76TH HALF-YEARLY SMEs' BUSINESS CLIMATE SURVEY

SMEs FULL OF DOUBT REGARDING 2023

January 2023

Business prospects for 2023 looking dim

After a marked upturn in 2021, due to the lifting of the health restrictions, business slowed down in 2022, though it remained brisk: at +27, the balance of opinion regarding SMEs' business this year fell 8 points over the year but remains well above its long-term average (+14). Business was better for exporting and innovative companies. In a context of slightly easing supply difficulties, SME managing directors have to some extent revised their growth forecasts for 2022 upwards compared with mid-year expectations: they expect an average growth of +5.7% in their 2022 turnover (+4.9% forecast in May). With regard to employment, while recruitment difficulties remain significant this year (near pre-crisis levels), recruitment has continued apace, though falling off slightly in the second half-year. A considerable majority of managing directors (72%) increased their employees' salaries.

Business in the Tourism sector continues to be particularly dynamic (balance of opinion at +57, +40 points over one year), and to a lesser extent in Transport (indicator at +44, +12 points over 1 year). In the other sectors, however, business has slowed down, most markedly in Commerce and Construction. Industry has held up better: at +36, the indicator fell 10 points over one year but is still well above its long-term average (+16).

Supply difficulties are showing signs of stabilizing, even easing slightly. The proportion of SMEs facing such difficulties is 72% (74% last May), with 60% declaring that they are limiting their business (62% in May). 13% of companies declare that these difficulties have subsided recently (4% 6 months ago). The rise in energy costs is of more particular concern, even though the impact on SMEs' profits remains limited for now: 55% of managing directors consider that the rise in energy costs is having a significant negative impact on their companies' profits but only 5% fear that it could have turned their profits into losses in 2022 (about 10% in Industry and Tourism).

The great majority of managing directors have reflected the increased costs in their sales prices in 2022 (72% of them increasing their prices). In the face of the rising costs, companies also appear to have been compelled to delve into their state-guaranteed loans: 57% of them have used up a large share of the loan (47% a year ago).

Under these circumstances, SMEs' cash-flow situations are deteriorating. The indicator fell 11 points over the year to -9 but remains above its long-term average, after having reached its highest historical level of +2 a year ago. SMEs' financial situations are expected to deteriorate over the next six months: the provisional cash-flow situation indicator has dropped 3 points to stand at -15, well below its long-term average (-4).

SMEs still benefit from favourable financing but the conditions are beginning to get tougher: 12% of SMEs declare that they have encountered difficulties in financing their cash flow and 11% in financing their investments (+2 points in six months). They mention more obstacles to investment this half-year. In particular, the cost of credit is cited much more often (34% versus 10% a year ago), in a context of marked tightening of monetary policy in reaction to strong inflation.

In this context, the proportion of SMEs having invested or envisaging doing so in 2022 has been stable over the year (47%), but is below the level seen prior to the crisis (51% end 2019). The amounts invested are down this year. The balance of opinion fell 8 points to -1, just above its long-term average (-2). While the proportion of industrial SMEs investing in 2022 has remained high (59% versus 58% end 2019), the amounts invested have fallen significantly. (The indicator fell 16 points, finishing just above its long-term average.)

SMEs look increasingly pessimistic for 2023. The business forecast indicator fell by 25 points over one year to +6, 11 points below its long-term average. Considerable uncertainty concerning the economic environment, supply difficulties that are expected to remain significant and the anticipated rise in energy costs probably explain this downturn. In this context of production constraints expected to remain significant, 55% of companies intend to increase their selling prices in 2023, 47% by at least as much as in 2022. Inflation will thus remain high.

Industrial companies appear to be more vulnerable to the rise in energy costs. A higher proportion of them (35% versus 20% all sectors combined) have fixed-price electricity supply contracts due for renewal before the end of 2023 or contracts that are indexed to the market price. In addition, their energy bills weigh more heavily than average in their turnover: more than 3% for 39% of industrial companies versus 30% for all sectors combined. SMEs in Tourism (65% having energy costs amounting to more than 3% of turnover) and Transport (51%) are also vulnerable.

In this not very favourable and above all uncertain context, recruitment levels are expected to be lower in 2023 even if they stand up better than business. Where salaries are concerned, 42% of SMEs expect increases, 14% anticipating higher increases than in 2022.

Investment is also likely to decrease in 2023: the indicator concerning the expected evolution in investment expenditure has dropped 7 points over one year to +11, below its long-term average (+14).

This study is based on the replies from 4,590 SMEs (1 to 249 employees), received between 2nd and 28th November 2022.

SALIENT POINTS

1

In 2022, business and recruitments slowed down though remaining quite dynamic, in a context of severe production constraints.

SMEs are expecting an average growth in turnover of +5.7% for 2022 after having estimated +7% last year. The balance of opinion has fallen 8 points over one year to stand at +27, a level well above its long-term average (+14). Supply difficulties are holding back the upturn, even if they have eased slightly this half-year. While recruitment is tending to stagnate, the indicator remains well above its long-term average.

2

After a highly favourable situation last year, SMEs' cash-flow situation has deteriorated this half-year, a tendency that looks set to continue over the next six months

While it has deteriorated over the course of the previous six months, the cash-flow situation for SMEs remains at a fairly comfortable level. The balance of opinion has dropped 4 points since May, but is still above its long-term average (-9 versus -15). However, it looks set to see further deterioration in the first six months of 2023, with the provisional indicator falling 3 points to -15 in a context of rises in energy costs, affecting profits, and in production costs generally.

3

To cope with rising costs, an increasing number of SMEs are drawing on their state-guaranteed loans

Of SMEs having taken out a state-guaranteed loan, 57% declare that they have used most of it (with 38% having consumed virtually all of it), a proportion that has risen 3 points over six months and 10 points over one year.

4

In 2022, investment has stagnated in a context of rising financing costs

47% of SMEs declare having invested in 2022, a proportion that has remained stable compared with 2021 but is lower than before the crisis (51% end 2019). The indicator regarding the evolution in the amounts invested has fallen 8 points over one year to -1, with the cost of credit becoming a serious obstacle to investment for 34% of SMEs. Nevertheless, the proportion of managing directors facing credit access difficulties is still low (12%).

5

For 2023, business prospects look bleak in a very uncertain context

The balance of opinion on the expected development of business has fallen 25 points to +6, below its long-term average (+17). Uncertainties continue to reign, particularly with regard to developments in supply difficulties and rising energy costs. Investment expenditure has come to a halt (balance of opinion down by 7 points, approaching 2012-2013 levels).

6

Escalating energy costs in 2023, expected by the majority of SMEs, could slow down their business still further or even threaten projects completely

In particular, in the short term, more than a third of industrial SMEs are exposed to risks associated with the sharp hike in electricity prices (having fixed-price contracts that are renewable by the end of 2023 or contracts indexed to the market price).

Key Figures

+27

BALANCE OF OPINION ON EVOLUTION IN TURNOVER IN 2022

UP 3 POINTS OVER SIX MONTHS BUT DOWN 8 POINTS OVER A YEAR

34 %

PROPORTION OF SMES CITING THE COST OF CREDIT AS AN OBSTACLE TO INVESTMENT

UP BY 24 POINTS OVER ONE YEAR

57%

PROPORTION OF SMES DECLARING THAT THEY HAVE SPENT MORE THAN HALF OF THEIR STATE-GUARANTEED LOANS

UP BY 10 POINTS OVER ONE YEAR

72%

SHARE OF SMES ENCOUNTERING SUPPLY DIFFICULTIES

2 POINTS LOWER THAN IN MAY 2022

+6

BALANCE OF OPINION ON BUSINESS PROSPECTS FOR 2023

DOWN BY 25 POINT OVER ONE YEAR

35%

PROPORTION OF INDUSTRIAL SMES THAT WILL BY THE END OF 2023 BE EXPOSED TO RISKS ASSOCIATED WITH THE SHARP RISES IN THE COST OF ELECTRICITY 20% OF ALL SMES

CONTENTS

01.

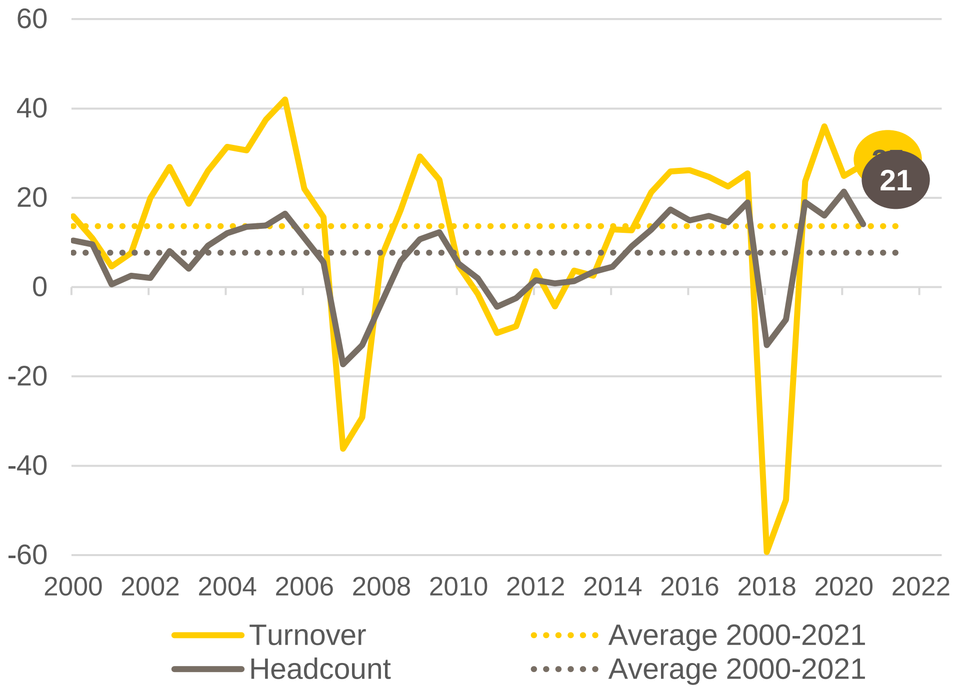
REVENUE AND EMPLOYMENT

Slow-down in turnover and recruitment in 2022

Business is expected to have slowed down in 2022 but should still prove dynamic over the year as a whole. Recruitment levels have also slowed slightly but remain solid at this stage.

