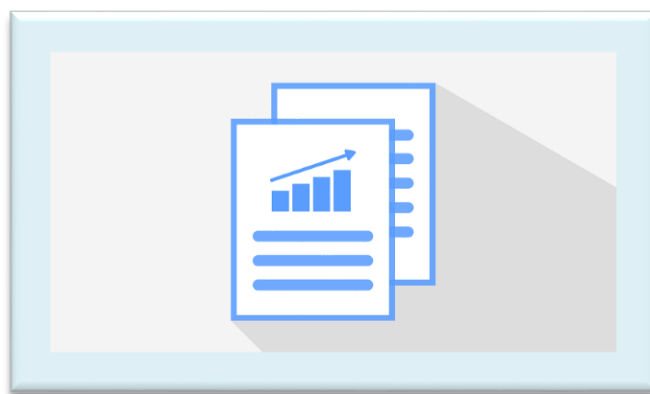


The EU Craft and SME Barometer

Autumn 2019



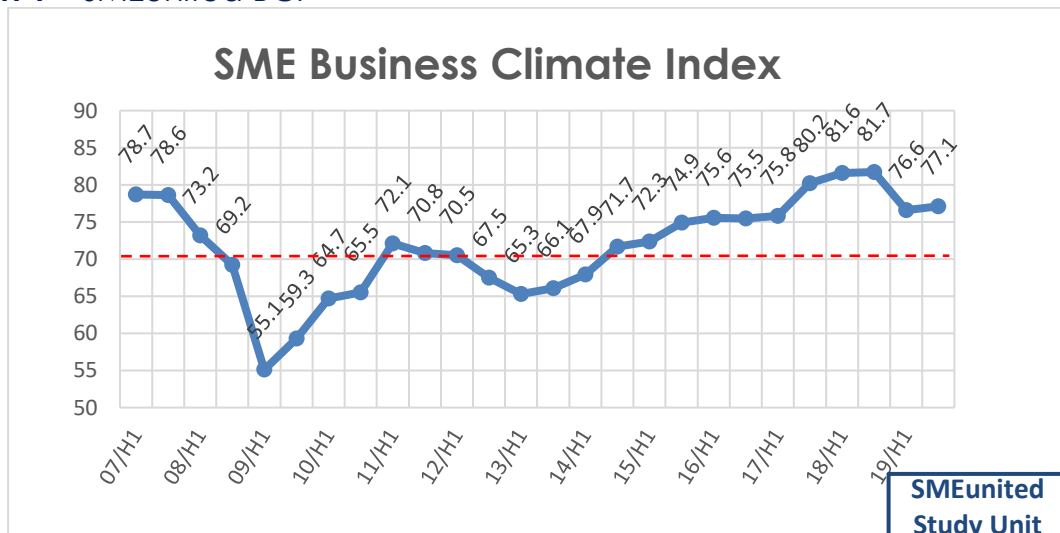
SME Climate Index rises to 77.1

SMEs' slowdown less pronounced than expected

After last semester's negative trend, the **SMEUnited Business Climate Index** (BCI) registers an increase of 0.5 pts, passing from 76.6 to the new value of 77.1. Since this index is obtained from the shares of European craft, small and medium-sized enterprises reporting positive or stable business situations and expectations, the conclusion is that the SMEs' business confidence is slightly more positive.

This light improvement may depend on many of the negative predictions causing last semester's less favourable outlook not becoming a reality. In particular, the **trade conflicts** between China and the US did not influence the European economy as much as feared, and **Brexit** got delayed. In addition, the **general slowdown of Western economies**, and especially of Germany, has not had a huge impact on SMEs yet. All these factors result in the slight growth of the index, a positive sign, even though the value is still far from the peak registered in Autumn 2018 (see Chart 1). The Autumn 2019 BCI therefore displays a **slight reduction of concerns about the near-term future** by European SMEs, even though **political uncertainty** is still a very present threat. Despite this, it is however crucial to remember that **a general slowdown is present**: indeed, starting from 2018 the BCI has been experiencing a decrease, and a turnaround is not expected in the close future.

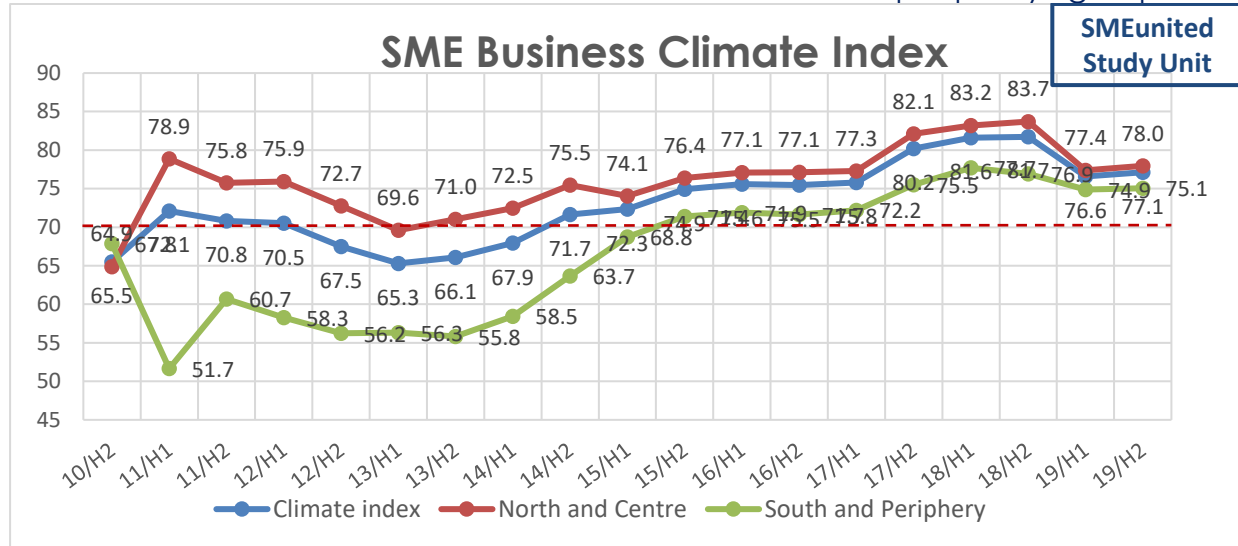
Chart 1 – SMEUnited BCI



The index is calculated as the 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).

On one hand, a comparison portrayed between the “North and Centre”¹ and the “South and Periphery”² groups shows that both areas are regaining confidence after last semester’s negativity, as both groups’ indexes register an increment.

Chart 2 – BCI for the “North and Centre” and “South and periphery” groups



On the other hand, the North-South Gap widens a bit (ranging from 2.5 to 2.9 pts). Generally speaking, the south is still lagging behind, but several southern countries are gaining momentum.

