

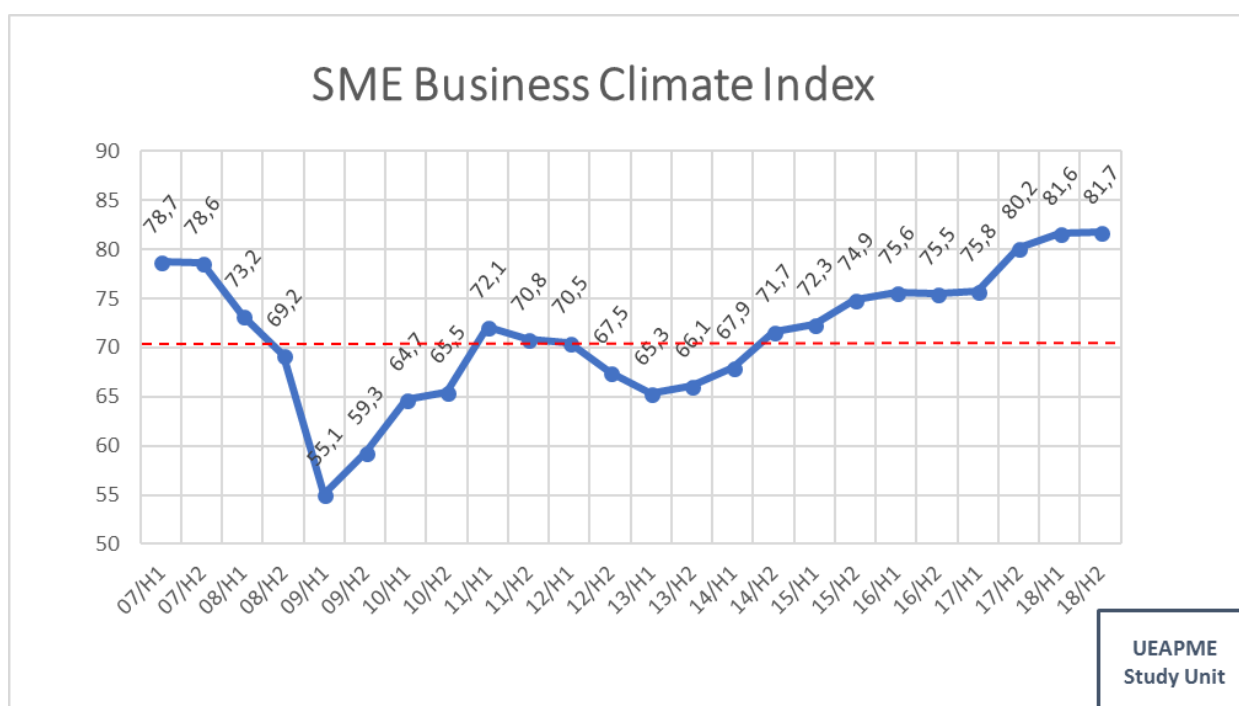
The EU Craft and SME Barometer 2018/H2

SMEs show stability at high level; SME Climate Index stabilises at 81.7

Internal demand fosters SMEs' growth, yet no further acceleration is expected

The **UEAPME SME Business Climate Index** has slightly increased this semester, reaching the highest level on record of 81.7 percentage points. This Index consists of the shares of European craft, small and medium-sized enterprises reporting stable and positive business situations and expectations. Overall, SMEs growth has been stabilising at high levels, mainly driven by robust internal demand. Indeed, the Index stays above 80 pts for the third semester in a row, yet it has just increased by 0.1 pts compared to the first half of 2018 (see Chart 1). The SMEs' outlook towards the current economic environment is positive but cautious, thus it is in line with other European economic indicators. For instance, the GDP growth rate has recently declined and now it is steadily close to 2 percent, whereas the unemployment rate has recuperated its pre-crisis level. Overall, SMEs see the European economy in a positive perspective, yet some doubts about future economic growth may arise, mainly due to political and economic instability at the European and global level.

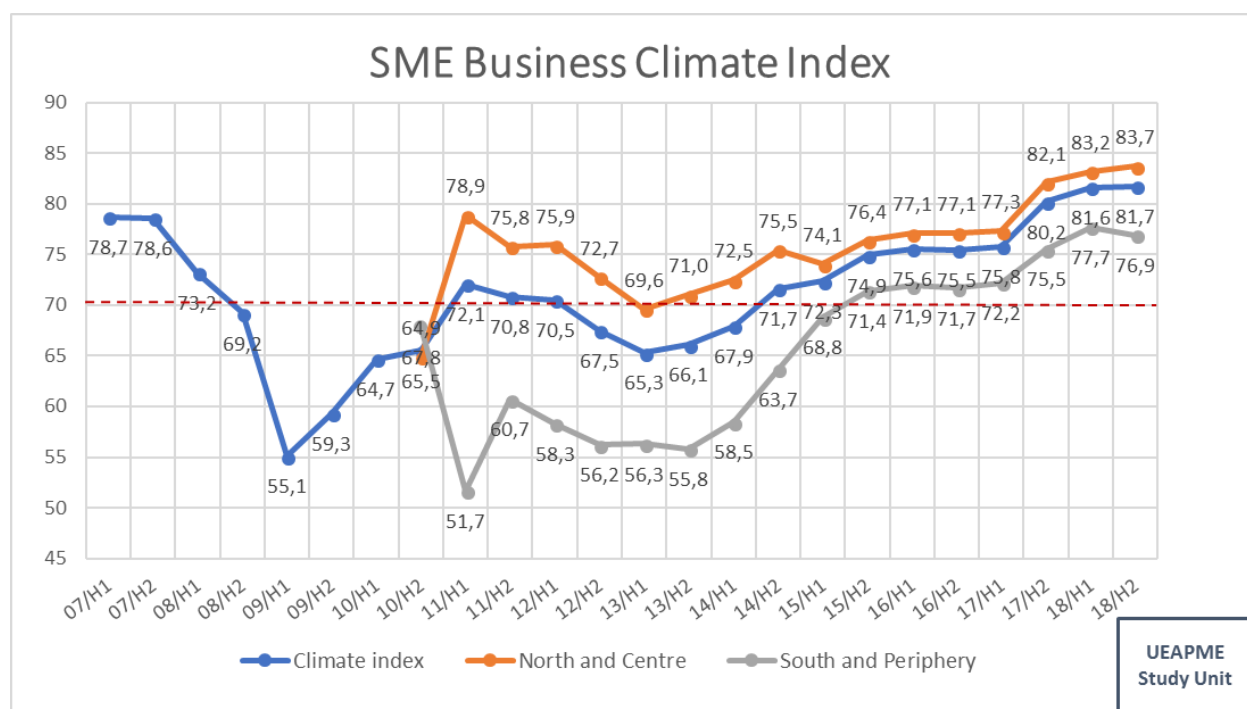
Chart 1 – UEAPME SME Business Climate Index



