

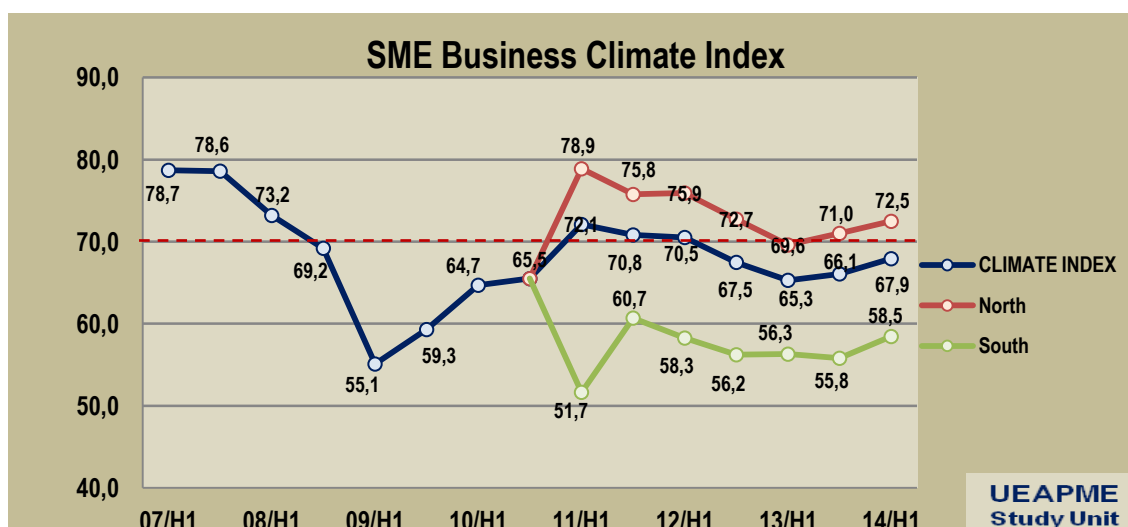
The EU Craft and SME Barometer 2014/H1

SME Climate Index up to 67.9, but no recovery for SMEs yet

Recession for SMEs seems to end, but no significant growth or job creation expected

The **UEAPME SME Business Climate Index** (shown by the blue line in Chart 1) has increased by almost two percentage points (pp) since last semester. This indicates that, for Crafts and SMEs in the European Union on average, the recession experienced in the first and in part of the second semester 2013 comes to an end. However, the current index of 67.9 (after 66.1 in 2013/H2) is still clearly below 70, which would represent a neutral stand, and is too low to already speak of a recovery. This means that we do not expect any significant growth and consequently no additional jobs in the sector of Crafts and SMEs in the EU during the first semester 2014, but there is realistic hope to enter a real recovery later this year if the downward risks coming from external shocks do not materialise and Europe provides the right policy response.

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).

A disaggregation (breakdown) between countries of South and Periphery¹ and of North and Centre² of the EU confirms the positive trend for both areas. The index for the South is up to 58.5 (+2.7) shown by the green line and for the North up to 72.5 (+1.5) shown by the red line. This means, we can expect growth and even job creation in the North, while the South is in reality still in a recession, without any significant reduction in the gap between the two areas (Table 1).

¹ Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain

² Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK

Table 1: trend in the confidence gap between North and South of the EU 2011-2014

	North	South	Gap
11/H1	78.9	51.7	27.2
11/H2	75.8	60.7	15.1
12/H1	75.9	58.3	17.7
12/H2	72.8	56.2	16.5
13/H1	69.6	56.3	13.3
13/H2	71.0	55.8	15.2
14/H1	72.5	58.5	14.0

After the original shock from the sovereign debt crisis in early 2011, the gap reached an extraordinary high level of 27.2 because in the first round the crisis only affected the more vulnerable countries in the south. After the first half of 2011, we are observing quite a stable gap between the two areas throughout the last business cycle, with gaps between 17.7 and 13.3. However, during the first part of this crisis caused by sovereign debt problems, we saw negative impacts from the South on the North, while we now expect that the recovery we already see for the North may also – with some delays - bring the South out of the recession.

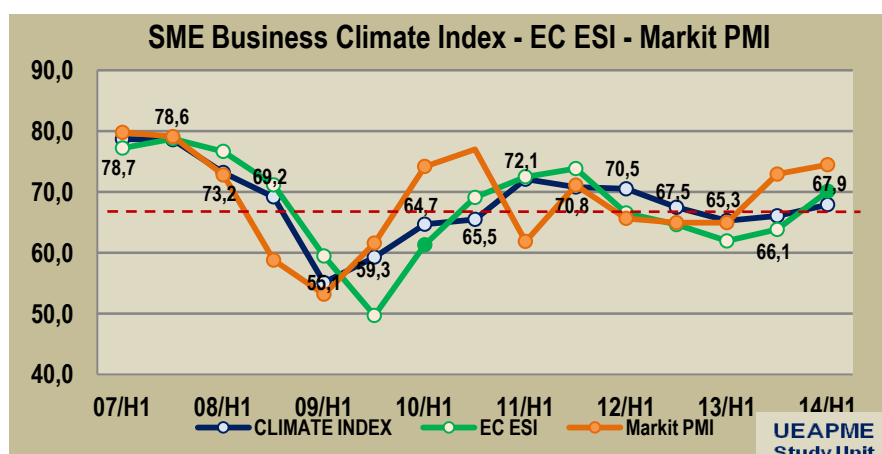
Table 2: confidence gap between the Eurozone and the rest of the EU

	Eurozone	EU Rest	Gap
12H2	66.0	70.6	4.6
13H1	64.1	67.9	3.8
13H2	68.3	68.8	0.5
14H1	67.0	69.8	2.8

Results' comprising Eurozone and Non-Euro EU (Table 2) show that the gap between Eurozone and Non-Euro is widening again and it seems that the Non-Euro area is coming out of the crisis faster. This is also confirmed by the last Winter-Forecast³ of the European Commission, also presenting higher growth rates for Non-Euro EU.

