

The EU Craft and SME Barometer 2012/H2

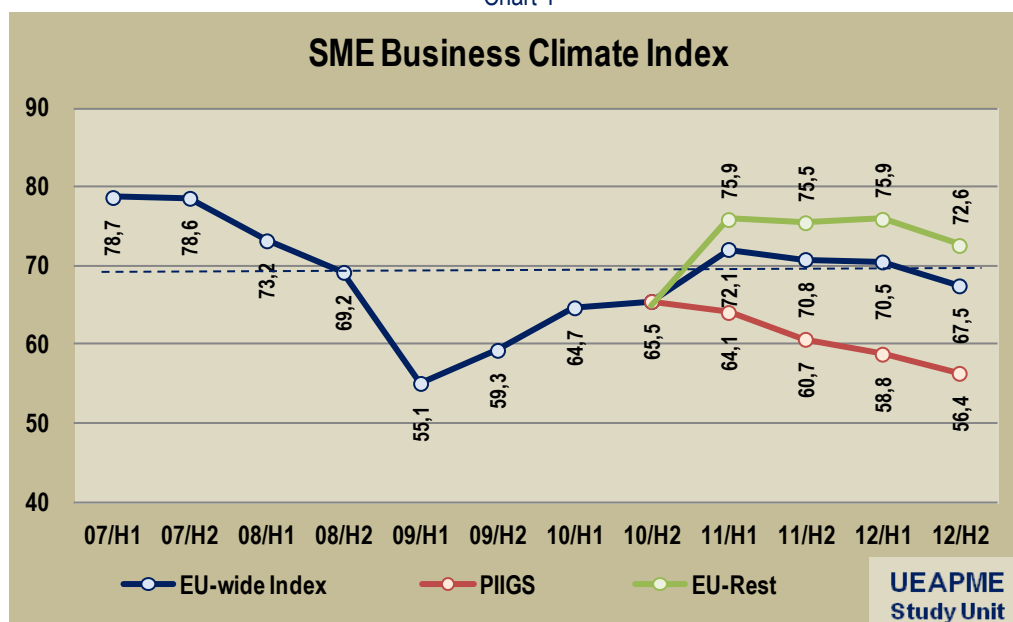
The EU in recession: SME Climate Index down to 67.5

Austerity policy and consolidation measures hit EU SMEs hardest

The **UEAPME SME Business Climate Index** (shown by the blue line in Chart 1) keeps following a downward trend, as it declined for the third consecutive semester, this time massively by 3 percentage points (pp).

The results of the business situation for the first semester 2012 and the expectations for the second half of the year reported by European small and medium-sized enterprises decreased from 70.5 to 67.5. For the first time in two years (since 10/H2) the Climate Index fell below the psychological threshold represented by the 70 points barrier, which can be considered as the indicator of a neutral business climate.

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).

European SMEs moved from a climate of relatively high uncertainty in the previous semester, when we recorded the highest number of companies reporting neutral results, to the actual pessimistic outlook, as a consequence of the increase in the number of SMEs facing a deteriorated business situation. This means that in fact the recession for the EU, which we had already foreseen in October 2011¹, has materialised during the first half of 2012.

¹ See UEAPME press release of October 11 2011: http://www.ueapme.com/IMG/pdf/111011_pr_SME_survey.pdf

Table 1: trend in the gap of confidence between PIIGS and the rest of the EU 2010-2012

| | Confidence PIIGS | Confidence EU-Rest | Gap |
|-------|------------------|--------------------|------|
| 11/H1 | 64.1 | 75.9 | 11.8 |
| 11/H2 | 60.7 | 75.5 | 14.8 |
| 12/H1 | 58.8 | 75.9 | 17.1 |
| 12/H2 | 56.4 | 72.6 | 16.2 |

