

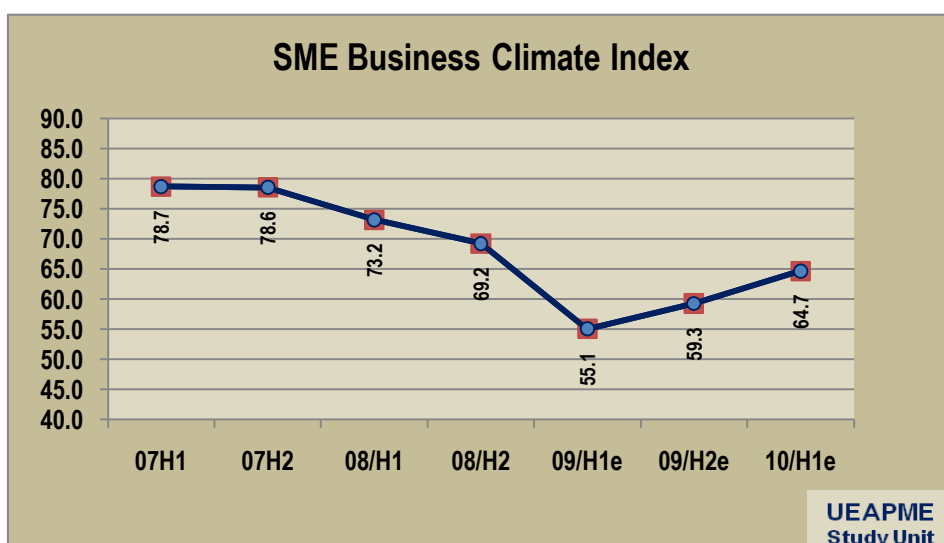
The EU Craft and SME Barometer 2010/H1

European Crafts and SMEs fend off fears of recession

Back-to-back raise - SME Business Climate Index at 64.7

A second consecutive increase in the **UEAPME SME Business Climate Index** (Chart 1) for the European Union indicates improving confidence in the state of the economy by SMEs. Since last autumn, the percentage of entrepreneurs expecting a positive or neutral economic environment grew by 5.4 percentage points from 59.3% to 64.7% - a stronger gain than the 4.2 percentage points hike reported in the second half of 2009. The Index is currently 9.6 percentage points above its worst result so far, yet below the level recorded before the crisis. Businesses thus appear to be confident that the downward spiral of recession has been avoided. They remain nonetheless cautious and uneasy about the way out of the recession. Whether a stagnant, low growth period lies ahead or a stronger growth path is possible remains unclear.

Chart1



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).

The UEAPME SME Business Climate Index is part of the “EU Craft and SME Barometer”, published twice a year by the [UEAPME Study Unit](http://www.ueapme.com/spip.php?rubrique120)¹. This barometer provides for the first time recent and forward looking business indicators about Crafts and SMEs in the European Union, differentiated by size classes and economic sectors.

¹ <http://www.ueapme.com/spip.php?rubrique120>

Introduction to the EU Craft and SME Barometer

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 **100.000 questionnaires, with 25.000 answers** received. The data for this survey were collected between December 2009 and February 2010, 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 last half-year of 2008 (08/H2) and both semesters of 2009 (09/H1 and 09/H2) as well as the expectations for the first semester 2010 (10/H1e).

UEAPME issues its **EU Craft and SME Barometer twice a year**, ahead of the European Summit in spring and autumn.

Furthermore, UEAPME provides twice a year a 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 and sums positive and neutral answers as regards the overall situation for the business.

Finally, UEAPME only presents European figures and does not disclose any national data. This is due to the fact that we have not data for all Member States that are significant enough from a statistic perspective.

Furthermore, the presentation of national data from SME surveys is a prerogative of our national member organisations, which are collecting these data.