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)*⁴ (green line) and the *Markit Purchasing Managers' Index (PMI)*⁵ (orange line).

Chart 2



A comparison of the SME index with other indexes confirms the fact that SMEs are lagging behind in the European recovery currently starting. Both, the PMI, dominated by larger companies as well as the EC ESI, are for the first time ahead of the SME index.

³ http://ec.europa.eu/economy_finance/eu/forecasts/2014_winter_forecast_en.htm

⁴ 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

⁵ 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.

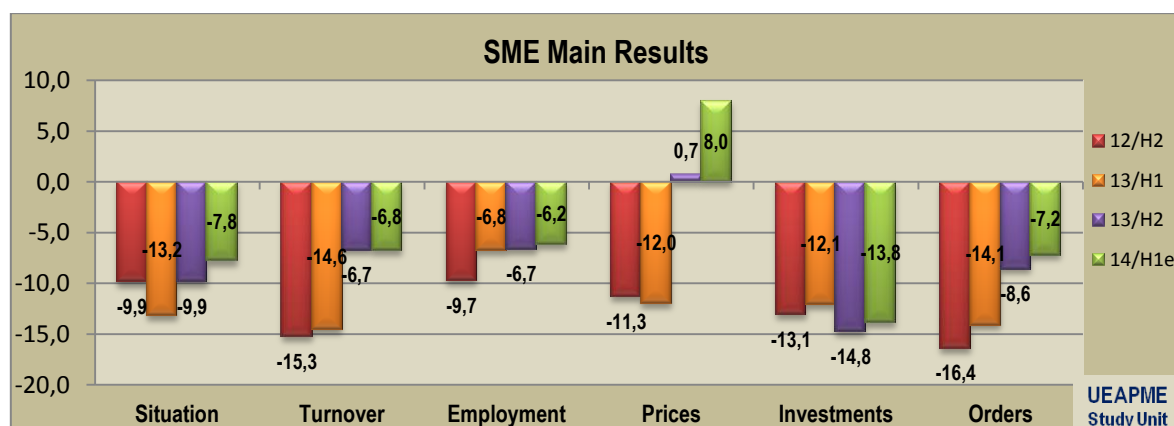
Main result: No recovery yet for Crafts and SMEs in Europe

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.

SMEs still in recession in second semester 2013

Most indicators for the second semester 2013 (13/H2) in Chart 3 show a slight improvement but are still negative, compared to the first semester 2013. Indeed, the improvements are not far reaching enough to mark the end of the recession we have observed since the second half of 2012. For investments, the situation even got worse (-14.8), clearly reflecting the lack of confidence and dynamic in Europe's SME sector. Only the figures for sale prices are slightly positive (+0.7). This can be interpreted that the companies were no longer able to further decrease their prices in order to stay in market.

Chart 3 – balance +/-



Even more telling is a comparison between the results for the second semester 2013 with the expectations that companies have reported six months ago for the same period, in Table 3.

	Expectations 13H2e	Results 13H2	Δ (R-E)	Expectations 14H1e
Overall situation	-2.6	-9.9	-7.3	-7.9
Turnover	-4.2	-6.7	-2.5	-6.8
Employment	-4.6	-6.7	-2.1	-6.2
Prices	-3.9	0.7	4.6	8.0
Investments	-10.6	-14.8	-4.2	-13.8
Orders	-3.5	-8.6	-5.1	-7.2

