

SPRING 2024

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

Executive Summary

The SME Business Climate Index, the sentiment index measuring the business environment of the European Union's (EU) small and medium-sized enterprises (SMEs), fell to 66.8 points in Spring 2024, below the recession line of 70, after having been in decline since Spring 2022.

Both northern and southern EU member states are experiencing a decrease in their business environment, although a more pronounced impact is observed in the industrialised North compared to the South.

The EU Craft and SME Barometer analysis highlights SMEs' development across sectors and business categories. While the development of SMEs' overall situation, prices, and orders declined from Spring 2023 to Autumn 2023, turnover and employment remained relatively stable, and investments increased slightly.

The overall situation fell below expectations and became the worst-performing business category in Autumn 2023, although this was not clearly reflected in SMEs' other business activities. Negative expectations for turnover did not materialise, a decline in investments was overestimated, SMEs' ability to increase prices was overestimated, and negative developments of employment and orders were more or less in line with expectations.

In Spring 2024, each business category, except for prices, is expected to be in negative territory. Declines are expected in the trends of overall situation, turnover, and investments, with employment expected to remain relatively stable and orders showing signs of improvement. Moreover, prices are expected to be higher in services as wage increases drive up costs more in labour-intensive sectors.

The construction sector faces challenges due to high interest rates, which reduce demand through increased mortgage costs. Consequently, the sector's turnover is expected to be the lowest in Spring 2024.

Finally, employment expectations for Spring 2024 indicate a return to less tight labour markets as SMEs adjust their efforts to address labour shortages to the stagnating economic outlook.

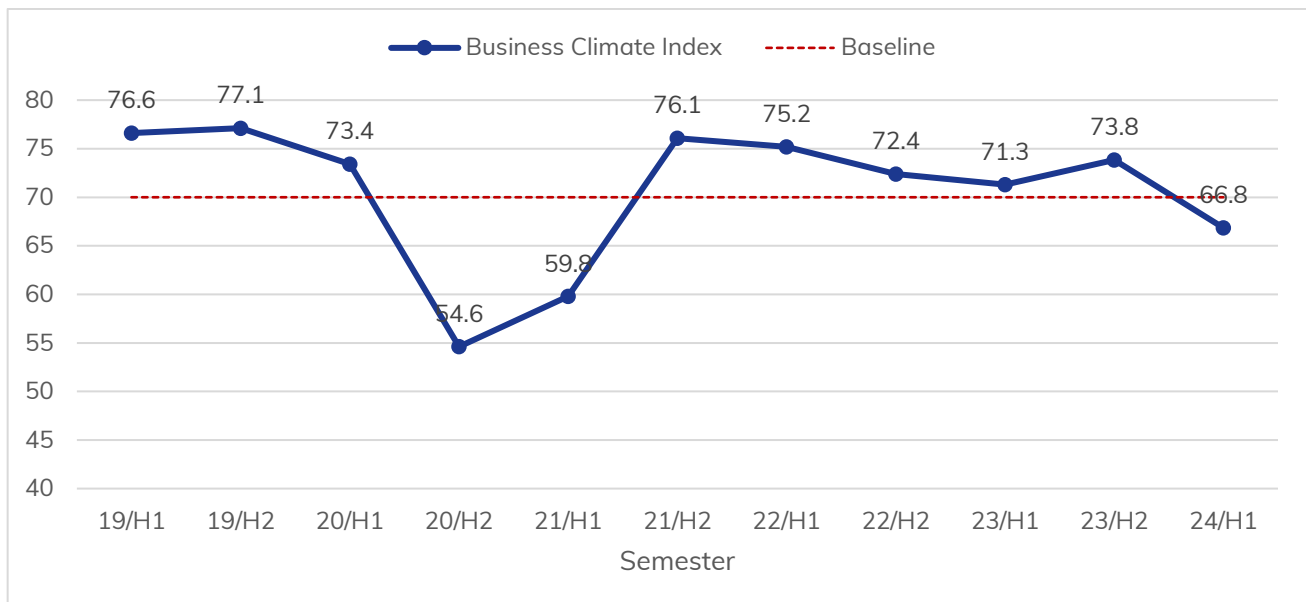
The SME Business Climate Index

Continued economic decline pushes Europe's SMEs to a recession

After the recession caused by the COVID-19 pandemic, the confidence levels of Europe's Small and Medium Enterprises (SMEs) improved quite fast. However, since Russia invaded Ukraine in February 2022, an energy crisis, disturbed supply chains, and trade restrictions led to a continued decline of the SME business climate.

The SME Business Climate Index (BCI) in Figure 1 shows that the SME environment continued its steady decline, with an exception in Autumn 2023 when the index was overestimated. BCI fell from Autumn 2023 by 7.0 percentage points to below the baseline of 70 in Spring 2024, indicating that SMEs entered a recession.

Figure 1. Development of the SME Business Climate Index¹



Notes: The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, is presented on the horizontal axis.

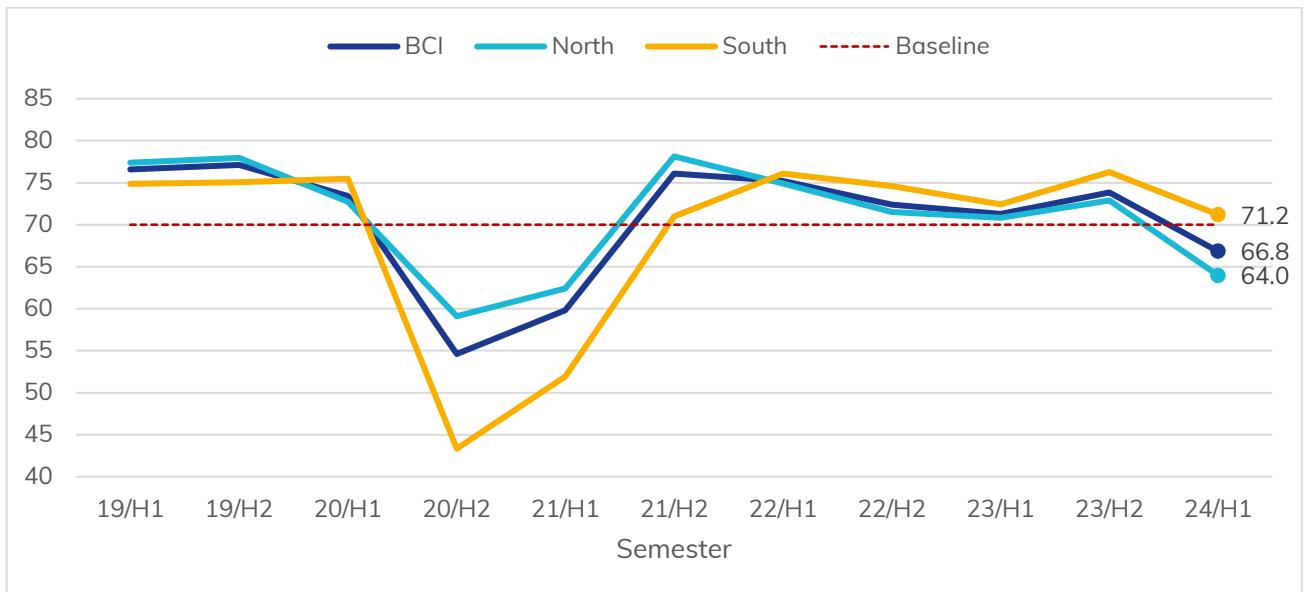
The negative trend in the SMEs' business climate reflects the cooling down of the European economy, driven by factors such as tight monetary policy and geopolitical tensions. High interest rates used to tackle inflation are impacting investments, especially in the construction sector, while Russian sanctions have caused supply chain disruptions. Furthermore relatively high energy prices in Europe are reducing European SMEs' competitiveness.

