



**SPRING  
2023**

**The SME Business  
Climate Index and  
EU Craft and SME  
Barometer**

## Executive Summary

The downward trend of the Business Climate Index, which started at the beginning of 2022 is continuing, but decelerating. This displays a slowdown of the post covid recovery, the cause of which can be attributed to high energy prices and trade restrictions following the war in Ukraine. These factors lead to an increase in core inflation, which in turn also contributed to the slowdown. Furthermore, supply chain disruptions and labour shortages also play a role in this slowdown.

In Autumn 2022, the performance of SMEs declined. The orders and turnover both decreased due to the reduced purchasing power of households. However, SMEs reported that they were able to increase their prices in order to minimise their losses. A slight increase in the figures concerning investments gives evidence that SMEs might have invested in energy-saving measures in order to avoid further costs on that side.

The results for Autumn 2022 are significantly above the original expectations, showing that the concerns towards a possible degradation of the economic context did not evolve as far as expected. However, the results regarding employment are lower than expectations, revealing the depth of the labour shortage issue.

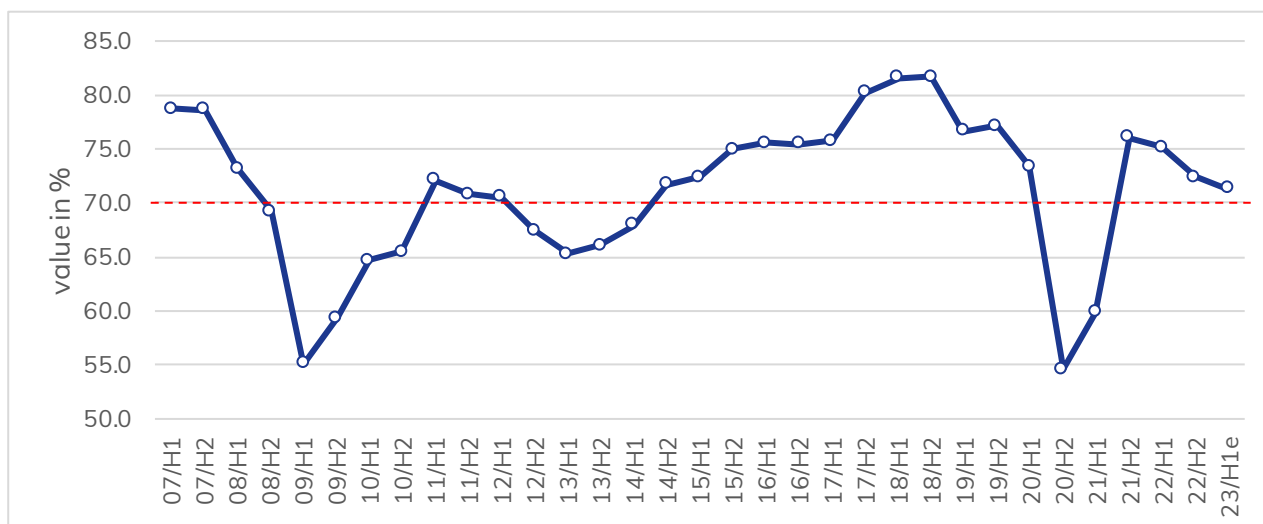
In Spring 2023, prices are expected to continue increasing. This shows the ability of SMEs to pass on higher costs to consumers, resulting in an increase in core inflation that will carry on throughout the semester. However, there are some differences between sectors. The manufacturing sector benefits from price decrease for commodities and energy, which reduces the price dynamic. On the other side, the labour intensive personal services sector is confronted with significant wage increases, which motivates SMEs in this sector to raise their prices. As for employment, the figures show some sort of stagnation at low levels, which emphasises the view of SMEs that labour shortages have become a persistent issue.

# SME Business Climate Index drawing near the baseline

## Decelerating downward trend for SME Business Climate Index: 71.3

The latest SME Business Climate Index for the European Union reports a reduction in SMEs' confidence for Spring 2023. This drop is in line with the declining trend that started during the second semester of 2021 and shows a fading out of the strong recovery after the Covid-19 recession. However, it is now decelerating, with a -1.1% decrease, compared to a -2.8% decrease in Autumn 2022. The index is getting closer to the baseline but is still above it, so the economy is expected to avoid a recession.

**Chart 1 – SMEUnited Business Climate Index<sup>1</sup>**



22/H2: Second half of 2022

23/H1e: Expectations for the first half of 2022

Energy prices already showed a first increase during the post-pandemic recovery. Then, a year ago, the war in Ukraine began, leading to further and more important surges in energy prices due to the cut-off of Russia's supply. In turn, these events caused a high level of inflation in the European Union. However, Member States have not all been impacted in the same way on account of heterogeneous policy responses. Additionally, supply chain disruptions continued, labour shortages became even more pronounced and businesses were confronted with trade restrictions caused by sanctions following the war.

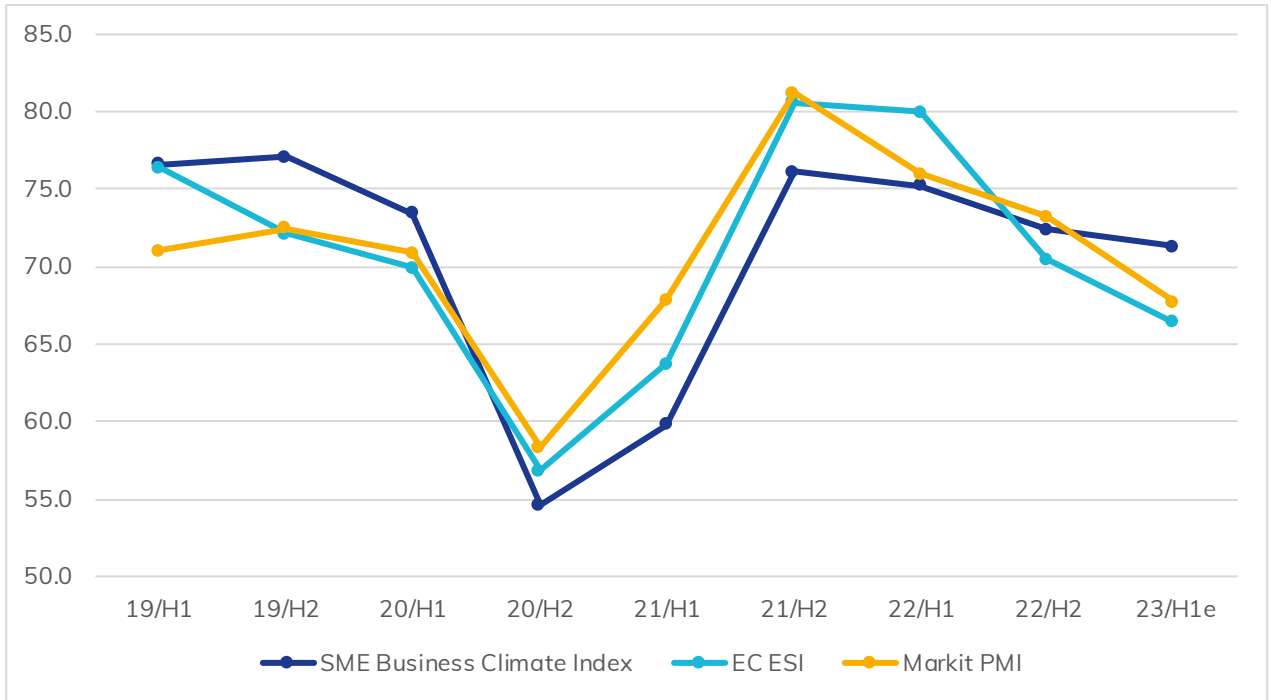
The geopolitical tensions persist, nevertheless, previous supply chain disruption issues start to improve since China's reopening in December 2022.

