

SPRING 2022

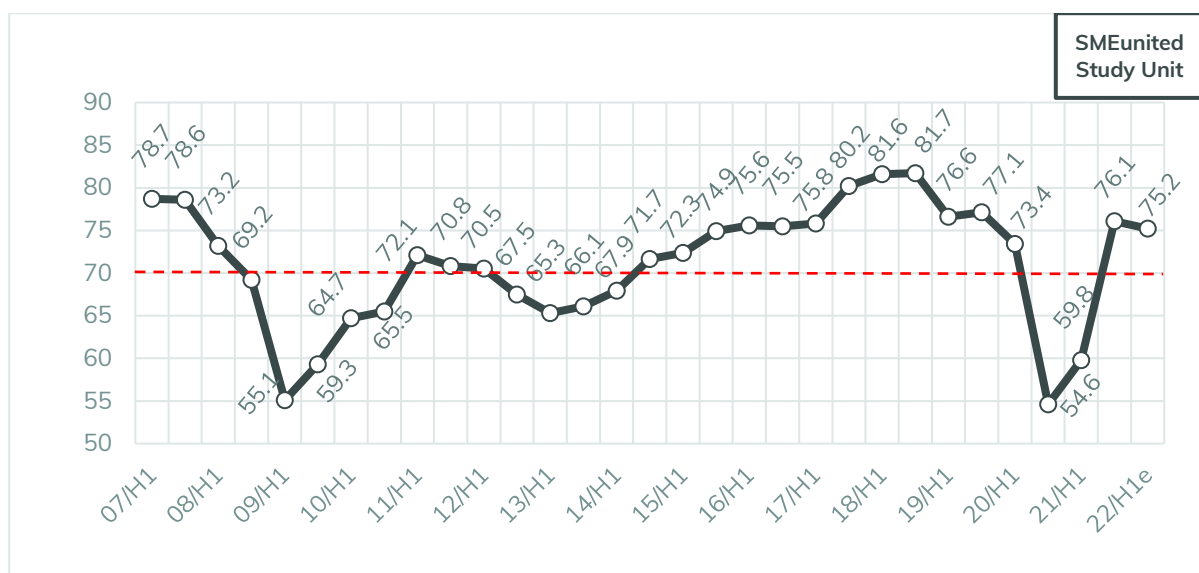
The SME Business Climate Index and EU Craft and SME Barometer

SME Business Climate Index slightly decreases to 75.2

SMEs' confidence shows recovery is on hold

The latest SME Business Climate Index for the European Union reports a standstill of SMEs' confidence for Spring 2022. Since last autumn, the percentage of SMEs expecting a positive or neutral economic environment decreased by 0.9%, while the indicator at the second semester of 2021 stood at 76.1%.

Chart 1 – SMEUnited Business Climate Index



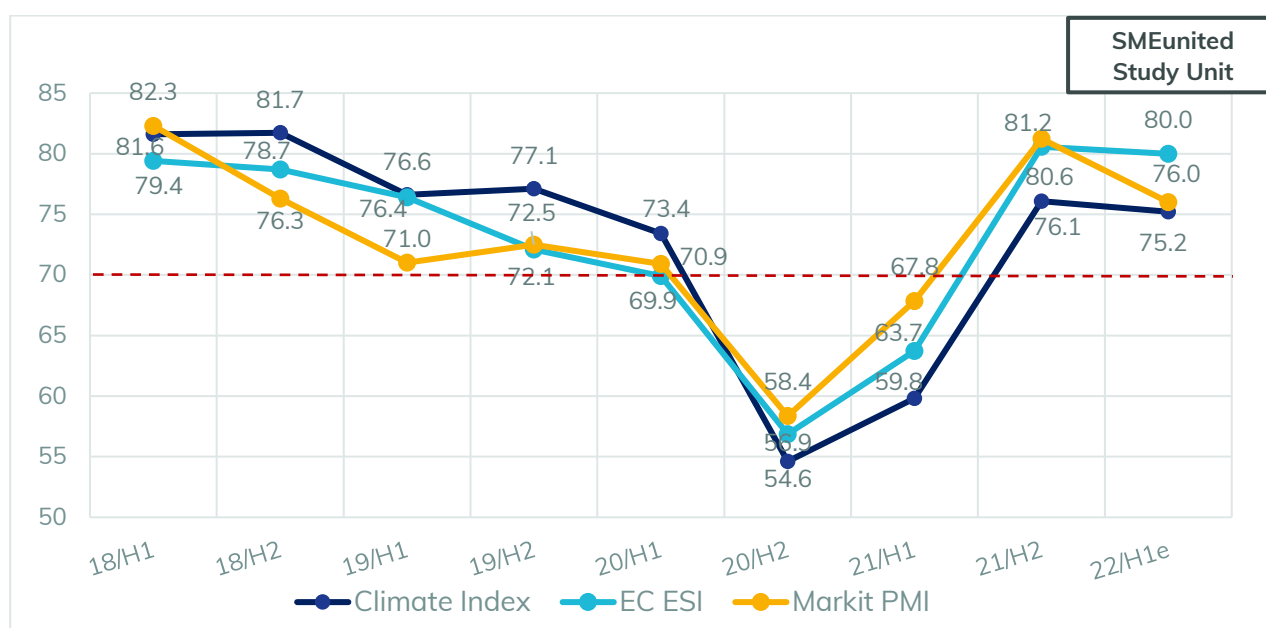
The index is calculated as the average of companies that have reported positive or stable business situations and expect a positive or stable development for the next period. Therefore, the index can range from 100 (all positive or neutral) to 0 (all negative).

The flattening business confidence may be attributed to the unfavourable economic conditions emerging in autumn. Indeed, data were collected between October 2021 and January 2022, in conjunction with the spread of the new Covid-19 mutations and the huge increase of the energy prices. Therefore, this stationary business confidence could be explained by several reasons. Firstly, the Delta and Omicron outbreaks hit the labour markets in two different ways. While the spread of Delta during November may have reduced labour demand, the emergence of Omicron in December forced a significant part of the staff to stay at home, due to sickness or quarantine. As a consequence, SMEs suffered from the labour shortage in January. Secondly, the lockdowns put in place to mitigate the spread of the new virus outbreaks forced many SMEs

to limit or even stop their usual business operations again, especially in the services sectors. Finally, unfavourable supply-chain conditions, like rising energy prices and continuation of supply bottlenecks, may have made the economic outlook even more uncertain. Finally, the data have been collected before the Russian war started and the manifold sanction have been applied.

As a robustness and comparative exercise, Chart 2 associates the SME Business Climate Index (BCI) to the European Commission’s Economic Sentiment Indicator (EC ESI) and the Purchasing Managers’ Index (Markit PMI).

Chart 2 - SMEUnited BCI, EC ESI and Markit PMI



The EC’s [ESI](#) measures five confidence indicators linked to different sectors. The average of last six months ESI values has been rescaled to 70 as the long-term average/neutral value.

