

**AUTUMN  
2020**

**The EU Craft  
and SME  
Barometer**

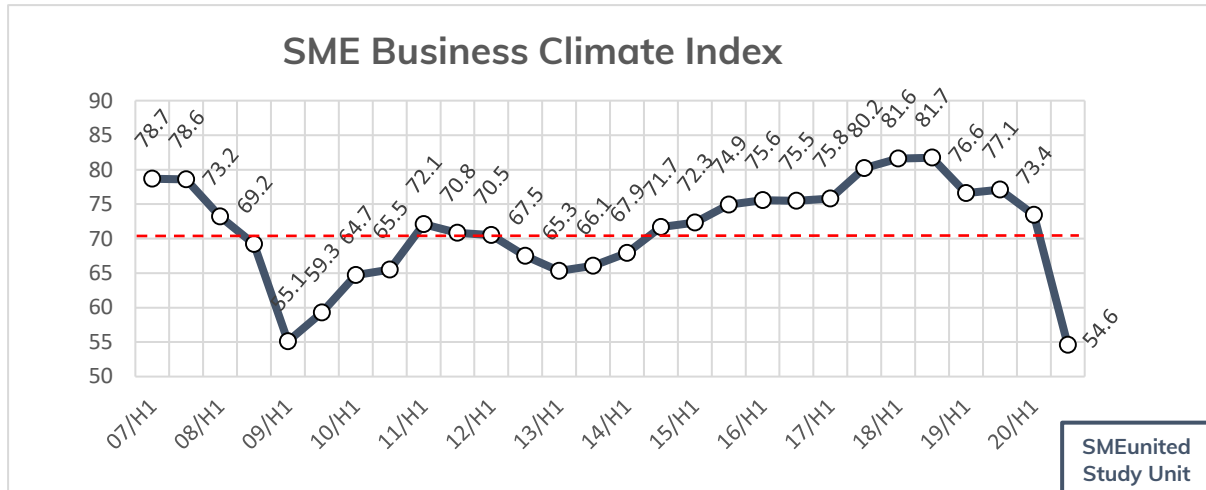


# SME Climate Index falls to 54.6

## SMEs' confidence registers an unprecedented drop

European SMEs confidence is at the lowest score ever documented (54.6), showing a decrease of 18.8 points from the previous period (73.4). This strongly negative result presented in the **SMEUnited Business Climate Index** is clearly due to the **effects of the COVID-19 crisis** on European economy. It is even 0.5 points below the historic low of the financial crisis in 2009.

Chart 1 – SMEUnited 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)

While the pandemic harmfully impacted the whole European Union, countries experienced differences in the magnitude of the subsequent economic shock. Recent studies, such as the one conducted by economist André Sapi for Bruegel Think Tank, suggest that the quality of governance played a “significant role in explaining differences in economic losses in different EU countries” as a result of the pandemic. Also factors including the strictness of lockdown measures and the extent to which tourism makes up the economy have an impact.<sup>1</sup>

Countries such as Germany seemed to have been in the position to limit their lockdown measures thanks to their possibility to rely on their healthcare systems, as well as on their economic power for support measures. On the other hand, countries such as Spain, Italy and France where forced to introduce extremely restricting measures given the tragic impact of the crisis on the health system, therefore worsening the level of the economic performance.

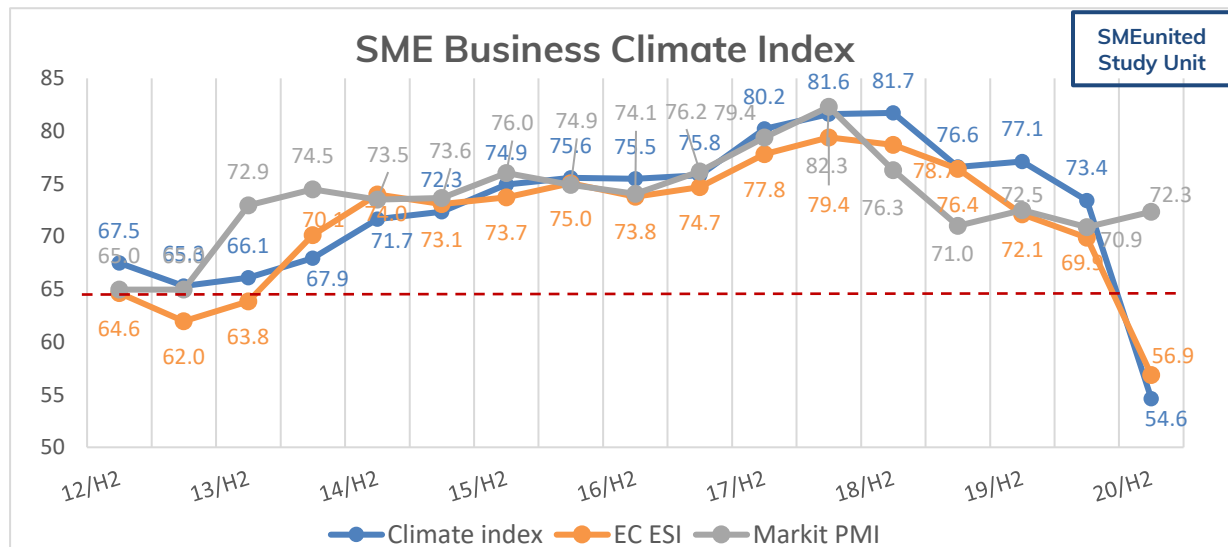
It is important to underline that the figures of this version of the Barometer **reflect the most dramatic impact of the COVID-19 pandemic**, as the data were collected between May and September, which refers to the period that included the most troubling phases of the sanitary crisis for the majority of the European countries. Moreover, data are collected in different periods by our member organisations, in accordance with their agendas.