Additionally, while the headline inflation is decreasing, the same cannot be said for the core inflation. As there are second-round effects from high commodity prices and wage increases, which will lead to further rises in core inflation. Overall, the previous economic challenges seem to prevail,

<sup>1</sup> The SME Business Climate Index assigns a value to the European SMEs' confidence in economic development for the near future. 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).

continuing the downward trend of the Business Climate Index, signalling the end of the post-pandemic recovery.

**Chart 2 - SMEUnited BCI, EC ESI and Markit PMI<sup>2</sup>**



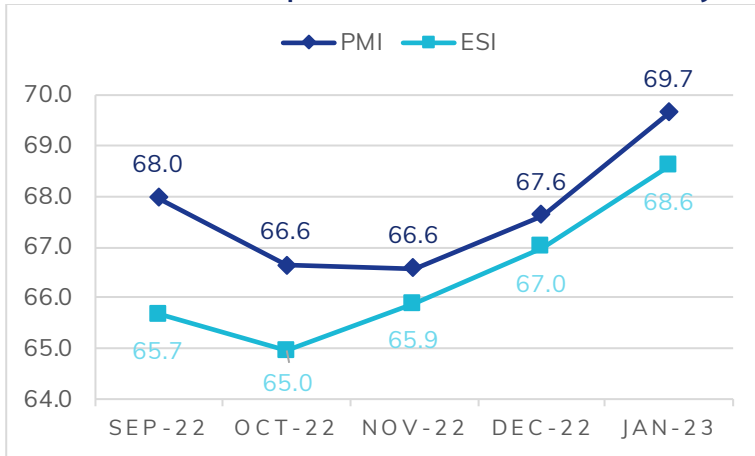
As a robustness and comparative exercise, Chart 2 associates the SME Business Climate Index (BCI) with the European Commission’s Economic Sentiment Indicator (EC ESI) and the Purchasing Managers’ Index (Markit PMI).

The SME Business Climate Index scores the highest of the three indices, showing that SMEs display more resilience than the rest of the economy. This indicates that the current context does not present evidence of recession for SMEs.

Furthermore, it is important to note that the EC’s ESI and the Markit Composite PMI have been increasing in the past months as shown in Chart 3. Since the period of survey for the SMEs is from November to January, it was during this period that the other indices started to increase again. This means that the SME Business Climate Index might be underestimated. If all SME data had been collected in January, the index could show an even better result.

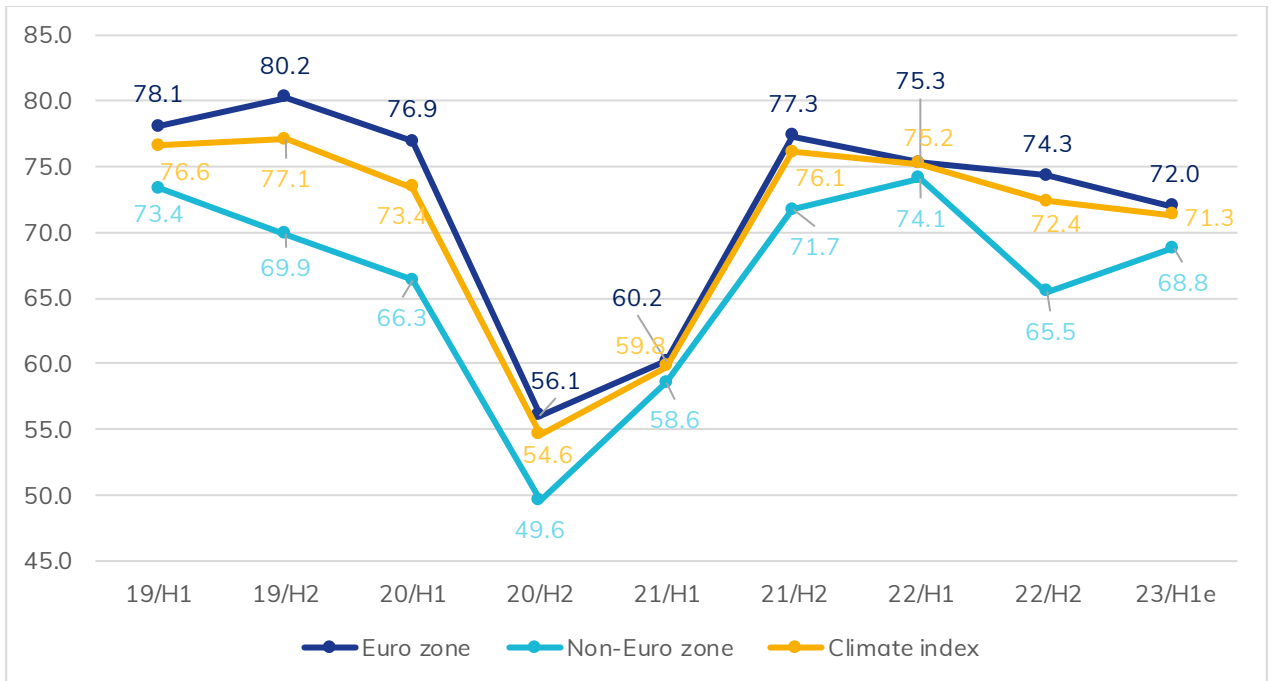
<sup>2</sup> The EC’s ESI measures five confidence indicators linked to different sectors. The average of the last six months ESI values has been re-scaled to 70 as a long-term average/neutral value. The Markit Composite PMI tracks different variables of large firms in manufacturing and services and has been equally rescaled to 70 as a neutral level.

**Chart 3 – Markit composite PMI and EC's ESI monthly trend**



The index in Chart 4 presents lower values for Non-Euro zone countries in Autumn 2022. This showed that Eastern European countries with closer interconnections with Russia have been the most affected by the war in Ukraine.

**Chart 4 - SMEUnited BCI: Comparison Eurozone vs Non-eurozone**



An increase in the Business Climate Index and a narrowing of the gap between euro and non-eurozone countries can be noticed for Spring 2023, displaying that the shock of the war seems to have faded and that non-eurozone countries are catching up compared to the rest of the European Union economy.

