



**70<sup>TH</sup> HALF-YEARLY  
SME BUSINESS CLIMATE SURVEY**

**SMEs SHOWING  
RESILIENCE THANKS TO  
A STRONG DOMESTIC  
MARKET**

**January 2020**



# KEY POINTS

1

## **SME revenue and recruitment both solid in 2019**

SMEs' revenue growth is holding steady in 2019 compared with 2018, despite a slight slowdown in their order books. Recruitment at SMEs is reportedly accelerating overall in 2019, particularly at the smaller end of the spectrum and for those focused on domestic markets.

2

## **The general vitality of SMEs focused on domestic markets offsets the decrease seen in the Industry sector and in exporter SMEs**

Turnover and recruitment appear to have slowed in Industry SMEs and exporters, which seem to be suffering from increased trade tension and political uncertainty on the international stage.

3

## **Capital expenditure remains buoyant thanks to SMEs decent financial health and highly favourable financing conditions**

Driven by very favourable credit access conditions, capital expenditure remained buoyant in 2019. SMEs' cash flow situation improved further, as did their access to credit, with 90% of them experiencing no difficulties in financing their capital expenditure.

4

## **The outlook for 2020 is generally favourable, driven by a domestic market that is expected to remain buoyant**

The outlooks for revenue and employment are both sound, despite an expected slowdown in recruitment. SMEs in Industry, and more particularly exporters, continue to review their forecasts.

## Key figures

+25



**BALANCE OF OPINION ON THE EXPECTED TREND IN  
SME TURNOVER IN 2019**  
STABLE OVER ONE YEAR

-11



**CHANGE IN ONE YEAR IN THE BALANCE OF OPINION ON  
EXPECTED CHANGE IN TURNOVER AT EXPORTER SMES  
IN 2019**

90%



**SHARE OF SMES THAT EXPERIENCED NO DIFFICULTIES  
IN FINANCING THEIR CAPITAL EXPENDITURE**  
UP 1 POINT OVER ONE YEAR

+24



**BALANCE OF OPINION ON THE EXPECTED TREND IN  
SME TURNOVER IN 2020**  
STABLE OVER ONE YEAR

# CONTENTS

- 01. REVENUE AND EMPLOYMENT**
- 02. FINANCIAL SITUATION, ACCESS TO CREDIT AND CAPITAL EXPENDITURE**
- 03. OUTLOOK FOR 2020**
- 04. BY WAY OF CONCLUSION**
- 05. METHODOLOGY**



**01.**

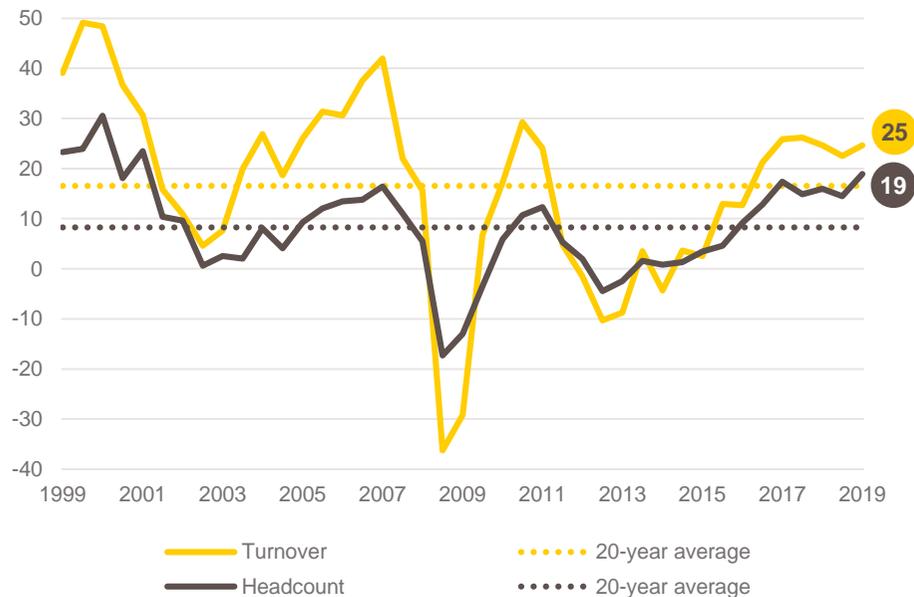


**REVENUE AND  
EMPLOYMENT**

# A stabilisation in business growth and acceleration in hiring in 2019.

**Business managers report turnover and recruitment growth still sound in 2019.**

**• GRAPH 1: TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS FOR THE CURRENT YEAR**  
BALANCE OF OPINION (AS A %)



Note: The net balance of opinion on the trend in business activity for the current year rose from +23 to +25 between the May 2019 and November 2019 surveys. It is stable over 1 year.

Source: **Bpifrance Le Lab**

**Top managers at SMEs expect turnover growth to hold steady, despite seeing slightly slimmer order books over the last 6 months.**

- The balance of opinion regarding the change in revenue for the current year is unchanged over 1 year (at +25), at a level still higher than the long-term average. In the second half of the year, some of the confidence lost in H1 returned to SME managers, as the revenue indicator gained 2 points compared to May.
- SMEs predict turnover growth of 3.8% in 2019 on average, the same growth figure seen in 2018. Managers have therefore pushed their forecasts up, as the average predicted 2019 turnover growth was 2.7% in May 2019.
- The balance of opinion regarding changes in the order book, both current and future, was nonetheless slightly down (minus 3 and minus 1 point respectively).

**Managers appear to have accelerated recruitment in 2019.**

- The balance of opinion indicator climbed 3 points in one year (+19) and reached its highest level since 2001.



The survey results are consistent overall with the change in the INSEE (French statistical office) business climate survey indicator, which has stabilised at a level above its long-term average (105 in November 2019 compared to a long-term average of 100) after a trough at the end of 2018/beginning of 2019. Despite the business climate holding steady, INSEE forecasts 1.3% growth in French GDP in 2019, down compared with 2018 (which was up 1.7%).