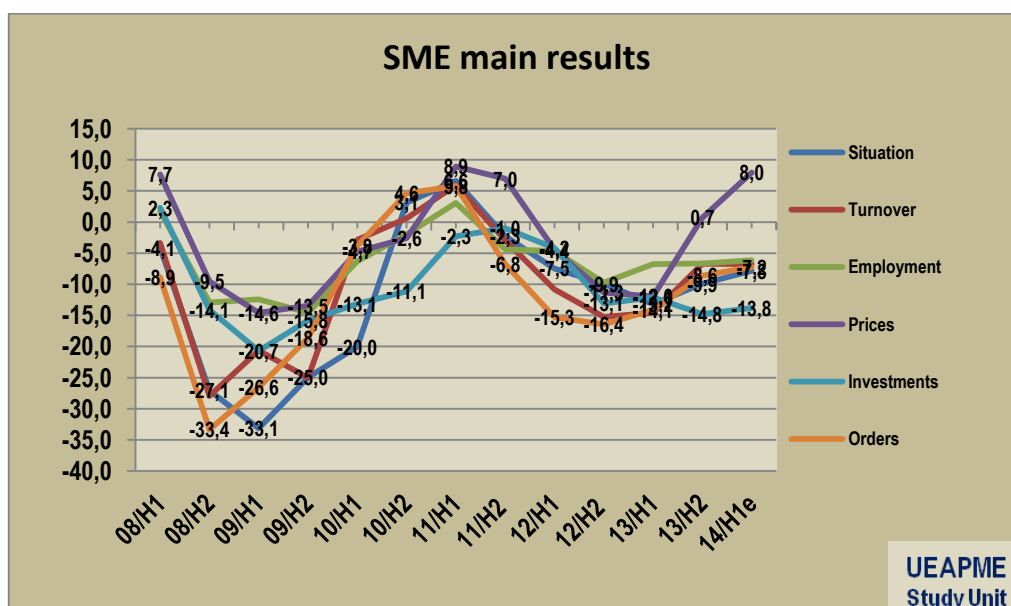
The actual outcome of most of the indicators for 13/H2 was significantly worse than the expectations. Only prices turned out better than expected. The outcomes for overall situation (-7.3), turnover (-2.5), employment (-2.1), investment (-4.2) and orders (-5.1) were worse and demonstrate that the last semester did not fulfil any hope for a recovery which could have occurred in Summer 2013. The results show that Crafts and SMEs still do not have enough confidence in the future development and are still in a wait-and-see mode.

Outlook for first semester 2014: recovery for SMEs seems to be postponed

Table 3 shows also that the expectations for the first semester 2014 are more or less in line with the results for the last semester, but they are significantly lower than the expectations the companies had six months ago.

This is also confirmed by the overall figures for the expectations for 14/H1 in Chart 4. First, we again see a very low level of planned investments (-13.8) for the first semester of 2014, even if this can also be seen as a first positive sign because investment plans are at least higher than the outcome for the last semester. This normally does not happen because planned investments are systematically and significantly behind the accomplished one (see Table 4 on page 5).

Chart 4 – balance +/-



At the same time all indicators (situation, turnover, employment and orders), relating to growth and employment are more or less stable but are at relatively low levels between -7.8 and -6.2. This also does not provide any sign for a recovery during the next months. The only surprising figure is the expectation about sale prices, which at +8.0 is astonishingly high and shows that the small companies at least in Europe are not expecting anything like a deflation in the near future. On the contrary, a majority of companies in many European countries expect that they will be able to increase their prices during the coming months.

Investment holds back by low internal demand and difficulties in accessing finance

Traditionally, the figures for investment results are always higher than the expectations reported six months before. This may relate to the fact that smaller enterprises are mainly planning investments for extension of business or for new products, but rarely for replacements. Furthermore, investments often have to be done ad-hoc as a new order requires investments or as something has to be replaced or repaired.

Table 4: trend in the balance between realised and expected investments (12H1 – 14H1)

	Expected investments	Realised investments	Δ (R-E)
12/H1	-22.7	-4.2	+18.5
12/H2	-15.9	-13.1	+2.8
13/H1	-16.2	-12.1	+4.1
13/H2	-10.5	-14.8	-4.2

The negative gap shown in Table 4 between realised and expected investments for the second semester of 2013 (-4.2) is the first period, where the results for the investment were lower than expected. This cannot only be explained by low level of confidence and prospects for demand. It is also a clear sign that even planned investments have not been accomplished because of lack of access to finance.

Turnover and employment by size-classes: positive dynamic put on hold

In a normal business cycle, turnover and employment in medium sized companies show higher amplitudes than in micro enterprises. In a downturn, both indicators are more negative for medium-sized companies and less pronounced for micro enterprises. During an up-swing, medium sized companies are on top of the development and they grow earlier and faster than micro enterprises.

Chart 5 – SME turnover by size classes

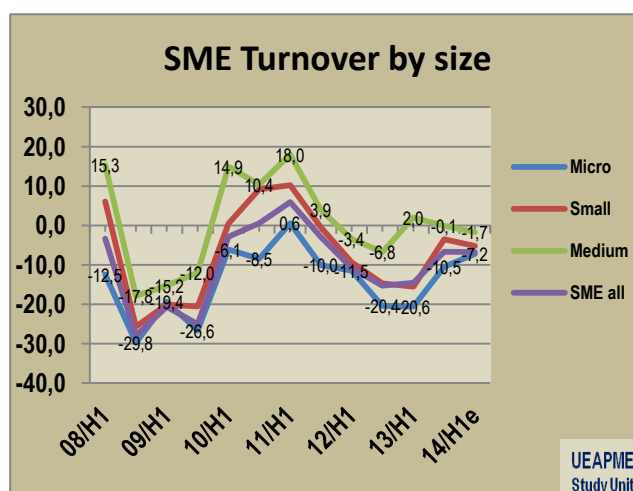
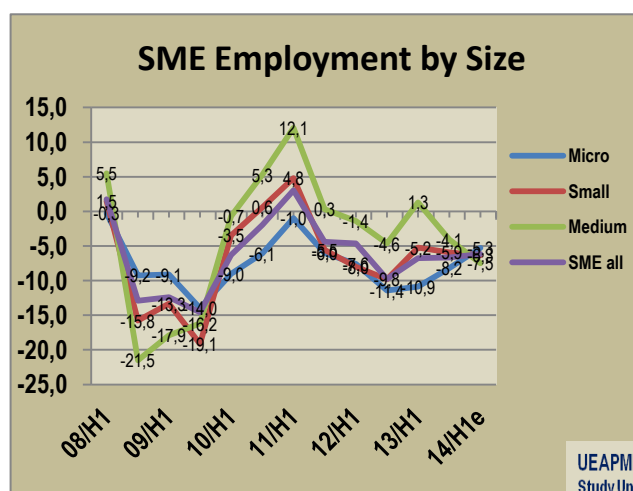