<sup>1</sup> [https://www.bruegel.org/2020/09/why-has-covid-19-hit-different-european-union-economies-so-differently/?utm\\_source=POLITICO.EU&utm\\_campaign=b2a9f6dc05-EMAIL\\_CAMPAIGN\\_2020\\_09\\_25\\_05\\_13&utm\\_medium=email&utm\\_term=0\\_10959edeb5-b2a9f6dc05-189769729](https://www.bruegel.org/2020/09/why-has-covid-19-hit-different-european-union-economies-so-differently/?utm_source=POLITICO.EU&utm_campaign=b2a9f6dc05-EMAIL_CAMPAIGN_2020_09_25_05_13&utm_medium=email&utm_term=0_10959edeb5-b2a9f6dc05-189769729)

From our analysis it emerges that data collected in June or July reported negative answers for what concerned the past semester and more positive ones for the expectations for the next one. Whereas, organisations collecting SMEs data between August and September reported a relatively more optimistic situation for what concerns the past semester (influenced by the reopening period of July and August) and negative expectations for the next semester, which probably reflects the fear of a second wave.

Chart 2 compares the outcome of the SME Business Climate Index (BCI) to the European Commission's Economic Sentiment Indicator (EC ESI)<sup>2</sup> and the Purchasing Managers' Index (Markit PMI).<sup>3</sup>

Chart 2 – SMEUnited BCI, EC ESI and Markit PMI



Both the SME BCI and the EC ESI show clear signal of decrease in confidence in comparison to the last semester. On the other hand, the last value of the PMI Index shows a very positive result. This can be explained as it was calculated considering only June, July and August performances, not including the months in which lockdown was implemented in most EU countries.

Furthermore, for the first time since the second semester of 2014 (2014H2) the SME Business Climate Index is below the EC ESI (2.3 point difference). The explanation for this result may be found in the fact that SMEs might have suffered more due to the lockdown, impacting especially the personal services sector and small retailers.

<sup>2</sup> The EC's ESI measures five confidence indicators linked to different sectors. 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](http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm)

<sup>3</sup> 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.

Chart 3 – BCI for the “North and Centre”, “South and periphery”