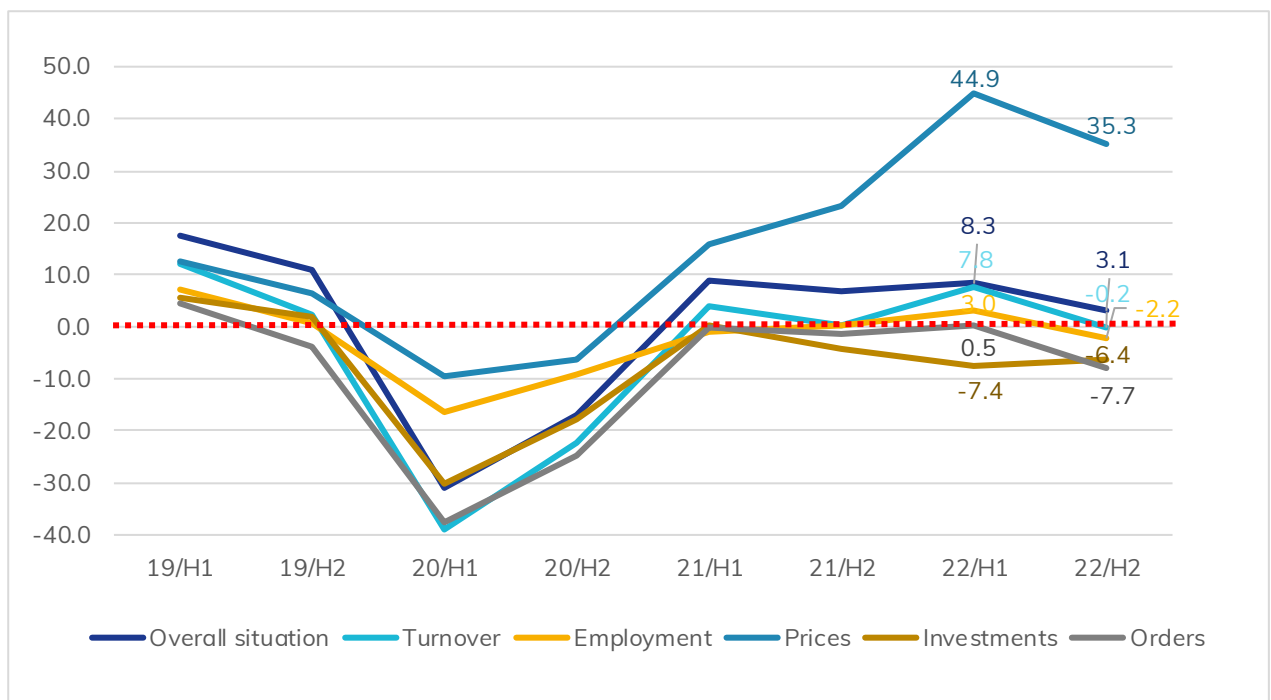
# The EU SME Barometer: slowdown of the economy

The EU Craft and SME Barometer is built on the results of surveys conducted by SMEUnited member organisations. It shows the difference between positive and negative replies from SMEs of different sizes and sectors for six economic indicators: the overall situation, turnover, employment, prices, investments and orders.<sup>3</sup>

## Performance of SMEs decreased during the second semester of 2022

In Spring 2022, SMEs have benefited from positive developments such as the end of the pandemic with the reopening of businesses and markets and increased demand from households. However, in the Autumn of 2022, SMEs started to suffer from the repercussions of the increased energy prices and other impacts of the war.

**Chart 5 – SMEUnited Barometer aggregated values for the 6 business categories**



The weakened purchasing power of households due to high energy and food prices led them to decrease their consumption of other goods and services. It can be noticed in Chart 5 that the orders have decreased compared to Spring 2022, going from 0.5% to -7.7%. Due to the lower demand, the indicator for the turnover also goes down from 7.8% to -0.2%.

The indicator on prices is lower in comparison to Spring 2022 as well, going from 44.9% to 35.3%. However, it is important to note that 35.3% is still a substantial positive value, which means that prices have continued to increase. More and more SMEs are actually able to pass on the increase in costs to consumers, which results in higher core inflation.

The only upward slope that can be noticed in Chart 5 from Spring to Autumn 2022 concerns the investments (from -7.4% to -6.4%). Even if the number of negative responses regarding investments

<sup>3</sup> More about the methodology can be found at page 13.

is higher than the number of positive responses in Autumn 2022, the figure has increased compared to Spring 2022.

During the Spring semester of 2022, the investments have been affected by the geopolitical context with the beginning of the war in Ukraine. Uncertainty about the future business environment prevented companies from investing. The smaller negative figure regarding the investments in Autumn 2022 might be caused by the fact that more SMEs invested in energy-saving measures in order to react to the price pressure and avoid further increases in energy spending.

## Results for second half of 2022 are significantly above expectations

Table 1 presents the comparison between SMEs' expectations for the second semester of 2022 and the actual results. The figures show that only employment and prices display a lower result than expectations, while investments, orders, turnover and overall situation display a higher result than expected.

**Table 1 – Expectations and actual results for the second semester of 2022**

	Expectations 22/H2e	Results 22/H2	$\Delta$ (R-E) 22/H2
<b>Overall</b>	-16.7	3.1	19.7
<b>Turnover</b>	-1.7	-0.2	1.5
<b>Employment</b>	1.2	-2.2	-3.4
<b>Prices</b>	39.9	35.3	-4.6
<b>Investments</b>	-14.3	-6.4	8.0
<b>Orders</b>	-8.9	-7.7	1.1

These expectations were made after the beginning of the war in Ukraine, with high increases in energy prices and the beginning of sanctions following the war, which impacted the European economy. In this context of uncertainty regarding the evolution of the situation, the negative expectations for the second semester of the year made sense. The difference between the expectations and the actual results is compelling and shows that the concerns about the overall situation did not materialise.

Interestingly, the difference between the expectations and actual results is minor for the turnover (1.5%), indicating that even with the overall uncertainty, SMEs were confident in their way to deal with the situation and had a good understanding of their own performance.

