77TH HALF-YEARLY SMES'
BUSINESS CLIMATE SURVEY

SMES SEEING A SLUMP

July 2023

Growth has come to a halt in 2023 and prospects for 2024 are not very convincing

Production and demand constraints continue to compromise SMEs' growth, which has come to a virtual standstill in 2023. SMEs are predicting average growth in turnover of +1% this year, after an estimated +6% in 2022. Employment, which has generally surprised on the upside these last few years, is slowing down less markedly, with productivity remaining sluggish in consequence.

Business appears stable in Commerce, Construction and Transport. Industry and Services seem to be doing a little better, with expected average growth in turnover of 2%. Recovery continues in the Tourism sector though at a slower pace than last year (+8% expected in 2023 following an estimated +23% in 2022).

This marked slowdown in business occurs in a context of continuing production constraints (supply difficulties that are falling off but still concern a large number of companies, rises in energy costs and salaries), stalling demand and a sharp rise in the cost of credit. To offset the increase in production costs, about half the managing directors (52%) intend increasing their sales prices. The average rise looks set to be +3.5%, a little less than the average increase in salaries expected this year (+3.9%). Managing directors having obtained state-guaranteed loans are resorting to them more and more: 64% have used the majority of their loans (56% last November). However, they remain confident of their ability to repay the loans: only 4% fear being unable to do so.

In this context, more SMEs expect a deterioration in their net margins this year than an improvement (35% vs 22%). In addition, their cash-flow situations have weakened slightly. The indicator relating to cash flow over the last 6 months has lost 1 point over the half-year and 5 points over a year to –10 but remains above its long-term average, having started out from its highest historical level of +2 at the end of 2021. 25% of SMEs now find their cash flow difficult (compared with 22% a year ago and in May 2019). Financial situation prospects look better than last November: while more SMEs still anticipate a deterioration in their cash flow over the next 6 months than expect an improvement, the future-cash-flow indicator has nevertheless gained 10 points over the half-year to –5, approaching its long-term average level.

The tightening of monetary policy by the European Central Bank (ECB) to counter inflation has led to a rise in interest rates for company loans. Almost half of SMEs now see the cost of credit as a major obstacle to investment (48%). It is the first barrier cited, on a par with the weakness of demand (usually mentioned as the leading obstacle). However, access to credit still remains relatively easy: 12% of SMEs declare that they are having difficulties in financing their cash flow (+1 point in six months) and 11% in financing their capital expenditure (stable), proportions close to those observed prior to the public health crisis.

In this context, the proportion of SMEs intending investing in 2023 has remained stable over a year (45%), at a level still below that observed before the public health crisis (50% in May 2019 for the year 2019). The amounts invested are on the whole expected to diminish slightly (balance of opinion down by 1 point over a year to –3), falling more significantly in Transport. Environmental objectives seem to be giving a little boost to investment, the proportion of SMEs intending to increase green investments this year slightly surpassing that of those intending to decrease them (18% vs 13%). However, this type of investment remains concentrated in a minority of companies (35% of SMEs in 2022). The principal objects of these investments are the putting in place of a waste sorting or recycling system (43%), the purchase of production plant that uses energy more efficiently or reduces greenhouse gas emissions (37%) and renewal of vehicle fleets (32%).

The energy crisis, if the form of soaring prices and supply tensions associated with the lively post-Covid upturn and the war in Ukraine, has forced companies to reduce their energy consumption. In 2022, 59% of SMEs declare that they have implemented energy-saving measures, and the majority intend to perpetuate them in 2023 (61% totally, 31% to a large extent). So some of the reduction in energy consumption and greenhouse gas emissions observed in 2022 should be maintained at least this year and could even become permanent.

SMEs are not very confident of prospects for 2024. The business forecast indicator has fallen by 5 points and lies well below the average observed over the 2000-2022 period. Prospects are looking the most dismal in Construction, a sector that still suffers greatly from increased production costs and is particularly exposed to the consequences of interest rate rises, which are affecting the property market. Once again, the employment forecast indicator is holding up better, leaving little chance of achieving productivity gains by 2024.

This study is based on the replies from 5,011 SMEs (1 to 249 employees), received between 11th May and 12th June 2023.

SALIENT POINTS

1 In 2023, a slow-down in business is expected. Logically, recruitments should also be less dynamic but they are showing more resistance.

SMEs are expecting an average growth in turnover of +1% in 2023 after an estimated +6% last year. At +12, the balance of opinion has fallen 15 points over the half-year and now stands slightly below its long-term average (+14). Supply difficulties are still hampering business, even though they have eased again this half-year. Recruitments appear to be slowing down much less, with the indicator remaining well above its long-term average, while recruitment difficulties remain serious.

2 Starting out from a very high level in 2021, cash flow has continued to deteriorate slightly in early 2023.

On the decline since the end of 2021, SMEs' cash flow nevertheless remains at a fairly comfortable level. The balance of opinion has lost 1 point since November but remains above its long-term average (–10 versus –15). SMEs are less pessimistic than 6 months ago regarding future evolution in their cash flow, the indicator having gained 10 points over the half-year to –5.

3 SMEs continue to delve into their state-guaranteed loans to cope with rises in production costs.

Of SMEs having taken out state-guaranteed loans, 64% declare that they have used the greater part (with 46% having used virtually all of it), a proportion that has risen by 8 points over 6 months and 11 points over a year. 4% fear being unable to repay the loans.

4 Investment is decreasing somewhat this year, in a context where the cost of credit has risen markedly but access to financing remains relatively easy.

45% of SMEs intend investing in 2023, a proportion that has remained stable over a year but is still below that seen before the public health crisis (50% in May 2019 for 2019). The indicator regarding the evolution in the amounts invested has dropped one point to –3, while the cost of credit has become the main obstacle to investment, on a level with weakness of demand, cited by 48% of SMEs. However, the proportion of managing directors facing difficulties of access to investment credit remains relatively low (11%). SMEs anticipate a slight increase in their green investments this year (balance of opinion at +5).

5 2024 is expected to be rather sluggish but recruitment should continue to hold up.

The balance of opinion regarding expected evolution in turnover has fallen 5 points to +16, deviating sharply from its long-term average (+26). Employment projections are less pessimistic, the headcount forecast indicator losing 4 points to reach a level approaching its long-term average.

6 Given the current energy crisis, a majority of SMEs adopted energy-saving measures last year.

Among the 59% of SMEs having adopted energy-saving measures in 2022, 61% intend maintaining them in full in 2023 and 31% to a large extent.

Key Figures

+12

BALANCE OF OPINION REGARDING TURNOVER EVOLUTION IN 2023

DOWN BY 15 POINTS OVER 6 MONTHS AND 13 POINTS OVER A YEAR

+16

BALANCE OF OPINION ON BUSINESS PROSPECTS FOR 2024

DOWN BY 5 POINTS OVER A YEAR

48%

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

UP BY 29 POINTS OVER A YEAR

52%

PROPORTION OF SMES INTENDING INCREASING THEIR SELLING PRICES IN 2023

DOWN BY 20 POINTS OVER A YEAR

64%

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

4% ARE AFRAID OF BEING UNABLE TO PAY THEM BACK

59%

PROPORTION OF SMES HAVING ADOPTED ENERGY-SAVING MEASURES IN 2022

61% OF THEM INTEND FULLY MAINTAINING THE MEASURES

CONTENTS

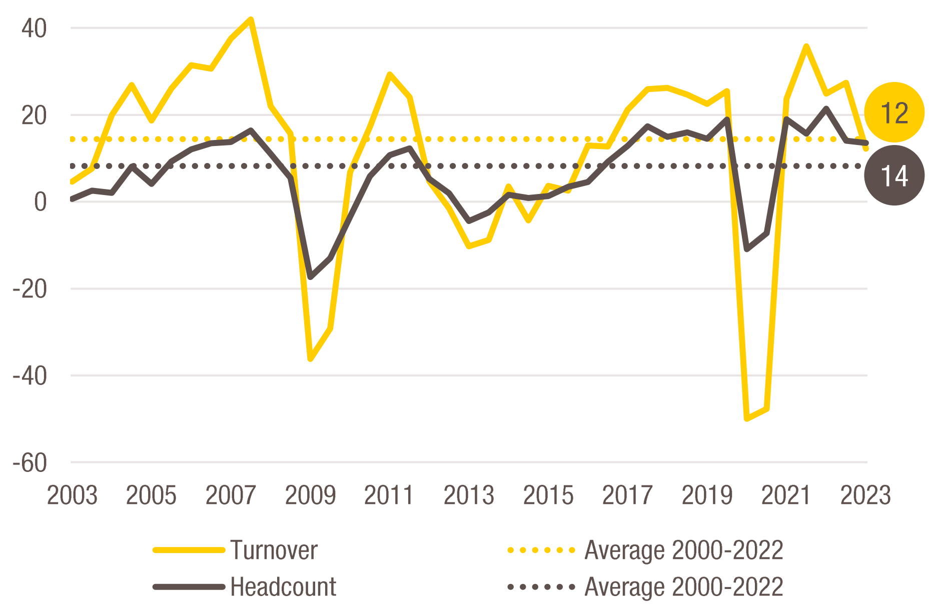
01.

REVENUE AND EMPLOYMENT

Resilience of the employment market in spite of the slump in growth in 2023

SMEs are expecting virtually zero growth this year. Recruitments should slow down as a consequence but they look set to hold up better than business.

• 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 +27 to +12 between the surveys of November 2022 and May 2023.
Scope: total (N = 5011)

Source: **Bpifrance Le Lab**

Managing directors anticipate a very low increase in their turnover this year.