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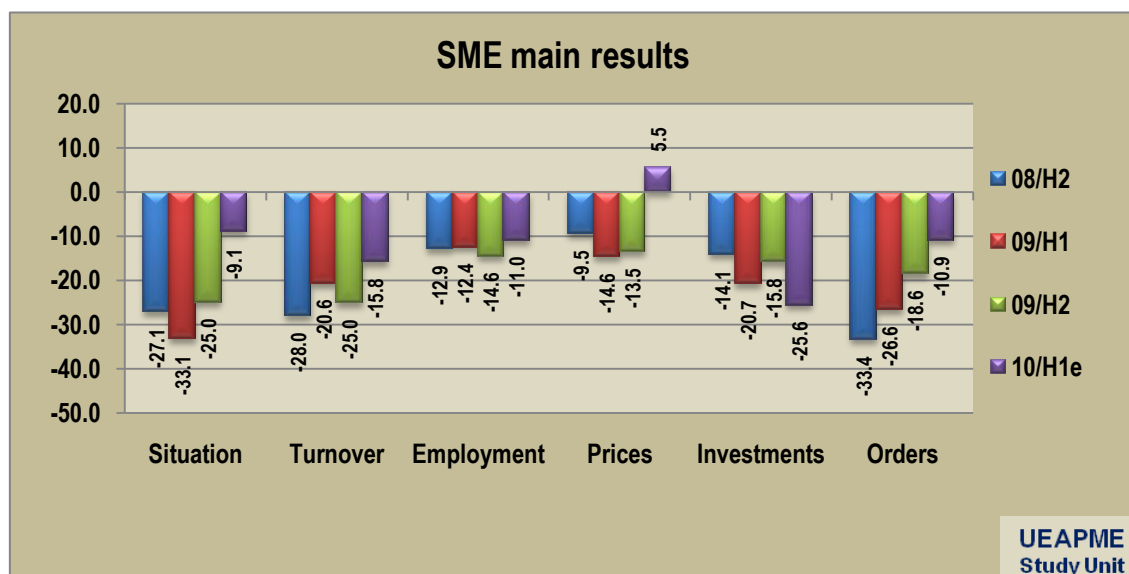
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1. Main Results of the EU Craft and SME Barometer 2010/H1

The data gathered by our national associations reveal an interesting, at times ambiguous picture. Looking at Chart 2, a generally positive development becomes clear. The balance of respondents reporting a positive business situation over negative respondents has steadily improved, from -33.1 in the beginning of 2009 to an expected value of -9 for the first half of 2010.

Chart 2 – balance +/-



The same holds for orders received, up 15 points from -26 to -11. The results for turnover and, especially, employment, potentially due to the stabilising effect of government programmes, where less bad at the beginning of the recession and hence show a less marked improvement. Investment behaviour observed seems a bit ambiguous, an issue to which we will return to in chapter 6.

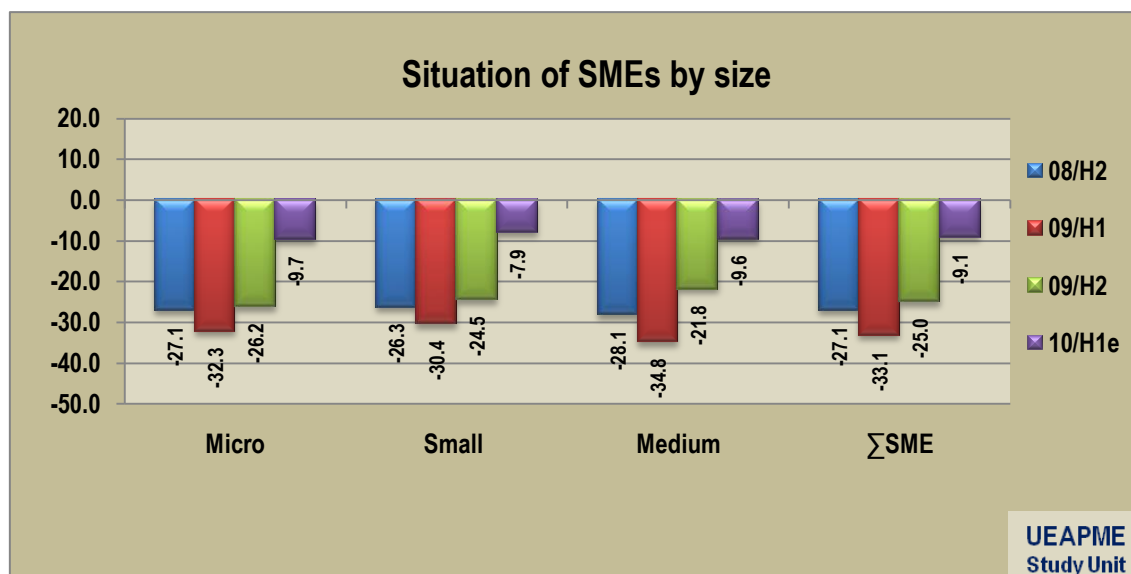
The reported progress should, nonetheless, not be overdrawn. Only the expectation for market prices for the current semester reveals more positive than negative answers by SME entrepreneurs.

