

## The EU Craft and SME Barometer 2013/H2

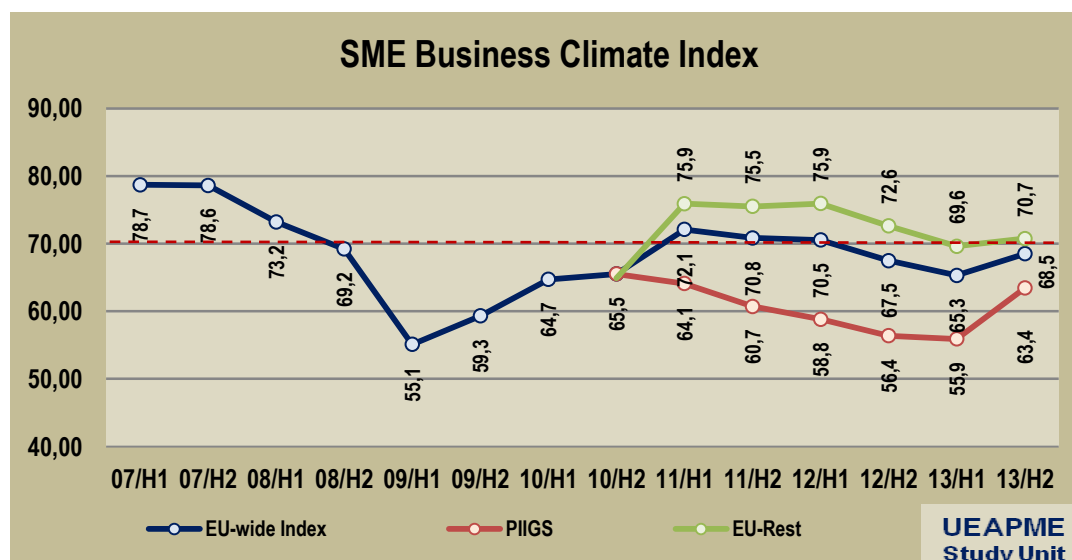
### After recession back to stability: SME Climate Index up to 68.5

### First signs of recovery for EU SME's, but without effects on unemployment

The **UEAPME SME Business Climate Index** (shown by the blue line in Chart 1) has increased by almost three percentage points (pp) since last semester. This is the first time that the climate index has increased after having decreased over the last four semesters.

The trend is going up, especially in the countries that were most affected by the crisis, such as Portugal, Ireland, Italy, Greece and Spain (the so-called "PIIGS"). Also the Climate Index in the rest of the EU (shown by the green line) increased and crossed the 70 points barrier which indicates a neutral business climate. This can be seen as an indication that Europe's SMEs are out of the recession, but are not yet back on a growth-path. However, if the more positive expectations materialise over the next month, we will see a slight recovery, which could continue in a modest upswing in 2014.

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 overall SME Climate Index– which represents the average of companies reporting positive or stable results and expectations - is now at 68.5 and has increased from the previous 65.3, which represented the negative peak in this recession. This is still below 70.0, which we see as a neutral stand, but is nevertheless a strong sign that Europe is on its way out of the current recession, mainly caused by weak EU internal demand, especially affecting SMEs in the construction and services sector. The imbalance between PIIGS and the EU-rest has been diminished for the third semester in a row with the biggest step seen during this semester, hence reducing the gap from 13.7 in the first semester of 2013 to 7.3 presently.

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

	Confidence PIIGS	Confidence EU-Rest	Gap
11/H2	60.7	75.5	14.8
12/H1	58.8	75.9	17.1
12/H2	56.4	72.6	16.2
13/H1	55.9	69.6	13.7
13/H2	63.4	70.7	7.3