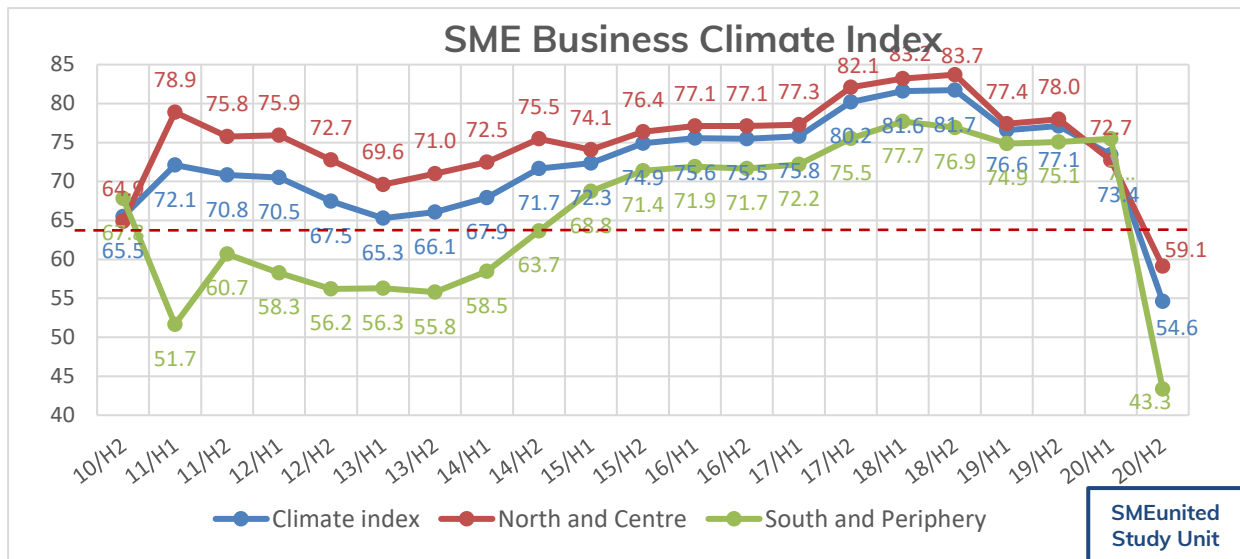


Chart 3 shows the SME Business Climate Index applied in the “North and Centre<sup>4</sup>” and in “South and periphery<sup>5</sup>”.

The result concerns the gap between North and South. After reaching the minimum since the start of the sovereign debt crisis in 2011, it inverts its trend, showing a significant increase in the difference between the Climate Index in Northern and Southern countries.

On the one hand, this outcome is caused by the strongly negative situation in some Southern countries such as Italy and Spain, which suffered more than others from the crisis. Additionally, countries like Greece or Croatia faced a significant slowdown in tourism, one of their major industries. Therefore, the Business Climate Index for the South and the Periphery falls from 75.5 (2020H1) to 43.3 points.

At the same time, also countries belonging to the North and Centre are experiencing a period of decline in their economies: the index drops from 72.7 (2020H1) to 59.1 points, losing more than 13 points in one semester. Here again countries such as Germany and the Netherlands played an important role in the containment of negatives results, counterbalancing the negative impact that the shock had in countries like France, Czech Republic or Austria.

<sup>4</sup>The “Northern and central group” includes Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia and Sweden.

<sup>5</sup> The “Southern and periphery group” includes Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain.

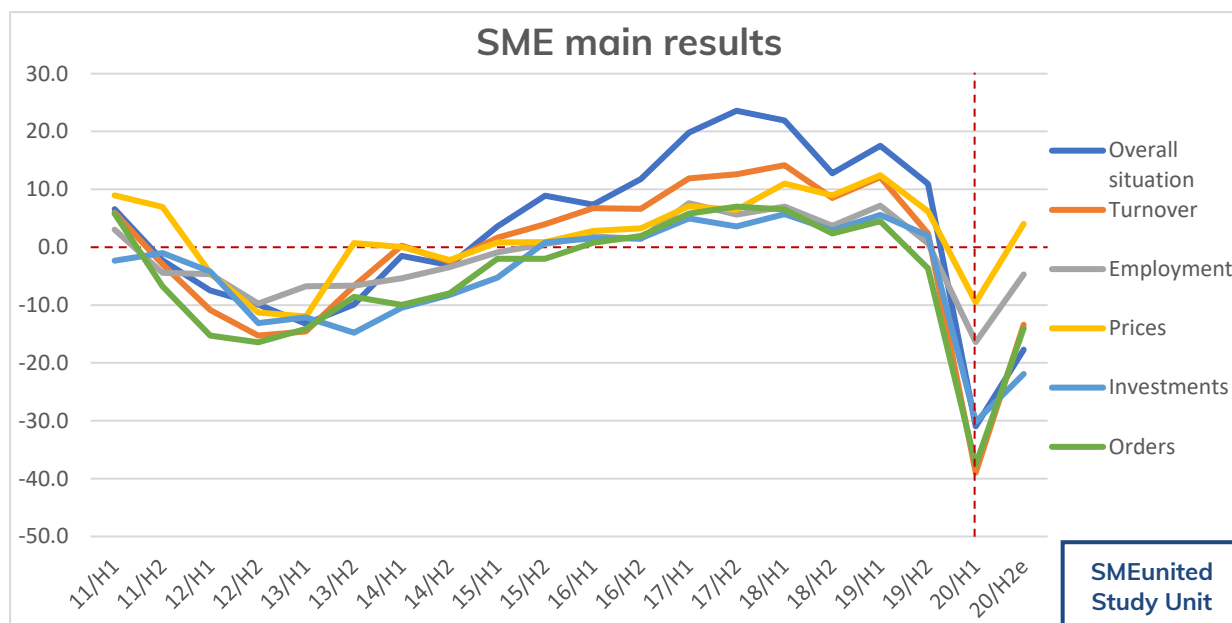
## Main results: European SMEs face a dramatic recession

The EU Craft and SME Barometer presents the balance between positive and negative judgements from SMEs for different business categories, class sizes and sectors.<sup>6</sup>

### Results for Spring 2020: SMEs performance falls

The results for the last semester show a strong negative balance followed by a slight rebound in the expectations for the next period.