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).

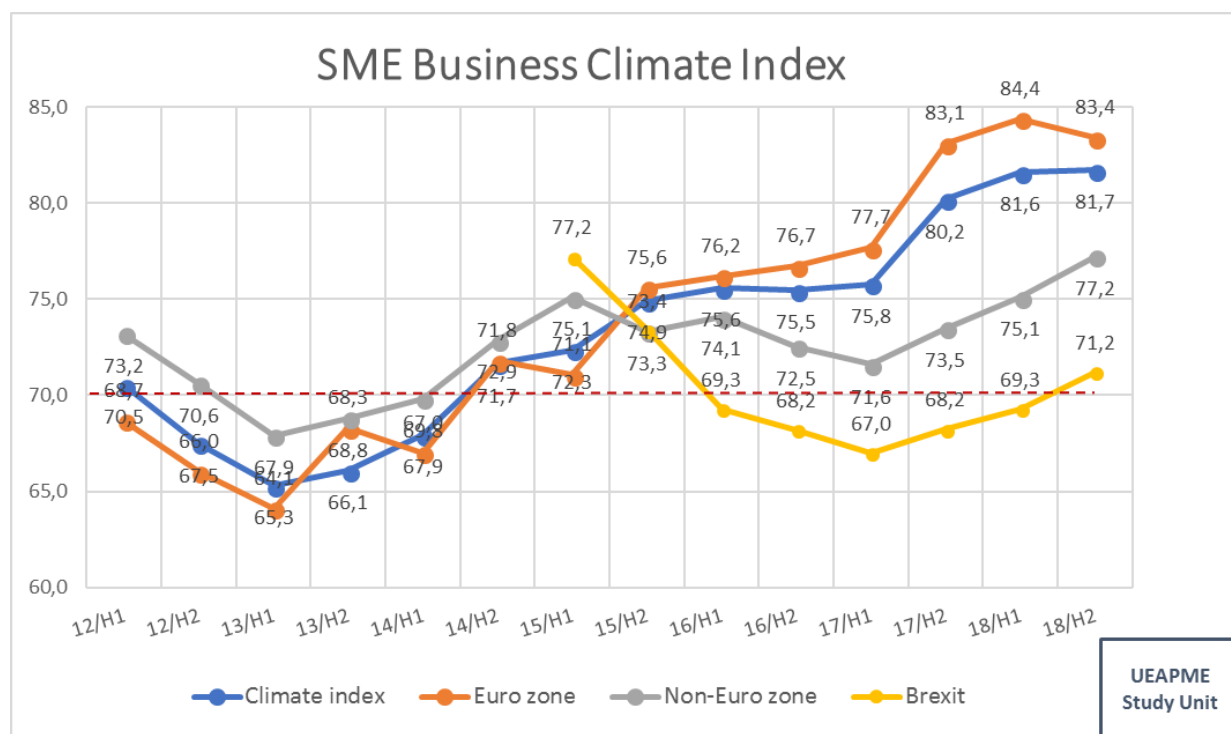
Focussing on regional trends, a comparison between the “North and Centre¹” group and the “South and Periphery²” group shows that the gap between the two has widened once again, after a few semesters of catching up. In fact, the index has risen by 0.5 pts in the North, while it has declined by 0.8 pts in the South (see Chart 2). As a result, the difference between these two groups has increased by 1.3 pts compared to last semester. This regional juxtaposition may be due to economic and political instability in Italy and Spain, while Greece is improving its economic outlook. Generally speaking, the lack of structural reforms and political uncertainty in southern countries are burdens on their SMEs’ growth perspective.

Chart 2 – SME Business Climate Index for the “North and Centre” and “South and periphery” groups



¹ 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.