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

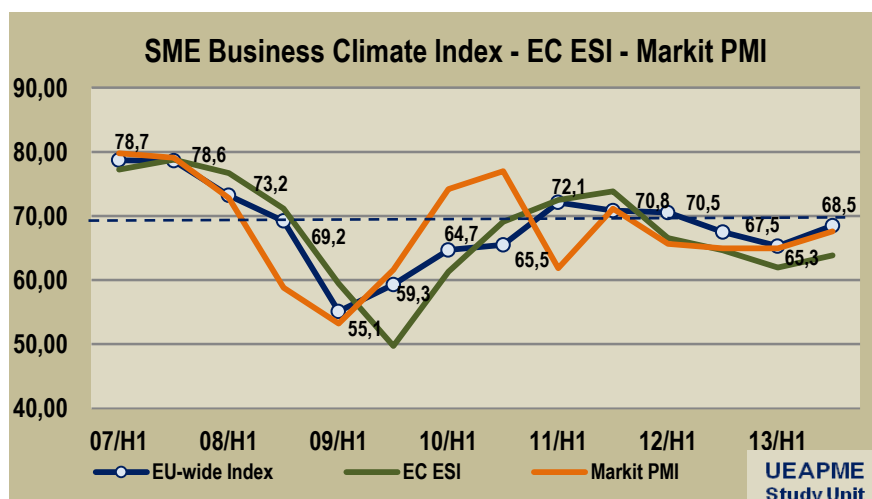
	Confidence Eurozone	Confidence EU Rest	Gap
12/H2	66.0	70.6	4.6
13/H1	64.1	67.9	3.8
13/H2	68.3	68.8	0.5

The PIIGS' index has increased by almost eight pp compared to the previous six months. Analysing the results of these countries, we see that this significant increase is due to a very high number of neutral and less negative answers (the index is an average between positive and neutral responses). A proper interpretation of this data requires that PIIGS' economy does not already expect real growth. However the results show that significantly fewer companies expect it to continue to get worse. Indeed, the majority expects, at the very least, stability of their business situation.

Furthermore, the comparison between Eurozone and Non-Euro EU shows a decrease of the gap equal to 0.5. The Eurozone is catching-up with the rest of the EU and the difference between the two zones almost reaches zero; however both results are still below 70, the neutral business climate level.

Chart 2 compares the UEAPME SME Business Climate Index (shown by the blue line) and two other well-known indicators: the European Commission's *Economic Sentiment Indicator (ESI)*<sup>1</sup> (green line) and the *Markit Purchasing Managers' Index (PMI)*<sup>2</sup> (orange line).

Chart 2



In the last semester of 2013, the ESI and PMI trend show upward development, similar to the SME Business Climate Index. The PMI Index, which is linked to purchasing managers' orders and inventory cycles and represents rather larger companies, shows a more positive trend than the ESI from the beginning of 2013.

This means that large enterprises started their recovery earlier than SMEs. In the second half of 2013, the result for the climate index follows the same patterns as the PMI index.

<sup>1</sup> 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](http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm)

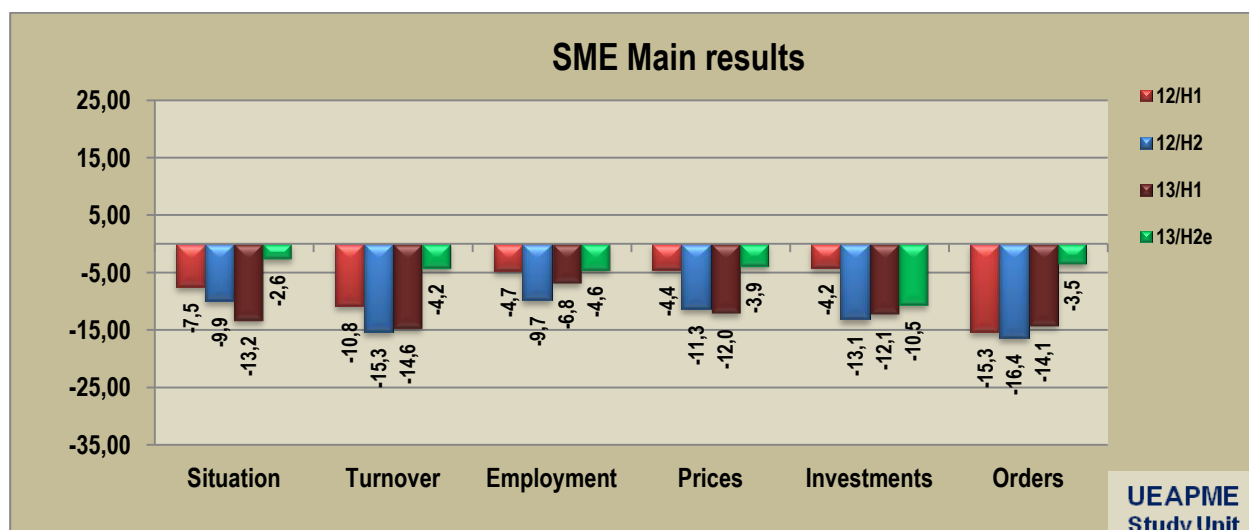
<sup>2</sup> The Markit Composite PMI measures new orders of large firms in manufacturing and services. The average of last six months PMI values has been re-scaled to make it comparable with the UEAPME SME Business Climate Index, with 70 as the long-term average/neutral value.