Chart 4 – SMEUnited Barometer aggregated values for the six business categories



In particular, the overall situation value fell of 42.0 points (from 11.0 to -31.0), touching the lowest level since the financial crisis, while turnover lost 41.4 points registering a value of -39.0, establishing a new negative record.

Similarly, among the four remaining examined categories, three of them established their new lowest values: employment passes from 0.6 pts to -16.4, investments touch -30.2 pts. and orders drop to -37.6 pts. For what concerns employment, it is also important to remind that support schemes for employees were introduced by many governments. This influenced the results for this business category and helped to mitigate them.

Support measures may also have stabilised price developments, where the balance only dropped to the value of -9.5.

To sum up, in the last semester, SMEs are clearly reporting dramatic drops of their activities in each of the examined components. Both in absolute terms and in point difference from the previous period, the most critical results are registered in overall situation, turnover and orders.

<sup>6</sup> More information on the methodology can be found on page 13

## Main results for first half of 2020 far behind expectations

The comparison between results and expectations in Table 1 indicates that the crisis took over SMEs predictions for spring 2020. Of course it is impossible to forecast an event such as the pandemic and the subsequent crisis.

Table 1 – Expectations and actual results for 20/H1

	Expectations 20/H1	Results 20/H1	Δ (R-E) 20/H1
<b>Overall</b>	-4.7	-31.0	-26.3
<b>Turnover</b>	3.5	-39.0	-42.5
<b>Employment</b>	0.5	-16.4	-16.9
<b>Prices</b>	16.1	-9.5	-25.6
<b>Investments</b>	-3.6	-30.2	-26.6
<b>Orders</b>	-0.2	-37.6	-37.4

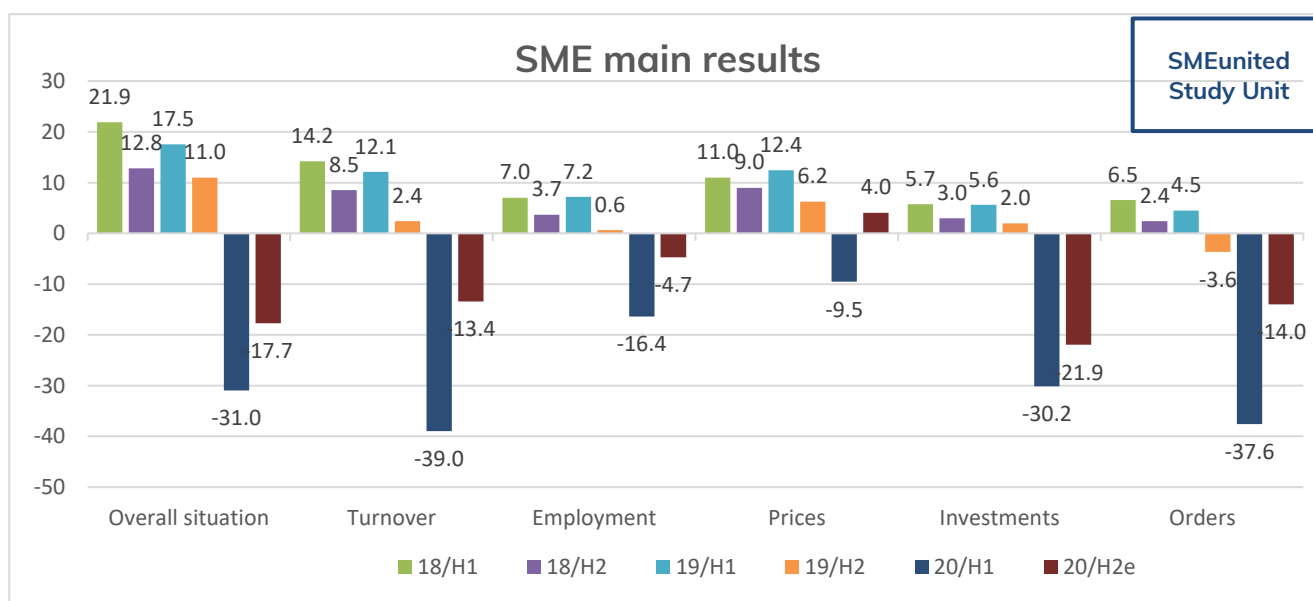
This table clearly shows the difference between pre-crisis expectations and the economic slowdown resulting from it. The table provides a clear demonstration of the massive and unforeseen consequences of COVID-19.