The [Markit Composite PMI](#) tracks different variables of large firms in manufacturing and services and has been equally rescaled to 70 as neutral level.

The stationary situation of the Business Climate Index matches the flattening trends of the other business confidence indicators. Hence, this picture reflects the mounting uncertainty surrounding the current economic scenario. However, the three indicators differ in the scale of their levels. The SME Business Climate Index reports the lowest value across the three indexes. The restrictions put in place to contain the spread of the virus throughout the whole crisis had a more severe impact on SMEs with respect to larger companies. The rationale may be found in the disproportionate impact of the measures on the service sectors, which is mostly dominated by SMEs. Moreover, it is worth to notice the unusual trend of the PMI. Indeed, this indicator reaches a peak in November and then declines for December and January. The fall of the PMI since November may be due to the ongoing concerns about the supply chain

disruptions, the inflationary pressure and the geopolitical situation, which may further impact the economic situation of SMEs.

Chart 3 shows the SME Business Climate Index of the “Most Covid-19 impacted” EU countries and of the “Rest of the EU”. During the first wave of the crisis, significant differences between Member States have been observed. By comparing GDP growth, it was possible to identify a set of six countries, which were most hit by the crisis: Greece, Portugal, Croatia, Spain, Italy, and France. These were countries with lower health care capacity, in terms of number of hospital beds and intensive care units, and hence needed to adopt faster and tighter restrictions in response to the initial threat of the pandemic. The most impacted countries are also heavily dependent on tourism. In addition to the severity of lockdown measures, other factors such as the quality of governance of a specific country had a significant impact on its economic contraction¹.

Chart 3 - Comparison between the most Covid-19 impacted and the rest

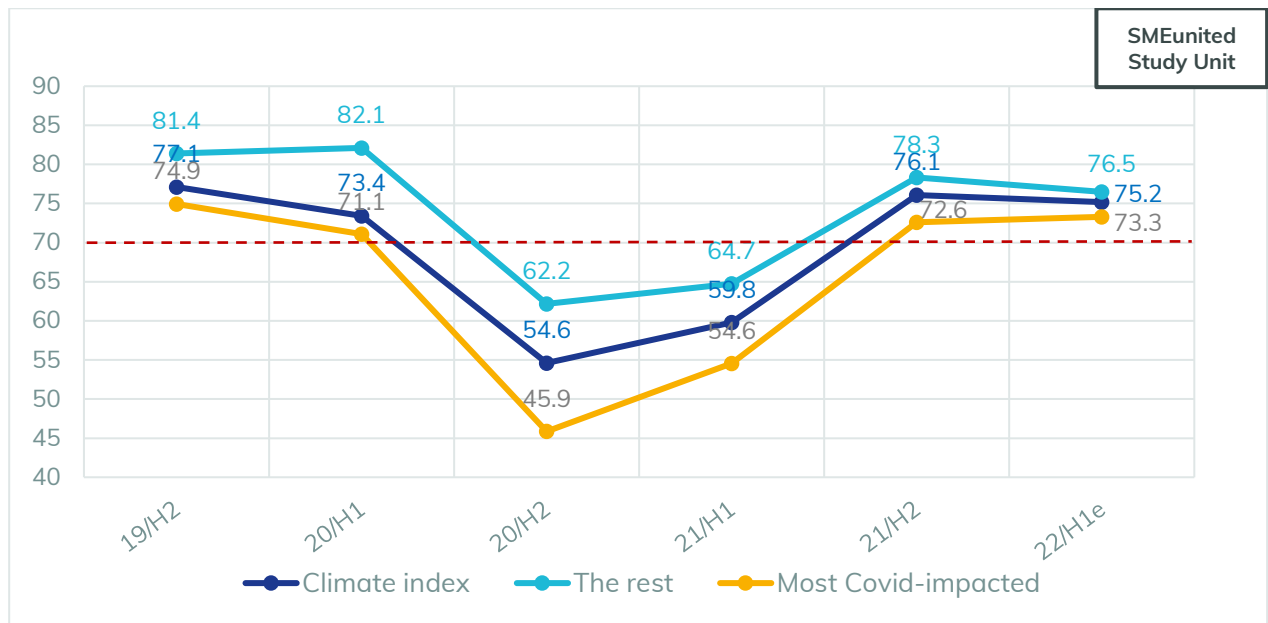


Chart 3 demonstrates that the gap between these groups of countries substantially decreased, consistently with the trend of the last semester. This catch-up can be mainly explained by two reasons. Firstly, these countries implemented quicker policy responses and lockdown measures with respect to the past. Hence, they were much more effective in mitigating the adverse impact of the new virus outbreaks. Secondly, the higher vaccination rate allowed these countries to implement less restrictive measures during the last waves.

¹ 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

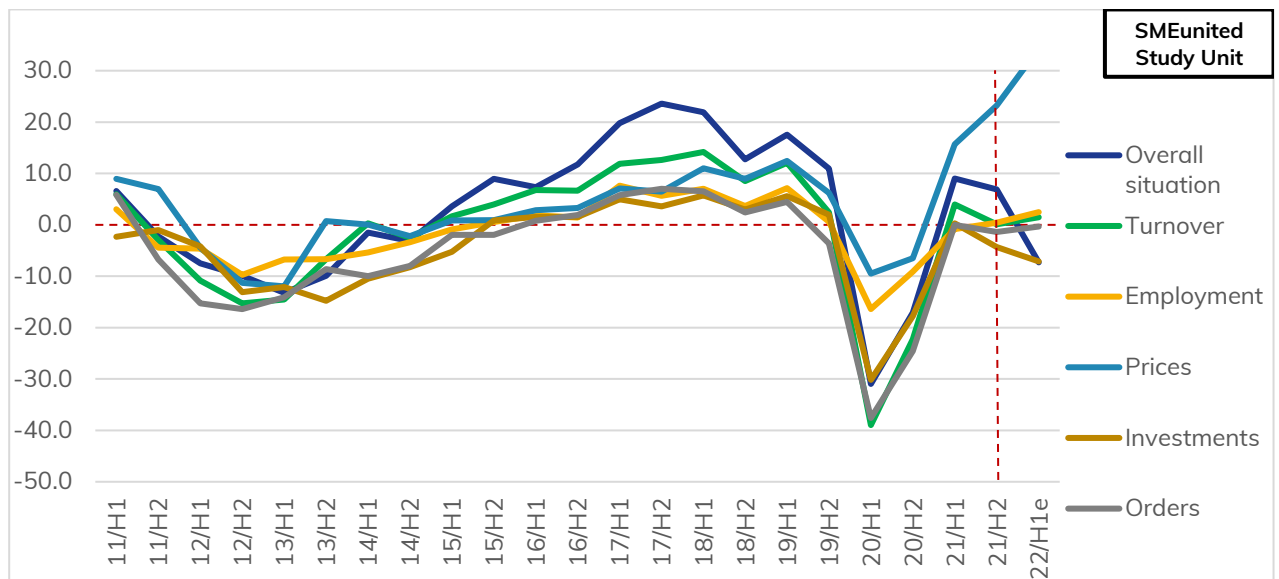
Main findings of EU SME Barometer: high level of uncertainty

The EU Craft and SME Barometer shows the balance between positive and negative replies from SMEs of different sizes and sectors for several business indicators².