In particular, the situation in Greece is slowly improving, both on the economic and the political point of view, while Italy is less risky: this partially explains the more positive expectations. In addition, the SMEs’ BCI trend is in line with the result of the EC’s Summer Economic Forecast,³ according to which Europe’s periphery is still experiencing a general economic growth, even though at a slower pace than previous years.

This semester registered a sentiment improvement also in Northern Europe, even more significant than in the Southern region. The main factors explaining the current positivity are the newly found political stability in France, following the end of the Yellow Vests crises, and once again Brexit’s delay.

Another element explaining the slight rise in the BCI, both in the centre and in the periphery of the continent, is the rising internal demand. In fact, a general increase in employment, and a rise in wages, took place in many European countries, determining an increment in domestic consumption and, therefore, demand. SMEs particularly benefit from this phenomenon, because, due to their limited size, they mainly serve local clients. In addition, internal demand is less influenced by international trade crises, such as the one between the US and China.

¹ Namely: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK.

² Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain.

³ https://ec.europa.eu/info/publications/european-economic-forecast-summer-2019_en.

Chart 3 – SMEUnited overall BCI and Brexit group

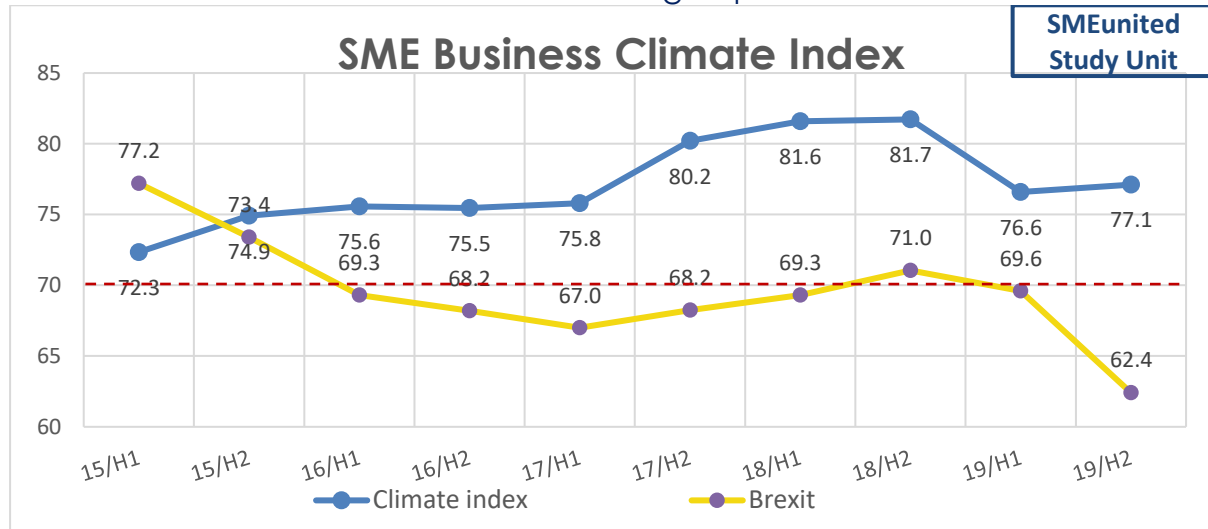
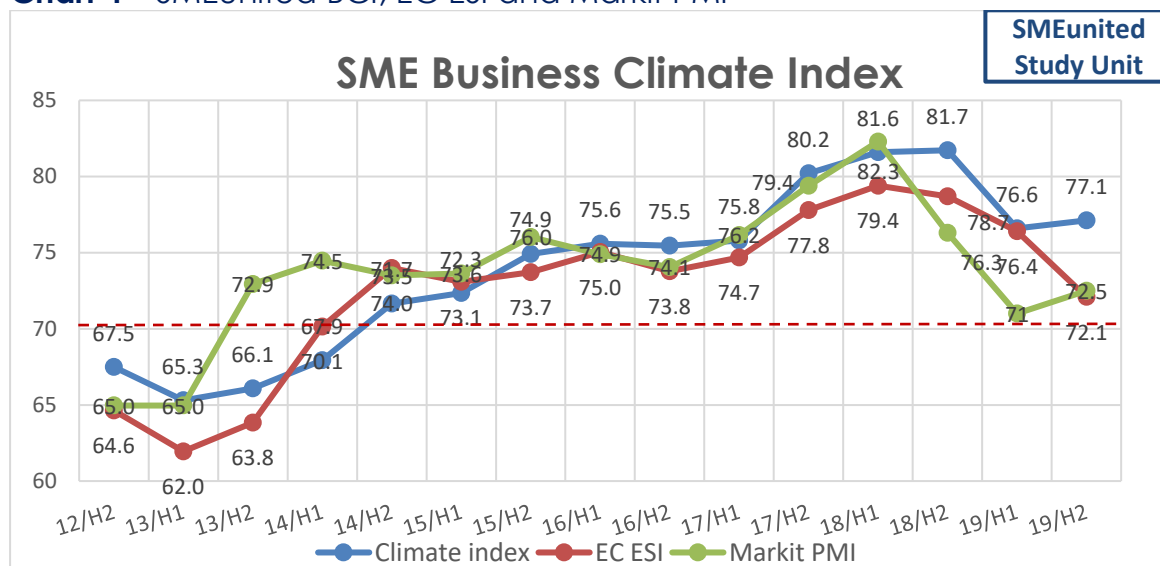


Chart 3 confirms that concerns regarding Brexit are still particularly important for countries having the closest economic relations with the UK, the so-called Brexit Group.⁴ Indeed, the Climate Index for the area plummets at 62.4 pts, the lowest value ever reached since 2015, and marks the biggest divide between Brexit BCI and general BCI since 2018.

However, this particularly negative result does not mean Brexit causes reactions equally intense in the whole area. In fact, British SMEs seem to particularly fear its potential negative consequences, while the rest of the group shows less concern.

⁴ The Brexit Group is composed of the UK, Ireland, Denmark and Belgium.

Chart 4 – SMEunited BCI, EC ESI and Markit PMI



As a robustness and comparative exercise, Chart 4 associates the SME Business Climate Index (BCI) to the European Commission’s *Economic Sentiment Indicator* (EC ESI)⁵ and the *Purchasing Managers’ Index* (Markit PMI).⁶

The SMEunited BCI appears to again be very much ahead of both EC ESI and Markit PMI indexes, making it clear that SMEs have a more optimistic perception of the situation than the overall business world. This is probably due to them especially relying on internal demand, which registered an improvement during last semester, as stated above. However, it is also notable that the Markit PMI, after a year-long downward trend, finally presents a rise in its value: a signal that big companies are also starting to be more positive about the near-term future.