Chart 6 – SME employment by size classes



This pattern could also be observed during this recession, at least until the first semester 2013, when the figures for turnover (Chart 5) and employment (Chart 6) improved significantly for medium-sized companies. However, this already changed for both figures during the second semester 2013 and the expectations for the first half of 2014 are even worse. Instead of heading towards a recovery, the figures reported by medium-sized companies have decreased and are narrowing the figures for micro and small enterprises. For employment, the figures for micro enterprises are already better than for medium-sized companies.

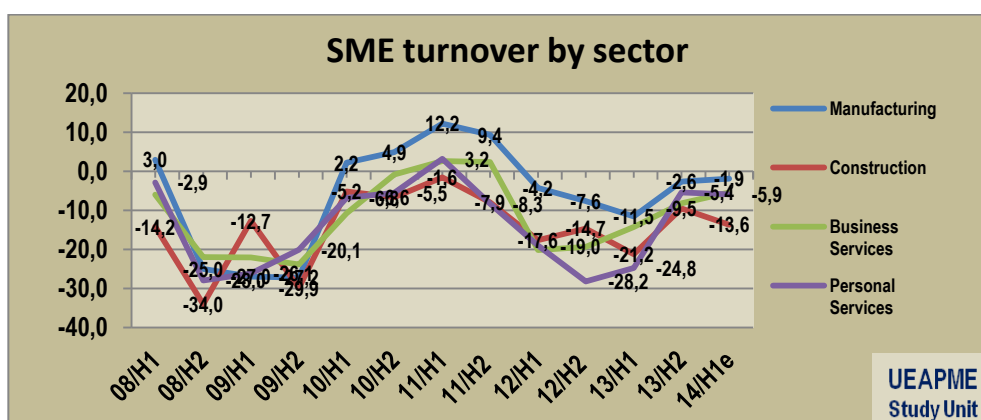
In summary, both charts do not really provide any signs for an up-swing. On the contrary, these results are rather pointing to a standstill at low level.

Turnover and employment by sectors: insights to the nature of current crisis

A closer look to the figures for turnover and employment in different sectors provides interesting insights into the developments throughout the last two recessions and their causes.

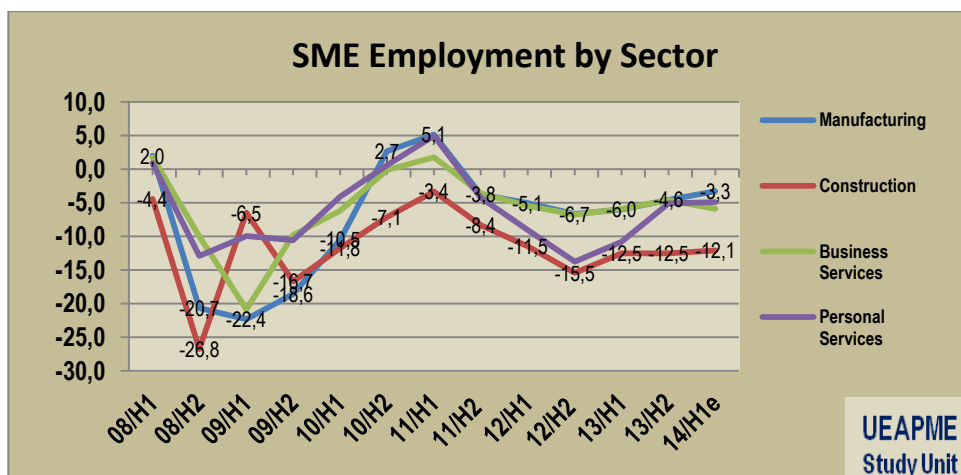
The sector results for turnover (Chart 7) for the first semester 2013 clearly show that private services (-24.8) and construction (-21.2) have suffered most from the lack of internal demand, which was the cause for the last recession. Much better results have been observed for manufacturing (-11.5) and 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 service sectors have been less hit.

Chart 7 – SME turnover by sector



For the last semester we saw a narrowing between the sectors and as regards the expectations for the first half of 2014, we observe a slight improvement for manufacturing (+0.7) and business services (+2.8), while the sectors depending mainly on internal demand and private household consumption like personal services (-0.5), – or household investments like construction (--4.1), are still suffering and have a negative outlook at least for the first semester 2014.

Chart 8 – SME employment by sector



From Chart 8, employment by sectors, we get a similar picture. While employment in manufacturing and business services developed more or less in parallel throughout the recession, we now see a catch-up as regards employment in the personal services sector: -5.1 for 13/H2 and -4.9 for 14/H1e. This means that at least for personal services, depending mainly on private household consumption, we have a more positive outlook which we do not see for the construction sector, depending more on private household investments where the employment figures are still significantly negative: -12.5 (13/H2) and -12.1 (14/H1e). This means the shrinking of household consumption is coming to an end, but this seems not be true for household investments.