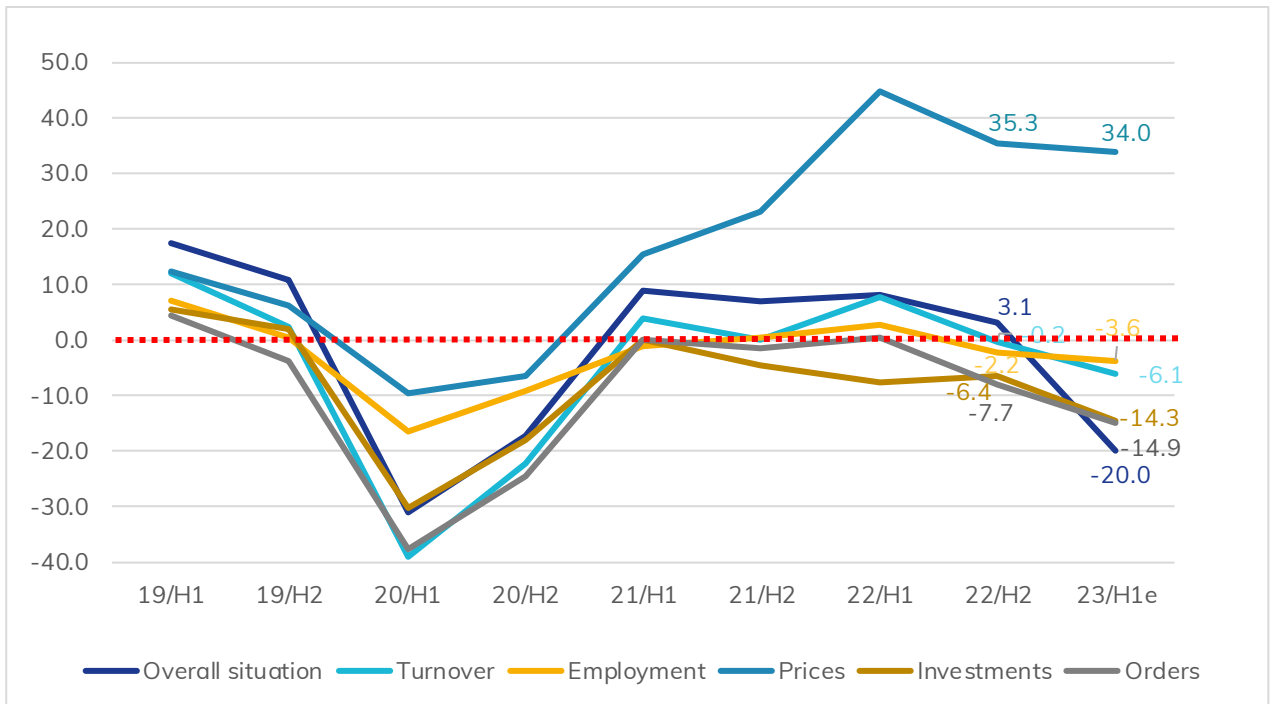
The expectations for employment displayed a positive value. However, the actual results were negative. When turnover displays a positive difference between the expectations and the results, employment should follow this trend. The fact that it does not, with a difference of -3.4%, indicates that labour shortages are persisting.

The investments are structurally underestimated in the expectations. This could be due to the fact that SMEs have to deal with a lot of unexpected investments. Furthermore, SMEs might have undertaken unplanned investments in energy-saving measures to dampen costs.

## Expectations for Spring 2023: continued slowdown of the economy

The decrease in the performance of SMEs, which started in the last semester of 2022, is expected to continue in the first semester of 2023. In Chart 6, all indicators present negative values with the exception of the price, and all the curves present a downward trend.

**Chart 6 – SMEUnited Barometer aggregated values for the six business indicators**



The expectation for the overall situation displays the same trend as the expectation that was made in Spring 2022: a sharp reduction (-23.1%) from a positive value to a negative one, due to the absence of significant positive evolution in the overall economic context.

Even though the projection on the overall situation is gloomy, there is still a large gap between the expectations for the overall situation and the turnover, which has an expected value of -6.1%. While the turnover displays a negative figure, it is not as negative as the overall situation.

The indicator for the price displays a stabilisation at 34.0%, which demonstrates that SMEs are still able to increase their prices and will continue to do so in the first semester of 2023, which in turn will contribute to a rise in core inflation.

The decrease in employment between Autumn 2022 and Spring 2023 is slight, with numbers going from -2.2% to -3.6%. This is in line with the expectations for turnover. However, it has to be seen, if SMEs are able to realise their employment expectation or if labour shortages persist.

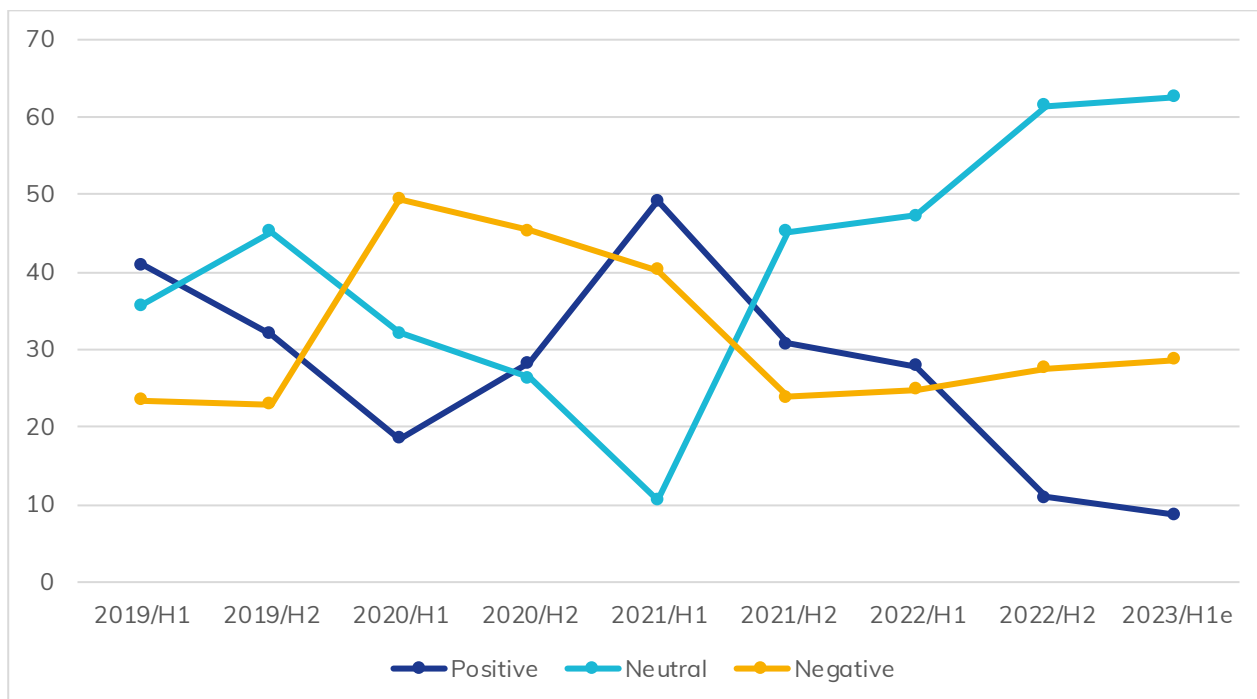
## Survey replies show a stabilisation of the development

Chart 7 illustrates the trend of survey responses regarding SMEs' expectations and delivers further insights into their economic perspective. The survey shows a notable increase in the number of neutral responses during Autumn 2022, which has come at the expense of positive responses. This suggests that there has been a stabilisation after the post covid-19 recovery: the positive developments decreased, indicating lower growth but stable development.



Looking ahead to Spring 2023, the survey results indicate that the neutral stance has stabilised, which suggests that there has been no significant improvement or deterioration in the economic situation for SMEs. This is in line with the global economic context since no major developments are to be expected for the first semester of 2023. While the recovery has lost momentum, the developments ahead do not suggest a worsening of the situation.