- The balance of opinion concerning evolution of turnover this year has registered a sharp fall mid-2023 (–15 points over 6 months, –13 points over a year). At +12, it now stands just below its long-term average (+14). Just 33% of managing directors anticipate an increase in their business in 2023 (compared with 42% a year ago) while 21% foresee a fall in their turnover (17% a year ago).
- On average, SME managing directors are expecting growth of 1% in their turnover this year, markedly down compared with 2022 (6% estimated last November). As predicted 6 months ago, orders dwindled in the first half-year: the balance of opinion on order book levels over the preceding 6 months has fallen by 7 points to –1 but still remains above its long-term average (–6). Managing directors do not expect to refill their order books by the end of the year: the indicator has certainly gained 7 points over the half-year but remains in negative territory (–1) and below its long-term average (+4).
- SMEs' business is particularly constrained by the sharp rise in production costs (especially energy, salaries – cf. focus), and by the high inflation that is squeezing household purchasing power. While supply difficulties are gradually diminishing, 40% of managing directors consider that their companies' business continues to be significantly curtailed by these difficulties. (46% of them declared this to be the case last November).
- Exporting companies, like innovative companies, are also facing a fall-off in their business but appear to be enjoying healthier growth (+3% and +4% respectively) than their non-exporting and non-innovative counterparts (0%).
- SMEs of less than 10 employees seem to be more severely affected. Their balance of opinion has dropped below zero (–14 points over a year to –2), with 25% of managing directors anticipating a decline in their turnover against just 23% expecting an increase. On average, managing directors of SMEs of less than 10 employees anticipate a decline of 1% in their turnover this year. Conversely, turnover looks set to increase by 2% for SMEs of 10 employees or more, and even by 5% for the largest SMEs (100 to 250 employees).

Employment appears to be holding up better than business in 2023.

- The indicator regarding evolution in SME headcounts stands at +14, down by 7 points over a year but stable compared with last November. It remains well above its long-term average (+8).
- In a context of high inflation and recruitment tensions, 77% of SME managing directors intend increasing their employees' salaries in 2023, a higher proportion than last year. 46% envisage offering an increase of at least 5% (*cf.* focus p. 10).

These expectations are in line with INSEE's (Economic Situation Report of June) and Banque de France's forecasts (Macroeconomic Projections of June), which foresaw low business growth in 2023 (+0.6% and +0.7% respectively, after growth of +2.5% in 2022).

Business
A general slow-down across all sectors

The slump spans all business sectors. Growth remains highest in Tourism, which continues its recovery.

The slow-down in business varies in degree from sector to sector.

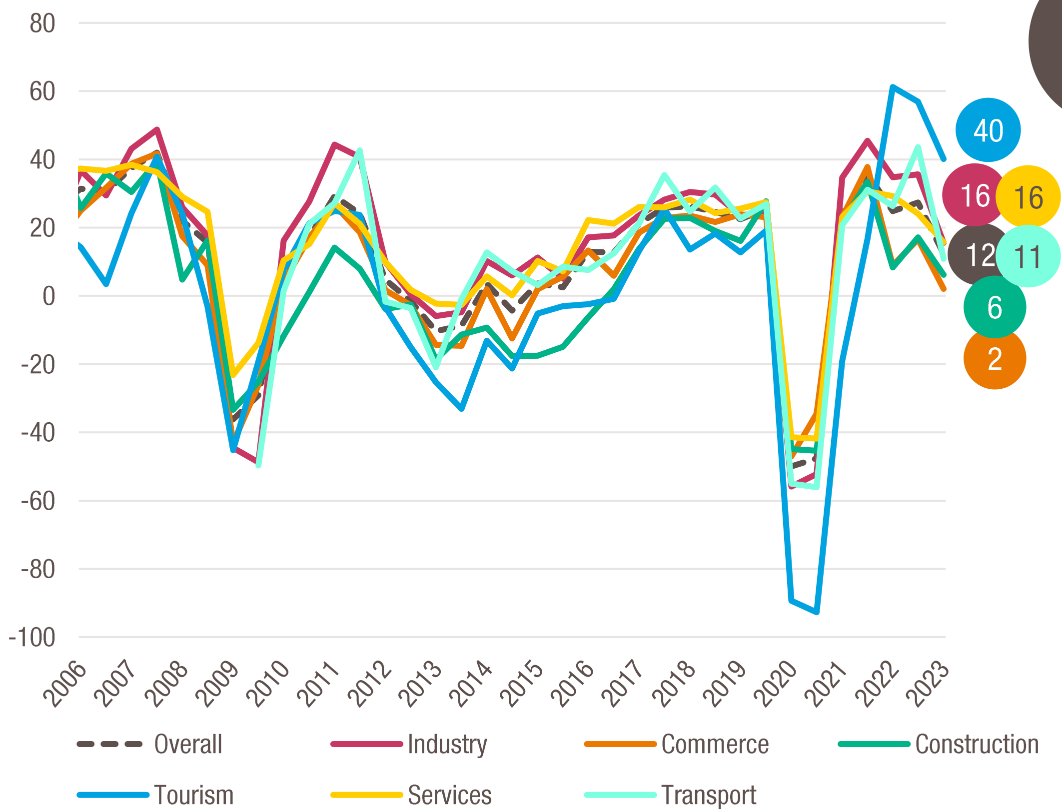
- SMEs in the Tourism sector have been continuing their recovery in 2023. Growth would be poorer than in 2022 but still healthy (+8% increase in turnover on average for 2023, after an estimated +23% for 2022). At +40, the balance of opinion has dropped 21 points over a year but remains comfortably above its long-term average (+3).
- Business is significantly slowing down in all other sectors. Industry and Services SMEs anticipate growth of +2% on average. The balances of opinion, down by 19 and 13 points respectively over a year, stand slightly below their long-term averages for both these sectors. In the sub-sectors, the food industry comes out well (+9 points over a year, –8 points over the half-year), with a turnover growth of +5% on average forecast for 2023.
- Growth seems least dynamic (close to 0%) in the Commerce, Construction and Transport sectors. The balance of opinion regarding business sees the sharpest fall over 6 months in Transport (–33 points to +11, –16 points over a year), though this remains slightly above the long-term average. It reached a very low level in Commerce (+2, 10 points below its long-term average).

Cf. sectorial focus

- By region, Centre-Val de Loire and Île-de-France SMEs are the most optimistic, with forecast growth in turnover of nearly +3% on average, followed by SMEs in the PACA region, which anticipate an average increase of 2% in turnover. Conversely, in Bourgogne-Franche-Comté, Grand-Est, Hauts-de-France and Normandy, there would be no growth in business this year.

Cf. regional focus

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



Scope: Total (N = 5011)

Source: Bpifrance Le Lab

Employment

A moderate slow-down in recruitments

In 2023, recruitments will fall off slightly. However, the slow-down should be much less marked than that of business.

Recruitments are less dynamic in Commerce, Construction and Transport, which is consistent with the more sluggish business in these sectors

- The balance of opinion on employment has fallen over the half-year in Commerce and Construction (–3 pts and –1 pt, both –5 points over a year) and is levelling out in Transport though it lost 6 points over a year. The balances of opinion are thus close to their long-term averages in these three sectors.
- In spite of a fall over the half-year (–6 pts) and over a year (–3 pts), the indicator regarding employment in Tourism remains, at +13, well above its long-term average (0), in line with the expected continuation of the sector's recovery this year.
- Recruitments appear rather more dynamic in Industry (stable over the half-year but down by 11 pts over a year) and Services (+2 pts over the half-year, –9 pts over a year), where the indicator reached +18, well above the long-term averages (+7 and +13 respectively).

Cf. sectorial focus

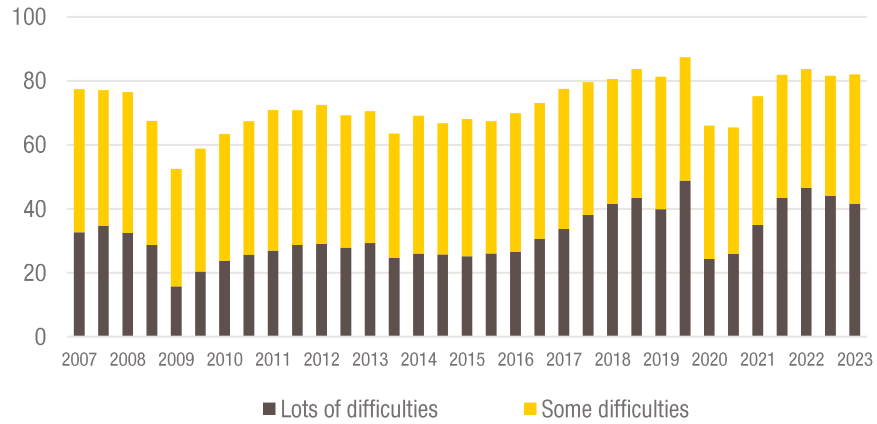
As usual, job creations appear to be more vigorous among SMEs of at least 10 employees, innovative SMEs and those that are internationally oriented.

- The balance of opinion regarding employment follows a similar trajectory whatever the company's size and nature (innovative or not, exporting or not). It has been virtually stable over the half-year and has fallen over a year, while remaining above long-term average levels.
- The proportion of managing directors anticipating increases in headcount is much higher for SMEs of 10 employees or more (27% compared with 13% for SMEs of less than 10 employees), exporting SMEs (29% compared with 21% for non-exporting companies) and innovative SMEs (34% compared with 18% for non-innovating companies).

Recruitment difficulties remain at the level observed prior to the public health crisis

- Recruitment difficulties have remained largely the same since November 2021, at levels close to those observed prior to the public health crisis: 82% of managing directors having tried to recruit declaring that they have encountered difficulties in doing so. They are less numerous than a year ago to report major difficulties: 42% of them, after 44% last November and 47% a year ago.
- These difficulties chiefly affect Tourism and Construction (87% of SME managing directors concerned), and Industry (85%).

• 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 = 5011); Source: Bpifrance Le Lab

Overall, employment has surprised to the upside since the start of the public health crisis, displaying a much better resilience than business. As the Banque de France points out in its Macroeconomic Projections of March 2023, the dynamism of the job market has as a downside a fall in productivity (–1.4% per year over the 2020-2022 period).

INSEE's data reveal that net creations of salaried jobs in the private sector were still dynamic at the start of 2023 (+86,600 in the first quarter of 2023, +0.41% compared with the preceding quarter, an evolution similar to the average observed from quarter to quarter in 2022).

