

The EU Craft and SME Barometer 2013/H1

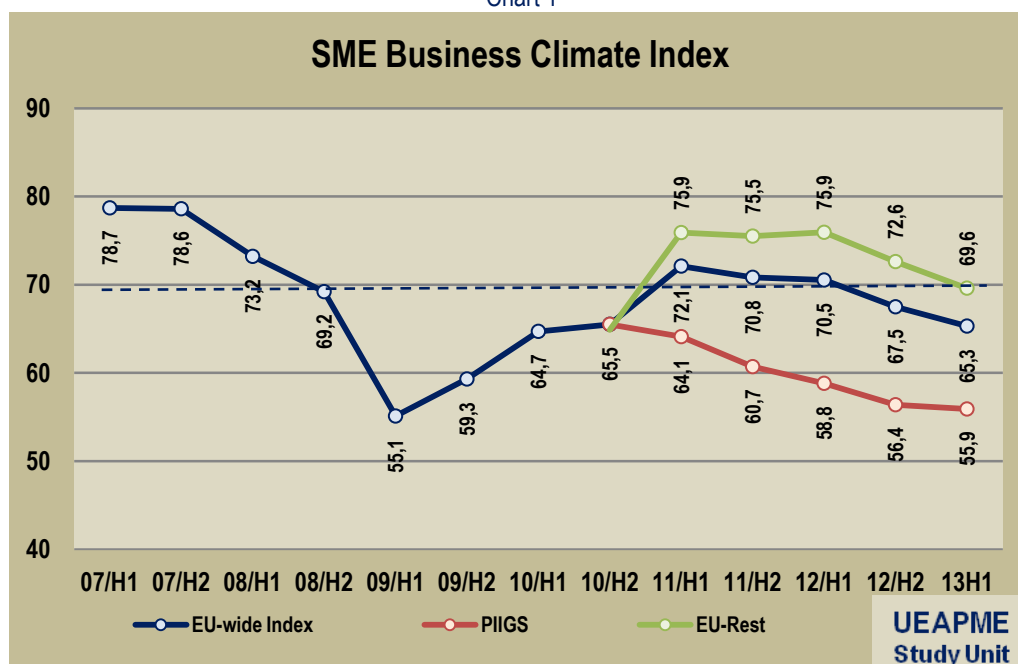
A further decline for EU SMEs: Climate Index down to 65.3

The recession feeds through the stronger economies

The **UEAPME SME Business Climate Index** (shown by the blue line in Chart 1) declined for the fourth consecutive semester, with a contraction of 2.2 percentage points (pp).

The confidence of European small and medium-sized enterprises, resulting from the business situation of the second semester of 2012 and the expectations for the first half of 2013, decreased from 67.5 to 65.3. The difficult situation in Portugal, Ireland, Italy, Greece and Spain (the so-called "PIIGS") has fed through the other EU economies, and the Climate Index in the rest of the EU (shown by the green line) reached its lowest value since the beginning of 2011 at 69.6, for the first time slightly below the 70 points barrier, which indicates a neutral business climate.

Chart 1



The index is calculated as an average of companies that have reported positive or stable business situations and expect a positive or stable development for the next period. Therefore the index can range from 100 (all positive or neutral) to 0 (all negative).

The very pessimistic outlook of European SMEs is the outcome of the recession that emerged in the middle of 2012 and persisted through the whole year, hitting SMEs very hard, coupled with the very unsatisfactory macro-economic indicators and forecasts for 2013, which are suggesting a further postponement of a significant economic recovery in the EU¹. As the current recession is caused largely by the weak EU internal demand SMEs, which are more depending on local demand, are the most suffering, especially in the construction and services sectors.

¹ According to the EU 2013 spring forecast, a tiny 0.1% growth in the EU GNP is predicted, while the Euro area will suffer from a 0.3 contraction.

Table 1: trend in the gap of confidence between PIIGS and the rest of the EU 2010-2013

	Confidence PIIGS	Confidence EU-Rest	Gap
11/H1	64.1	75.9	11.8
11/H2	60.7	75.5	14.8
12/H1	58.8	75.9	17.1
12/H2	56.4	72.6	16.2
13H1	55.9	69.6	13.7

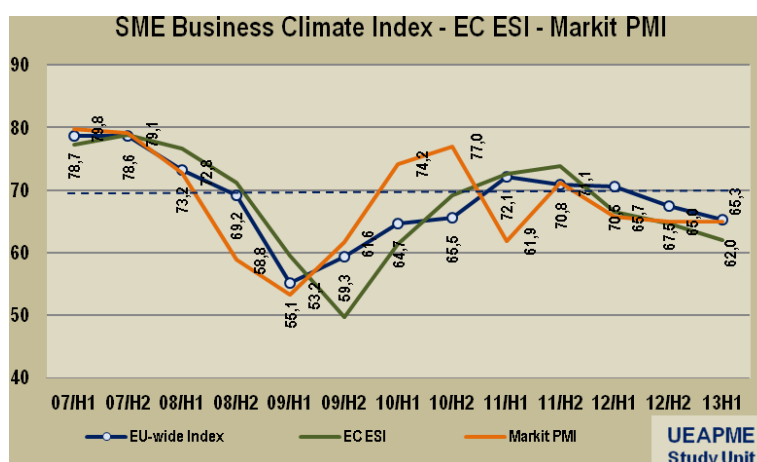
Table 2: gap of confidence between the Eurozone and the rest of the EU

	Confidence Eurozone	Confidence EU-Rest	Gap
12H2	66.0	70.6	4.6
13H1	64.1	67.9	3.8

Even if the confidence of SMEs in the PIIGS further declined (red line in Chart 1), the gap between Portugal, Ireland, Italy, Greece and Spain and the other EU countries was reduced to 13.7 (-2.6 pp), as a result of an even a steeper confidence decrease (3 pp) in the rest of the EU (green line), which fell from 72.6 to 69.6. Despite this gap reduction, the imbalances within the EU keep being worrisome. A comparison between the confidence of SMEs in the Eurozone and the one other EU countries shows a very similar path: although the gap is reduced by 0.8 pp, from 4.6 to 3.8, both confidence levels decreased, and it is also worth noticing that that the confidence in the non-Euro countries declined to 67.9, also below the neutral business climate level.