## Main Results of the EU Craft and SME Barometer 2013/H2: Hope but no turnaround

The EU Craft and SME Barometer presents the balance between positive and negative judgements from SMEs for different business aspects, size classes and sectors. More on the methodology can be found on page 8.

The outcome for the first half of 2013 showed a decline of the overall situation for SMEs. The balance between positive and negative answers was even more negative than in 2012/H2 and reached a peak at -13.2. The recession hit SMEs – due to weak European internal demand – even if there was a slight improvement compared to the last semester in turnover (-14.6) and in orders (-14.1). However, both numbers are still significantly negative. This weak situation was mainly caused by the inability to earn the prices needed, which puts pressure on profits.

Chart 3 – balance +/-



The picture significantly changes for the expectations of the second half of 2013, which show an increase for the overall situation of SMEs. This is the first semester in which the economic situation is getting better after almost two years of decline. The balance of the overall situation is still negative (-2.6), but is getting very close to zero. EU SMEs still have a negative impression of the economy but the results of orders (-3.5) and turnover (-4.2) are clearly better than for the last semester. In fact, these two indicators rose by 10 pp from the beginning of 2013. These represent a significant change for the forecast of the future and are the first signs of a recovery. Chart 3 shows that in 2013/H1 the crisis reached the bottom of the cycle and the scenario has now changed to a positive prospection. The main factors that gradually show an upturn of the situation are orders and turnover; however their results are not positive enough to have an impact on employment (-4.6) and investments (-10.5). Job creation and investment plans are still put on hold, which is a normal pattern for the beginning of a recovery, as companies only start to invest and hire personal if the turnover expectations materialise. To sum up, Europe's SMEs are experiencing a stable situation and are waiting for a real feeling of recovery before making investments and creating new jobs.

## First semester of 2013: Mastering the recession

The comparison (Table 3) between the expectations gathered at the end of last year for the first semester on 2013 and the results for this semester reported now, gives a very telling picture about how the majority of Crafts and SMEs have reacted throughout the recession in the first part of this year.

Table 3: difference between expectations and final results for 13H1

	Expectations 13H1e	Results 13H1	Δ (R-E)
Overall situation	-9.4	-13.2	-3.7
Turnover	-15.9	-14.6	1.3
Employment	-9.3	-6.7	2.6
Prices	-3.8	-11.9	-8.1
Investments	-16.1	-12.1	4.1
Orders	-11.0	-14.1	-3.1

While outcome for turnover (+1.3), employment (+2.6) and investments (4.1) are better than was expected six months ago, the overall situation got even worse than expected (-3.7). In combination with the results for prices that are also more negative than expected (-8.1), this can be explained by the manner in which SMEs have reacted to the recession. It seems that many SMEs have accepted lower sell-prices for their goods and services to keep the turnover and the employment levels as stable as possible until the situation improves. Such a business strategy notably results in lower profit margins or even in losses, which therefore has a negative impact on the overall business situation.

Table 4: trend in the balance between expected and realised investments (11H2 – 13H1)

	Expected investments	Realised investments	Δ (R-E)
11H2	-3.6	-1.0	+2.6
12H1	-22.7	-4.2	+18.5
12H2	-15.9	-13.1	+2.8
13H1	-16.1	-12.1	+4.1

Table 4 shows the gap between expected and carried out investments. The difference in 13H1 is positive (+4.1), as it was in the previous publication of the Barometer. It is normal for SMEs to forecast minor investments for the future, in order to postpone them to a better situation than during recession time. In reality however, to support the demand and the production, they are forced to finance more investments than they had previously planned.