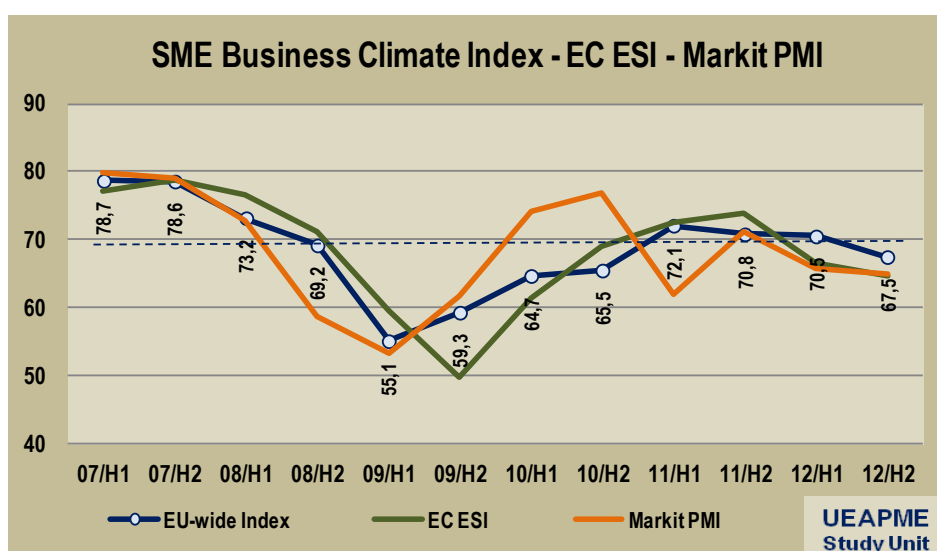
Table 2: gap of confidence between the Eurozone and the rest of the EU

| | Confidence Eurozone | Confidence EU-Rest | Gap |
|------|---------------------|--------------------|-----|
| 12H2 | 66.0 | 70.6 | 4.6 |

The imbalances within the EU are still strong: although slightly lowered by 0.9 pp to 16.2 pp, the gap between the confidence of Portugal, Ireland, Italy, Greece and Spain (red line in Chart 1) and the one of the rest of the EU (green line) is still very remarkable, especially considering that the confidence of PIIGS has kept declining over time and it is now far below the neutral indicator. It is also interesting to observe that the confidence of SMEs in the 17 countries of the Eurozone is, at 66.0, 4.6 pp below the level of the other EU countries, which stand above the neutral business climate with a 70.6 value.

Chart 2 presents a comparison between the trends of UEAPME SME Business Climate Index (shown by the blue line) and two other well-known indicators: the *Economic Sentiment Indicator (ESI)*² elaborated by the European Commission (green line) and the *Purchasing Managers' Index (PMI)*³ developed by Markit (orange line). While the ESI shows a trend somehow comparable to the SME Business Climate Index, the PMI Index, which is linked to purchasing managers' orders and the inventory cycles, sometimes shows a more volatile pattern.

Chart 2



² 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 ESI values have been re-scaled to make them 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

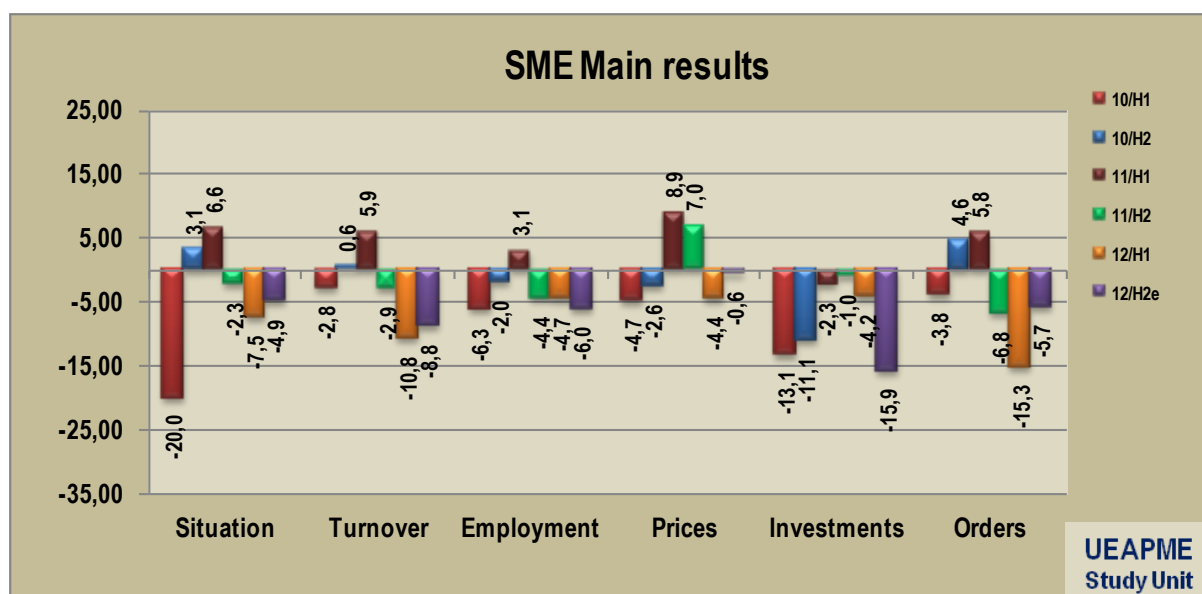
³ The Markit Composite PMI measures new orders of large firms in manufacturing and services. The PMI values have been re-scaled to make them comparable with the UEAPME SME Business Climate Index, with 70 as the long-term average/neutral value.