2. Few differences in size

If we break down the data by company size (Chart 3, next page), we detect little difference. While medium-sized companies dipped further into negative balance at the beginning of the crisis, they have shown the strongest recovery – from a balance of -34.8 to one of -9.6.

The situation of micro- and small-sized firms is however similar, with a stark drop at the beginning of 2009 and a receding, yet still negative, balance since. Regardless of company size, we witness the same overall development. The darkest clouds seem to have disappeared, but pessimists still outweigh optimists.

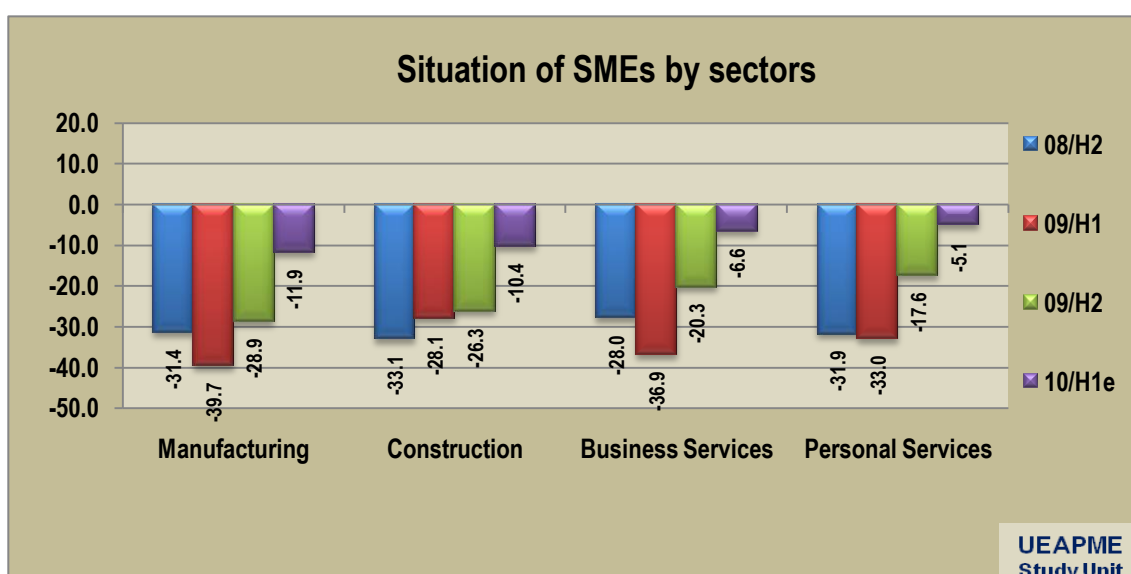
Chart 3 – balance +/-



3. Deviating developments by sectors

Decomposing the results by industry, diverging paths become visible. Chart 4 presents the situation balance over the last three semesters and the expectations for the first half of 2010. In early 2009 we saw that the only sector reporting improvement compared to the period before was the construction industry, mainly due to government sponsored works at that time. Since then, the improvements have lagged the pace of all the other industries, hinting at the long term unsustainability of government support for this industry as well as at the presence of large overcapacities.