¹ 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 the current period's and next periods expected business climate, which is the sum of positive and neutral answers for businesses' overall situation. The index ranges from 100 (all positive or neutral) to 0 (all negative).

Southern member states continue to outperform the North

The trends in business confidence across EU member states, as depicted in Figure 2, reveal that both southern and northern member states experienced a decline in business confidence in Autumn 2024. However, the decline in the southern states is less striking; BCI in the North fell below the recession threshold of 70, while the South remained above this level.

Figure 2 – Development of the Business Climate Index for northern vs southern EU member states



Notes - BCI: The SME Business Climate Index. North: The SME Business Climate Index for northern EU member states. South: The SME Business Climate Index for southern EU member states². The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, is presented on the horizontal axis.

The disparity in performance between northern and southern member states can be attributed to several factors. The South has benefitted from the post-COVID recovery of tourism. At the same time, the more industry-focused North relies on energy-intensive sectors, making its business environments more vulnerable to fluctuations in energy costs. Supply chain disruptions leading to product shortages, cost increases, high energy costs in Europe, and foreign subsidy schemes such as the US Inflation Reduction Act disproportionately burden northern states' international competitiveness. Moreover, the North's geographical proximity to the war in the Ukraine can potentially influence their SMEs' perceived general economic outlook for the future.

Business confidence indices converge

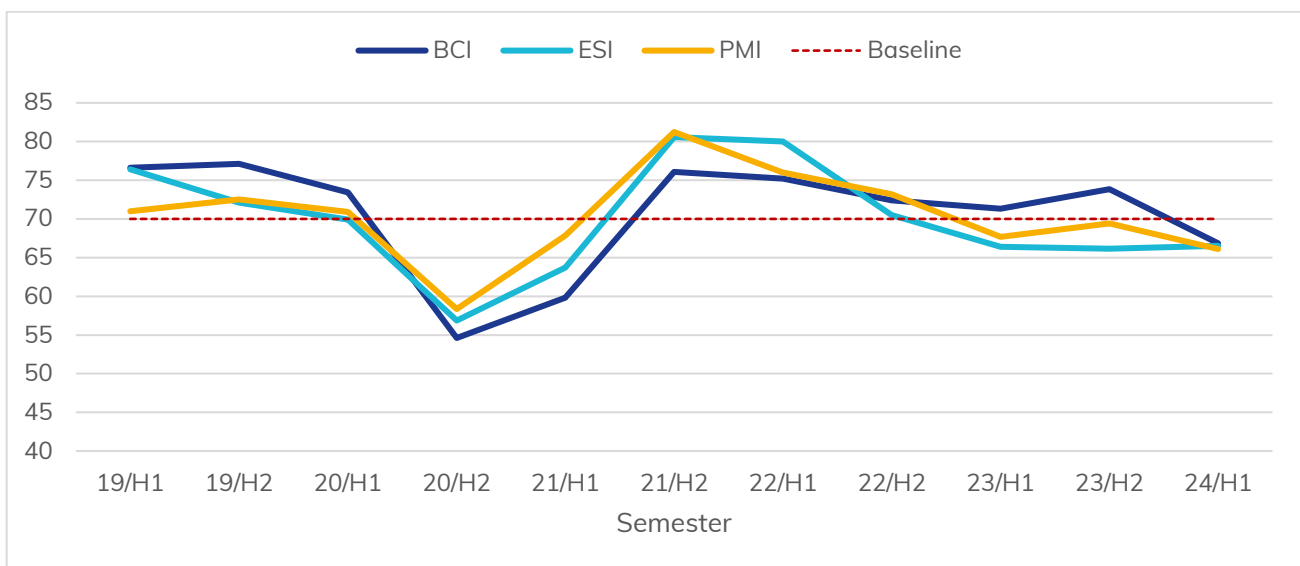
The BCI is compared to the Economic Sentiment Indicator (ESI) and the Purchasing Managers' Index (PMI) to provide a comparison between the economic health of SMEs (BCI), larger

² Northern EU member states consist of Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg, , the Netherlands, Poland, Romania, Slovakia and Sweden. Southern EU member states consist Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Slovenia and Spain.

enterprises (PMI), and the EU’s overall economic activity (ESI). Furthermore, the comparison exercise validates using BCI as a business climate indicator.

Figure 3 shows that for the past two semesters, the BCI fared better in a high inflation environment, than ESI and PMI, albeit BCI was overestimated for Spring 2023. SMEs may have benefited from strong internal demand due to spending of savings accrued during the Covid-19 pandemic. However, the indices equalised for Spring 2024, possibly due to the ending of public support measures used to support SMEs and households during and after the pandemic. In addition, high financing costs and debt payments may disproportionately burden SMEs.

Figure 3 – Developments of the Business Climate Index, the Economic Sentiment Indicator and the Purchasing Manager’s Index³



Notes. BCI: The SME Business Climate Index. ECI: European Commission’s Economic Sentiment Indicator. PMI: HCOB Eurozone Composite Purchasing Managers Index. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, is presented on the horizontal axis.

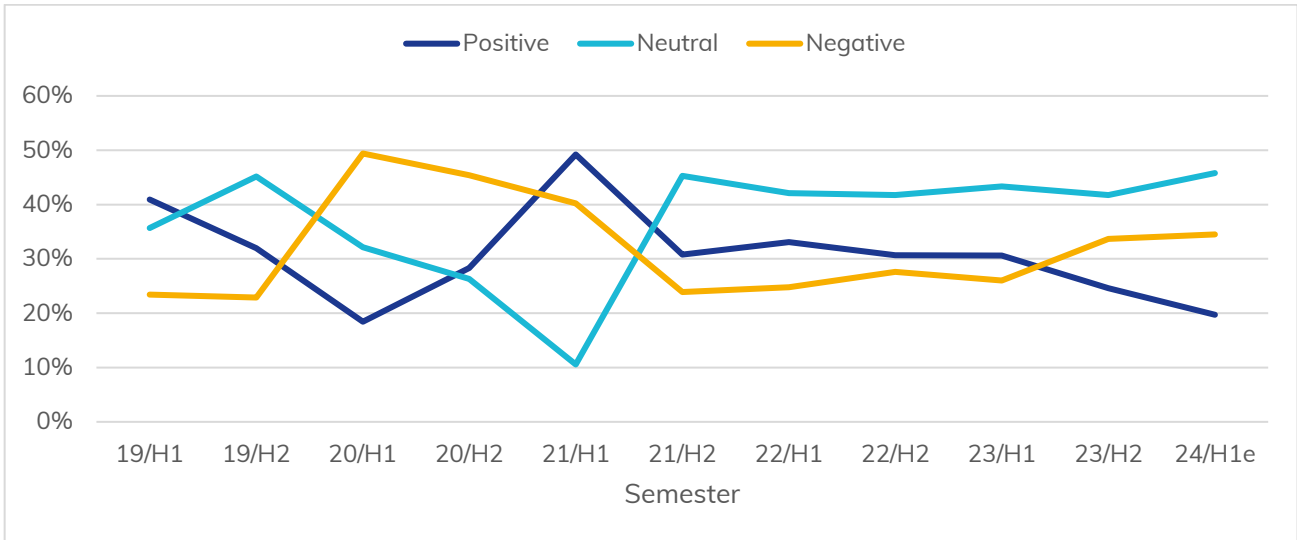
Sources: European Commission, S&P Global.