FOCUS

In 2023, the evolution of salaries is expected on the whole to exceed that of selling prices

77% of SMEs intend increasing their employees' salaries in 2023, a higher proportion than in 2022 (72% of SMEs declared that they had granted salary increases in 2022 in the 76th survey).

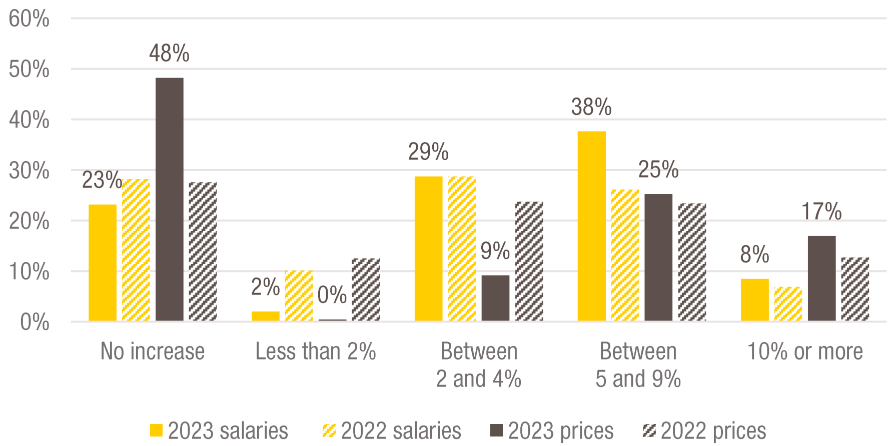
- The average evolution expected by SMEs, whether they have planned to increase salaries or not, is +3.9%. The increases should be higher in the Tourism sector, where managing directors predict an average increase of +4.7%.
- Companies facing serious recruitment difficulties remain more numerous in aiming to increase their employees' salaries in 2023 than the others (80% versus 70%).

The salary increases look set to be bigger this year:

- 46% plan to increase salaries by at least 5% this year. 33% declare having awarded similar salary increases in 2022.
- 42% of SMEs envisaging salary increases are planning higher increases than those accorded in 2022, while just 13% anticipate lower salary increases this year.

Graph 4: Developments in salaries and selling prices foreseen by SMEs in 2023 and estimated in 2022

In %

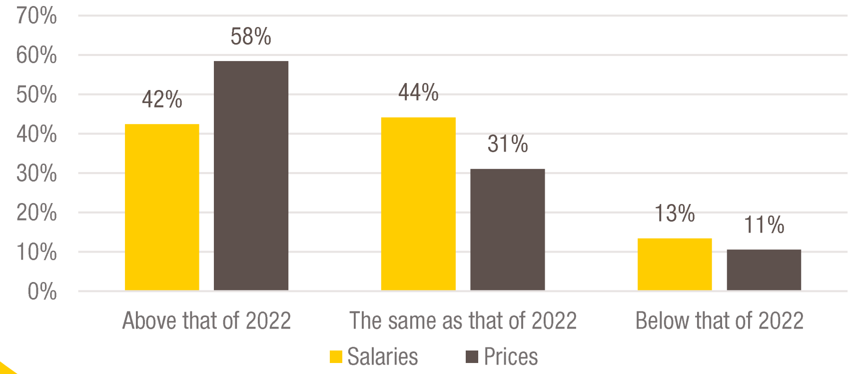


Scope: Total (N = 5011 for 2023, N = 4575 for 2022 – November 2022 survey)

Source: Bpifrance Le Lab

Graph 5: The extent of increases in salaries and selling prices anticipated by SMEs en 2023 compared with 2022

(In %)



Scope: SMEs anticipating an increase in their salaries / prices (N = 4218 / 2792)

Source: Bpifrance Le Lab

On the other hand, fewer SMEs than in 2022 intend increasing their selling prices: 52% plan increases in 2023 where 72% applied increases in 2022.

- The average evolution in selling prices looks set to be +3.5%. The hike in prices should be the most restrained in the Transport sector (+2.1% on average) and highest in Tourism (+5.4% on average, with 65% of managing directors planning increases in their selling prices).
- 42% of managing directors intend increasing their selling prices by at least 5% and 17% plan increases of at least 10%, higher proportions than in 2022 (36% and 13% respectively).
- For 58% of managing directors having planned to increase their selling prices, the increases are likely to be greater than those of 2022, whereas they should be lower for 11% of them.
- SMEs encountering supply difficulties are more numerous in envisaging increasing their selling prices in 2023 than those not facing such difficulties (58% versus 36%).

This year, on average, the increase in salaries (+3.9%) should thus be slightly higher than the increase in selling prices (+3.5%) in contrast with expectations indicated in preceding surveys.

- 44% of SMEs intend increasing their employees' salaries by more than their selling prices in 2023. On the other hand, 31% envisage greater increases in their selling prices than in salaries. Salaries and prices are evolving hand in hand for 25% of SMEs.

In this context, more SMEs expect to see their net margins decline this year

- A little more than a third (35%) of SMEs anticipate a slight deterioration in their net margins this year compared with 2022, while 22% rather foresee an improvement.
- Companies in Commerce and Construction are the most numerous to expect a fall in their net margins (38% and 37% respectively, versus 32% to 33% in the other sectors). In contrast, Tourism SMEs, which are more intent on increasing their selling prices this year, are more numerous in anticipating an improvement in their net margins (28%).

02.

FINANCIAL SITUATION, ACCESS TO CREDIT AND CAPITAL EXPENDITURE

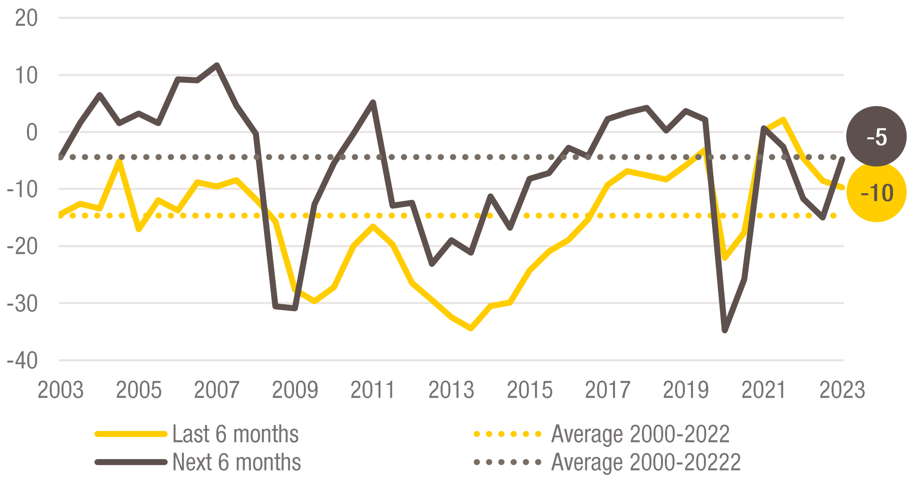
Cash flow expected to deteriorate slightly in 2023, while remaining relatively comfortable

The cash-flow situation is continuing on its slight decline in 2023, after the very comfortable levels reached in 2021

In a context of rising production costs, SMEs' cash-flow situations continued to worsen slightly at the start of 2023, though remaining favourable.

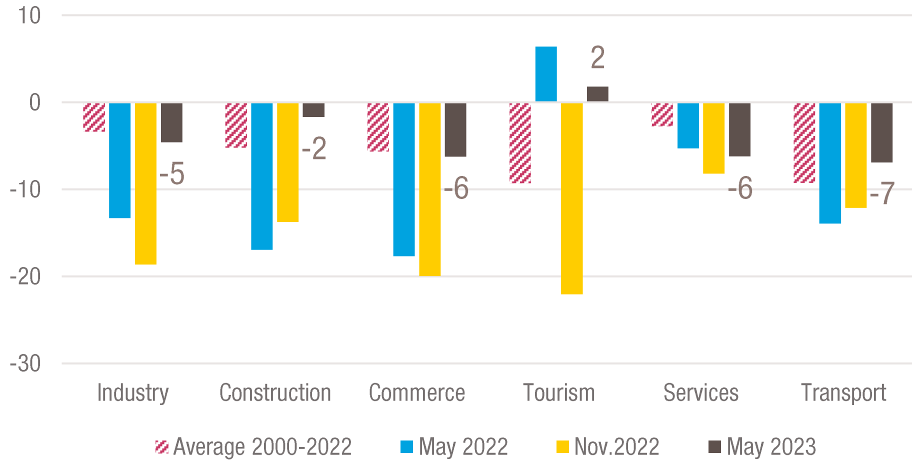
- At –10, the balance of opinion on the cash-flow situation over the preceding 6 months has lost 1 point over the half-year and 5 points over a year but remains above its long-term average (–15). 25% of SMEs now consider their cash-flow situations difficult (22% a year earlier and in November 2019). On the other hand, 15% find it comfortable and 60% normal.
- This slight fall in the balance of opinion concerning recent cash flow can be observed across all sectors except Industry, where it climbed 2 points over the half-year to –9.
- However, this deterioration in cash flow over the last 18 months occurred following a historically comfortable situation in 2021, thanks to the support measures implemented during the public health crisis, including the state-guaranteed loans (*cf.* focus p. 13).

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



Note to the reader: in May 2023, the share of SMEs declaring a difficult cash-flow position over the previous 6 months was higher than that declaring a comfortable cash-flow by 10 points.
Scope: total (N = 5011); Source: Bpifrance Le Lab

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



Scope: total (N = 5011); Source: Bpifrance Le Lab

On the other hand, SMEs are considerably less pessimistic than last November regarding the future evolution of their cash flow.

- The projected balance of opinion thus gained 10 points over the half-year (to –5), approaching its long-term average (–4). It has improved in all sectors, especially in Tourism where it rose by 24 points (after a fall of 28 points last November) to become positive again (+2), well above its long-term average (–9).
- This regain in confidence regarding cash flow over the last half-year could be linked to the price reductions observed in the energy markets between the survey periods (–56% for electricity, –72% for gas and –16% for oil).

SMEs' profitability appears to be generally stable in 2023.