Chart 4 – balance +/-

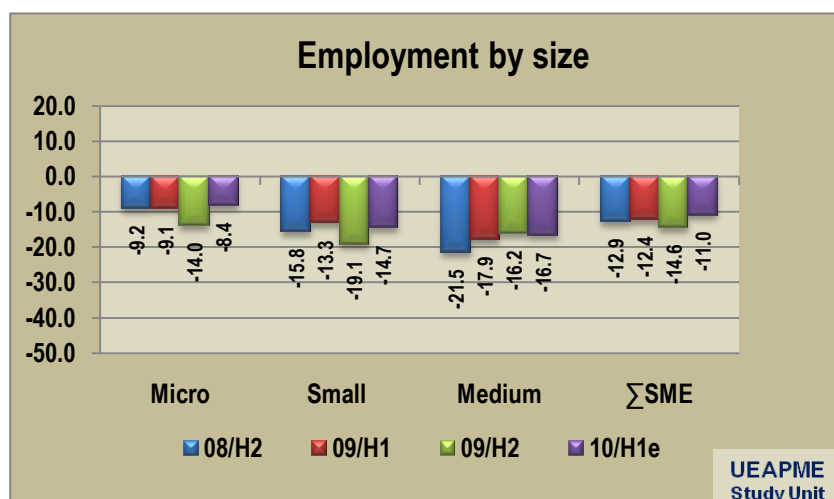


Manufacturing is currently and based on expectations the SME sector reporting the worst balance (-28.9 and -11.9 respectively), as the industry is hard-hit by the crisis in the automotive and investment goods sectors. Both personal and business services, though still recording negative balances, advance towards stability at a much faster pace than manufacturing and construction.

4. Employment throughout sizes and sectors

If we look at the answers of entrepreneurs regarding employment by size (Chart 5) we observe, on the one hand, that employment at medium-sized companies went down sharply at the beginning of the crisis, with a balance of -21.5, 8.6 percentage points below the SME average. Since then, their balance has improved slowly. The expectation for the current semester, however, is still worse than for smaller SMEs.

Chart 5 — balance +/-

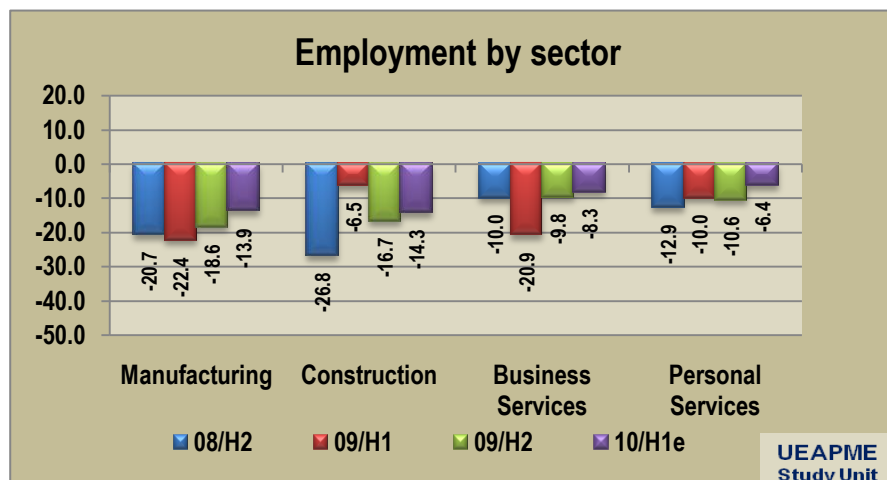


Micro- and small firms, on the other hand, remained stable at the beginning of the crisis, yet deteriorated as the recession lingered on. A reason for this might be that bigger enterprises have more leeway when it comes to reacting to a crisis, possibly having created overcapacities in previous times. Smaller firms cannot react that way and keep much needed personnel until no other alternative is feasible.

