78TH HALF-YEARLY SMES' BUSINESS CLIMATE SURVEY

COOLING

January 2024

Weak growth in 2023 and 2024

Business activity among SMEs slowed sharply in 2023. Managing directors expect turnover growth of barely 1%, after an estimated +6% in 2022. On the one hand, supply constraints are easing, particularly procurement difficulties, but on the other, demand constraints are increasing: order books are shrinking significantly, and weak demand is curbing investment for more than half of the companies surveyed. Inflation and a savings rate still higher than before the health crisis have weighed on household consumption and, consequently, on business prospects.

The slowdown in activity is widespread across all sectors, with nonetheless marked disparities. Construction and Transport are particularly hard hit, while Tourism continues to post above-average growth, still seemingly benefiting from a slight post-Covid catch-up effect. Within Industry, the consumer goods segment is experiencing the greatest difficulties, while the agri-food industry is holding its own.

Differences can also be seen by size: SMEs with fewer than 10 employees are seeing business decline, while it remains fairly dynamic at SMEs with over 50 employees.

Consistent with the slowdown in business, employment is less dynamic, but once again is showing a degree of resilience. The employment indicator fell less sharply than the business indicator and is now close to its long-term average.

The financial position of SMEs is holding up. Public schemes, such as the state-guaranteed loan (SGL), helped to preserve companies' cash flow at the height of the crisis. The cash flow position has deteriorated since 2021, but from historically healthy levels. The cash flow indicator for the last six months has fallen very slightly (-1 point since last May to -11) but remains above its long-term average. 26% of SMEs now deem their cash flow to be difficult, slightly more than last year (24%) but less than the average since the 2000s (29%). Business profitability remains unchanged in 2023 compared to last year.

SMEs continue to consume their SGLs. 66% of those who have obtained one have used most of it (compared with 64% last May and 56% in November 2022), including 47% who have used almost all of it. The risk of non-repayment still appears limited: 20% expect to fully repay their SGL by the end of 2023, 75% plan to spread repayment over several years, and 4% fear not being able to repay it, a stable proportion since last May, and down slightly year-on-year (5% in November 2022).

The effects of the European Central Bank's (ECB) monetary policy tightening continue to be felt. The 450-basis point increase in key rates between July 2022 and September 2023, amidst an inflationary environment, has resulted in higher interest rates for businesses: the interest rate on new loans to SMEs rose from 1.41% in April 2022 to 5.12% in September 2023. The cost of credit has thus become the main obstacle to investment, cited by 56% of SMEs (34% one year ago and 10% two years ago), closely followed by weak demand (52%), also on the rise. Even so, access to credit is still considered relatively flexible: 11% of SMEs seeking to invest say they have encountered difficulties in financing their investments, a stable proportion over the past year and close to that seen at the end of 2019 (10%).

Against this backdrop, investment is expected to slow in 2023. Slightly fewer SMEs will be announcing investments in 2023 than in 2022 (46%, down from 47%, a lower proportion than before the health crisis - 54%), and capital expenditure is slowing (balance of opinion down 4 points year-on-year to -5). On the other hand, SMEs are reported to have accelerated the amounts invested in the ecological and energy transition (balance of opinion up 2 points, to +7), even though fewer of them will have made green investments in 2023 (30% after 35% in 2022).

Business prospects for 2024 are gloomy. The business forecast indicator is down 2 points, and is far from the average observed over the 2000-2022 period. Business confidence is particularly worsening in the Construction and Transport sectors, which were already the worst impacted in 2023. Business prospects are stable in the other sectors. Employment intentions are also less positive than last year. The forecast indicator is down by 5 points, but remains at the average level seen since 2000. As for business activity, the indicators for the number of employees in 2024 show the sharpest declines in the Construction and Transport sectors. SMEs expect their financial position to deteriorate further in 2024. The indicator on future cash flow trends fell by 7 points over the half-year, and is now well below its long-term average. The forecast profitability indicator improved on last year, but remains well below its historical average. 20% of managing directors expect their company's profitability to fall in 2024, compared with 16% expecting it to rise. Investments are also expected to be less robust in 2024. Slightly fewer SMEs are expected to invest (50% in 2023, compared with 51% at the end of 2022), and the amounts invested are expected to decline. Investment would be more resilient in Industry.

This study is based on the replies from 4,999 SMEs (1 to 249 employees), received between 9 November and 5 December 2023.

SALIENT POINTS

1

In 2023, business activity will slow sharply, as will employment, albeit holding up better. Wide disparities by sector and size.

SMEs are expecting their average turnover growth of 1% in 2023, compared with an estimated 6% last year, in an environment where supply constraints are easing whilst demand constraints are intensifying. This average masks disparities by size, with SMEs of less than 10 employees seeing their business decline whereas SMEs with more than 50 employees are showing some momentum, and by sector, with Transport and Construction experiencing the most difficulties. Hiring is expected to slow to a lesser extent, with the indicator dropping 8 points over the year to +6, slightly below its long-term average of +8.

2

The cash flow situation on average remains relatively favourable.

Although the cash flow of SMEs has deteriorated since the beginning of 2022, it remains at a fairly healthy level. The balance of opinion has fallen by 1 point since last May but remains above its long-term average (-11 compared with -15). 26% of SMEs consider their cash flow to be difficult, a proportion that has risen year-on-year (24%) but is lower than the 2000-2002 average (29%).

3

SMEs continue to draw down their SGLs. The risk of non-repayment remains limited.

66% of SMEs with an SGL said they had used most of it (with 47% having used almost all of it), an increase of 2 points over six months and 10 points year-on-year. 4% fear that they will not be able to repay the loan, stable compared to last May.

4

Investment slowed in 2023, curbed by the sharp rise in the cost of credit, but access to finance is still deemed to be relatively easy.

46% of SMEs invested in 2023 or planned to do it by the end of the year, a proportion down slightly year-on-year (-1 point) and well below the pre-crisis level (51% in 2019). The indicator for growth in the amounts invested has fallen by 4 points to -5, while the cost of credit is an increasingly powerful brake on investment, cited by 56% of SMEs (34% one year ago and 19% in May 2022). However, the proportion of managing directors experiencing difficulties in accessing investment credit remains relatively low (11%, +0.7 point year-on-year). Although fewer SMEs report having made green investments in 2023, the related expenditure is expected to increase (balance of opinion at +7, after +5 for 2022).

5

The outlook for 2024 suggests that business will remain sluggish.

The balance of opinion on the change in expected business activity fell by 2 points to +4, edging further away from its long-term average (+17). In line with this, managing directors are planning to curb recruitment. Investment spending is also expected to be lacklustre, with the balance of opinion falling by one point to below its long-term average.

Key Figures

+8

BALANCE OF OPINION REGARDING CHANGE IN TURNOVER IN 2023

DOWN BY 4 POINTS OVER 6 MONTHS AND 19 POINTS YEAR-ON-YEAR

+4

BALANCE OF OPINION ON BUSINESS PROSPECTS FOR 2024

DOWN BY 2 POINTS YEAR-ON-YEAR

36%

SHARE OF SMES ENCOUNTERING SIGNIFICANT PROCUREMENT DIFFICULTIES

DOWN BY 10 POINTS YEAR-ON-YEAR

56%

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

UP BY 22 POINTS YEAR-ON-YEAR

4%

SHARE OF SMES FEARING THEY WILL NOT BE ABLE TO REPAY THEIR SGL

66% STATED HAVING SPENT MORE THAN HALF

30%

SHARE OF SMES HAVING COMPLETED GREEN INVESTMENTS IN 2023

DOWN 5 POINTS COMPARED TO 2022

CONTENTS

01.

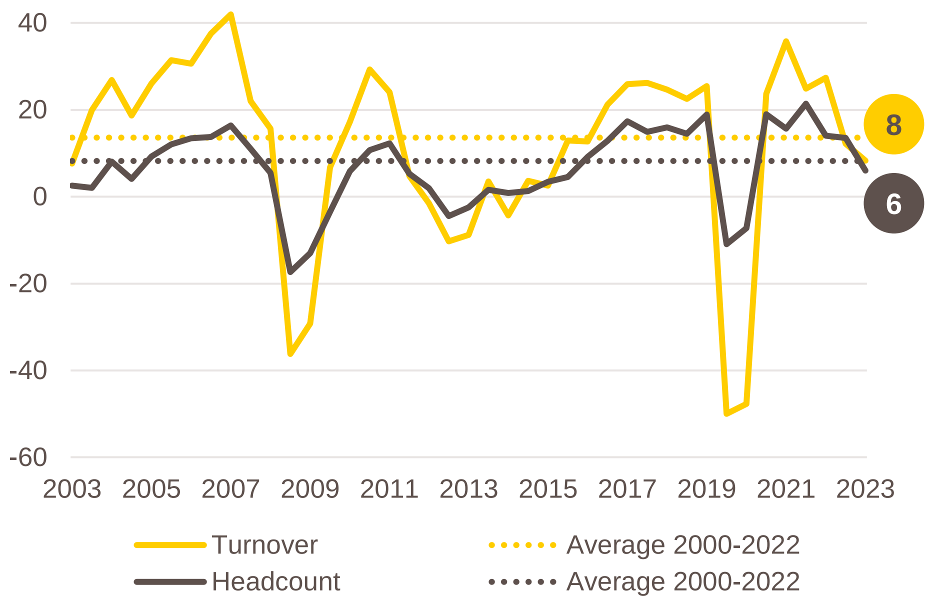
ACTIVITY AND EMPLOYMENT

Slowdown in activity and recruitment in 2023

The business activity of SMEs has slowed sharply this year, as has employment, but to a lesser extent. SMEs with less than 10 employees are reporting a decline in business, while large SMEs are showing resilience.