- SMEs' profitability for 2022 was a little better than anticipated last November: 78% of SMEs consider that their profitability was "good" or "normal" (76% last November), a similar proportion to that observed in 2021. This proportion remains below that observed prior to the public health crisis (83% in 2019 according to the May 2020 survey) but almost identical to the long-term average (75%).
- SMEs are less pessimistic than last November regarding the evolution of their profitability in 2023. 20% of them now anticipate an improvement in their profitability this year, a proportion that has climbed 5 points over the half-year. On the other hand, 22% predict a decline in their profitability.
- Profitability is expected to improve significantly in Tourism, where the balance of opinion stands at +14, following a sharp rise since last November (+19 pts). Overall, it looks stable in Construction, where SMEs are much more optimistic than last November (+14 pts to –1), as well as in Industry and Services. However it would deteriorate in Commerce and Transport, though to a lesser degree than expected (+7 and +9 pts respectively, to –8).

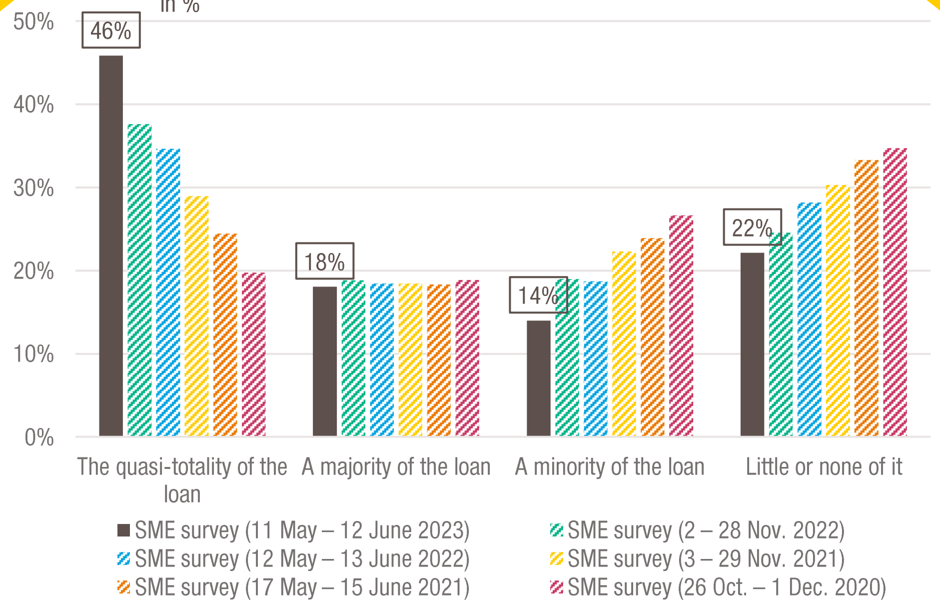
FOCUS

Half-way through 2023, nearly two-thirds of companies having taken out state-guaranteed loans have consumed the greater part of them

The state-guaranteed loans were in strong demand from SMEs to stand up to the fall in business associated with the Covid-19 epidemic. Just over half of them declare having obtained state-guaranteed loans.

Graph 8: Amounts of the state-guaranteed loans used

In %

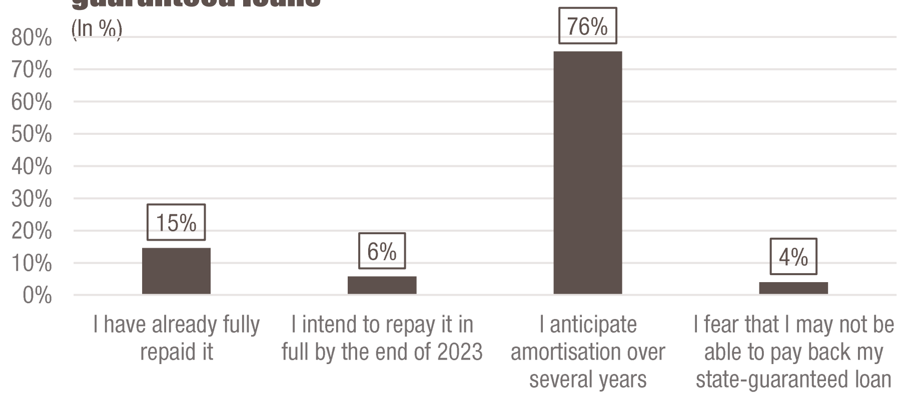


Scope: Companies having requested and obtained state-guaranteed loans (N = 2659)

Source: Bpifrance Le Lab

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

(In %)



Scope: Companies having requested and obtained state-guaranteed loans (N = 2659)

Source: Bpifrance Le Lab

To date, 64% of SME managing directors having obtained state-guaranteed loans declare that they have consumed the majority (18%) or virtually all (46%) of them, a proportion that has risen since November 2022 (56%) and May 2022 (53%). On the other hand, logically, the share of SMEs having kept the loans largely in reserve has declined to stand at 36% (cf. 44% in November 2022).

- **Managing directors in the Construction sector are those having most consumed their state-guaranteed loans (69%).** 62 to 64% of them declare having used the majority if not virtually all of their loans in the Commerce, Services, Industry and Tourism sectors, 58% in Transport.
- **SMEs** of less than 10 employees **are slightly more numerous in affirming having used the majority or even almost all of their loans than larger SMEs** (64% versus 62%).

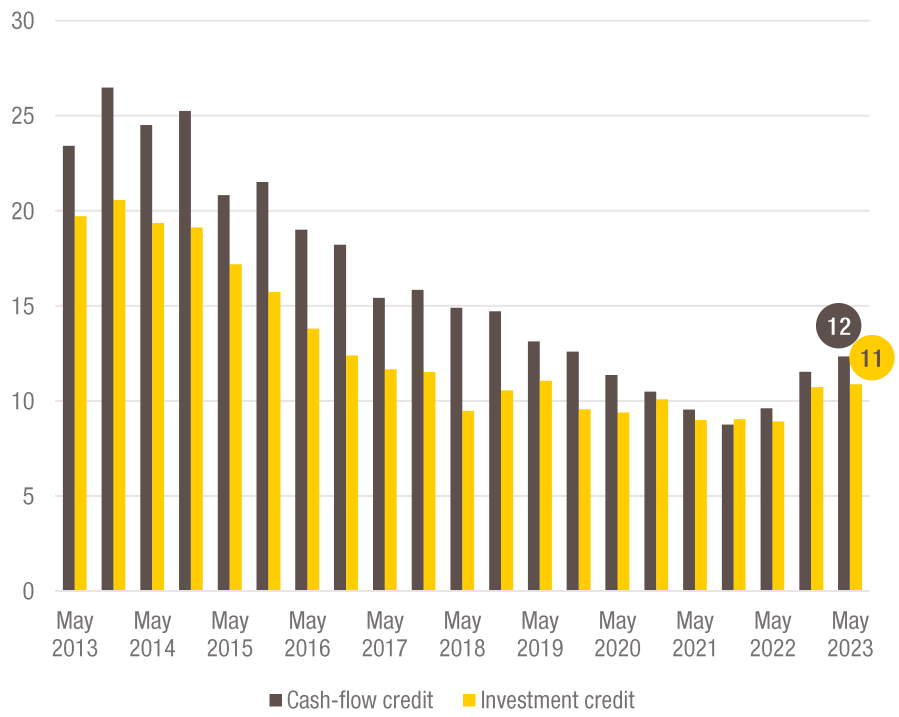
The risk of non-repayment of the state-guaranteed loans still seems relatively limited.

- **About three quarters of SMEs having solicited the public scheme plan amortization of the total loan amounts over several years.** About a fifth of SMEs would have repaid their loans by the end of the year: 15% have already repaid them in full (versus 11% 6 months ago) and 6% envisage doing so by the end of the year.
- **4% of respondents fear non-repayment of their loans**, a proportion that has fallen slightly over a year (5% last November and 6% in May 2022) and remains close to that observed since the question has been asked (between 4 and 6% since the end of 2020).
- SMEs in Tourism remain proportionately more numerous in expressing this fear, though fewer than last year (6% after 10% last November and 9% a year ago).

Terms for access to credit remain relatively relaxed

Access to cash-flow credit has become a little more difficult over the last 6 months. However, the conditions of access to credit remain relatively relaxed, close to the levels observed before the public health crisis.

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



Scope: Total (N = 5011)
Source: Bpifrance Le Lab

Access to cash-flow credit is becoming a little more difficult, much the same as it was prior the public health crisis.

- In a context of rising rates, SMEs are encountering slightly greater difficulties with access to cash-flow credit. 12% of SMEs declare having encountered difficulties in financing their day-to-day operations, a proportion slightly up over the half-year (+1 point) and close to the level seen before the public health crisis. (13% in November 2019). However, conditions are still generally considered favourable, the proportion of SMEs having difficulties remaining below the long-term average (18%).
- In the course of the first half-year 2023, access to cash-flow credit became tougher in Construction and Commerce (both +3 pts, to 14% and 11% respectively). On the other hand, the proportion of SMEs encountering difficulties in financing their day-to-day operations diminished in Transport (–2 pts to 10%), and in Tourism, where it nevertheless remains high, as usual in this sector (–1 pt to 20%).
- For SMEs encountering difficulties in financing their day-to-day operations, an insufficient level of business and/or excessively uncertain prospects remain the chief explanation, cited by 51% of them (a proportion stable over the last year). The second-most-cited reason (by 34% of them) is the need to provide guarantees judged too burdensome (a proportion also stable over the year, except in Industry where it rose by 8 pts to 42%). Cited in similar proportions, the risk associated with the business sector represents an increasingly serious obstacle to access to short-term credit (34%, a proportion up by 4 points over the half-year and 7 points over a year). It most particularly concerns Tourism and Transport SMEs (first obstacle cited by 58% and 50% of them respectively) and those in Construction (43%).

Difficulties with access to investment credit remain unchanged.