Main Results of the EU Craft and SME Barometer 2012/H2

European SMEs experienced a decline of all the economic indicators in the first semester of 2012 (Chart 3). The balances between positive and negative answers showed double-digits negative figures for turnover (-10.8) and orders (-15.3). The overall situation (-7.5) and all output related indicators (turnover, employment and orders) are negative for the second consecutive semester.

Prices turned negative (-4.4) as an effect of the downward pressure on sale prices suffered by SMEs, which were forced to lower them in order to stay in the market.

Chart 3 – balance +/-



However, SMEs foresee some improvements for the second half of 2012, as shown by the expectation for overall situation, turnover and orders. Employment, on the contrary, is expected to be further decreasing (-6.0), as it usually lags in time behind other economic indicators.

The expectations for employment and investments (-15.9) show how much the European business climate for SMEs remains uncertain. Entrepreneurs are not keen to hire new personnel or to make new investments until a more stable economic framework is re-established.

An additional factor for the low investment expectations is the instability of the financial and banking sector, especially in some Eurozone countries, which leads to tight lending conditions and makes investment even less attractive to private businesses and to SMEs in particular.

The downward trend largely anticipated by SMEs

The sentiments of European SMEs as shown by the expectations collected in the second semester of 2011 and published in the Barometer 2012/H1 were to a large extent realised in the first half of 2012.

The results of EU SMEs have been, in fact, in line with the expectations for the majority of the indicators (see Table 3).

Table 3: balance between expectations and final results for 12H1

| | Expectations – 12H1e | Results – 12H1 | Balance (12H1 – 12H1e) |
|-------------------|----------------------|----------------|------------------------|
| Overall situation | -7.3 | -7.5 | -0.2 |
| Turnover | -11.6 | -10.8 | +0.8 |
| Employment | -7.4 | -4.7 | +2.7 |
| Prices | +8.9 | -4.4 | -13.3 |
| Investments | -22.7 | -4.2 | +18.5 |
| Orders | -13.0 | -15.3 | -2.3 |

The values of the difference between the expectations and results for overall situation (-0.2) and turnover (+0.8) are less than 1 pp, and also the more negative outcome for orders (-2.3) is quite close to the original expectations.

The behaviour of employment (+2.7), and especially prices (-13.3) and investments (+18.5), while showing higher amplitudes, is nonetheless following a rather standard pattern. Employment, first of all, is slower to adapt to the markets' framework given the rigidities of the labour market. Furthermore, SMEs, especially micro and small enterprises, are very reluctant to dismiss redundant workers for two reasons: firstly, it can be hard for them to find qualified personnel again in case of a recovery in the demand; secondly, for very small companies it is almost impossible to reduce personnel without affecting the company's regular functioning.