Conclusions and recommendations

The recession, which started mid-2012, has been hitting SMEs now for more than a year and, contrary to the expectations six months ago the downturn did not stop during the second semester 2013, at least not for SMEs. However, there are clear signs that the recession will not continue during the first semester 2014, even if it will not yet turn into a recovery for the Craft and SME sector. It seems that this sector, depending more than large enterprises on internal demand and especially on spending of private households, is lagging behind in the slight recovery, observed for the economy at large in the European Union.

In a more mid-term perspective, there is a possibility for a slight recovery also for the smaller companies in the second half of 2014, but it will not be strong enough to improve the situation on the labour market. This will depend on first, if the risks – coming from potential external shocks (like the situation in Ukraine) or from still unsolved problems in the financial sector – materialise or not. Secondly, it will depend on the policy response the EU and its Member States will give during the next months: will the needed and promised structural reforms on product and labour markets be implemented and will SMEs have the needed access to finance, allowing them to accomplish their investments needed for growth.

Therefore, our overall policy recommendations – to ensure that the fragile recovery also reaches SMEs 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 new market opportunities with 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.
- to provide SMEs with the needed support services for start-ups, innovation, internationalisation and business transfers.

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.

This Barometer presents the results (experiences) for the last semester of 2013 (13/H2) as well as the expectations for the first half of 2014 (14/H1e).

UEAPME publishes its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn. The publication also includes the **European SME Business Climate Index** (see first pages), 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 – 2014/H1

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/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e
Situation	-9.9	-13.2	-9.9	-7.8	-13.3	-17.9	-13.3	-10.5	-10.5	-11.0	-6.7	-5.9	-4.7	-3.8	-3.5	-2.3
Turnover	-15.3	-14.6	-6.7	-6.8	-20.4	-20.6	-10.5	-7.2	-14.7	-15.5	-3.5	-5.2	-6.8	2.0	-0.1	-1.7
Employment	-9.7	-6.8	-6.7	-6.2	-11.4	-10.9	-8.2	-5.3	-9.8	-5.2	-5.9	-6.3	-4.6	1.3	-4.1	-7.5
Prices	-11.3	-12.0	0.7	8.0	-8.3	-11.5	1.1	8.4	-14.8	-13.0	0.9	8.0	-12.9	-9.6	-2.7	4.7
Investments	-13.1	-12.1	-14.8	-13.8	-14.5	-15.6	-17.9	-15.4	-16.0	-11.0	-12.0	-13.5	-9.1	-5.2	-6.2	-9.5
Orders	-16.4	-14.1	-8.6	-7.2	-19.2	-11.7	-11.2	-7.6	-17.4	-14.5	-5.8	-6.1	-14.1	-3.4	-3.0	-2.6

	Manufacturing				Construction				Business Services				Personal Services			
	12/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e	12/H2	13/H1	13H2	14H1/e
Situation	-4.5	-9.7	-2.6	1.1	-10.8	-18.7	-8.4	-10.9	-18.0	-16.7	-15.4	-11.6	-23.8	-24.3	-13.2	-9.8
Turnover	-7.6	-11.5	-2.6	-1.9	-14.7	-21.2	-9.5	-13.6	-19.3	-14.2	-8.2	-5.4	-28.2	-24.8	-5.4	-5.9
Employment	-6.7	-6.0	-4.6	-3.3	-15.4	-12.5	-12.5	-12.1	-6.8	-5.9	-4.6	-5.9	-13.8	-10.8	-5.1	-4.9
Prices	-5.7	-7.0	2.5	11.4	-16.5	-17.5	-5.1	4.0	-10.4	-13.6	-0.1	7.5	-8.1	-13.7	2.5	9.8
Investments	-11.1	-9.6	-11.8	-12.0	-21.0	-20.6	-15.3	-19.2	-8.2	-12.8	-14.3	-11.8	-18.8	-12.9	-11.7	-10.8
Orders	-11.6	-8.9	-8.4	-4.9	-23.7	-30.5	-12.7	-13.6	-17.4	-9.3	-6.5	-4.0	-23.1	-20.3	-5.9	-4.8

