The EU Craft and SME Barometer 2017/H1

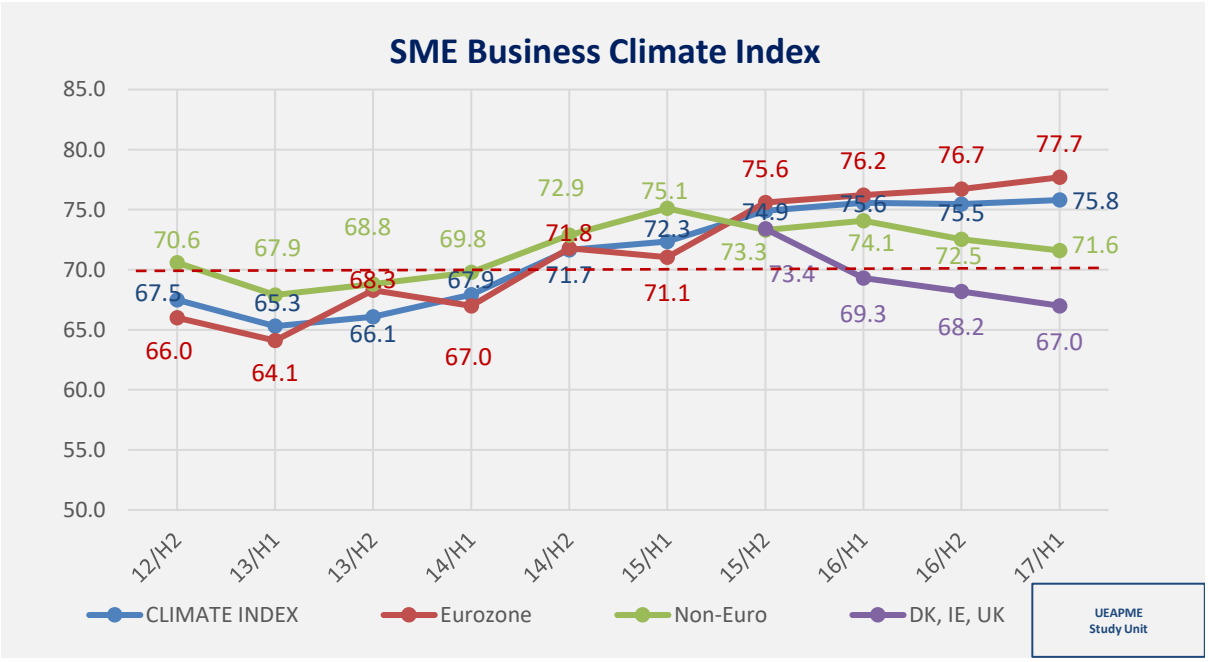
SME Climate Index up to 75.8, but new forms of imbalances

Economic situation stable, but SMEs expect a slowdown in domestic demand

The **UEAPME SME Business Climate Index**, shown in chart 1 (blue line), has increased by 0.3 points compared to last semester, reaching 75.8 percentage points. The index, which consists of the shares of the European Crafts and Small and Medium Enterprises reporting stable and positive business situation and expectations, has maintained its level above the neutral level (i.e. 70 points) for the sixth consecutive semester, exhibiting a small but steady growth. This result confirms that SME recovery continues, resisting the recently observed economic and political changes.

While the last figures indicate that growth patterns for the north and south have synchronised, within-group differences are sharpening, possibly driven by the spreading effects of Brexit. Chart 1 confirms the negative impact of Brexit on UK SMEs as well as on those economies strongly depending on the UK one (i.e. Denmark and Ireland).

Chart 1 – UEAPME SME Business Climate Index for Euro, Non-Euro countries and the DK-IE-UK group



The chart also shows a negative trend for Non-Euro countries, impacted by fears about Brexit and a cooling down of economic expectations in Poland. Therefore, while increasing on average, European SMEs' situation presents remarkable within-group divergences, which should be carefully considered to fully grasp heterogeneity and imbalances of the EU economies and the need for coordinated policy at EU level.