Results for Autumn 2021: SME performance slightly declines

The second semester of 2021 shows a stagnation of the overall situation for SMEs: it decreases by 2.1, shifting from 9 to a value of 6.9. The slight decline of the performance of SMEs can be mainly attributed to the slowdown of the economic recovery.

Chart 4 – SMEUnited Barometer aggregated values for the 6 business categories



The main results for the other indicators show decreasing scores or mild changes. The turnover indicator shows a decline of 3.8, scoring the value of 0.1: this sharp drop can be mainly due to the severe impact of the lockdown restrictions and supply side constraints. Then, this downward trend is transferred on the investments even at a larger magnitude. Investment exhibits the most dramatic decline: it falls by 4.6, hitting the negative value of -4.3. Similarly, the orders slightly move away from the zero-value threshold, by scoring -1.4. However, the

² More information on the methodology can be found on page 12.

indicator for the employment records a modest increase of 1.2: it shifts from -0.8 to 0.4, by almost returning to its pre-pandemic level. This mild increase may be a catch-up after complaints of labour shortage before: the demand for new staff slightly increased, especially in the sectors most impacted by the crisis. On the other hand, the figures for prices display the highest increase among the indicators, scoring the highest positive value recorded until now: they increase by 7.5, from 15.7 to 23.2. This remarkable increase can be attributed to the ongoing inflation, with rising energy prices and increasing costs of raw materials passed on also to consumers.

Results for second half of 2021 are behind the expectations

The comparison reveals that SMEs were much more optimistic for the second semester of 2021 compared to its outcome. This may be due to the encouraging expectations following a strong recovery in summer and the return to their usual business activities.

Table 1 – Expectations and actual results for the second semester of 2021

	Expectations 21/H2e	Results 21/H2	Δ (R-E) 21/H2
Overall	8,0	6,9	-1,1
Turnover	12,9	0,1	-12,8
Employment	9,0	0,4	-8,6
Prices	29,1	23,2	-5,9
Investments	3,8	-4,3	-8,1
Orders	9,1	-1,4	-10,5

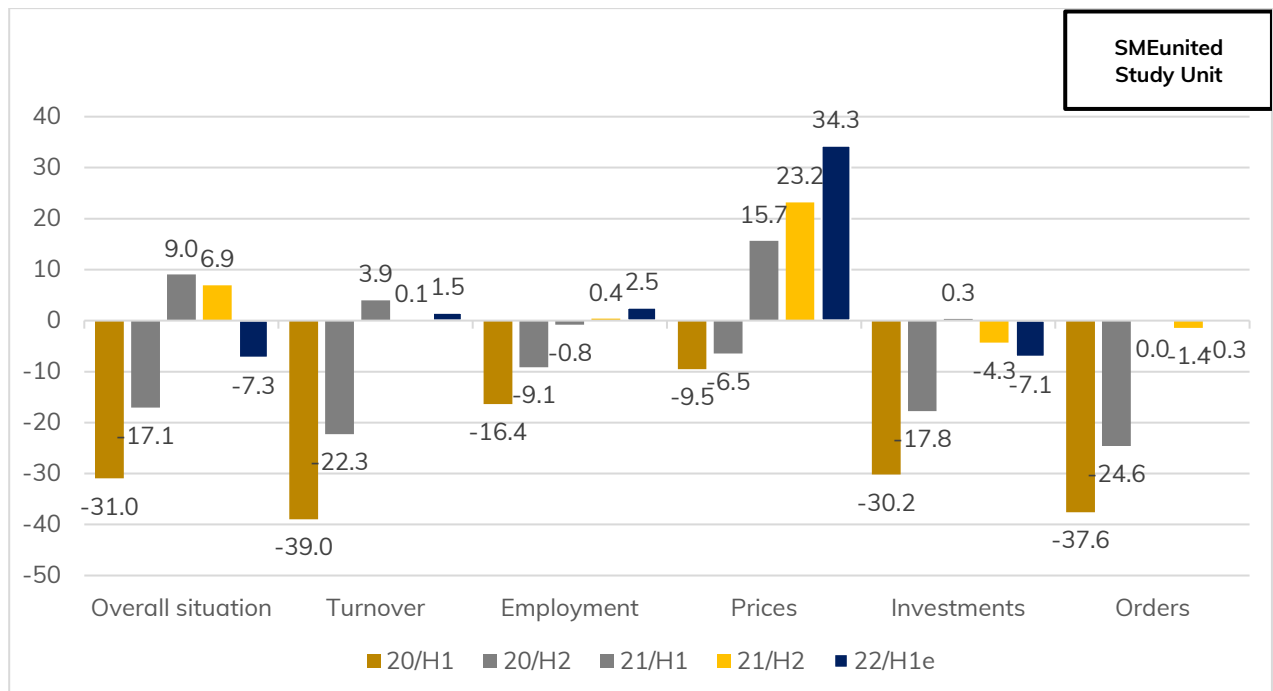
The smallest difference between results and expectations can be found for the overall situation, suggesting that SMEs were more cautious about the overall situation than their own performance. Indeed, despite the signals of a return to normal, uncertainty still dominated the business environment, with the main worries being the rising costs of energy and the emergence of a potential fourth wave. On the other hand, the large overestimation for the other indicators shows that the brighter expectations of SMEs about their own business situation contradicted with the impact of the new confinement measures and the huge increase in energy prices. The widest gap between results and expectations can be observed for the turnover, equal to 12.8. This large overestimation may be explained by the lockdown measures: many SMEs might have been forced to reduce or stop their usual business activities. As a consequence, the lower turnover and the daunting economic context may have discouraged many entrepreneurs to invest. This is signaled by the significant overestimation recorded for

the investments. Similarly, the figures for orders and employment suggest that the decrease in turnover and the less favourable economic conditions may have posed several challenges on SMEs in collecting orders and the need for new staff. Finally, even the increase in prices was behind the expectations, which may reflect less price pressure due to lower economic activities.

Current semester shows increasing uncertainty

SMEs' confidence in the state of the economy can be retrieved from Chart 5. It has to be repeated that the surveys were conducted before the conflict in Ukraine started in February 2022. For this reason, the figures for the expectations do not include the recent geopolitical tensions and possible impacts of the economic sanctions.