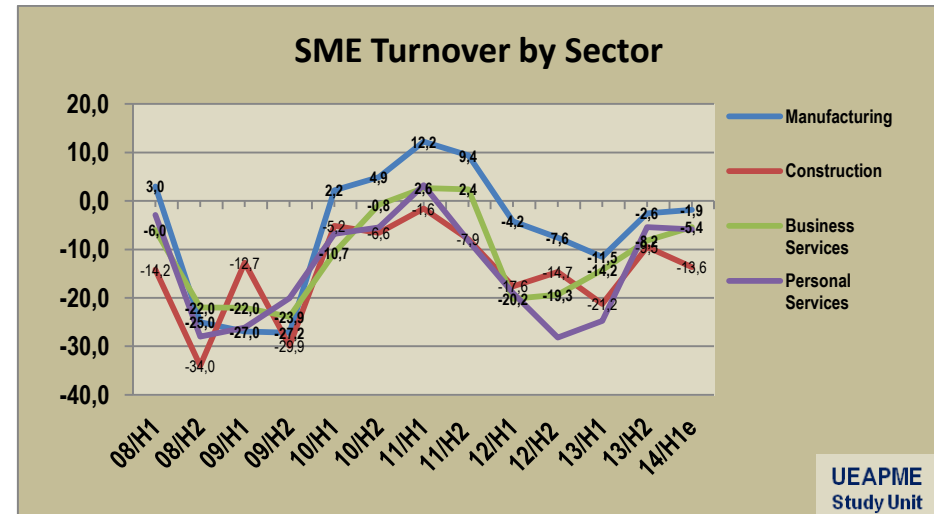
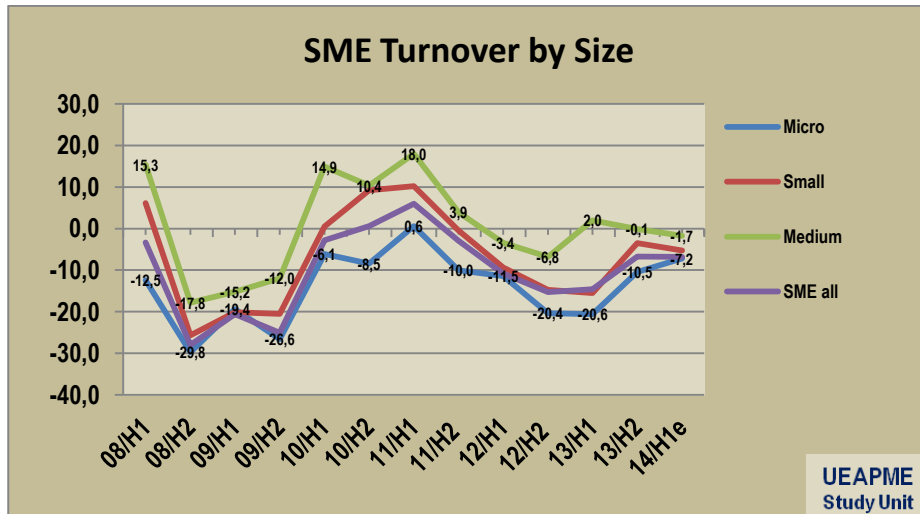
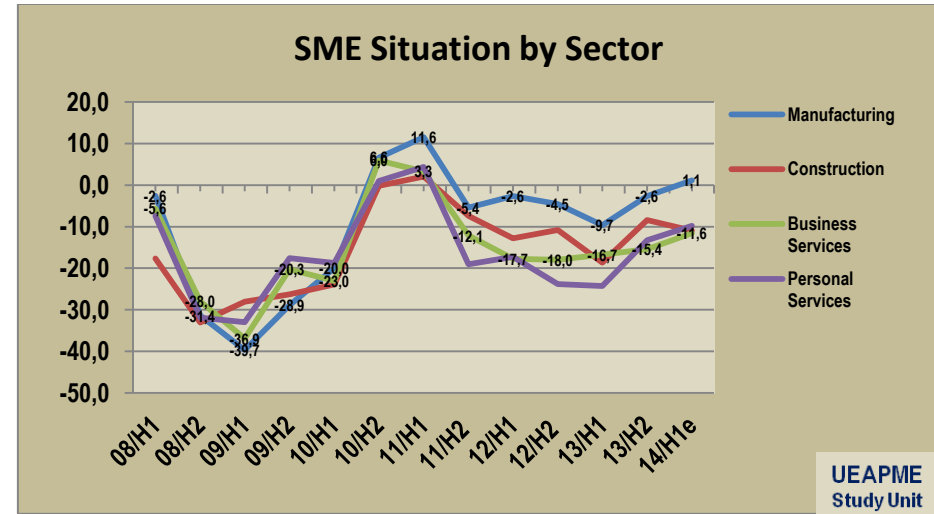
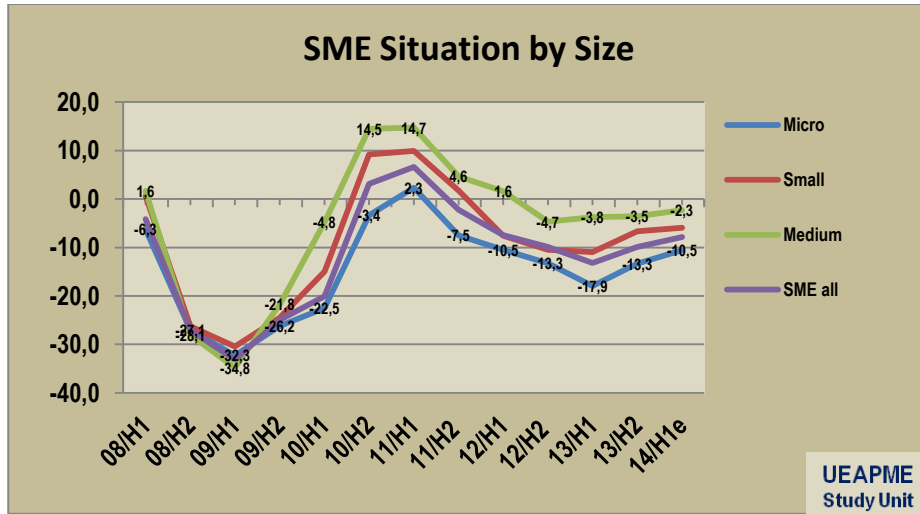
Table 6 – UEAPME Study Unit