The Economic Sentiment Indicator, on the contrary, shows a rather negative outcome, losing 3.6 pts from last semester. One potential reason for this difference lies purely in the diverse methodologies used to calculate the two indicators. Indeed, only positive answers are considered to obtain the EC ESI, while the BCI index takes into account also the neutral ones⁷. This difference may therefore determine an overly negative result of the EC ESI compared to the BCI, and may also explain the permanent downward trend registered.

⁵ 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 SMEunited 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

⁶ The Markit Composite PMI tracks variables such as sales, employment, inventories and prices 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 SMEunited SME Business Climate Index, with 70 as the long-term average/neutral value.

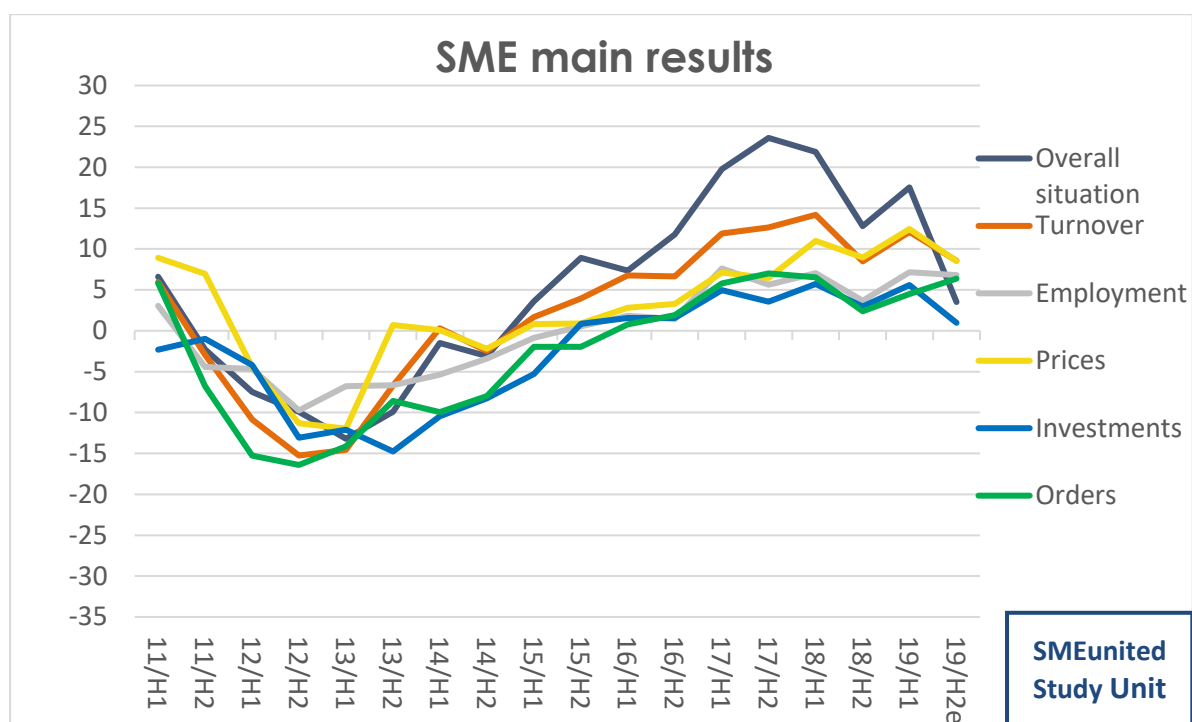
⁷ The EC ESI indicator is an aggregation of five sectorial indicators (industrial confidence indicator, consumer confidence indicator, services confidence indicator, retail services confidence indicator and construction confidence indicator). These are all survey-based, and the balances used to calculate them are obtained from the average of the differences between the number of positive and negative answers given to each question of the survey. For more information, see: https://ec.europa.eu/info/sites/info/files/bcs_user_guide_en_0.pdf

Main results: Uncertainty dominates, but with little impact on real SMEs

The EU Craft and SME Barometer presents the balance between positive and negative judgements from SMEs for different business categories, class sizes and sectors.⁸

Results for Spring 2019: a renewed positive outlook

Chart 5 – SMEUnited Barometer aggregated values for the six business categories



The results of the first semester of 2019 suggest that the European SMEs' situation has substantially improved.

Indeed, the overall situation value reached 17.5 pts – a significant improvement, but behind the results from last year (see Chart 5).

Similarly, all the other five categories examined registered an increment: results for turnover gained 3.6 pts, while both employment and prices gained 3.5 pts, reaching respectively the values of 12.1, 7.1 and 12.4 pts.

Moreover, orders increased from 2.4 to 4.5 pts and investments are on a positive trend as well, moving from 3 to 5.6 pts, almost the same value as Autumn 2018.

⁸ More information on the methodology can be found on page 14.

Main results for first half of 2019 are ahead of expectations

The comparison between results and expectations in Table 2 tells us that SMEs underestimated their predictions for spring 2019, probably due to growing uncertainty and to the disappointing performance over 2018's second semester. In particular, the expectations towards the overall performance were particularly negative, standing at -0.2 pts, while the actual results reached 17.5 pts – a divide of 17.7 pts, the highest one since 2017. Similar underestimations concerned all business categories: the only exception is prices, where expectations were set too high, as is generally the case.

Table 2 – Expectations and actual results for 19/H1

	Expectations 19/H1e	Results 19/H1	Δ (R-E) 19/H1
Overall	-0.2	17.5	17.7
Turnover	5.8	12.1	6.3
Employment	3.9	7.2	3.2
Prices	16.5	12.4	-4.0
Investments	1.4	5.6	4.2
Orders	0.5	4.5	4.0

There are many possible explanations for these results, starting from the psychological effect of the tense political and economic climate experienced at a global level over 2018. Indeed, the fears for the future concerning Brexit, the US-China trade war, the Italian situation and the political tensions in France probably led to overly negative expectations, but the actual results did not follow.

