health has also deteriorated regardless of the region, and here again, the effects are most keenly felt in Ile-de-France and Provence. Capital expenditure has plummeted, especially in northern France (Hauts-de-France region).

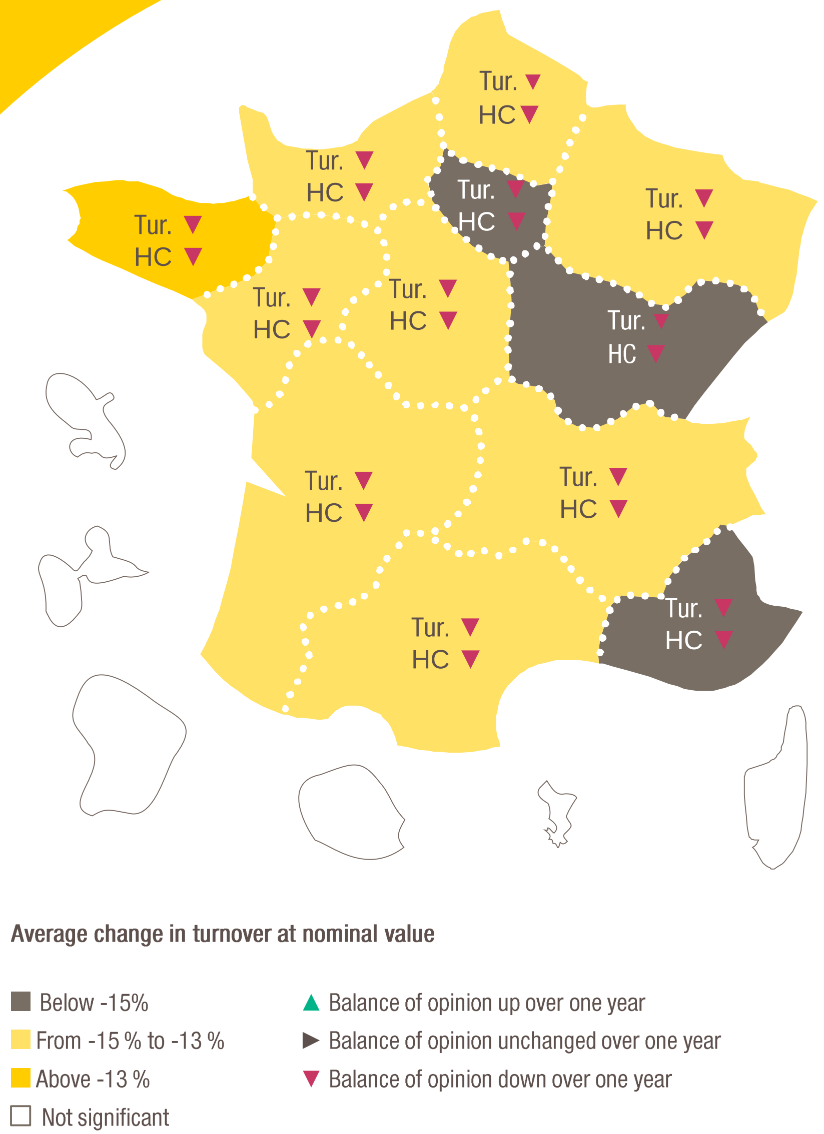
Recovery seems underway in all regions, where the business outlook has admittedly worsened slightly but to a far lesser extent than the current business indicators show. **More than half of SMEs in Centre-Val de Loire and Occitanie predict a swift return to business close to normal levels post-lockdown, although most do not anticipate that the losses accumulated over the spring will be made good. In contrast, recovery will be more difficult for SMEs in eastern France, Normandy and northern France.**

The detailed results by region are available as regional summaries, at www.bpifrance-lelab.fr

* Regional analysis taking series volatility into account

• CHANGES IN TURNOVER AND HEADCOUNT BY REGION

BALANCE OF OPINION (AS A %)