- **GRAPH 1: CHANGES IN TURNOVER AND HEADCOUNT FOR THE CURRENT YEAR**

BALANCE OF OPINION IN %



Note to the reader: The balance of opposing opinions on the evolution of business for this year passed from +25 to +27 between the surveys of May 2022 and November 2022.
Scope:Total (N = 4590)

Source: **Bpifrance Le Lab**

Company managing directors are expecting a reduction in their 2022 turnover compared with 2021, though they appear slightly more optimistic than in last May.

- The balance of opinion regarding the evolution of turnover at the end of 2022 has risen over six months (+3 points) but has fallen over a year (-8 points) to stand at +27, a level that is well above the long-term average (+14). 46% of managing directors anticipate an increase in their activity in 2022 (-6 points over one year) and 19% a decline.
- Compared with expectations in May, SME managing directors have slightly increased their business growth forecasts for 2022, in a context of slightly easing supply difficulties. 60% of managing directors consider that these problems have had an effect on their companies' business (62% in May) and 13% feel that they have diminished recently (4% in May). On average, they now estimate turnover up by +5.7% for the year 2022 (versus +4.9% in May). Lower than in 2021 (+7.0% last November for 2021), the growth in turnover should nevertheless be higher than the observed long-term average (+2.3% over the period 2000-2019). This assessment needs to be qualified, probably reflecting not just an estimation of sales volume, but also the increase in sales prices in reaction to the marked rise in production costs (*cf.* focus p. 10).
- As anticipated by company managing directors last May, order books looked less healthy in the second half-year: at +6, the indicator has lost 5 points in six months and 4 points over a year but remains well above its long-term average (-7).
- As usual, exporting companies are more optimistic than their non-exporting counterparts. Their balance of opinion is +42 (down by 1 point over 1 year) compared with +23 (down by 11 points over 1 year) for companies oriented towards the home market. In both cases, the indicators stand above their long-term averages.
- In the same manner, while down over a year (-5 points), the balance of opinion is higher for innovating companies (+40) than for non-innovating ones (+22, -10 points).

A slight slow-down in recruitments in 2022, though they remain dynamic.

- The forecast indicator for SME headcount evolution stands at +14 (-2 points over one year) but remains well above its long-term average (+8).

Following growth of +6.8% in 2021, the forecasting institutes anticipate a slow-down in activity this year. Indeed, the OECD, the Banque de France and the INSEE predict business growth of 2.6% for 2022 in their autumn forecasts.

Business
Disparities between sectors

Business picked up in the Tourism and Transport sectors in 2022. Other sectors, particularly Construction and Commerce, saw a slow-down.

Contrasting developments in business for 2022 depending on the sectors

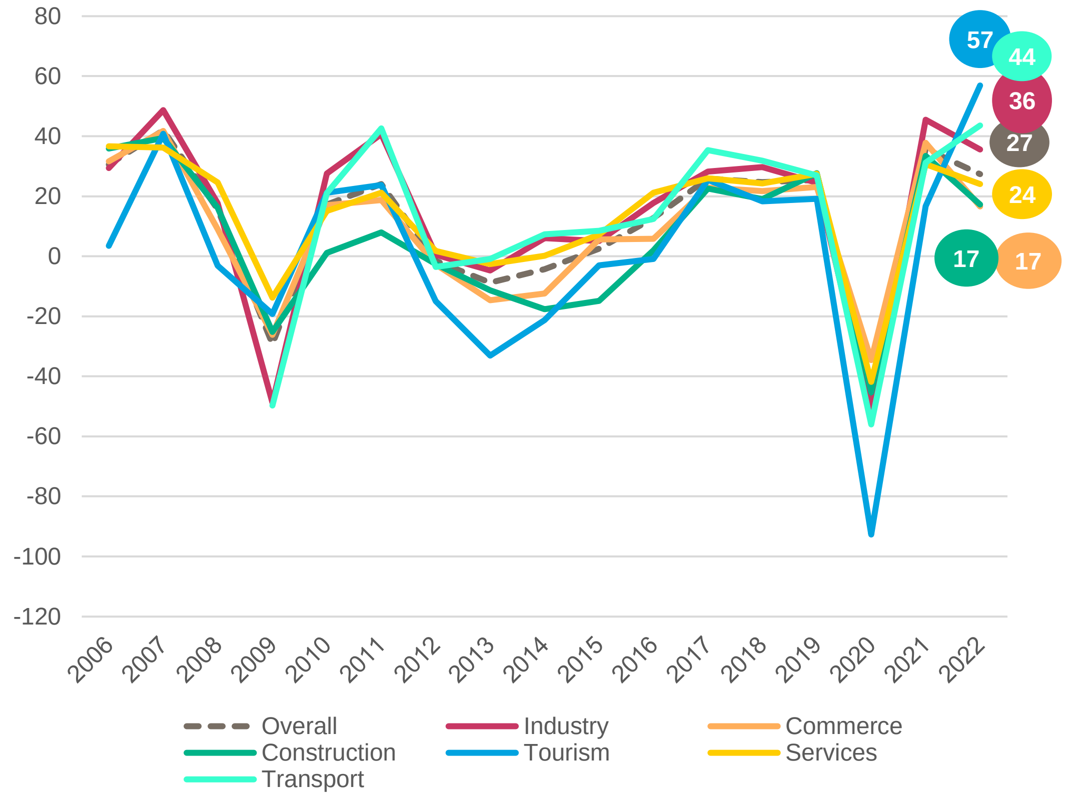
- SMEs in the Tourism sector continued to recover in 2022. 69% of them predict a rise in their turnover this year (46% all sectors combined). The balance of opinion stands at +57 (+40 points over one year but -4 points over the half-year), well above its long-term average (+2).
- Business was also brisk in the Transport sector. The balance of opinion reached +44 (+12 points over 1 year), well above its long-term average (+5).
- On the other hand, business declined in the other sectors, most sharply in Commerce and Construction, still penalized by supply difficulties and the rising prices that are affecting households' purchasing power and consequently their consumption and investment. The balance of opinion regarding business stands at +17 for both sectors (-21 and -16 points respectively over a year and +8 and +9 over the half-year), still above their long-term averages (+8 for Construction and +13 for Commerce). The slow-down has been less marked in Industry: at +36, the indicator has fallen 10 points over one year (+1 point over the half-year) but remains well above its long-term average (+16).

Cf. sectorial focus

- By region, Centre-Val de Loire SMEs are the most optimistic regarding the evolution of their turnover in 2022 (+8.1%) with a balance of opinion of +35 (+1 point over one year). For 2022, growth in turnover should also prove steady and higher than in 2021 in the PACA region and, to a lesser extent, in the Grand-Est (+6.8% and +6.0% respectively). On the other hand, business looks less buoyant in Nouvelle-Aquitaine (+4.4%) and Normandy (+4.6%).

Cf. regional focus

GRAPH 2: BALANCE OF OPINION ON REVENUE BY BUSINESS SECTOR
BALANCE OF OPINION IN %



Scope: Total (N = 4590)

Source: Bpifrance Le Lab

Employment
Slow-down in recruitment

Recruitments have continued in 2022 but are showing signs of stagnating, except in Tourism.

A slow-down in employment can be seen across all sectors in 2022, except in Tourism, which has seen a recovery over the year

- As is to be expected given the lively resumption of business, the balance of opinion regarding employment continues to rise sharply in Tourism (+3 points over six months and +25 points over one year to +19), and is well above its long-term average, at -1.
- In spite of a downturn over the half-year (-11), the indicator regarding employment in Industry, at +18, remains well above its long-term average (+6). And it has remained stable over one year.
- On the other hand, the indicators regarding employment have fallen in all the other sectors over one year, though they are still above their long-term averages. In the Services sector, the balance of opinion fell 11 points over the half-year and 6 points over the year to +15. Recruitments also appear to be less dynamic in Construction and Transport, where the indicator has reached +9 (-5 and -2 respectively over one year).

Cf. sectorial focus

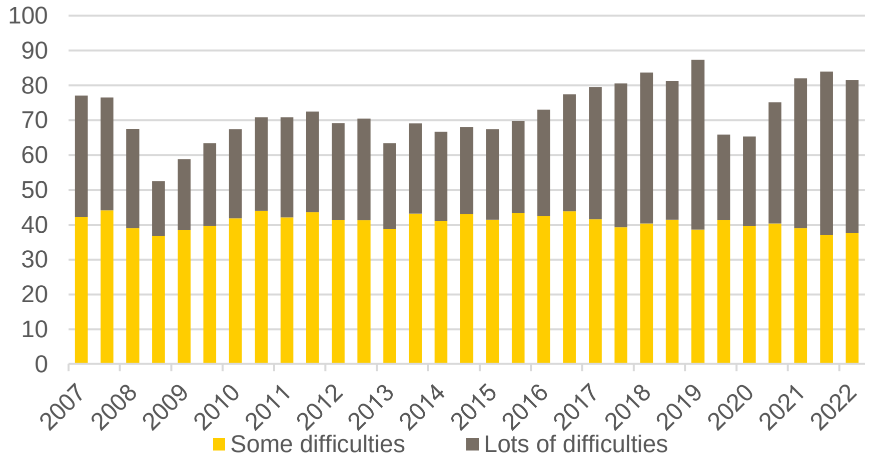
Job creations appear to be more vigorous in SMEs of at least 10 employees and those that are internationally oriented.

- The managing directors of SMEs of 1 to 9 employees are less optimistic than six months ago with regard to the evolution of their headcounts in 2022. The balance of opinion regarding employment stands at +3 (-6 points) but remains above its long-term historical average (-1). Employment appears to have slowed down in 2022 in SMEs with at least 10 employees (balance of opinion at +20, -8 points over six months and -3 points over one year).
- As usual, recruitment should be more dynamic among innovating companies (-1 point over one year to +27) than among non-innovating ones (-2 points to +9). Recruitment appears to be on the rise in exporting SMEs (+3 points over the year to +23), in contrast with those centred on the domestic market (-3 points over one year to +11).