- As last November, 11% of SMEs declare that they have encountered difficulties with access to investment credit, a proportion slightly higher than that seen before the public health crisis (10% in November 2019).
- Access to investment credit has become more difficult in Services (14%, +2 pts in 6 months) but remains relatively stable in the other sectors.
- Companies encountering difficulties with access to investment credit always cite the financial fragility of their companies as the principal reason, though in a proportion that has fallen over the last year (64% after 69%). The risk associated with the business sector is the second explanation for these difficulties, cited much more often over the last year (cited by 30% of SMEs having encountered difficulties in financing their investments, up by 4 points over 6 months and 7 points over a year).

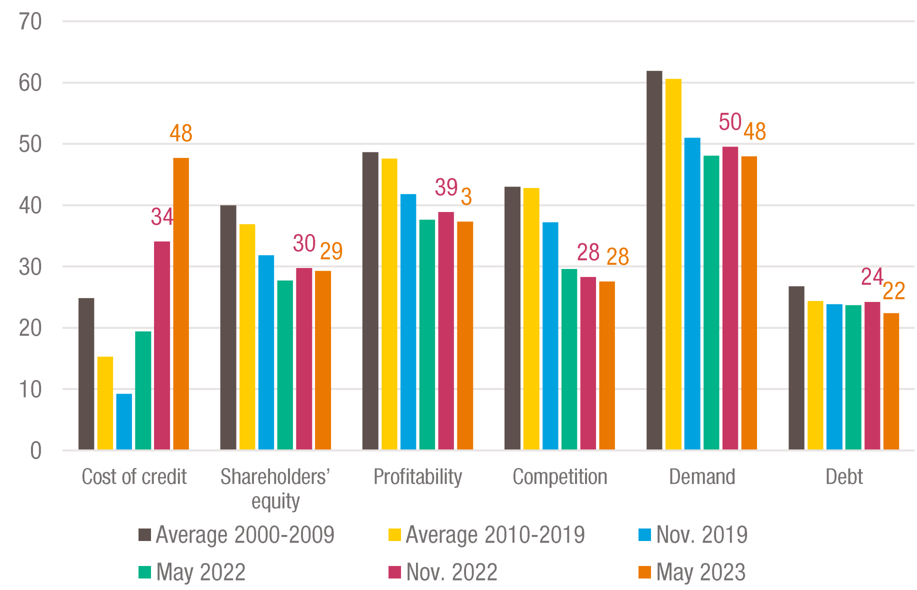
The cost of credit, principal obstacle to investment

Half-way through 2023, the cost of credit has become the principal obstacle to investment, on a par with opportunity constraints.

- **In a context of sharp rises in interest rates** (cf. inset)**, the cost of credit has, logically enough, become the leading obstacle to investment, cited by nearly half of SMEs** (48% after 34% last November and 19% a year ago). SMEs in Transport, Construction and Commerce are proportionately more numerous in considering the cost of credit as an obstacle to their investments (59%, 53% and 51% respectively).
- **The weakness of demand still constitutes a major obstacle to investment**, also cited by 48% of SMEs, a proportion that has fallen slightly over the half-year and been stable over a year. SMEs in Construction and Commerce remain the most numerous to cite weakness of demand as an obstacle to investment (53% and 52% respectively, proportions that have been stable over the last year), while high inflation continues to affect household consumption, and the rise in interest rates, together with the tightening of access to credit in general, is stifling their investments. In contrast, Tourism SMEs' investment appears to be suffering much less from demand constraints than last year (41% after 51% in May 2022).
- **Poor profitability is the third obstacle mentioned by managing directors** (37%), slightly down these last 6 months (39%). However, it represents the principal obstacle to investment for SMEs in Tourism (45% consider that it represents an obstacle, a proportion generally stable over the last year).
- **Balance-sheet constraints identified by SMEs have shown little change**. An insufficiency of equity is raised as an obstacle to investment by 29% of managing directors, a proportion that has remained virtually stable, still below that observed before the public health crisis (32% in November 2019). Excessive indebtedness is cited by fewer SMEs than last November (22% after 24%).

• GRAPH 11: EVALUATION OF OBSTACLES TO INVESTMENT

SERIOUS OR INSURMOUNTABLE, IN %



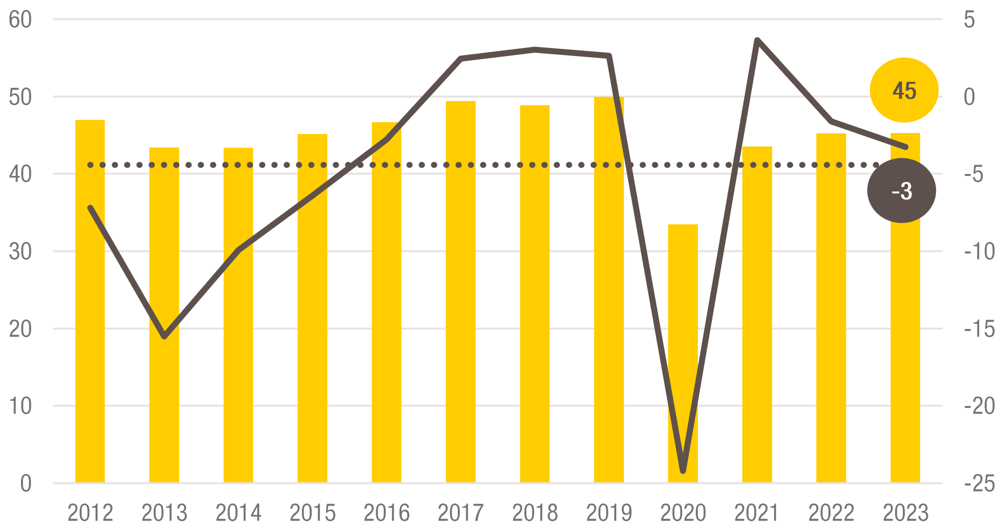
Scope: Total (N = 5011)
Source: Bpifrance Le Lab

The increase in the cost of credit is a consequence of an inflationary context that has led the European Central Bank (ECB) to normalize its monetary policy, through a progressive reduction in its balance sheet from March 2023 and a rise in its policy interest rate by 400 base points from July 2022. The interest rate of the ECB's principal refinancing operations thus stood at +4% in June, versus 0% a year earlier. This rise has an impact on the interest rates of loans accorded by the banks to households and companies. The annual interest rate on new loans accorded to SMEs thus reached +4.34% in April 2023, compared with 1.41% a year earlier, according to the Banque de France's data.

SME investment expected to slow slightly in 2023

In 2023, SMEs are still fewer in number to invest than before the public health crisis.

• GRAPH 12: EVOLUTION OF INVESTMENT FOR THE CURRENT YEAR



Scope: Total (N = 5011)
Source: Bpifrance Le Lab

45% of SMEs declare having invested or intending to do so in 2023, a proportion that has remained stable over a year but is still below its pre-crisis level (50% in 2019 and on average over a long period).

- SMEs in Industry, which invest the most structurally, intend investing in proportions close to those observed before the public health crisis (58% of them intend investing in 2023; versus 60% in 2019 according to the May 2019 survey). More Construction and Tourism SMEs look set to invest this year (both sectors +3 pts, to 49% and 41% respectively), in proportions once again close to those observed before the public health crisis. SMEs in Commerce, where investment is structurally low, would be even fewer in number than last year to invest (33% after 36% in May 2022 et 42% in May 2019). In the Services and Transport sectors, proportions have remained relatively stable over a year but, here too, well below their levels prior to the public health crisis (by 6 pts and 14 pts respectively).

The indicator regarding the evolution in amounts invested or budgeted this year has dropped 1 point over a year, now standing at –3, a level close to its long-term average (–4).

- The amounts invested appear to be falling in Commerce and more so in Transport: the balances of opinion have fallen by 3 and 8 points respectively to –6 and –11, Transport being the only sector where the balance of opinion is below its long-term average. The indicator remains generally stable in the other sectors.

Little change where sources of finance are concerned: 39% of investments are financed by the banking sector and 37% are self-financing (the remainder being financed by contributions from partners or a parent company, by lease or by other external resources).

With regard to destination, managing directors envisage further reducing their material investments (50% of investments after 53% in May 2022 and 60% in May 2021), mostly in favour of property investments (42% after 40% in May 2022 and 35% in May 2021), and also intangible investments (8% after 7% and 6%).

Green investment remains concentrated in a third of SMEs

35% of SMEs declare that they have made green investments in 2022. Waste sorting is the most favoured area, followed by the purchase of more energy-efficient production plant.

Environmental projects (energy savings, waste management, etc.) are cited by more and more SMEs as destinations for their investments according to the Baromètre Bpifrance Le Lab - Rexecode.

However, 65% of SMEs declare that they have made no green investment in 2022, a higher proportion than in 2021 (58% according to the mid-2022 SME survey). **On the other hand, the proportion of SMEs devoting more than 10% of their capital expenditure to their ecological and energy transition has climbed 3 points to reach 14%.**

- SMEs of at least 10 employees invest more in this area: 47% of them made green investments in 2022 (with 20% at more than 10% of their total investments), compared with 33% of SMEs of less than 10 employees.
- The Tourism sector invests more, proportionately, in the ecological and energy transition, with almost half of SMEs (49%) having made green investments in 2022, 18% with 10% or more of their capital expenditure. It is the only sector to have increased its green investments compared with 2021 (then 45%). SMEs in Industry and Transport are also slightly more numerous in proportion to invest in the ecological and energy transition (40% and 37% respectively).
- It is to be noted that nearly a quarter (24%) of SMEs in Transport have reportedly devoted more than 25% of their investment expenditure to this area, the highest proportion of all the sectors. The proportion of SMEs making green investments has seen the biggest fall in Construction, which also has the lowest proportion of all the sectors (31% after 45% in 2021).

