

The EU Craft and SME Barometer 2016/H2

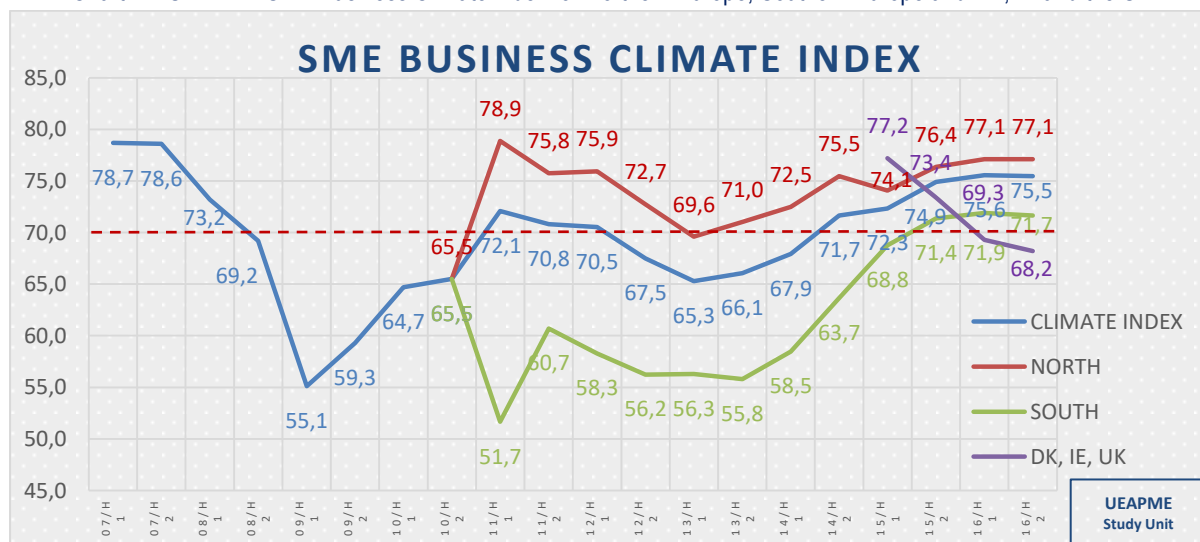
SMEs recover across Europe, but negative impact from Brexit

SME Climate Index stable at 75.5 – Construction profits from internal demand

The **UEAPME SME Business Climate Index**, shown by the blue line in Chart 1, has confirmed its trend and stays with 75.5 percentage points, i.e. stable compared to the last period. The index, which consists of the share of the European crafts and small and medium enterprises reporting stable and positive business situations and expectations, has maintained its level above the neutral level of 70 for the fifth consecutive semester. This result confirms that the recovery of SMEs continues and shows a general positive scenario for the second semester.

Already our last Climate Index in March saw a negative impact on UK SMEs due to the uncertainty regarding Brexit. This negative trend got stronger after the referendum and also now impacts economies which strongly depend on the UK, such as Denmark and Ireland, as shown in Chart 1. Since the beginning of 2015, the Climate Index for these three countries decreased by 9 points and is now clearly below the neutral level of 70. The forthcoming political developments in the UK will certainly have impact on businesses over the next years, especially in these countries.

Chart 1 – UEAPME SME Business Climate Index for Northern Europe, Southern Europe and DK, IE and the UK



Regarding the situation in the North and Centre¹ and in the South and Periphery², it reveals that the European trend is quite similar in both areas and is stable. In the North, the Climate Index has maintained 77.1 percentage points despite the negative impact of Brexit and negative external effects like the slowdown in China and the sanctions on Russia. In the South, the index is held back by the still difficult but improving situation in Greece and the increasing internal economic and political problems in Italy. Furthermore, the results for Ireland have been negatively affected by the Brexit, reducing the expectations for the second semester of 2016.

¹ Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK

² Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain.

SMEs stronger on growth and employment, but weak still on investment

The main points to be drawn from data collected for 2016/H2 SME Barometer are the following:

- The results for the first semester of 2016 depict a very positive picture for the European SMEs. All the criteria are in the positive sphere for the first time since the crisis started in 2008 (see Table 2). Compared to the previous semester, the figures show an improved scenario, except for the overall situation that has been negatively hit by the low profitability for SMEs.
- The expectations for the current semester are even more optimistic, demonstrating that the SMEs' recovery is getting more dynamic.
- The internal demand has finally affected the construction sector as well after having pushed the services earlier. The demand is also boosted by the current low interest rate mortgages and by the rising rents that make investing in properties more attractive.
- Despite the positive general pattern of the economy, SMEs suffer on the investments side, reflecting the feeling of uncertainty about the long-term development. SMEs are still hesitating to implement longer-term investment plans.
- Looking at the size classes, micro and small businesses prove to be more dynamic in employment than medium-sized companies. This demonstrates a catching-up phase after the slowdown caused by the financial crisis, and reflects the higher productivity gains in medium-sized companies;
- To promote competitiveness in Europe, political actions have to be taken in order to reduce the level of uncertainty about the key political topics, such as the recent Brexit, and to ensure a better access to finance and qualified personal for SMEs to attract more investments.

Table 2 – Difference between expectations (e) and final results for 16/H1 and expectations for 16/H2

	Expectations 16/H1e	Results 16/H1	Δ (R-E) 16/H1	Expectations 16/H2e
Overall	8.5	7.4	-1.1	10.4
Turnover	4.1	6.8	2.7	10.0
Employment	1.0	1.9	0.9	4.9
Prices	10.1	2.8	-7.3	8.1
Investments	0.1	1.6	1.5	1.4
Orders	3.0	0.8	-2.2	7.4

The EU Craft and SME Barometer 2016/H2 can be found at:
http://www.ueapme.com/IMG/pdf/161011_Barometer_16H2.pdf