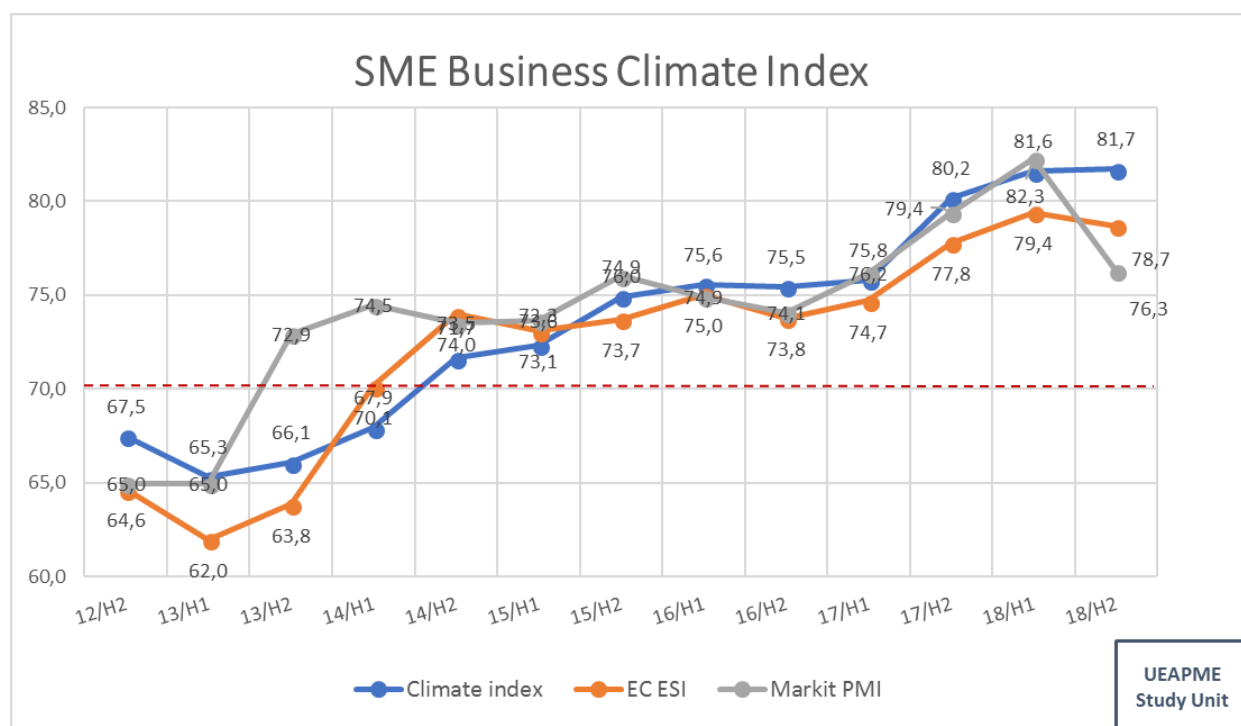
Chart 3 – SME Business Climate Index for Euro, Non-Euro countries and Brexit group



In accordance with the North-South comparison, an analysis of the Eurozone, Non-Eurozone and Brexit group (i.e. Denmark, Ireland and the UK) provides evidences of increasing within-group differences (see Chart 3). On the one hand, the Index in the Euro zone has slowed down for the first time since 2014, with a decrease of 1 ppts compared to last semester. On the other hand, the Index has increased both in the Non-Eurozone and Brexit group, reaching the levels of 77.2 ppts and 71.2 ppts respectively. Although the existent gap equals 6.2 ppts, the Non-Eurozone is finally catching up with the Eurozone; indeed, the Climate Index in the former area has been constantly rising by 2 ppts per semester, since the beginning of 2017. It should be noted that the Index of the Brexit group has first overcome the neutral level of 70, however there is still a remarkable difference between the SMEs Business Climate Index and this group (more than 10 ppts). As a matter of fact, these countries have experienced higher economic growth than anticipated, because negotiations between the UK and the EU have not changed the way of doing business yet. The only visible effect has been an increasing reluctance in making investments so far. However, the UK is supposed to leave the European Union in March 2019, therefore the consequences of Brexit may be perceived more severely next semester. Indeed, the Referendum has impacted SMEs' expectations, leading to the gap between the Brexit group and other countries, since Brexit has been on the political agenda.

Chart 4 compares the Commission's *Economic Sentiment Indicator* (EC ESI³) and the *Purchasing Managers' Index* (Markit PMI⁴), with the UEAPME SME Business Climate Index. Maintaining a remarkable value, above 81 pts, the Climate Index has surpassed both the Markit PMI (76.3) and the EC ESI (78.7) this semester, suggesting that SMEs feel a more optimistic sentiment about economic outlook than larger enterprises, which dominate the PMI. A possible explanation is that the former suffers less from political instability and international economic issues than the latter. Indeed, SMEs' economic outlook is mainly determined by internal demand, which is currently stable within countries, thanks to decreasing unemployment rate, and higher real wages. In contrast with large companies, SMEs are not particularly affected by threatens of duties and global uncertainty in the short term.

Chart 4 – UEAPME SME Business Climate Index, EC ESI and Markit PMI



³ 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

⁴ 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 UEAPME SME Business Climate Index, with 70 as the long-term average/neutral value.