Chart 2 presents a comparison between the trends of UEAPME SME Business Climate Index (shown by the blue line) and two other well-known indicators: the *Economic Sentiment Indicator (ESI)*² of the European Commission (green line) and the *Market Purchasing Managers' Index (PMI)*³ (orange line). While the ESI shows a trend somehow comparable to the SME Business Climate Index, the PMI Index, which is linked to purchasing managers' orders and the inventory cycles, mainly of large enterprises, shows a better trend, as larger companies are subject to longer-term planning and might be preparing for a forthcoming upturn in the second half of the year.

Chart 2



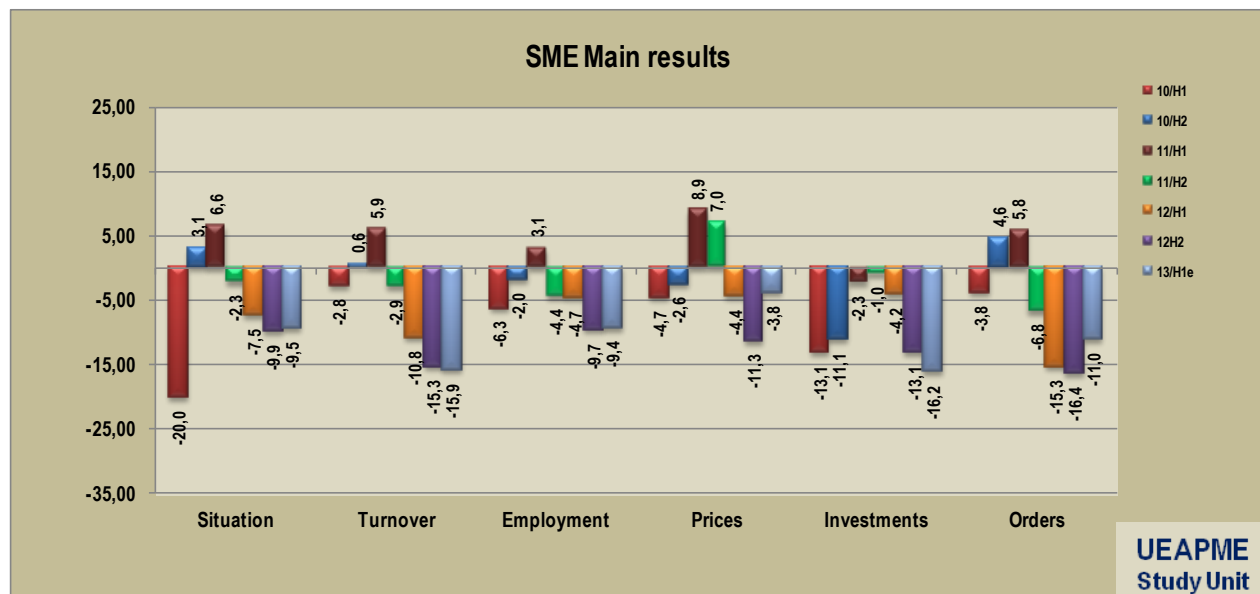
² The EC's ESI measures five confidence indicators linked to different sectors: Industrial Confidence Indicator; Services Confidence Indicator; Consumer Confidence Indicator; Construction Confidence Indicator and Retail Trade Confidence Indicator. The average of last six months ESI values has been re-scaled to make it comparable with the UEAPME SME Business Climate Index, with 70 as the long-term average/neutral value. http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm

³ The Markit Composite PMI measures new orders of large firms in manufacturing and services. The average of last six months PMI values has been re-scaled to make it comparable with the UEAPME SME Business Climate Index, with 70 as the long-term average/neutral value.

Main Results of the EU Craft and SME Barometer 2013/H1

The second half of 2012 showed a further decline of all economic indicators for European SMEs (Chart 3). The balances between positive and negative answers confirmed double-digits negative figures for turnover (-15.3 pp) and orders (-16.4), with the overall situation reaching -9.9 and employment at -9.7. This is the third negative semester in a row for all three output related indicators (turnover, employment and orders).

Chart 3 – balance +/-



The strong effect of the downward pressure on SMEs sale prices led to a very negative balance (-11.4), the lowest ever recorded since 2009, when the crisis reached its negative peak. The balance of the investments is also remarkably negative (-13.1), reaching the exact value registered at the beginning of 2010.

The expectations for the first semester of 2013 indicate that European SMEs foresee a stabilised negative situation. Turnover (-15.9) and investments (-16.2) are the indicators showing the lowest expectations: SMEs' investments, in particular, keep suffering from the very uncertain economic climate and from the tight bank lending conditions, which are still very difficult despite the tension on the financial markets easing a bit in the second half of 2012. The upward trend in the expectations of orders may be the first signs of an economic recovery. However, there is still uncertainty on whether it will materialise during the second semester of 2013.

The ongoing recession strikes SMEs beyond their expectations

The comparison (see Table 3 on page 4) between the expectations collected during the first half of 2012, which were published in the Barometer 2012/H2, and the final results for the second half of 2012 illustrates that European SMEs could not predict how strong the impact of the recession has turned out to be.

While EU SMEs were expecting negative results for all economic indicators, the fall in the internal demand led to worse than predicted negative results, in particular for prices and orders (both at -10.7), followed by turnover (-6.5) and overall situation (-5.0).

The behaviour of prices, in particular, is quite remarkable, as prices have shown double-digit negative figures for the second consecutive semester. The magnitude of the downward pressure exerted on SMEs sale

prices has been therefore much stronger than expected. This is a result of the very low private demand in the EU, which is also reflected in the very negative balance recorded by orders.

Table 3: difference between expectations and final results for 12H2

	Expectations – 12H2e	Results – 12H2	Δ (12H2 – 12H2e)
Overall situation	-4.9	-9.9	-5.0
Turnover	-8.8	-15.3	-6.5
Employment	-6.0	-9.7	-3.7
Prices	-0.6	-11.3	-10.7
Investments	-15.9	-13.1	+2.8
Orders	-5.7	-16.4	-10.7

Employment (-3.7) shows the least negative amplitude between expectations and results in 2012/H2, following a rather regular pattern, as the rigidities of the labour market lead to a slower adaptation of employment to the market's framework. Labour-hoarding, in fact, is more frequent in the SMEs environment, as smaller enterprises lay off redundant workers only as a last resort measure.