Chart 5 – SMEUnited Barometer aggregated values for the six business indicators



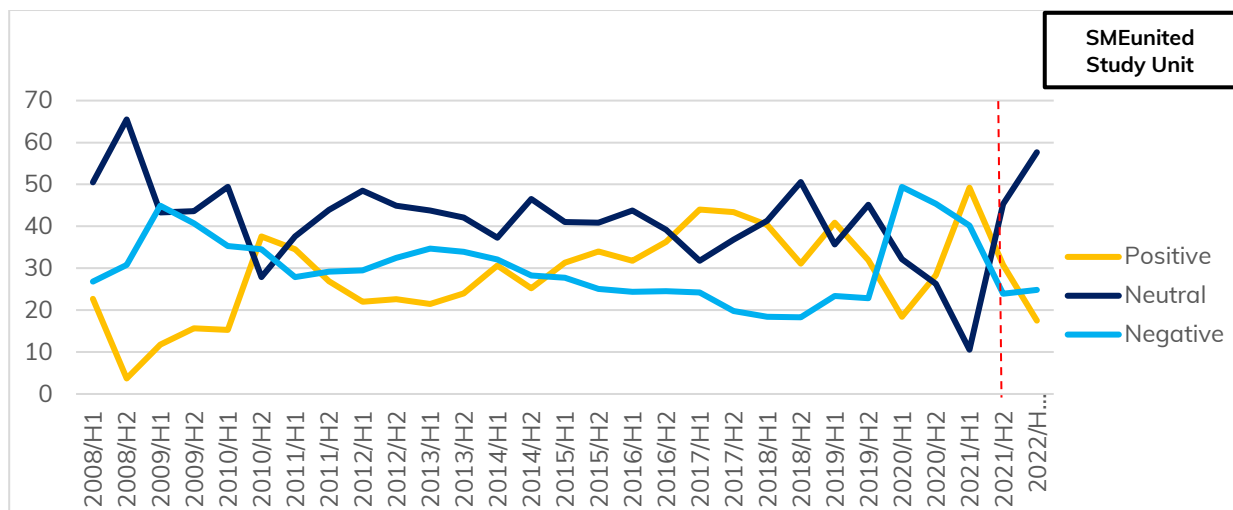
The findings show that the overall situation is expected to decline. This suggests that SMEs revised their expectations downward, due to the rising unpredictability of their business environment. The figures for turnover, employment and orders are very close to zero with slightly positive or negative values. They seem to rather outline the huge uncertainty of enterprises about their own business situation than stagnation of their activities. Furthermore, the figures for the investments display the most pessimistic outlook. The high aversion of entrepreneurs to uptake future investments can be justified by two main reasons: firstly, the category has historically shown higher sensitivity to the economic climate. Secondly, SMEs are

generally conservative in forecasting the scale of future investments and rather underestimate them. Additionally, the expected persistence of the discouraging economic conditions contributes to dampen the investment climate. Also, the expectations about prices are consistent with these findings: they reach 34.3, the highest figure observed until now. This may be compatible with the worries of SMEs about the current inflationary pressure and ongoing increases in energy and raw material prices, which are expected to persist in the near future.

The overview of survey replies shows a strong increase of neutral answers

Chart 6 reports the answer trend of the EU Craft and SMEs Barometer and delivers further insights on the SMEs economic perspective for the first semester of 2022.

Chart 6 – Overview of survey replies to SMEUnited SME Barometer



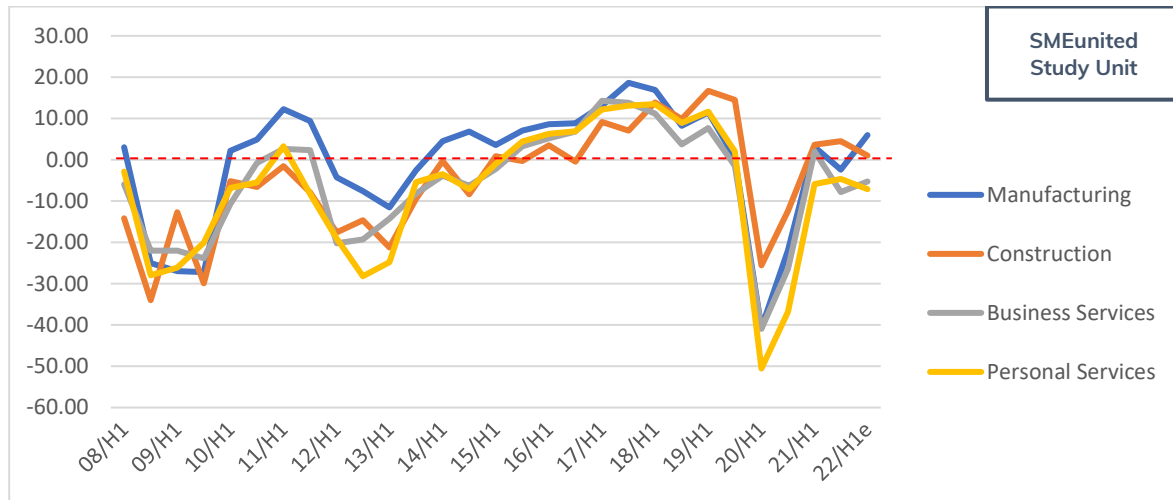
The results on the outcome of the 2nd semester 2021 (dashed red line) show that neutral responses are increasing, to the detriment of positive and negative responses. While positive and negative replies declined by 18.4% and 16.3% respectively, neutral answers significantly increased by 34.7%. The figures received show that the distribution of responses has remarkably shifted towards neutral answers, highlighting the standstill of the recovery.

Moreover, replies on expectations for the current semester seem even to amplify this polarisation. While the positive answers further decline to 17.5%, neutral answers increase to 57.7%, hitting a new highest record. On the other hand, only negative answers invert their trend, since they increase by 0.9%. However, this modest increase mirrors the difference between the climate index for the current semester and the one of the previous semester. Therefore, this picture clearly displays a considerable level of uncertainty for the future.

Developments by sectors and sizes

Finally, a comparison of the turnover among sector and of the employment among size classes is carried out.

Chart 7 – Turnover by sector

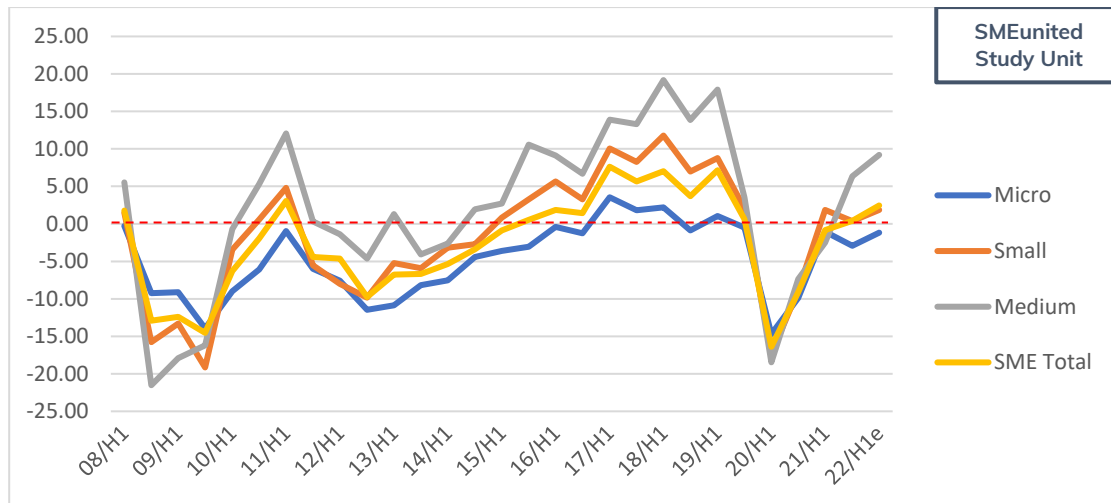


The turnover figures highlight some interesting sector-specific patterns. While last semester the turnover for the manufacturing and business services declined, it recorded a mild improvement for the construction and personal services. For the construction enterprises, this can be mainly reasoned by the fact that the SMEs in this sector are mainly engaged in renovation and building of private houses. Despite the lockdown restrictions, there has always been demand for construction enterprises: as a consequence, the construction companies continued their usual business activities. By contrast, the declining figures for turnover in manufacturing and business services may be the result of continuing supply chain and global trade problems.