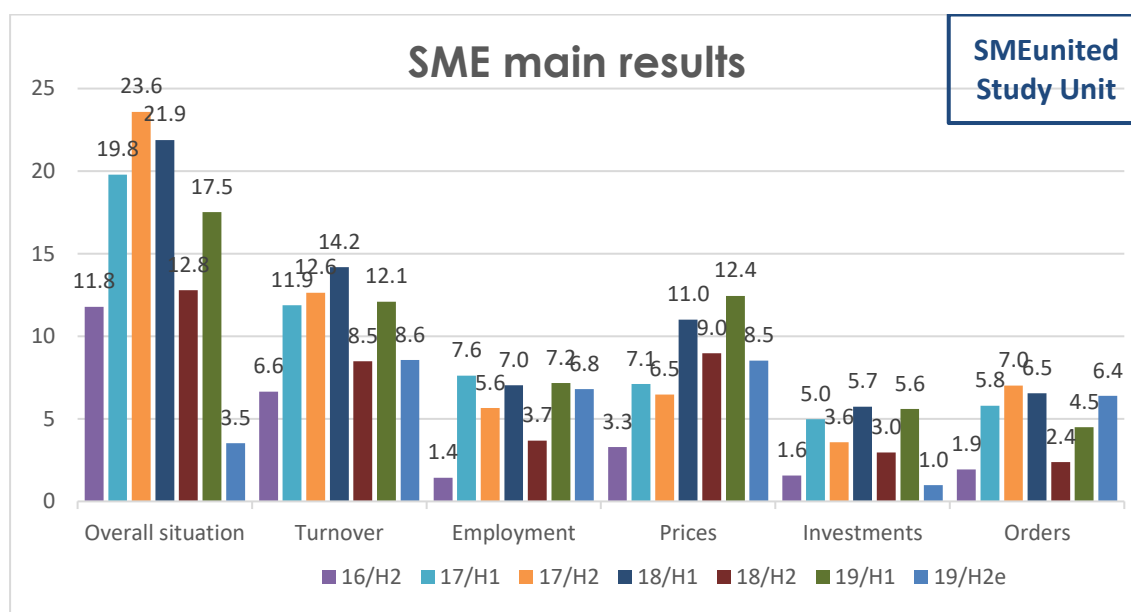
Another element that may have played a role, especially in the increment in investments, is the low cost of mortgages: since it is cheaper to obtain funding, SMEs are incentivised to invest.

Last but not least, internal demand has been supported in many countries by employment increase and wage rises, which of course fuel demand and consumption. Since SMEs mainly rely on internal demand, due to their limited size, it is likely that this positive change played a role in current results, explaining, in particular, the increment registered on orders.

Expectations for the next semester show limited concerns

Despite this semester's positive results, Chart 6 depicts a decrease in expectations, which most likely will lead to a slowdown during the second semester of 2019.

Chart 6 – SMEUnited Barometer aggregated values for the six business categories



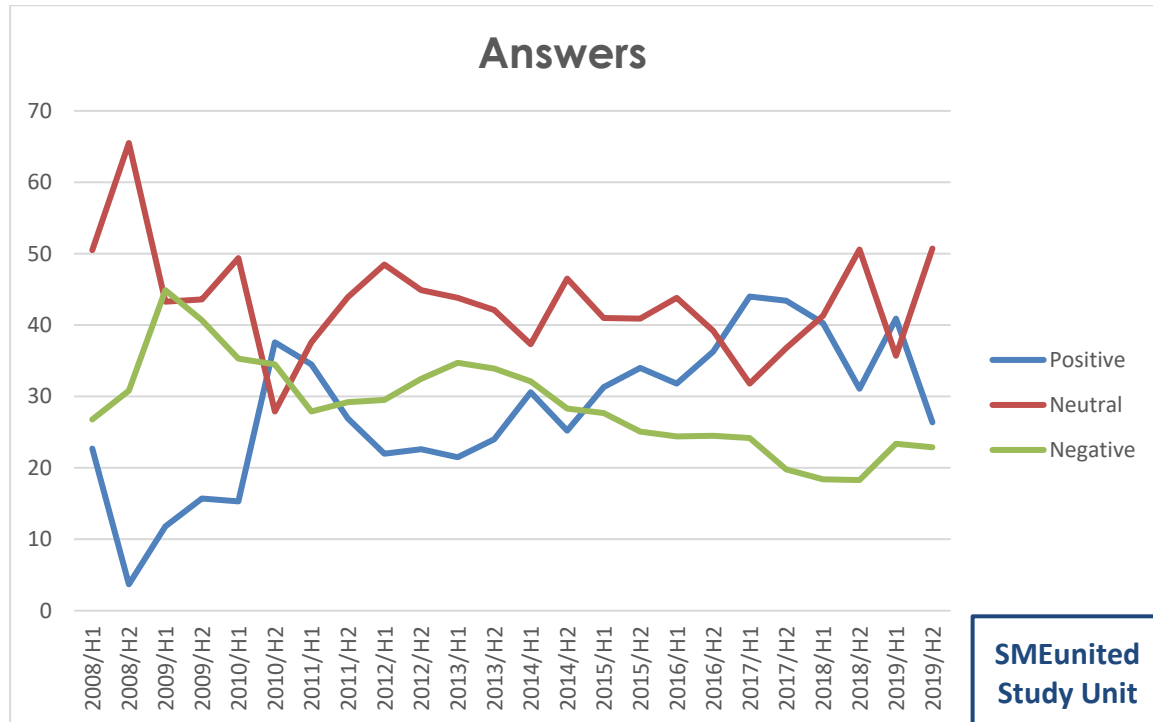
For Autumn 2019, the balanced figure for the overall situation registers a significant downfall, collapsing to 3.5 pts - a loss of 14 pts compared to last semester's results. This outcome definitely shows a negative view concerning the general economic situation in the close future. However, this pessimism is not completely matched by the category-specific data.

Indeed, looking at the expectations in the other categories it is clear that they are not as negative as potentially expected, given the overall results. For example, turnover loses only 3.5 pts, employment only 0.4 pts, and orders are even expected to gain 1.9 pts. This last result in particular can be interpreted as a sign of optimism, meaning that even though the general economic and political situation is not exactly ideal, European SMEs do not yet really feel directly impacted by this instability.

SMEs' Barometer replies underpin shift towards neutral

Chart 7 reports the answers to the EU Craft and SME Barometer and delivers further insights on the SMEs' economic perspective for Autumn 2019.