- **GRAPH 1: CHANGE IN BUSINESS AND HEADCOUNT FOR THE CURRENT YEAR**

BALANCE OF OPINION IN %



Note to the reader: the balance of opposing opinions on the change of business activity for this year moved from +12 to +8 between the surveys of May and November 2023.
Scope: total (N = 4999)

Source: **Bpifrance Le Lab**

The turnover of SMEs increased very slightly in 2023, marking a clear slowdown compared to 2022; SMEs with fewer than 10 employees are struggling, while SMEs with more than 50 employees are showing momentum.

- The balance of opinion regarding turnover growth this year continued to decline at the end of 2023 (-4 points over 6 months, -19 points year-on-year). At +8, it is now 6 points below its long-term average (+14). This drop in the balance of opinion is due to a higher proportion of managing directors reporting a decline in their business activity in 2023 (27%, compared to 21% last May and 19% one year ago). On the other hand, 36% report an increase in their turnover (33% six months ago) and 37% report flat turnover.
- At +0.6%, average turnover growth was revised slightly downwards compared with expectations last May (+1.2%), and much lower than in 2022 (6% estimated last November), against a backdrop of weakening demand. Indeed, order books contracted in the second half of the year, with the indicator dropping 10 points over the period to -11, and now standing below its long-term average (-7). However, procurement problems have eased slightly since the spring, even though they continue to significantly limit business for 36% of SMEs (compared with 40% last May).
- SMEs with fewer than 10 employees are seeing their business decline, while SMEs with more than 50 employees are reporting turnover growth in line with their historical average. Among SMEs with fewer than 10 employees, the balance of opinion has slipped further into negative territory (-3 points over 6 months to -5). On average, managing directors of SMEs with fewer than 10 employees expect their turnover to contract by 2.2% in 2023 (compared to an average of +0.1% over the period 2000-2022). Conversely, turnover is expected to increase by +2.0% for SMEs with 10 or more employees, and even by +3.3% for SMEs with 50 to 99 employees (+3.4% on average over 2000-2022) and +3.8% for the largest SMEs with 100 to 250 employees (+3.9% over 2000-2022). SMEs with 10 to 49 employees are seeing their business increase, but at a slower pace than that seen on average over the long term.
- Exporting companies, like innovative companies, are facing a sharper slowdown in their business but will continue to post, as usual, more sustained growth (+2%) than their non-exporting and non-innovative counterparts (0%).

Employment slowed less sharply than business activity in 2023.

- The indicator for the number of employees in SMEs, which had remained high in the spring, fell by 8 points over the first half of the year. At +6, the year-on-year fall (-8 points) is much less pronounced than that for business activity. It now stands slightly below its long-term average (+8).
- Like the business activity indicator, the headcount indicator is better for the largest SMEs.

In its Economic Outlook from December, INSEE showed business growth of +0.8 % in 2023, following growth of +2.5 % in 2022.

Business
A general, but unequal, slowdown across all sectors

The slowdown is uneven across business sectors. The Transport sector is the worst affected.

The slowdown in business varies in degree from sector to sector.

- SMEs in the Tourism sector continued to catch up in 2023. At +33, the balance of opinion is down 24 points year-on-year, but remains well above its long-term average (+5) and the highest among the sectors surveyed. Despite a clear slowdown, the sector's business is still relatively buoyant (+5% growth in turnover forecast on average for 2023, after +23% estimated for 2022).
- Conversely, the Transport services sector has come to a complete halt. At -4, the balance of opinion plunged by 48 points year-on-year and thus moved into negative territory, well below its long-term average (+9).
- Business activity is also sluggish in the Commerce and Construction sectors. The balances of opinion, down by 17 and 14 points, respectively, year-on-year, stand at low levels (0 and +3, respectively), well below their long-term averages (+13 and +8, respectively).
- Business activity slowed in Services (-11 points year-on-year) and, more sharply, in Industry (-25 points), but growth there remained slightly stronger than in the other sectors excluding Tourism (+1% estimated on average). Among the sub-sectors, the agri-food industry fares best (-6 points year-on-year, +2 points over the half-year), with turnover growth for 2023 estimated at +5% on average.

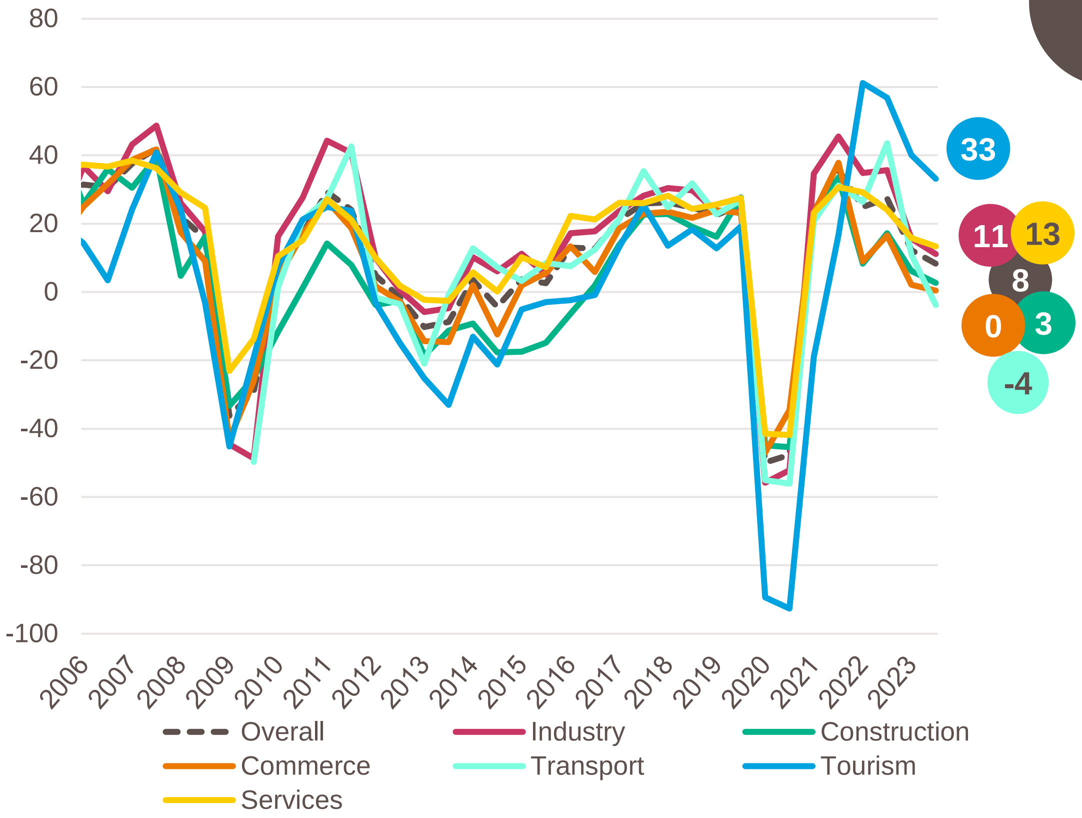
Cf. sectorial focus

- By region, business for SMEs in Île-de-France and Normandy experienced a more moderate slowdown this year than in the other regions (balance of opinion down by 14 and 15 points, respectively, year-on-year). Conversely, business slowed sharply in Bourgogne-Franche-Comté (-26 points), the least buoyant region with estimated turnover down by 1%, and in Centre-Val de Loire (-27 points).

Cf. regional focus

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

BALANCE OF OPINION IN %



Scope: Total (N = 4999)

Source: Bpifrance Le Lab

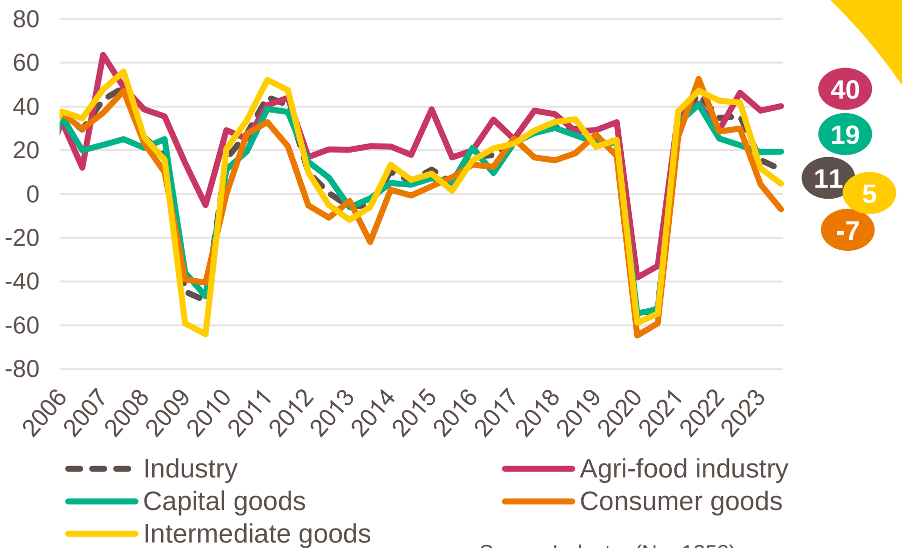
FOCUS

Major disparities within Industry

SMEs in the agri-food and capital goods industries are pulling their weight, while the consumer goods and intermediate goods sectors are experiencing difficulties.