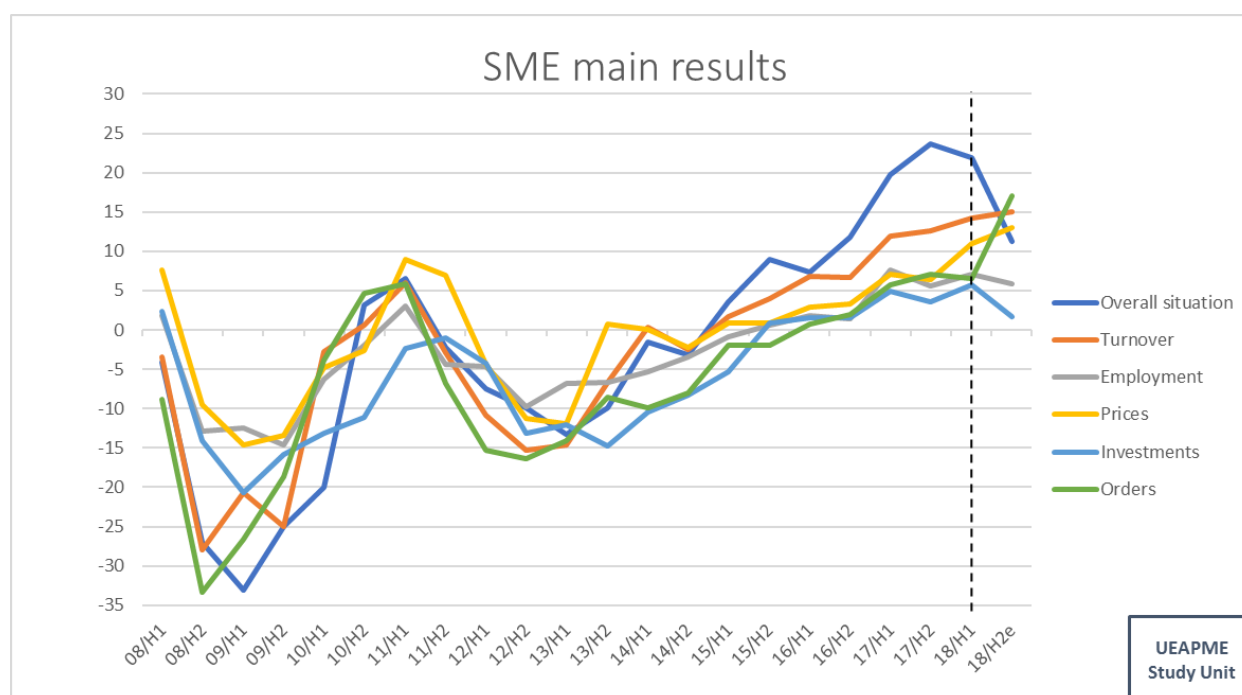
Main results: SMEs are growing at steady level

The EU Craft and SME Barometer presents the balance between positive and negative judgements from SMEs for different business aspects, size classes and sectors⁵.

Results for 2018/H1: SMEs have fully recovered, and their economic outlook is stable

The results of the first semester of 2018 confirm economic stability at high level for SMEs. Although the overall situation shows a moderate drop of 1.7 pts compared to the previous semester (see Chart 5), the other indicators of performance do not fully reflect such a decrease. Indeed, turnover and employment have grown by similar rates, 1.5 pts and 1.4 pts respectively. In addition, investments have risen again, moving from 3.6 to 5.7 pts in the last six months. The greatest acceleration, though, is provided by prices, which increased by 4.5 pts since the end of 2017. In contrast, orders have lost dynamic, showing a slight decrease by 0.5 pts compared to last semester.

Chart 5 – UEAPME SME Barometer aggregated values for the six criteria composing the survey



In conclusion, in the first half of 2018 the overall situation criterium has slightly deteriorated, even though SMEs have performed better than expected and they have maintained rather high levels as regards turnover, employment and investments.

⁵ More information on the methodology can be found in page 11.

In the first half of 2018, SMEs have performed better than expected

In the previous Barometer, SMEs gave a cautious future economic outlook by providing expectations about the first half of 2018. On the one hand, the overall situation was supposed to decrease, whereas turnover and employment were expected to slightly increase. On the other, prices and orders were assumed to rise remarkably. A comparison between real results and previous expectations suggests that SMEs were overly prudent about economic conditions in 2018/H1 (see Table 1). As a matter of fact, economic growth is stable at high level and all indicators have been underestimated, apart from prices and orders.

Table 1 – Expectations and actual results for 18/H1

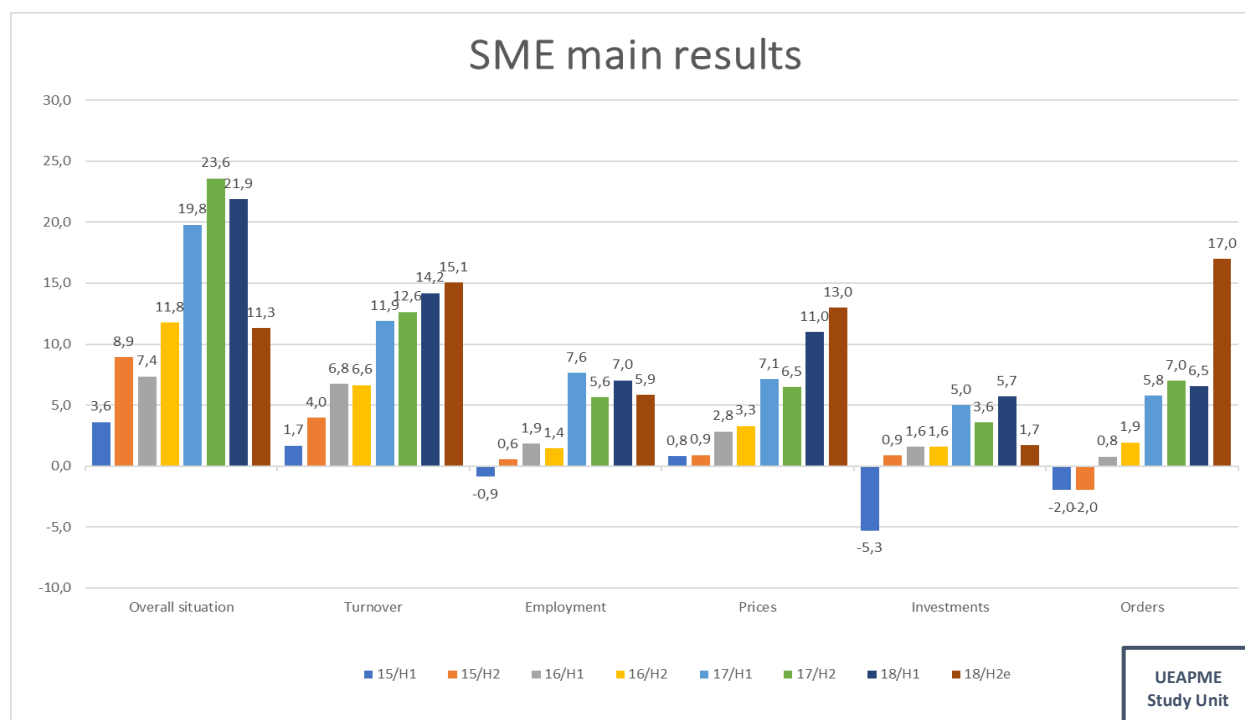
	Expectations 18/H1e	Results 18/H1	Δ (R-E) 18/H1
Overall	18,1	21,9	3,8
Turnover	12,0	14,2	2,2
Employment	6,7	7,0	0,3
Prices	17,2	11,0	-6,2
Investments	4,2	5,7	1,5
Orders	18,4	6,5	-11,9