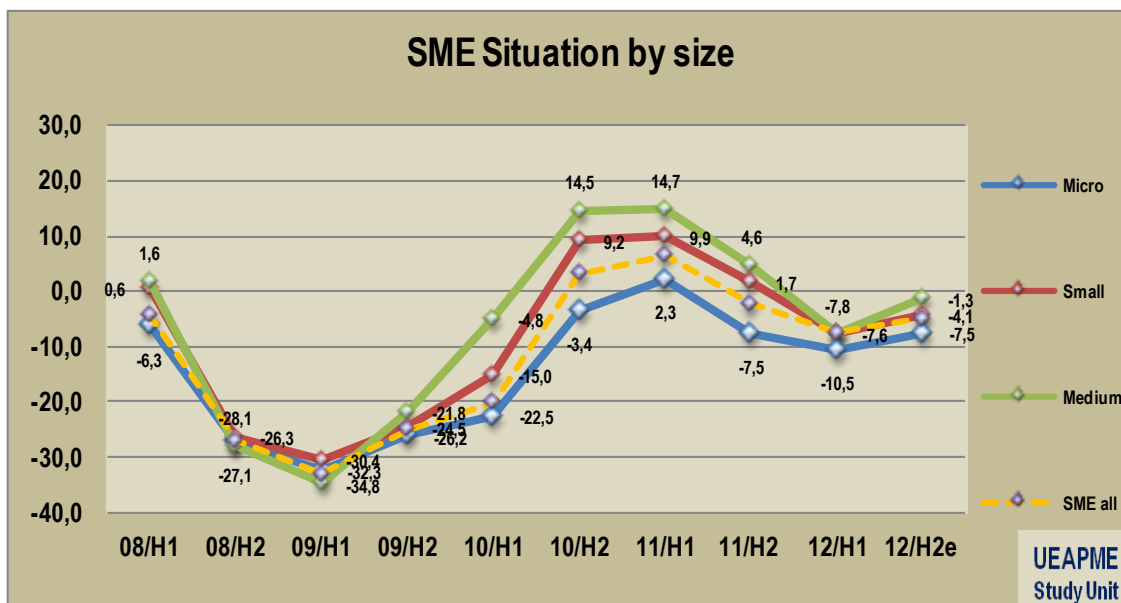
The result of prices, on the other hand, is significantly lower than expected. It seems that SME did not envisage how much the stagnating private demand would have exerted a downward pressure on sale prices. The positive balance between expected and realised investments is common to the previous editions of the Barometer, and is following the "adaptive behaviour" of SMEs. SME entrepreneurs usually associate their planned investments with an increase of the production capacity, which is hardly foreseeable in times of uncertainty and low growth, but very often they face the need to invest to keep their capacity at the same level or to fulfil new orders.

Differences in size classes: will medium-sized enterprises lead the recovery?

The overall situation worsened for all size classes in the first half of 2012 (Chart 4). Small (-7.6) and medium-sized (-7.8) companies show very similar results; as for the second semester of 2011, micro enterprises (-10.5) are still the most suffering.

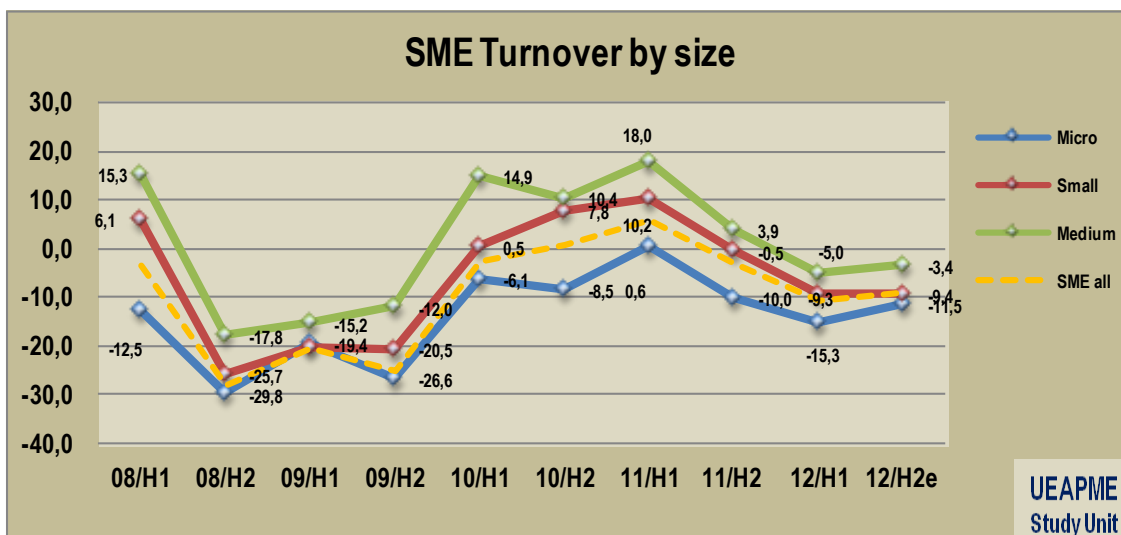
The results for all the three categories of SMEs are lower than the (already negative) expectations collected during the second semester of 2011.