Chart 7 – Answers to SMEUnited SME Barometer

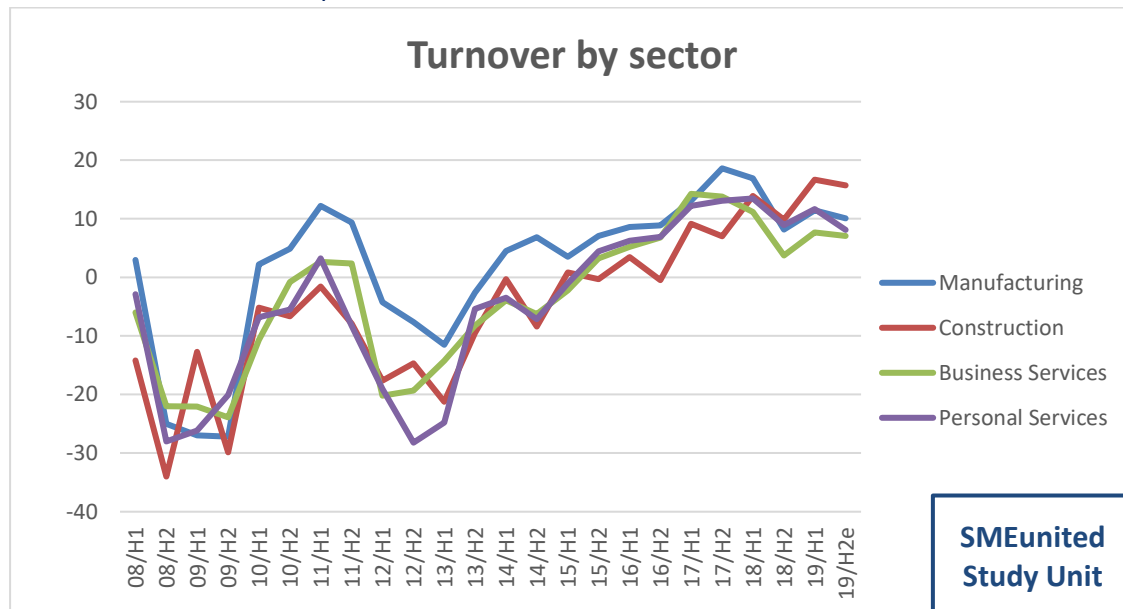


The analysis of the answers registered in the Barometer confirms the optimistic sentiment depicted by the Climate Index for Spring 2019, but also the still present anxiety for the future. In fact, it is true that there is a significant increment of positive answers and a reduction of neutral ones, especially after the particularly tense second semester of 2018, but also negative answers increased slightly.

Concerning Autumn 2019, uncertainty is the main sentiment that emerges from the analysis, since there is a decisive increase of neutral answers and a decrease of positive ones. This does not come as a surprise, considering the current political and economic situation.

The constructions sector: a positive performance and optimistic expectations

Chart 8 – Turnover by sector



As already stated, the general uncertain situation does not mean that all SMEs have an absolutely negative outlook on the future. Indeed, there is a clear tendency in all sectors to a limitedly pessimistic view: even though expectations are slightly less positive, they are not as terrible as the overall situation would imply.

In particular, the expectations for the construction sector are especially positive, not only concerning turnover (see Chart 8), but also for orders.

The reason behind this result may be that SMEs in the sector focus mainly on internal demand, which as already stated has increased throughout Europe during last semester.

In addition, the cheap cost of mortgages has made it easier not only for companies to find funding, but also for individuals to invest in construction projects, such as house renovations. An investment is more and more appealing due to the high housing market prices, continuously growing in particular in the biggest European cities.

The increase in mortgages itself can also be read as a fairly positive sign, as people only take such a long-term commitment if they are convinced they are able to sustain it: the increase in mortgages therefore suggests a general slight increase in confidence also on the consumers' side.

Uncertainty discourages expectations for every class size

Chart 9 – Overall situation by class size

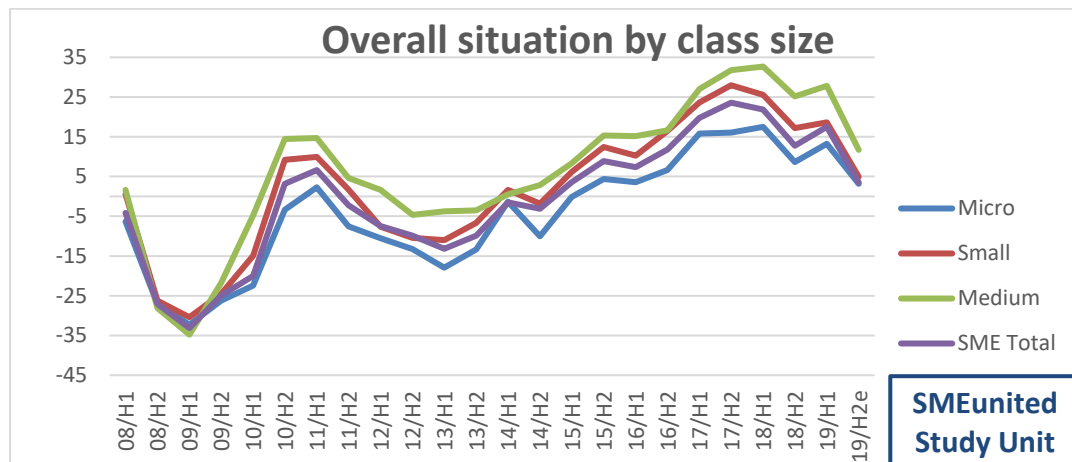
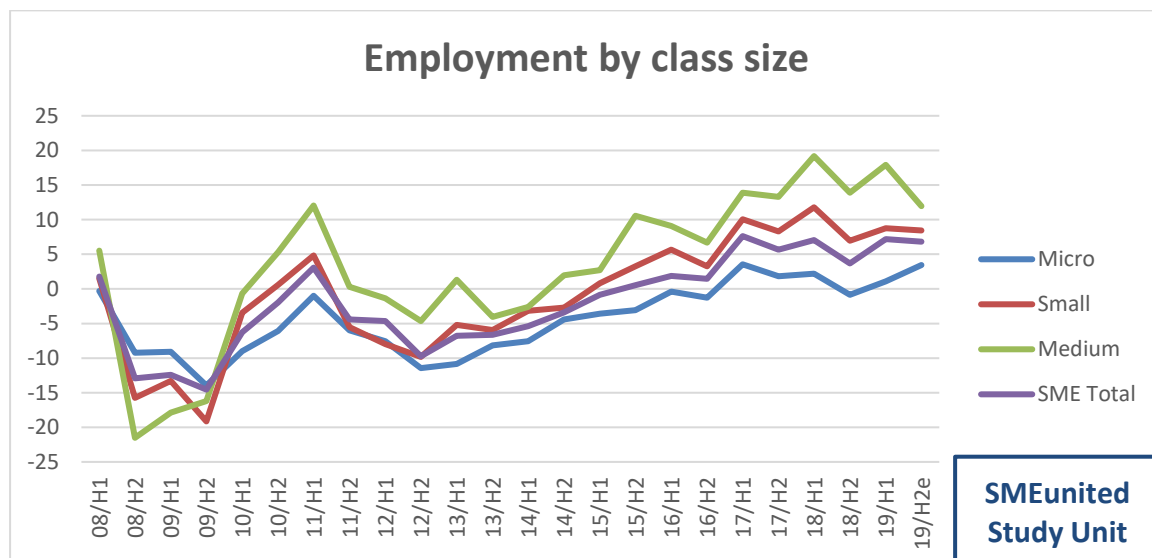


Chart 10 – Employment by class size



Another interesting result this analysis showed is the discrepancy between the overall perceived situation and the results for the other five categories collected for class size. Indeed, even though the data confirm negative expectations for the future, they are again not as negative as the overall data would suggest.