Decline in positive responses drives poor business confidence

The SME Business Climate Index is determined by the share of positive and neutral perceptions of the past and expected overall situation. It is, therefore, sensitive to significant increases in uncertainty for the upcoming season (i.e. neutral responses in expectations). Thus, observing SMEs’ survey response structure offers a deeper understanding of SMEs’ perceived business environment. Figure 4 shows that since Spring 2023, negative answers have gained ground at the expense of declining positive answers, and the trend is expected to continue for Spring 2024.

³ European Commission’s ESI measures five confidence indicators linked to different sectors. The average of the last five months ESI values has been re-scaled to 70 as a long-term average/neutral value. The HCOB Eurozone Composite PMI compiled by S&P Global tracks manufacturing and services sectors’ outputs. In this report PMI’s three-months average has been re-scaled to 70.

Figure 4 – Shares of positive, neutral and negative responses for overall situation – Spring 2019 to Spring 2024



Notes. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively and (e) indicates expected values, is presented on the horizontal axis.

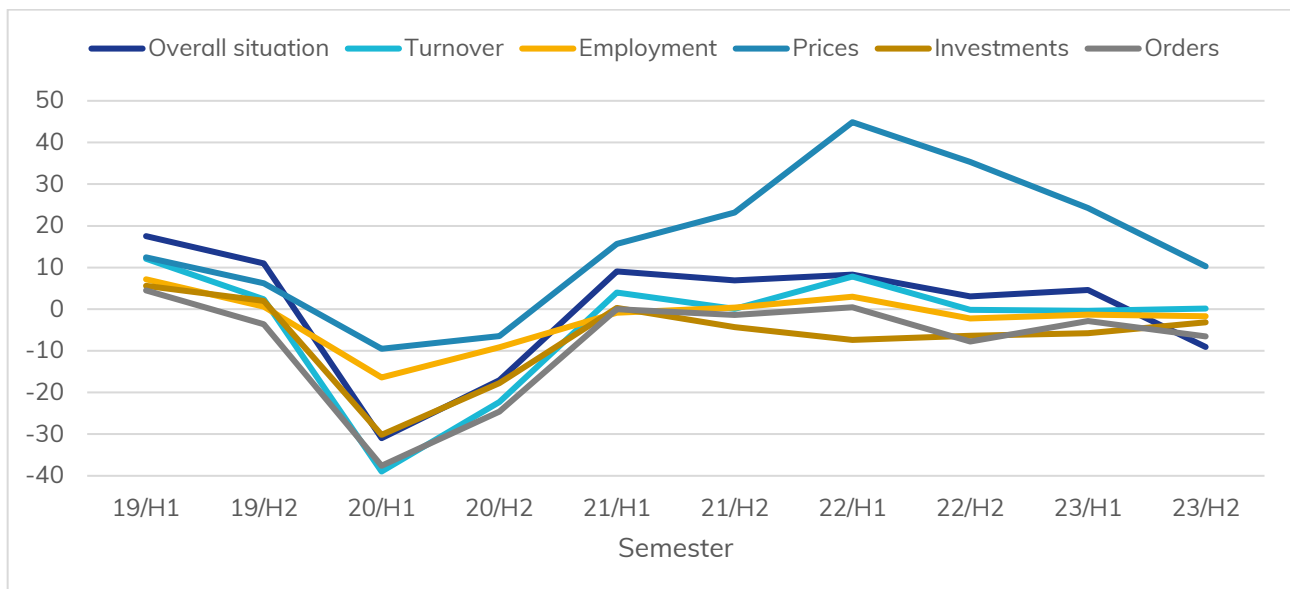
The EU Craft and SME Barometer

The EU Craft and SME Barometer is based on the results of surveys conducted by SMEUnited member organisations. It shows the percentage points difference between the shares of SMEs who responded positively and negatively when asked about their perception of their enterprises' (past and expected) overall situation, turnover, employment, prices, investments, and orders. The barometer distinguishes SMEs by their size class and sector⁴.

The overall situation for SMEs declined in Autumn 2023

The results for the SME Barometer's development per business category in Figure 5 show that although SMEs' business activities performed more or less the same in Autumn 2023 as in the preceding semester, the overall situation declined to a negative territory, that is, more SMEs perceived the situation as negative than positive. High interest rates and geopolitical tensions impacting SMEs' confidence could explain the fall. Although SMEs were able to increase their prices, the prices trend declined, which can be explained by the lower ability to pass on costs to consumers or by reduced pressure to raise prices because of a fall in inflation and energy prices. SMEs' positive and negative answers regarding turnover and employment remained stable and equally spread, while answers for investments slightly improved and those for orders worsened, while both remain in the negative sphere.

Figure 5 – Development of the EU Craft and SME Barometer per business category – Spring 2019 to Autumn 2023



Notes. The values show the difference between positive and negative answers in percentage points. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, is presented on the horizontal axis.

⁴ More about the methodology can be found at page 14.

Poor turnover expectations for Autumn 2023 did not materialise

A comparison of expected and realised situations for the second half of 2023 per business category in Table 1 shows that the decline in SMEs' overall situation was underestimated, while the negative turnover expectations did not materialise. The increase in prices was overestimated, as usual, as firms tend to be overly optimistic about their ability to pass costs on to customers. The overall situation-turnover dynamic is somewhat unexpected because the variables moved in opposite directions related to their expectations. Besides geopolitical tensions impacting SMEs' confidence, a decrease in profitability resulting from a lack of ability to pass on increased costs to consumers could contribute to the underestimation of the overall situation.