Once again, business activity in the agri-food industry is set to outperform in 2023, with estimated turnover up by an average of +5% (after an estimated +8% in 2022). At +40, the balance of opinion on business activity retreated 6 points year-on-year, but is still well above its long-term average (+27). Activity was more dynamic than average in Capital goods (+2% after an estimated +4% in 2022). Conversely, turnover would have remained stable on average in the intermediate goods sector (+0% after +7% in 2022) and would have contracted in consumer goods (-2% after +4% in 2022). In these two sectors, the balance of opinion falls by 37 points year-on-year (to +5 and -7, respectively), and is well below its long-term average (+16 and +13, respectively).

Graph 10: Balance of opinion on activity by business sector



Scope: Industry (N = 1358)

In 2023, employment slowed in all industrial sectors, and is by far the weakest in consumer goods. The balance of opinion logically fell more sharply in the sectors whose business was most impacted, and especially in consumer goods, where it moved into negative territory (-19 points to -6) at a level well below its long-term average (+5), in contrast to the other sectors, where the indicator is above or equal to the historical average.

Here again, liquidity has deteriorated more sharply over the past 6 months in the consumer goods sector, where the balance of opinion has fallen by 8 points over the half-year (compared with +1 to +2 points in the other sectors), albeit to a level close to its historical average. SMEs in the agri-food industry more often consider their cash flow difficult (32%) and their profitability poor (35%).

Investment is uneven across sectors. It is holding up best in capital goods (more SMEs are investing than last year and investment spending is accelerating). On the other hand, investment fell sharply in the agri-food industry (-14 points year-on-year to -18 compared with an historical average of 0) and intermediate goods (-12 points to -6 compared with -2).

34% of industrial SMEs made green investments in 2023, which is higher than the average (30% across all sectors), but much lower than last year (40% in 2022 according to the May 2023 survey). By sector, SMEs in the consumer goods and intermediate goods industries are the most likely to make green investments: 38% and 36%, respectively, a decline year-on-year but of limited scale (-4 and -2 points). In fact, 20% of companies in these sectors devoted more than 10% of their investments to reducing their company's greenhouse gas emissions and carbon footprint (compared with an average of 13%). Conversely, the proportion of SMEs making green investments fell sharply in 2023 in the agri-food and capital goods industries (-12 points, to 32% and 29%, respectively). The balance of opinion on green capital investment expenditure fell by 12 points in the agri-food industry (to 0), and by 2 points in the consumer goods sector (to +6). Conversely, it rose in the capital goods and intermediate goods branches (+6 and +5 points, respectively), where it reached +13, the highest level among the sub-sectors covered in this survey.

In 2024, business activity is expected to retain more momentum in the agri-food industry than in the other sectors, but grow at a slower rate than in 2023: the balance of opinion fell by 4 points to +21, a much higher level than in the other industrial sectors, but below its long-term average (+34). Business prospects improve for capital goods (+7 points, to +14) and consumer goods (+7 points, to +10). By contrast, the outlook for intermediate goods is unlikely to improve (-2 points, to +2, compared with a historical average of +21). Employment will continue to slow in all sectors, but will remain relatively buoyant in capital goods (-1 point to +26, well above the long-term average of +15). The outlook for investment is good in Industry, except in consumer goods (-11 points year-on-year to +1, compared with the historical average of +15).

Employment
A slowdown in recruitment

Employment slowed in 2023, most strongly in the Transport and Construction sectors, and among SMEs with fewer than 10 employees.

Hiring is expected to be less dynamic in Transport and Construction, consistent with the more sluggish business in these sectors

- The balance of opinion regarding headcount is weakest in Transport and Construction. It stands at around 0, and is well below its long-term average in these two sectors (+7 and +6, respectively). Hiring is also expected to be sluggish in Commerce (-7 points to +4).
- Despite a fall year-on-year (−11 points), the indicator regarding employment in Tourism remains, at +8, well above its long-term average (0), consistent with the sector's continued recovery this year.
- Hiring is expected to remain slightly stronger than average in Industry and Services, despite a definite slowdown (-11 and -5 points, respectively, year-on-year, to +7 and +10). Apart from Tourism, Industry is the only sector for which the employment indicator is not below its long-term average.

Cf. sectorial focus

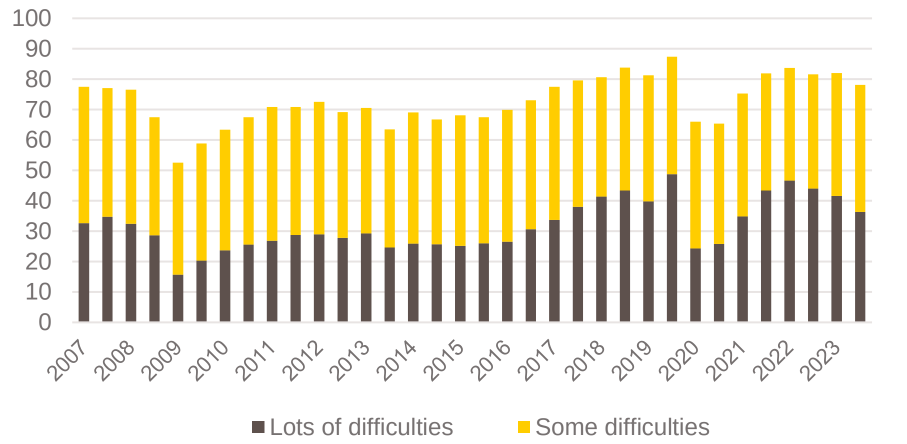
As usual, job creation appears to be more robust among SMEs of at least 10 employees, innovative SMEs and those that are internationally oriented.

- Hiring has come to a halt among SMEs with fewer than 10 employees. Down 8 points year-on-year, the balance of opinion has crossed into negative territory (-5), and is now 5 points below its long-term average. Only 10% of SMEs with fewer than 10 employees increased their headcount this year (compared with 26% of SMEs with at least 10 employees).
- The balance of opinion on employment follows a fairly similar trajectory, regardless of the innovative and/or exporting nature of the company. As usual, hiring remains more dynamic among innovative and internationally oriented SMEs.

Recruitment difficulties eased but remained high.

- After stabilising at a high level for 2 years, recruitment difficulties eased at the end of 2023, to levels that are now slightly lower than those recorded just before the health crisis. 78% of managing directors having sought to recruit said they had encountered difficulties in doing so (82% last May and 74% on average over 2000-2019). In particular, fewer are reporting major difficulties: 36% of them, compared with 42% last May, 44% one year ago and 32% on average before the health crisis.
- Managing directors of SMEs in Industry and Construction are facing the most significant recruitment difficulties (40% and 42%, respectively), even though they have been falling since the spring (44% and 52%, respectively).

• GRAPH 3: SHARE 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 = 4999); Source: Bpifrance Le Lab

The INSEE data reflects stable net creation of private sector salaried employment in the 2nd and 3rd quarters of 2023, following a sustained growth rate in 2021 and 2022. At the end of September 2023, private sector salaried employment increased 0.7% year-on-year and by 6.0% compared to the end of 2019.

02.

FINANCIAL POSITION, ACCESS TO CREDIT AND INVESTMENT

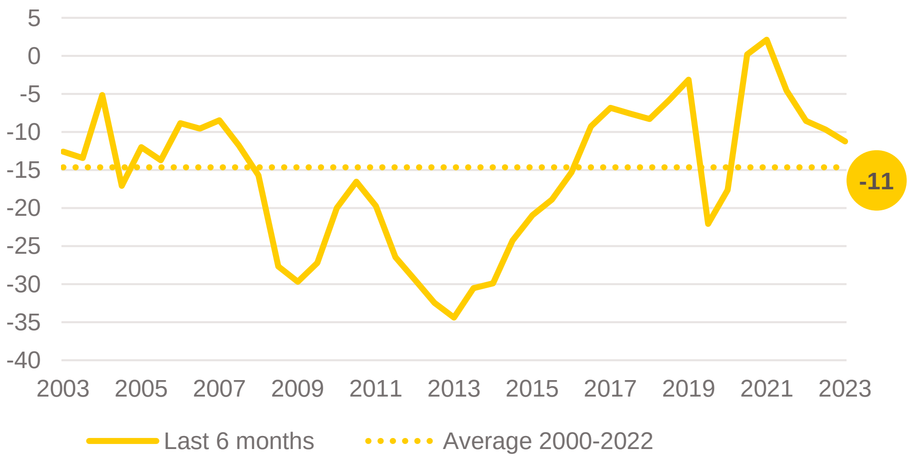
Slight deterioration in cash flow and profitability in 2023

The cash flow situation deteriorated very slightly in 2023, but will remain at comfortable levels on average.