**Chart 7 – Overview of survey replies to SMEUnited SME Barometer**



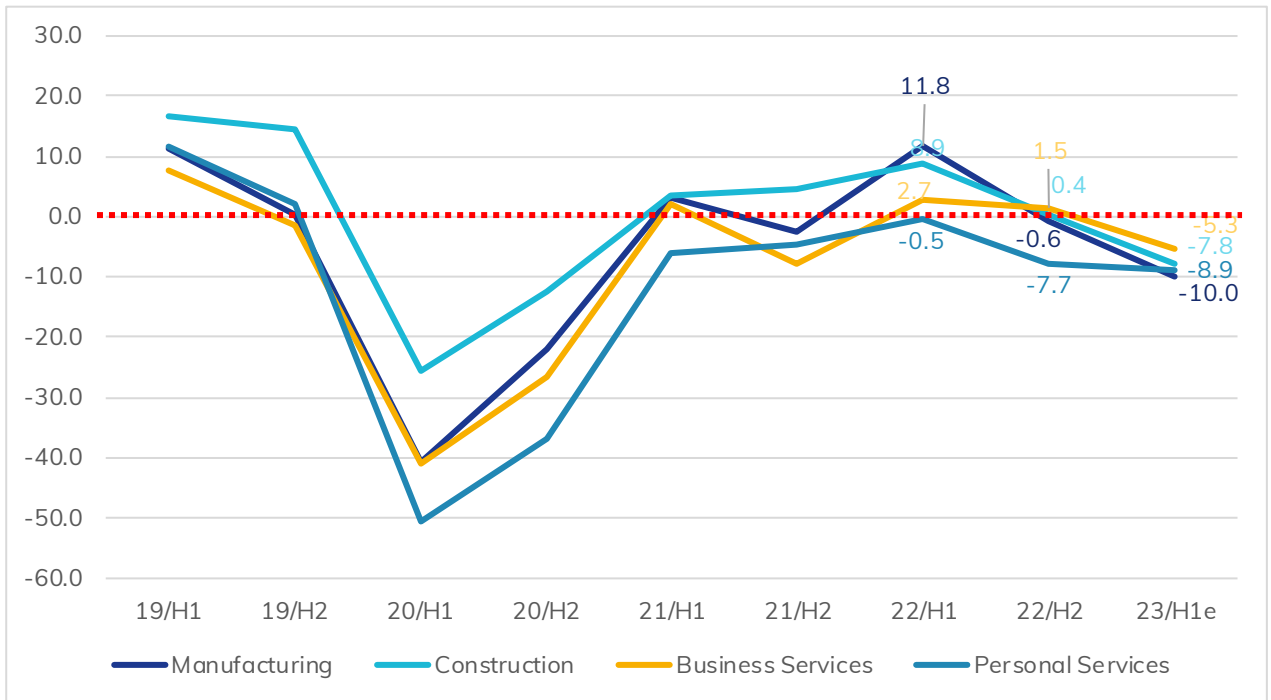
## Sectors have been differently impacted by the latest developments

The construction and business services sectors display low but positive values for the last semester of 2022, while manufacturing and personal services were already in the negative sphere. Chart 8 represents these different trends for the various sectors' turnover.

As for the construction sector, the figure for Autumn 2022 is not negative because SMEs were still benefiting from previous contracts coming from periods where the interest rates were low and demand was high. Now that the interest rates are increasing, the demand for this sector is decreasing and therefore the expectations for the Spring 2023 turnover are negative.

In the business services sector, some SMEs such as advisory firms or liberal professions might have received a high amount of orders from other companies, which sought their advice due to the uncertain economic context. Therefore, higher demand could be the result of more requests for business support. This demand would be translated by the positive value of 1.5% for the indicator for turnover. However, the expectations for Spring 2023 are negative, due to stable developments expected for this semester, the demand for business services may decrease.

**Chart 8 – Turnover by sector**



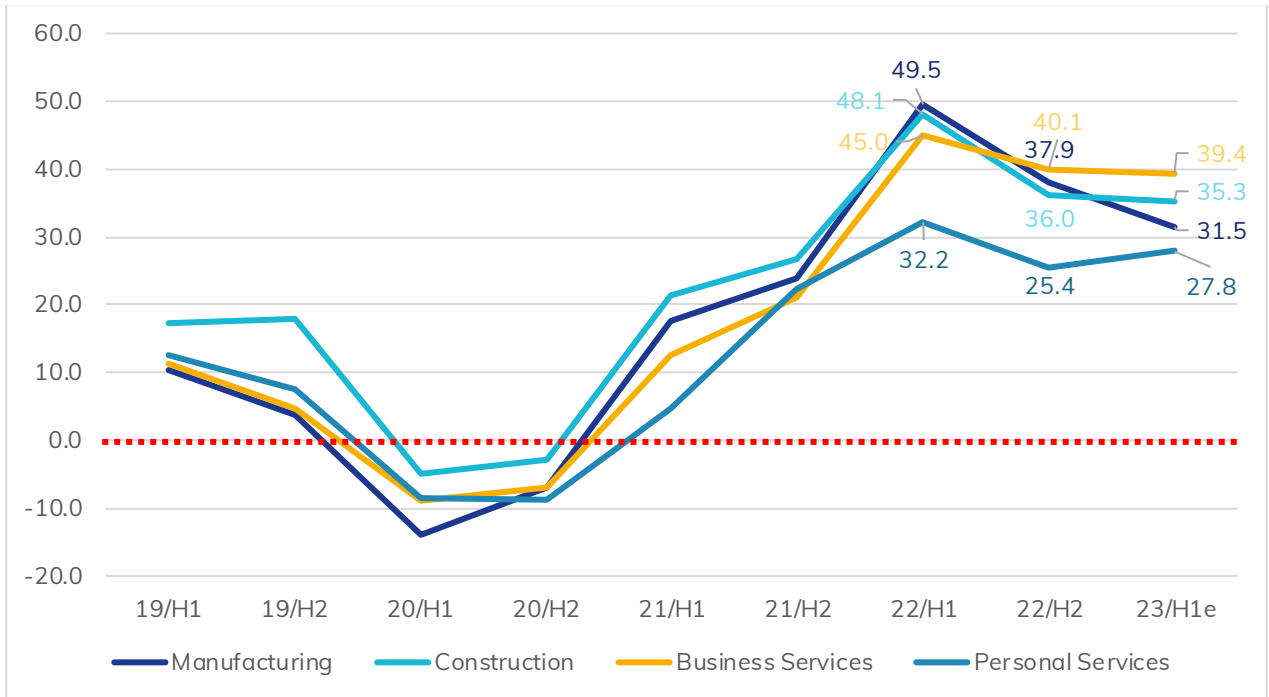
The manufacturing sector has been hit by supply chain disruptions, which can affect negatively the turnover if SMEs are unable to meet the consumers' demand, as well as increase the costs if they have to source their materials from different suppliers. Additionally, this sector has also been impacted by higher energy prices, which aggravated further the rise in costs. During the last semester of 2022, these higher costs had a negative impact on the turnover of the sector. The downward trend of the turnover is expected to continue in Spring 2023 due to ongoing supply a lack of materials, staff and a decrease in demand.

Since restaurants, cafes and other personal services are the first type of consumption that households will reduce when they face diminished purchasing power, the demand for this sector is particularly hit by the consequences of the sharp increase in energy prices. The decrease in demand results in more negative values for the turnover of personal services in Autumn 2022. The turnover is expected to stabilise on the same level in Spring 2023 due to no significant positive change in the households' purchasing power and an increase in the wages of personal services workers.

## Prices continue to increase in all sectors

In each sector, SMEs have been reporting increases in prices since the post-covid recovery. Chart 8 shows a reversal of the trend for the second semester of 2022. However, the figures remain high, revealing a continued increase in the prices. The expectations seem to point to stabilisation for business services and construction. On the other hand, the indicator for the personal services sector shows an increase, and the manufacturing sector shows a continued downward trend.