Table 1 – Expectations and actual results per business categories for Autumn 2023

| | Expectations 23/H2 | Results 23/H2 | Difference |
|-------------|--------------------|---------------|------------|
| Overall | -6,6 | -9,1 | -2,5 |
| Turnover | -4,7 | 0,1 | 4,9 |
| Employment | -1,1 | -1,7 | -0,6 |
| Prices | 17,0 | 10,3 | -6,7 |
| Investments | -10,2 | -3,1 | 7,1 |
| Orders | -6,7 | -6,5 | 0,1 |

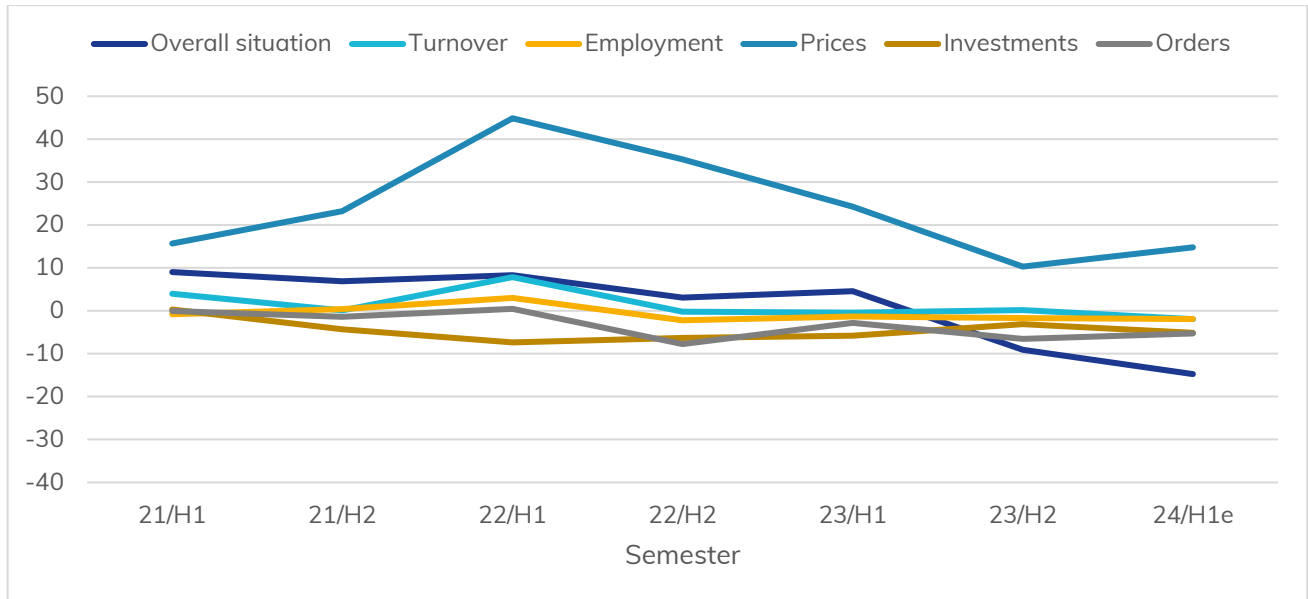
Notes. Difference is the error in expectations: Results 23/H2 minus Expectations 23/H2.

The negative development of investments was overestimated, while the negative developments of employment and orders were more or less as expected. Structural underestimation of investments can explain why investments exceeded their expectations; SMEs' tend to invest more than planned due to the unexpected nature of some investments. Also, a need to invest in energy efficiency and renewable energy may have contributed to the result.

Expectations for Spring 2024 echo previous trends with deteriorating overall situation

Figure 6 shows SMEs' expectations for Spring 2024. Except for a change in the price trend, the trends observed in the last semester continue. A decline in the economic situation is still not clearly reflected in SMEs' business activities, which increases the gap between the overall situation and other business categories.

Figure 6 – Expected developments of the EU Craft and SME Barometer’s business categories – Spring 2021 to Spring 2024



Notes. The values show the difference between positive and negative answers in percentage points. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, and (e) indicates expected values, is presented on the horizontal axis.

Table 2 provides numerical expectations for how business activities develop from Autumn 2023 to Spring 2024. Most notably, the overall situation is expected to decrease by 5.6 percentage points as geopolitical tensions continue and interest rates remain high. The upward turn in expected prices may rather be overestimated than a sign for increasing inflation. Turnover, investments, employment, and orders are each expected to be on the negative side in the Spring. Turnover and investments are expected to fall by 2.1 and 2.0 points, respectively. Employment is expected to stay relatively stable, while orders are expected to improve by 1.3 points, possibly due to expected interest rate reductions.

Table 2 – Expectations and changes by business for Spring 2024

| | Results 23/H2 | Expectations 24/H1 | Expected Change |
|-------------------|---------------|--------------------|-----------------|
| Overall situation | -9,1 | -14,7 | -5,6 |
| Turnover | 0,1 | -1,9 | -2,1 |
| Employment | -1,7 | -1,9 | -0,2 |
| Prices | 10,3 | 14,8 | 4,5 |
| Investments | -3,1 | -5,1 | -2,0 |
| Orders | -6,5 | -5,3 | 1,3 |

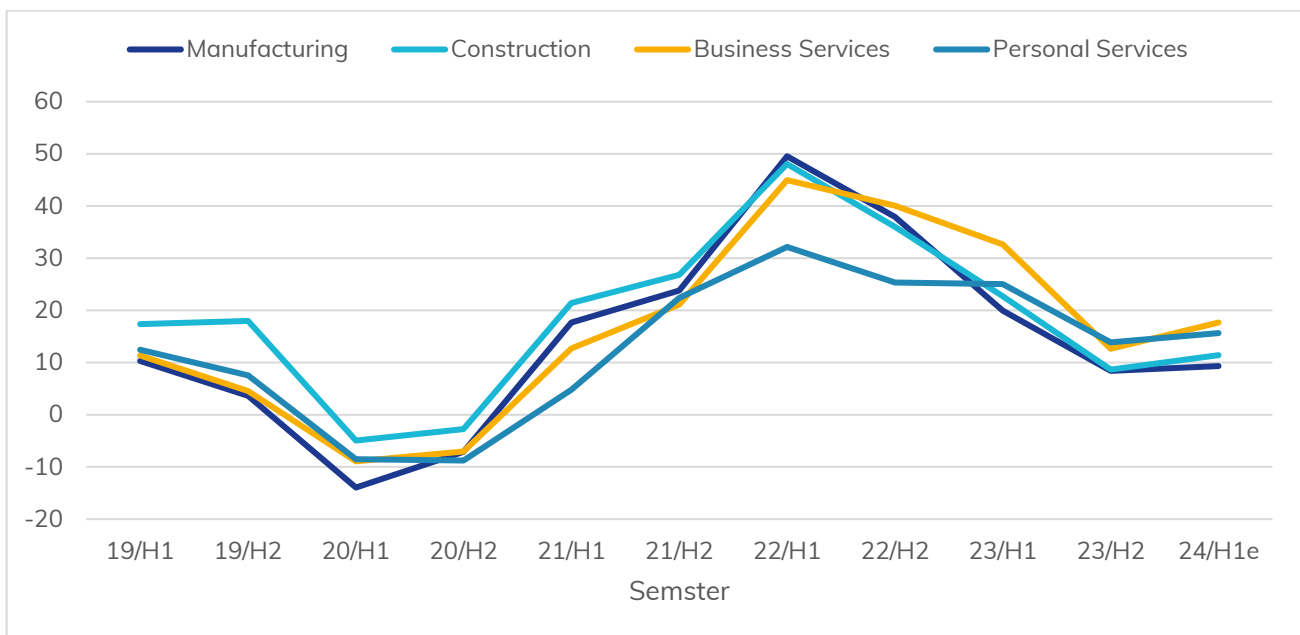
Notes. Results and Expectations show the difference between positive and negative answers in percentage points. Expected Change is the difference between Expectations 24/H1 and Results 23/H2.