Employment results by industry (Chart 6) show an uneven pattern. The personal services sector has remained quite stable, with a change of only 2.3 percentage points between the second half of 2008 and that of 2009. Business services have also remained stable if we leave out the stark dip in the first half of 2009, most likely due to a standstill in the demand for consultancy and advisory services at the height of uncertainty. Both sectors predict better results for the current semester.

Construction companies' gloomy employment news when the housing bubble burst improved owing to public works schemes, up from -26.8 to -6.5, but receded again, mainly due to lack of private investment to match supply. Current expectations are slightly better, with a hike to -14.3.

Chart 6— balance +/-



Employment stayed stable for manufacturers, with car scrap plans offsetting growing losses in the investment goods sector as the economic slump expanded. Growth in export markets and the stabilisation within the EU account for the improvement in the balance for last semester and for current expectations.

Altogether, it seems that European SMEs are not only not hiring more workers but still reporting negative employment balances. Increases in the unemployment figures, however, appear to be steadily shrinking.

5. SMEs and their expectations

Chart 7 presents the differences between the actual balance values recorded for the second half of 2009 and the expectations for the same period, taken six months prior. A positive value means the situation is better than expected, a negative value denotes worse than expected results. For the data broken down by size, as well as for previous semesters, see Table 4 in the Annex.

Chart 7

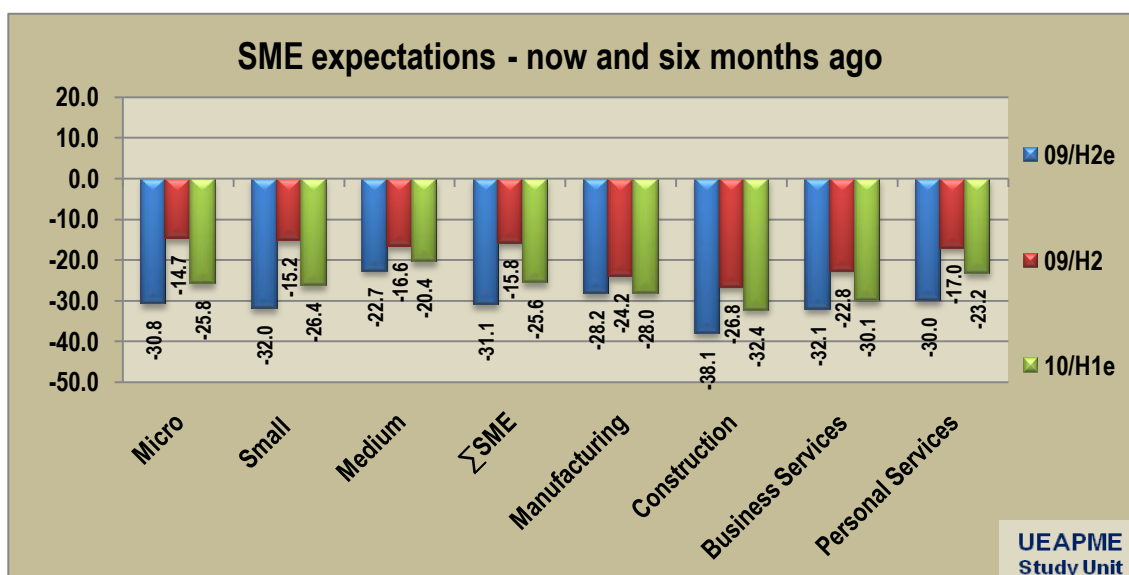


We notice that the aforementioned faster improvement of personal services was in line with expectations – betterment in business services, however, was apparently surprising for entrepreneurs, who had predicted a worse economic environment for their industry. Orders, investments and employment were the areas where expectations had to be most strongly corrected upwards. On the contrary, manufacturers saw their orders dwindle down with respect to expectations, as did their overall assessment of the situation. Equally, the construction industry reported worse than expected results; turnover and employment estimates having to be adjusted downwards the most. The strongest revisions, though, have been made regarding investments, the issue of the next chapter.