Table 5: trend in the balance between expected and realised prices (11H2 – 13H1)

	Expected prices	Realised prices	Δ (R-E)
11H2	+10.6	+7.1	-3.5
12H1	+8.9	-4.4	-13.3
12H2	-0.6	-11.3	-10.7
13H1	-3.8	-11.9	-8.1

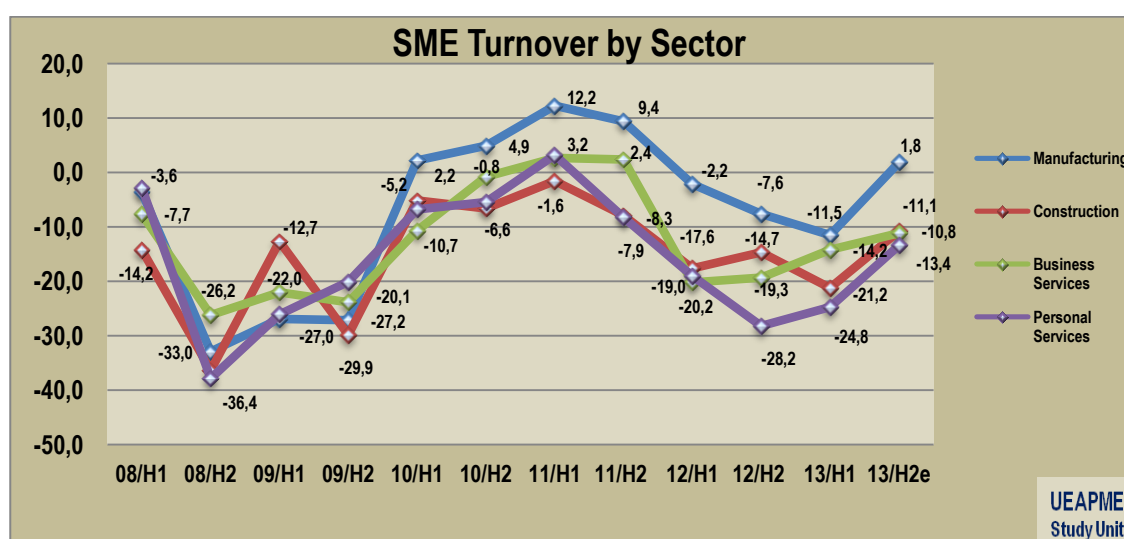
Table 5 represents the balance between expected and carried out prices. Over the years, the gap is usually negative because the expectations of the prices to be carried out on the market are up more than the prices finally achieved.

## Turnover by sectors and size-classes give insight to the nature of the recession

A closer look to the figures of turnover for different sectors and size-classes gives interesting insights into the developments throughout the last two recessions and their causes.

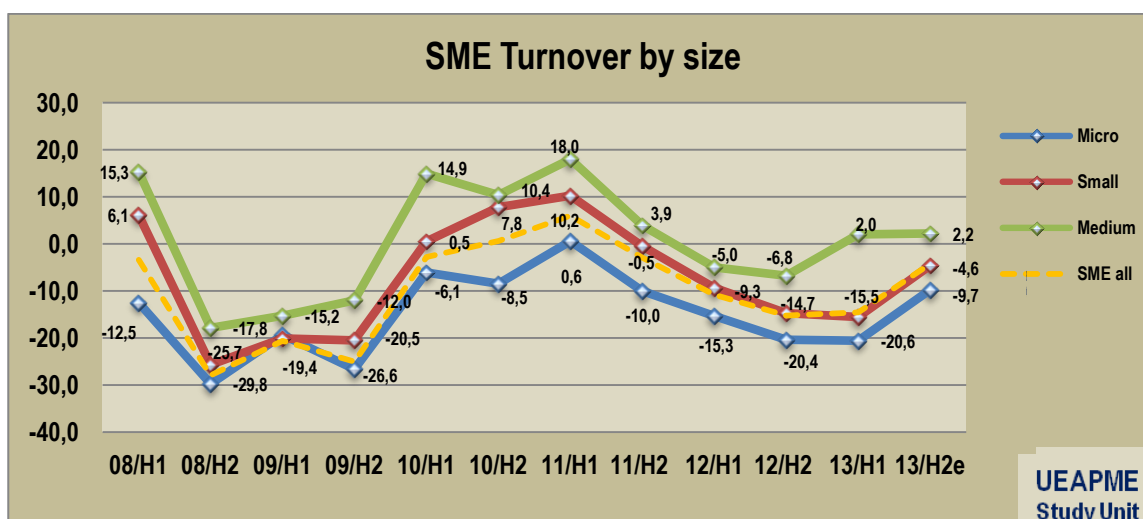
The sector results (Chart 4) for the past semester (2013/H1) clearly show that private services (-24.8) and construction (-21.2) have most suffered from the lack of internal demand, which was the cause for the current recession. We see better results for manufacturing (-11.5) and business services (-14.2). This is a different pattern compared to the last recession (2008/2009), which was caused by an external shock and had the strongest impact on manufacturing and construction, while the service sectors have been less hit.