Chart 8 – Prices by sector



The personal services sector increases the prices less than other sectors in 2022, which might be due to the fact that they are not energy-intensive SMEs. Therefore, they have not been as affected by the rise in energy prices. However, in Spring 2023, the amount of SMEs expected to increase prices in the personal services sector is higher. This sector is labour-intensive, and since the wages are rising, there is a need to increase the prices in order to avoid losses.

The manufacturing sector is the only one to display a significant downward trend for two consecutive periods. This could be the consequence of fewer problems with supply chain disruptions, as well as decreases in commodity prices. Furthermore, stabilisation of energy costs might have reduced the costs and ultimately, the pressure on prices.

In the construction and business services sectors, there is first a decrease in the figures from Spring to Autumn 2022, then, a stabilisation from Autumn 2022 to Spring 2023. A constant but substantially high number of SMEs report an ability to increase their prices in the current semester.

## Conclusions and recommendations

The Business Climate Index keeps decreasing, however, there is a deceleration of the downward trend. A slowdown of the post-covid recovery is present, due to supply chain disruptions, labour shortages and the Ukrainian war which was followed by trade restrictions and high energy prices. These high energy prices gave place to a sharp increase in inflation, which already was a contributing factor in the post-covid recovery slowdown.

In the second semester of 2022, SMEs' performance decreased. At the same time, more SMEs reported that they were able to increase their prices, which resulted in higher core inflation. A slim change in the investment figures could give evidence that SMEs invested in energy-saving measures, in an attempt to reduce the impact of the rise in energy prices on their costs.

The results for the second semester of 2022 are significantly above the expectations made during the first semester, showing that the concerns towards a possible degradation of the economic context did not evolve as far as expected. However, the results regarding employment are lower than expected, revealing the depth of the labour shortage issue.

Prices have continued to increase, and are expected to keep doing so during the first semester of 2023, raising further the core inflation with some differences between sectors. While the manufacturing sector benefits from price decreases for commodities and stabilisation of energy prices, the labour-intensive personal services sector is confronted with significant wage increases creating additional upwards pressure on prices.

The expectation for employment is about the same as the one reported in Autumn 2022, which displays that labour shortages are a persistent issue.

In order to stabilise economic development and prepare for the future, SMEs ask for measures which further stabilise commodity markets, reduce inflation and avoid closures of viable businesses.

Therefore, SMEUnited recommends that policies at European and national level should:

- stabilise energy and commodity markets and protect vulnerable customers;
- offer mitigation measures to compensate for the consequences of energy price hikes;
- provide an enabling environment for the transition, which ensures predictability for investors, encourages innovation and overall competitiveness;
- avoid new regulatory burdens hindering an effective transition and creating additional costs for SMEs;
- use the Recovery and Resiliency Facility to support reforms and crowd in investments for the green and digital transition;
- increase investment in skills and infrastructure;
- strengthen the internal market by avoiding any distortion of cross-border mobility and by removing existing barriers to services,
- ensure a 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 necessary investment 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 was collected between October 2022 and January 2023, which gives quite a recent picture of the development and expectations of SME owners across Europe.

At the European level, we are able to provide **data by size class** (micro, small and medium-sized enterprises) and by **four economic sectors** (manufacturing, construction, business and personal services), which may show different developments over business cycles and react differently to external effects.

For each of these groups, the Barometer provides **balanced figures** for 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 positively or negatively (balance = positive answers - negative answers). 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 2022 as well as the expectations for the first half of 2023.

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 present only European figures and will not disclose country-specific data. This is due to the fact that we do not have enough statistically significant data for all Member States and that the presentation of national SME survey data is the prerogative of our national organisations that collect them.

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## Results – European Crafts and SME Barometer – Spring 2023

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

	All SMEs				Micro Enterprises				Small Enterprises				Medium-Sized Enterprises			
	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e
Overall	8.3	-16.7	3.1	-20.0	2.1	-15.9	-0.2	-18.7	10.9	-16.5	6.2	-21.1	15.9	-16.2	8.5	-21.3
Turnover	7.8	-1.7	-0.2	-6.1	-1.8	-5.1	-4.4	-6.4	12.2	-0.3	2.9	-8.3	22.2	8.3	7.6	-4.7
Employment	3.0	1.2	-2.2	-3.6	-0.6	0.2	-3.7	-3.5	2.8	1.0	-2.6	-4.7	7.3	3.0	2.1	-2.5
Prices	44.9	39.9	35.3	34.0	41.8	41.1	34.3	34.1	47.0	40.3	35.8	33.7	48.8	39.2	35.2	33.0
Investments	-7.4	-14.3	-6.4	-14.3	-13.0	-18.8	-8.8	-16.3	-5.0	-14.9	-5.1	-17.2	6.8	-3.7	-2.4	-12.9
Orders	0.5	-8.9	-7.7	-14.9	-7.2	-10.0	-10.2	-14.7	4.1	-7.8	-4.6	-15.7	11.2	-2.3	-8.6	-13.5

