

The EU Craft and SME Barometer 2017/H2

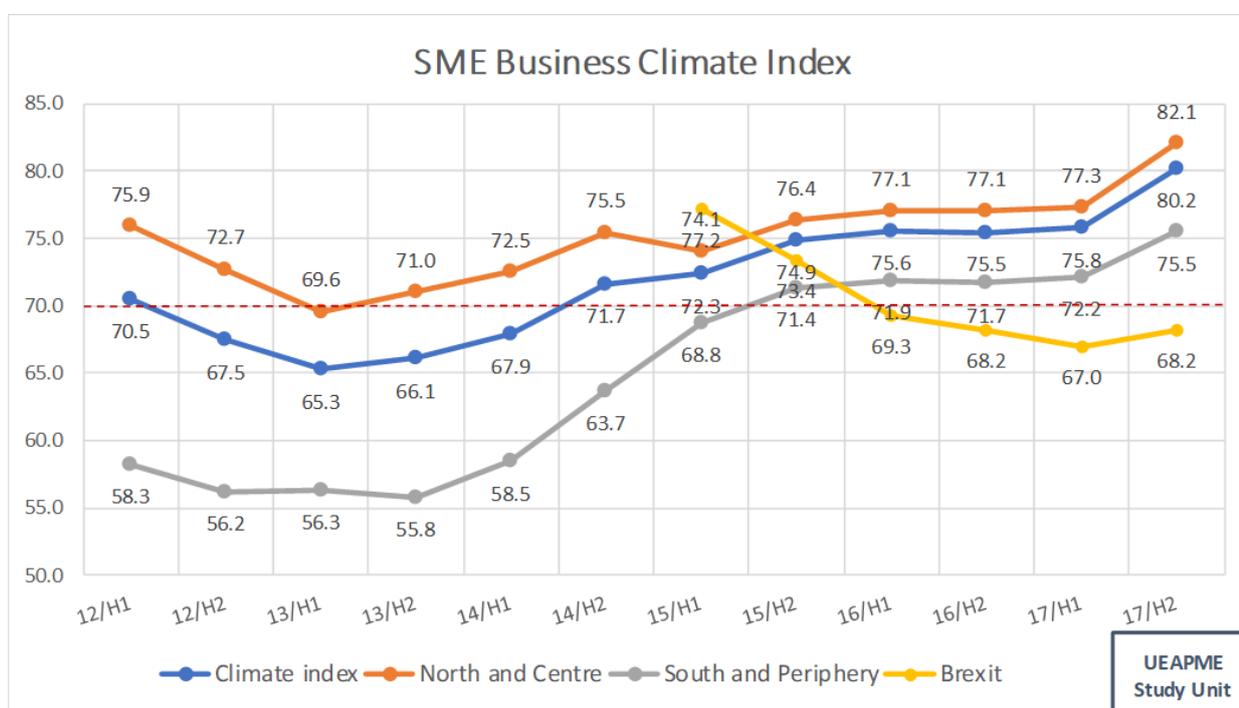
SME Climate Index: above 80 for the first time

Big improvement compared to last semester, but some concerns remain in service sectors

The **UEAPME SME Business Climate Index**, which consists of the shares of European Craft, Small and Medium-Sized Enterprises reporting stable and positive business situation and expectations, has surged to 80.2 ppts. This is the highest score ever achieved since the outbreak of the global financial crisis, demonstrating that a great majority of European SMEs are optimistic about the current and near term economic situation (see Chart 1). This upsurge can be explained by the unexpected strengthening of European internal demand – that most SMEs depend on – due to a combination of factors such as stable core inflation rate, gradually decreasing unemployment rate and rising wages.

The latest figures confirm the symmetrical growth patterns of economic confidence in “North and Centre” group and “South and Periphery” group, economic confidence among Eurozone, Non-Eurozone and Brexit group (UK, DA, IR) vary. This is caused by the uncertainty about Brexit that still hovers over SMEs in United Kingdom and countries that have close economic ties with the UK (i.e. Denmark and Ireland). Therefore, the figures for the Non-Eurozone are also impacted.