Recruitment difficulties have stabilized at a level close to that observed before the health crisis

- Recruitment difficulties have stabilized over the last year: 82% of managing directors having sought to recruit declare that they have encountered difficulties in doing so and 44% indicate having had major difficulties (43% a year ago). These figures are close to the levels observed before the public health crisis (on average 83% and 43% respectively over the 2018-2019 period).
- These difficulties particularly affect the Construction sector (for 88% of managing directors, including 54% encountering severe difficulties) and Industry (for 86% and 47% of managing directors respectively).
- In this environment of recruitment tensions and high inflation, 72% of SME managing directors declare that they have increased their employees' salaries in 2022; a third of them having offered them a rise of more than 5% (*cf.* focus p. 10).

• **GRAPH 3: PROPORTION OF SMES HAVING ENCOUNTERED RECRUITMENT DIFFICULTIES (IN %)**



Note to the reader: The data of November 2019 should be interpreted with caution following a slight modification in the question put to the companies.
Scope: Total (N = 4590)
Source: Bpifrance Le Lab

According to the DARES, 373,100 jobs are vacant in companies of 10 or more employees in the third quarter of 2022, an increase of +77% compared with the level prior to the public health crisis.
In all sectors there has been a sharp increase in the number of job vacancies compared with the end of 2019.

FOCUS

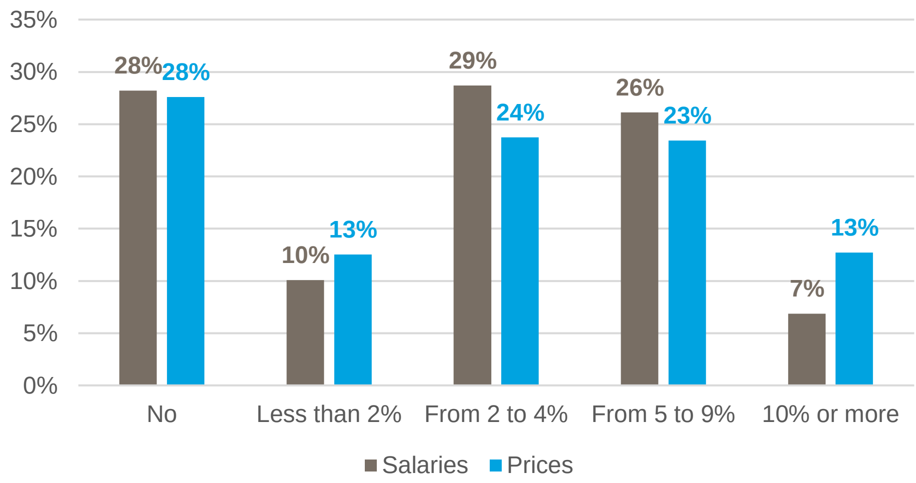
Nearly three quarters of SMEs increased their salaries / sales prices in 2022

72% of SMEs declare that they have increased their employees' salaries in 2022.

- One company in three has increased salaries by more than 5% (with 7% of SMEs implementing a rise of 10% or more).
- Transport and Industry companies are the most numerous in having offered salary increases (78% and 76% of them, respectively). Tourism companies are the most numerous in having offered increases of more than 10% (15% of them).
- 77% of managing directors facing serious recruitment difficulties increased their salaries in 2022, versus 59% of those encountering no difficulty.

Graph 4: SMEs' salary and price increases in 2022

In %

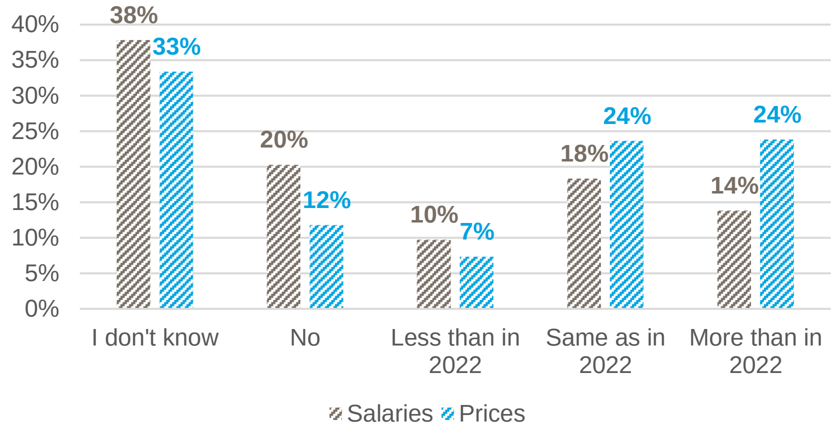


Scope: Total (N = 4575)

Source: Bpifrance Le Lab

Graph 5: Increases in salaries and sales prices anticipated by SMEs for 2023

(In %)



Scope: Total (N = 4575)

Source: Bpifrance Le Lab

For 2023, 42% of SMEs intend increasing their employees' salaries, 32% by at least as much as in 2022.

- The increase in salaries concerns Industry-sector companies most of all: half of them envisaging rises. At the other end of the spectrum, Tourism-sector companies are the least concerned (a third of them) by the phenomenon.
- Companies facing serious recruitment difficulties are more numerous in intending to increase their employees' salaries in 2023 than the others (46% versus 31%).

72% of SMEs declare that they have increased their sales prices in 2022.

- More than a third increased their prices by more than 5% (with 13% of SMEs implementing a rise of 10% or more).
- Companies in Industry are the most numerous to have implemented price increases (87%). 21% of them have imposed rises of 10% or more. Conversely, Services companies were the least numerous (54% of them) in increasing their sales prices.
- 82% of managing directors facing supply difficulties increased their prices in 2022, versus 48% not doing so in the face of these tensions.

In 2023, more than half of SMEs (55%) intend introducing price rises, 47% of them by at least as much as in 2022.

- The price rises again concern a higher proportion of companies in Industry: 66% of managing directors envisage increases, and 54% by at least as much as in 2022.
- Companies facing supply difficulties are the most numerous to envisage increasing their sales prices (60% versus 41%).

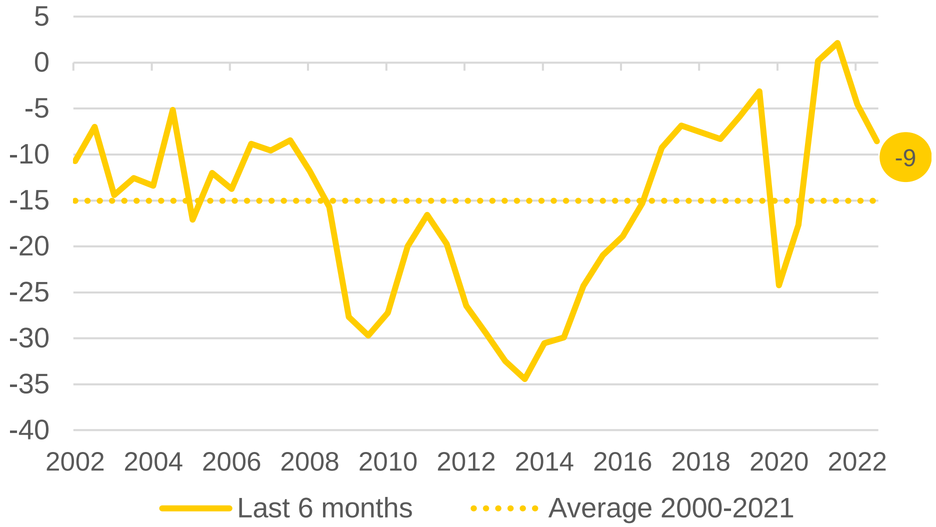
02.

FINANCIAL SITUATION, ACCESS TO CREDIT AND CAPITAL EXPENDITURE

A deterioration in cash flow in 2022, after a highly favourable situation in 2021

SMEs' cash-flow situations are deteriorating but are still relatively comfortable.

- **GRAPH 6: AVERAGE ASSESSMENT OF PAST CASH-FLOW SITUATIONS** (BALANCE OF OPINION IN %)

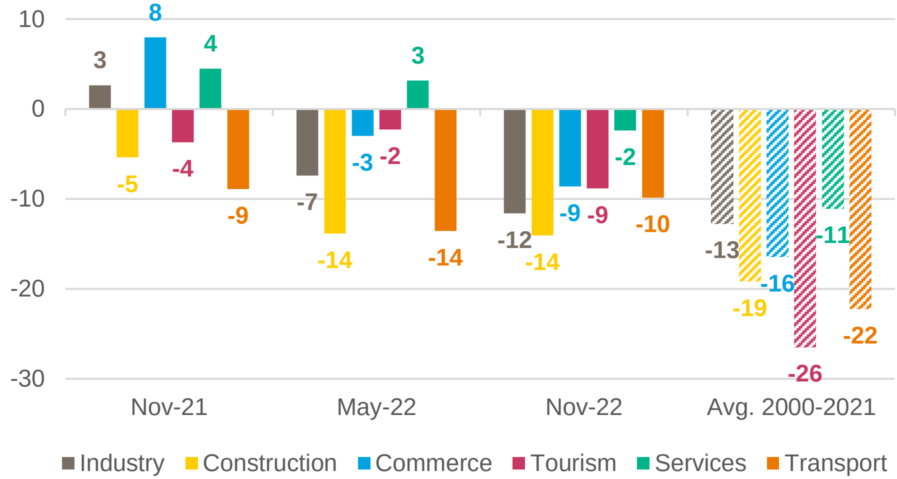


Note to the reader: In November 2022, the share of SMEs declaring a difficult cash-flow position over the previous 6 months was higher than that declaring a comfortable cash-flow situation by 9 points.
Scope: Total (N = 4590); Source: Bpifrance Le Lab

In a context of rising production costs, SMEs cash-flow situations have continued to deteriorate over the second half-year, though they started from a highly favourable level

- At -9, the balance of opinion regarding the cash-flow situation over the course of the previous six months has lost 4 points over the half-year and 11 points over a year but remains above its long-term average (-15). Fewer SMEs now consider their cash-flow situations comfortable (16%) than find it difficult (24%).
- However, this deterioration in cash flow comes after a particularly comfortable situation in 2021, thanks to the support measures put in place during the public health crisis, including the state-guaranteed loan (*cf.* focus p. 13).