Despite persistently high production costs, particularly energy costs, the average cash flow of SMEs is still relatively comfortable.

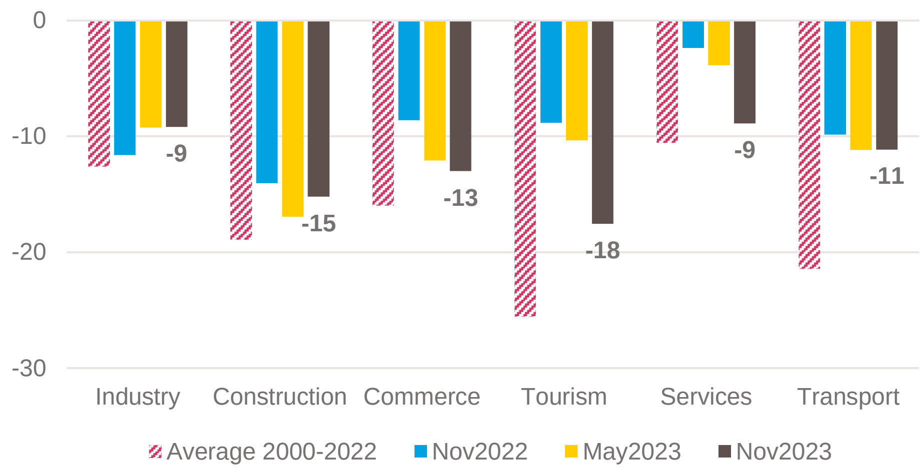
- At -11, the balance of opinion on cash flow over the last 6 months fell by 1 point over the half-year and by 2 points year-on-year. It remains above its long-term average (-15), as the support measures put in place during the health crisis, including the state-guaranteed loan (SGL, see focus p.13), helped to preserve SMEs' cash flow at the height of the crisis. 26% of SMEs now feel that their cash flow is difficult, compared with 24% one year earlier and 29% on average over the period 2000-2022. Conversely, 15% assess their cash flow to be satisfactory and 59% normal.

- **GRAPH 4: AVERAGE ASSESSMENT OF PAST CASH FLOW SITUATION** (BALANCE OF OPINION IN %)



Note to the reader: in November 2023, the share of SMEs reporting difficult cash flow over the last 6 months was 11 points higher than the share reporting healthy cash flow.
Scope: total (N = 4999); Source: Bpifrance Le Lab

- **GRAPH 5: ASSESSMENT OF THE CASH FLOW SITUATION BY BUSINESS SECTOR** (BALANCE OF OPINION IN %)



Scope: total (N = 4999); Source: Bpifrance Le Lab

- The cash flow of SMEs in Tourism deteriorated (-8 points over the half-year), but remains at a comfortable level for the sector, with the balance of opinion still 8 points above its long-term average. Cash flow is also considered to be slightly worse than in the spring and one year earlier in the Commerce and Services sectors. The assessment of their recent cash flow remains broadly unchanged in Transport and Construction. Only industrial SMEs report a slight improvement in their cash flow (+3 points year-on-year to -9).

SMEs' profitability remained unchanged in 2023.

- 78% of SMEs believe their profitability was "good" or "normal" in 2023, a proportion identical to that observed for 2022 (May 2023 survey). This proportion remains lower than that recorded pre-crisis (83% in 2019 according to the May 2020 survey) but higher than the long-term average (75%). The balance of opinion fell by 7 points over the half-year, to +1.

- Profitability has deteriorated sharply in 2023 in Transport (-29 points over the half-year to -12) and in Commerce (-13 points to +3), a sector with still satisfactory profitability, and the lowest proportion of respondents reporting poor profitability in 2023 (19% compared to 22% for all sectors combined). Profitability has deteriorated to a lesser extent in Services (-8 points), Industry (-3 points) and Construction (-1 point). On the other hand, it improved in Tourism (+8 points, to -2).

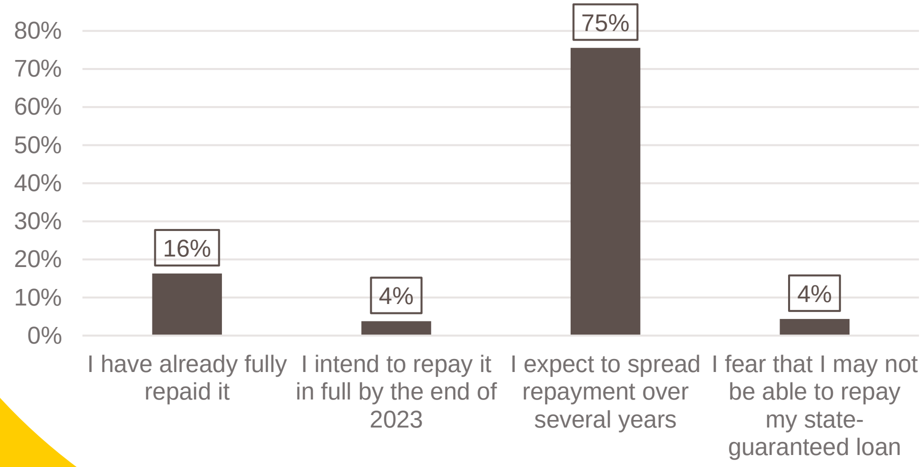
FOCUS

Mid-2023, a risk of non-payment of the SGL is still very limited

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

Graph 7: Time required to repay state-guaranteed loans

(In %)

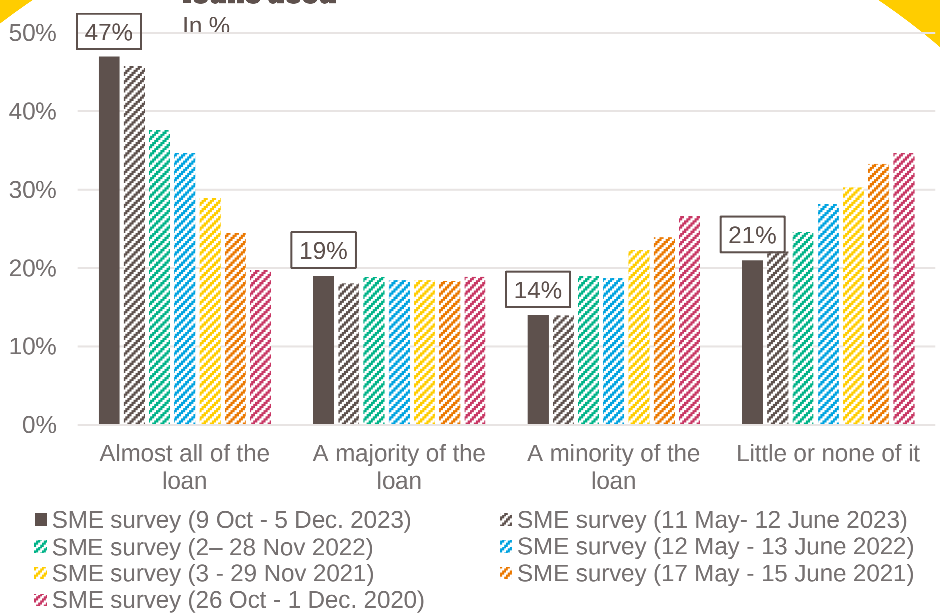


Scope: Companies having requested and obtained a state-guaranteed loan (N = 2502)

Source: Bpifrance Le Lab

Graph 6: Amounts of the state-guaranteed loans used

In %



Scope: Companies having requested and obtained state-guaranteed loans (N = 2502)

Source: Bpifrance Le Lab

To date, 66% of SME managing directors having obtained state-guaranteed loans state they have used the majority (19%) or virtually all (47%) of the loans, a proportion that has risen since last May (64%) and November 2022 (56%). On the other hand, the share of SMEs having kept the loans largely in reserve has consequently declined to stand at 34%.

- **Use of the SGL has clearly increased in Commerce and Transport this half-year** (+5 points to 69% and 63%, respectively, having used the majority of their loan. SMEs in Construction are the most likely to have used the majority of their SGL (70%).

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

- **Three-quarters of SMEs having applied for the public scheme plan to spread repayment of the loan over several years**. About a fifth of SMEs would have repaid their loans by the end of 2023: 16% have already repaid them in full (11% six months ago) and 4% expect to do so by the end of the year.
- **4% of respondents fear not being able to repay their loan**, the same proportion seen last May, down very slightly year-on-year (5% in November 2022), and close to that found since the question was first asked (between 4% and 6% since the end of 2020).
- The risk of non-repayment of the SGL, historically higher in Tourism, has fallen significantly in this sector (3% down from 6% last May). It has risen slightly (+1 point) in the other sectors. SMEs in the Construction sector are now the most frequently expressing this fear (6%).