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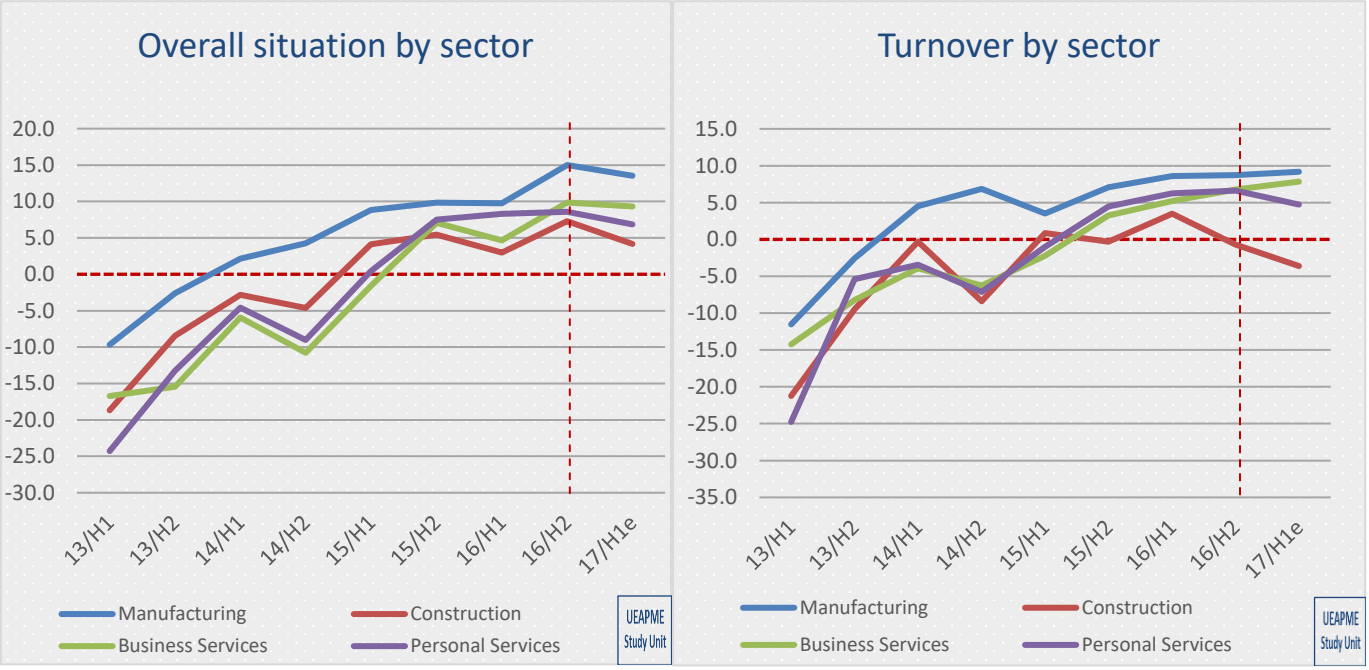
European SMEs are stable, but domestic demand is expected to fade-out

The main points to be drawn from the data collected for 2017/H1 SME Barometer are the following:

- The results of the Barometer for the second semester 2016 are positive for all criteria albeit generally below expectations. The overall situation, on the other hand, has increased keeping pace with expectations. This may be indicating that overall SMEs are still counting on the positive effects of the current growth.
- In line with the '*European Commission Winter Forecasts*', the results indicate that SMEs expect a slowdown in internal demand during this semester, maybe due to higher inflation and a fading-out of external supports factors. Expectations on Confidence and Turnover are especially negative for those sectors particularly depending on internal demand at local level (i.e. Construction and Personal Services) as Chart 2 shows. This confirms the idea that such decrease may hinge on an expected brake on the domestic demand side.
- In spite of more negative expectations the current survey contains a vast majority of neutral answers, which means that many SMEs are quite confident that the positive economic scenario witnessed in the past semesters will continue in the future.
- Europe has to improve its competitiveness and the business environment for SMEs to encourage them to invest, innovate, grow and create more jobs, in order to strengthen the current recovery and to make it sustainable. Public spending and fiscal policy should focus on investments in future growth without endangering fiscal sustainability.

Chart 2- Overall Situation and Turnover by sector



The EU Craft and SME Barometer 2017/H1 can be found at:
http://www.ueapme.com/IMG/pdf/170308_Barometer_17H1.pdf