The expectations on turnover for the current semester seem to turn around these sector-specific trends. Both the construction and personal services sector report declining expectations, scoring 1 and -7.1 respectively. Concerning the construction sector, the price hikes arising since November increased interest rates and costs of mortgages, discouraging people to invest in new buildings or housing renovations. Moreover, another possible reason may have to do with the ongoing worries of the construction enterprises about the persistence of skill shortage and problems with supply of construction materials. The gloomy expectations of the “personal services” category can be attributed to the high uncertainty associated with the restrictive measures put in place during December and January to dampen the impact of the Delta variant and limit the spread of the Omicron mutation. On the other hand, the other two business

categories recorded brighter expectations, especially the manufacturing sector, which is hardly impacted by social restriction measures.

Chart 8 – Employment by size class



The results for the employment by size class clearly display a downward trend for small and micro enterprises and more optimistic figures for medium-sized companies. These different patterns outline different types of employment dynamics, which can be explained by two different types of arguments. On the demand side, the reduced turnover and the labour restrictions forced the SMEs in the service sectors, notably micro and small businesses, to reduce their demand for new staff. By contrast, manufacturing and construction companies, mostly medium-sized enterprises, continued to hire new personnel. On the supply side, the labour shortage may have posed more challenges for micro and small companies than medium-sized ones in hiring newly-qualified staff. Also, these two explanations are consistent with the traditional higher sensitivity of contact-facing businesses in the service sectors to lockdowns. However, it is not clear which of the two effects is the prevailing one or to what extent they interplay among each other.

The figures for expectations show a more encouraging picture on employment for all the size classes. In particular, there is a steeper increase in expectations for medium-sized businesses. This picture outlines the willingness of SMEs to hire new personnel, even if labour shortage persists.

Conclusions and recommendations

The spread of new virus outbreaks, the price hicks and the supply chain disruptions unexpectedly halted the growth path that was projected for the last semester. As a consequence, this daunting economic scenario significantly flattened the business confidence, as shown by the remarkable plateau of the Business Climate Index. The shrinking gap between the most hit Covid-19 countries and the rest clearly shows a converging trend between these two groups.

The actual results of the last semester were far behind expectations. The loosening of the lockdown restrictions and the advancement of the vaccine coverage during the summer fueled high expectations about a return to normal. However, this optimistic business sentiment clashed with the unexpected headwinds that arose in autumn. As a consequence, the sharp contrast between expectations and results generated a large overestimation, especially for turnover and investments.

The Barometer clearly shows declining or flattening expectations for the current semester, signaling the huge uncertainty of businesses on the future pandemic developments and the supply frictions.

The standstill of the recovery will be held back further by the war and related sanctions. Therefore, more efforts are necessary to allow SMEs to recover from the Covid pandemic, to mitigate the sanctions and to tackle the transition to a greener and more digital economy. SMEUnited recommends that policies at European and national level should:

- stabilise energy and commodity markets and protect vulnerable clients;
- offer mitigation measures to compensate for unbearable consequences of sanctions;
- provide an enabling environment for the transition, which ensures competitiveness, predictability for investors and encourages innovation;
- avoid new regulatory burdens holding back the recovery and hindering an effective transition;
- use the Recovery and Resiliency Facility to support needed reforms and to crowd in investments for the green and digital transition;
- increase investments in skills and infrastructure;
- strengthen the internal market by avoiding any distortion of cross border mobility and by removing existing barriers for services,
- ensure level playing field in relation to third markets and within the single market by enforcing existing rules and improving fairness as regards platform economy and tax systems;
- reform economic governance to allow flexibility for needed investments without endangering mid-term fiscal sustainability.

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 September 2020 and January 2021, 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 2021 as well as the expectations for the first half of 2022.

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** (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, SMEUnited 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 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 2022

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e
Overall	9,0	8,0	6,9	-7,3	3,1	4,6	0,0	-10,2	13,0	9,8	12,0	-5,5	19,8	15,6	0,9	-3,6
Turnover	3,9	12,9	0,1	1,5	-0,9	9,6	-8,7	-5,0	8,6	14,7	4,4	2,1	12,2	19,9	11,4	14,5
Employment	-0,8	9,0	0,4	2,5	-1,0	4,5	-2,9	-1,2	1,8	8,1	0,4	1,9	-2,5	19,9	6,4	9,2
Prices	15,7	29,1	23,2	34,3	13,6	26,6	20,1	31,9	18,8	29,6	25,3	35,5	17,8	35,1	31,5	38,4
Investments	0,3	3,8	-4,3	-7,1	-2,2	1,3	-9,8	-11,8	2,7	4,1	-2,6	-6,6	3,5	9,6	2,0	2,6
Orders	0,0	9,1	-1,4	-0,3	-4,6	6,9	-8,5	-5,0	4,8	10,3	2,7	-0,1	11,4	13,3	7,9	9,0