Terms and conditions for access to credit tightened slightly

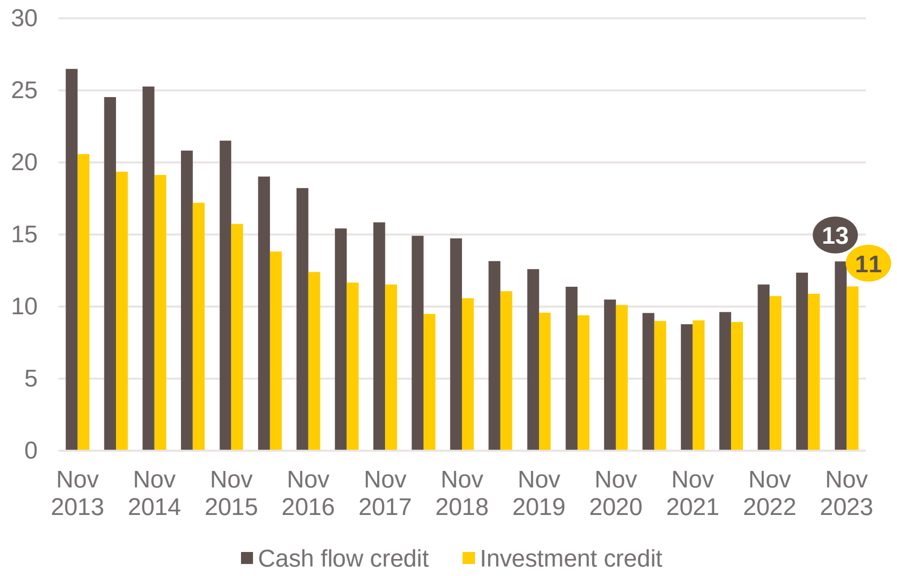
Access to cash flow credit has tightened slightly year-on-year. However, terms and conditions to credit remain relatively flexible, close to pre-crisis levels.

Access to cash flow credit tightened slightly, but remains close to the pre-crisis level.

- In a rising rate environment, SMEs are encountering slightly tighter access to cash flow credit. 13% of SMEs report having encountered difficulties in financing their day-to-day operations, a higher proportion over the half-year (+1 point) and year-on-year (+1 point), but remaining similar to pre-crisis levels (13% in November 2019), and well below the long-term average (18%).

- **GRAPH 8: DIFFICULTIES ACCESSING CREDIT**

FAIRLY OR VERY DIFFICULT, IN %



Scope: Total (N = 4999)
Source: Bpifrance Le Lab

- The share of SMEs experiencing difficulties in financing their day-to-day operations is highest in Tourism, as is usual in this sector. It stands at 22%, slightly higher (+2 points over the half-year, +1 point year-on-year) but still slightly below its pre-crisis level (23% in November 2019). During the 2nd half of 2023, access to cash flow credit also tightened in Services (+2 points to 14%) as well as in Transport (+1 point to 11%). Terms and conditions to access cash flow credit remained broadly unchanged in the 2nd half in Industry, Construction and Commerce.

- For SMEs experiencing difficulties in financing their day-to-day operations, insufficient business activity and/or an overly uncertain outlook remains the main reason, cited by 50% of them (a proportion down slightly in this half-year). This proportion rises to 63% in Transport, up 20 points in this half-year and 28 points year-on-year. The second most frequently cited reason, on the up since last May, was the need to provide guarantees deemed too substantial (37% after 34%). This barrier has risen sharply over the past half-year in Commerce and Tourism. The risk associated with the business sector comes in 3rd overall (29%), but represents a powerful brake on access to short-term credit in Construction (39%), Transport (41%) and Tourism (49%), even though it is cited slightly less than last May.

Difficulties accessing investment credit increased slightly.

- 11% of SMEs claim to be experiencing difficulties accessing investment credit, slightly higher than last May (+0.5 point, after +2 points between May 2022 and May 2023), and slightly higher than pre-crisis (10% in November 2019).

- Difficulties in accessing investment credit are highest in Tourism, with 21% of managing directors seeking to invest having experienced them, up by 4 points year-on-year. However, this proportion remains lower than pre-crisis levels, unlike in other sectors (26% in November 2019). Access to credit has also tightened in Commerce and Construction, but has remained stable overall in the other sectors.

- Companies encountering difficulties accessing investment credit always cite the financial fragility of their companies as the principal reason, though in a proportion that has fallen year-on-year (66 % after 68 %). The risk associated with the business sector is the second most frequent reason given for these difficulties, up slightly year-on-year (28 % after 26% in November 2022).

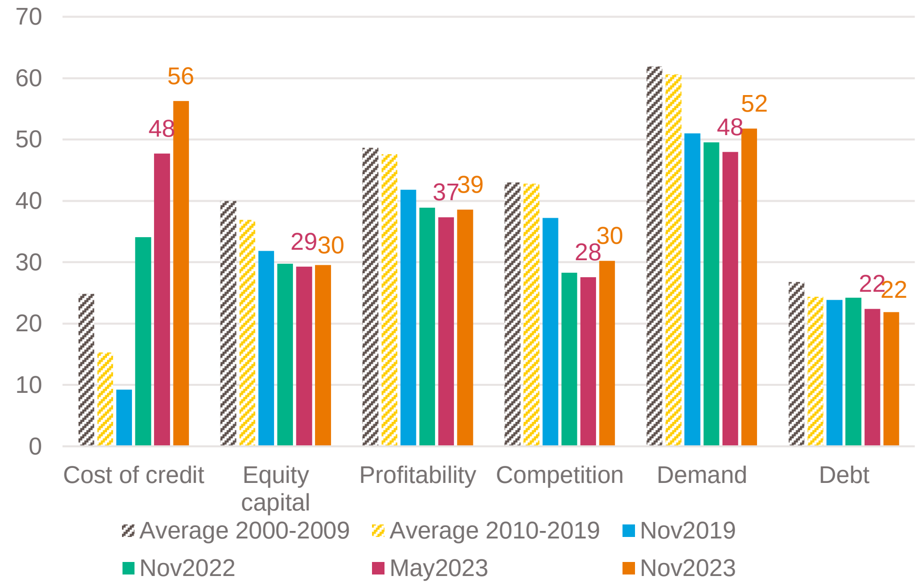
Banque de France data reflect broadly stable investment credit demand (19% of SMEs), amply provided by banks with an approval rate for investment credit remaining high (95% for SMEs in the 3rd quarter of 2023).

The cost of credit, principal obstacle to investment

The cost of credit and demand constraints are holding back investment for more than half of businesses.

- **In a high rate environment since mid-2022** (see box), **the cost of credit appears to be the main obstacle to investment, cited by 56% of SMEs, a significant increase** (48% last May, 34% one year ago and 19% in May 2022). This obstacle is described as insurmountable by 5% of SMEs (2% one year ago, 1% on average since 2000). More SMEs in the Transport, Construction and Tourism sectors consider the cost of credit as a brake on their investments (73%, 62% and 62%, respectively).
- **Weak demand also represents a major obstacle to investment**, also cited by more than half of SMEs (52%, up 4 points over the half-year and 2 points year-on-year but below the pre-Covid average). SMEs in Transport are now the most likely to cite weak demand as a brake on investment: 60% of them, up 15 points on last May. Demand constraints are also holding back investment more among SMEs in Commerce and Tourism than last year (+5 and +4 points year-on-year, at 57% and 49%, respectively). 53% of industrial SMEs cite demand constraints as an obstacle to their investment.
- **Weak profitability is the third obstacle mentioned by managing directors** (39%), the same proportion as one year ago, but more often cited by SMEs in Transport (49%, up +6% year-on-year).
- **The balance sheet constraints identified by SMEs are little changed**. Insufficient equity capital and excessive debt are cited as an obstacle to investment by 30% and 22% of managing directors, respectively, proportions which are stable or even down slightly compared with November 2022, and below that seen pre-crisis. Insufficient equity capital represents a slightly more powerful brake this half-year in the Transport sector (33%, up 4 points year-on-year).

GRAPH 9: ASSESSMENT OF OBSTACLES TO INVESTMENT
SERIOUS OR INSURMOUNTABLE, IN %



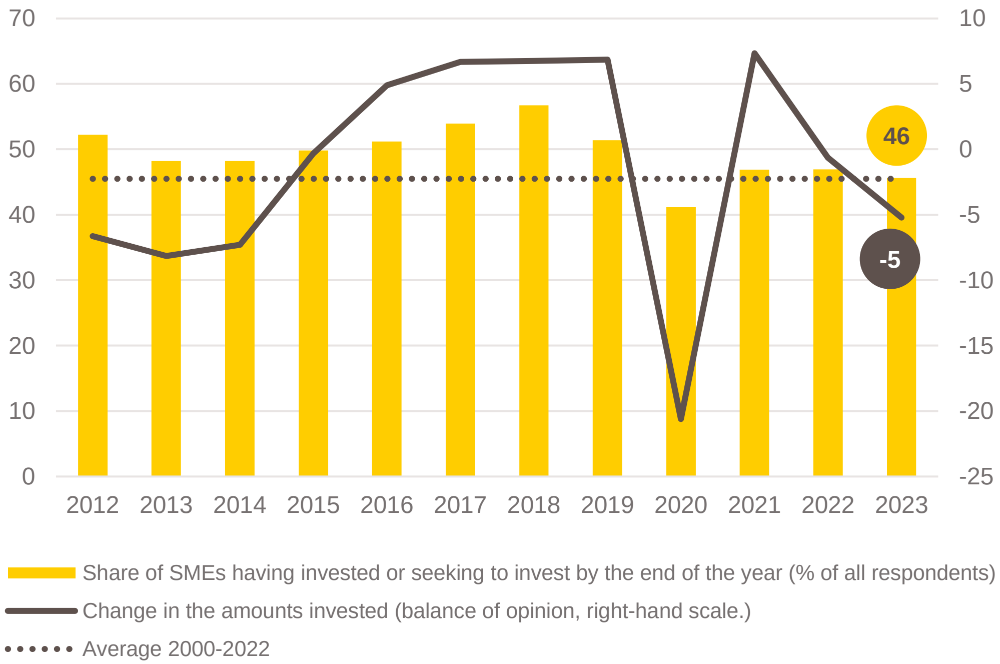
Scope: Total (N = 4999)
Source: Bpifrance Le Lab

To contain inflation, the European Central Bank (ECB) has raised its key rates sharply since July 2022. The ECB's main refinancing operations rate stood at +4.5% in September 2023, compared with 0% in June 2022. This increase has been reflected in the interest rate on loans granted by banks to households and businesses. The annual interest rate on new loans granted to SMEs thus stood at +5.12% in September 2023 compared with 1.41% in April 2022 according to data from the Banque de France.

