

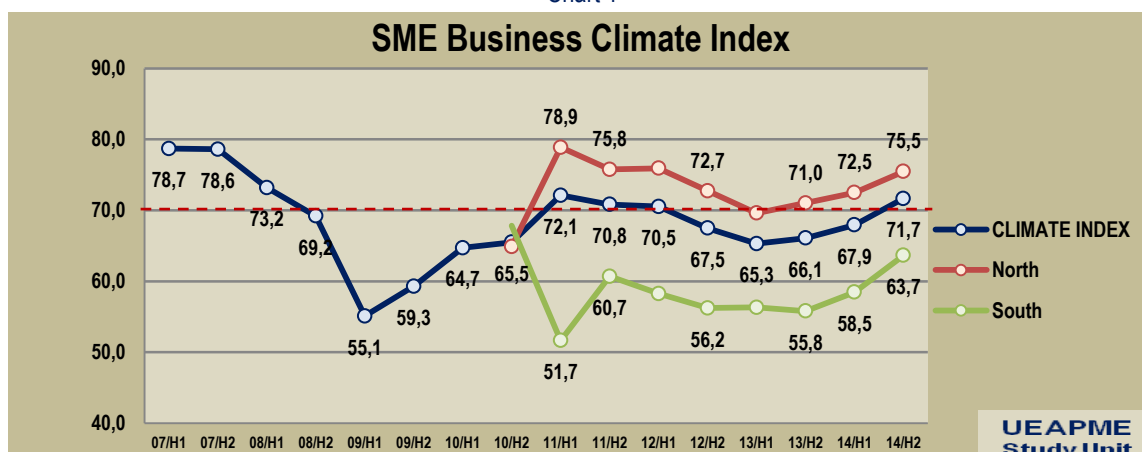
The EU Craft and SME Barometer 2014/H2

SME Climate Index up to 71.7: optimism that the worst is behind

Europe's crafts and SMEs are growing again, but not enough to create more jobs

The **UEAPME SME Business Climate Index** (shown by the blue line in Chart 1) has climbed almost four (3.8) percentage points (pp) since last semester. This indicates that Crafts and SMEs in the European Union are, on average, seeing the beginnings of a recovery. As the graph indicates, this is the first time since 2012 that the index has risen above 70, which is the neutral level. Passing this point means that Crafts and SMEs in Europe have started to grow again and are more optimistic about the future than they were 6 month ago. However, most of the data were collected before the summer break and, therefore, do not fully include that latest political developments related to sanctions against Russia and the conflicts in the Middle East. This means the more positive outlooks are connected to some serious downward risks.

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 the South and Periphery¹ and of the North and Centre² of the EU demonstrates that this positive change has occurred across the continent, not just in one region. The index for the South is up to 63.7 (+5.2, green line), and it is up to 75.5 for the North (+3.0, red line). Given these improvements, we can expect moderate growth in the North (as it is more than 5 points clear of the neutral 70 line), and we can expect the situation in the South/Periphery, generally, to become less negative. The index for the South/Periphery is still well below neutral 70 but moving closer to 70. The gap between North and South is narrowing and, now at 11.8 percentage points, is at its lowest level in four years.

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

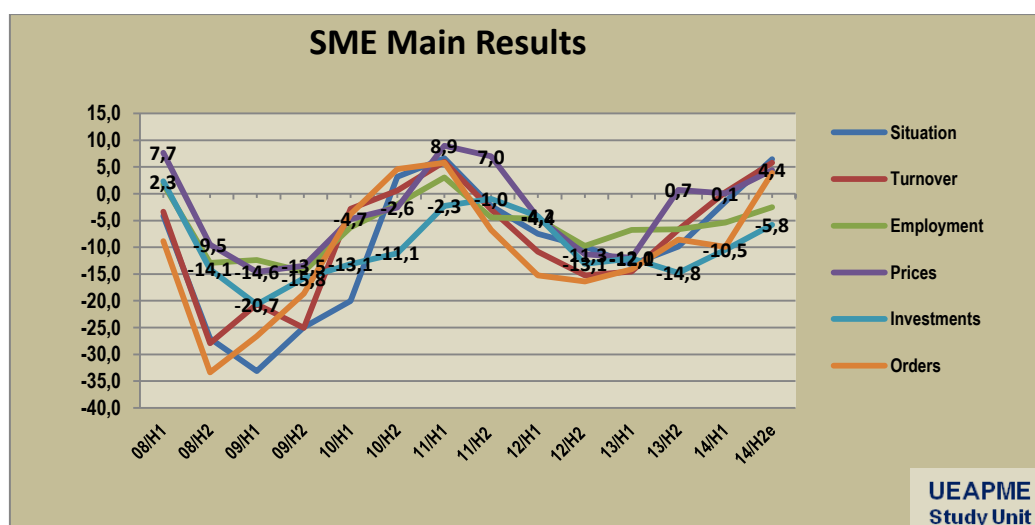
² Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK

Main Result: First Signs of Growth for SMEs

There are four central points that can be drawn from the data collected for the 14/H2 SME Barometer. They are the following:

- The first semester of 2014 was much better than the second semester of 2013. Five of the six criteria either saw positive change.
- The results for the first semester of 2014 exceeded the expectations set for it six months ago. Four of six criteria ended up better than expected, with the overall situation and turnover for SMEs exceeding expectations by 6.3 and 7.1 percentage points, respectively.
- Given the better-than-expected results for 14/H1, high expectations have been set for 14/H2. SMEs expect *every single criterion* to improve, meaning that overall situation, turnover, prices, investments, orders and employment should be better this semester than they were last semester.
- Investment and employment are still negative and lagging behind stronger performances in turnover and overall situation, and this fact, along with downward political risks (situation with Russia, turbulence in the Middle East), gives reason for concern. Investment in particular must be bolstered to allow for small businesses to continue growing. See the main results for SMEs in Chart 2, below.

Chart 2



In addition to these central points, also of note are the following concerning size classes and sectors: that disparities between different size classes of businesses are shrinking; and that the same is occurring in the different sectors, led by a strong performance in manufacturing and a surprising turnaround in construction.

The EU Craft and SME Barometer 2014/H2 can be found at:
www.ueapme.com/IMG/pdf/141010_Barometer_2014H2_final.pdf