Table 4: trend in the balance between expected and realised investments (09H1 – 12H2)

	Expected investments	Realised investments	Δ (E-R)
09/H1	-32.1	-20.7	+11.4
09/H2	-31.1	-15.8	+15.3
10/H1	-25.6	-13.1	+12.5
10/H2	-12.4	-11.1	+1.3
11H1	-16.1	-2.3	+13.8
11H2	-3.6	-1.0	+2.6
12H1	-22.7	-4.2	+18.5
12H2	-15.9	-13.1	+2.8

The difference between expected and realised investments is again positive (+2.8), as it happened in all the previous editions of the Barometer. Table 4 illustrates the trend in the balance between expected and realised investments from 09/H1 up to 12/H2. SMEs entrepreneurs usually correlate their expected investments to an increase in the production capacity or the purchase of new machinery, which are quite difficult to plan, especially in times of recession, while in reality investments can become necessary to preserve the production capacity by replacing obsolete machinery, and/or to meet increases in orders.

The relative smaller difference (+2.8) compared to other semesters is a result of the general more negative results for 12/H2 compared to the expectations.

Size classes' analysis: micro and small enterprises hit hardest by lack of internal demand

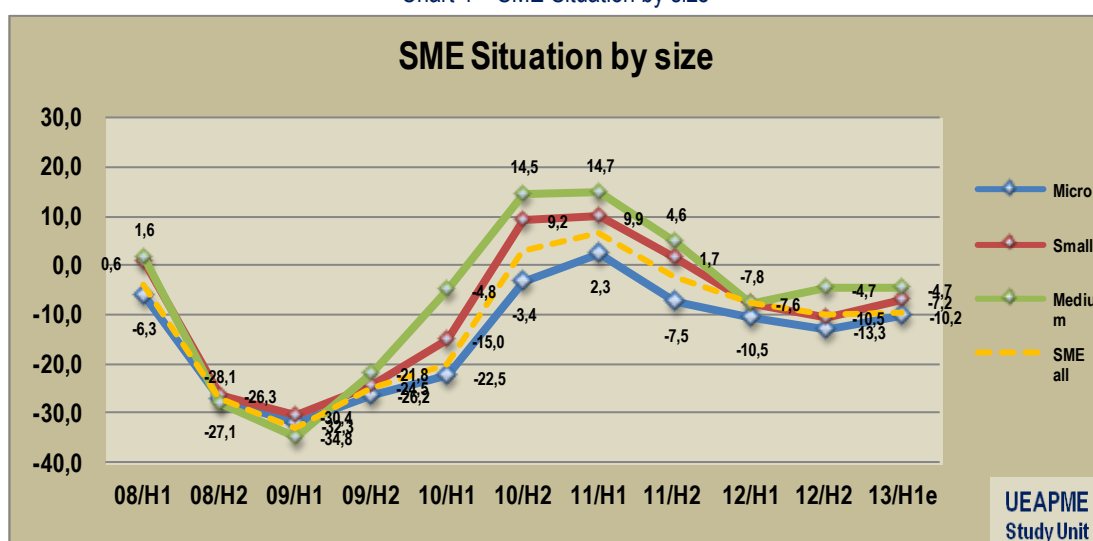
The overall situation remained weak for all sizes of SMEs during the second semester of 2012 (Chart 4). Micro enterprises are again paying the highest price, with a negative result of -13.3, while small companies show also double digit negative balances (-10.5). Medium-sized enterprises with -4.7 confirmed their less negative performances compared to the rest of SMEs for the seventh consecutive semester since 09/H2.

This proves that the current recession is caused by internal demand problems, which hit smaller SMEs in the services sector harder than medium sized SMEs more active in manufacturing and therefore more exposed to external shocks.

It is worth mentioning that, in the same way as in the previous edition of the Barometer, results have been worse than the expectations for all size classes, leading to a further downward revision of SMEs situation in Europe.

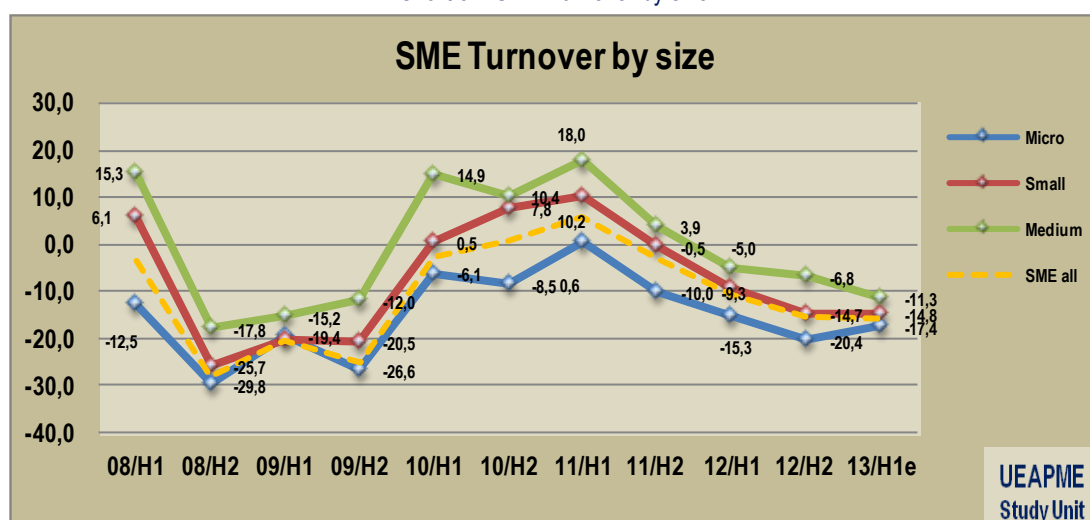
As regards the expectations for the first half of 2013, medium-sized enterprises foresee a stable situation (-4.7), while micro-enterprises and small companies show some slight improvements compared to the second semester of 2012, although the curve of their results is foreseen to stay below the one of medium companies.

Chart 4 – SME Situation by size



Turnover (Chart 5) and orders (Chart 6) show a similar picture as regards the results for the second semester of 2012, with some mixed indications in terms of expectations for the first half of 2013.