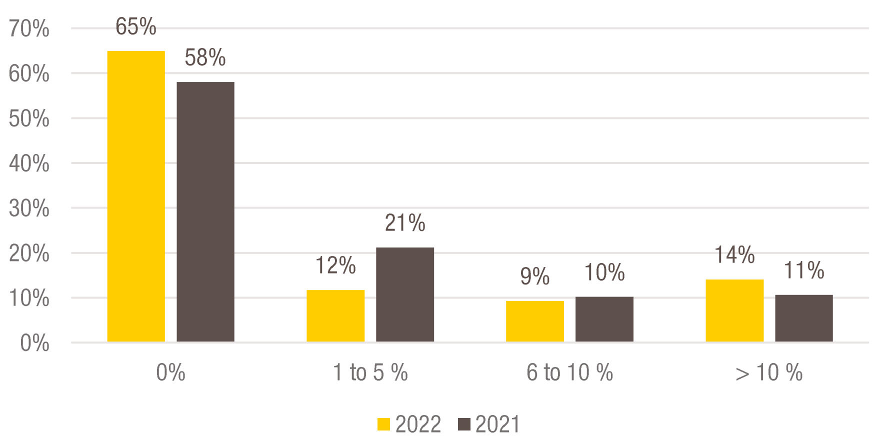
The putting in place of a waste-sorting or recycling system is the most favoured option among green investments made, cited by 43% of SMEs concerned. The purchase of more energy-efficient equipment comes in second place (37%) particularly cited by SMEs in Tourism (56%) and Transport (51%).

- Renewal of the vehicle fleet is cited by a third (32%) of SMEs making green investments and is obviously the principal investment target among Transport SMEs (59%).

More SMEs envisage increasing their green investments in 2023 (18%) than reducing them (13%). Most intend maintaining similar expenditure on green investments.

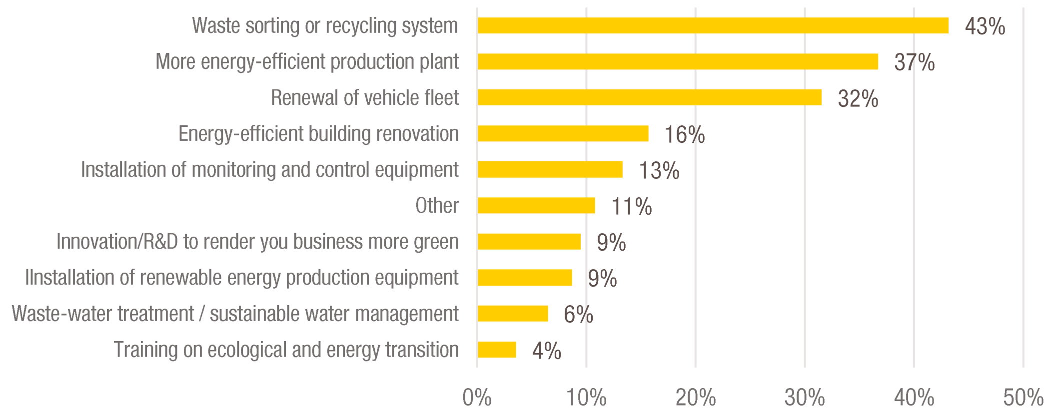
- The balance of opinion relating to green investment prospects is thus positive (+5), in contrast with that relating to total investment (–3, cf. p. 16).
- Industry SMEs are the most numerous to plan an increase in their green investments in 2023 (24%, versus 15% planning a reduction). Only Transport SMEs are slightly more numerous in seeking a reduction this year (16%) than an increase (15%).
- The larger the SMEs, the more they envisage increasing their green investments expenditure: 11% of SMEs of less than 10 employees versus 21% of SMEs of 10 employees or more. This proportion attains 34% for SMEs of 100 employees or more.

• GRAPH 13: GREEN INVESTMENTS AS A SHARE OF TOTAL INVESTMENTS



Scope: Total (N = 5011 in 2022 / N = 4595 in 2021)
Source: Bpifrance Le Lab

• GRAPH 14: PRINCIPAL TARGETS FOR GREEN INVESTMENTS IN 2022



Scope: SMEs having made green investments in 2022 (N = 2159)
Source: Bpifrance Le Lab

FOCUS

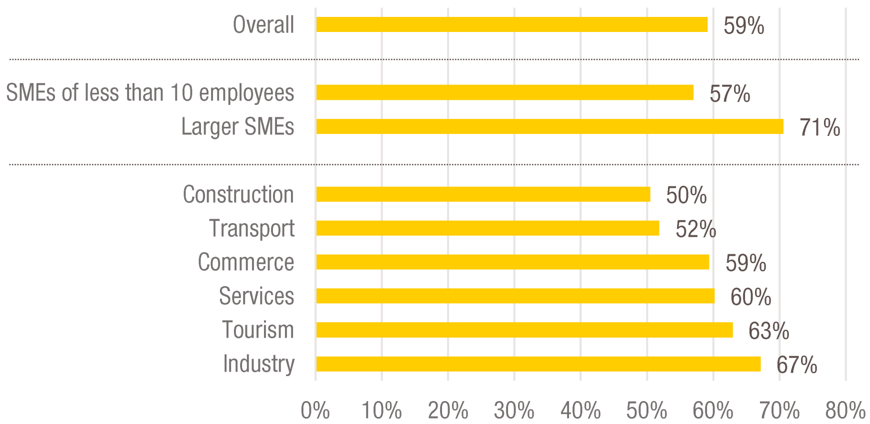
Nearly 60% of SMEs adopted energy-saving measure in 2022 and a large majority intends perpetuating them in 2023

The energy crisis, which has produced a surge in gas and electricity prices, has led many companies to reduce their energy consumption. Thus, 59% of SMEs implemented energy-saving measures* in 2022.

- Industry and Tourism SMEs are proportionately the most numerous to have implemented energy-saving measures in 2022 (67% and 63% respectively).
- The proportion of companies having adopted energy-saving measure in 2022 increases with the size of the company, ranging from 57% for SMEs of less than 10 employees to 84% for SMEs of 100 employees or more.

Graph 15: Proportion of SMEs having adopted energy-saving measures in 2022

In %

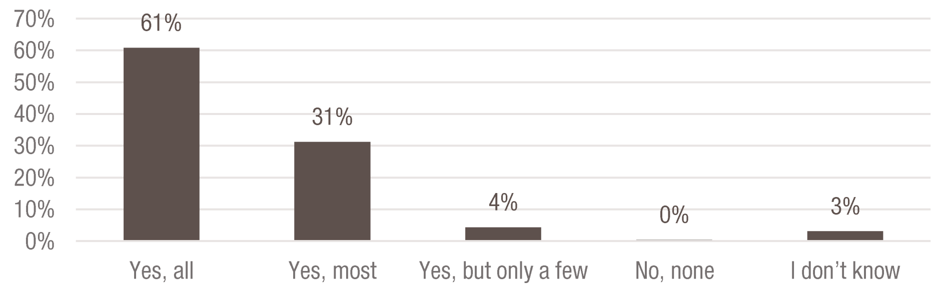


Scope: Total (N = 5011); Source: Bpifrance Le Lab

*All measures reducing energy consumption without affecting output, such as reductions in workplace temperatures, lighting modification or reduction, ecological practices, encouragement of soft mobility, rationalisation of digital operations (email/chat, data storage...), etc.

Graph 16: Extension in 2023 of energy-saving measures put in place in 2022

(In %)



Scope: SMEs having adopted energy-saving measures in 2022 (N = 3361)

Source: Bpifrance Le Lab

Almost all SMEs (96% of them) intend extending these measures at least in part (61% in full), with the remainder being undecided.

- 61% of them intend extending all the energy-saving measures implemented in 2022. 31% intend extending most of them and 4% just a few. Hardly any SME envisages not extending them, even in part. 3% remain undecided.
- SMEs in Construction are more undecided, 10% of those having adopted energy-saving measures still unsure whether they intend extending them in 2023. Thus only 83% of them want to extend the majority of the adopted measures, versus 91% to 95% in the other business sectors.
- If SMEs of less than 10 employees were relatively fewer to implement energy-saving measures in 2022, they were proportionately almost as numerous (among those having adopted them) in intending to extend them as SMEs of 10 employees or more (60% and 64% respectively).

Concerning electricity consumption alone, an analysis made by the INSEE shows that, in 2022, half the reduction in consumption of energy-intensive industries (–22% between December 2021 and December 2022) appears to be attributable to energy-saving measures, the other half being due to a fall in these companies' production. The energy-saving measures tended to be more effective for companies that had only slightly increased their energy-efficiency in previous years and thus had greater scope for doing so.

03.

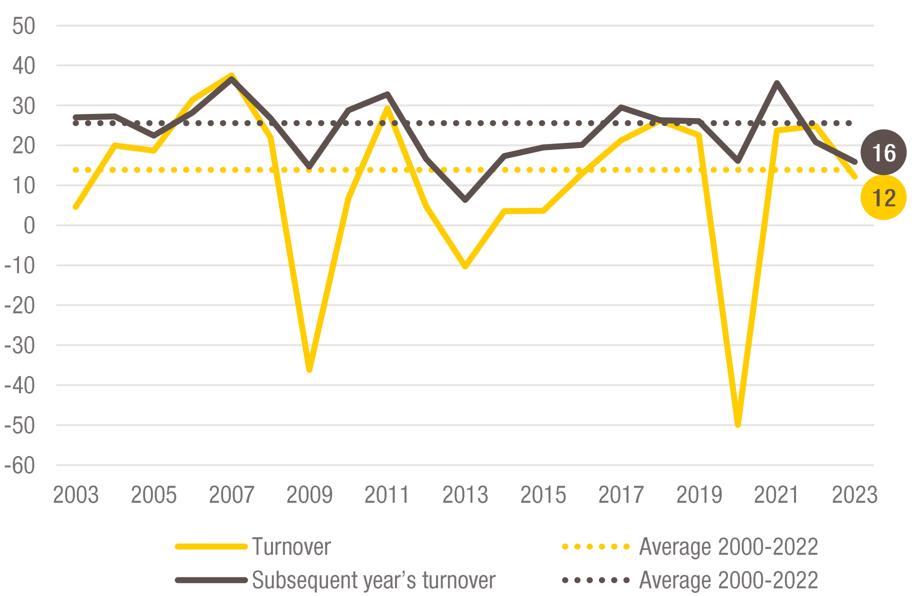
OUTLOOK FOR 2024

Business prospects still dismal for 2024

The business forecast indicator has continued to fall, returning to its 2020 levels.