However, more interesting information will come out in the next semester, as it will show how much the expectations adjusted for the crisis will match the reality.

## Expectations for the current semester show signs of reprise

Chart 7 depicts a slight upward trend in the expectations, in opposition to the last semester downfall. However, only a part of the negative trend for the first semester is expected to be recovered. This means that the recovery in the SME sector will be on a slow path.

Chart 7 – SMEUnited Barometer aggregated values for the six business categories



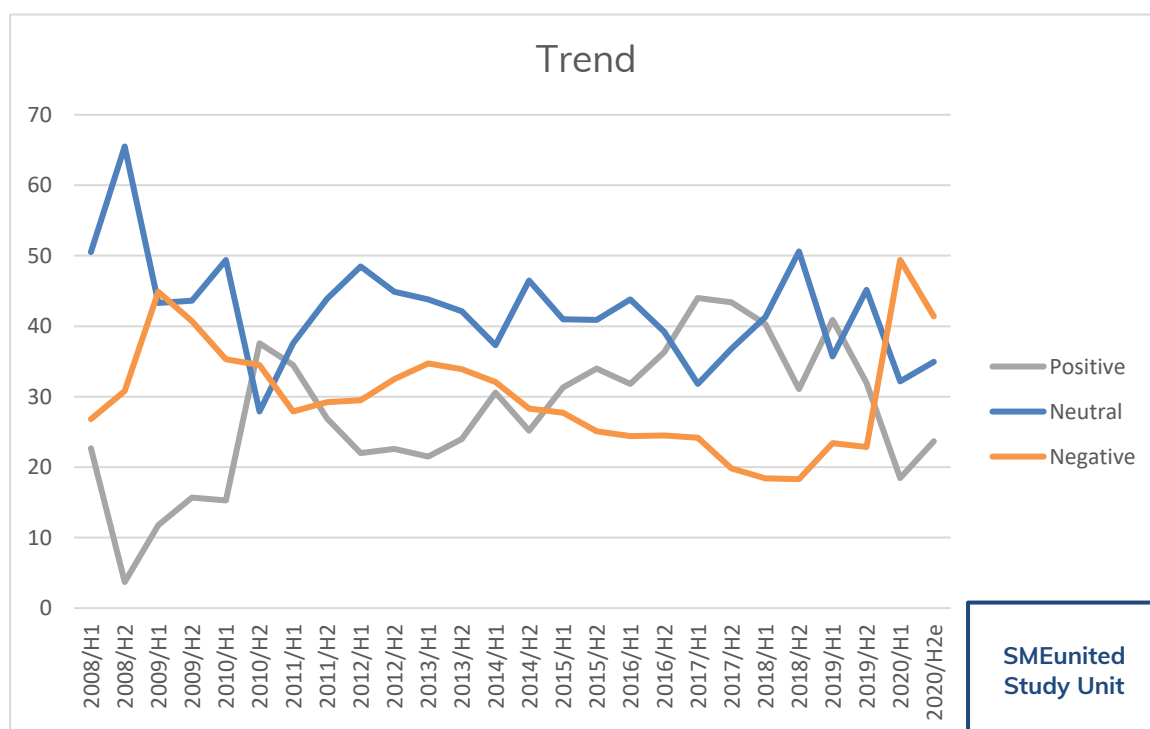
For the second semester of 2020, the balanced figure for the overall situation registers an improvement, passing from -31.0 pts to -17.7, even though it still is in negative ground. This is a trend which can be noted in the whole chart: both the pessimistic environment of the first semester and the light increase in the values for the expectations characterise every business category.

The only class for which expectation did not rebound a lot is investment. A reason for this could be that investment is generally really sensitive to the economic climate, and given the high level of uncertainty, SMEs would rather wait for the situation to offer more guarantees before committing to investments. Moreover, the liquidity shortages during the lockdown have a negative impact on the investment capacity of SMEs, currently even creating solvency issues. Furthermore, it must be noted that for example investments have historically been underestimated in terms of expectations, while prices are sometimes predicted upwards.