For example, looking at Chart 9 and Chart 10, it is true that employment is decreasing for small and medium companies, but in a less drastic way than the steep downward curve in the overall situation chart would imply. Moreover, micro companies even have positive expectations on employment, expecting an increment of 1.3 pts.

A potential explanation for this apparent inconsistency, as already mentioned, is that SMEs perceive the political and economic negative general situation, but do not directly feel very impacted by it yet.

Conclusions and recommendations

In the past semester, despite the highly negative expectations, SMEs' performance registered a clear improvement, even though still far from the results of the expansionary phase of the business cycle. This positive result depends not only on the non-realisation of many feared events, like the worsening of the Italian situation or the political crisis in France, but also on an improvement in domestic demand.

Regarding expectations, SMEs certainly have a slightly more optimistic outlook on the future: expectations are less positive, but anyway better than in 2018.

The SMEUnited Business Climate Index shows a sentiment of improvement over last semester, even though the overall negative trend that started in 2018 is not expected to reverse. Indeed, even if a slight improvement is registered all over Europe, these results are still far away from those of 2018. Interestingly, Brexit's fear is decreasing in many countries strongly connected to the UK, probably due to the continuous delays.

Focusing on sectors, construction registered a clear boost, mainly due to the internal demand's improvement and to cheaper mortgages, a sign of renewed confidence. In general, both from a sectoral and from a class size perspective, SMEs' business confidence denotes a pessimistic view, but not as intense as expected: SMEs in the EU seem convinced that the current negative situation will not have a tremendous impact on their real business life on a daily basis.

To sustain the economic recovery and support SME growth and job creation, adequate policies at both European and national level should thus aim at:

- **Reducing political and economic uncertainty** caused by Brexit by aiming for legal and regulatory clarity;
- Focussing the next generation of **European programmes on improving growth and competitiveness** of Europe's economy;
- **Investing in skill training** in order to provide the job market with a qualified workforce and consequently **encourage employment**;
- Allowing SMEs to benefit from the advantages brought by **innovation** and help them move effectively towards **digitalisation** and **greening**;
- Promote **fairness and level playing fields** not only for SMEs, but in general for businesses of all size and type.

SMEUnited EU Craft and SME Barometer: Methodology

The **EU Craft and SME Barometer** is built on the results of surveys conducted by SMEUnited 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 March and September 2019, which gives quite a recent picture of the development and expectations of SME owners all over Europe.

At the 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 expectations 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 first semester of 2019 as well as the expectations for the second half of 2019.

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

For further information on this document, please contact:

Gerhard Huemer,
Study Unit Director
SMEUnited
Rue Jacques de Lalaing, 4
B-1040 Brussels
Tel: +32 2 2307599
E-mail: G.Huemer@SMEUnited.eu

Francesca Massara,
Economist at the Study Unit
SMEUnited
Rue Jacques de Lalaing, 4
B-1040 Brussels
Tel: +32 2 2307599
E-mail: s.ueapme@SMEUnited.com

Results – European Crafts and SME Barometer – Spring 2019

Annex A – Balance between positive and negative answers, weighted by number of employees

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e
Overall	12.8	-0.2	17.5	3.5	8.6	0.1	13.2	3.2	17.2	1.4	18.6	5.0	25.2	4.9	27.8	11.7
Turnover	8.5	5.8	12.1	8.6	4.0	3.1	4.4	5.5	11.2	8.3	15.1	11.4	19.0	13.8	20.8	15.6
Employment	3.7	3.9	7.2	6.8	-0.9	1.7	1.1	3.4	7.0	5.5	8.8	8.4	13.9	15.0	17.9	12.0
Prices	9.0	16.5	12.4	8.5	7.0	14.8	8.9	8.8	9.2	18.0	13.9	9.8	13.0	18.7	15.3	9.2
Investments	3.0	1.4	5.6	1.0	-1.1	-1.9	-0.1	-1.0	3.8	3.4	7.4	3.6	22.9	15.1	16.8	9.3
Orders	2.4	0.5	4.5	6.4	-0.7	-1.1	0.6	3.0	5.2	3.1	7.6	8.3	17.2	9.8	10.8	11.5