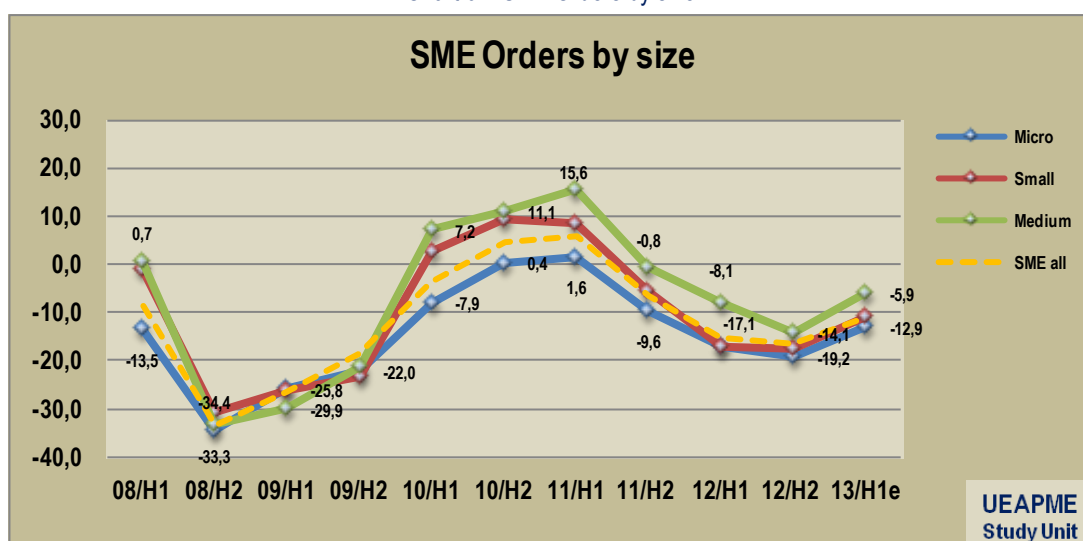
Chart 5 – SME Turnover by size



Medium-sized enterprises (-6.8) are again the only ones showing a reduction in the turnover below the -10 threshold, with micro and small companies recording stronger declines at -20.4 and -14.7 respectively.

The decline in orders has been marked for all size of companies, following the same path of turnover: medium-sized enterprises -14.1, small -17.4, micro -19.2. The expectations for the turnover in the first half of 2013 show a very tiny contraction for small enterprises (-0.1), an upward trend in the curve of micro enterprises (+3.2), and a negative development for medium-sized companies (-4.5), which on the contrary have the best expectations in terms of orders. The different expectations of medium-sized enterprises in terms of turnover and orders can be explained by their longer business cycles compared to the ones of micro and small-sized companies.

Chart 6 – SME Orders by size



These mixed signals indicate that SMEs are not expecting a real recovery, at least for the first part of 2013, but they rather see the stabilisation of a negative outlook. Nevertheless, if the orders expectations become reality, the second half of 2013 could be the turning point to restart EU SMEs' growth.

Turnover and orders by sector: some encouraging perspectives

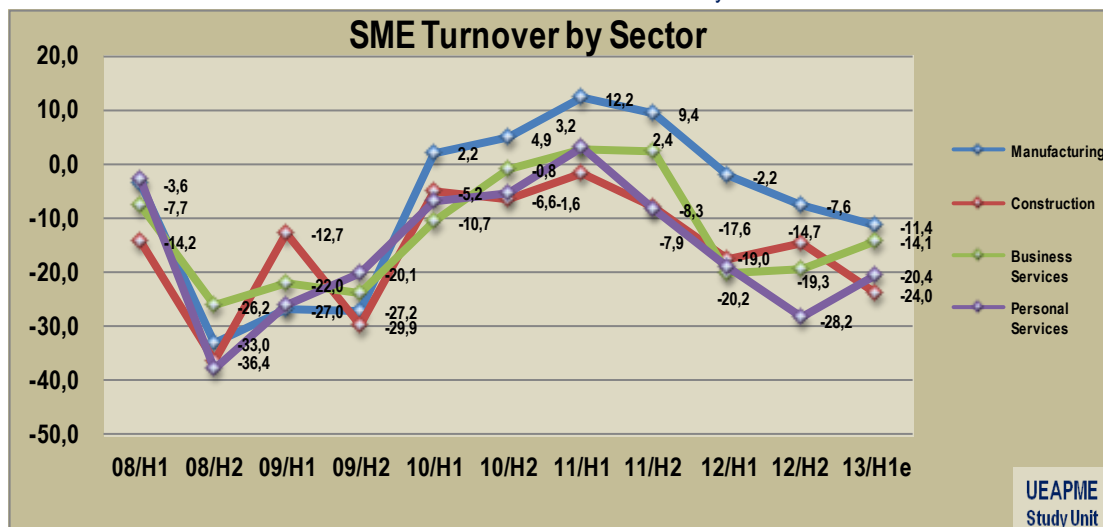
The ongoing recession and the downfall in the EU internal demand are affecting all the four sectors surveyed by our Barometer. The turnover (Chart 7) declined significantly in construction (-14.3) and in the services sector, with business at -19.9 and personal services at -28.2 respectively, while manufacturing recorded a less negative result at -7.6. The personal services curve shows the steepest downward path, as the sector is still suffering from the consumers' decline in confidence and in the disposable incomes.

The orders (Chart 8) showed double-digit negative balances in all sectors: manufacturing -11.6, business services -17.4, personal services -23.1 and construction -23.7.

The analysis of the turnover and orders expectations for the first semester of 2013 in the four sectors brings some similarities to the one applied above to the different size classes. Manufacturing, composed mostly by medium-sized enterprises that are subject to longer business cycles, shows declining expectations for turnover and a recovery of orders.