Chart 4 – SME Situation by size



Turnover and orders have followed the same path, with micro enterprises showing the most worrisome performances, with -15.3 in turnover and -17.1 in orders. The impact of the economic downturn on turnover and orders has been less strong for medium-sized companies than for small ones. Turnover declined to -5.0 for medium-sized companies and -9.3 for small enterprises, orders were respectively -8.1 and -17.0.

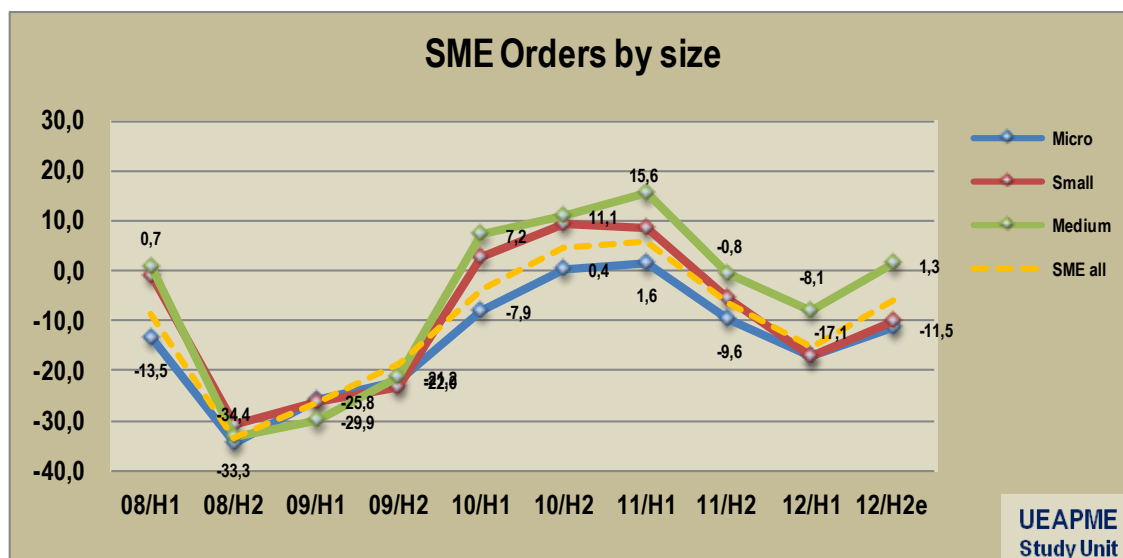
Chart 5 – SME Turnover by size



Medium-sized companies are foreseeing improvements in all indicators for the second half of 2012: this appears more evident by looking at their turnover and orders curves (Charts 5 and 6), which are moving well above those of micro and small enterprises. In particular, the orders for next semester are expected to turn positive at 1.3.

Medium-sized enterprises are usually faster movers (upwards and downwards) compared to micro and small ones, therefore their expectations can be the signal of an upcoming recovery.