SME investment slowed in 2023

In 2023, fewer SMEs are investing than pre-crisis.

• **GRAPH 12: CHANGE IN INVESTMENT FOR THE CURRENT YEAR**



Scope: Total (N = 4999)
Source: Bpifrance Le Lab

46% of SMEs stated having invested or intending to do so in 2023, slightly down year-on-year but still below its pre-crisis level (51% in 2019).

- Significantly more SMEs in Tourism were expected to invest in 2023 (51% after 43% in 2022), in proportions similar to those seen pre-crisis. More SMEs in Transport were expected to invest than last year (56% after 54%), but in proportions that are still well below those seen pre-crisis (65% in 2019). On the other hand, the proportion of SMEs stating that they invested in 2023 is down in Industry (57% after 59%), although close to the 2019 level (58%), and more sharply in Construction (45% after 49%) and Commerce (36% after 39%), at low levels for these sectors (56% and 43%, respectively, in 2019). It remained stable at a low level in Services (39% vs. 46% in 2019).

The indicator regarding the change in amounts invested or expected this year dropped 4 points year-on-year, now standing at -5, a level now less than its long-term average (-2).

- The amounts invested are expected to fall in all sectors. The balance of opinion falls by between 4 and 6 points depending on the sector, except for Services, where it is virtually stable at -2 (-1 point), although here too the level is below its long-term average.

Little change where sources of finance are concerned: 37% of investments would be financed by the banking sector and 41% are self-financing (the remainder being financed by contributions from partners or a parent company, by lease or from other external resources).

By purpose, the proportion of investment allocated to property falls sharply (29% after 42% in 2022) **in favour of tangible investments** (64% after 53%) and, to a lesser extent, intangible investments (7% after 5%), returning to proportions closer to those observed pre-crisis (resp. 32% / 60% / 8% on average over 2018/2019).

The share of SMEs making green investments in 2023 fell to 30%, after 35% in 2022 and 42% in 2021. This decline in the proportion of SMEs investing in the ecological and energy transition is common to all sectors. On the other hand, the share of SMEs devoting more than 10% of their capital expenditure to green investments remains stable overall, at 13% (14% in 2022, 11% in 2021).

However, the balance of opinion on the change in the amounts invested for the ecological and energy transition rose by 2 points, in contrast to the balance of opinion on the change in the total amounts invested. This increase can be seen across all sectors. At +7, more managing directors intend to increase their green investments (17%) than reduce them (10%).

03.

OUTLOOK FOR 2024

Business prospects still dismal for 2024

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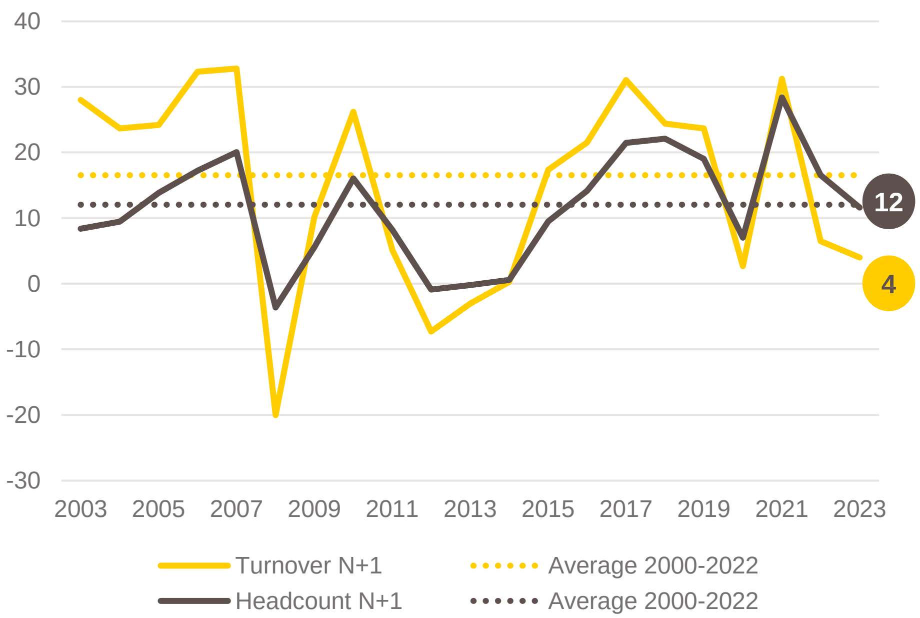
The outlook for Construction and Transport is particularly poor. Hiring is expected to slow in 2024.

- **GRAPH 13: CHANGE IN BUSINESS AND EMPLOYMENT FOR NEXT YEAR**

BALANCE OF OPINION IN %



Note: the balance of opinion on the change in expected business for next year fell by 2 points year-on-year to stand at +4 in November 2023 for 2024.
Scope: Total (N = 4999); 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 (−2 points year-on-year to +4) and thus stands well below its long-term average (+17).
- At the same time, the indicator for changes in order books over the next 6 months fell by 1 point year-on-year to -9, well below its historical average (+4).
- Business prospects darken further in Construction, following in the wake of the Building sub-sector, and in Transport, the sectors already worst affected in 2023. The business outlook indicator fell by 13 and 11 points, respectively, compared to November 2022 (forecasts for 2023), to -16 and -12, levels well below both their long-term averages and those seen in other sectors. In contrast, the business outlook indicator stabilised in the other sectors (+/-1 point), and remains above its long-term average in Tourism.
- Business prospects are less favourable than last year, regardless of the size or export profile of the company, although it remains, as usual, more favourable among SMEs with 10 or more employees and exporting companies than among SMEs with fewer than 10 employees and companies focusing solely on the domestic market. Managing directors of innovative SMEs are more optimistic (stable business outlook indicator, compared with -4 points for non-innovative companies).

As a result, managing directors expect to see a slowdown in hiring in 2024, but to a lesser extent than their business activity.

- At +12, the balance of opinion regarding employment prospects for the coming year fell by 5 points year-on-year. It is now at the average level seen since 2000.
- The decline in the employment outlook indicator is widespread across all sectors. The decline is most evident in Construction (-7 percentage points to +3), and even more so in Transport (-14 percentage points to -8, well below the sector's long-term average of +6), consistent with the weaker business prospects in these sectors.

In its December 2023 Macroeconomic Projections, the Banque de France forecasts real GDP growth of +0.9% in 2024, stable compared with 2023.

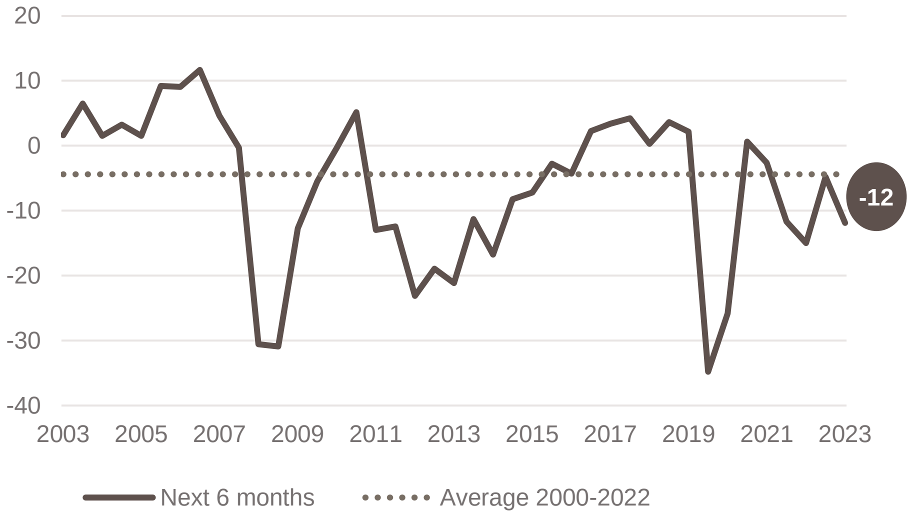
Cash flow expected to deteriorate and profitability still lower than pre-crisis levels

Starting from a still healthy level in 2023, cash flow is expected to deteriorate in early 2024. Profitability is likely to remain lower than pre-crisis levels.