• GRAPH 17: EVOLUTION IN BUSINESS FOR THE CURRENT YEAR AND THE COMING YEAR

BALANCE OF OPINION IN %

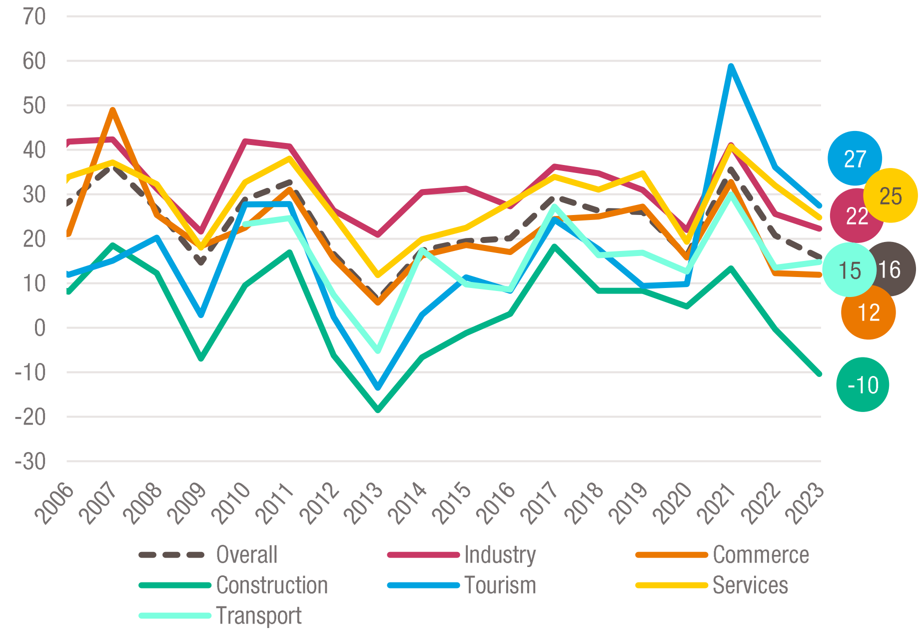


Note: the balance of opinion on the development in turnover anticipated for the following year fell by 5 points over one year to stand at +16 in May 2023 for 2024.
Scope: Total (N = 5011); Source: Bpifrance Le Lab

The impact of interest rates and inflation on home demand could limit the upturn in business in 2024. In its Macroeconomic Projections of June 2023, the Banque de France predicts growth in real GDP of +1.0% in 2024 after +0.7% in 2023. Clearly, prospects for 2024 are subject to numerous uncertainties, particularly where geopolitics, energy, finance and inflation are concerned.

• GRAPH 18: EVOLUTION IN BUSINESS FOR THE COMING YEAR BY SECTOR

BALANCE OF OPINION IN %



Scope: Total (N = 5011); Source: Bpifrance Le Lab

Managing directors are not very confident regarding their companies' business prospects for 2024.

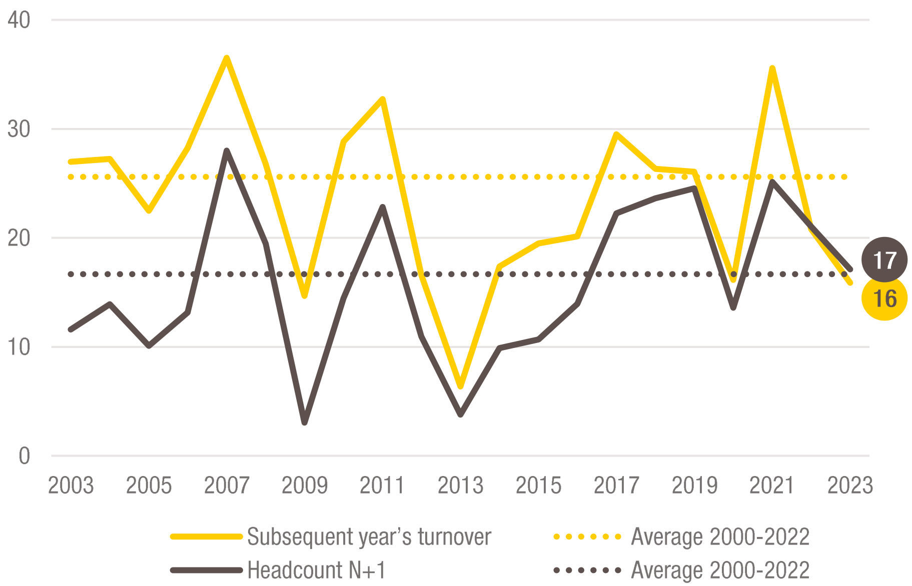
- The balance of opinion regarding business prospects for the coming year has continued to fall (–5 points over a year to +16) and thus stands well below its long-term average (+26).
- With production costs remaining high (cf. INSEE index) and the interest rate rise affecting the property market, business prospects have deteriorated sharply in Construction, where the fall in the business forecast indicator is the most significant (–10 points over a year to –10, 16 points below its long-term average). Prospects also look grim in Services and, to a lesser degree, in Industry (–7 and –4 points respectively to +25 and +22). On the other hand, the business forecast indicator has stabilized in Commerce, at a level well below its long-term average, and in Transport, sectors that seem to be suffering more in 2023. The indicator sees its highest level in Tourism, at +27, certainly down by 9 points over a year but still at a much higher level than its long-term average (+18). SMEs in the sector thus anticipate a continuation of their recovery in 2024, though at a less vigorous pace.
- Managing directors of SMEs of less than 10 employees are more pessimistic: the business forecast indicator has fallen 8 points to +4, significantly below the long-term average (+17), versus –3 points to +22 for SMEs of at least 10 employees (for a long-term average of +31).
- Prospects look better for exporting SMEs (–4 points to +34, a level slightly below its long-term average of +39) than for those catering uniquely for the home market (–5 points to +10, 12 points below its long-term average)

A moderate slow-down in recruitments in 2024

The employment forecast indicator has stalled at a level close to the average observed over the 2000-2022 period.

- GRAPH 13: DEVELOPMENT OF TURNOVER AND EMPLOYMENT FOR NEXT YEAR

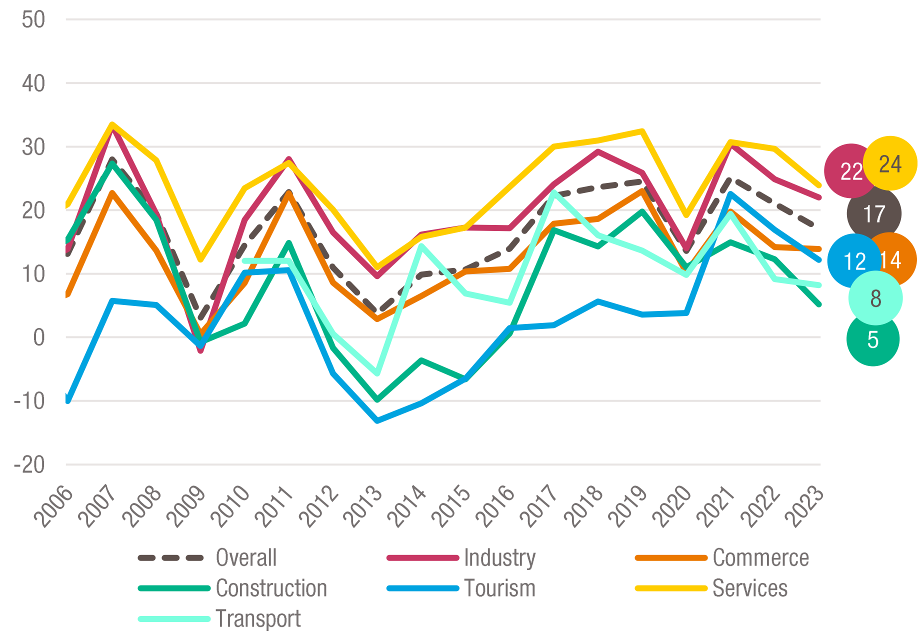
BALANCE OF OPINION IN %



Note: the balance of opinion on the development in turnover anticipated for the following year fell by 5 points over one year to stand at +16 in May 2023 for 2024.
Scope: Total (N = 5011); Source: Bpifrance Le Lab

- GRAPH 13: EVOLUTION IN EMPLOYMENT FOR THE FOLLOWING YEAR BY SECTOR

BALANCE OF OPINION IN %



Scope: Total (N = 5011); Source: Bpifrance Le Lab

Recruitments look set to slow down in 2024 but should remain relatively dynamic in view of the business prospects.

- The forecast indicator regarding headcounts has shed 4 points over a year, to +17, its long-term average level. It thus exceeds the business forecast indicator, a relatively rare occurrence historically.
- Anticipated evolutions in recruitments by sector are consistent with the corresponding business development expectations: the indicator has fallen most sharply in Construction (–7 points to +5), standing 4 points below its long-term average. It has dropped 5 points in Tourism though still remaining well above the average observed over the 2000-2022 period. It is also down in Services (–6 points to +24) and, to a lesser extent (–3 points to +22), in Industry, where it still remains above its long-term average. The indicator has remained virtually stable in the Commerce and Transport sectors.
- Recruitments appear to remain the most dynamic among exporting SMEs, innovating SMEs and SMEs of at least 10 employees. While they also registered a slight fall in the employment forecast indicator, they are proportionately much more numerous in envisaging an increase in their headcounts in 2024.

Regional economic situation: summary

The slow down in business in 2023 can be observed across the country. Its severity varies from region to region.

Business looks more dynamic than average in the Centre-Val de Loire, Île-de-France and PACA regions, with SMEs anticipating growth of between +1.6% and +2.7% (versus +1% on average for all regions taken together). The balance of opinion, down by 7 to 8 points over a year, remains well above its long-term average, in contrast with what can be observed in the other regions. On the other hand, business appears less dynamic in Bourgogne-Franche-Comté, Grand-Est, Hauts-de-France and Normandy, where SMEs foresee, on average, zero growth in their turnover. Overall, employment is holding up better than business, particularly in Centre-Val de Loire and PACA, where the balances of opinion have gained 7 and 4 points respectively over the half-year. It has nevertheless fallen over a year, as it has across all the regions. Recruitments are showing strong signs of slowing down in Pays de la Loire, the region that has registered the sharpest fall in the balance of opinion this half-year (–10 points), and in Normandy, where they are particularly sluggish, the balance of opinion being the lowest of all the regions (+9).