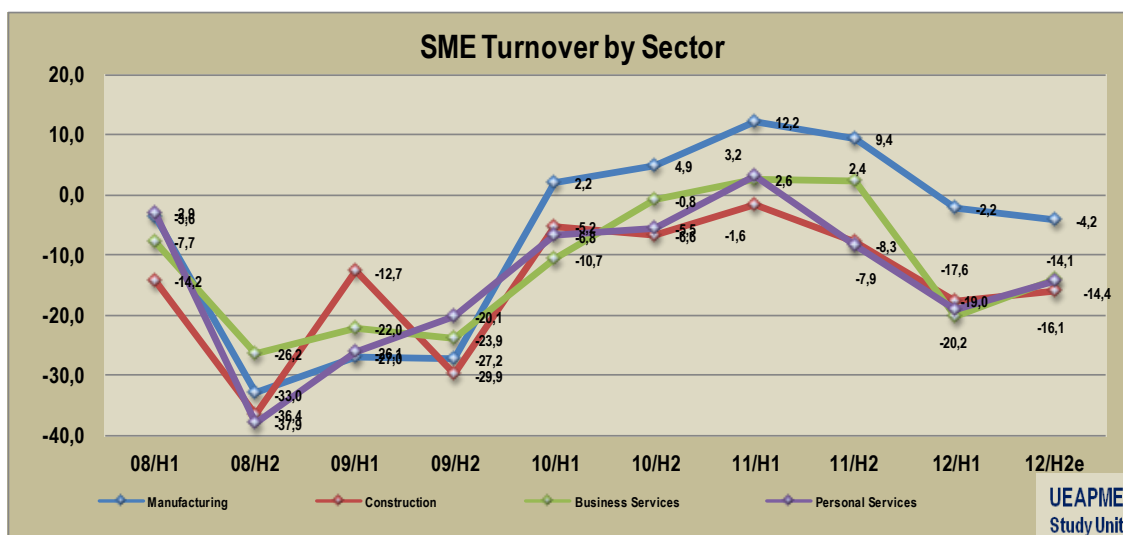
Chart 6 – SME Orders by size



Turnover by sector: the internal demand-driven sectors suffering the most

During the first half of 2012 the results for turnover were negative for all sectors. Three of the four surveyed sectors recorded double digits negative balances: -17.6 for constructions, -20.2 for business services and -19.0 for personal services. After four semesters of positive results, manufacturing showed the first downturn with a slightly negative (-2.2) performance.

Chart 7 – Turnover by sector



These results show how we are clearly facing a decrease of the aggregate internal demand. Differently from the 2009 crisis, which originated from the United States' financial sector and had a stronger impact on external demand, the actual crisis is mostly hitting the EU and the peripheral countries of the Eurozone in particular. In this respect, the SMEs of the manufacturing sector, which are less dependent on the EU internal demand, show significantly better performances. On the other hand, the SMEs in the personal services sector, for the most part micro enterprises, are suffering from the reduction of the disposable incomes and

the fall of private households' confidence. We see a similar picture for the business services sector, which suffers from a lack of demand from other business in recession and for the construction sector, which also strongly depends from internal demand. The curve of the business services' turnover is the one showing the steepest decline between 12/H1 and 12/H2.

Table 4: balance between expected turnover and final results for 12H1

| Sector | 12/H1 – 12H1e |
|-------------------|---------------|
| Manufacturing | +8.3 |
| Construction | +1.0 |
| Business services | -9.2 |
| Personal services | -9.5 |

This downward trend in the private households' demand can be also deduced by looking at Table 4, which shows the balances between the expected turnover and results for 2012/H1 in the different sectors. Personal services (-9.5) reported the worst balances, followed by business services (-9.2). The construction sector (+1.0) performed in line with the expectations. The positive balance (+8.3) in the turnover for manufacturing is really remarkable. In the current recession, caused by the reduction of the internal demand, the SMEs of the manufacturing sector managed to find extra-EU market opportunities.

The expectations for the second part of 2012 are almost in line with the results of the first semester, with minor progresses for construction, business services and personal services and a slight downturn for manufacturing.

SMEs are the key drivers to restart economic growth

The SME Business Climate Index and the EU SME Barometer confirmed UEAPME's negative outlook of late 2011: the predicted risks of recession for the European economy have materialised, with the services sector and construction, both dominated by SMEs, suffering the most.

However, there are also some weak signs of recovery, but their realisation will depend on the successful interaction of different factors: the re-gaining of confidence of EU private households and consumers, the stabilisation of the financial markets and the accomplishment of the structural reforms and fiscal consolidation paths undergone by some Eurozone countries.