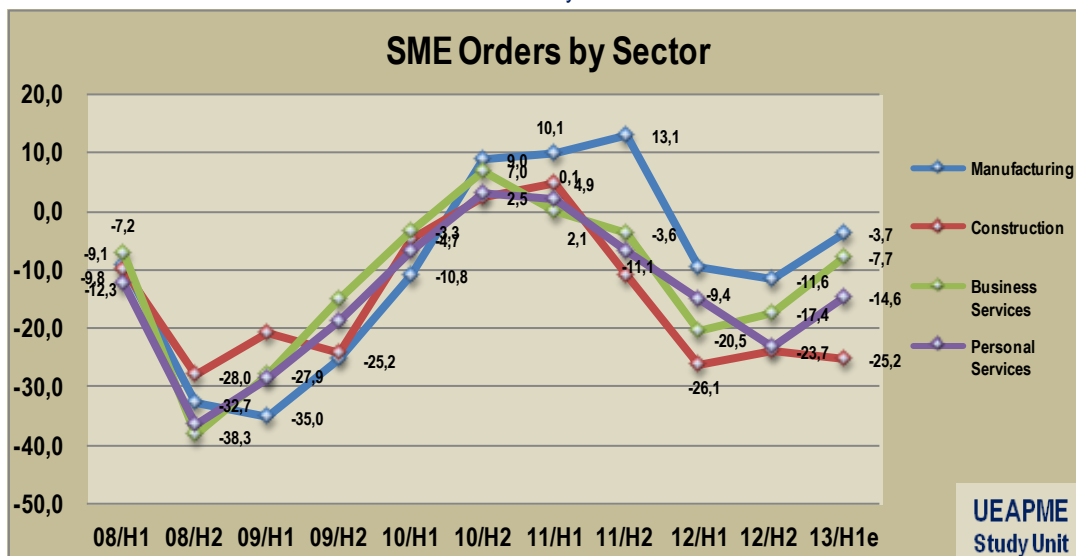
The business and personal services sectors show similar patterns, with upturns in the expectations for both turnover and orders. These trends can be somehow compared to the ones of micro and small enterprises in Charts 5 and 6. It is likely that the SMEs in the business services and in the personal services are feeling that the bottom of the recession could have been reached, and that they are envisaging some signals of a restored confidence in businesses and private households that might occur later on 2013.

Chart 7 – Turnover by sector



The expectations for the construction sector are, on the contrary, still very negative, with -24.0 for turnover and a further decline of foreseen orders at -25.2, by far the lowest value of all surveyed sectors. As a consequence of the negative conjuncture, long-term investments are still put on hold, as shown also by the low lending figures in the EU for both SMEs and private households. Therefore, the outlook of the construction sector will not turn positive until a more stable economic framework is restored.

Chart 8 – Orders by sector



Conclusions and recommendations

The recession that turned up in the middle of 2012 hitting “programme countries” first spread through the wealthier northern economies, therefore leading all European SMEs to a serious downturn in all economic indicators. The fall in the internal demand is affecting mostly smaller companies, especially in the services and construction sectors. Due to the weak lending conditions, it is difficult to foresee a quick recovery in the demand of the construction and investments.

In the short-term consumption sectors, i.e. services, the feeling is that the bottom line has been reached and that a less pessimistic scenario, although yet not positive, could be envisaged.

The general outlook is still bleak, with some weak signals of recovery from the second half of 2013, especially if the orders forecasts materialise.

The strategy for a sustainable recovery of the EU economy should rely upon a four-pillar approach:

- 1) A full stabilisation of financial markets with the restoring of normal lending conditions, especially for SMEs and private households;
- 2) A full implementation of structural reforms in the “programme countries”, especially for those reforms enabling the private sector to grow;
- 3) Growth-supporting measures and
- 4) Growth-friendly consolidation measures, in line with the EU 2020 objectives.

Given the ongoing recession, the fiscal consolidation path in the “programme countries” must focus on the mid and long-term structural effects, rather than on short-term targets; in this view, the use of automatic stabilisers should be allowed to avoid any further contraction of the economy, especially private households’ consumptions.

The realisation of structural reforms in all countries should be more strongly monitored and enforced by the EU institutions, for example by making the EU spending conditional to the implementation of the country-specific recommendations.

UEAPME EU Craft and SME Barometer: Methodology

The **EU Craft and SME Barometer** builds on the results of surveys that are conducted by UEAPME Member Organisations twice or four times a year in different regions all over Europe. The survey is based on about **120.000 questionnaires, with 30.000 answers** received. The data for this survey were collected between December 2012 and February 2013, which gives a quite recent picture about the development and the expectations of SME owners all over Europe.

At European level, we are able to provide **data for size classes** (micro, small and medium-sized enterprises) and for **four economic sectors** (manufacturing, construction, business and personal services), which may show different developments over business cycles and may react differently to external effects.

For each of these groups the Barometer provides **balanced figures** on the following categories: **overall situation, turnover, employment, prices, investment and orders**, where balanced means the difference between businesses that answered the questions about their expectation in these six categories in a positive or negative manner (balance = positive answers – negative answers). In order to get European figures from different national surveys, national results have been weighed with employment figures (see Table 1 and 2 in the Annex).

This Barometer presents the results (experiences) for the second semesters of 2012 (12H2) as well as the expectations for the first half of 2013 (13/H1e).

UEAPME issues its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn, which also includes the **European SME Business Climate Index** (see page 1), which is calculated as the average of the current situation and the expectations about the next period, as result of the sum of positive and neutral answers as regards the overall situation for the business.

Finally, UEAPME will only present European figures and will not disclose country specific data. This is due to the fact that we have not data for all Member States that are significant enough from a statistic perspective and furthermore, the presentation of national data from SME surveys is a prerogative of our national organisations, which are collecting them.

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Results – European Crafts and SME Barometer – 2013/H1