Chart 1 – UEAPME SME Business Climate Index for North and Centre, South and Periphery and the Brexit group



But given that European economic recovery is only beginning to stabilise and many hard economic indicators (such as unemployment rate and investment have not yet fully recovered to their pre-crisis levels, SMEs are perhaps being too complacent and the economic picture they are painting is a bit too rosy.

European SMEs performed unexpectedly well and stay on growth track

The main points of 2017/H2 SME Barometer are the following:

- European SMEs have not only reported positive balances but also significant improvements regarding their business activities compared to the last semester – ranging from turnover, employment to investments and orders,. The results for the first semester of 2017 also contain more positive responses than neutral responses than last semester, reflecting growing optimism among European SMEs.
- Contrary to what had been suggested in the previous Barometer, a possible inflation-driven slowdown in internal demand did not seem to be materialised. That leads to underestimations in almost all aspects of business activities when comparing the differences between SMEs' expectations and the real results of the first semester of 2017.
- And after experiencing a better-than-expected performance, SMEs have raised their expectations for all indicators, except for investments, higher than the balanced results recorded in the first semester of 2017. Yet the sectoral data shows that the service sectors appear more concerned about the economic development than the manufacturing and the construction sectors are, partly because their economic transactions are more instant and unpredictable (see Chart 2).
- The latest survey also indicates that economic recovery has finally reached the construction sectors. Positive balanced results reported by the construction sector, especially on orders, imply that European consumers are starting to increase their expenditure on private housing such as renovating or purchasing new houses (see Chart 3).
- To sustain current economic recovery, Europe has to strengthen its efforts to build a more SME-friendly business environment. Policy recommendations include encouraging employment by implementing overdue labour market reforms in some Member States, stimulating investment by establishing the Capital Markets Union, ensuring a steady flow of qualified workforce by providing more assistance in skill training, and reducing regulatory barriers, compliance costs and unnecessary administrative burdens at both European and national levels.

Chart 2- Overall Situation by sector

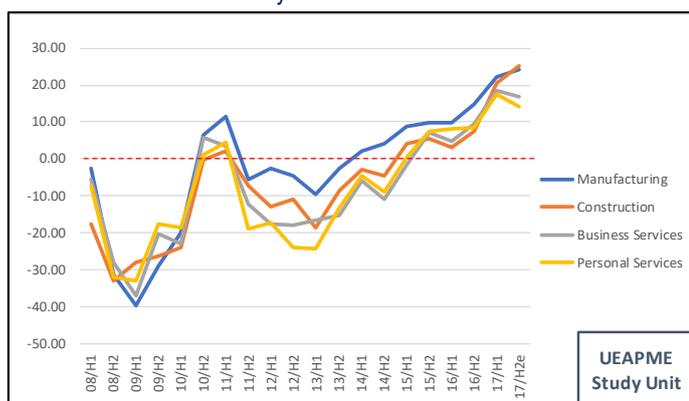
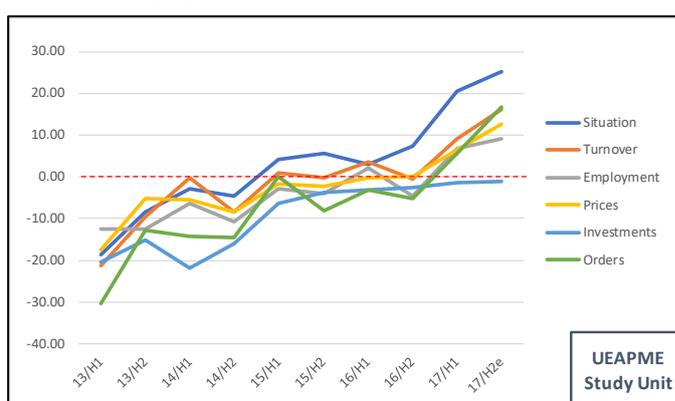


Chart 3- Construction sector



The EU Craft and SME Barometer 2017/H2 can be found at:

http://www.ueapme.com/IMG/pdf/171018_Barometer_17H2.pdf