Increasing wages drive up prices in the services sectors

Between Autumn 2020 and Spring 2022, price increases were driven by energy and supply chain restrictions, which impacted mainly the manufacturing and construction sector. Now, wage increases are resulting in a stronger price pressure for the services sectors as shown in Figure 7.

Services sectors have a relatively high share of labour costs compared to construction and manufacturing sectors, where raw materials take up a relatively high share of costs, which makes them more vulnerable to wage-price inflation spirals. As wages catch up with increased price levels, costs in labour-intensive services sectors increase, putting pressure to raise prices.

Figure 7. Development of prices per sector – Spring 2019 to Spring 2024

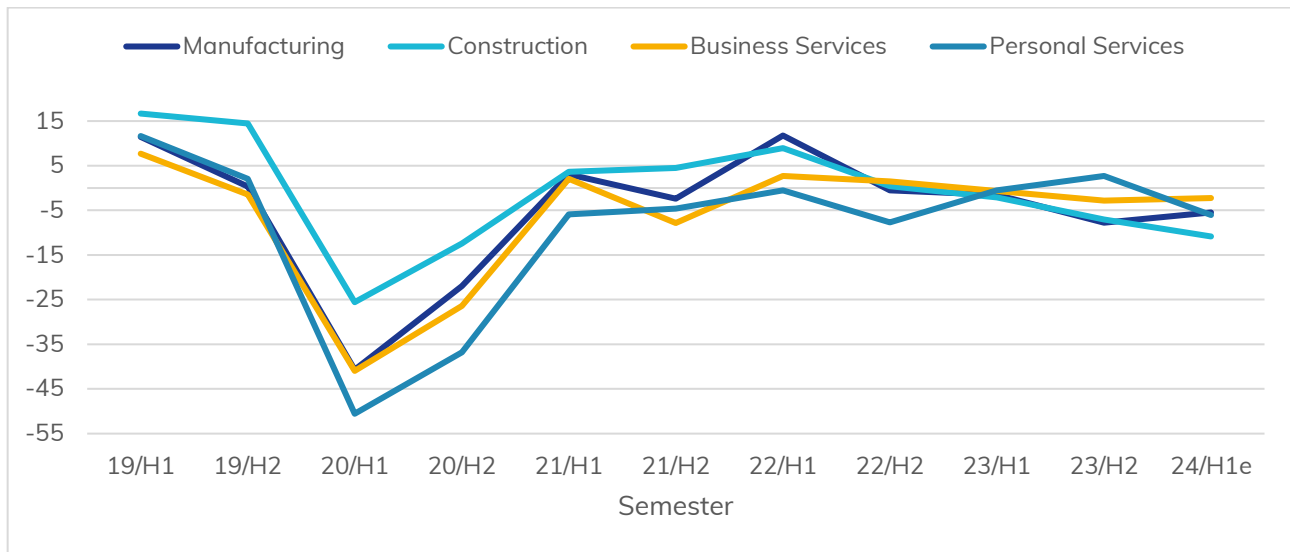


Notes. The values show the difference between positive and negative answers in percentage points. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, and (e) indicates expected values, is presented on the horizontal axis.

High interest rates keep burdening the construction sector

High inflation has pushed central banks to cool down the economy by increasing interest rates, which has an especially strong impact on the construction sector. The ECB increased its rates between Autumn 2022 and September 2023, and kept them unchanged at a high level from since, reducing the construction sector's demand; costs of mortgages increase and customers postpone their construction plans in wait for more affordable financing costs. Figure 9 reflects the low demand in the construction sector, showing that its turnover has been declining since Spring 2022 and will continue in Spring 2024, when it is expected to fall well below that of other sectors.

Figure 9 – Development of turnover by sector – Spring 2019 to Spring 2024

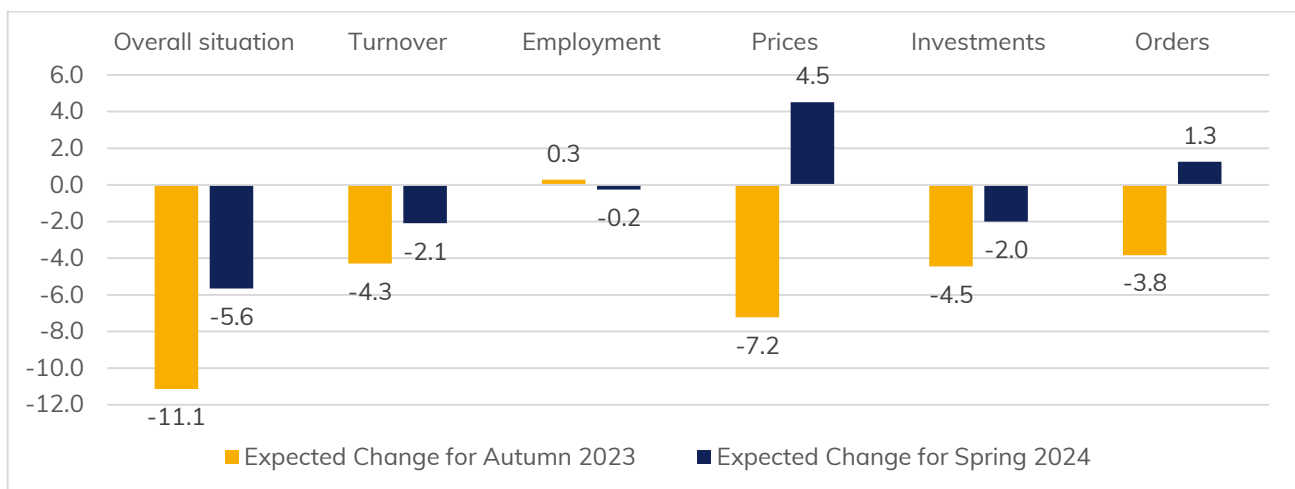


Notes. The values show the difference between positive and negative answers in percentage points. The biannual time variable, where H1 and H2 are the Spring and Autumn semester, respectively, and (e) indicates expected values, is presented on the horizontal axis.

Labour market expectations are returning to normal dynamics

Expected developments in SMEs' economic activities show that labour market expectations are returning to (more) normal dynamics in Spring 2024 because of negative economic outlook and less tight labour markets. Figure 10 shows the expected changes in SMEs' business activities from Spring 2023 to Autumn 2023 and from Autumn 2023 to Spring 2024, the former of which is characterised by demand-driven labour market tightness.