# Revenue

## Contrasting fortunes between the buoyant domestic market and the slowdown in export markets

**SMEs in the Services and Construction sectors of the economy are the most vibrant. In contrast, those in Industry and exporters are suffering from worse economic conditions prevailing elsewhere.**

### Robust growth for SMEs focused on the domestic market.

- SMEs in Construction and Services are reportedly seeing an acceleration in revenue (balance of opinion up by 7 and 3 points respectively). The improvement in Construction is attributable partly to increased public investment, being spent in advance of local elections (see [December 2019 INSEE economic trends report](#)).
- In contrast, turnover reportedly slowed in Industry (down 7 points to +23) where the indicator is nevertheless higher than its long-term average (+18).
- This decline in the Industry sector is caused by a less healthy external economic environment and a world industrial cycle generally undergoing correction in the last few quarters.
- This is clearly seen in exporter SMEs where definite slowdowns in turnover are being reported in 2019. The balance of opinion on turnover dropped 11 points to +25, at the same level as the balance of opinion of non-exporting SMEs, which itself rose 4 points.
- Turnover reportedly accelerated in very small enterprises (up 5 points to +13), with relatively little international exposure.

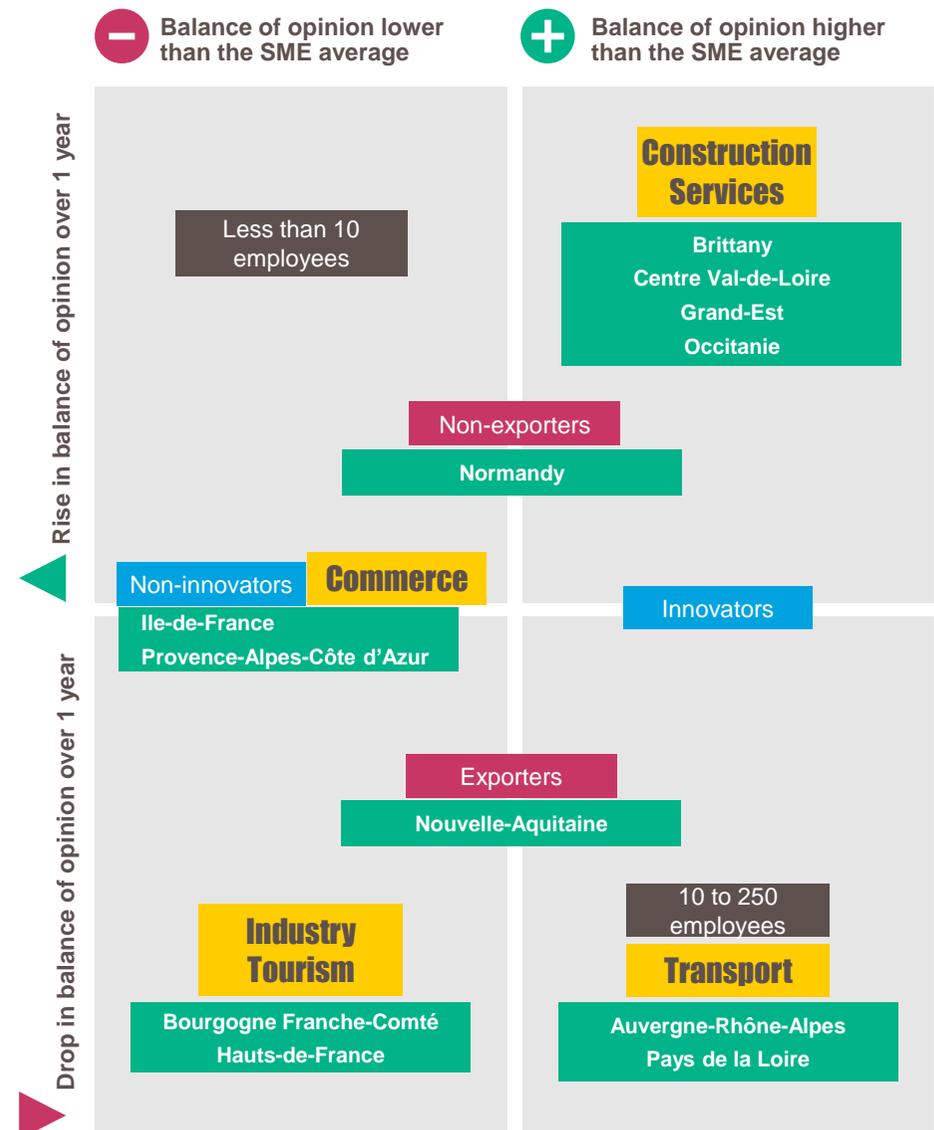
*See also the focus by sector*

### Regional disparities still significant.

- SMEs in Centre Val-de-Loire and Provence-Alpes-Côte d'Azur are reportedly seeing growth in excess of 5%. In contrast, SMEs' revenue is slowing down in Hauts-de-France and Bourgogne-Franche-Comté, the most sluggish regions.

*See also the focus by region*

• GRAPH 2: LEVEL AND CHANGE IN BALANCE OF OPINION ON REVENUE IN 2019



Source: Bpifrance Le Lab

# Employment

## Acceleration in recruitment

**SMEs seem to have stepped up the pace of recruitment in 2019, especially those of smaller size and those focused on domestic markets.**

**SMEs overall report an increased pace of recruitment in 2019, apart from those in Transport and Industry.**

- The balance of opinion on employment rose sharply in Construction and Commerce (up 9 and 7 points respectively).
- On the other hand, managers appear to have slowed down recruitment in 2019 in comparison to 2018 in the Industry (down 3 points) and Transport (also down 3 points) sectors as a result of the slowdown in revenue.