Chart 4 – SME turnover by sector



In the expectations of the second half of 2013, there is an improvement of turnover in all sectors. The manufacturing sector will reach the highest level (+1.8). The others, even if they are still negative, are showing a significant increase compared to the first semester.

Chart 5 – SME turnover by size



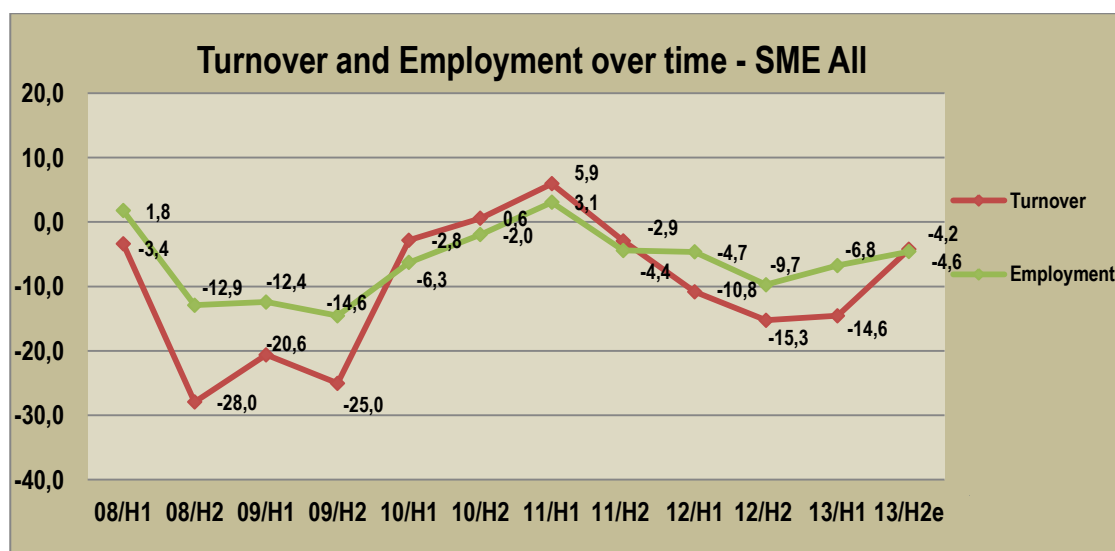
A closer look at turnover by size-classes (Chart 5, page 5) shows some similarities with the analysis by sectors. The results for the first semester (2013/H1) prove that this recession has especially hit micro enterprises (-20.6), while medium-sized enterprises have been better off (+2.0). This should be no surprise as micro enterprises are mainly represented in the private services sector and in construction (private housing), which have been the current recession's main victims.

As regards expectations on turnover by size-classes, we see a significant increase, especially for micro and small enterprises, mainly dependent on internal demand, which can be seen as another indication that the current recession may come to an end during the second half of 2013.

### Employment expectations, better but still negative

Chart 6, which compares the development of turnover and employment over the last two business cycles, unsurprisingly shows that the changes in employment are less pronounced than for turnover. This means that SMEs in a down-turn are hoarding labour, which consequently means that in an up-swing the figures for employment react later and less intensively.