	TURNOVER				HEADCOUNT				INVESTMENT			
	Average 2000 to 2019	May 2019	May 2020	Change/ May 2019	Average 2000 to 2019	May 2019	May 2020	Change/ May 2019	Average 2000 to 2019	May 2019	May 2020	Change/ May 2019
YEAR 2020(1)												
All SMEs	**16**	**23**	**-59**	↘	**8**	**15**	**-13**	↘	**-4**	**3**	**-26**	↘
10-250 employees	23	31	-58	↘	14	21	-14	↘	-1	4	-25	↘
Fewer than 10 employees	6	9	-62	↘	-1	4	-11	↘	-8	0	-26	↘
Retail	15	24	-56	↘	7	12	-9	↘	-6	-3	-24	↘
Construction	10	16	-56	↘	6	11	-5	↘	-9	4	-24	↘
Industry	18	24	-65	↘	7	15	-20	↘	0	3.	-24	↘
Services	21	26	-50	↘	13	19	-5	↘	-3	10	-22	↘
Tourism	7	13	-93	↘	1	7	-53	↘	-10	-14	-49	↘
Transport	11	23	-67	↘	8	15	-14	↘	-5	-2	-35	↘

	TURNOVER				HEADCOUNT			
	Average 2000 to 2019	May 2019	May 2020	Change/ May 2019	Average 2000 to 2019	May 2019	May 2020	Change/ May 2019
YEAR 2021(1)								
All SMEs	**26**	**26**	**17**	↘	**16**	**25**	**13**	↘
10-250 employees	32	32	21	↘	19	29	16	↘
Less than 10 employees	17	17	10	↘	12	18	11	↘
Retail	26	27	17	↘	14	23	10	↘
Construction	6	8	6	↘	8	20	11	↘
Industry	34	31	22	↘	18	26	13	↘
Services	30	35	20	↘	24	32	20	↘
Tourism	16	9	9	→	3.	4	4	→
Transport	15	17	12	↘	10	14	14	→

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

04.

METHODOLOGY

Definitions

Indicators or differences between opinions are conventionally used in business surveys to track the changes over time in the evaluation of the main socio-economic parameters (business activity, employment, exports and capital expenditure) and financial parameters (cash flow, access to credit, etc.).

They equate to the differences between percentages of opposite opinions:

- **Indicator of trend** = [(x% “up”) - (y% “down”)] x 100
- **Indicator of level** = [(x% “good/comfortable”) - (y% “poor/difficult”)] x 100

The percentages of neutral opinions (“same” and “normal”), which take the balances up to 100%, are not included when 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 businesses and excluding aesthetic changes or changes to the packaging of products already in existence), or 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

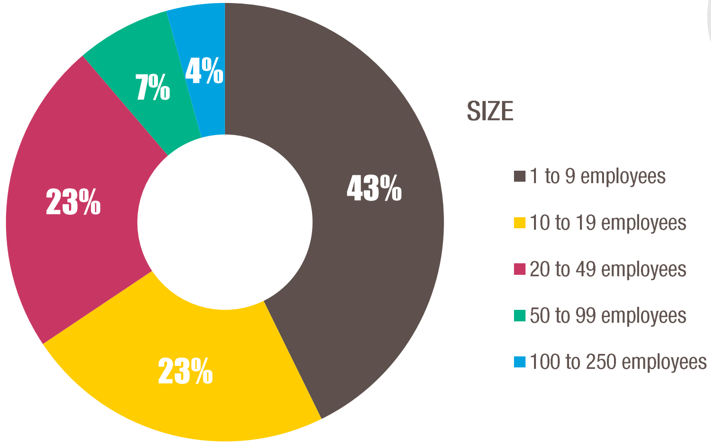
For this 71st half-yearly business climate survey, 37,922 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed between mid-May and mid-June.

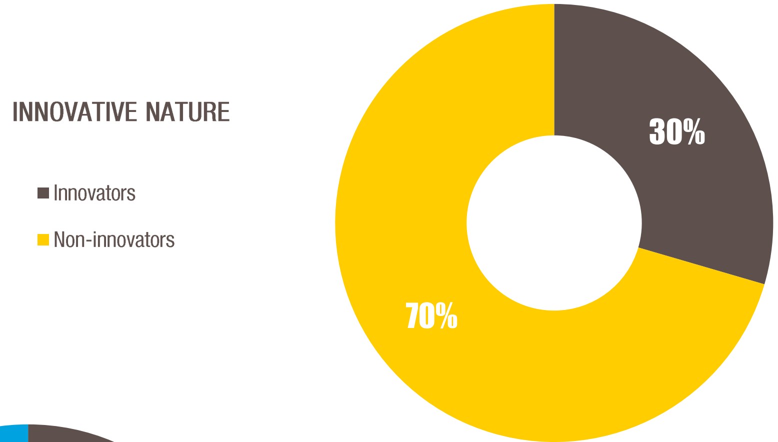
The 5,556 responses received before 16 June, considered complete and reliable, have been compiled nationally and broken down for all regions except for Corsica and France's overseas territories, for which the number of responses is insufficient.