In particular, the overall situation has decreased but not as much as expected. Indeed, current results are 3.8 pts higher than the prefigured ones. Moreover, SMEs have understated balances on turnover and investments, by 2.2 pts and 1.5 pts respectively. Outcomes concerning employment, instead, are in line with expectations. Although results about prices have been overestimated again, they are equal to 11 pts, and this improvement in market prices implies higher profitability for SMEs. Finally, forecasts about orders have not been fulfilled, since their level has been 11.9 pts lower than expected.

Expectations for the next semester confirm a future of stability for SMEs

Expectations for the second semester of 2018 for all six indicators are shown in the graph in the next page (see Chart 6). In line with last semester's subdued estimates for most of the criteria, SMEs show prudent expectations for the future. First, the overall situation is prospected to sharply decrease by 10.6 pts. However, this evidence supports a prospect of economic stability at high level, rather than signalling a downturn. Moreover, SMEs predict balances on turnover to remain stable at high level, with a marginal increase by 0.9 pts. Consequently, results for employment are steady, expecting only a small reduction by 1.1 pts. This does not come as a surprise, as SMEs are generally thoughtful to expand in terms of personnel. Furthermore, prices are perceived to grow moderately, moving from 11 pts to 13 pts. This final result is in line with other forecasts about inflation.

Chart 6 – UEAPME SME Barometer aggregated values for the six criteria composing the survey



Focussing on investments, instead, SMEs predict a decrease by 4 pts compared to current results. This means less SMEs are planning investments for the current semester, yet this figure may be outnumbered due to unexpected investments throughout the period. As regards orders, results are predicted to surge by 10.5 pts, which is in contrast with declining expectations about the overall situation.

Finally, there are opposing figures concerning other criteria: reluctance in investments and downward expectations on employment and overall situation are coexisting with high predictions on turnover and orders. This evidence may be reconcilable if SMEs perceive high orders for the future, driven by the domestic demand. However, fulfilling them is questionable because of scarce skilled labour force. Accordingly, balances on employment are expected to decrease. Results from the next Barometer will confirm if lack of skilled labour force is the actual underlying reason for these contrasting signs.

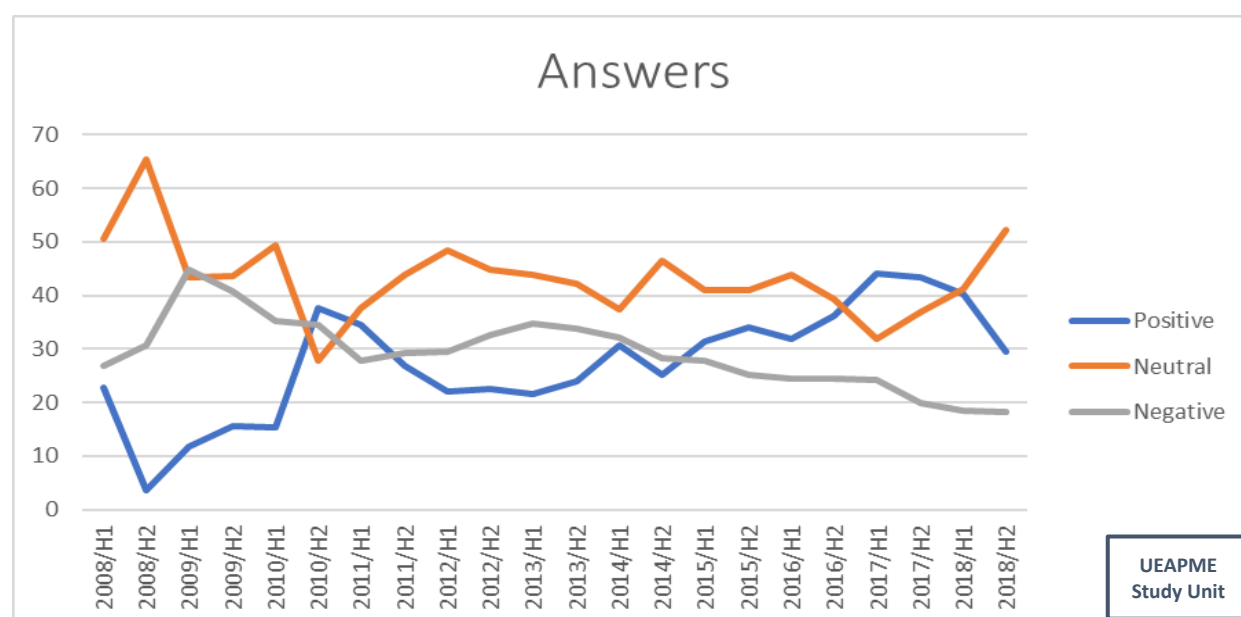
SMEs Barometer results move from positive to neutral outlook