Table 4 – UEAPME Study Unit

Balance between positive and negative answers / weighted by number of employees

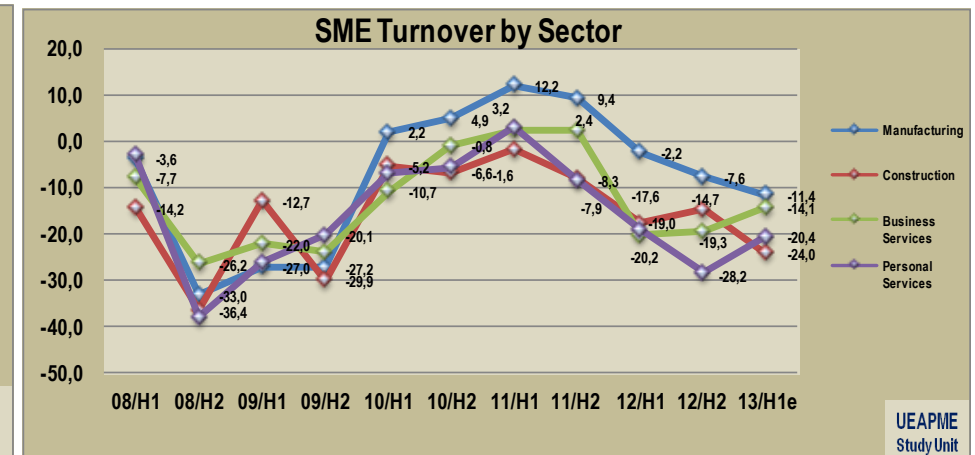
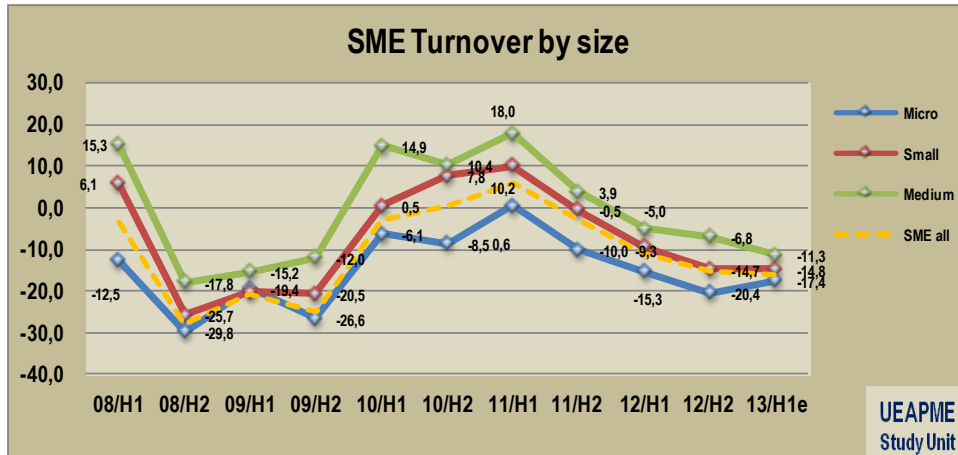
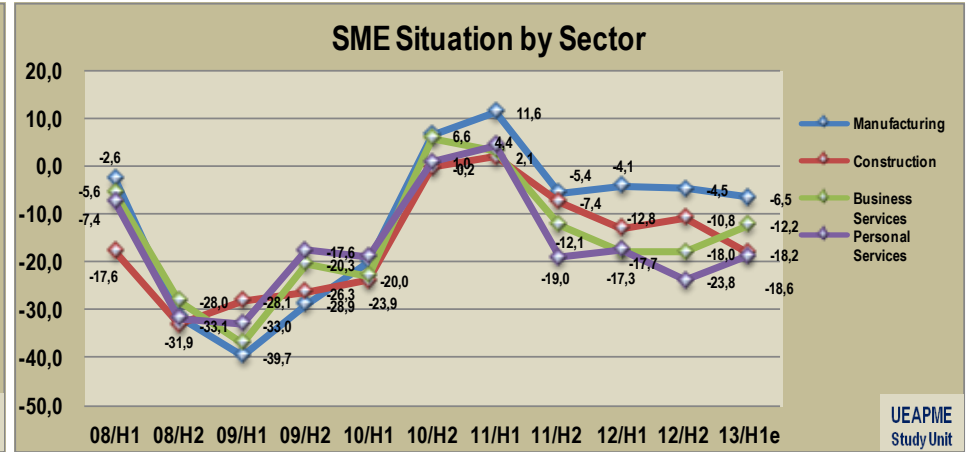
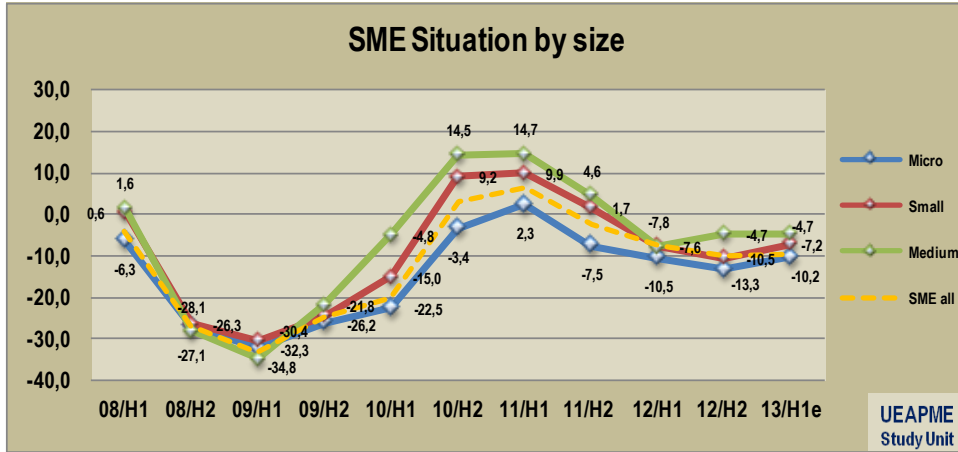
	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e
Situation	-2,3	-7,5	-9,9	-9,5	-7,5	-10,5	-13,3	-10,2	1,7	-7,6	-10,5	-7,2	4,6	-7,8	-4,7	-4,7
Turnover	-2,9	-10,8	-15,3	-15,9	-10,0	-15,3	-20,4	-17,4	-0,5	-9,3	-14,7	-14,8	3,9	-5,0	-6,8	-11,3
Employment	-4,4	-4,7	-9,7	-9,4	-6,0	-8,6	-11,4	-8,9	-5,5	-4,5	-9,8	-10,7	0,3	-1,0	-4,6	-7,0
Prices	7,0	-4,4	-11,3	-3,8	7,8	0,6	-8,3	-0,7	4,9	-4,0	-14,8	-5,4	6,0	-4,8	-12,9	-6,9
Investments	-1,0	-4,2	-13,1	-16,2	-4,2	-3,2	-14,5	-18,4	-1,0	-6,0	-16,0	-18,0	2,7	1,2	-9,1	-9,8
Orders	-6,8	-15,3	-16,4	-11,0	-9,6	-17,1	-19,2	-12,9	-5,4	-17,0	-17,4	-11,0	-0,8	-8,1	-14,1	-5,9
	Manufacturing				Construction				Business Services				Personal Services			
	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e	11/H2	12/H1	12/H2	13H1/e
Situation	-5,4	-4,1	-4,5	-6,5	-7,4	-12,8	-10,8	-18,2	-12,1	-17,7	-18,0	-12,2	-19,0	-17,3	-23,8	-18,6
Turnover	9,4	-2,2	-7,6	-11,4	-7,9	-17,6	-14,7	-24,0	2,4	-20,2	-19,3	-14,1	-8,3	-19,0	-28,2	-20,4
Employment	-3,8	-3,4	-6,7	-6,0	-8,4	-11,5	-15,4	-16,1	-3,6	-5,5	-6,8	-6,3	-4,3	-9,1	-13,8	-7,5
Prices	9,8	-1,1	-5,7	-0,8	-8,2	-14,0	-16,5	-9,4	5,9	-7,1	-10,4	-1,9	10,5	-2,9	-8,1	4,0
Investments	7,2	-3,2	-11,1	-12,1	-5,9	-12,5	-21,0	-24,7	3,4	-5,1	-8,2	-14,2	1,3	-7,3	-18,8	-19,1
Orders	13,1	-9,4	-11,6	-3,7	-11,1	-26,1	-23,7	-25,2	-3,6	-20,5	-17,4	-7,7	-6,8	-15,0	-23,1	-14,6