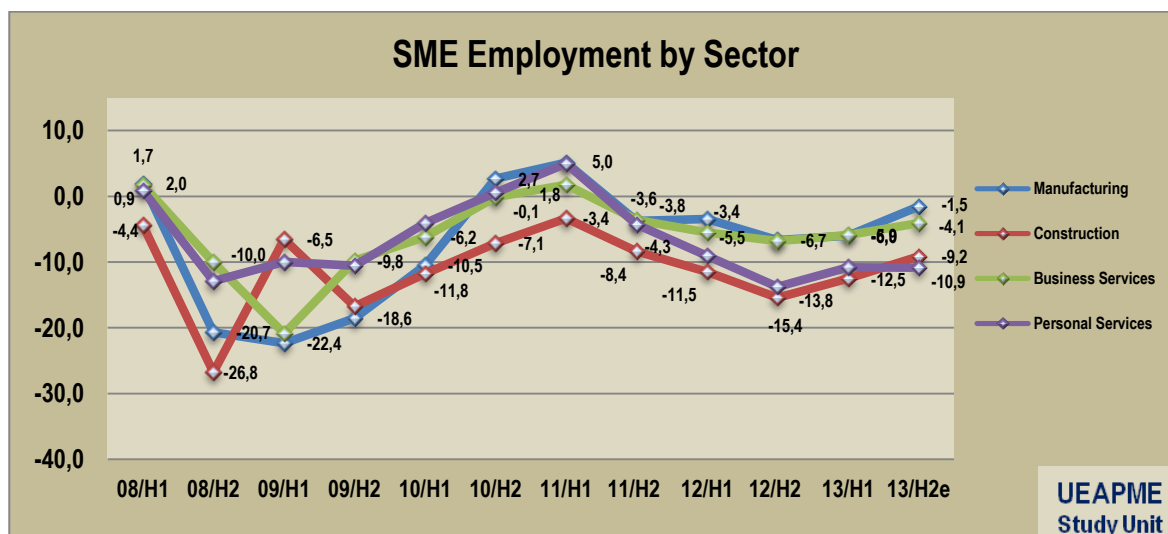
Chart 6 – Turnover and Employment – SME all



A closer look at employment by sectors (Chart 7, next page) confirms that construction (-12.5) and personal services (-10.9) have significantly developed more negatively over the whole cycle and both still have a negative outlook for the second half of 2013 (personal services -10.9 and construction -9.2).



Chart 7 – SME employment by sector



## Conclusions and recommendations

The recession, which started at the middle of 2012, has been hitting SMEs for over a year now. The EU SMEs' overall situation further declined in the first half of 2013 but first signs of a slight recovery could be visible in expectations' responses for the end of the year. Even if the situation is still negative, there are improvements in orders and turnovers, in particular for medium enterprises. However, these factors are not yet strong enough to turn around the overall negative economic perception of SMEs. The decline of the EU internal demand puts pressure on prices and cuts SMEs' profits. The low profits could cause problems in the access of the financial market, affecting the investments, which are needed for a recovery. Indeed the limited SME possibilities at the end of a recession to finance investments out of cash-flow and profits in combination with finance markets that are also not able to provide additional finance to SMEs, can currently be seen as the biggest risk for a real recovery during the next months. If SMEs are not able to finance the investments needed for a restart, a recovery will not take-off.

Therefore, our overall policy recommendations, to avoid that the fragile recovery is put at risk and to strengthen the positive development currently observed, are:

- to finalise the reform of financial markets to regain trust in the sector and to allow financial service providers to serve the real economy.
- to implement the needed reforms on goods and services markets and especially on the labour market to create additional positive impacts for investments, growth and job creation.
- To provide companies and especially Crafts and SMEs with new financial instruments to allow them to finance their investment plans that are crucial for any real recovery.

## UEAPME EU Craft and SME Barometer: Methodology

The **EU Craft and SME Barometer** is built on the results of surveys conducted by UEAPME Member Organisations two to 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 May and September 2013, which gives quite a recent picture of the development and 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 first semester of 2013 (13H1) as well as the expectations for the second half of 2013 (13/H2e).

UEAPME publishes its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn, also including the **European SME Business Climate Index** (see page 1) which is calculated as the average of the current situation and the expectations for the next period, as a 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 for all Member States we do have not data significant enough from a statistic perspective and furthermore, the presentation of national data from SME surveys is a prerogative of our national organisations that are collecting them.