- **GRAPH 7: ASSESSMENT OF THE CASH-FLOW SITUATION BY BUSINESS SECTOR** (BALANCE OF OPINION IN %)



Scope: Total (N = 4590); Source: Bpifrance Le Lab

- This half-year, the deteriorating cash-flow situation has concerned all sectors except Construction and Transport. The indicators fell by 7 points in Tourism, 6 in Commerce and Services, and 4 in Industry. It has remained stable in Construction and risen in Transport (+4). In all sectors, the balance of opinion remains above the long-term average.

The profitability of SMEs appears to have been stable in 2022.

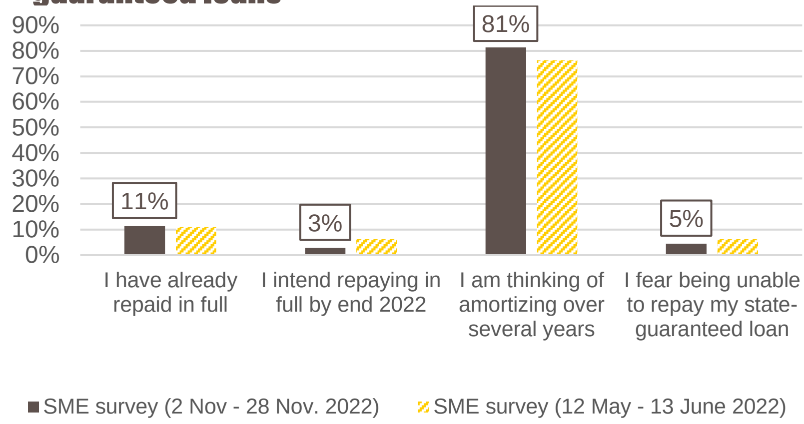
- 76% of SMEs consider that their profitability has been "good" or "normal" in 2022, a proportion slightly lower than that observed for 2021 (78% according to the May 2022 survey). However, this proportion is still below that seen before the crisis (83% in 2019 according to the May 2020 survey) but almost identical to the long-term average (75%).
- In 2022, profitability decreased in all sectors except Services (indicator at +4, down by 8 points over the half-year). The balances of opinion are falling in all sectors except Tourism (+11 points to -2) and Transport (stable at -5).

FOCUS

At the end of 2022, 57% of companies having taken out a state-guaranteed loan have used up most of it

State-guaranteed loans were strongly solicited by SMEs to face the business shock associated with the covid-19 epidemic. Half of the companies that responded to this survey declare that they have obtained a state-guaranteed loan.

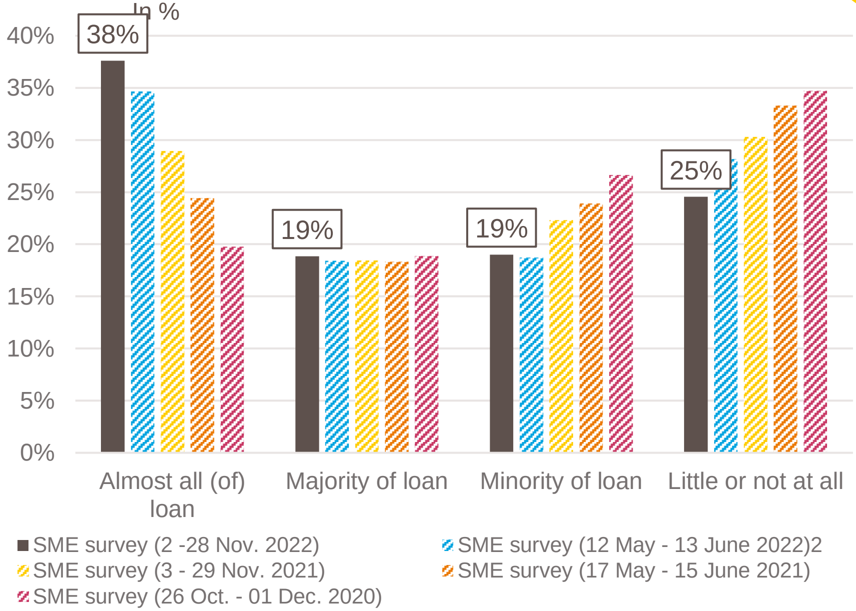
Graph 9: Time required for reimbursement of the state-guaranteed loans



Scope: Companies having requested and obtained a state-guaranteed loan (N = 2311)
Source: Bpifrance Le Lab

Graph 8: Amounts of the state-guaranteed loans used

In %



Scope: Companies having requested and obtained a state-guaranteed loan (N = 2311)
Source: Bpifrance Le Lab

To date, 57% of SME managing directors having obtained a state-guaranteed loan declare that they have consumed the majority (19%) or virtually all (38%) of it, a proportion that has risen since May 2022 (53%) and November 2021 (47%). On the other hand, logically, the share of SMEs having kept the loan largely in reserve has declined to stand at 44% (cf. 47% in May 2022).

- **Managing directors in the Construction and Tourism sectors are those having most consumed their state-guaranteed loans.** 61% and 59% of them respectively declare having used the majority or virtually all of their loan, compared with 57% in Transport, 55% in Services and 54% in the Commerce and Industry sectors.
- **SMEs** of less than 10 employees **are more numerous in affirming having used the majority or even almost all of their loan than larger SMEs** (57% versus 54%).

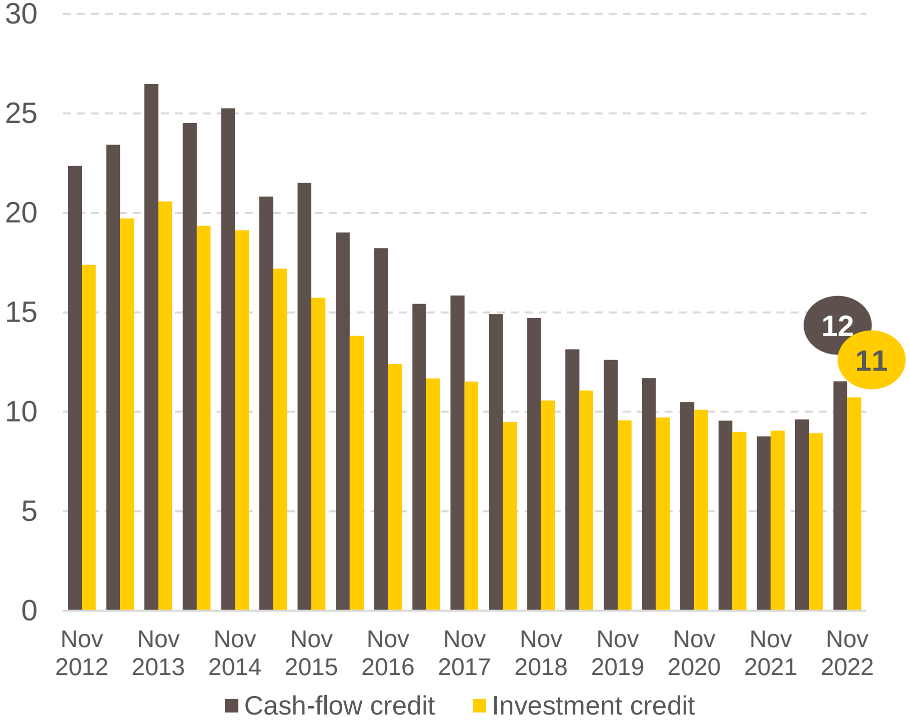
The risk of non-repayment of the state-guaranteed loans still seems relatively limited at this stage.

- **About four SMEs in five having solicited this state scheme expect to repay the whole loan over several years**, a proportion that has risen over the half-year (76% 6 months ago). 14% should have repaid their loan by the end of the year: 11% have already fully repaid it and 3% envisage doing so by the end of the year.
- **5% of respondents fear being unable to repay their loans**, a proportion close to that observed last May and to that generally observed since the question has been asked (between 4% and 6% since the end of 2020).
- It is among Tourism-sector SMEs that the proportion of companies harbouring this fear is greatest (10%), and the proportion is lowest in Transport and Services (3%).

Terms for access to credit are getting tighter but remain fairly comfortable

Terms for access to credit have returned to their pre-health-crisis levels but remain relaxed. Terms have become much tougher in the Tourism sector, whether for financing cash flow or investment.

• **GRAPH 10: DIFFICULTIES ACCESSING CREDIT**
FAIRLY OR VERY DIFFICULT. IN %



Scope: Total (N = 4590)
Source: Bpifrance Le Lab

Access to cash-flow credit has been tightened to some extent, returning to its pre-crisis level.

- In a context of increasing interest rates, and with the "classic" state-guaranteed loan associated with the health crisis having come to an end on 30 June 2022, 12% of SMEs declare that they have encountered difficulties gaining access to cash-flow credit, a proportion that has increased over the half-year (+2 points), approaching its pre-crisis-level (13% in November 2019). Nevertheless, conditions are still considered generally favourable, the proportion of SMEs having difficulties remaining below the long-term average (18%). Note that, since April, companies affected by the war in Ukraine have been able to request the new "resilience" state-guaranteed loan, for which the requesting deadline has been extended to 31 December 2022.
- In the second half-year of 2022, access to cash-flow credit was tightened across all business sectors. The proportion of SMEs having difficulty financing their day-to-day operations increased most markedly in Tourism (+8 points over the half-year to 21%). The proportion has gone up by 2 points in Services and Transport (both at 12%) and by 1 point in Industry, Construction and Commerce (to 12%, 11% and 8% respectively).
- For SMEs encountering difficulties in financing their day-to-day operations, an insufficient level of activity and/or prospects that are too uncertain remain the principal explanation, cited by 53% of them (a proportion that has, however, been virtually stable, -1 point over one year). This proportion attains 66% in the Tourism sector but has fallen over the year (-5 points). The second-most-cited reason is the need to provide guarantees considered by more than one SME in three to be too consequent. This point of view is especially prevalent among SMEs in Construction and Services (39%). The risk associated with the business sector seems to be an obstacle to access to short-term credits for 30% of SMEs. This factor is cited by SMEs in Tourism in particular (54%).