Difference between the balance expected and the in retrospect reported balance

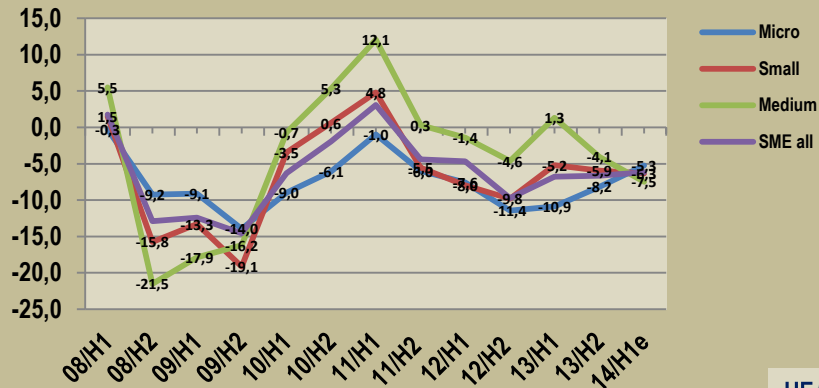
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e
Situation	-3.7	-7.3	-7.7	-5.9	-3.8	-6.5	0.9	-6.0
Turnover	1.3	-2.5	-3.2	-0.7	-0.7	1.1	13.3	-2.4
Employment	2.6	-2.1	-2.0	3.2	5.5	-1.4	8.3	-2.6
Prices	-8.1	4.6	-10.8	-3.3	-7.6	6.4	-2.7	1.8
Investments	4.1	-4.2	2.9	-3.0	7.0	-2.3	4.6	-1.2
Orders	-3.1	-5.1	1.2	-2.5	-3.5	-1.9	2.5	-6.5

	Manufacturing		Construction		Business Services		Personal Services	
	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e	13/H1 - 13/H1e	13H2-13H2e
Situation	-3.2	-3.2	-0.5	-2.7	-4.5	-6.2	-5.7	1.3
Turnover	-0.1	-4.4	2.8	1.3	-0.1	2.9	-4.3	8.0
Employment	0.0	-3.0	3.6	-3.4	0.4	-0.5	-3.3	5.8
Prices	-6.1	1.3	-8.1	4.0	-11.7	6.2	-17.8	6.0
Investments	2.6	-6.8	4.2	1.0	1.5	-0.6	6.1	1.8
Orders	-5.2	-14.1	-5.3	-1.4	-1.6	0.9	-5.7	-0.6

Results – European Crafts and SME Barometer – 2014/H1

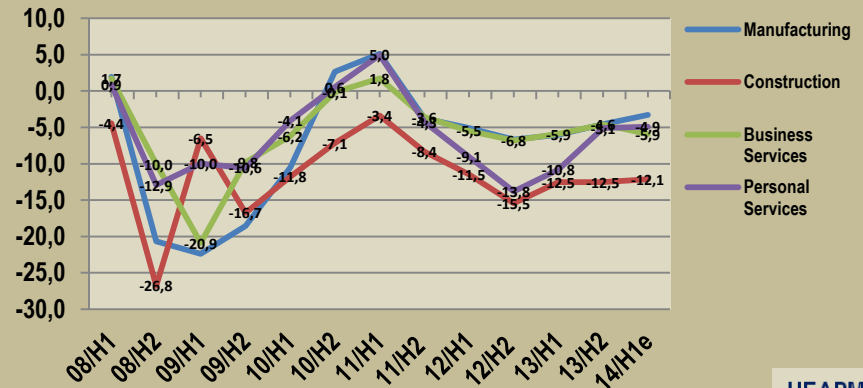


SME Employment by Size



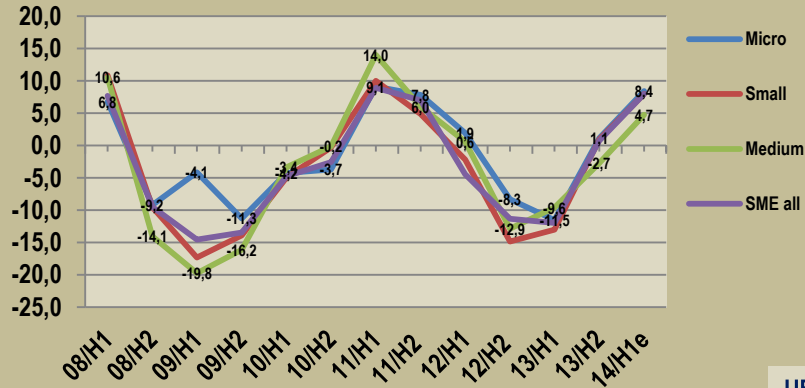
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SME Employment by Sector