Figure 10 – Development of expected changes per business category – Autumn 2023 and Spring 2024



Notes. Expected Changes for Autumn 2023 and Spring 2024 show the differences between expected balances of positive and negative answers (in Autumn 2023 and Spring 2024, respectively) and the preceding semesters' balances per business category in percentage points.

The employment trend was expected to be positive in Autumn 2023, although the trends in overall situation, turnover, and orders were expected to be negative. This lack of reactivity in labour market expectations can be explained by skills mismatches and companies trying to keep in their labour or fill in their labour shortages.

Expected changes for Spring 2024 show that the negative trends for the overall situation and turnover become more moderate, while orders are expected to trend upwards. However, the employment trend is slightly more negative than the previous season and, therefore, more aligned with the expected turnover and orders trend. The dynamic of improving turnover and slightly declining employment expectations signal easing labour market tightness and SMEs adjusting their workforce to long-term trends characterised by a stagnating economy.

Conclusions and Recommendations

The challenging economic landscape characterised by tight monetary policy and geopolitical tensions has deteriorated the business climate and driven SMEs to a recession. While both the North and the South face similar business climate trends, high energy costs, disruptions in the supply chain, and reduced international competitiveness push the North into recession while the South avoids such a fate.

The impact of high interest rates and the end of COVID-related public support has been disproportionately affecting SMEs, compared to larger enterprises, levelling their business climates.

Despite declining overall situation and prices, SMEs' own business activities performed more or less the same in Autumn 2023 as in the previous semester. The overall situation for Autumn 2023 turned out to be worse than expected, possibly because of geopolitical tensions and reduced profitability. On the other hand, the decline in the overall situation was not clearly reflected in SMEs' turnover, which exceeded expectations.

The expected outlook for Spring 2024 remains bleak as interest rates and geopolitical tensions continue to deteriorate SMEs' overall situation. Wage hikes increase SMEs' costs and pressure them to raise prices, particularly in the labour-intensive services sectors.

High interest rates have an especially strong impact on the construction sector, where turnover is expected to drop below that of other sectors because of the high cost of mortgages.

Changes in employment expectations suggest a slight loosening of labour markets as SMEs adjust their workforce to the stagnating economic trend.

In order to stop the downward economic development, SMEs ask for measures to increase Europe's competitiveness by reducing administrative burdens and reporting requirements and ensure access to skilled workforce and finance.

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

- ensure access to energy and commodities at affordable prices;
- provide an enabling environment for the twin 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 investments in skills and infrastructure;
- strengthen the internal market by avoiding any distortion of cross border mobility;
- 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.

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 September and February 2024, which gives 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.

The EU Craft and SME Barometer provides **balanced figures** for the following categories: **overall situation, turnover, employment, prices, investment, and orders**. The balance is the percentage point difference between the shares of businesses with positive and negative answers regarding the current or expected situation in each category. National and sectoral results are weighted by their corresponding employment.

This Barometer presents the results (experiences) for the second half of 2023 (23/H2) as well as the expectations for the first half of 2024 (24/H1).

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 by taking the average of the sum of positive and neutral answers for businesses' current period overall situation and the sum of positive and neutral answers for businesses' next period overall situation.

Finally, SMEUnited will present only European figures and will not disclose country-specific data because of a lack of data for all Member States and because 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 2024

Annex A – The weighted balances

The balances per size class – Autumn 2023 and expectations for Spring 2024

| | SME Total | | Micro | | Small | | Medium | |
|-------------|-----------|--------|-------|--------|-------|--------|--------|--------|
| | 23/H2 | 24/H1e | 23/H2 | 24/H1e | 23/H2 | 24/H1e | 23/H2 | 24/H1e |
| Overall | -9,1 | -14,7 | -9,5 | -15,0 | -10,5 | -16,4 | -4,3 | -10,6 |
| Turnover | 0,1 | -1,9 | -2,2 | -3,9 | -2,5 | -5,2 | 9,2 | 6,6 |
| Employment | -1,7 | -1,9 | -1,5 | -1,5 | -5,4 | -5,1 | 2,6 | 2,6 |
| Prices | 10,3 | 14,8 | 11,2 | 15,3 | 6,6 | 10,6 | 12,7 | 20,6 |
| Investments | -3,1 | -5,1 | -5,8 | -7,5 | -5,5 | -8,6 | 5,2 | 3,3 |
| Orders | -6,5 | -5,3 | -8,5 | -7,2 | -10,4 | -8,9 | 4,2 | 4,7 |

The balances per sector – Autumn 2023 and expectations for Spring 2024

| | Manufacturing | | Construction | | Business Services | | Personal Services | |
|-------------|---------------|--------|--------------|--------|-------------------|--------|-------------------|--------|
| | 23/H2 | 24/H1e | 23/H2 | 24/H1e | 23/H2 | 24/H1e | 23/H2 | 24/H1e |
| Overall | -19,6 | -20,4 | -12,1 | -15,5 | -2,8 | -9,9 | -2,8 | -13,3 |
| Turnover | -7,7 | -5,5 | -7,1 | -10,9 | -2,8 | -2,2 | 2,7 | -6,0 |
| Employment | -5,2 | -6,2 | -3,2 | -3,6 | 0,1 | 0,7 | -1,4 | 0,2 |
| Prices | 8,4 | 9,3 | 8,7 | 11,4 | 12,7 | 17,7 | 13,9 | 15,6 |
| Investments | -10,4 | -7,7 | -6,0 | -10,0 | -2,0 | -1,0 | 1,1 | -5,4 |
| Orders | -13,7 | -4,2 | -10,4 | -10,2 | -5,0 | -5,3 | 2,3 | -1,6 |

Annex B – The errors in expectations and the expected changes in balances

The errors in expectations for Autumn 2023 and the expected changes for Spring 2024 per size class

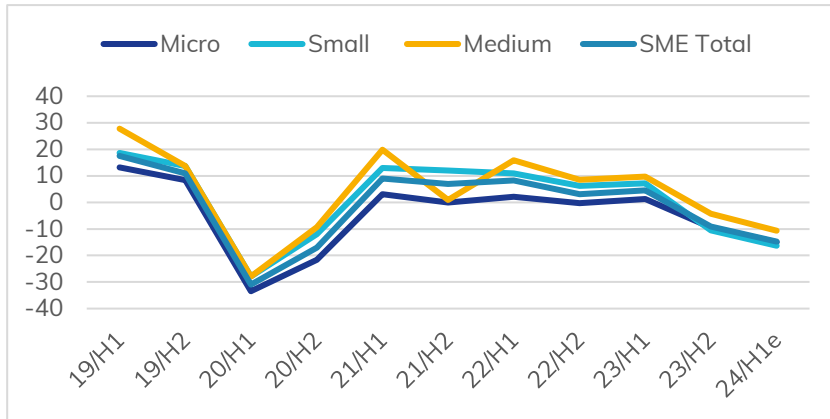
| | SME Total | | Micro | | Small | | Medium | |
|-------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 |
| Overall | -2,5 | -5,6 | -2,2 | -5,5 | -4,3 | -5,8 | 1,6 | -6,3 |
| Turnover | 4,9 | -2,1 | 3,6 | -1,6 | 1,1 | -2,6 | 10,4 | -2,5 |
| Employment | -0,6 | -0,2 | -1,6 | 0,0 | -5,0 | 0,3 | 6,4 | -0,1 |
| Prices | -6,7 | 4,5 | -8,6 | 4,1 | -10,5 | 4,0 | 1,0 | 7,9 |
| Investments | 7,1 | -2,0 | 4,5 | -1,7 | 5,8 | -3,1 | 15,1 | -1,9 |
| Orders | 0,1 | 1,3 | -1,7 | 1,3 | -5,2 | 1,5 | 11,3 | 0,4 |