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## Results – European Crafts and SME Barometer – 2013/H2

**Table 5 – UEAPME Study Unit**

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e
Situation	-7,5	-9,9	-13,2	-2,6	-10,5	-13,3	-17,9	-7,5	-7,6	-10,5	-10,9	-0,2	-7,8	-4,7	-3,8	2,5
Turnover	-10,8	-15,3	-14,6	-4,2	-15,3	-20,4	-20,6	-9,7	-9,3	-14,7	-15,5	-4,6	-5,0	-6,8	1,9	2,2
Employment	-4,7	-9,7	-6,8	-4,6	-8,6	-11,4	-10,9	-11,4	-4,5	-9,8	-5,2	-4,5	-1,0	-4,6	1,3	-1,5
Prices	-4,4	-11,3	-11,9	-3,9	0,6	-8,3	-11,5	4,5	-4,0	-14,8	-13,0	-5,5	-4,8	-12,9	-9,6	-4,5
Investments	-4,2	-13,1	-12,1	-10,5	-3,2	-14,5	-15,6	-14,9	-6,0	-16,0	-10,9	-9,7	1,2	-9,1	-5,2	-5,0
Orders	-15,3	-16,4	-14,1	-3,5	-17,1	-19,2	-11,7	-8,7	-17,0	-17,4	-14,5	-3,9	-8,1	-14,1	-3,4	3,5

	Manufacturing				Construction				Business Services				Personal Services			
	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e	12/H1	12/H2	13/H1	13H2/e
Situation	-4,1	-4,5	-9,7	0,6	-12,8	-10,8	-18,7	-5,8	-17,7	-18,0	-16,7	-9,3	-17,3	-23,8	-24,3	-14,5
Turnover	-2,2	-7,6	-11,5	1,8	-17,6	-14,7	-21,2	-10,8	-20,2	-19,3	-14,2	-11,1	-19,0	-28,2	-24,8	-13,4
Employment	-3,4	-6,7	-6,0	-1,6	-11,5	-15,4	-12,5	-9,2	-5,5	-6,8	-5,9	-4,1	-9,1	-13,8	-10,9	-10,9
Prices	-1,1	-5,7	-6,9	1,1	-14,0	-16,5	-17,5	-9,1	-7,1	-10,4	-13,6	-6,3	-2,9	-8,1	-13,7	-3,5
Investments	-3,2	-11,1	-9,6	-5,0	-12,5	-21,0	-20,6	-16,3	-5,1	-8,2	-12,8	-13,7	-7,3	-18,8	-12,9	-13,5
Orders	-9,4	-11,6	-8,9	5,6	-26,1	-23,7	-30,5	-11,3	-20,5	-17,4	-9,3	-7,4	-15,0	-23,1	-20,3	-5,3

**Table 6 – UEAPME Study Unit**

**Difference between the balance expected and the in retrospect reported balance**

	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e
Situation	-5,0	-3,7	-5,7	-7,7	-6,4	-3,8	-3,4	0,9
Turnover	-6,4	1,3	-8,9	-3,2	-5,4	-0,7	-3,3	13,3
Employment	-3,7	2,6	-3,9	-2,0	-1,8	5,5	-3,3	8,3
Prices	-10,7	-8,1	-10,2	-10,8	-12,6	-7,6	-13,5	-2,7
Investments	2,8	4,1	5,1	2,9	2,8	7,0	-4,5	4,6
Orders	-10,8	-3,1	-7,6	1,2	-7,2	-3,5	-15,4	2,5

	Manufacturing		Construction		Business Services		Personal Services	
	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e	12/H2 – 12/H2e	13/H1 - 13/H1e
Situation	-0,5	-3,2	-1,2	-0,5	-4,5	-4,5	-7,6	-5,7
Turnover	-3,4	-0,1	1,4	2,8	-5,2	-0,1	-13,9	-4,3
Employment	-1,6	0,0	-2,6	3,6	3,0	0,4	-1,3	-3,3
Prices	-7,7	-6,1	-6,7	-8,1	-6,9	-11,7	-6,6	-17,8
Investments	4,6	2,6	4,7	4,2	12,3	1,5	4,8	6,1
Orders	-6,3	-5,2	-6,1	-5,3	-4,3	-1,6	-11,4	-5,7

## Results – European Crafts and SME Barometer – 2013/H2