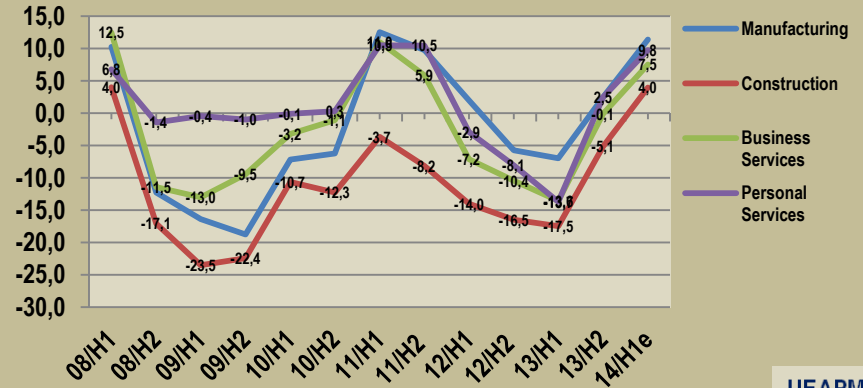
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SME Prices by Size



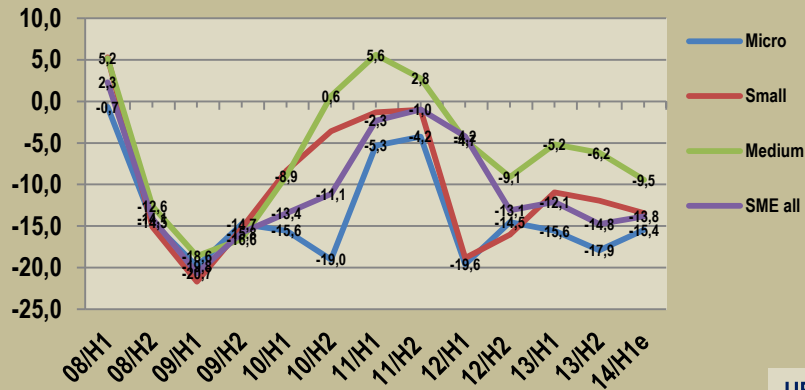
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SME Prices by Sector



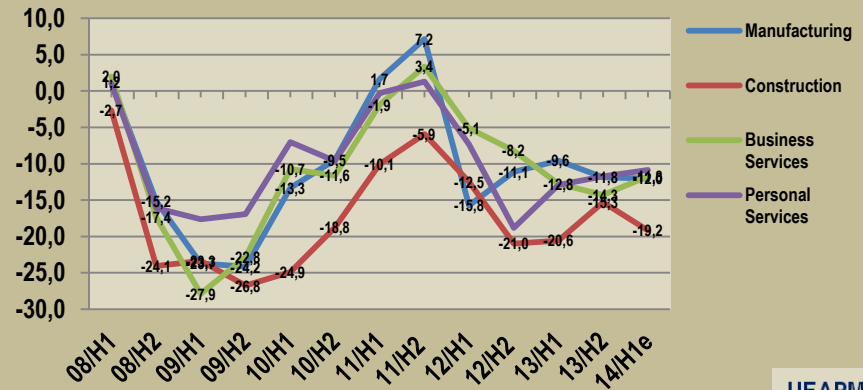
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SME Investments by Size



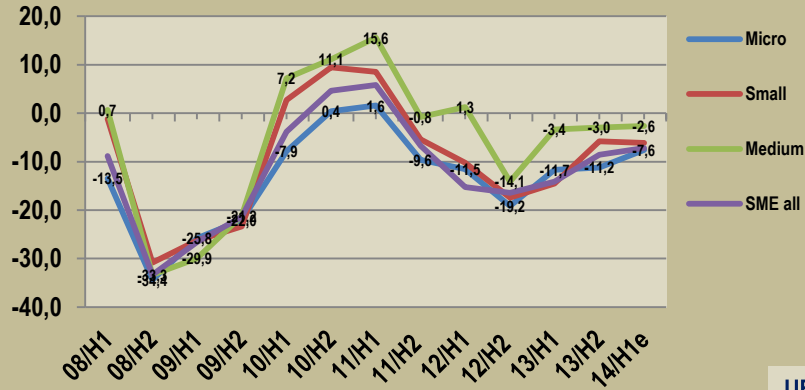
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SME Investment By Sector



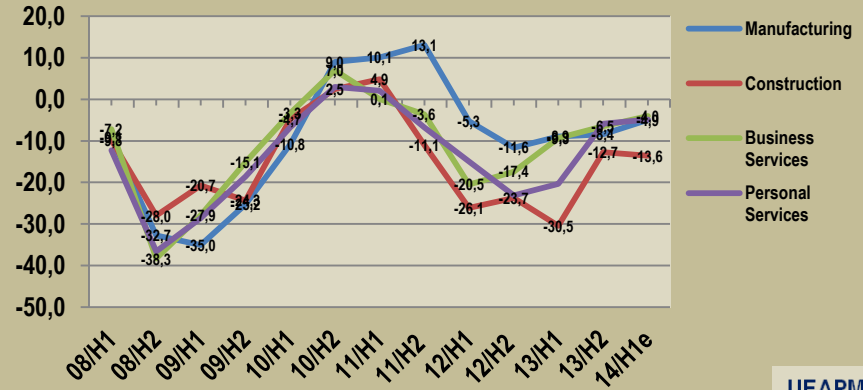
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SME Orders by Size



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SME Orders by Sector



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