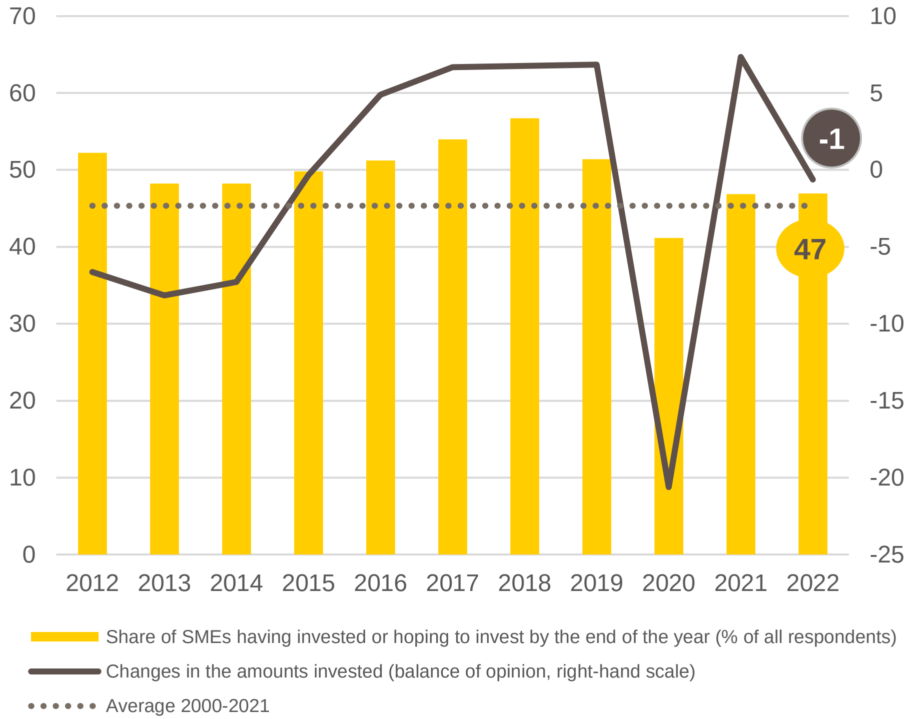
Difficulties accessing investment credit have slightly increased.

- 11% of SMEs declare having encountered difficulties in having access to investment credit, a proportion that has risen by 2 points over the half-year and over one year to just above its pre-crisis level (10% in November 2019).
- This tightening of investment credit access over the last year has concerned all sectors except Commerce. It has been most marked in the Tourism sector (17% after 13% in November 2021).
- Companies encountering investment credit access difficulties cite the financial fragility of their companies as the principal reason, virtually the same proportion as was observed a year ago (68% versus 69%). The risk associated with the business sector is the second reason cited to explain these difficulties (by 26% of SMEs having encountered investment credit access difficulties, down by 3 points over one year).

SME investment on the decline in 2022

In 2022, as many SMEs made investments as in 2021, but the growth in the amounts was lower than in 2021.

- **GRAPH 11: EVOLUTION OF INVESTMENT FOR THE CURRENT YEAR**



Scope: Total (N = 4590)
Source: Bpifrance Le Lab

47% of SMEs declare having invested or intending to do so in 2022, a proportion that has remained virtually stable over one year but is still below its pre-crisis level (51% in 2019 and 56% on average over a long period).

- Industrial SMEs are those that, structurally, are investing the most, all sectors combined. The proportion of these companies attesting having invested or planning to do so this year has reached 59%, just above its pre-crisis level (58% in November 2019). As usual, the proportion of investing SMEs is lowest in the Commerce and Services sectors (39%). It is in Transport that the proportion has deviated the most from its pre-crisis level (54% versus 65% in November 2019).

The indicator regarding the evolution in the amounts invested or planned this year has dropped 8 points over one year to stand at -1, a level slightly above its long-term average of -2.

- There was a marked slump in investment among SMEs in the Industry sector in 2022: the indicator dropped 16 points over one year, remaining above its long-term average (-1). The amounts invested also declined in Construction, Commerce and Services: -8, -6 and -7 points respectively to -6, -2 and -1, below their long-term averages (except for Commerce). Conversely, in the Tourism and Transport sectors, the balances of opinion have gained 8 and 5 points respectively over one year, to reach +2 and +3, levels well above their long-term averages (-7 and -2 respectively).

Little change with regard to sources of finance, or to destination of the investment.

- The proportion of SMEs envisaging resorting to bank borrowing fell by 1 point over one year to reach 36%. SMEs have been self-financing in the main, at 40%, a proportion identical to that of a year ago.
- By destination, managing directors declare that they are slightly increasing their material investments (materials, vehicles, miscellaneous equipment): 53% after 52% a year ago. Property investments (plots of land, construction, refurbishment of existing premises) and intangible investments (business capital, patents, etc.) appear to have decreased slightly over one year (42% after 43% and 5% after 6% respectively).

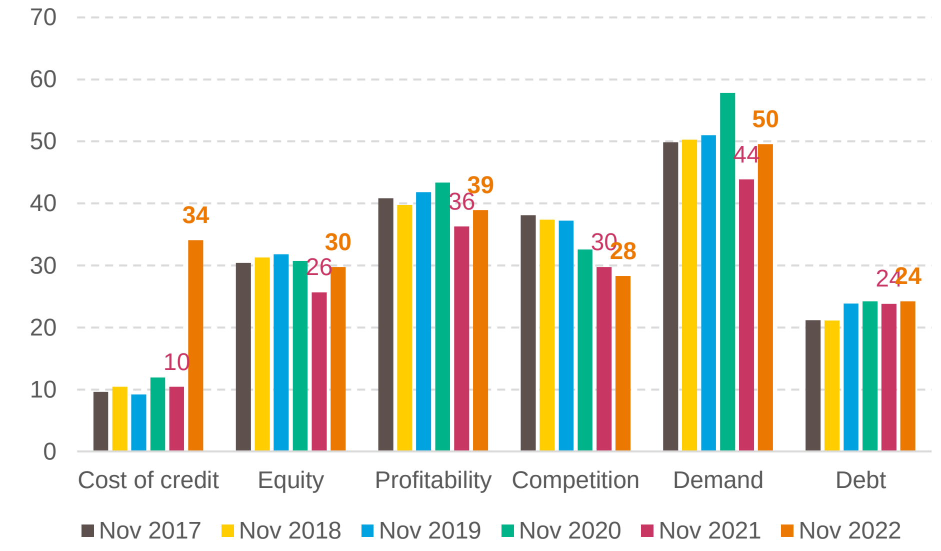
The cost of credit, a clearly increasing obstacle to investment

In 2022, limited opportunities remained the main obstacle to investment, having increased over the year. Having increased significantly, the cost of credit is now considered an obstacle by more than a third of SMEs.

- **As usual, lack of demand constitutes, the principal obstacle to investment**, cited by 50% of SMEs, a proportion that has increased over 1 year (44% in November 2021), approaching the pre-crisis level (51% in November 2019). SMEs in the Construction sector are the most numerous in citing poor demand as an obstacle to investment (54% versus 40% in November 2021), followed by those in Commerce (52% versus 44% in November 2021) and Industry (52% versus 47% a year ago). In contrast, investment by Tourism and Transport SMEs seems to have suffered less from limited demand than last year (45% and 47% respectively, after 56% and 48% in November 2021). SMEs in Services are less numerous in citing lack of demand as an obstacle to investment, but the proportion is increasing (44% versus 39% a year ago).
- **Poor profitability is the second obstacle mentioned by managing directors** with a higher proportion (39%) than last year (36%). Tourism SMEs are slightly more numerous than last year in considering this a major or even insurmountable obstacle to investment (46% after 41% in November 2021), along with those in the Industry and Transport sectors (43% after 40% and 43% respectively a year ago).
- **Previously a minor obstacle, the cost of credit has become the third obstacle to investment**, cited by 34% of SMEs versus 10% in November 2021. This evolution is consistent with the sharp rise in interest rates on loans to non-financial companies, in a context of high inflation and normalization of monetary policy (cf. inset).
- **Balance-sheet constraints identified by SMEs are on the increase**. An insufficiency of equity is raised as an obstacle to investment by 30% of managing directors, compared with 26% a year ago, but still less than before the crisis (31% in November 2019). Excessive indebtedness is cited by 24% of SMEs, a proportion similar to that observed a year ago.

- **GRAPH 12: EVALUATION OF OBSTACLES TO INVESTMENT**

SERIOUS OR INSURMOUNTABLE, IN %



Scope: Total (N = 4590)
Source: Bpifrance Le Lab

The increase in the cost of credit is a consequence of the current inflation, which has put pressure on the European Central Bank (ECB) to normalize its monetary policy. The ECB's asset purchase programme ended in July. On 2nd November, it raised its key interest rates for the third time since the end of July, by 75 base points. The interest rate of the ECB's main refinancing operations stood at 2% in November, versus 0% at the beginning of the year.

03.