Results from the Climate Index may seem to contradict the SMEs’ overall situation, since the former has been steady at the high level of 81.7, whereas the latter has decreased by 1.7 pts compared to last semester. Moreover, outlooks on the next six months shows an additional decline of SMEs’ expectations regarding their overall situation and investments, whereas turnover, prices and orders are anticipated to upsurge. As a result, one question arises: how is it possible to reconcile a solid economic status with diminishing levels of overall situation?

The answer is provided by the analysis of SMEs’ answers to the EU Craft and SME Barometer, as reported in Graph 7. The apparent contradiction between the Climate Index and the overall situation in the Barometer is explained by looking at positive and neutral responses: since the first half of 2017, the

share of neutral replies has increased, while the percentage of positive ones has started to decline. As the Climate Index is the sum of positive and neutral answers and the Barometer is the difference between positive and negative replies, this evidence is coherent with the facts that the Climate Index has kept rising above 80 pts while the Barometer has been decreasing at the same time. Since the economy showed signs of sustained growth, SMEs shifted their answers from positive to neutral. Consequently, expectations for the overall situation in the Barometer are lower than current values. In addition, this trend will persist next semester if SMEs predict future conditions to be as good as the present ones. Nevertheless, this is not a sign of economic slowdown, yet it confirms that SMEs have stabilised on high levels of confidence towards the business environment they operate in.

Chart 7 – Answers to UEAPME SME Barometer



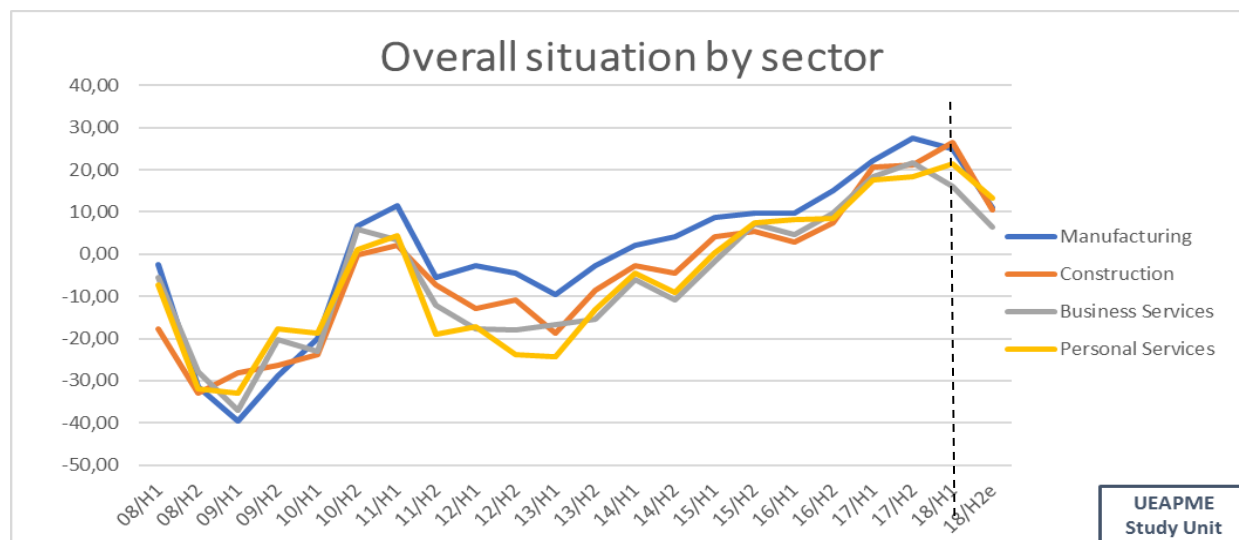
A final remark concerns answers during diverse phases of the economic cycle. Indeed, the graph in the previous page shows two peaks of negative responses during the main economic crisis of the last decade: first the financial crisis in 2009, then the Eurozone debt crisis. Since then, negative replies have progressively declined. Consistently, positive answers present minima during the previously mentioned crises. Last but not least, the most recent data display similar circumstances to the ones from 2008/H1, when the percentage of neutral answers surpassed both positive and neutral ones. Indeed, the values of positive, neutral, and negative responses are very similar for these two periods, as shown by the graph in the previous pages. Consequently, it is remarkable how the SMEs’ economic outlook has recovered after exactly ten years of economic fluctuations: finally, responses resemble their pre-crisis levels.

Results by sectors: domestic demand drives economic growth

Looking at the EU Craft and SME Barometer by sectors, it emerges that the SMEs’ high levels of confidence in current and expected business situations are not equally shared. Indeed, construction and personal services present better results than manufacturing and business services, as illustrated in Graph 8. During the first half of 2018, the overall situation has decreased by 2.6 pts in the

manufacturing sector and by 5.5 pts in the business services, while the overall situation has improved by 3.2 pts in personal services and it has increased by 5.3 pts in construction.

