



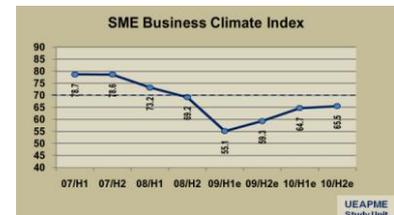
"The voice of crafts and SMEs in Europe"

Business confidence grinds to a halt as doubts linger over recovery

Price developments key concern; investment outlook more positive; reforms needed to avoid "two-speed Europe", survey suggests

Brussels, 25 October 2010 – Small businesses' confidence levels have come to a standstill in the last months as companies remain overall sceptical about the business outlook, according to an EU-wide survey recently conducted by UEAPME, the European craft and SME employers' organisation, and its members (1). The proportion of entrepreneurs expecting a positive or neutral economic environment has remained virtually unchanged since last spring, rising by a meagre 0.8 percentage points against the 5.4 percentage point hike measured in the previous semester. The "UEAPME SME Business Climate Index" now stands at 65.5, more than 10 points above its record low in the first half of 2009 but still below the 70 points barrier, which is seen as a neutral business climate. The services sector outperforms manufacturing and leaves construction well behind, according to UEAPME's "Craft and SME Barometer", which also measured more optimism as far as investments are concerned. Portugal, Ireland, Italy, Greece and Spain are currently lowering Europe's overall performance, found UEAPME, which urged all policymakers to carry on with ambitious reforms to avoid the danger of a permanent "two-speed Europe".

"SMEs' confidence is stalling since the economic outlook remains uncertain and the little growth observed in the last months has not led yet to a return to healthy incomes, mainly because of negative price developments. However, the small increase in our index suggests that Europe as a whole is slowly moving towards equilibrium, with all balances getting closer to zero while remaining mostly negative", said **Gerhard Huemer**, Director of the UEAPME Study Unit, which issues the Craft and SME Barometer twice a year, prior to the EU summits in spring and autumn.



Overall, Europe's SMEs uphold the trend observed over the last year, as all **indicators** are evolving favourably while staying in the red. However, this evolution must be put into perspective, warned Mr Huemer. Comparing expectations with actual results in the first semester, the indicators turned out to be better than forecast for turnover, employment, investments and orders, but were significantly lower for the overall situation and particularly worse for **prices**, which grew less than expected, leading to smaller profit margins and thus putting a damper on entrepreneurs' hopes, he stressed.

A **breakdown of the data by industry** revealed that the services sector is likely to enjoy a faster recovery, with both business services and personal services expecting narrowly positive employment balances for the second half of 2010. Manufacturing is proceeding at a slower pace, while the worst results come once more from the construction sector, which appears to be still in the dark about its future due to a combination of sluggish demand and structural overcapacities.

A more promising picture comes from **investments**, which not only turned out to be better than forecast in the previous semester for the second time in a row, but are also expected to pick up further. Entrepreneurs are now seemingly more confident in future investment opportunities, which is possibly a sign of optimism on a potential economic expansion.

Finally, a comparison between the European average and Portugal, Ireland, Italy, Greece and Spain combined showed that the latter are currently lowering **Europe's performance**. The biggest differences were recorded in the construction sector, mainly due to the major real estate bubble bursts in Spain and Ireland. However, this discrepancy narrowed down in the last semester. Moreover, only a few years ago Ireland and Spain outperformed the EU average, so the current difference is not structural, pointed out UEAPME, although it could become permanent if actions are not taken swiftly, warned the organisation. "Europe as a whole and its Member States must carry on with reforms and give special attention to the construction sector to avoid transforming these differences into a permanent division. The danger of a 'two-speed Europe' is clearly present and must be avoided at all costs", concluded Mr Huemer.

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(1) The full survey results can be downloaded at http://www.ueapme.com/IMG/pdf/101013_Barometer_2010H2_final.pdf

EDITORS' NOTES: The **EU Craft and SME Barometer** builds on the results of surveys conducted by UEAPME members in different regions all over Europe. The survey is based on about 30.000 answers collected between July and September 2010. The **UEAPME SME Business Climate Index** is an average of companies that have reported positive or stable business situations and expect a positive or stable development for the next period. Therefore it can range from 100 (all positive or neutral) to 0 (all negative).

UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 85 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner. For further information: <http://www.ueapme.com/>

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