## Trend shows an increase in negative replies

Chart 8 reports the trends in the EU Craft and SMEs Barometer as regards the share of positive, neutral and negative answers and delivers further insights on the SMEs economic perspective for Autumn 2020.

Chart 8 – Answers to SMEUnited SME Barometer



In the first semester of 2020 (2020H1) the trend experienced a decline in neutral and positive values. The decrease in positive answers is a tendency which is going on since the first semester or 2019 (2019H1). Negative responses instead grew exponentially, continuing their path started in the second semester of 2018 (2018H2) and hitting a record of almost 50% (44.9% in the 2008 crisis).

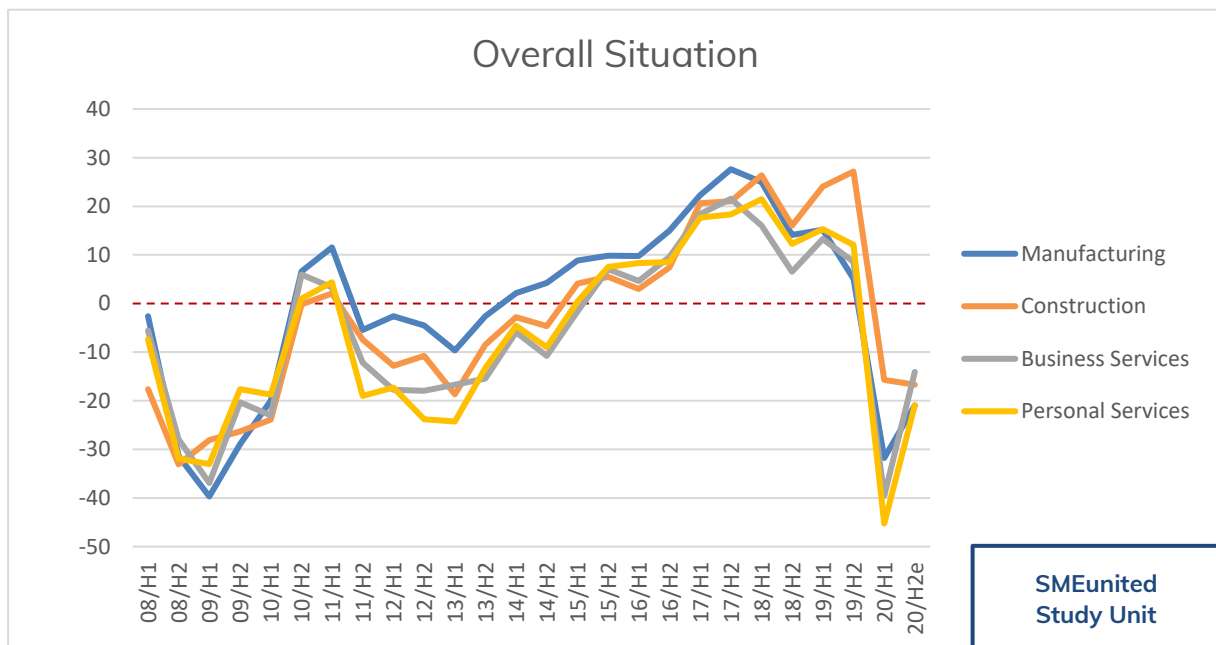
We usually interpret a high level of neutral answers as a sign of general uncertainty among SMEs. However, currently the rapid increase of the negative answers, shows SMEs are more pessimistic rather than uncertain. Moreover, only 20% of SMEs reported a positive situation. This is perfectly in line with the outcome of the research conducted by SMEUnited on the COVID-19 economic impact on SMEs in Europe<sup>7</sup>, where 80% of SMEs reported a loss in turnover.

Looking at the expectations for the second semester of 2020 (2020H2), we observe timid signs of recovery, as positive answers register a slight increase. This is in line with the previous analysis of the expectations, which sees a general improvement in the economic situation, even if it is far from going back to normal.

## Sectors development: construction sector least affected

As a final analysis, it is interesting to look at the performance of the sectors during the last period.

Chart 9 – Overall Situation by sector



These charts show how the construction sector experienced a more mitigated fall during the last period compared to the other sectors, both in terms of overall situation and turnover.