6. Investment behaviour – ambiguous SMEs?

The balance reported for investment is among the worst for the second half of 2009 and the worst of all areas if we look at expectations for 2010 (see Chart 2). If we, in turn, look at the expectation differential, we see better than expected results across all industries in our sample. Manufacturers observed the smallest upward rectification, followed by business services, construction and personal services. If we extend our observation regarding investment and include also the expectation for the first semester of 2010 (Chart 8), we see that, although the outlook on investment for 2010 looks grimmer than the balance for the second half of 2009, it is still a better forecast than the one reported six months ago. The average SME forecast improves by 5.5 percentage points from -31.1 to -25.6. This holds for all industries and over all company sizes.

Chart 8



The most likely explanation for this mismatch is that entrepreneurs think of investment, when asked about it, as an expansionary activity. They are currently not confident enough to believe in the necessity for investments to augment production capacities, yet later reassess and are possibly surprised by the amount of investment needed to keep production stable. This fits into the general message gained from our survey. SMEs are, on the one hand, no longer anxious about an economic downturn, yet are, on the other hand, still uncertain about the pace of recovery, shying away from unnecessary, risky investments.

Annex

Employment for the non-financial business economy broken down by enterprise size class and sector 2005 (%)

Table 1 / EUROSTAT

	B	BG	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT
1 to 9	43.53	39.26	47.35	29.82	31.98	29.03	58.39	49.01	38.13	33.99	58.39	49.10	28.75	26.72
EU Share	1.95	1.47	3.35	0.92	11.13	0.22	2.77	13.15	9.30	0.57	19.21	0.21	0.33	0.39
10 to 49	32.60	29.61	26.41	38.00	36.12	37.28	26.50	32.26	33.94	32.91	26.50	28.25	36.44	36.53
EU Share	2.06	1.56	2.62	1.65	17.66	0.40	1.77	12.16	11.63	0.78	12.25	0.17	0.59	0.75
50 to 249	23.87	31.13	26.24	32.18	31.90	33.69	15.11	18.73	27.93	33.10	15.11	22.65	34.81	36.75
EU Share	1.80	1.97	3.12	1.67	18.68	0.43	1.21	8.46	11.46	0.94	8.37	0.16	0.67	0.91
SME	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
EU Share	1.95	1.63	3.07	1.34	15.09	0.33	2.06	11.64	10.58	0.73	14.27	0.19	0.50	0.64

	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	EU 27
1 to 9	33.57	55.05	49.45	32.01	36.33	57.67	50.17	32.57	39.40	20.12	37.84	44.00	36.84	43.37
EU Share%	0.10	3.03	0.11	2.86	1.60	8.59	3.32	2.29	0.49	0.25	0.78	2.06	9.55	100.00
10 to 49	35.76	23.69	24.66	35.07	35.26	16.52	28.38	30.43	27.58	32.80	31.25	30.43	33.62	30.86
EU Share%	0.15	1.83	0.08	4.40	2.18	3.46	2.64	3.00	0.49	0.57	0.90	2.01	12.24	100.00
50 to 249	30.67	21.27	25.90	32.92	28.41	25.80	21.45	37.01	33.01	47.08	30.92	25.57	29.54	25.77
EU Share%	0.15	1.97	0.10	4.95	2.10	6.47	2.39	4.37	0.70	0.98	1.07	2.02	12.89	100.00
SME	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
EU Share%	0.13	2.38	0.09	3.87	1.91	6.46	2.87	3.04	0.54	0.54	0.89	2.03	11.24	100.00

Table 2 / EUROSTAT

Business Sector	EU Share %
Manufacturing	24.86
Construction	14.06
Business Services	22.66
Personal / Social Services	38.42
SME	100.00