UEAPME has been strongly urging policymakers to make new efforts towards a more integrated and balanced policy approach, with the design of new growth-enhancing measures to accompany structural reforms and fiscal consolidation⁴. The priority given until now to pro-cyclical consolidation measures has led to a downward spiral that depressed private consumptions and set the basis for the current recession.

In the current situation of tight public finances, economic growth must come from the private sector, with SMEs as the key drivers. As European SMEs rely mostly on the EU demand, the recession cannot be successfully overcome without a quick re-establishment of a new climate of confidence for private households and private businesses.

⁴ See UEAPME position paper of July 4 2012: "UEAPME demands a European Growth Pact, which is coherent with the Fiscal Compact and integrates the needed Structural Reforms": http://ueapme.com/IMG/pdf/120705_UEAPME_GrowthPact_final_en.pdf

UEAPME EU Craft and SME Barometer: Methodology

The **EU Craft and SME Barometer** builds on the results of surveys that are conducted by UEAPME Member Organisations twice or 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 and September 2012, which gives a quite recent picture about the development and the expectations of SME owners all over Europe.

At 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 expectation 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 (see Table 1 and 2 in the Annex).

This Barometer presents the results (experiences) for the first and the second semesters of 2011 (11H1 and 11H2) as well as the result for the first half of 2012 (2012H1) and expectations for the second part of the year (12/H2e).

UEAPME issues its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn, which also includes the **European SME Business Climate Index** (see page 1), which is calculated as the average of the current situation and the expectations about the next period, as 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 fact that we have not data for all Member States that are significant enough from a statistic perspective and furthermore, the presentation of national data from SME surveys is a prerogative of our national organisations, which are collecting them.

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Results – European Crafts and SME Barometer – 2012/H2

Table 4 – UEAPME Study Unit

Balance between positive and negative answers / weighted by number of employees

| | All SMEs | | | | Micro Enterprises | | | | Small Enterprises | | | | Medium-Sized Enterprises | | | |
|-------------|----------|-------|-------|--------|-------------------|-------|-------|--------|-------------------|-------|-------|--------|--------------------------|-------|-------|--------|
| | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e |
| Situation | 6,6 | -2,3 | -7,5 | -4,9 | 2,3 | -7,5 | -10,5 | -7,5 | 9,9 | 1,7 | -7,6 | -4,1 | 14,7 | 4,6 | -7,8 | -1,3 |
| Turnover | 5,9 | -2,9 | -10,8 | -8,8 | 0,6 | -10,0 | -15,3 | -11,5 | 10,2 | -0,5 | -9,3 | -9,4 | 18,0 | 3,9 | -5,0 | -3,4 |
| Employment | 3,1 | -4,4 | -4,7 | -6,0 | -1,0 | -6,0 | -8,6 | -7,6 | 4,8 | -5,5 | -4,5 | -8,0 | 12,1 | 0,3 | -1,0 | -1,4 |
| Prices | 8,9 | 7,0 | -4,4 | -0,6 | 9,1 | 7,8 | 0,6 | 1,9 | 10,0 | 4,9 | -4,0 | -2,2 | 14,0 | 6,0 | -4,8 | 0,6 |
| Investments | -2,3 | -1,0 | -4,2 | -15,9 | -5,3 | -4,2 | -3,2 | -19,6 | -1,3 | -1,0 | -6,0 | -18,8 | 5,6 | 2,7 | 1,2 | -4,7 |
| Orders | 5,8 | -6,8 | -15,3 | -5,7 | 1,6 | -9,6 | -17,1 | -11,5 | 8,5 | -5,4 | -17,0 | -10,2 | 15,6 | -0,8 | -8,1 | 1,3 |