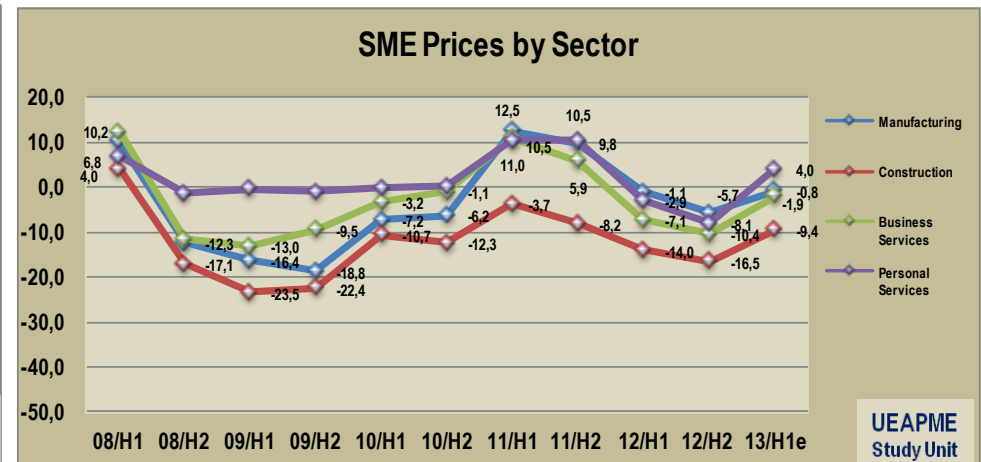
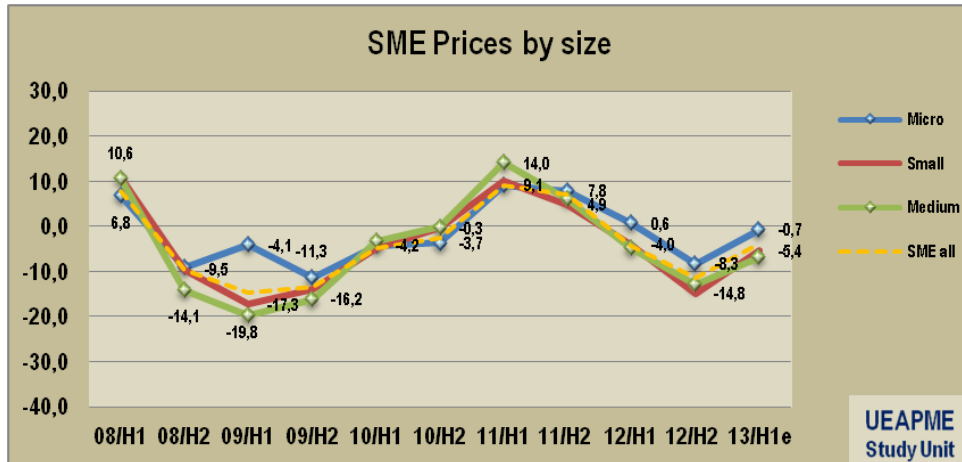
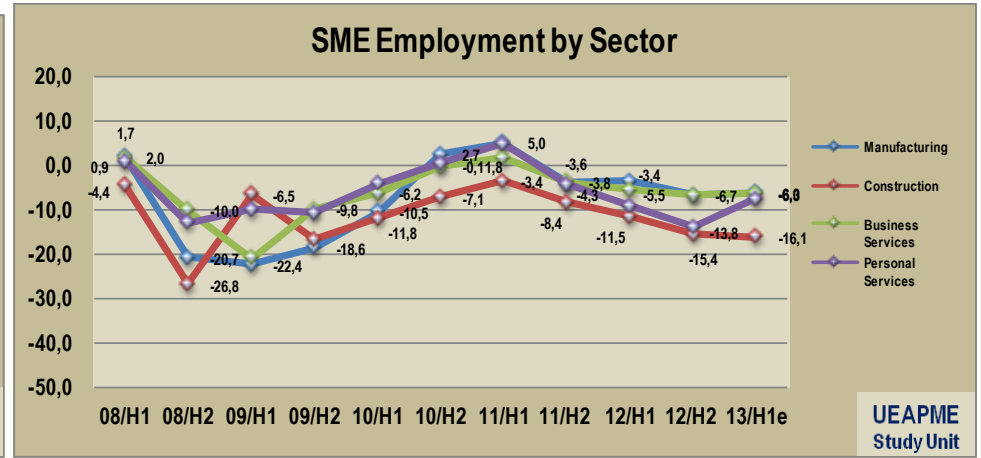
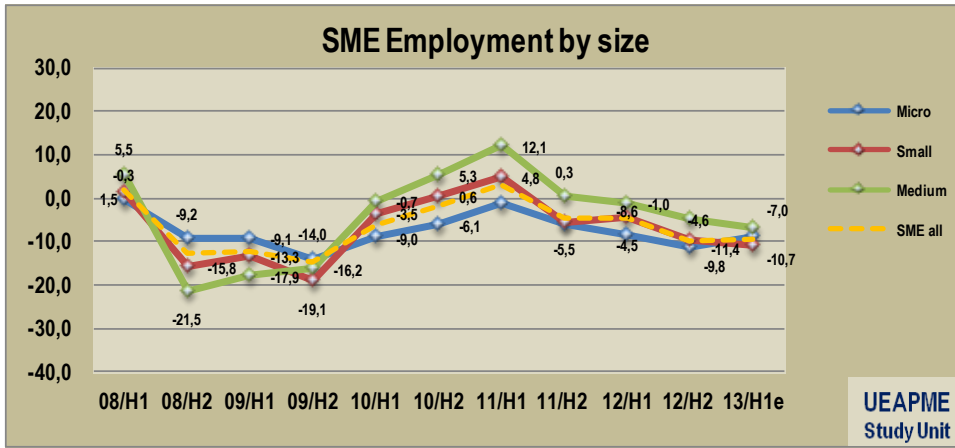
Table 5 – UEAPME Study Unit