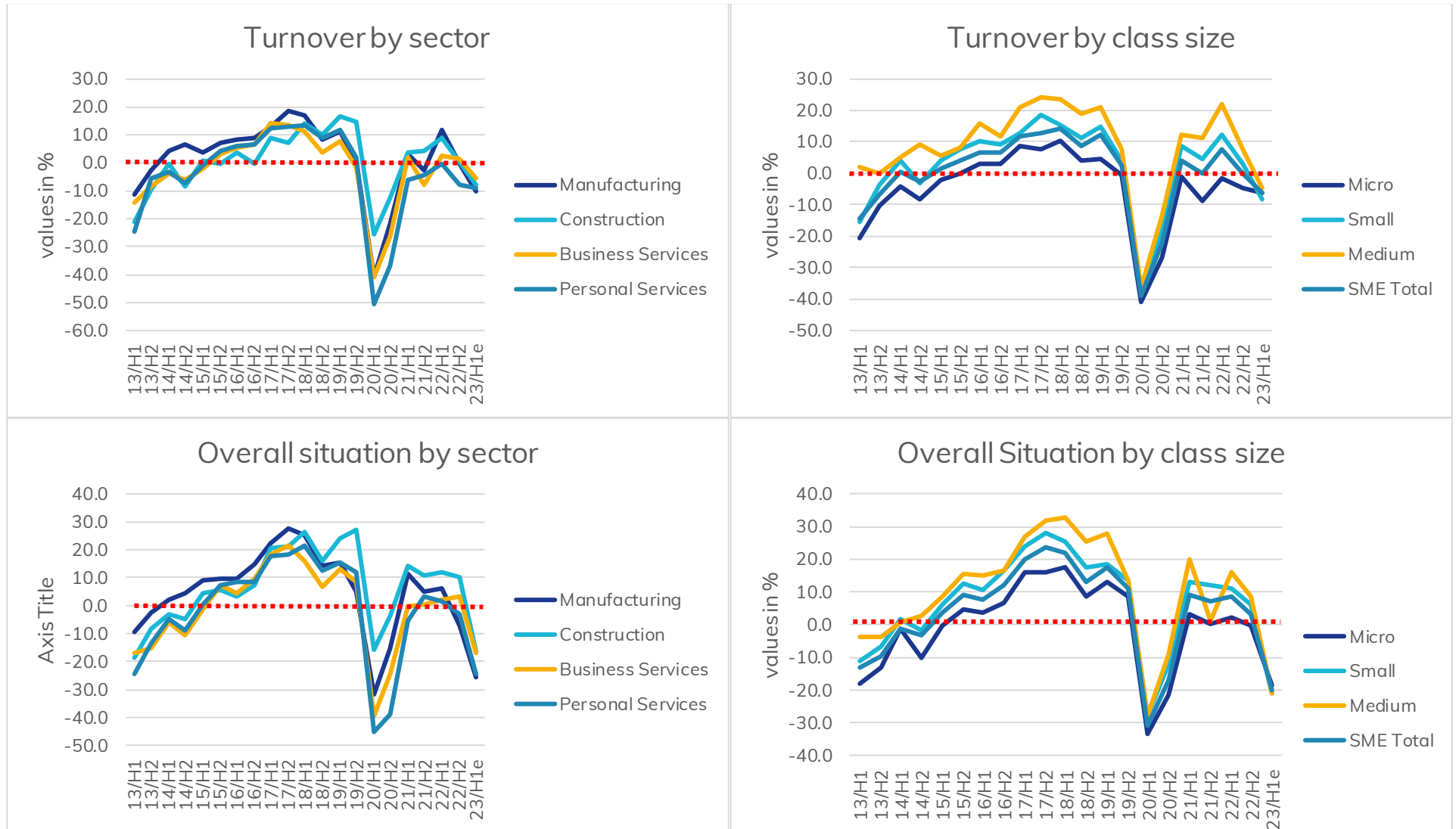
	Manufacturing				Construction				Business Services				Personal Services			
	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e	22H1	22H2e	22H2	23H1e
Overall	6.2	-22.9	-7.0	-25.6	11.8	-18.5	9.9	-16.7	2.3	-16.3	3.5	-17.1	1.5	-13.1	-2.8	-24.6
Turnover	11.8	-3.2	-0.6	-10.0	8.9	-5.2	0.4	-7.8	2.7	-5.2	1.5	-5.3	-0.5	-3.1	-7.7	-8.9
Employment	2.3	-0.1	-4.6	-4.1	0.3	-2.7	-3.8	-5.8	3.0	1.3	-1.3	-2.1	1.5	1.8	-2.7	-3.6
Prices	49.5	39.9	37.9	31.5	48.1	39.6	36.0	35.3	45.0	43.8	40.1	39.4	32.2	32.1	25.4	27.8
Investments	-5.7	-15.7	-10.4	-20.4	-8.1	-20.0	-7.2	-16.7	-10.1	-15.3	-2.0	-12.2	-7.7	-11.6	-8.2	-17.2
Orders	3.5	-8.3	-9.8	-16.6	3.9	-16.6	-5.9	-16.9	-6.4	-9.0	-3.5	-13.2	-4.9	-4.5	-12.6	-15.4

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

	All SMEs		Micro Enterprises		Small Enterprises		Medium-Sized Enterprises	
	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e
Overall	15.6	19.7	12.3	15.7	16.4	22.7	19.5	24.8
Turnover	6.3	1.5	3.2	0.7	10.1	3.2	7.7	-0.7
Employment	0.5	-3.4	0.6	-3.9	0.9	-3.6	-1.9	-0.9
Prices	10.6	-4.6	9.9	-6.7	11.5	-4.5	10.4	-4.0
Investments	-0.3	8.0	-1.2	10.0	1.6	9.9	4.2	1.4
Orders	0.8	1.1	-2.2	-0.2	4.2	3.2	2.2	-6.3

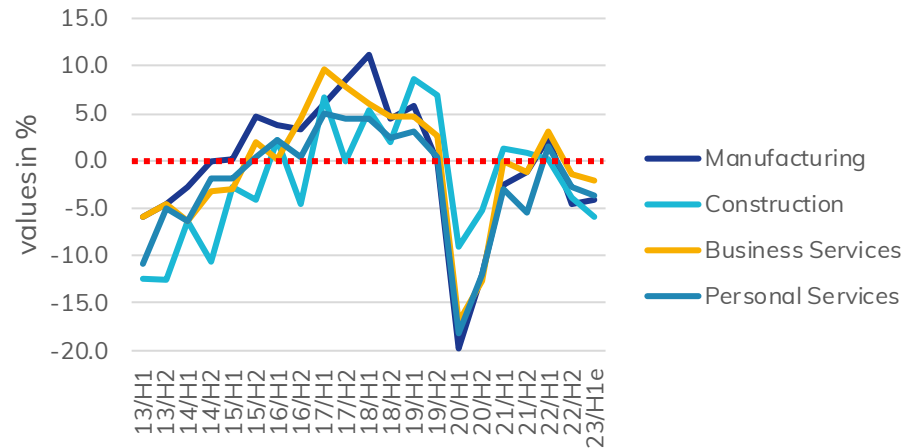
	Manufacturing		Construction		Business Services		Personal Services	
	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e	22H1-22H1e	22H2-22H2e
Overall	12.2	15.9	16.3	28.5	12.3	19.8	13.1	10.2
Turnover	5.9	2.6	7.9	5.6	8.0	6.7	6.6	-4.6
Employment	0.5	-4.5	0.0	-1.1	3.0	-2.6	1.7	-4.5
Prices	10.8	-2.0	11.5	-3.6	13.5	-3.7	3.8	-6.7
Investments	-0.2	5.2	-2.0	12.8	2.9	13.3	2.9	3.4
Orders	2.5	-1.5	3.7	10.7	0.9	5.6	1.4	-8.1