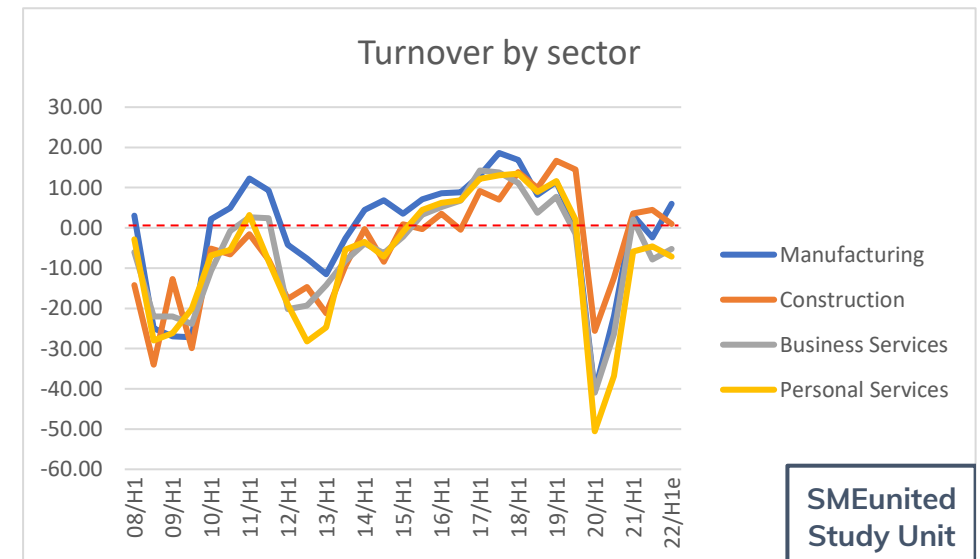
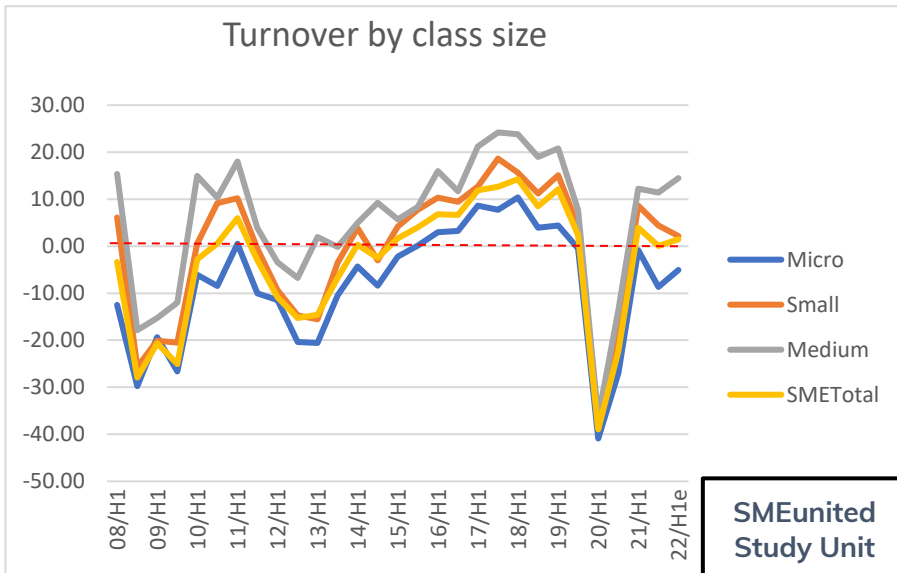
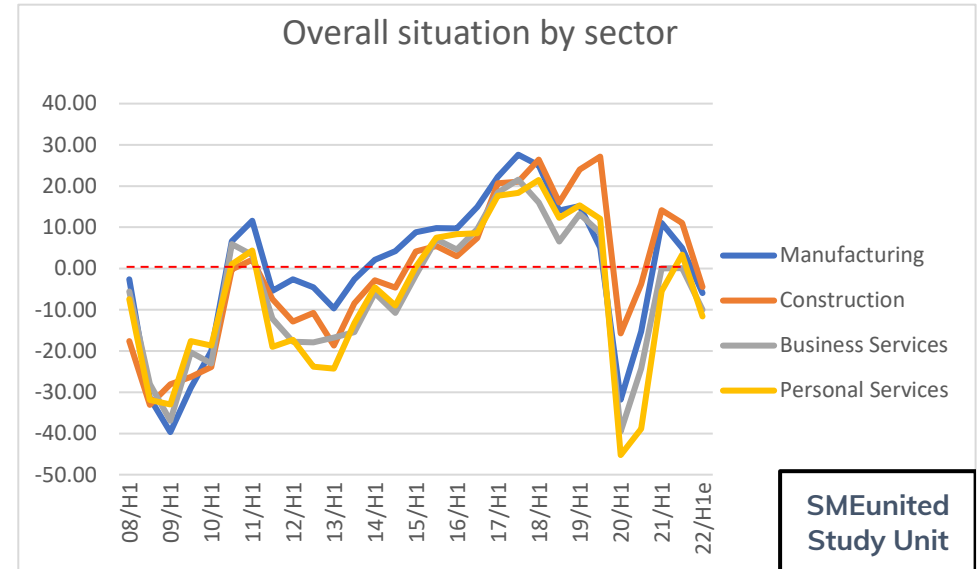
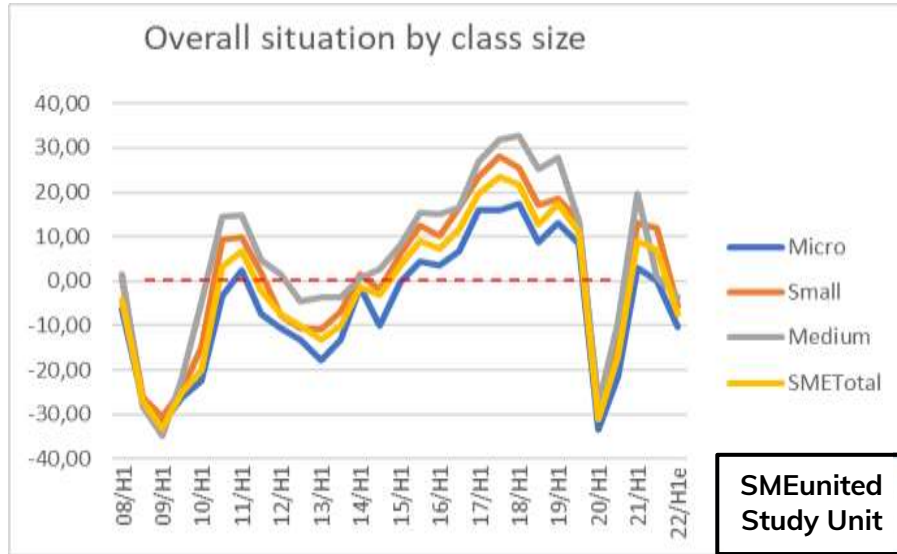
	Manufacturing				Construction				Business Services				Personal Services			
	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e	21H1	21H2e	21H2	22H1e
Overall	11,1	7,7	5,0	-6,0	14,2	5,1	11,0	-4,5	0,0	6,8	0,1	-10,0	-5,5	9,6	3,4	-11,6
Turnover	3,1	16,0	-2,4	5,9	3,6	6,9	4,5	1,0	2,0	10,0	-7,8	-5,3	-5,9	12,1	-4,6	-7,1
Employment	-2,5	6,6	-1,1	1,8	1,3	5,5	0,8	0,3	-0,1	7,7	-1,2	0,0	-2,9	4,4	-5,4	-0,2
Prices	17,7	34,7	23,8	38,7	21,4	29,7	26,8	36,6	12,7	24,4	21,1	31,5	4,8	20,0	22,4	28,4
Investments	0,9	5,0	-5,0	-5,5	-1,1	-0,2	-1,9	-6,1	0,8	3,6	-7,5	-13,0	-3,7	2,8	-4,7	-10,6
Orders	3,2	12,7	-2,1	1,0	2,7	3,3	3,4	0,2	1,0	8,0	-9,3	-7,3	-8,2	12,1	-6,7	-6,3