Difference between the balance expected and the in retrospect reported balance

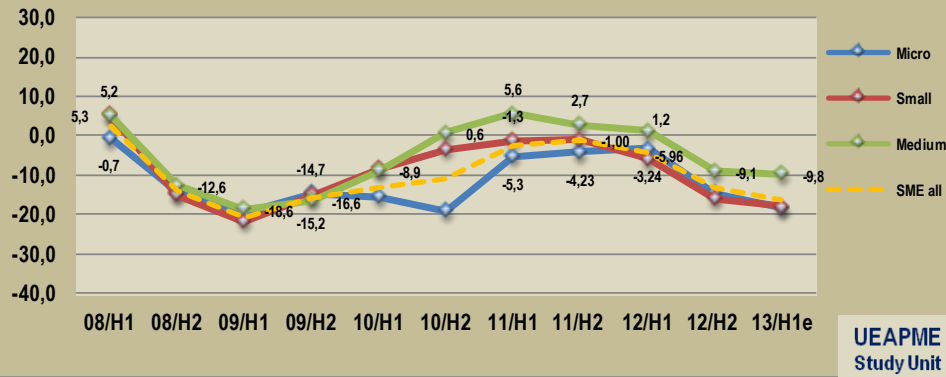
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	12/H1 – 12/H1e	12/H2 – 12/H2e	12/H1 – 12/H1e	12/H2 – 12/H2e	12/H1 – 12/H1e	12/H2 – 12/H2e	11/H1 – 11/H1e	11/H2 – 11/H2e
Situation	-0,2	-5,0	-1,3	-5,7	-3,4	-6,4	-2,1	-3,4
Turnover	0,8	-6,4	-0,2	-8,9	0,5	-5,4	5,3	-3,3
Employment	2,7	-3,7	-2,4	-3,9	6,4	-1,8	9,0	-3,3
Prices	-13,3	-10,7	-11,9	-10,2	-13,3	-12,6	-9,0	-13,5
Investments	18,5	2,8	21,5	5,1	16,8	2,8	20,4	-4,5
Orders	-2,3	-10,8	-2,8	-7,6	-2,6	-7,2	8,5	-15,4
	Manufacturing		Construction		Business Services		Personal Services	
	12/H1 – 12/H1e	12/H2 – 12/H2e	12/H1 – 12/H1e	12/H2 – 12/H2e	12/H1 – 12/H1e	12/H2 – 12/H2e	11/H1 – 11/H1e	11/H2 – 11/H2e
Situation	7,6	-0,5	2,4	-1,2	-2,4	-4,5	-1,4	-7,6
Turnover	8,3	-3,4	1,0	1,4	-9,2	-5,2	-9,5	-13,9
Employment	4,3	-1,6	-0,2	-2,6	1,3	3,0	-4,1	-1,3
Prices	-8,0	-7,7	-13,9	-6,7	-16,3	-6,9	-20,0	-6,6
Investments	13,0	4,6	10,5	4,7	10,4	12,3	6,3	4,8
Orders	5,0	-6,3	-6,0	-6,1	-8,0	-4,3	-4,7	-11,4

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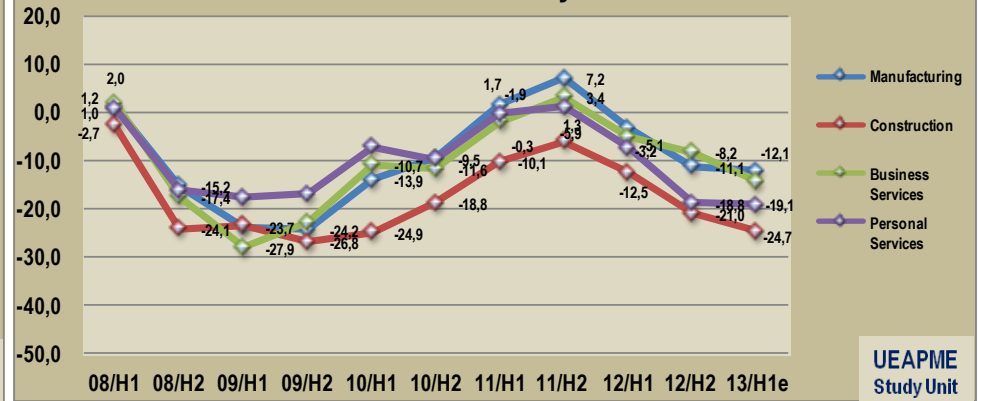




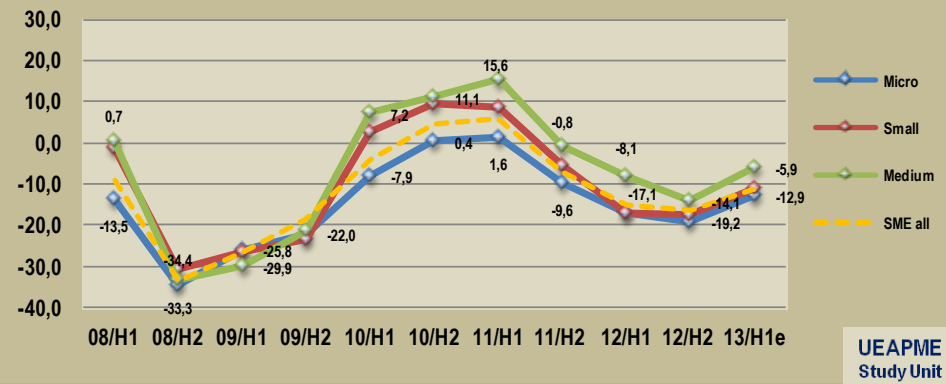
SME Investments by size



SME Investment by Sector



SME Orders by size



SME Orders by Sector