The errors in expectations for Autumn 2023 and the expected changes for Spring 2024 per sector

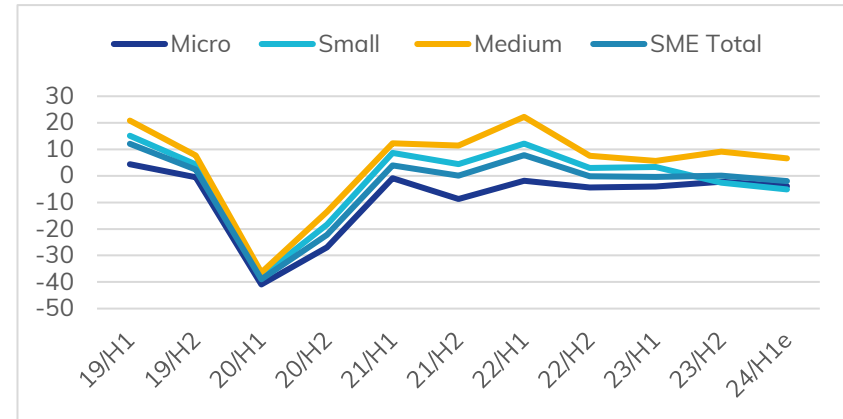
| | Manufacturing | | Construction | | Business Services | | Personal Services | |
|-------------|---------------|------------|--------------|------------|-------------------|------------|-------------------|------------|
| | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 | 23H2-23H2e | 24H1e-23H2 |
| Overall | -7,3 | -0,9 | -6,0 | -3,4 | 3,3 | -7,1 | -2,4 | -10,5 |
| Turnover | -1,6 | 2,3 | 1,5 | -3,8 | 2,5 | 0,6 | 2,1 | -8,7 |
| Employment | -3,3 | -1,0 | 0,1 | -0,4 | -2,0 | 0,7 | -0,8 | 1,6 |
| Prices | -4,3 | 0,9 | -7,3 | 2,7 | -9,8 | 5,0 | -6,5 | 1,8 |
| Investments | 0,8 | 2,6 | 8,2 | -4,0 | 6,2 | 1,0 | 6,7 | -6,5 |
| Orders | -8,0 | 9,4 | 3,0 | 0,1 | 2,2 | -0,3 | 1,6 | -3,9 |

Annex C – The development of business categories per size class and sector

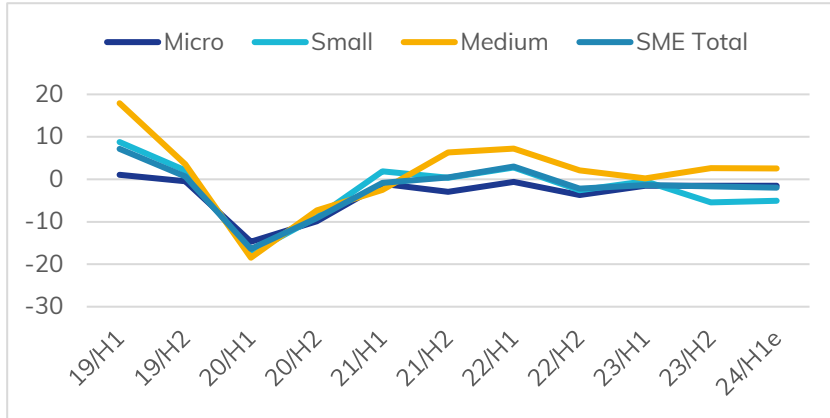
The development of overall situation per size class – Spring 2019 to Spring 2024



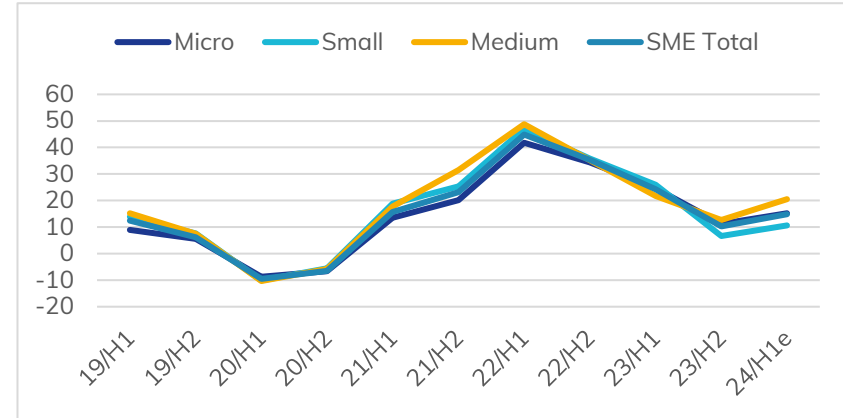
The development of turnover per size class – Spring 2019 to Spring 2024



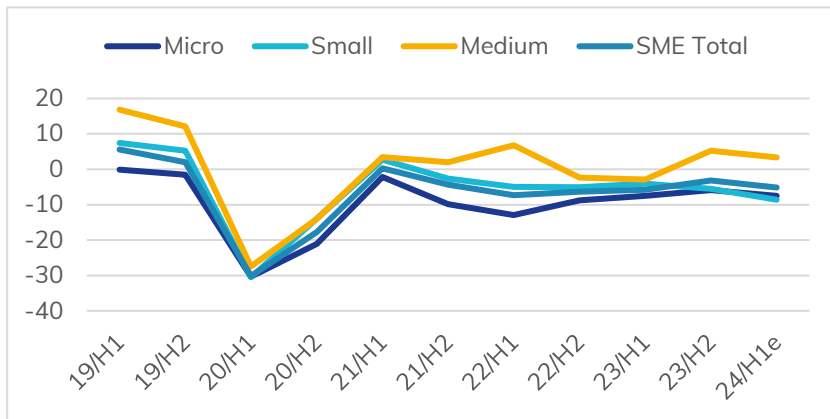
The development of employment per size class – Spring 2019 to Spring 2024