 See also the focus by sector

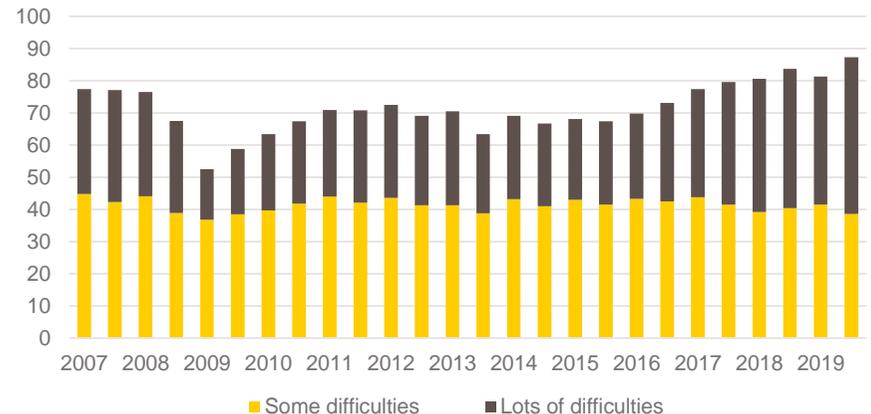
**Recruitment is reportedly accelerating in smaller SMEs and those concentrating on the domestic market, regardless of how innovative the business is.**

- Employment appears more buoyant in 2019 than in 2018 for SMEs of fewer than 50 employees, while those with 50 and more are reportedly recruiting less (up 6 points for SMEs with 10 to 19 employees, but down 6 points for those with 50 to 99 employees).
- Innovation is not a factor, with employment accelerating in innovator SMEs (up 2 points) and non-innovators (up 3 points) alike.
- Despite the distinct slowdown in turnover, SMEs operating in export markets are generally holding their recruitment steady (down 1 point). Employment is reported to be accelerating in SMEs focused on the domestic market (up 4 points).

**Hiring difficulties remain high.**

- 87% of executives who were looking to recruit employees reported experiencing difficulties in doing so.
- Almost half of senior managers face serious recruitment issues (49%). These issues are particularly persistent in Construction (58%), Tourism (54%) and Industry (50%).

**GRAPH 3: SHARE OF SMES HAVING EXPERIENCED RECRUITMENT DIFFICULTIES (AS A %)**



Note: There has been a minor change to the methodology for this 70th Business Climate Survey to make the analysis on recruitment difficulties more apt. A "not recruiting" option has been added to the possible responses so as to restrict the analysis only to respondents actually attempting to recruit staff. It is therefore recommended to view the figures on recruitment difficulties in terms of level and not change.

Source: **Bpifrance Le Lab**

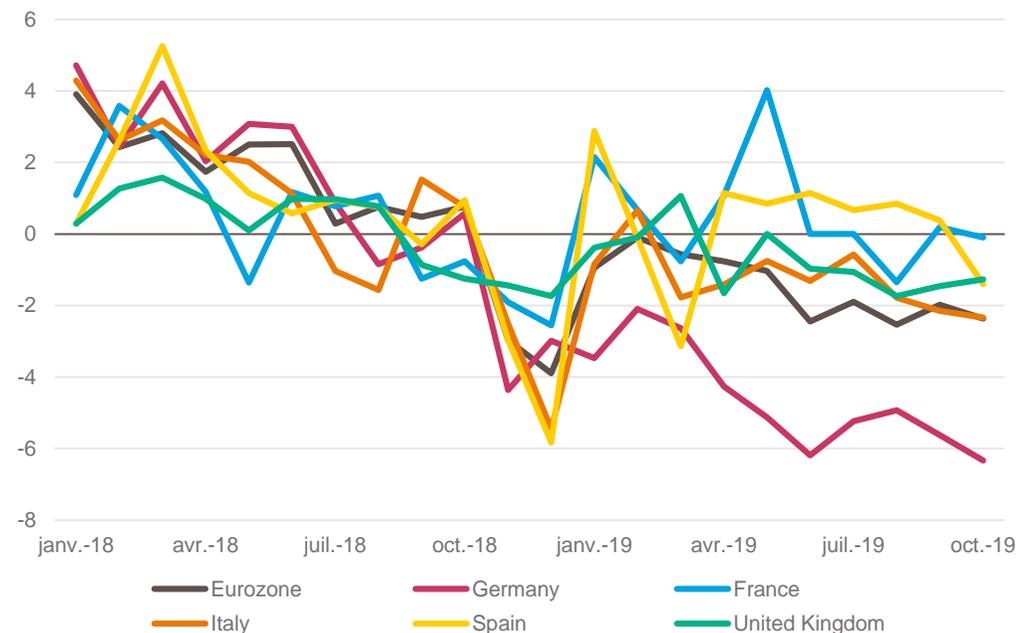


The acceleration in recruitment is consistent with the sustained growth in employment seen since the start of the year, with private payroll employment up 196,200 net jobs over the first three quarters of 2019, compared with 159,700 for the whole of 2018. This vigour can be attributed in part to the fact that the tax credit for competitiveness and jobs (CICE) was replaced by lower social security contributions from 1 January 2019. This seemed to higher employment intensity of growth, resulting in 30,000 additional jobs created in 2019 (see the insight in the [December 2018 INSEE economic trends report](#)).

## French SMEs in the Industry sector coping with world economic slowdown

Against a backdrop of exacerbated commercial and geopolitical tensions, international trade and world industrial output have declined sharply since 2018. Increasing trade tension, especially between the United States and China, difficulties in the automotive sector and uncertainty over the arrangements for the United Kingdom's exit from the European Union are contributing to the slowdown.

• GRAPH 4: GROWTH IN INDUSTRIAL OUTPUT  
(YEAR-ON-YEAR GROWTH IN %)



European manufacturing, and German manufacturing in particular, is particularly affected by the automotive sector's troubles, caused by adapting to Europe's new anti-pollution standards, ongoing conversion of owned vehicle stock (away from diesel), and a slowdown in demand. The difficulties in the automotive sector are seen worldwide, with a drop in private car registrations also seen in the United States and China.

The industrial sector seems to be showing more resilience in France than in neighbouring countries, probably as a result of less exposure to the uncertainties of world trade and a lower proportion of automobile manufacturing in total industrial output. French industrial output rose 0.6% over the first ten months of 2019, whereas it fell by an average of 1.5% in the euro zone as a whole over the same period (see graph 4). The business climate in Industry, deteriorating since early 2018, is continuing to worsen at the end of 2019 according to INSEE, but is still very close to its long-term average.