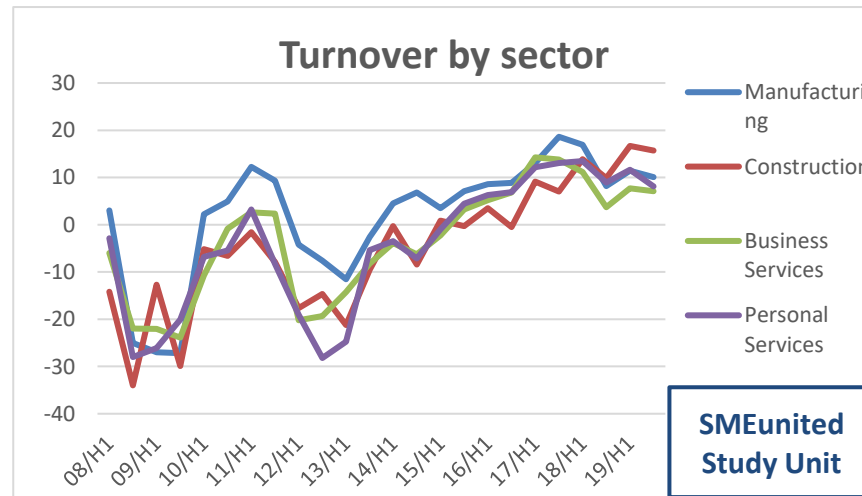
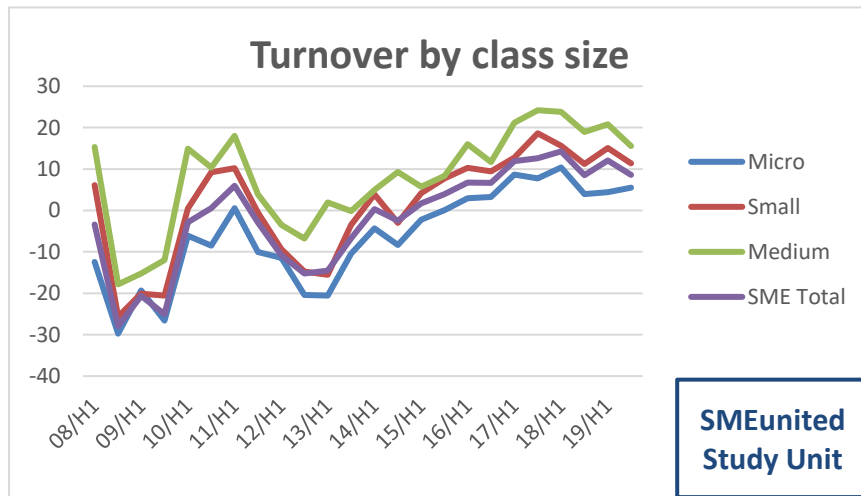
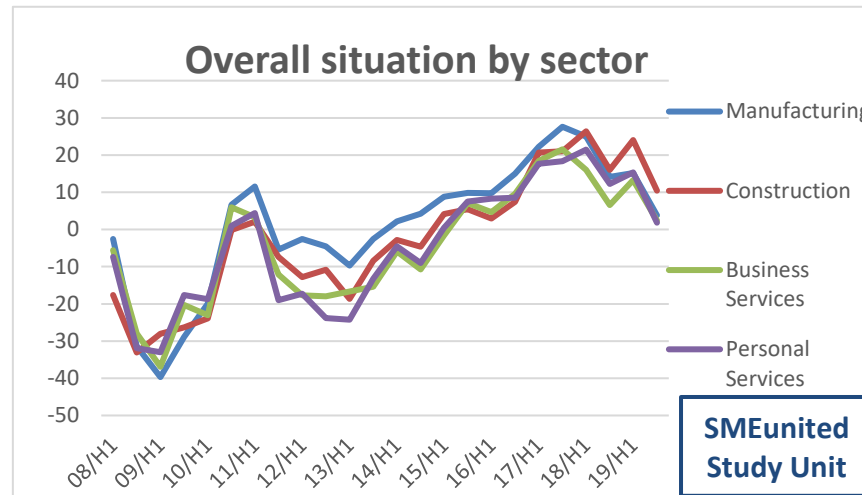
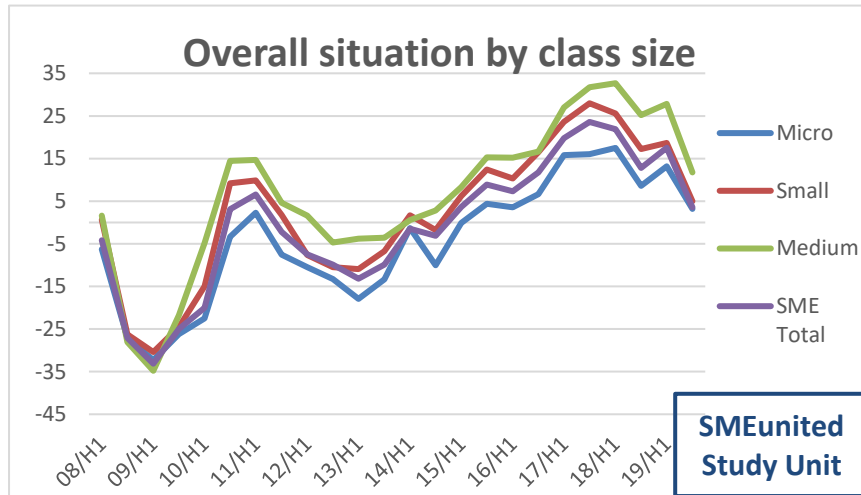
	Manufacturing				Construction				Business Services				Personal Services			
	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e	18H2	19H1e	19H1	19H2e
Overall	14.1	0.9	15.1	3.8	16.0	0.0	24.0	10.5	6.5	-0.5	13.2	2.5	12.3	-0.8	15.3	1.8
Turnover	8.2	6.6	11.4	10.1	9.9	4.1	16.7	15.7	3.7	5.5	7.7	7.1	8.9	4.5	11.6	8.1
Employment	4.4	5.8	5.9	8.8	2.0	2.5	8.6	7.6	4.6	4.0	4.6	7.1	2.3	3.6	3.0	5.2
Prices	9.3	17.8	10.3	8.6	8.6	14.0	17.4	13.4	6.8	16.2	11.4	9.6	7.0	13.0	12.5	11.1
Investments	2.3	0.2	6.2	3.7	0.0	2.0	6.0	4.5	1.4	0.3	2.9	0.6	5.2	-1.3	4.9	0.1
Orders	2.4	1.8	3.6	5.3	-1.1	-1.7	6.7	8.0	2.0	0.6	2.5	4.0	4.4	2.5	5.3	6.6

Annex B – Difference between the realised balance and the expected balance

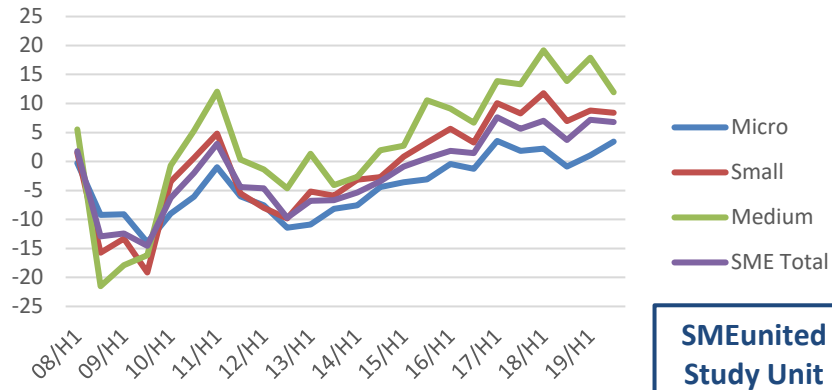
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e
Overall	1.5	17.7	0.7	13.1	4.5	17.3	7.5	22.9
Turnover	-6.7	6.3	-7.7	1.3	-5.7	6.9	-5.1	7.0
Employment	-2.2	3.2	-5.3	-0.7	-5.3	3.2	-2.9	2.9
Prices	-4.0	-4.0	-6.4	-5.9	-3.8	-4.2	-2.8	-3.4
Investments	1.2	4.2	0.2	1.8	-1.4	4.1	5.0	1.7
Orders	-4.8	4.0	-4.6	1.7	-5.0	4.5	-0.9	1.0

	Manufacturing		Construction		Business Services		Personal Services	
	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e	18H2- 18H2e	19H1- 19H1e
Overall	3.0	14.2	5.5	24.1	-2.4	13.7	-1.1	16.1
Turnover	-11.3	4.8	-0.6	12.6	-8.2	2.2	-4.3	7.2
Employment	-6.7	0.1	-4.4	6.1	-3.6	0.6	-3.7	-0.6
Prices	-5.3	-7.5	-4.6	3.4	-6.2	-4.8	-7.0	-0.6
Investments	-7.5	6.0	-2.4	4.0	-2.5	2.7	4.7	6.2
Orders	-10.1	1.8	-5.0	8.4	-4.9	1.9	-1.9	2.8