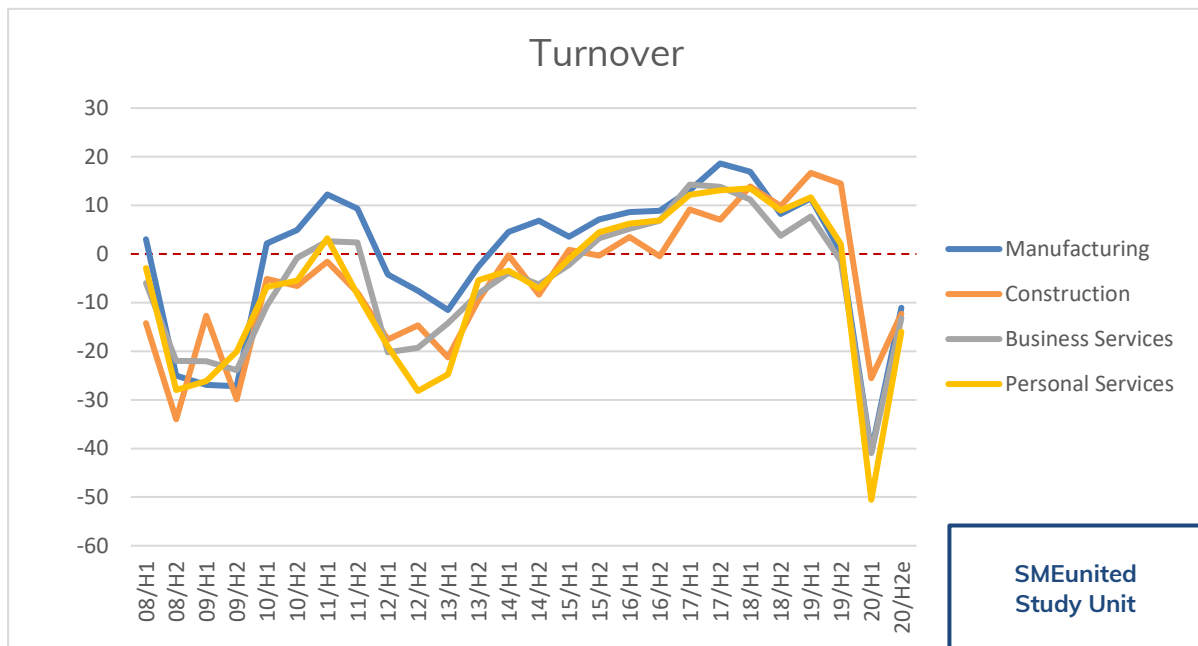
At the same time, a rebound is expected as shown by the expectations for the second semester of 2020 (2020H2), even if it is limited in comparison with other business categories.

Construction sector might suffer less from the economic crisis following the big changes brought on by COVID-19. Indeed, after a decrease in turnover and orders in the lockdown period, interesting possibilities opened up for the sector, especially concerning the housing market.

<sup>7</sup> <https://smeunited.eu/publications/the-economic-impact-of-covid-19-on-smes-in-europe>



Chart 10 – Turnover by sector



Due to the lockdowns, the role of houses started to change dramatically. Being forced to spend much more time at home led to a rethinking process of spaces and comfortableness. Construction SMEs are mainly active in the private housing sector and can benefit most from the increased demands in larger, greener and more comfortable housing.

Finally, this crisis characterised by a strong decline in supply and demand has hit those sectors most, which have been directly affected by the lockdown. This is the personal services sector including hospitality, small retailers and the cosmetic sector.

## Conclusions and recommendations

In the past semester SMEs were strongly impacted by the COVID-19 crisis, which led to many negative records in terms of economic consequences. Despite slightly better expectations were registered, SMEs' performance is still forecasted to be in negative territory at least for the current semester. This result is strongly linked to the impossibility to foresee the end of the sanitary crisis. Fear of possible new waves and consequent restrictive measures are impacting the demand side, affecting SMEs activities and expectations.

The SMEUnited Business Climate Index showed a dramatic drop over the last semester, establishing the lowest score ever. At the same time, differences are present in the way in which SMEs were affected by the crisis, depending on the country in which they operate. Northern countries have partially succeeded in limiting the effects of the crisis. In the southern and peripheric area we note a worse impact of the crisis on SMEs activities. This is translated in an increase in the gap between the SMEs Business Climate Index in northern and southern areas, which before this semester showed an encouraging path, suggesting a certain degree of convergence.

Focusing on sectors, the most severe effects of the crisis were experienced in personal services which, according to the result of the Barometer, reported the biggest drops in overall situation, turnover and orders. Business services and manufacturing sectors followed a similar negative path, being influenced by the general slowdown of the economy. On the other hand, construction sector seemed to resist better than other industries, though its impact is still in the negative sphere.