SMEs are less confident about their future cash flow.

- The balance of opinion on the change in cash flow over the next 6 months fell by 7 points over the half-year to -12, well below the long-term average (-4). However, it is 3 points higher than at the end of 2022, at the height of the energy crisis, and starting from a cash flow situation at the end of 2023 still considered comfortable.

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



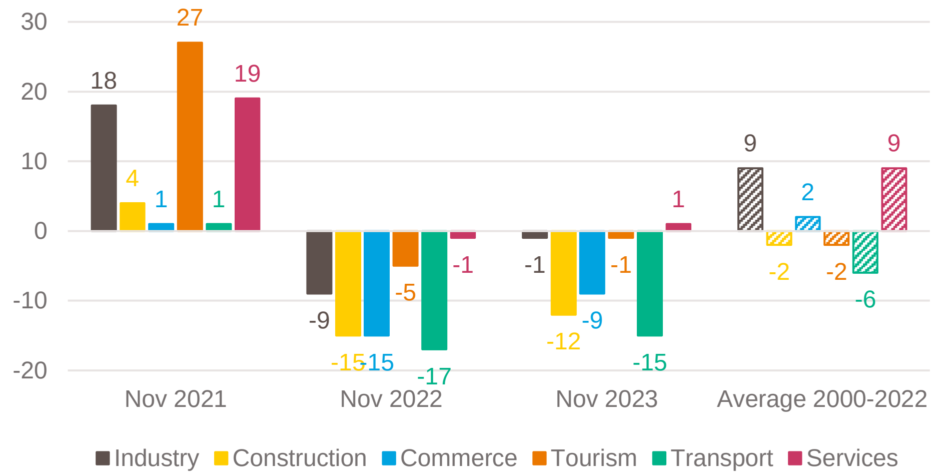
Note to the reader: in November 2023, the share of SMEs experiencing cash flow difficulties over the previous 6 months was higher than that reporting healthy cash flow by 11 points.
Scope: total (N = 4999); Source: Bpifrance Le Lab

- The balance of opinion declined across all sectors in the half-year. It is also down year-on-year in Construction (-3 points, to -17) and Transport (-6 points, to -18), where it reached the lowest sectoral levels. It rose fairly sharply in Tourism (+12 points year-on-year, to -10), where it is almost back to its long-term average (-9).

The profitability of SMEs is likely to remain lower than pre-crisis levels.

- While the profitability of SMEs in 2023 was considered to be worse than it was pre-crisis (see p12), the balance of opinion on future profitability is still a long way from its long-term average, despite an improvement year-on-year (+5 points to -4, compared with +4 on average between 2000 and 2022). 16% of SME managing directors expect their company's profitability to increase in 2024, while 20% expect it to fall.
- The balance of opinion rose across all sectors, most strongly in Industry (+8 points) and Commerce (+6 points). It remains below its long-term average in all sectors except Tourism (1 point above).
- The balance of opinion clearly improved among SMEs with 10 or more employees (+7 points, to -1) than among SMEs with fewer than 10 employees (+1 point, to -10), although in both cases, well below its long-term average (which stands at +7 and -1, respectively).

- GRAPH 15: ASSESSMENT OF PROFITABILITY FOR NEXT YEAR BY BUSINESS SECTOR (BALANCE OF OPINION IN %)

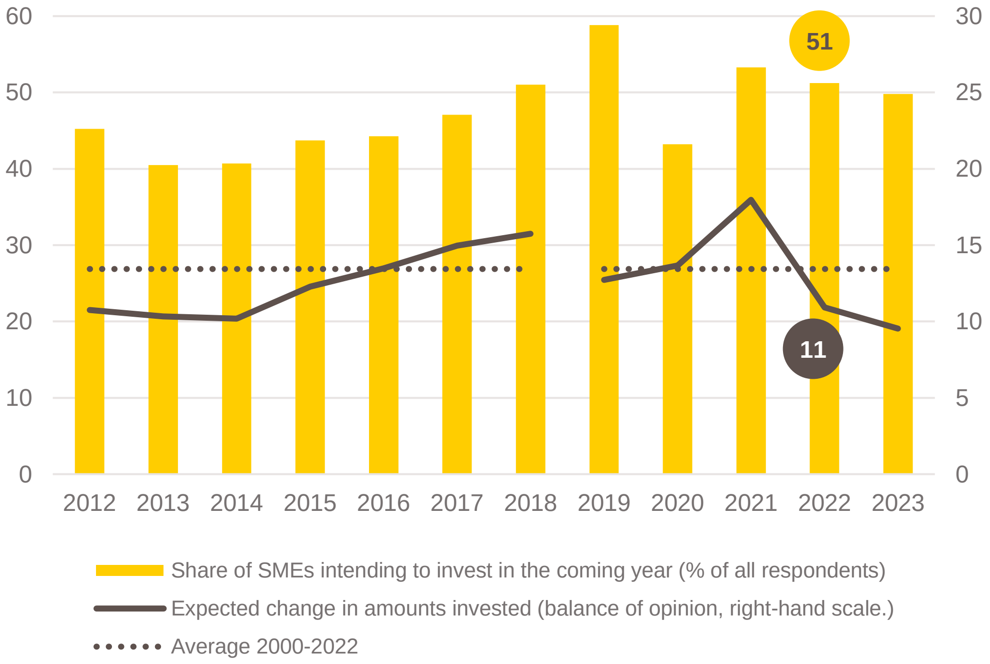


Scope: total (N = 4999); Source: Bpifrance Le Lab

Slowdown in investment expenditure in 2024

A relatively large number of managing directors intend to invest in 2024, even though spending is expected to be less robust.

• **GRAPH 16: CHANGE IN INVESTMENT FOR NEXT YEAR**
BALANCE OF OPINION IN %



Note: in November 2023, 50% of SMEs said they were ready to invest in 2023, and the share of those expecting an increase in spending over 2023 was 10 points higher than the share expecting a decrease. Due to a change in methodology, the data for 2019 cannot be interpreted.
Scope: Total (N = 4999); Source: Bpifrance Le Lab

Half of SMEs plan to invest in 2024. Investment expenditure is likely to be less robust than in recent years.

- 50% of managing directors intend to invest in 2024, a proportion that has fallen very slightly year-on-year (51% in November 2022 for the year 2023) but close to what was seen before the crisis (51% in November 2018 for the year 2019). The balance of opinion on the expected change in investment expenditure fell by 1 point to +10, well below its long-term average (+13).
- More industrial SMEs are expected to invest in 2024 than last year (63% plan to invest in 2024, compared with 60% in 2023, forecast at the end of 2022), and more than pre-crisis. By contrast, the share of SMEs intending to invest in 2024 fell in Commerce (-1 point) and Services (-2 points), and more sharply in Construction (-9 points to 46%, a very low level for this sector, whose long-term average is 53%).
- The balance of opinion on the change in amounts invested remained stable in Industry, close to its long-term average. It rose slightly in Construction, but remained well below its average level since 2000. It fell in the other sectors, particularly in Transport, where, although a large proportion of SMEs continue to invest (58%, close to their long-term average), the amounts invested are expected to decline (the balance of opinion fell by 5 points to -3, well below its long-term average).

Regional economic situation: summary

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

The slowdown in business activity is expected to be most marked in Centre-Val de Loire (-27 points year-on-year, to +8), as well as in Bourgogne-Franche-Comté (-26 points, to +3), which is also expected to be the least buoyant region in 2023 (lowest regional balance). Conversely, business activity is expected to slow less significantly in Normandy and Île-de-France (-15 points and -14 points, respectively), which, along with Grand-Est, are the only regions where the balance of opinion is above or equal to its long-term average.

Employment is also expected to slow, but to a lesser extent than business activity. The balance of opinion drops most sharply year-on-year in Pays de la Loire (-15 points, to +6). It is also down significantly in Centre-Val de Loire (-9 points year-on-year and -16 points over the half-year, the sharpest 6-month fall), where it is in negative territory (-3), a long way from its long-term average (+7). Despite a marked slowdown in business activity in Bourgogne-Franche-Comté, employment is holding up fairly well, with the indicator at +8, i.e. 3 points above its long-term average (-7 points year-on-year).

SMEs in the Île-de-France, Provence and Normandy regions were investing relatively little (34%, 41% and 44%, respectively), in much lower proportions than pre-crisis (43%, 53% and 61%, respectively, in 2019). Significantly fewer SMEs in Auvergne-Rhône-Alpes were investing in 2023 (48% compared to 54%). The share of SMEs investing in 2023 was highest in Bourgogne-Franche-Comté and Nouvelle Aquitaine (52%). The amounts invested are expected to slow significantly in Occitanie and Provence-Alpes-Côte d'Azur (-10 points and -13 points, respectively).