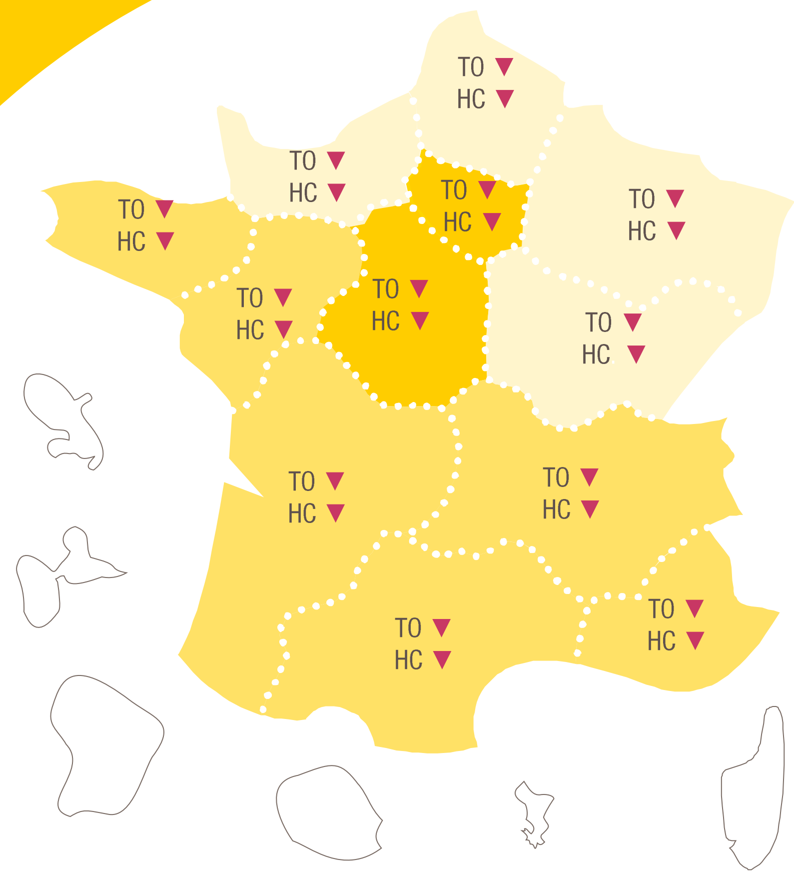
Normandy and Île-de-France SMEs seem to be making relatively little investment. In Normandy, 41% of SMEs report intending to invest this year, a proportion that has fallen markedly over a year (50% in May 2022), and only 33% would do so in Île-de-France. These proportions are well down on their levels before the public health crisis. Conversely, more than half of SMEs in Bourgogne-Franche-Comté, Brittany and Pays de la Loire intend investing this year. Moreover, the amounts invested are increasing sharply in Bourgogne-Franche-Comté. However, a reduced pace of investment is expected in Pays de la Loire, Nouvelle Aquitaine and Hauts-de-France.

SMEs' cash-flow difficulties, which were largely contained during the public health crisis thanks to public measures such as state-guaranteed loans, have slightly increased. SMEs in Occitania and PACA are more numerous in having encountered difficulties (28% of them versus 25% on average nationwide), with SMEs in the PACA region reporting a marked deterioration in their cash flow over the last 6 months (the balance of opinion on recent evolution in cash flow has dropped 10 points in 6 months to –17, the lowest level of all the regions). Conversely, SMEs in Normandy are the fewest (18% of them) in having encountered difficulty with cash flow in the course of the last 6 months.

For 2024, the business indicator has improved in Centre-Val de Loire (+3 points over 1 year), Brittany and Hauts-de-France (both +1 point). On the other hand, it has fallen in all the other regions. SMEs in the PACA, Normandy, Occitania and Pays de la Loire regions are the most pessimistic (–10 to –11 points). A slow-down in recruitment is also expected, except in Centre-Val de Loire where the balance of opinion is up by 6 points, and in Auvergne-Rhône-Alpes (balance stable over 1 year).

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 -0.4 % to +0.4 %
- From 0.5 % to 1.9 %
- 2.0% 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 2022	May 2022	May 2023	Change/ May 2022	Average 2000 to 2022	May 2022	May 2023	Change/ May 2022	Average 2000 to 2022	May 2022	May 2023	Change/ May 2022
YEAR 2023 (1)												
All SMEs	**14**	**25**	**12**	↘	**8**	**21**	**14**	↘	**-4**	**-2**	**-3**	↘
10 – 250 employees	21	32	20	↘	14	28	19	↘	-2	2	-1	↘
Fewer than 10 employees	4	12	-2	↘	0	8	4	↘	-8	-9	-9	→
Commerce	13	9	2	↘	7	13	8	↘	-6	-3	-6	↘
Construction	8	8	6	↘	6	13	8	↘	-9	-8	-8	→
Industry	17	35	16	↘	7	29	18	↘	0	2	1	↘
Services	19	29	16	↘	13	26	18	↘	-3	0	-1	↘
Tourism	5	61	40	↘	0	16	13	↘	-12	-6	-6	→
Transport	9	26	11	↘	7	15	9	↘	-7	-3	-11	↘
YEAR 2024 (1)												
All SMEs	**26**	**21**	**16**	↘	**17**	**21**	**17**	↘				
10 – 250 employees	31	25	22	↘	20	25	21	↘				
Fewer than 10 employees	17	12	4	↘	12	13	9	↘				
Commerce	25	12	12	→	14	14	14	↘				
Construction	6	0	-10	↘	9	12	5	↘				
Industry	34	26	22	↘	19	25	22	↘				
Services	31	32	25	↘	24	30	24	↘				
Tourism	18	36	27	↘	5	17	12	↘				
Transport	16	14	15	↗	11	9	8	↘				

(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, etc.) 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 77th half-yearly SMEs' business climate survey, 39,157 companies in non-agricultural commercial sectors, with from 1 to 249 employees and a turnover of less than €50 M, were questioned in the spring of 2023.

5,011 replies, received between the 11th May and 12th June 2023 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.

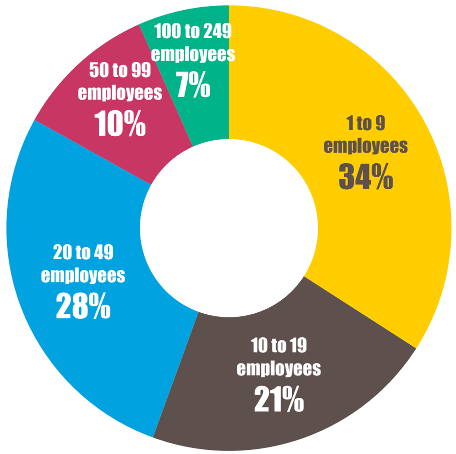
Additional questions relating to the state-guaranteed loans, supply difficulties, salary and price increases, green investments and energy use and savings were introduced for the whole sample.

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

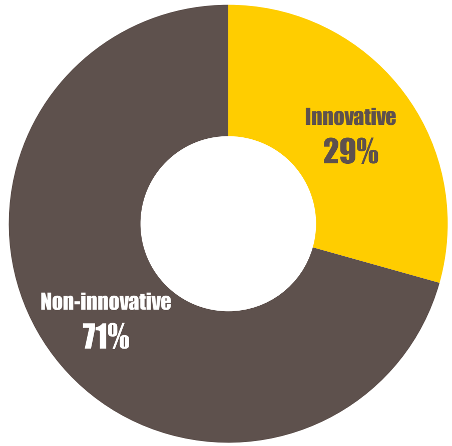
- The number of employees, in order to correct an under-representation of SMEs of less than 10 employees among the respondents
- The business sector, to correct for an over-representation of Industry and an under-representation of the Tourism sector

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

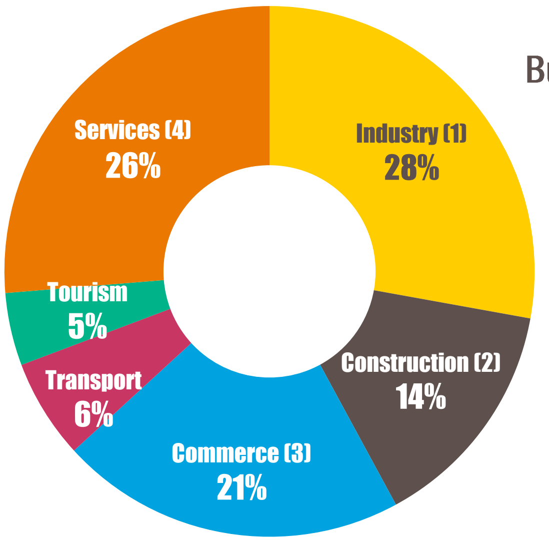
Size



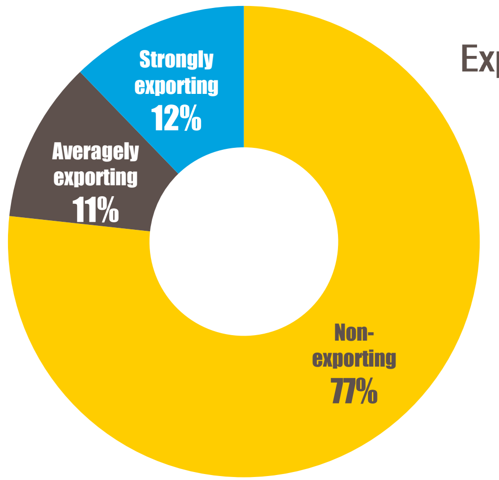
Innovative nature



Business sector



Export



(1) 3 % food, 14 % intermediate goods, 8% capital equipment, 3 % consumer goods
(2) 12% construction, 2% public works
(3) 2% automobile trade and repairs, 13% wholesale, 6% retail
(4) 22 % corporate services, 4% retail services

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SERVIR L’AVENIR

July 2023

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