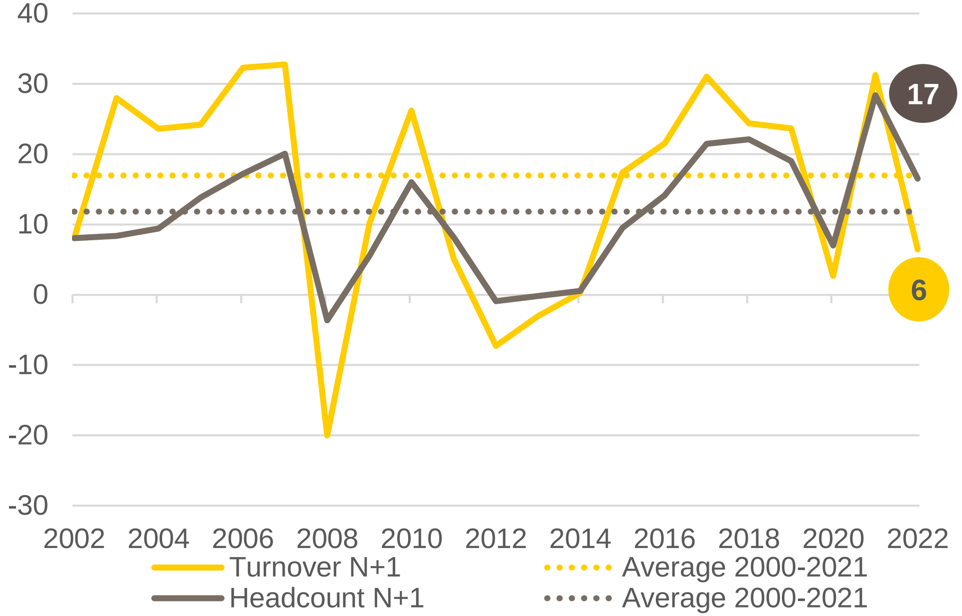
OUTLOOK FOR 2023

Clear slow-down in business expected in 2023

The indicator regarding business development in 2023 has fallen significantly but remains above the levels observed during preceding crises. Recruitments seem to be standing up well.

• **GRAPH 13: DEVELOPMENT OF TURNOVER AND EMPLOYMENT FOR NEXT YEAR**

BALANCE OF OPINION IN %



Note: The balance of opinion on the development in turnover anticipated for the following year fell by 25 points over one year to stand at +6 in November 2022 for 2023.
Scope: Total (N = 4590); Source: Bpifrance Le Lab

Managing directors are pretty pessimistic regarding their companies' business prospects for 2023.

- SMEs anticipate a marked slow-down, in a context where many of them consider that the supply difficulties are going to continue (37% think that they will last more than a year and 42% feel uncertain) and anticipate a hefty increase in their energy bills in 2023 (cf. focus p. 21). The balance of opinion on business prospects for 2023 has fallen to +6 (-25 points over one year) and now stands below its long-term average (+17).
- At the same time, the evaluation of the order books for the next 6 months has deteriorated sharply over one year to end up in the negative: -21 points to -8, below its long-term average (+4). In Industry, it fell 25 points to -8, below its long-term average (+6).
- For 2023, the business indicators for all sectors have fallen markedly. The downturn is more pronounced in Tourism (-48 points), despite a 2022 that was very dynamic. At +10, the indicator remains above its long-term average. However, for all the other sectors the indicators fell below their long-term averages. If the indicator remains positive in Industry (+7), managing directors in the Construction, Commerce and Transport sectors are more numerous in anticipating a decline in their business than an improvement (balances of opinion -3, -1 and -1 respectively).

Managing directors forecast that recruiting will slow down in 2023 but will continue.

- The forecast indicator for headcounts has dropped to +17 (-12 points over one year) but remains above its long-term average (+12).
- All sectors anticipate a slow-down in recruitment, though the balances of opinion are still above their long-term averages, except in the Transport sector, which seems especially affected by the slump in recruitment, with a balance of opinion having fallen to +6 (-14 points over one year), its long-term average. Companies in the Services and Industry sectors are more optimistic, showing the highest balance of option (+21, down by 12 and 14 points, respectively, over one year).
- Given the resilience of the current job market, 42% of managing directors intend to increase their employees' salaries in 2023, 14% to a greater extent than in 2022.

In 2023, the cash-flow situation looks set to continue deteriorating

In a context of rising energy bills and persisting supply difficulties, managing directors expect a deterioration in their cash-flow situations and their companies' profitability in 2023.

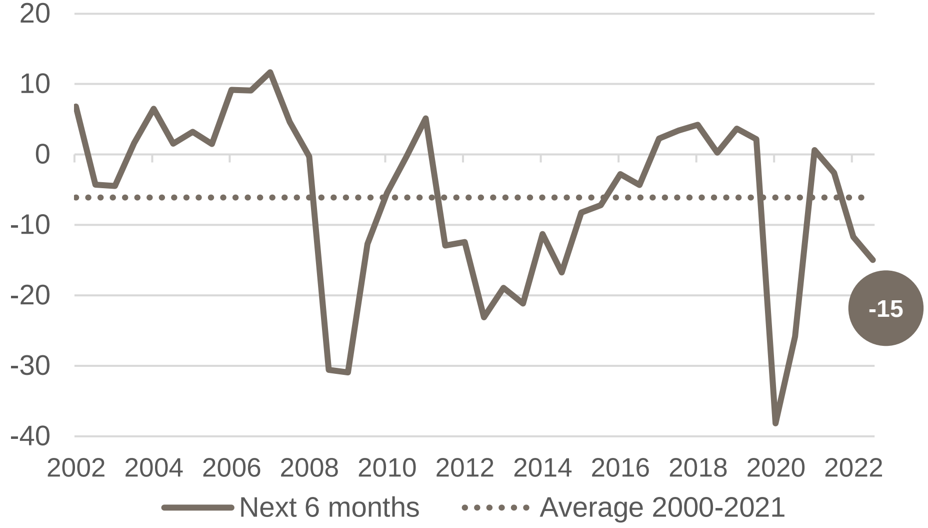
SMEs' cash-flow situations look set to get worse over the coming months, under the impact of the rising energy bills

- SMEs are pessimistic about future developments in their cash flow. The indicator has fallen 3 points over the half-year and 12 points over one year, to -15, a level well below its long-term average (-4). Over one year, the indicator fell significantly in each sector. Over a half-year, it dropped the most sharply in Tourism (-28 points), though from a high peak, and became negative at -22, below its long-term average (-9). In Industry, a marked deterioration in the cash-flow situation is also expected (balance of opinion at -19, down 16 points over one year and well below its long-term average of -3. Note that managing directors in Construction and Transport are less pessimistic than in May (+3 and +2 points respectively over six months).
- This expected deterioration in the cash-flow situation is largely attributable to the expected rise in energy costs: 46% of SMEs anticipate an increase of more than 10% compared with 2021 (63% of industrial SMEs, *cf.* focus p. 21).

SMEs' profitability looks set to decline next year.

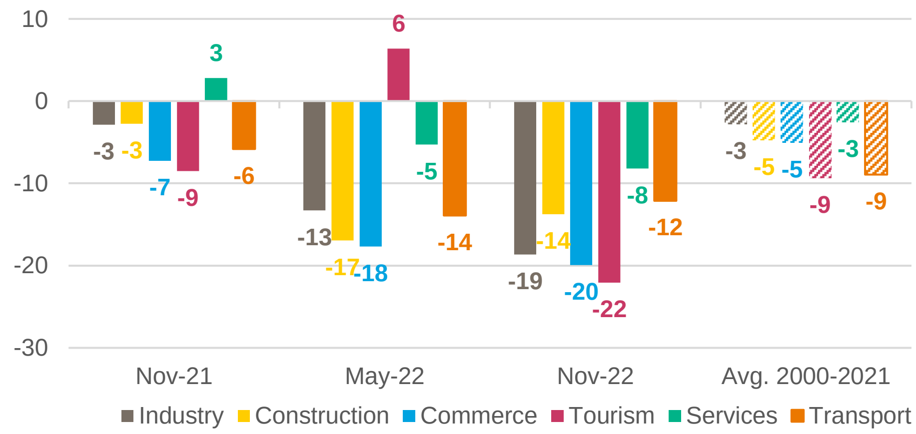
- Company managing directors expect a deterioration in their profitability for 2023. 15% anticipate an increase versus 24% a decline. They are more pessimistic than they were at the end of last year, when, for 2022, 24% predicted an increase versus 12% a decline.
- Profitability looks set to diminish across all sectors in 2023, more significantly in the Transport, Construction and Commerce sectors. The balances of opinion stand at -17, -15 and -15 respectively.

- **GRAPH 14: ASSESSMENT OF THE FUTURE CASH-FLOW SITUATION** (BALANCE OF OPINION IN %)



Scope: Total (N = 4590); Source: Bpifrance Le Lab

- **GRAPH 15: ASSESSMENT OF THE FUTURE CASH-FLOW SITUATION BY BUSINESS SECTOR** (BALANCE OF OPINION IN %)



Scope: Total (N = 4590); Source: Bpifrance Le Lab

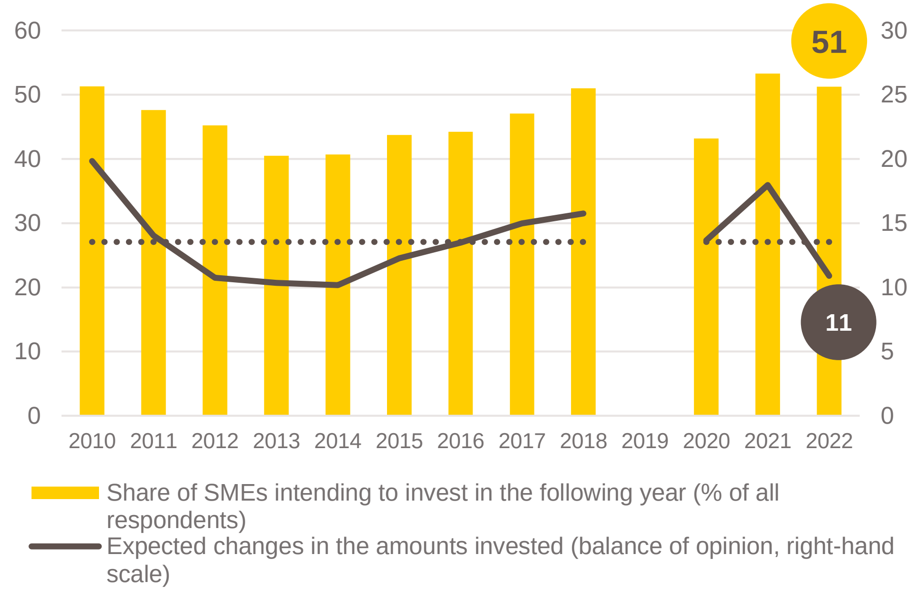
In 2023, investment looks set to stall

In a context full of uncertainty, particularly regarding the evolution of energy costs, SMEs are thinking of reducing their investments in 2023

More than half of SMEs intend investing in 2023 but with a much-reduced level of expenditure

- 51% of SMEs intend to invest in 2023, a proportion slightly down on last year (53% in November 2021 for the year 2022) but close to the long-term average (53%). The balance of opinion on the anticipated evolution in investment expenditure fell sharply to +11, (-7 points over 1 year and at its lowest level since 2014).
- The proportion of SMEs envisaging investing in 2023 is falling in all sectors except Tourism and Commerce. This proportion reached 60% in Industry, a level close to the observed long-term average.
- The balances of opinion on the evolution in the amounts invested also fell in all sectors, most markedly in Transport (-16 points to +2, compared with the long-term average of +6) and Tourism (-12 to +15, above its long-term average of +13). The indicator fell to a lesser extent in Industry (-7 points to +15, close to its long-term average of +17). They approach the levels of 2012-2013, years of sluggish corporate investment at a macroeconomic level.
- Certain investment projects could be jeopardized in the event of an excessive rise in energy costs (*cf.* focus p. 21).