## Results – European Crafts and SME Barometer – Spring 2023

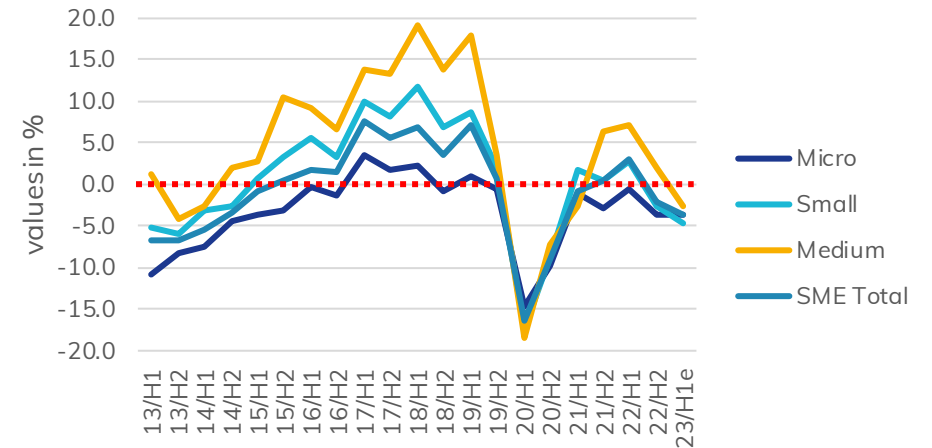




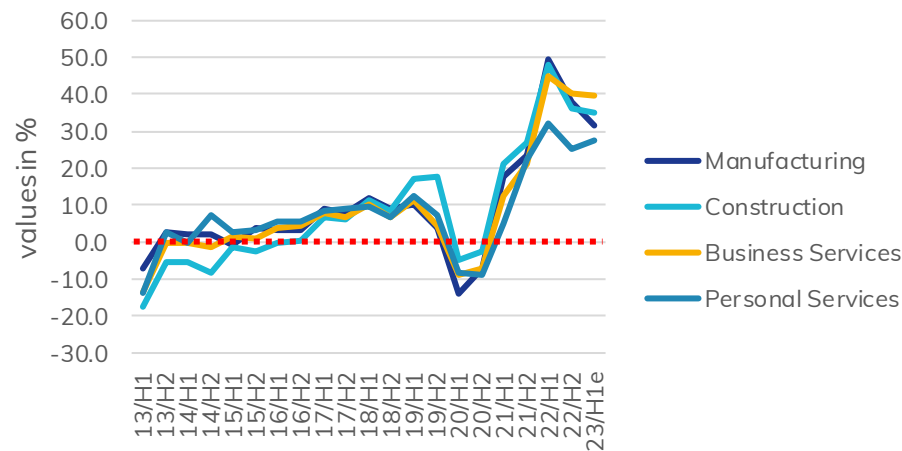
### Employment by sector



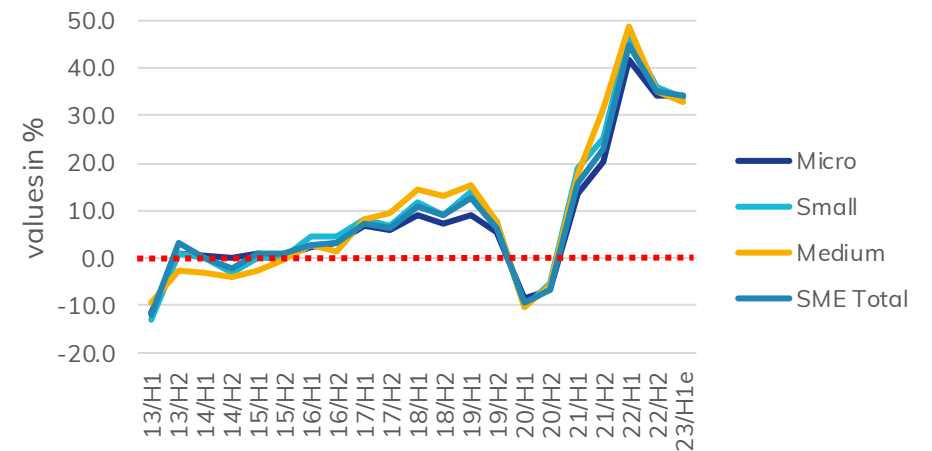
### Employment by class size



### Prices by sector

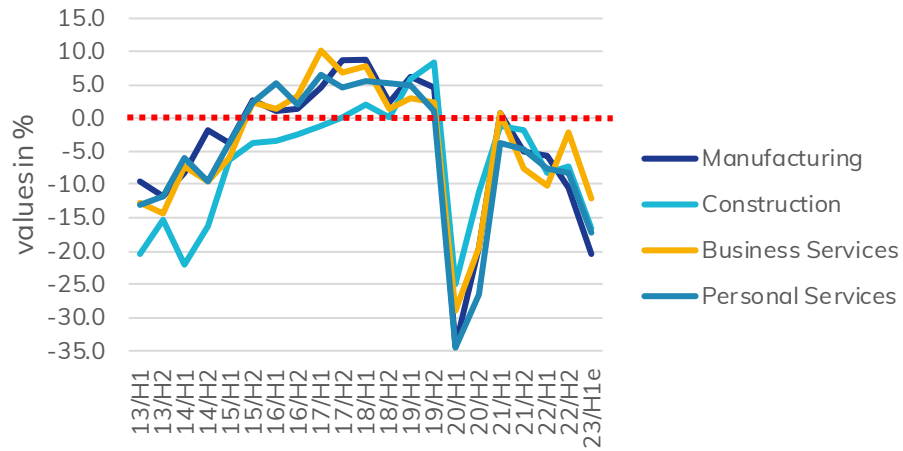


### Prices by class size

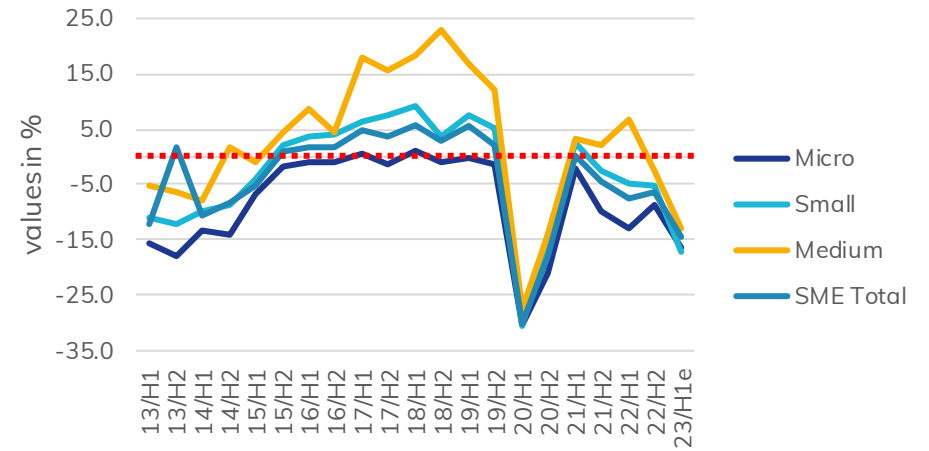




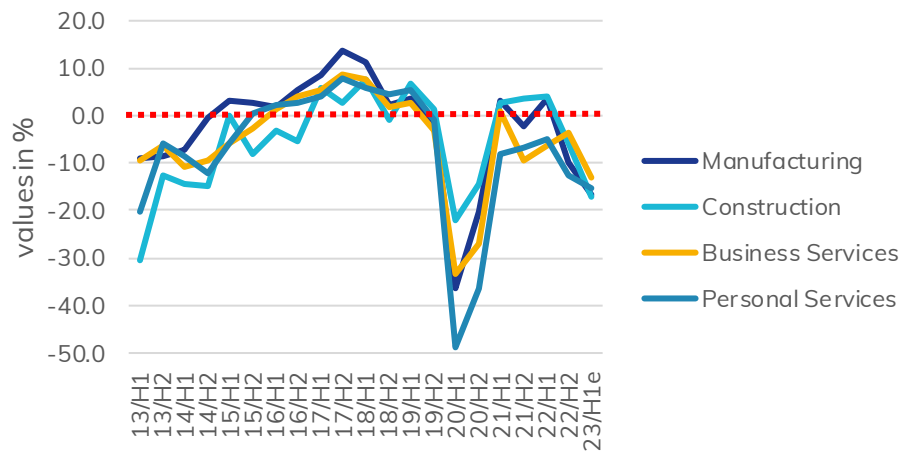
### Investments by sector



### Investments by class size



### Orders by sector



### Orders by class size