In order to allow SMEs to overcome the crisis, to restart investing and job creation and to master the twin transition, policies at European and national level should:

- put reforms aiming to increase the growth potential and the resilience of the economy at the focus of recovery programs;
- continue with COVID support measures where needed and justified;
- avoid insolvencies of viable companies by providing equity / re-capitalisation support measures;
- intensify qualification and skilling measures, especially for unemployed or workers in short-term work programs;
- support innovation and the transition to a digital and greener economy;
- promote fairness and level playing field.

## 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 June 2020 and September 2020, 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). These 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**. 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 weighted with employment figures.

This Barometer presents the results (experiences) for the first semester of 2020 as well as the expectations for the second half of 2020.

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**, 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 fact 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.

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## Results – European Crafts and SME Barometer – Spring 2020

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e
Overall	11.0	-4.7	-31.0	-17.7	8.5	-5.5	-33.5	-19.0	13.7	-0.9	-27.9	-18.0	13.7	-9.9	-27.9	-17.9
Turnover	2.4	3.5	-39.0	-13.4	-0.5	3.9	-40.9	-15.9	4.3	3.6	-37.8	-13.6	7.7	10.9	-36.4	-11.0
Employment	0.6	0.5	-16.4	-4.7	-0.5	0.7	-14.7	-5.1	2.1	1.8	-17.3	-7.2	3.5	0.5	-18.5	-7.9
Prices	6.2	16.1	-9.5	4.0	5.6	16.3	-8.7	-0.6	7.6	17.5	-10.1	-2.3	7.5	20.7	-10.3	-1.6
Investments	2.0	-3.6	-30.2	-21.9	-1.5	-4.4	-30.4	-25.2	5.3	-2.1	-30.5	-25.0	12.2	2.8	-27.5	-21.9
Orders	-3.6	-0.2	-37.6	-14.0	-4.6	-1.6	-37.9	-16.4	-1.4	0.7	-37.3	-15.1	0.5	6.3	-38.6	-13.3

	Manufacturing				Construction				Business Services				Personal Services			
	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e	19H2	20H1e	20H1	20H2e
Overall	5.1	-6.3	-31.8	-21.0	27.1	1.9	-15.7	-16.7	8.6	0.4	-39.5	-14.0	12.0	2.6	-45.2	-20.9
Turnover	0.4	2.2	-40.7	-13.1	14.5	13.2	-25.6	-12.3	-1.5	0.3	-41.0	-13.3	2.0	1.9	-50.6	-16.0
Employment	0.0	1.1	-19.8	-7.6	6.9	5.0	-9.0	-1.7	2.6	1.8	-17.0	-5.5	0.4	2.8	-18.2	-6.9
Prices	3.7	15.2	-13.9	-2.9	18.0	25.8	-4.9	2.1	4.5	12.8	-8.9	-2.0	7.6	15.3	-8.5	0.2
Investments	4.5	-5.4	-34.3	-23.2	8.4	2.2	-25.0	-19.9	2.3	-3.6	-29.0	-19.1	0.9	-2.3	-34.5	-28.1
Orders	-1.3	-0.8	-36.4	-12.8	1.3	4.8	-22.2	-16.5	-3.0	-2.4	-33.4	-13.2	-0.9	0.6	-48.8	-13.1

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

	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e
Overall	7.5	-26.3	5.2	-28.0	8.8	-27.0	22.9	-18.0
Turnover	-6.2	-42.5	-6.0	-44.8	-7.1	-41.4	7.0	-47.3
Employment	-6.2	-16.9	-3.9	-15.4	-6.3	-19.1	2.9	-19.0
Prices	-2.3	-25.6	-3.2	-25.0	-2.2	-27.6	-3.4	-31.1
Investments	1.0	-26.6	-0.5	-25.9	1.7	-28.4	1.7	-30.2
Orders	-10.0	-37.4	-7.6	-36.3	-9.7	-38.1	1.0	-44.9

	Manufacturing		Construction		Business Services		Personal Services	
	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e	19H2- 19H2e	20H1- 20H1e
Overall	1.3	-25.5	16.7	-17.6	13.7	6.1	16.1	10.2
Turnover	-9.7	-42.9	-1.2	-38.8	2.2	-8.6	7.2	-6.1
Employment	-8.9	-20.9	-0.8	-14.0	0.6	-4.5	-0.6	-4.8
Prices	-4.9	-29.2	4.6	-30.8	-4.8	-5.0	-0.6	-3.5
Investments	0.9	-28.9	3.9	-27.1	2.7	1.7	6.2	0.8
Orders	-6.5	-35.6	-6.8	-27.0	1.9	-7.0	2.8	-7.5

## Results – European Crafts and SME Barometer – Spring 2020