The results of our survey consistently reflect Industry SMEs' worsening outlook for turnover and recruitment in 2019 compared with 2018. The balances of opinion however are still higher than their long-term average values, testifying to the fact that the French industrial fabric has seen a less severe impact than in Italy or especially Germany.

The downturn in revenue outlook is certainly more marked in those Industry SMEs working in export markets. Exporter SMEs, 38% of all Industry SMEs, are definitely more affected. Their balance of opinion regarding turnover is down 11 points to +25 for 2019 (compared with down 2 points to +23 for non-exporters) and is down 14 points to +27 for 2020 (versus down 2 points to +23 for non-exporters).

At this stage, the findings of our survey and INSEE's results show no contagion in other sectors, unlike the situation seen in Germany for example. Senior managers in the Services sector in particular remain confident (the balance of opinion on their turnover is up 3 points in 2019 and 2020 alike, to +27 and +31 respectively). It is nonetheless advisable to remain vigilant as Industry SMEs predict a continued downturn in their revenue in 2020.



**02.**

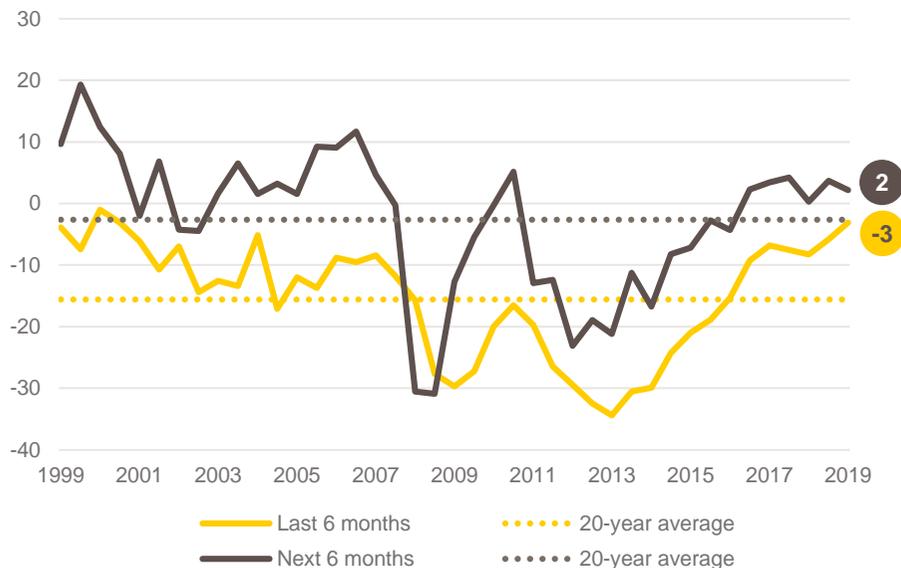


**FINANCIAL  
SITUATION,  
ACCESS TO CREDIT  
AND CAPITAL  
EXPENDITURE**

# The financial situation of companies is still particularly comfortable

**SMEs' financial situation has improved over recent months and is expected to stay good in the short run. Exporter SMEs are however anticipating a slight deterioration in their cash resources.**

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



Note: In November 2019, the share of SMEs saying cash flow was difficult over the last 6 months was 3 points higher than the share saying cash flow was easy.  
Source: **Bpifrance Le Lab**

**SMEs report that they enjoy a relatively comfortable cash flow, which has continued to improve over the last 12 months (up +5 points in 1 year, to -3).**

- Cash flow has been improving almost constantly for 6 years. It is substantially higher than its pre-crisis level and stands well above its long-term average.
- Over 1 year, the cash-flow situation has improved in all sectors, in particular Construction (+11 points), Transport (+8 points) and Tourism (+7 points).
- Note that exporter SMEs' cash flow is a little worse (down 2 points over the year), in contrast to non-exporter SMEs (up 7 points). The balance of opinion regarding the past cash flow situation is now equal in both sub-sets, although it is usually a higher figure in exporter SMEs.

**The cash flow situation is expected to remain comfortable over the next 6 months (+2 points over 1 year, at +2), except in Industry (-6 points, at -1).**

**Similarly, SMEs' profitability is likely to remain healthy.**

- 82% of SMEs believe their profitability was "good" or "normal" in 2019, marginally higher than the year before (81% in November 2018).
- Profitability is expected to be fairly good in 2020 (balance of opinion up 1 point in one year). The Transport sector stands out (up 6 points). It is reportedly down however for exporting SMEs (down 5 points).

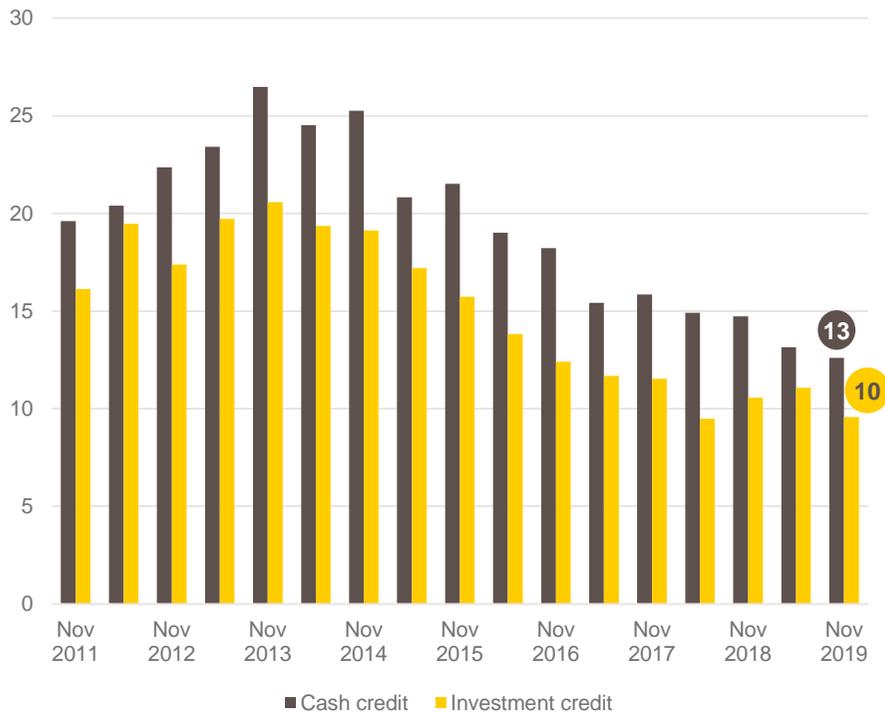


France's tax credit for competitiveness and jobs (CICE) has been replaced by long-term reductions in employers' social security contributions, which has helped to supplement businesses' cash position in 2019 and might partly explain the improvement in the cash-flow indicator over the last 6 months.