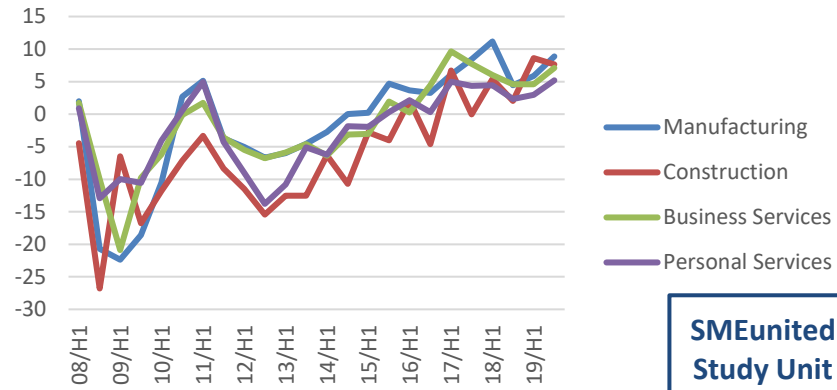
Results – European Crafts and SME Barometer – Autumn 2019



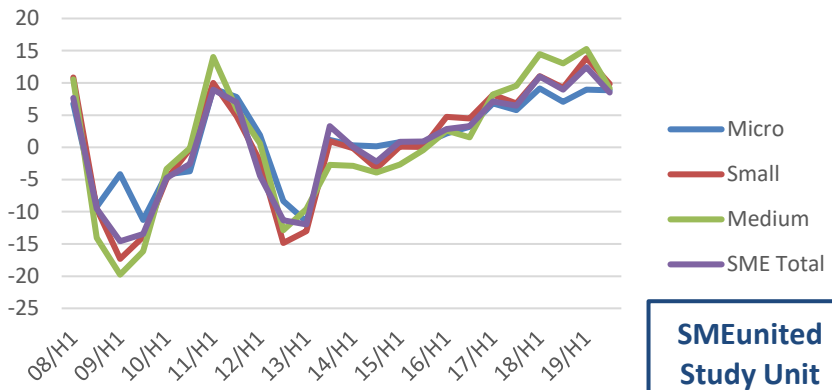
Employment by class size



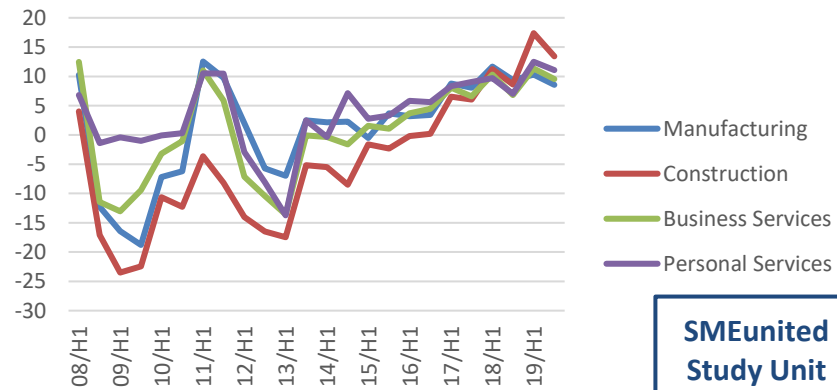
Employment by sector



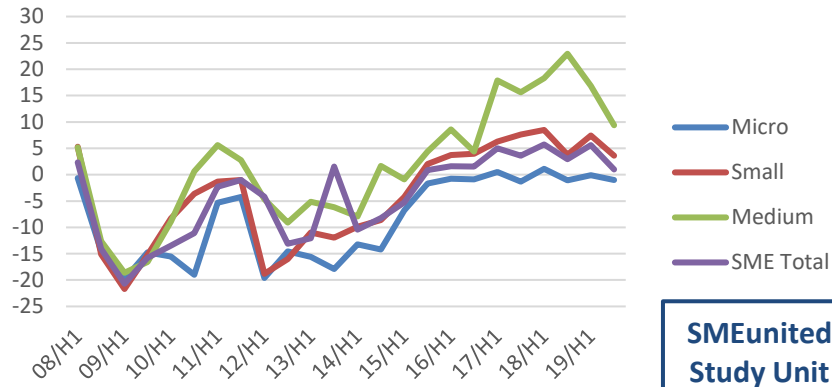
Prices by class size



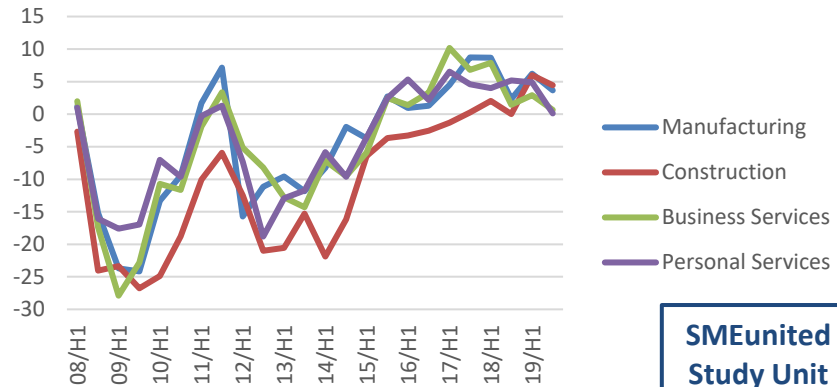
Prices by sector



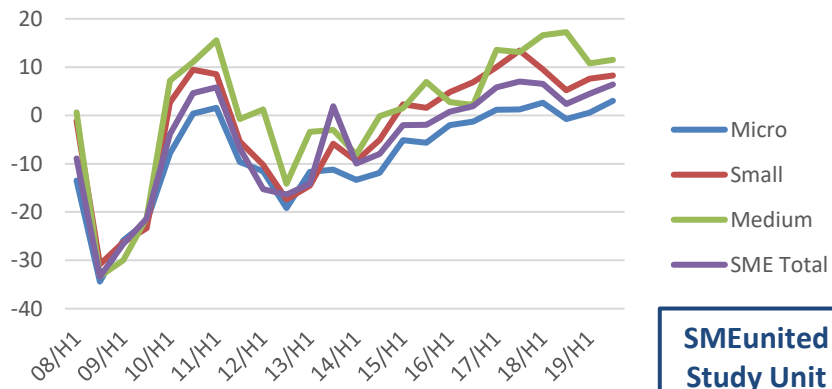
Investment by class size



Investment by sector



Orders by class size



Orders by sector