Results – European Crafts and SME Barometer – 2009/H2

Table 3 / UEAPME Study Unit

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

	ΣSME				Micro Enterprises				Small Enterprises				Medium-sized Enterprises			
	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e
Situation	-27.1	-33.1	-24.96	-9.06	-27.1	-32.3	-26,21	-9,71	-26.3	-30.4	-24,50	-7,93	-28.1	-34.8	-21,76	-9,56
Turnover	-28.0	-20.6	-25.05	-15.80	-29.8	-19.4	-26,61	-16,88	-25.7	-20.1	-20,52	-13,80	-17.8	-15.2	-11,97	-9,95
Employment	-12.9	-12.4	-14.55	-10.95	-9.2	-9.1	-13,95	-8,39	-15.8	-13.3	-19,15	-14,67	-21.5	-17.9	-16,20	-16,74
Prices	-9.5	-14.6	-13.46	5.52	-9.2	-4.1	-11,29	7,85	-9.5	-17.3	-13,93	3,69	-14.1	-19.8	-16,16	-3,17
Investments	-14.1	-20.7	-15.79	-25.60	-14.5	-19.8	-14,74	-25,83	-15.1	-21.7	-15,24	-26,37	-12.6	-18.6	-16,58	-20,45
Orders	-33.4	-26.6	-18.64	-10.89	-34.4	-25.8	-22,02	-11,08	-30.8	-26.3	-23,34	-10,85	-33.3	-29.9	-21,22	-10,13

	ΣManufacturing				Construction				Business Services				Personal Services			
	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e	08/H2	09/H1	09/H2	10/H1e
Situation	-31.4	-39.7	-28,92	-11,91	-33.1	-28.1	-26,29	-10,35	-28.0	-36.9	-20,31	-6,56	-31.9	-33.0	-17,59	-5,09
Turnover	-33.0	-27.0	-27,18	-17,43	-36.4	-12.7	-29,88	-19,25	-26.2	-22.0	-23,89	-12,52	-37.9	-26.1	-20,09	-10,35
Employment	-20.7	-22.4	-18,57	-13,88	-26.8	-6.5	-16,75	-14,32	-10.0	-20.9	-9,80	-8,33	-12.9	-10.0	-10,58	-6,38
Prices	-12.3	-16.4	-18,78	2,29	-17.1	-23.5	-22,44	-3,24	-11.5	-13.0	-9,45	5,08	-1.4	-0.4	-0,99	13,94
Investments	-15.2	-23.7	-24,17	-28,05	-24.1	-23.3	-26,77	-32,37	-17.4	-27.9	-22,84	-30,07	-16.1	-17.6	-16,95	-23,18
Orders	-32.7	-35.0	-25,25	-12,47	-28.0	-20.7	-24,33	-13,70	-38.3	-27.9	-15,12	-7,84	-36.6	-28.6	-18,59	-6,64

Table 4 / UEAPME Study Unit

Difference between the balance expected and the in retrospect reported balance

	Σ SME		Micro Enterprises		Small Enterprises		Medium-sized Enterprises	
	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e
Situation	5,60	-6,23	4,17	-7,15	8,81	-5,57	5,49	-2,11
Turnover	20,97	-2,63	20,83	-6,12	27,32	-0,32	24,41	2,83
Employment	7,07	-1,88	3,81	-6,00	14,95	-5,58	21,18	2,60
Prices	-8,83	-0,82	0,21	-8,43	-10,76	-1,98	-6,64	6,35
Investments	11,43	15,28	10,93	16,06	10,60	16,77	18,52	6,15
Orders	7,07	-1,31	4,71	-6,96	13,28	-6,27	10,28	-6,82

	Σ Manufacturing		Construction		Business Services		Personal Services	
	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e	09/H1 – 09/H1e	09/H2 – 09/H2e
Situation	-1,18	-8,67	13,23	-1,42	-5,92	2,82	6,05	-0,14
Turnover	18,05	-2,50	40,75	-6,60	23,40	3,06	16,21	-0,20
Employment	6,19	-2,25	23,67	-3,01	-4,32	3,68	5,39	-1,85
Prices	-13,18	-3,12	-10,33	-2,96	-8,11	-1,86	2,84	1,35
Investments	8,46	4,07	11,83	11,31	7,04	9,24	9,53	13,02
Orders	1,27	-11,89	16,71	0,24	10,57	9,91	-0,72	-3,15

Results – European Crafts and SME Barometer – 2010/H1