Chart 8 – Overall situation by sector



The underlying reason for this trend is that manufacturing and business services are sectors that depend more on external demand than construction and personal services. Thus, part of their earnings derives from exports to countries outside the EU. As a result, the first group is more affected by economic and political instability, rather than the second one. Considering current global economic situation, threats of duties and large-scale uncertainties may influence current economic outlook and future expectations of SMEs that operate in sectors that mostly rely on cross-border activities.

Encouraging results for every size class

Once the main results have been analysed for all SMEs, it is noteworthy to assess whether there are differences at a size level. Generally speaking, results by size classes are coherent with the aggregated ones: despite the fact that the Barometer has somewhat decreased, all three classes have had better overall performances than expected, as table 2 displays. Moreover, turnover and investments present positive deltas between actual values and the anticipated ones. In contrast, expectations about future prices and orders were too high last semester, as already seen for all SMEs. Specifically, medium-sized enterprises most performed better than anticipated. A possible interpretation is that the fears of negative impacts from political tensions and trade conflicts have not materialised yet.

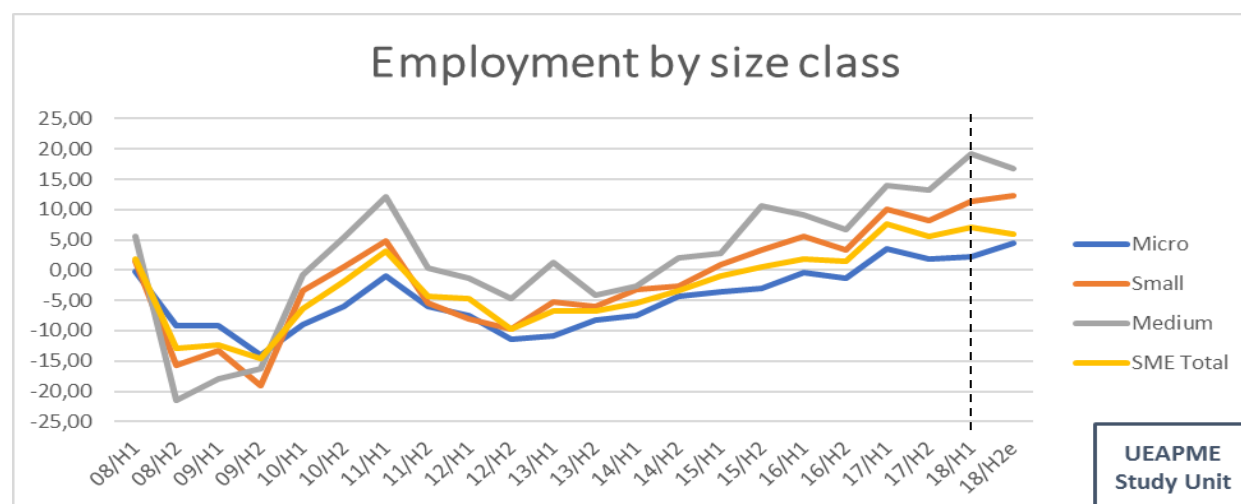
Table 2 – Difference between actual results and expectations according to size classes (18H1-18H1e)

	All SMEs	Micro Enterprises	Small Enterprises	Medium Enterprises
Overall	3,8	5,7	4,0	5,2
Turnover	2,2	2,3	1,2	4,6
Employment	0,3	-1,6	3,5	7,2
Prices	-6,2	-7,0	-7,0	-3,8
Investments	1,5	1,7	1,4	7,2
Orders	-11,9	-11,9	-12,4	-6,3

Focussing on employment, instead, SMEs are usually prudent in hiring new workers. Nevertheless, in the first half of 2018, results on employment have been higher than prefigured with the exception of micro-enterprises. Moreover, balances on occupations have increased in all size classes in 2018/H1, compared to the second semester of 2017, as illustrated in chart 9. Furthermore, this graph shows that expectations about employment for 2018/H2 are increasing for micro- and small enterprises, whereas they are decreasing for medium-sized ones. These findings can be reconciled with results by sector, which are outlined in the previous section. Indeed, expectations on employment are increasing in size classes that are typically active in construction and personal services, thus sectors with upward predictions on future overall situation, driven by a high internal demand. In contrast, medium-sized enterprises are particularly present in sectors that rely on external demand, such as manufacturing. As the overall situation is expected to slow down in those sectors, expectations about employment are declining in this size class.

As a matter of fact, positive trends in employment imply that SMEs have been assertive enough about their business settings to engage additional workforce. This is further evidence supporting an economically solid climate in the EU.

Chart 9 – Employment by size class



In conclusion, expectations regarding the second half of 2018 confirm that medium-sized enterprises are still more confident about their businesses than the other two categories. Once again, even though micro, small, and medium-sized enterprises estimate a decrease in their future overall situation, this should not be interpreted as a sign of economic slowdown, but as a signal of stability at high levels.

Conclusions and recommendations

The first semester of 2018 provided further improvements to the European economic situation and generated expectations of stability for the future. Domestic demand still represents the main engine for growth in Europe, while a steady GDP growth rate and a decreasing unemployment rate contribute to strengthening the ongoing economic recovery.