## Still more favourable terms for access to credit

**Credit access for SMEs is increasingly straightforward, whether to finance cash flow or investment.**

• **GRAPH 6: DIFFICULTIES ACCESSING CREDIT**  
FAIRLY OR VERY DIFFICULT (AS A %)



Source: **Bpifrance Le Lab**

Only 13% of SMEs said they had experienced difficulty in accessing cash flow credit facilities, a lower figure than one year ago (-2 points).

- Access to cash flow credit is smoother than a year ago for both very small enterprises and SMEs with 10 or more employees.
- Difficulties accessing cash-flow credit facilities have decreased across all sectors, except for Industry where they are unchanged (at 13%). Difficulties remain distinctly greater for SMEs in Tourism (23% of them) than in other sectors (between 11 and 13%).
- For SMEs experiencing difficulties financing their day-to-day operations, the main reason by far remains an insufficient level of revenue and/or lack of certainty over their outlook (cited by 45% of SMEs). Then follows the excessive guarantees demanded (cited by 33%).

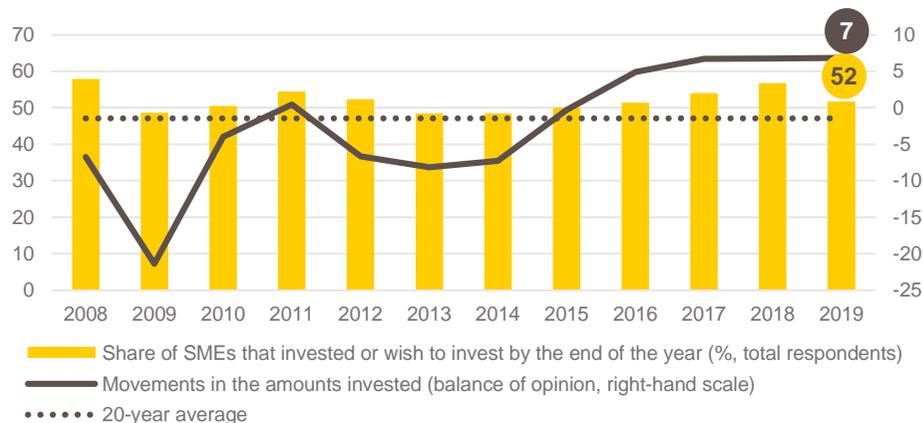
Difficulties in accessing investment credit facilities are down again (cited by 10% of SMEs) after a small rise in the previous half-year.

- Only 10% of SMEs experienced difficulty in accessing investment credit facilities, which is a slightly lower proportion (11% one year ago).
- Over six months, such difficulties are down in all sectors except Industry and Tourism, where they are little changed. Here too, SMEs in Tourism encounter far more access issues (26% of them, versus between 7% and 10% for other sectors).
- For those firms experiencing difficulties accessing capital expenditure credit facilities, the main reason remains the financial fragility of the business, and the figure is up (72% compared with 68% the previous year). This factor is cited particularly often by Transport and Industry SMEs (93% and 86% respectively).

# Capital expenditure remains sound in 2019

**Capital expenditure remains buoyant in 2019, driven by favourable financing conditions albeit with a lower proportion of SMEs.**

• GRAPH 7: CAPEX TREND IN THE CURRENT YEAR



Source: Bpifrance Le Lab

**52% of SMEs report actual or planned capital investment in 2019, a proportion that is down 5 points compared to 2018.**

**There is little change over the year however in the indicator measuring the amounts spent (at +7), which remains above its long-term average (-1).**

- Capital expenditure is reported to be accelerating in Services (up 3 Points) and still buoyant in Construction (up 1 point) and Industry (unchanged).
- Conversely, slowdowns are reported in Transport (down 13 points) and, to a lesser extent, Tourism (down 4 points) and Commerce (down 3 points).

**In terms of purpose, there has been a relative decrease in equipment expenditure** (plant and machinery, vehicles, miscellaneous equipment at 55% from 63% one year ago), **mainly in favour of spending on real-estate** (36%, up 8 points), probably a result of the decrease in the Transport sector.

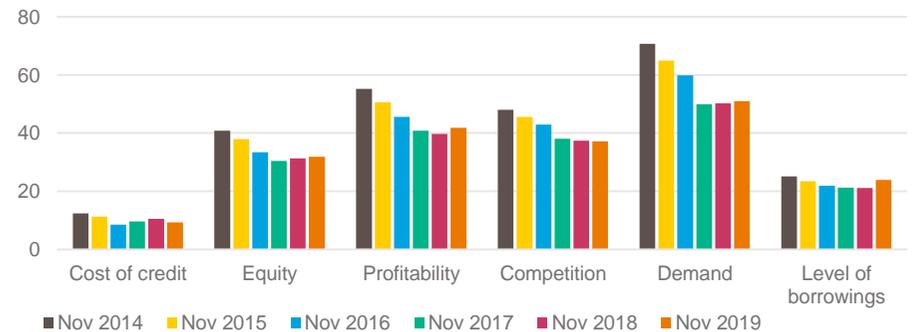
**The balance of financing is shifting as a consequence:** the proportion of long-term bank borrowing is up, and medium-term borrowing is down.

- 48% of capital expenditure was financed through equipment leasing and 2 to 7-year bank loans (-5 points over one year) and 14% through real-estate leasing and bank loans of 8 years or longer (+8 points).
- A third of capital expenditure is self-financed (compared with 38% in November 2018), down despite the businesses' comfortable financial situation.