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

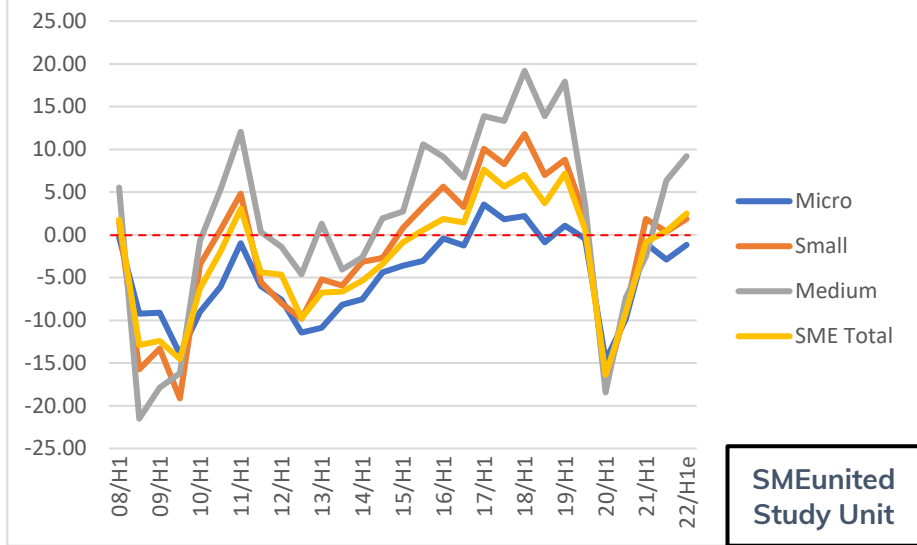
	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e
Overall	33,9	-1,1	31,2	-4,6	36,9	2,2	38,9	-14,7
Turnover	22,9	-12,8	22,4	-18,3	26,6	-10,3	23,0	-8,5
Employment	6,2	-8,5	7,2	-7,4	9,6	-7,7	1,9	-13,6
Prices	7,6	-5,9	6,6	-6,5	10,7	-4,3	6,9	-3,6
Investments	22,8	-8,1	23,6	-11,1	24,5	-6,7	18,8	-7,6
Orders	20,1	-10,5	19,0	-15,4	23,9	-7,6	25,4	-5,5

	Manufacturing		Construction		Business Services		Personal Services	
	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e	21H1-21H1e	21H2-21H2e
Overall	31,1	-2,7	32,0	5,9	27,3	-6,7	34,3	-6,3
Turnover	15,2	-18,4	18,2	-2,4	24,4	-17,9	26,1	-16,7
Employment	2,4	-7,7	5,5	-4,7	8,5	-9,0	8,1	-9,8
Prices	10,7	-10,9	11,6	-2,9	7,1	-3,3	-1,5	2,4
Investments	17,1	-10,0	17,1	-1,7	20,9	-11,1	27,6	-7,6
Orders	16,5	-14,8	19,8	0,2	22,6	-17,3	21,9	-18,8