This positive scenario is well reflected by the Climate Index, which has smoothly risen and is now at its highest level recorded since 2007. High levels of confidence have been attained more in the North than in the South of Europe; indeed, recent political instability in the economies of Italy and Spain have contributed to widen the persistent gap between the two areas. Meanwhile, the Non-Eurozone is catching up with the Eurozone, while there is still a remarkable gap between the Brexit group and the Eurozone. In fact, this divergence is maintained by the atmosphere of political and economic uncertainty that characterises the ongoing negotiations between the UK and the EU.

The results from the first half of 2018 confirm economic stability at high level for SMEs. Although the overall situation has smoothly declined compared to the previous semester, the results are better than expected. Concerning expectations for next semester, SMEs show cautious prospects for the second half of 2018, in line with last semester's subdued estimates for most criteria. In conclusion, it is noteworthy that the Climate Index has been stable while the overall situation has decreased, since the share of neutral replies has been increasing, while the percentage of positive ones has been declining. These findings suggest that SMEs have stabilised on high levels of economic performance and they feel confident towards the business they operate in.

However, progress is not evenly shared among sectors: the industries that rely on domestic demand perform better than those operating internationally. The latter, indeed, suffers from economic and political instability at the European and global level.

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

- Focussing the next generation of European programmes on improving growth and competitiveness of Europe's economy.
- Reducing political and economic uncertainty caused by Brexit by aiming for legal and regulatory clarity.
- Increasing efforts to reduce the withstanding gap between North and South of Europe by taking full advantage of the European Semester to coordinate structural reforms.
- Investing in skill training in order to provide the job market with a qualified workforce and consequently encourage employment.
- Allowing SMEs to fully benefit from the advantages brought by innovation and helping them move effectively towards digitalisation and greening.

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 2018 and September 2018, 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 second semester of 2018 (18/H1) as well as the expectations for the first half of 2018 (18/H2e).

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 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, UEAPME 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 have not 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.

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Results – European Crafts and SME Barometer – 18/H1

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium Enterprises			
	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e
Overall	23,6	18,1	21,9	11,3	16,1	11,8	17,5	8,0	28,0	20,9	24,9	12,7	31,7	27,5	32,7	17,6
Turnover	12,6	12,0	14,2	15,1	7,8	8,0	10,3	11,4	18,6	13,7	14,9	16,8	24,2	19,2	23,7	24,0
Employment	5,6	6,7	7,0	5,9	1,8	3,8	2,2	4,5	8,3	7,9	11,4	12,2	13,3	12,0	19,2	16,7
Prices	6,5	17,2	11,0	13,0	5,8	16,1	9,1	13,4	6,8	18,4	11,4	13,0	9,5	18,2	14,5	15,9
Investments	3,6	4,2	5,7	1,7	-1,3	-0,6	1,1	-1,3	7,6	7,4	8,9	5,2	15,6	11,1	18,3	17,9
Orders	7,0	18,4	6,5	17,0	1,2	14,5	2,6	13,3	13,4	22,0	9,5	20,9	13,1	23,0	16,6	26,7

	Manufacturing				Construction				Business Services				Personal Services			
	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e	17H2	18H1e	18H1	18H2e
Overall	27,6	22,9	25,0	11,0	21,0	12,9	26,4	10,5	21,5	14,5	16,0	6,7	18,3	14,2	21,5	13,3
Turnover	18,6	19,0	16,7	19,3	7,0	4,3	13,5	10,6	13,8	10,1	11,2	9,3	13,1	11,3	13,3	13,2
Employment	8,4	10,0	10,6	10,6	-0,1	4,3	5,4	6,5	7,7	8,7	5,4	7,5	4,3	5,2	4,4	6,0
Prices	8,1	20,2	11,7	14,9	6,0	16,0	11,2	13,2	6,6	16,2	10,3	11,6	9,0	17,8	9,7	14,0
Investments	8,7	8,8	8,7	9,9	0,3	3,7	2,1	2,4	6,8	7,8	7,9	2,3	4,6	2,6	4,0	0,4
Orders	13,7	24,2	11,2	21,7	2,8	15,2	7,6	14,9	8,7	18,3	7,7	12,5	7,9	18,7	5,7	15,3

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

	All SMEs		Micro Enterprises		Small Enterprises		Medium Enterprises	
	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e
Overall	3,5	3,8	-1,2	5,7	4,7	4,0	5,7	5,2
Turnover	-2,8	2,2	-4,8	2,3	2,3	1,2	-0,1	4,6
Employment	-2,6	0,3	-3,4	-1,6	-0,9	3,5	-2,0	7,2
Prices	-4,0	-6,2	-3,9	-7,0	-3,5	-7,0	-3,6	-3,8
Investments	-0,6	1,5	-0,4	1,7	1,0	1,4	1,5	7,2
Orders	-11,3	-11,9	-13,6	-11,9	-6,5	-12,4	-11,7	-6,3

	Manufacturing		Construction		Business Services		Personal Services	
	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e	17H2-17H2e	18H1-18H1e
Overall	3,4	2,1	-4,2	13,5	4,9	1,6	4,3	7,3
Turnover	-3,5	-2,2	-9,2	9,2	1,6	1,0	4,9	2,0
Employment	-2,5	0,6	-9,3	1,1	-1,4	-3,3	-1,7	-0,8
Prices	-5,6	-8,5	-6,7	-4,8	-2,1	-5,9	2,3	-8,1
Investments	-2,4	-0,2	1,5	-1,6	0,4	0,1	1,0	1,4
Orders	-12,9	-13,1	-14,0	-7,6	-6,9	-10,5	-5,5	-13,0

Results – European Crafts and SME Barometer – 18/H2