**The main brake on capital expenditure is still weak demand**

- Weak demand is the main brake on capital expenditure mentioned by senior executives, holding almost steady over one year (51% compared with 50%).
- Insufficient profitability and lack of shareholders' equity are mentioned by only 42% and 32% of managers respectively, reflecting the decent financial health of SMEs.
- Against a backdrop of an increasing debt burden on French businesses, more SMEs than last year mention excessive debt as an obstacle to capital expenditure (24%).

• GRAPH 8: OPINION ON OBSTACLES TO INVESTMENT - BALANCE OF OPINION (AS A %)



Source: Bpifrance Le Lab



This finding, of a lower proportion of SMEs reporting capital expenditure in 2019 compared with 2018, is also reflected in the Bpifrance Le Lab/Rexecode survey for Q4 2019.



**03.**



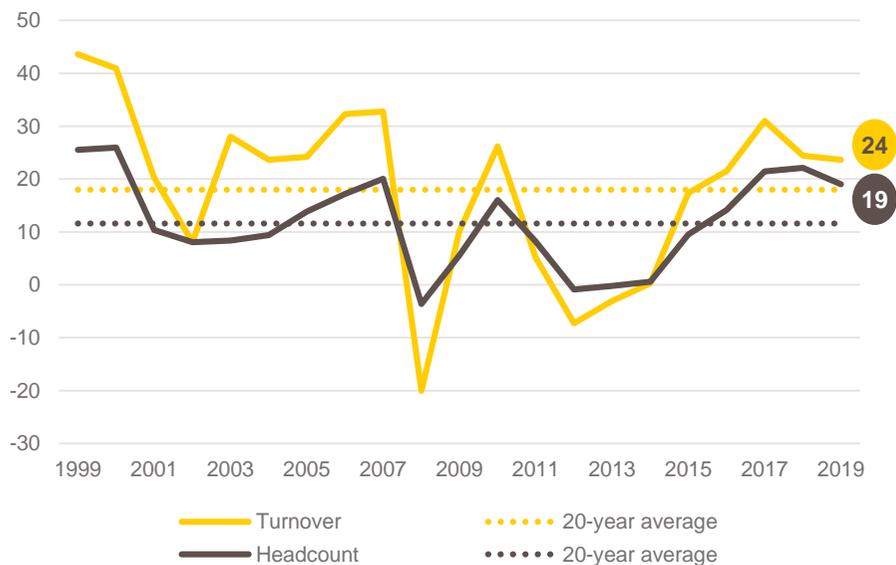
**OUTLOOK FOR 2020**

# The outlook for revenue and employment still augurs well for 2020, even though employment is expected to lose a little momentum



**Exporter SMEs and those in the Industry sector appear adversely affected by the uncertain international economy, whereas SMEs focused on the domestic market are showing more resilience.**

**• GRAPH 9: TRENDS IN BUSINESS ACTIVITY AND WORKFORCE NUMBERS FOR THE NEXT YEAR**  
BALANCE OF OPINION (AS A %)



Note: The balance of opinion on the expected trend in business activity for the following year remained stable over 1 year to stand at +24 in November 2019.

Source: Bpifrance Le Lab

## Revenue outlook unchanged over the year.

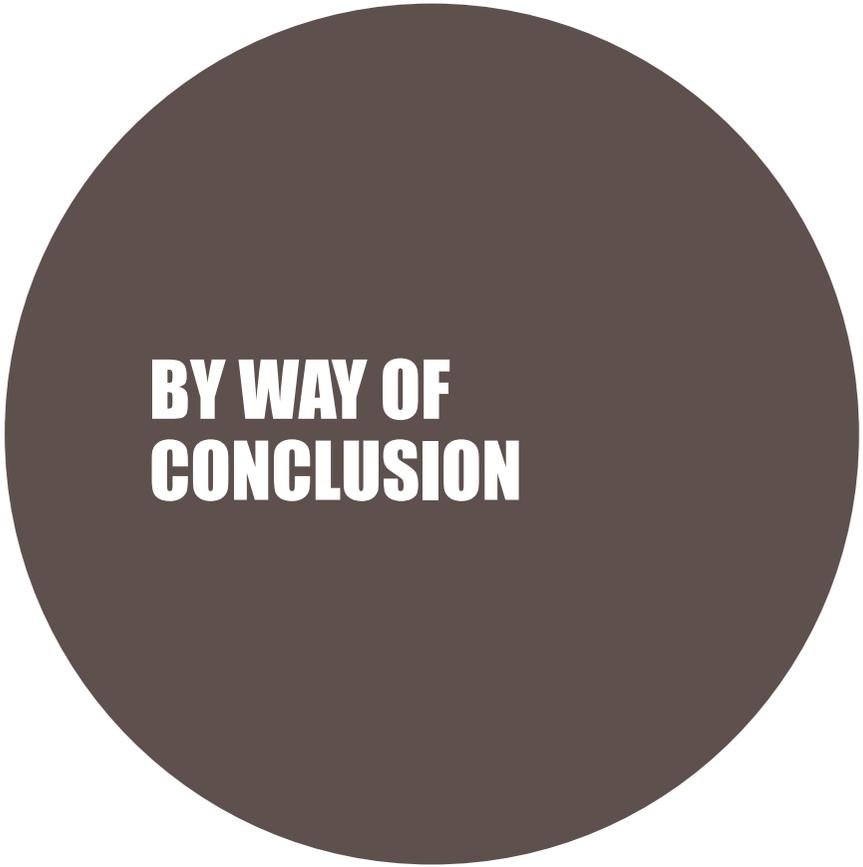
- The revenue predictor stands at +24 points, unchanged over the year and still above its long-term average (+18).
- While the outlook for revenue is reportedly improving in Tourism (up 8 points in one year), and to a lesser extent in Transport, Construction and Services (up 3, 2 and 2 points respectively), the outlook is reportedly deteriorating in Commerce (down 4 points) and especially Industry (down 7 points).
- The worsening expectations in Industry reflect SMEs' belief that the international economy will deteriorate. Exporting SMEs anticipate a sharp slowdown in revenue in 2020 (down 10 points to +33), in contrast to their non-exporting counterparts (up +2 point to +21), although in absolute terms they reportedly remain the most vibrant. Uncertainty surrounding trade tension and growth in neighbouring European countries and worldwide could explain the less optimistic stance of exporter SMEs. Note that survey responses were collected before the UK general election was held, the results of which make the short-term prospects of hard Brexit less likely, and the announcement of a preliminary trade agreement between United States and China.