• **GRAPH 16: EVOLUTION IN INVESTMENT FOR THE FOLLOWING YEAR**
BALANCE OF OPINION IN %



Note: In November 2023, 51% of SMEs have declared that they are ready to invest in 2023 and those anticipating a rise in expenditure compared with 2021 outnumber those anticipating a fall by 11 points.
Owing to a change in methodology, the data for the year 2019 cannot be interpreted.
Scope: Total (N = 4590); Source: Bpifrance Le Lab

FOCUS

More than a third of industrial SMEs vulnerable to electricity price rises by 2023

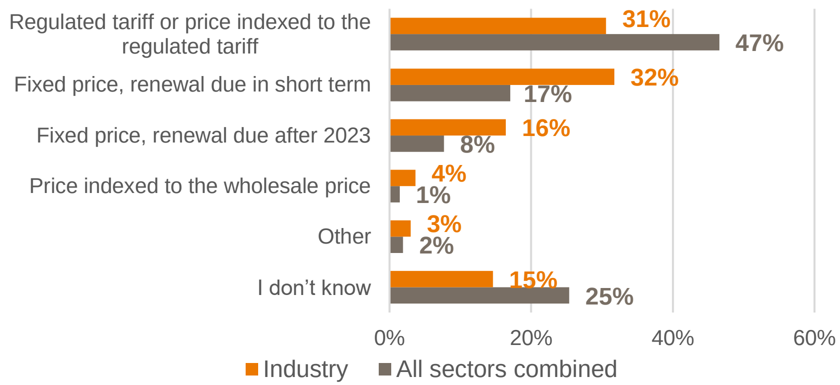
Most SMEs (90% of them) have an electricity supply contract, only a third having a gas supply contract. These proportions are higher for Industry-sector SMEs (98% and 44% respectively).

More than half of electricity-consuming SMEs should be protected from the strong fluctuations in market prices in the short term:

- Of the companies concerned by an electricity supply contract, 47% have a regulated tariff or one that is indexed to the regulated tariff and 7% have a fixed-price contract due for renewal after 2023. 18% have a fixed-price contract due for renewal before 2023 or indexed to the market price and are therefore vulnerable in the short term (17% of SMEs). 25% have not indicated their type of contract.
- Industrial companies appear to be less well protected in the short term: 32% have a fixed-price contract due for renewal in the near future (end 2022 or in 2023) and 4% have a contract indexed to the market price.

Graph 17: Types of electricity supply contract held by SMEs

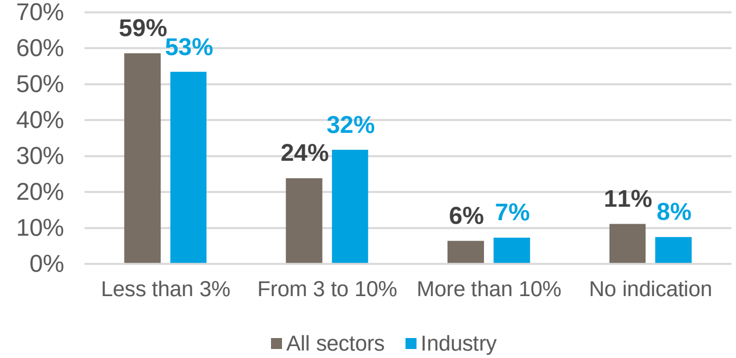
In %



Note to the reader: Of electricity-consuming SMEs (90% of the sample), 47% have indicated that their electricity supply contracts are fixed at the regulated tariff or indexed to the regulated tariff.
Scope: Total (N = 4127); Source: Bpifrance Le Lab

Graph 18: The extent to which energy costs weigh on SMEs' turnover

(In %)



Scope: Total (N = 4572)
Source: Bpifrance Le Lab

With regard to gas, 41% of the companies concerned appear to be vulnerable to price rises in the short term (13% of all SMEs).

- All sectors combined, more than a third (35%) of gas-consuming SMEs have fixed-price supply contracts renewable before the end of 2023 and 6% contracts indexed to the market price.
- Half of the industrial companies using gas declare that they are exposed to gas price rises in the short term, 40% having fixed-price supply contracts renewable before the end of 2023 and 10% contracts indexed to the market price.

Thus, while the impact of the rise in energy costs on SMEs' profits should have been limited in 2022, the situation could be very different in 2023.

- In 2022, if 55% of managing directors consider that the evolution in energy costs could have a significant negative impact on their companies' profits, only 5% think that it could engender a loss scenario. However, this proportion is twice as high for SMEs in the Industry and Tourism sectors.
- In 2023, managing directors are expecting a sharp rise in energy costs. 46% of them anticipate a rise of more than 10% in their 2023 energy bills compared with 2021. In Industry the figure is 63% and 18% fear that energy costs could more than double (7% all sectors combined). Note that these proportions appear relatively low in view of the contracts signed and the price rises expected, particularly where the regulated tariff is concerned. But a significant proportion of SMEs (one in five) declare that they do not know what increase to expect in their energy costs and some think perhaps that a volume effect (lower consumption), could compensate for the value effect.
- Energy costs represents more than 3% of turnover for 30% of all SMEs, 65% of those in the Tourism sector, 51% of those in Transport and 39% of industrial SMEs

Too high an increase in energy costs could even curtail SMEs' projects. However, the large majority of SMEs are uncertain of the price threshold that would trigger such decisions: 63% do not know at what electricity price their investment projects would start having to be suspended. The figure becomes 66% when we talk about the threshold leading to a reduction in business and 78% for a threshold provoking a closure.

Regional economic situation: summary

While a decline is expected in most regions, business should nevertheless still prove dynamic. However, projections vary from region to region.

It is in Centre-Val de Loire that business appears to have been the most dynamic, with SMEs expecting growth of +8.1% for 2022 (after +6.0% in 2021). The balance of opinion is also highest in this region (+35, up by 1 point over one year and 7 points over the half-year), well above its long-term average of +6. For 2022, growth in turnover should also prove steady and higher than in 2021 in the PACA region (+6.8%). On the other hand, business appears to be the least dynamic in Nouvelle-Aquitaine (+4.4%) and Normandy (+4.6%), and only slightly better in Pays de la Loire (5.0%) where the balance of opinion has fallen the most sharply over one year (-19 points to +27). Île-de-France and Hauts-de-France SMEs show the poorest balance of opinion regarding business at +23 (-5 and -12 points respectively over one year). SMEs in almost all regions declare that they have reduced their recruitments this year. The slow-down appears to be more pronounced in Centre-Val de Loire, where the balance of opinion has fallen 18 points over one year to +6, the lowest regional level, though still slightly above its long-term average (+5). On the contrary, in Normandy, the indicator reached +16, up by 6 points over one year but down by 8 points over the half-year.

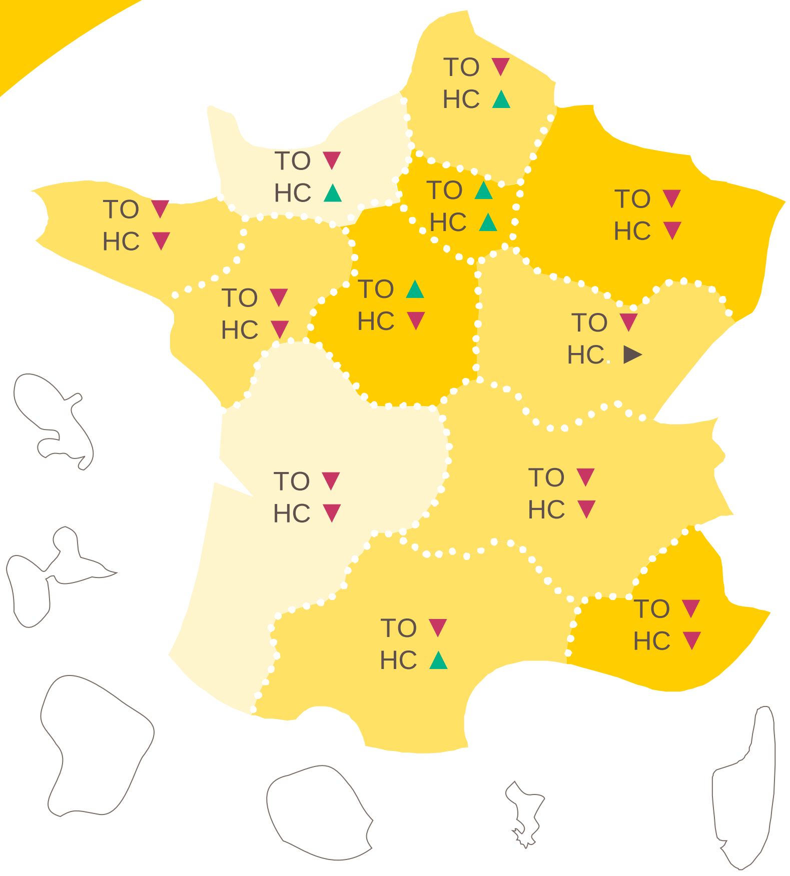
Pays de la Loire SME managing directors remain the most numerous in declaring having invested in 2022 (55%, a level just below the long-term average), though fewer by 3 points over one year. Just over half the managing directors in Auvergne-Rhône-Alpes, Brittany, Grand Est, Burgundy-Franche-Comté and Nouvelle-Aquitaine envisage investing this year, a proportion well below the pre-crisis level for Grand Est (59% end 2019). Île-de-France SMEs remain the least optimistic: only a third intend investing in 2022 (43% before the crisis).