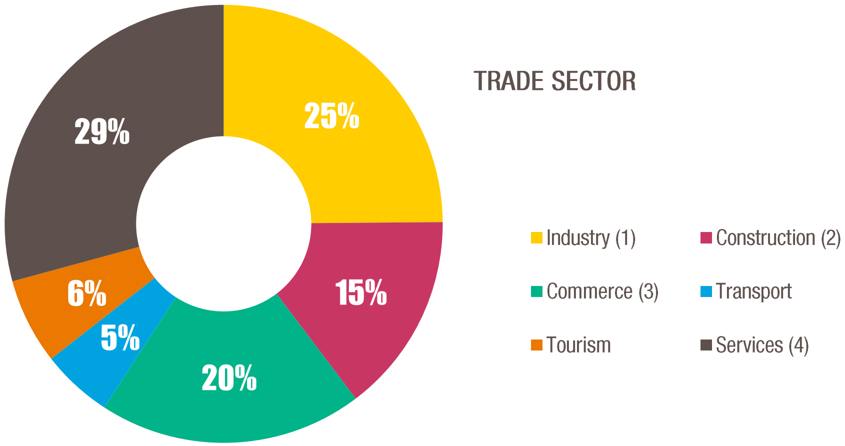
Extra questions on the impact of the current crisis caused by Covid-19 were added to the online panel. 2,875 answers to these questions were analysed.
Answers to these questions were adjusted for two factors, in such a way as to reflect the demographics of French SMEs:

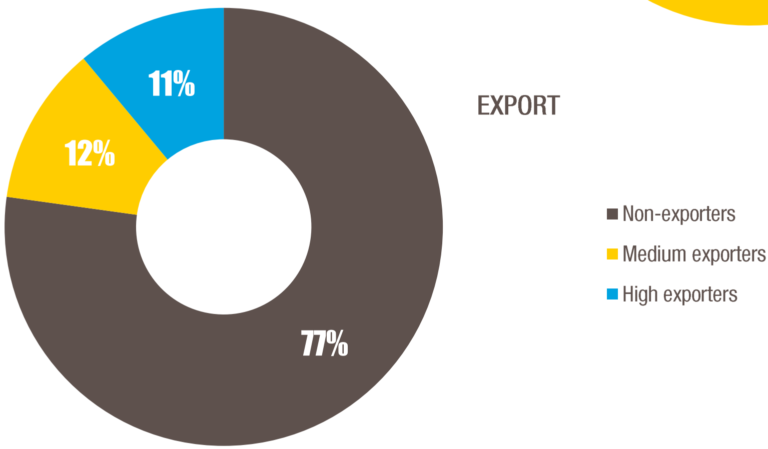
- Number of employees, to correct the under-representation of micro-enterprises among respondents;
- Trade sector, to correct the over-representation of industry and the under-representation of tourism.

The adjustment was made on the basis of the number of businesses in the different categories.









(1) 3% food, 12% intermediate goods, 7% capital goods, 3% consumer goods
(2) 13% building, 2% public works
(3) 2% automobile dealing and repair, 11% wholesale, 7% retail
(4) 24% business-to-business services, 5% business-to-consumer services

Survey managers: Emmanuelle Masson, Laetitia Morin
Evaluation, Research and Forecasting Department Macroeconomic
Division – Economic Environment

To contact Bpifrance in your region

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bpifrance.fr

27-31, avenue du Général Leclerc
94710 Maisons-Alfort Cedex
Tel.: +33 1 41 79 80 00

bpifrance-lelab.fr

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JULY 2020