## Recruitment reportedly slightly less buoyant in 2020.

- The headcount predictor fell by 3 points over 1 year (at +19). It remains well above its long-term average (+12).
- Consistent with the findings in respect of revenue, Commerce and Industry were the main sectors where the recruitment outlook worsened (down 7 points). Recruitment is reportedly slowing down a little in the Services sector (down 3 points). In contrast, Construction SMEs forecast acceleration in recruitment (up 6 points).
- Exporter SMEs anticipate a definite slowdown in their recruitment in 2020 (balance of opinion down 9 points, to +25), while non-exporters expect their recruitment to hold almost steady (down 1 point, to +17).



**04.**



**BY WAY OF  
CONCLUSION**



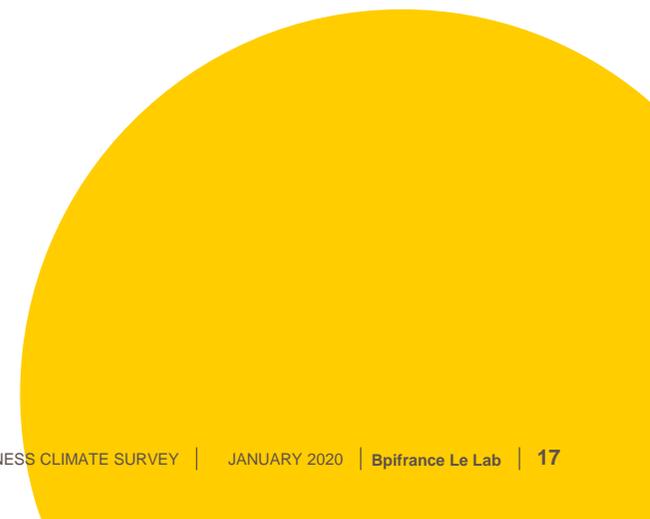
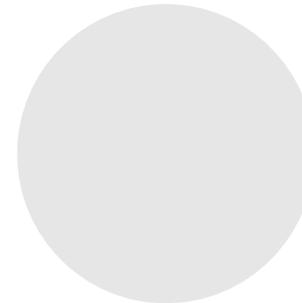
## **SMEs remain confident overall about the domestic market's driving forces, despite the deteriorating export manufacturing environment**

---

SMEs are confident overall in 2019, and confident about 2020, although a slowdown in recruitment is expected in the next few quarters.

Ultimately, SMEs are continuing to benefit from healthy domestic economic conditions. Only exporter and Industry sector SMEs are gradually suffering from the worsening international environment, although to a lesser degree than in other European economies, and they anticipate that difficulties will continue in 2020.

SMEs believe the French economic cycle remains sound, and at this stage they appear not to anticipate serious contagion from the recent deterioration in the economic environment elsewhere.







<b>TURNOVER</b>	<b>HEADCOUNT</b>	<b>INVESTMENT</b>
Average 1999 to 2018	Average 1999 to 2018	Average 1999 to 2018
Nov 2018	Nov 2018	Nov 2018
Nov 2019	Nov 2019	Nov 2019
Trend/Nov 2018	Trend/Nov 2018	Trend/Nov 2018

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

<b>All SMEs</b>	<b>17</b>	<b>25</b>	<b>25</b>		<b>8</b>	<b>16</b>	<b>19</b>		<b>-1</b>	<b>7</b>	<b>7</b>	
10 - 250 employees	23	34	32		14	24	26		1	9	10	
Less than 10 employees	6	8	13		-1	2	8		-4	3	2	
Commerce	15	22	22		7	10	17		-3	7	4	
Construction	10	19	26		6	12	21		-5	6	7	
Industry	18	30	23		7	19	16		-1	5	5	
Services	22	24	27		13	21	24		2	8	13	
Tourism	8	18	17		2	5	7		-4	1	-3	
Transport	10	32	27		8	19	16		0	14	1	

## YEAR 2020<sup>1</sup>

<b>All SMEs</b>	<b>18</b>	<b>24</b>	<b>24</b>		<b>12</b>	<b>22</b>	<b>19</b>					
10 - 250 employees	24	31	29		14	27	23					
Less than 10 employees	10	13	15		8	14	13					
Commerce	18	25	21		9	20	13					
Construction	3	12	15		5	16	22					
Industry	23	31	25		13	26	19					
Services	24	28	31		19	27	24					
Tourism	8	15	23		1	3	3					
Transport	6	9	12		4	17	17					

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



**05.**



**METHODOLOGY**

## Definitions

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

They equate to the differences between percentages of opposite opinions:

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

The percentages of neutral opinions (“same” and “normal”), which take the balances up to 100%, are not included when calculating indicators of this type.