The public support measures rolled out for companies during the crisis enabled SMEs to contain their cash-flow difficulties significantly across all regions. Centre-Val de Loire SMEs indicate more difficulties than the others (31% of them versus a national average of 24%). In contrast, SMEs in the Pays de la Loire region remain the least numerous in reporting cash-flow difficulties over the course of the last six months (19%).

For 2023, the indicator relating to business activity is lower across all the French regions, in a particularly uncertain context (duration of the procurement difficulties, inflation, energy problems, etc.). The Île-de-France SMEs are the most optimistic (balance of opinion at +14). A slow-down in recruitment is also expected.

The detailed results by region are available in the regional focus, accessible on https://lelab.bpifrance.fr/.

• **EVOLUTION IN TURNOVER AND HEADCOUNTS BY REGION**
BALANCE OF OPINION IN %



Average turnover evolution in nominal value

- From 4.0 % to 4.9 %
- From 5.0 % to 5.9 %
- 6.0% and over
- Insignificant

- ▲ balance of opinion up over one year
- ▶ balance of opinion stable over one year
- ▼ balance of opinion down over one year

	TURNOVER				HEADCOUNT				INVESTMENT			
	Average 2000 to 2021	Nov. 2021	Nov. 2022	Change/ Nov. 2021	Average 2000 to 2021	Nov. 2021	Nov. 2022	Change/ Nov. 2021	Average 2000 to 2021	Nov. 2021	Nov. 2022	Change/ Nov. 2021
YEAR 2022 (1)												
All SMEs	**14**	**36**	**27**	↘	**8**	**16**	**14**	↘	**-2**	**7**	**-1**	↘
10 – 250 employees	21	46	34	↘	13	23	20	↘	0	13	3	↘
Fewer than 10 employees	4	18	14	↘	-1	3	3	→	-6	-3	-7	↘
Commerce	13	38	17	↘	7	14	11	↘	-4	5	-2	↘
Construction	8	33	17	↘	6	14	9	↘	-5	3	-6	↘
Industry	16	45	36	↘	6	18	18	→	-1	17	1	↘
Services	19	31	24	↘	13	21	15	↘	1	6	-1	↘
Tourism	2	17	57	↗	-1	-6	19	↗	-7	-6	2	↗
Transport	5	31	44	↗	7	11	9	↘	-2	-2	3	↗
YEAR 2023 (1)												
All SMEs	**17**	**31**	**6**	↘	**12**	**28**	**17**	↘	**14**	**18**	**11**	↘
10 – 250 employees	23	36	12	↘	15	35	21	↘	13	20	10	↘
Fewer than 10 employees	8	22	-3	↘	8	17	8	↘	14	15	12	↘
Commerce	17	22	-1	↘	9	19	12	↘	15	15	12	↘
Construction	2	13	-3	↘	6	24	10	↘	8	10	1	↘
Industry	22	38	7	↘	14	35	21	↘	17	22	15	↘
Services	23	37	17	↘	19	33	21	↘	13	18	13	↘
Tourism	9	57	10	↘	1	24	11	↘	13	27	15	↘
Transport	6	23	-1	↘	6	20	6	↘	6	18	2	↘

(1) Balance of opinion = (Share of companies anticipating a rise – Share of companies anticipating a fall)

04.

METHODOLOGY

Definitions

Indicators or balance of opinion figures are classic tools used in economic situation surveys to follow changes in assessment of the main socio-economic factors (turnover, employment, exports, investments…) and financial parameters (cash flow, access to credit, etc.) over time.

They correspond to balances of percentages of opposed opinions:

- **Change indicator** = [(x% “on the rise”) – (y% “in decline”)] X 100
- **Level indicator** = [(x% “good/easy”) – (y% “bad/difficult”)] X 100

Percentages of neutral opinion (“stable” or “normal”), which make up any shortfall to arrive at 100% of responses, are therefore not taken into account in the calculation of this type of indicator.

A company is described as “innovative” if it has implemented at least one of the following five actions in the course of the last three years:

- financed research and development (internal or external) or recruited R&D staff;
- acquired an operating licence for a process or technology;
- registered a patent, brand, design or model;
- developed a new or significantly improved product or process (service) for a third party;
- marketed a new product or service (excluding simple resale of new products bought from other companies and excluding modifications in the appearance or packaging of already existing products) or used a new production, commercialisation or organisational process (or method). In addition, no analogous product or process is already marketed or used by any competitors.

A **“strongly exporting”** company makes more than a quarter of its turnover abroad, an **“averagely exporting”** one between 6% and 25% and a **“non-exporting”** one less than 6% (including 0%).

Structure of the sample

For this 76th six-monthly economic situation survey, 40,000 companies in non-agricultural commercial sectors, with from 1 to 249 employees and a turnover of less than €50 M, were questioned in the autumn of 2022.

4,590 replies, received between the 2nd and 28th November 2022 and judged complete and reliable, were used on a national level and were broken down to cover all the regions with the exceptions of Corsica and the Overseas Territories, for which the numbers of responses were insufficient.

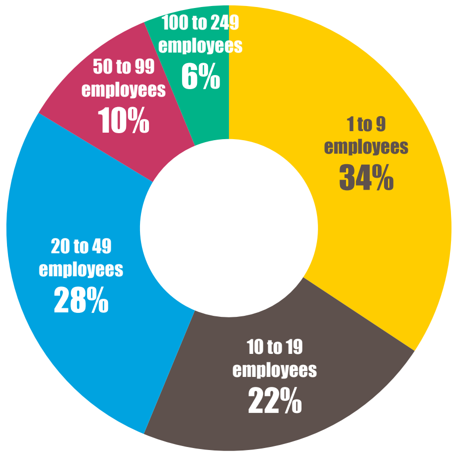
Additional questions regarding procurement difficulties, salary and price increases and the SMEs' energy problems were introduced for the whole sample (about 4,580 responses to these questions have been analysed).

The responses to these additional questions were adjusted with regard to two aspects, so as to reproduce the demography of French SMEs:

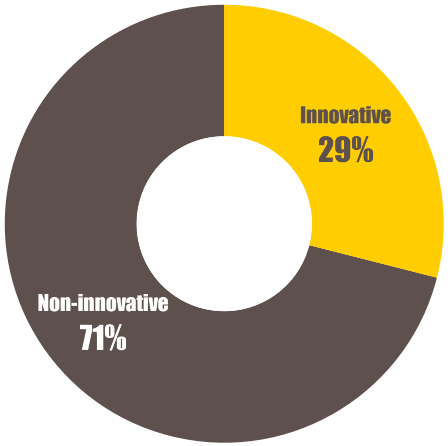
- The number of employees, in order to correct an under-representation of SMEs of less than 10 employees among the respondents
- The business sector, to correct for an over-representation of Industry and an under-representation of the Tourism sector

The adjustment was made based on the numbers of companies in the different categories.

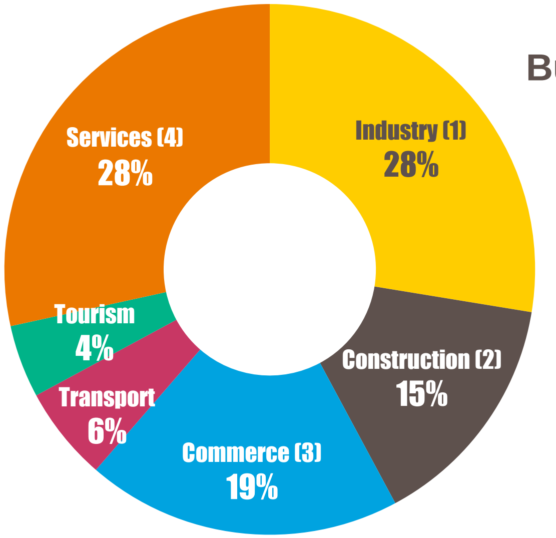
Size



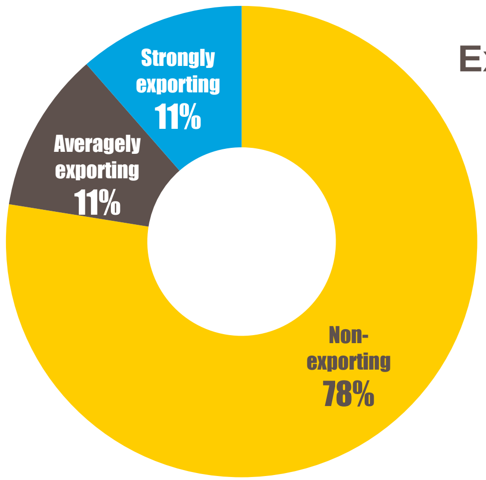
Innovative nature



Business sector



Export



(1) 3% food, 14% intermediate goods, 7% capital equipment, 3% consumer goods
(2) 12% construction, 2% public works
(3) 2% automobile trade and repairs, 12% wholesale, 5% retail
(4) 24% corporate services, 4% private services

To contact Bpifrance in your region

bpifrance.fr

27-31, avenue du Général Leclerc
94710 Maisons-Alfort Cedex
Tel.: 01 41 79 80 00

lelab.bpifrance.fr

Survey managers: Sabrina El Kasmi, Aurore Le Saule,
Direction de l'Évaluation, des Études et de la Prospective
Pôle Macroéconomie – Conjoncture.

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