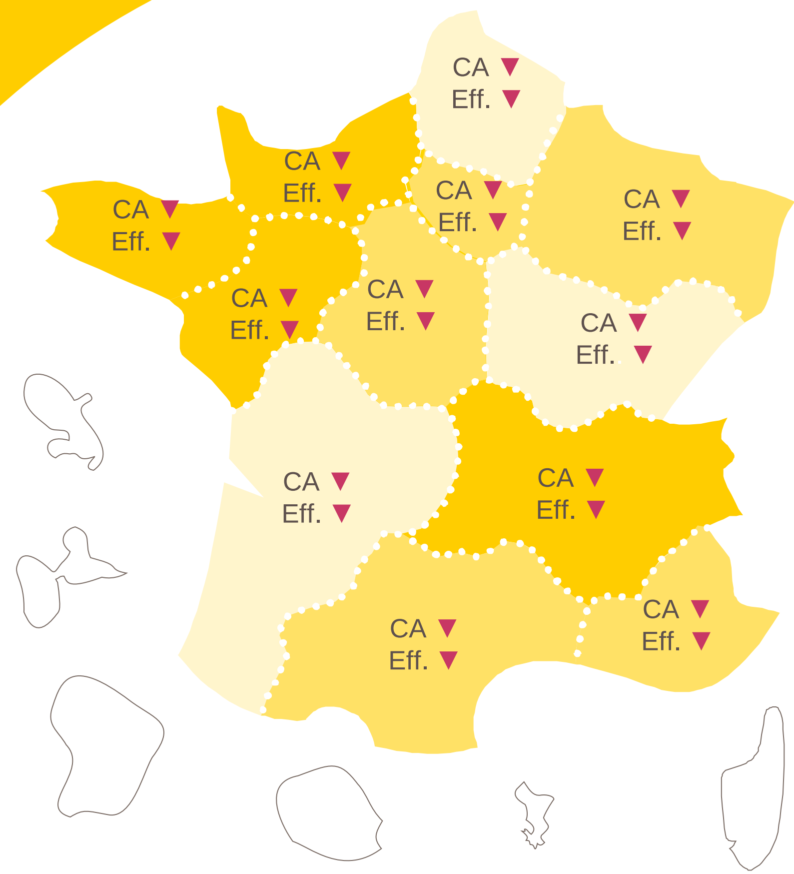
SMEs in the Centre-Val de Loire and Hauts-de-France regions were the most likely to report cash flow difficulties (29% compared with a national average of 26%). Moreover, cash flow has deteriorated sharply over the past 6 months in Hauts-de-France (-11 points), as well as in Grand-Est (-8 points) and Bourgogne-Franche-Comté (-7 points).

For 2024, business prospects are worst in Bourgogne-Franche-Comté, Brittany and Pays de la Loire, where the outlook indicator fell by 5 points year-on-year, into negative territory, and is more than 20 points below its long-term average. By contrast, the business outlook improved (+3 points) in Normandy. In terms of employment, the outlook indicator declined in all regions except Centre-Val de Loire, and most sharply in Pays de la Loire (-14 points, well below its long-term average).

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

- **CHANGE IN TURNOVER AND HEADCOUNT BY REGION**

BALANCE OF OPINION IN %



Balance of opinion level on business activity

- From 3 to 5
- From 6 to 9
- 10 and over
- Insignificant

- ▲ Balance of opinion up year-on-year
- ▶ balance of opinion stable year-on-year
- ▼ balance of opinion down year-on-year

	TURNOVER				HEADCOUNT				INVESTMENT			
	Average 2000 to 2022*	November 2022	November 2023	Change / November 2022	Average 2000 to 2022*	November 2022	November 2023	Change / November 2022	Average 2000 to 2022*	November 2022	November 2023	Change / November 2022
YEAR 2023 (1)												
All SMEs	**14**	**27**	**8**	↘	**8**	**14**	**6**	↘	**-2**	**-1**	**-5**	↘
10 – 250 employees	21	34	15	↘	14	20	12	↘	0	3	-2	↘
Fewer than 10 employees	4	14	-5	↘	0	3	-5	↘	-6	-7	-12	↘
Commerce	13	17	0	↘	7	11	4	↘	-4	-2	-6	↘
Construction	8	17	3	↘	6	9	1	↘	-5	-6	-12	↘
Industry	17	36	11	↘	7	18	7	↘	-1	1	-5	↘
Services	19	24	13	↘	13	15	10	↘	1	-1	-2	↘
Tourism	5	57	33	↘	0	19	8	↘	-7	2	-4	↘
Transport	11	44	-4	↘	9	9	0	↘	1	3	-2	↘

	TURNOVER				HEADCOUNT				INVESTMENT			
YEAR 2024 (1)												
All SMEs	**17**	**6**	**4**	↘	**12**	**17**	**12**	↘	**13**	**11**	**10**	↘
10 – 250 employees	22	12	8	↘	15	21	15	↘	13	10	10	↘
Fewer than 10 employees	8	-3	-5	↘	8	8	5	↘	14	12	9	→
Commerce	16	-1	-2	↘	9	12	10	↘	15	12	11	↘
Construction	2	-3	-16	↘	6	10	3	↘	7	1	3	↗
Industry	22	7	8	↗	14	21	17	↘	17	15	15	→
Services	23	17	16	↘	19	21	17	↘	13	13	9	↘
Tourism	9	10	11	↗	1	11	9	↘	13	15	13	↘
Transport	6	-1	-12	↘	7	6	-8	↘	5	2	-3	↘

(1) Balance of opinion = (Share of companies anticipating a rise – Share of companies anticipating a fall)
* Average 2010 to 2022 in Transports, the data series having been created in November 2009

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 78th half-yearly SMEs' business climate survey, nearly 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 2023.

4,999 replies, received between the 9th November and 5th December 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.

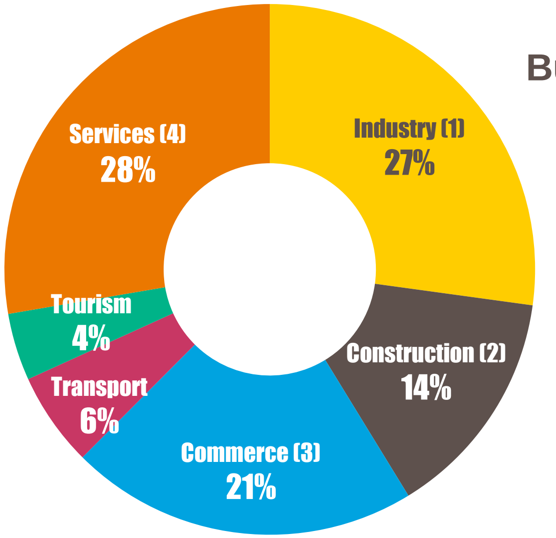
Additional questions relating to the state-guaranteed loans, supply difficulties and green investments were introduced for the whole sample.

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

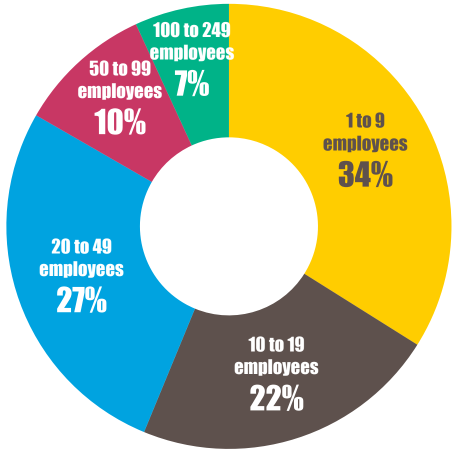
The adjustment was made based on the numbers of companies in the different categories.

Business sector

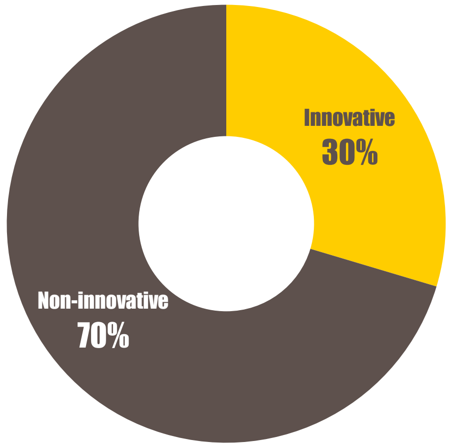


(1) 2 % food, 14 % intermediate goods, 8% capital equipment, 3 % consumer goods
(2) 12% construction, 2% public works
(3) 2% automobile trade and repairs, 13% wholesale, 6% retail
(4) 24 % corporate services, 4% retail services

Size



Innovative nature



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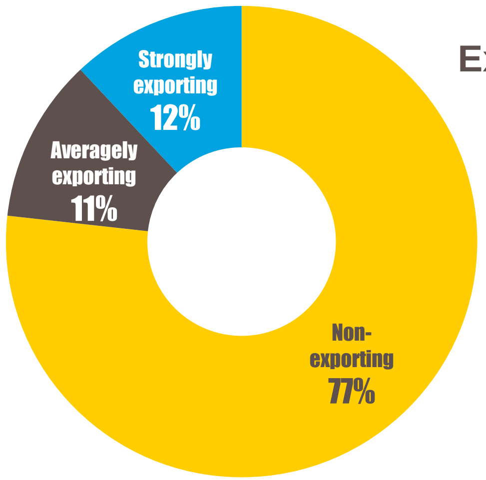

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