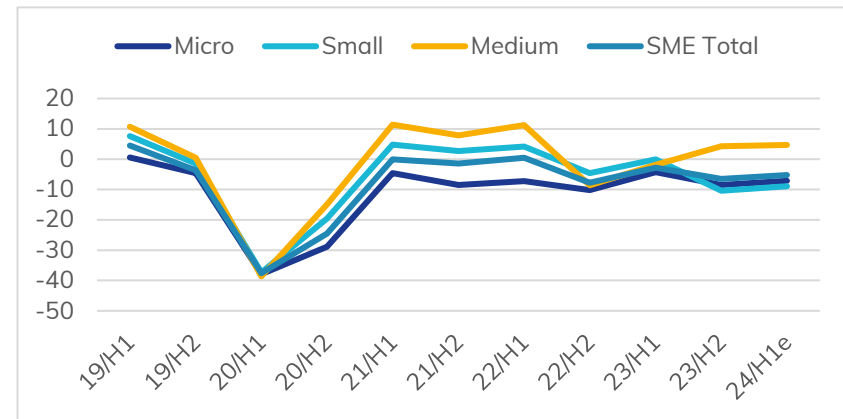
The development of prices per size class – Spring 2019 to Spring 2024



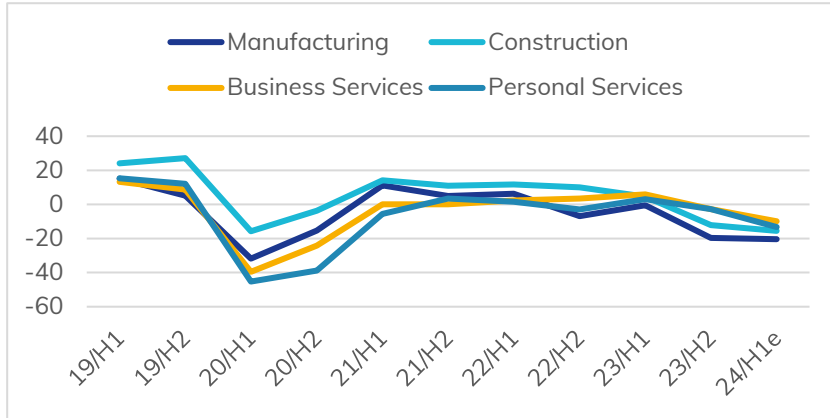
The development of investments per size class – Spring 2019 to Spring 2024



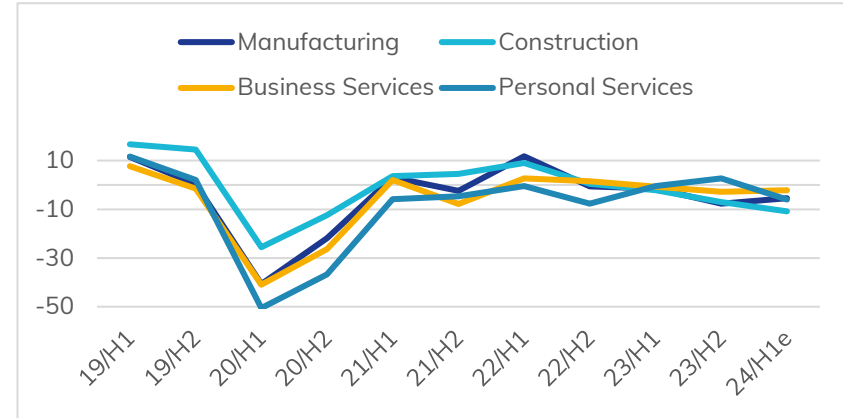
The development of orders per size class – Spring 2019 to Spring 2024



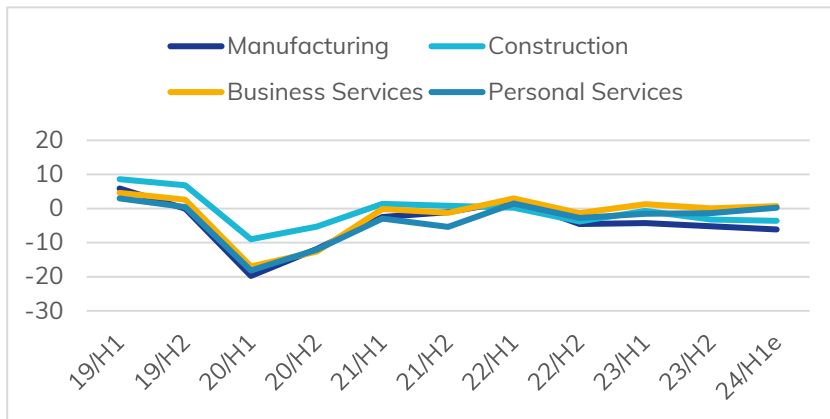
The development of overall situation per sector – Spring 2019 to Spring 2024



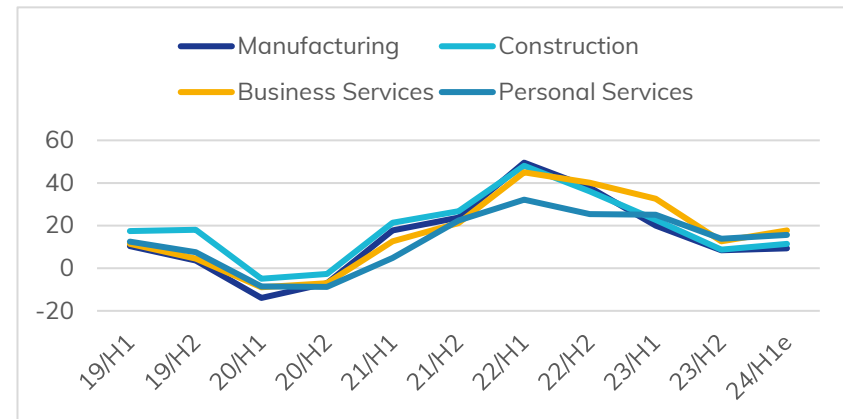
The development of turnover per sector – Spring 2019 to Spring 2024



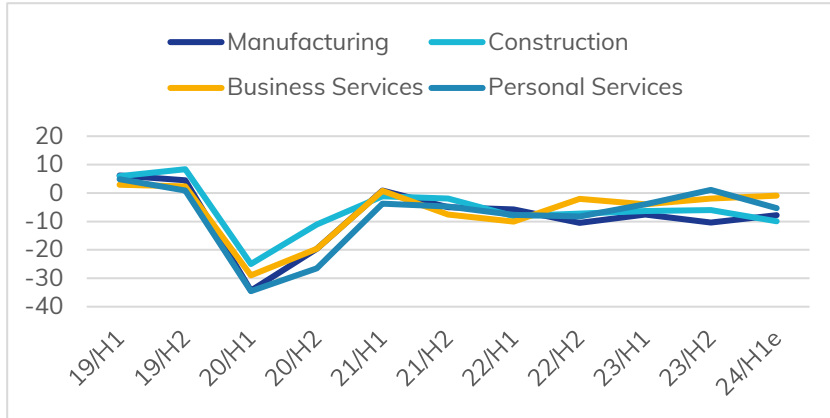
The development of employment per sector – Spring 2019 to Spring 2024



The development of prices per sector – Spring 2019 to Spring 2024



The development of investments per sector – Spring 2019 to Spring 2024



The development of orders per sector – Spring 2019 to Spring 2024