| | Manufacturing | | | | Construction | | | | Business Services | | | | Personal Services | | | |
|-------------|---------------|-------|-------|--------|--------------|-------|-------|--------|-------------------|-------|-------|--------|-------------------|-------|-------|--------|
| | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e | 11/H1 | 11/H2 | 12/H1 | 12/H2e |
| Situation | 11,6 | -5,4 | -4,1 | -4,1 | 2,1 | -7,4 | -12,8 | -9,6 | 3,3 | -12,1 | -17,7 | -13,5 | 4,4 | -19,0 | -17,3 | -16,2 |
| Turnover | 12,2 | 9,4 | -2,2 | -4,2 | -1,6 | -7,9 | -17,6 | -16,1 | 2,6 | 2,4 | -20,2 | -14,1 | 3,2 | -8,3 | -19,0 | -14,4 |
| Employment | 5,1 | -3,8 | -3,4 | -5,1 | -3,4 | -8,4 | -11,5 | -12,8 | 1,8 | -3,6 | -5,5 | -9,8 | 5,0 | -4,3 | -9,1 | -12,5 |
| Prices | 12,5 | 9,8 | -1,1 | 2,0 | -3,7 | -8,2 | -14,0 | -9,7 | 11,0 | 5,9 | -7,1 | -3,5 | 10,5 | 10,5 | -2,9 | -1,4 |
| Investments | 1,7 | 7,2 | -3,2 | -15,8 | -10,1 | -5,9 | -12,5 | -25,7 | -1,9 | 3,4 | -5,1 | -20,5 | -0,3 | 1,3 | -7,3 | -23,6 |
| Orders | 10,1 | 13,1 | -9,4 | -5,3 | 4,9 | -11,1 | -26,1 | -17,6 | 0,1 | -3,6 | -20,5 | -13,1 | 2,1 | -6,8 | -15,0 | -11,8 |

Table 5 – UEAPME Study Unit

Difference between the balance expected and the in retrospect reported balance

| | All SMEs | | Micro Enterprises | | Small Enterprises | | Medium-Sized Enterprises | |
|-------------|----------------|----------------|-------------------|----------------|-------------------|----------------|--------------------------|----------------|
| | 11/H2 – 11/H2e | 12/H1 – 12/H1e | 11/H2 – 11/H2e | 12/H1 – 12/H1e | 11/H2 – 11/H2e | 12/H1 – 12/H1e | 11/H2 – 11/H2e | 12/H1 – 12/H1e |
| Situation | -9.7 | -0,2 | -12.0 | -1,3 | -9.2 | -3,4 | -9.5 | -2,1 |
| Turnover | -10.0 | 0,8 | -13.4 | -0,2 | -9.7 | 0,5 | -12.0 | 5,3 |
| Employment | -5.9 | 2,7 | -5.3 | -2,4 | -8.3 | 6,4 | -5.3 | 9,0 |
| Prices | -3.6 | -13,3 | -3.7 | -11,9 | -6.0 | -13,3 | -5.7 | -9,0 |
| Investments | 2.06 | 18,5 | 2.02 | 21,5 | 1.01 | 16,8 | -1.8 | 20,4 |
| Orders | -12.7 | -2,3 | -13.7 | -2,8 | -12.2 | -2,6 | -14.9 | 8,5 |

| | Manufacturing | | Construction | | Business Services | | Personal Services | |
|-------------|----------------|----------------|----------------|----------------|-------------------|----------------|-------------------|----------------|
| | 11/H2 – 11/H2e | 12/H1 – 12/H1e | 11/H1 – 11/H1e | 12/H1 – 12/H1e | 11/H2 – 11/H2e | 12/H1 – 12/H1e | 11/H2 – 11/H2e | 12/H1 – 12/H1e |
| Situation | -16.7 | 7,6 | 2.02 | 2,4 | -15,3 | -2,4 | -24,8 | -1,4 |
| Turnover | -2.8 | 8,3 | 6.08 | 1,0 | -1,3 | -9,2 | -15,0 | -9,5 |
| Employment | -7.7 | 4,3 | 2.00 | -0,2 | -5,0 | 1,3 | -7,2 | -4,1 |
| Prices | -1.0 | -8,0 | -2.0 | -13,9 | -6,4 | -16,3 | 0,1 | -20,0 |
| Investments | 7.08 | 13,0 | 12.06 | 10,5 | 7,5 | 10,4 | 3,0 | 6,3 |
| Orders | 3.09 | 5,0 | 3.08 | -6,0 | -6,5 | -8,0 | -10,6 | -4,7 |

Results – European Crafts and SME Barometer – 2012/H2