Results – European Crafts and SME Barometer – Spring 2022

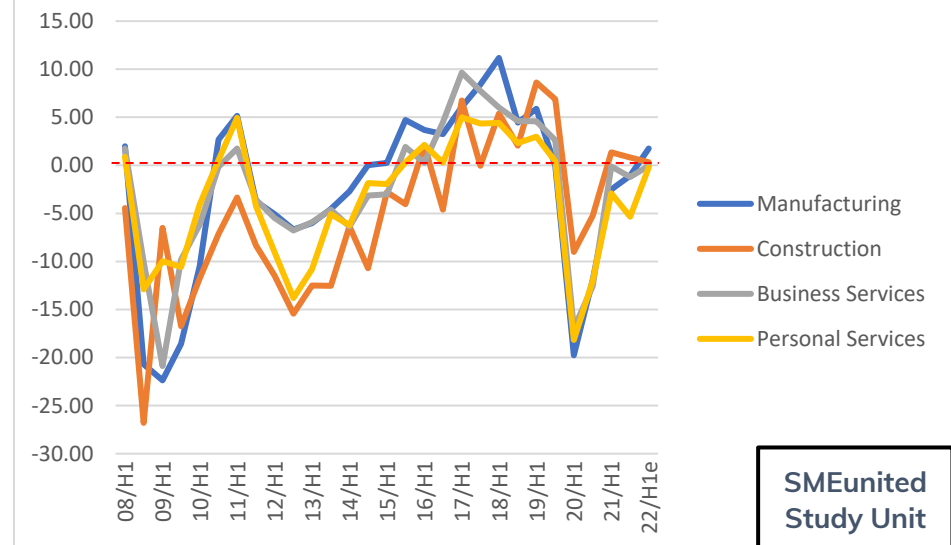


Employment by class size



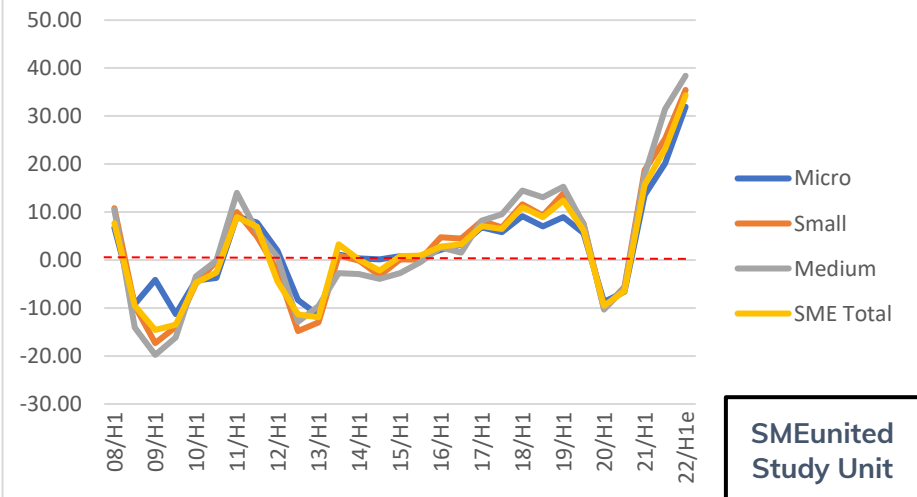
SMEUnited Study Unit

Employment by sector



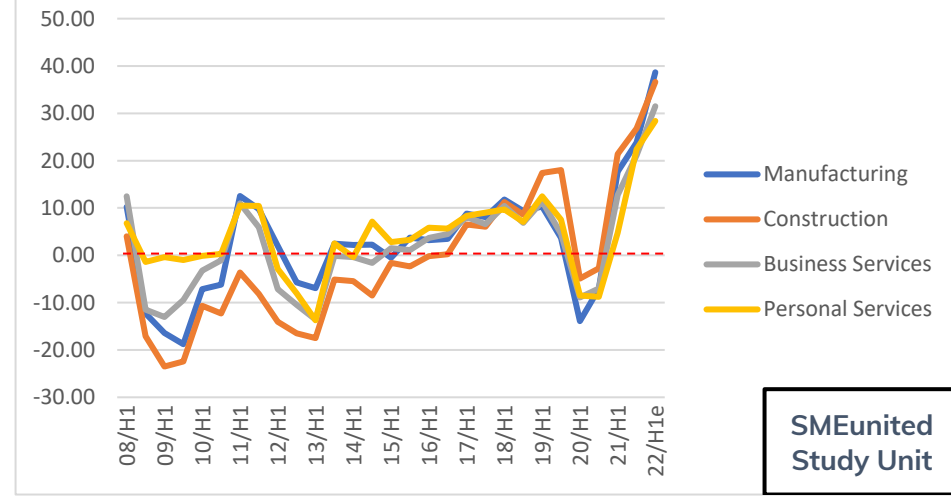
SMEUnited Study Unit

Prices by class size



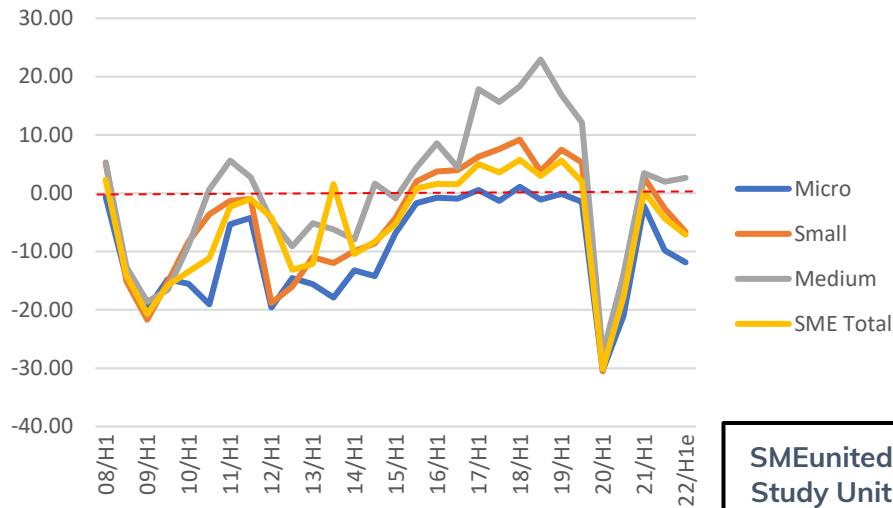
SMEUnited Study Unit

Prices by sector



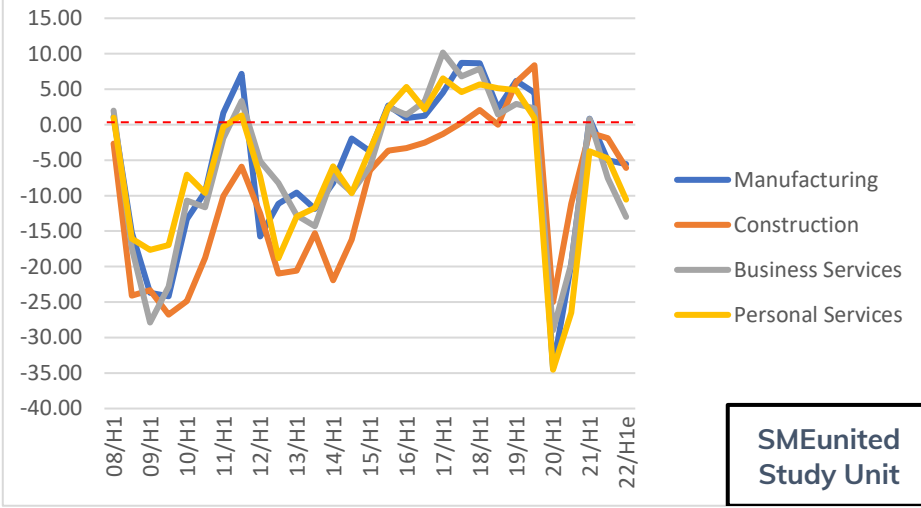
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Investments by class size



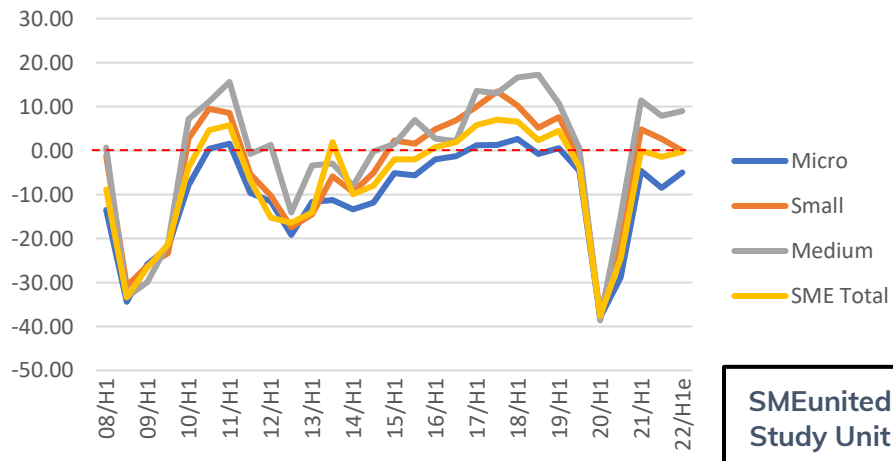
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Investments by sector



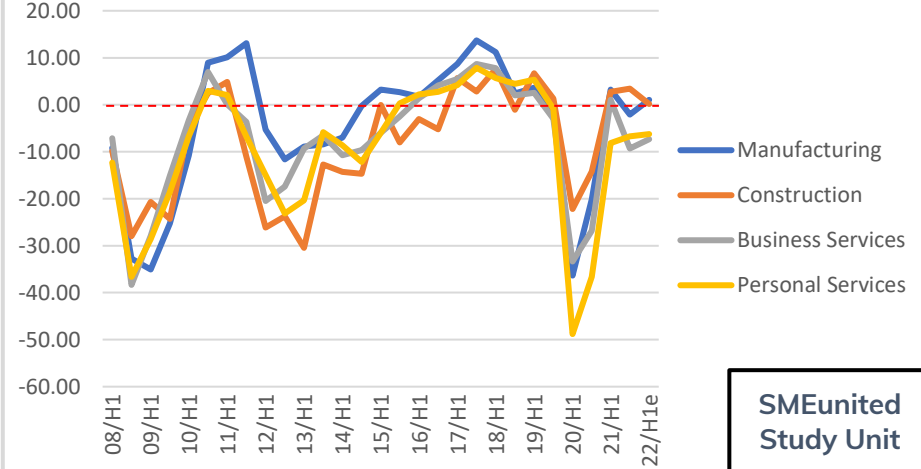
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Orders by class size



SMEUnited Study Unit

Orders by sector



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