**A business is considered “innovative”** if it has taken at least 1 of the following 5 steps during the last 3 years:

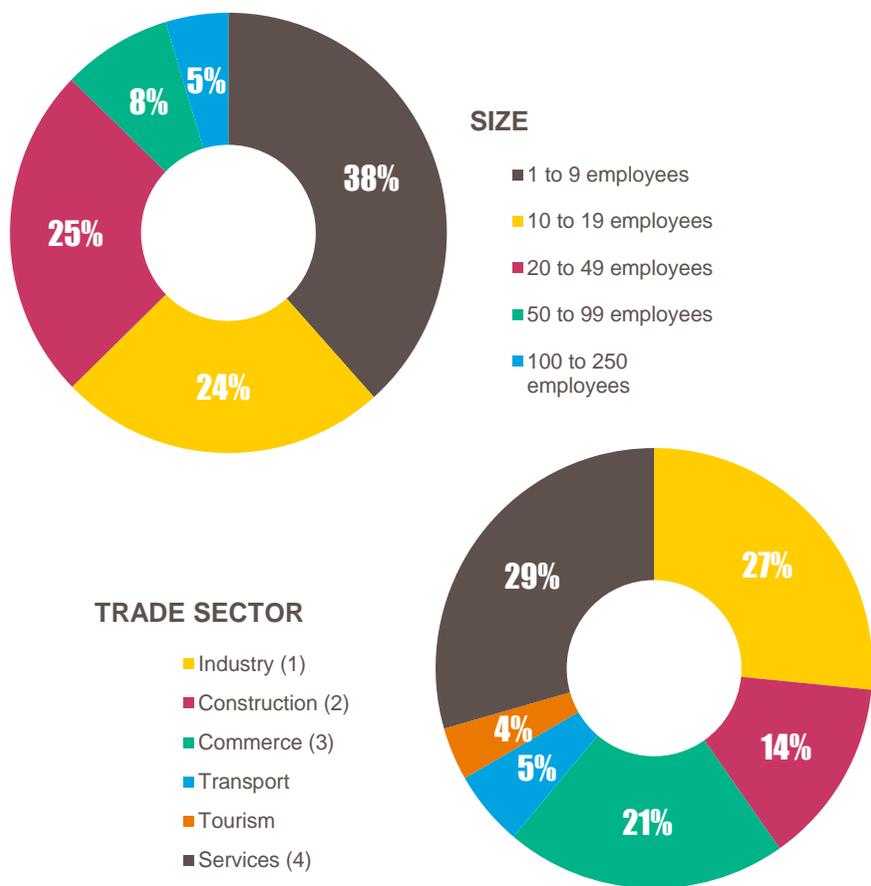
- funded research and development expenditure (in-house or externally) or recruited R&D personnel;
- acquired an operating licence for a process or technology;
- filed a patent, a trademark, a design or a utility model;
- developed a new or significantly improved product or process (service provision) on behalf of a third party;
- marketed a new product, asset or service (other than simply reselling new products bought from other businesses and excluding aesthetic changes or changes to the packaging of products already in existence), or used a new production, marketing or organisational process (or method). Furthermore, no similar product or process should already have been marketed or used by competitors.

A **“high-export”** business conducts over one quarter of its business internationally, a **“medium-export”** business between 6% and 25%, and **“non-exporters”** less than 6% (including 0%).

# Sample structure

For this 70<sup>th</sup> half-yearly business climate survey, 37,000 non-agricultural commercial companies with 1 to fewer than 250 employees and a turnover of less than €50 million were surveyed between mid-November and early December.

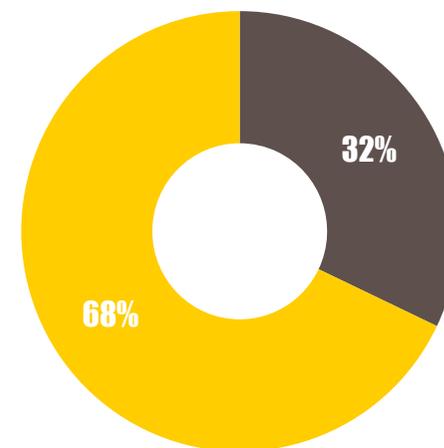
The 4,292 responses received before 9 December, considered complete and reliable, have been compiled nationally and broken down for all regions except for Corsica and France's overseas territories, for which the number of responses is insufficient.



(1) 3% food, 13% intermediate goods, 8% capital goods, 3% consumer goods  
 (2) 12% construction, 2% public works  
 (3) 2% automobile dealing and repair, 12% wholesale, 7% retail  
 (4) 24% business-to-business services, 5% business-to-consumer services

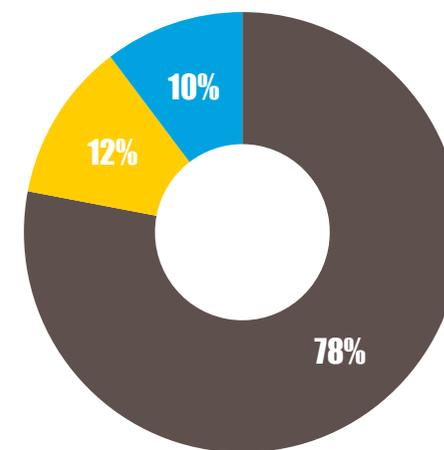
## INNOVATIVE NATURE

- Innovators
- Non-innovators



## EXPORT

- Non-exporters
- Medium exporters
- High exporters



Survey managers: Sabrina El Kasmi, Laetitia Morin  
Evaluation, Research and Forecasting Department  
Macroeconomic Division – Economic Environment

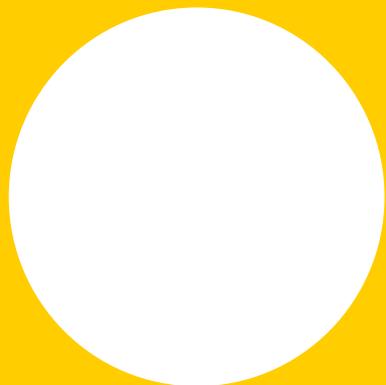
## To contact Bpifrance in your region

[bpifrance.fr](https://www.bpifrance.fr)

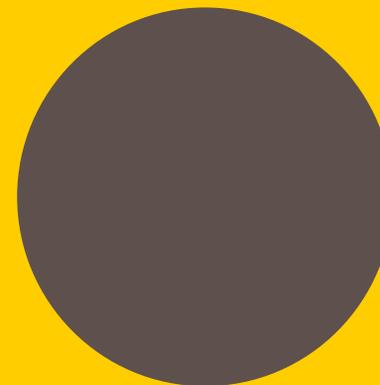


27-31, avenue du Général Leclerc  
94710 Maisons-Alfort Cedex  
Tel.: +33 1 41 79 80 00

[bpifrance-lelab.fr](https://www.bpifrance-lelab.fr)



# **SERVIR L'AVENIR**



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